

LAW ON PRIVATIZATION
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I GENERAL PROVISIONS

Subject of the Law

Article 1

This Law regulates the conditions and procedures for change of ownership over socially owned and public capital and assets.

Definitions

Article 2

Certain terms used herein shall have the following meanings:

1. *Privatization* in terms of this law is the change of ownership over capital and assets of legal entities that operate with socially owned and public capital. Privatization in terms of this law also implies the following:

- Sale of shares and stakes that have been transferred to the Privatization Agency (hereinafter: Agency) after the termination of the agreement on the sale of capital concluded between the Agency and a buyer.
- Sale of assets in companies where the agreement on the sale of capital has been terminated.
- Sale of shares and/or stakes of the Shareholder Fund, as well as of the Development Fund of the RS and the Fund for Pension and Disability Insurance, when sold together with shares or stakes of the Shareholder Fund;

2. *Public capital* is the capital of the Republic of Serbia, autonomous province and local self-government units;

3. *Subject of privatization* is:

- Socially owned or public capital and assets in companies and other legal entities, including public companies and public capital in form of shares or interests;
- shares and/or stakes after the termination of the agreement on the sale of capital;
- assets of enterprises for which the agreement on the sale of capital has been terminated;
- shares and/or stakes of the Shareholder Fund, as well as of the Development Fund of the RS and the Fund for Pension and Disability Insurance, when sold together with shares or stakes of the Shareholder Fund;

4. *Privatization entities* are enterprises, companies, and other legal entities undergoing ownership transfer, including public companies initiated for privatization;
5. *Privatization models* are the sale of capital, sale of assets, strategic partnership and capital transfer free of charge;
6. *Privatization methods* are public collection of bids with subsequent public bidding and public collection of bids;
7. *Participant in the privatization process* is a person who submitted an application for participation in the privatization process;
8. *Buyer* is a domestic or foreign legal or natural person who has been declared a buyer or an individual with whom a sales agreement has been concluded;
9. *Strategic Investor* is a domestic or foreign legal entity that has signed an Agreement on Strategic Partnership with a privatization entity, in this case, the Republic of Serbia;
10. *Means of Payment* are domestic or foreign convertible currency;
11. *Letter of Interest* is expressed interest in a particular subject and model of privatization containing basic information on the interested buyer or strategic investor, with proposed indicative price, investment program, tentative plan of operations and number of full-time employees, as well as other relevant information set forth by Public Invitation;
12. *Fair Market Value* is a fair value as defined by International Financial Reporting Standards 13 - Fair Value Measurement;
13. *Method of public collection of bids with subsequent public bidding* is a privatization technique for the sale of capital and assets of privatization entity based on bid submission and participation in public bidding procedure;
14. *Method of public collection of bids* is a privatization method that envisages the submission of bids for the selection of strategic investor;
15. *The initial price for the sale of capital and/or assets* shall amount to at least one-half of the estimated value of capital and/or assets, while the new starting price at the second collection of bids and public bidding shall amount to at least one-third of the estimated value of capital and/or assets;
16. *Sale of capital* is a privatization model whose subject of sale is public capital or socially owned capital undergoing privatization, shares and stakes after the termination of the agreement on the sale of capital concluded between the Agency and a buyer, as well as shares and/or stakes of the Shareholder Fund, and the Fund for the Development of the RS and the Pension and Disability Insurance Fund, when sold together with shares or stakes of the Shareholder Fund;

17. *Assets Sale* is a model of privatization that envisages the sale of assets or part of the assets of the privatization entity in the privatization procedure;

18. *Asset Sale Program* is a program on asset sale rendered by privatization entity and adopted by Privatization Agency within the time limit specified by this law;

19. *Strategic Partnership* is a model of privatization based on institutional interaction between domestic or foreign legal entities and privatization entity, or in this case, the Republic of Serbia, which is implemented through a joint venture by establishing a new company or the capital increase of the current privatization entity;

20. *Establishment of a new company* is the setting up of an enterprise, founded by the Republic of Serbia and a strategic investor, with a stake of the Republic of Serbia being the property acquired as claims against the privatization entity selected for strategic partnership, via the “giving in payment” (*datio in solutum*);

21. *Capital increase of the current privatization entity* is the increase of basic capital in a company subject to privatization for which the Government of the Republic of Serbia (hereinafter: Government) has adopted a decision on strategic partnership;

22. *Strategic Partnership Agreement* is a contract on the capital increase of the existing privatization entity concluded by the Republic of Serbia, a strategic investor and privatization entity, as well as the agreement on the establishment of a new company concluded between the Republic of Serbia and a strategic investor.

23. *Transfer of capital free of charge to employees* is the transfer of capital in privatization entity with socially owned capital that is being privatized through a capital sale model by transferring up to 30% of the capital to employees free of charge, in shares or stakes;

24. *Transfer of capital free of charge to a strategic investor* is the transfer of capital to an investor in case of positive business results, in accordance with regulations governing incentives for investments and based on a Government decision;

25. *Measures for disburdening and the preparation of privatization entity* are measures that may be set by the Government in case of privatization of the entity through the sale of capital or capital increase of the existing privatization entity, under the terms of this law.

26. *Conditional Debt write-off* is a measure for disburdening and the preparation of privatization entity according to which the state creditors undertake to write off the debt of the privatization entity that is operating entirely with majority socially owned or public capital, as of 31/12/2013. Debt write-off shall be valid if the capital of the privatization entity has been sold, or if the agreement on capital increase has been concluded;

27. *Debt-equity swap (conversion)* is a measure for the preparation and disburdening the privatization entity according to which the claims of creditors are converted into a permanent stake in the capital of the entity to be privatized.

28. *State creditors* are as follows: public enterprise, Tax Administration, National Pension and Disability Insurance Fund, National Health Insurance Bureau, National Directorate for Commodity Reserves, Development Fund of the Republic of Serbia and other national authorities and organizations, including the Autonomous Province of Vojvodina and local self-government units.

The Deposit Insurance Agency shall also be considered a state creditor when performing the function of bankruptcy trustee during bankruptcy of banks and when administering on behalf and for the account of the Republic of Serbia, with claims of the Republic of Serbia arising from assumed foreign liabilities;

29. *Secured creditors* are creditors who have claims secured by a mortgage or lien on the assets of the privatization enterprise, as well as creditors who through a final court decision became entitled to be settled out of the entity's movable or immovable assets;

30. *Suspension of procedure* is applied in case of awareness of circumstances unknown at the time of initiating the proceedings and which completely prevent the sale of capital and/or assets of the privatization entity;

31. *Control of buyer's obligations under the agreement* is control exercised by the Agency so as to verify the performance of the buyer's contractual obligations;

32. *Bankruptcy aimed at completing privatization* is a bankruptcy proceedings initiated by the Agency against the privatization entity, with due reasons for bankruptcy under the provisions of this law and the Law on Bankruptcy, and for the purpose of completion of privatization.

Relation to Other Laws and Enforcement of the Provisions of this Law

Article 3

The provisions of this law shall apply to privatization entities with the seat in the territory of the Republic of Serbia.

If this Law governs an issue that any other law regulates differently, the provisions of this law shall prevail.

Notwithstanding paragraph 2 of this Article, the provisions of this law shall not apply to sports organizations, media founders, the companies for professional rehabilitation and employment of disabled persons and the companies registered for the production of weapons and military equipment, unless the laws governing the status of these companies stipulate the application of provisions of this law.

In the process of privatization, the provisions of the law governing companies on disposal of the high values assets shall not be applied and there will be no separate decisions on the sale of assets.

Principles of Privatization

Article 4

Privatization is based on the following principles:

- 1) Creation of conditions for economic development;
- 2) Reduction of negative fiscal effects;
- 3) Ensuring openness to the public and transparency;
- 4) Prevention of corruption;
- 5) Formation of selling prices at fair market conditions;
- 6) Creation of conditions for social stability.

Subject of Privatization

Article 5

Subject of privatization shall be considered as follows:

- 1) socially owned or public capital and/or assets of companies and other legal entities, including public enterprises;
- 2) public equity expressed in stakes or shares;
- 3) stakes and shares transferred to the Agency after the termination of the agreement on the sale of capital concluded between the Agency and a buyer;
- 4) assets in companies referred to in Article 3 of this paragraph;
- 5) stakes and shares of the Shareholder Fund, as well as of the Development Fund of the RS and the Pension and Disability Insurance Fund, when sold together with shares or stakes of the Shareholder Fund.

Subject of privatization may be the land entered in a relevant real estate rights registry as social, mixed or property of the subject to be privatized.

The subject of privatization may not be natural resources, goods in general use, goods of general interest, as well as cultural assets under public ownership entered in the register of cultural heritage, which shall be conducted in accordance with the law governing cultural property.

Mandatory Deadline for the Implementation of Privatization

Article 6

Privatization is mandatory for the entities with socially-owned capital.

Socially owned capital of the privatization entity must be privatized no later than 31 December 2015.

The privatization of public capital and assets of entities that operate with public capital shall be implemented based on the decision adopted by the Government, competent authority of the autonomous province or local self-government unit.

Privatization procedure is deemed implemented if a agreement on the sale of capital is concluded and if all requirements are met for the transfer of ownership of capital, envisaged by the sales agreement (payment of the purchase price, delivery of the bank guarantee, registration

of change of ownership in the relevant register), including the Asset Sale Program (hereinafter: Program).

Entities Responsible for the Implementation of Privatization

Article 7

The Privatization Agency is a legal entity that conducts and controls the process of privatization in accordance with the law.

Ministries, securities depository and clearing house, the registry responsible for the registration of business entities and liens, registries authorized for registration of real estate rights and other agencies and organizations, shall all within their jurisdiction and given the activities of certain privatization entities, and at the request of the Agency, provide professional, technical and other support to the effective implementation of the privatization process and submit data and documents within their authority free of charge.

Privatization Models

Article 8

Privatization models are as follows:

- Sale of capital;
- Asset sale;
- Transfer of capital free of charge;
- Strategic partnership;

Privatization Methods

Article 9

The method of sale of capital and/or assets is public collection of bids with subsequent public bidding.

The capital of privatization entities expressed in shares may be sold:

- 1) in accordance with the law governing the securities market;
- 2) by accepting a takeover bid in accordance with the law governing the acquisition of joint stock companies.

Methods of privatization via transfer of capital free of charge shall include:

- 1) transfer to employees;
- 2) transfer to strategic investors in accordance with this Law and regulations governing FDI incentives.

Method of privatization through strategic partnership implies public collection of bids.

Combination of Multiple Methods and Models

Article 10

A combination of multiple methods and models may be applied in the privatization process for more efficient implementation of this procedure.

Measures for Disburdening and Preparation of Privatization Entity

Article 11

Measures for disburdening and preparation of privatization entity may include:

- conditional debt write-off;
- debt-equity swap (conversion).

Measures referred to in paragraph 1 of this Article may be determined only in the case of sale of capital or strategic partnership through privatization entity's capital increase.

Buyers in Privatization Process

Article 12

In terms of the provisions of this law, the Buyer may be a domestic or foreign legal or natural person. Only domestic legal or natural person may be the buyer of agricultural land.

Domestic or foreign legal or natural persons may unite in order to purchase a privatization entity or establish a strategic partnership (hereinafter: Consortium) and may authorize an individual to represent them.

A buyer who is a member of the consortium may not be:

- 1) a domestic legal entity operating with majority socially owned capital;
- 2) a natural person, legal person and founder of a legal entity, who has outstanding obligations towards the privatization entity up to the date of the public invitation announcement;
- 3) a natural person, legal person and founder of a legal entity with whom a sales agreement or a strategic partnership has been terminated due to non-fulfillment of contractual obligations;
- 4) a natural person who has been convicted of criminal offences against life and person, property crimes, economy crimes, official duty crimes, offences against public health, and offences against public order and peace, which are punishable with imprisonment of five years or more, or against whom criminal proceedings has been instituted for those offenses;

The buyer of the parent or subsidiary company which is undergoing privatization may not own a subsidiary or controlling company operating with socially owned capital.

A participant in the privatization process who has been declared a buyer or strategic investor, who fails to take all the necessary actions and sign a contract in accordance with this Law, shall lose the status of a buyer or strategic investor and the right to participate in future privatization procedures and the right to deposit return.

Neither family member of the participant who has lost the status of a buyer, nor any legal entity founded by him, shall have the right to participate in the privatization process.

Family members, as defined in paragraph 6 of this Article, shall be considered descendants, spouse or common-law partners and parents of the participants.

The Buyer may not be a company in which the person referred to in par. 3. item 2), 3) and 4) of his Article is considered a controlling member or controlling shareholder, in terms of the law governing the companies.

The purchaser may neither be the subject of privatization, nor a subsidiary.

Limitations referred to in par. 3-9 of this Article shall apply to strategic investors as well.

The Buyer or strategic investor, in terms of the provisions of this law, can not be a natural person, legal entity, and the founder of the legal entity who has lost the status of a buyer in accordance with the Law on Privatization ("Official Gazette of RS", nos. 38/01, 18/03, 45/05 123/07, 123/07-oth. law, 30/10-oth. law 93/12, 119/12, 51/14 and 52/14 - CC), or a buyer's family member, in terms of paragraph 7 of this Article.

Obtaining the Opinion and Consent

Article 13

Prior to concluding an agreement, the Agency shall obtain from the competent anti-money laundering authority an opinion on obstacles the buyer or strategic investor may encounter when concluding the agreement.

The opinion referred to in paragraph 1 of this Article shall be submitted no later than 15 days from the date of receipt of request by the Agency.

The Agency shall no later than three days after signing the agreement submit to the competent organization for the money laundering prevention a written notice that agreement has been concluded with a buyer, as well as a written notice of payment no later than three days after the payment of the purchase price.

The Agency shall, at the request of the competent authority for the prevention of money-laundering, promptly make available or submit any documentation at its disposal, which was created in the process of concluding the agreement or in the process of implementation of the agreement, and thus comply with the instructions given by the competent authority.

The Right to Challenge

Article 14

A participant in the privatization process has the right to challenge the legality of the procedure within eight days following the procedure.

The complaint shall be submitted to the Ministry in charge of economic affairs through Privatization Agency, and the competent Ministry shall decide on the complaint within eight days of the receipt thereof.

Adopted decisions regarding complaints are final.

Administrative dispute proceedings may be initiated against the act referred to in paragraph 3 of this Article.

Means of Payment in Privatization

Article 15

Payment in privatization may be carried out in domestic or foreign convertible currency.

Privatization Costs

Article 16

Costs of privatization shall be actual costs incurred in the implementation of the privatization process, in accordance with the law.

The Agency shall be entitled to reimbursement of expenses, referred to in paragraph 1 of this Article, not exceeding 5% of the sales price.

The minister responsible for economic affairs shall prescribe the amount and type of expenses that are recognized in the amount of actual costs referred to in paragraph 1 of this Article.

Proceeds from Privatization Process

Article 17

Proceeds from the sale of capital and/or assets in the privatization process shall be paid to the Agency' account.

Proceeds from the sale of socially owned capital shall be transferred to the budget of the Republic of Serbia.

Proceeds referred to in paragraph 1 of this Article shall not be subject to forced execution.

Proceeds referred to in paragraph 1 of this Article, achieved through the sale of capital of privatization entity after the settlement of costs, shall be transferred to the account of the Republic of Serbia budget, autonomous province or local self-government.

Proceeds from the sale of the socially-owned capital shall be used and allocated as follows:

- 1) 10% shall be paid to the Republic Fund for Pension and Disability Insurance;
- 2) 50% of the funds shall be earmarked for financing the restructuring and economic development in the territory of the Republic of Serbia;

If the company is registered in the territory of the Autonomous Province of Vojvodina, 50 % of the funds shall be earmarked for financing the restructuring and economic development in the territory of Autonomous Province of Vojvodina;

- 3) 5% of the funds shall be allocated for the payment of compensation to persons whose property was nationalized;
- 4) 5% of the funds shall be earmarked to finance infrastructure development of local self-government where the privatization entity is located;
- 5) 30% of the funds shall be allocated for other purposes, determined by a separate decision of the RS Government

The proceeds referred to in paragraph 1 of this Article, which have been generated from the sale of privatization entity's assets, shall be used in accordance with the Program after the settlement of privatization costs.

The proceeds referred to in paragraph 1 of this Article, which have been generated from the sale of shares and stakes owned by the Shareholder Fund, RS Development Fund, and Pension and Disability Insurance Fund shall be transferred to the bank account of the capital's owner after the settlement of privatization costs when sold together with shares and/or stakes of the Shareholder Fund..

II PREPARATION FOR PRIVATIZATION

Public Invitation for Collecting Letters of Interest

Article 18

The Agency shall announce a public invitation for collecting the letters of interest for all companies from Privatization Agency portfolio no later than 30 days from the date of effectiveness of this law, or within 30 days of launching the privatization initiative for privatization entities for which initiatives had not been submitted by the date of this Law becoming effective, or within 30 days from termination of the agreement on the sale of capital.

The public invitation referred to in paragraph 1 of this Article shall contain:

- 1) Business name of the privatization entity;
- 2) Information on the structure and value of capital;
- 3) Description and value of property;
- 4) Other information relevant to the entity.

The deadline for submitting letters of interest is 30 days from the date of the public invitation announcement.

The public invitation referred to in paragraph 1 of this Article shall be published on the Agency's website, and a notice of the invitation in at least one widely circulated daily newspaper distributed throughout the territory of the Republic of Serbia.

A Letter of Interest contains:

- 1) Basic information about the interested buyer or strategic investor;
- 2) An expression of interest for a particular subject and model of privatization;
- 3) A proposal of the indicative price, the investment program, provisional business plan and the number of full-time employees;
- 4) Other relevant information specified by public invitation.

Initiation of Privatization Process

Article 19

Privatization of the entity with socially-owned capital shall be initiated by the Ministry in charge of economic affairs.

Privatization of the entity with public capital shall be initiated by the Government, the competent authority of the autonomous province or local self-government unit.

The competent authorities referred to in paragraphs 1 and 2 of this Article must submit to the Agency an initiative to start the process of privatization within five days from the date of its adoption.

The Agency shall submit the initiative under paragraph 1 or paragraph 2 of this Article to privatization entity within five days after the competent authority has submitted it to the Agency.

Inventory and Assessment

Article 20

Privatization entity is obliged to make an inventory and assessment of the fair market value of all assets, liabilities and capital as of December 31 of the last business year, in accordance with the law governing the accounting and in line with international accounting standards, within 45 days from the date of announcement of public invitation for collection of letters of interest under paragraph 18 of this law, and to submit relevant data to the Agency within such deadline.

For privatization entities with initiated privatization procedure after this law entry into force, the deadline referred to in paragraph 1 of this Article shall start from the date of delivery of the privatization initiative to privatization entity.

If it has been determined that there are assets of the enterprise, which are not shown in the privatization documentation, the Agency shall hire a certified property appraiser to conduct an assessment.

The costs of assessment referred to in paragraph 3 of this Article shall be borne by privatization entity.

If the agreement on the sale of capital is concluded with the buyer, and subsequently assets of the enterprise that had not been registered in the privatization documentation are found, the buyer shall pay to the Agency an amount which shall be determined by multiplying the following elements:

- The estimated value of newly discovered assets (reduced by the value of the pledge, when newly found property is encumbered by mortgage prior to the sale of capital) and;
- Ratio of the asset's purchase price and the capital valuation that was used in the sale of capital.

The buyer is obliged to pay to the Agency the amount referred to in paragraph 5 of this Article within 30 days of the Agency's notification of the sum.

If the buyer does not express interest in buying the property referred to in paragraph 3 of this Article, the property shall be transferred to the Republic of Serbia.

The Agency shall transfer funds referred to in paragraph 5 of this Article in accordance with Article 17, paragraph 4 hereof.

Decision on the Model and Method of Privatization, Initial Price and Measures for Disburdening and Preparation of Privatization Entity

Article 21

The Agency shall propose to the Ministry in charge of economic affairs a model and method of privatization, measures for disburdening and preparation of the entity undergoing privatization, within 45 days from the expiry of the deadline for submission of the letters of interest.

The Agency shall propose the adoption of a decision on the model, method and measures for disburdening and preparation of privatization entities, if the expressed interest of the investors is acceptable and if the viability of the entity's business (provisional business plan) is positively assessed.

If conditions referred to in paragraph 2 of this Article are fulfilled, the Agency shall propose the decision on the model, method and measures for disburdening and preparation by assessing the following criteria:

- value of capital and assets;
- strategic importance of privatization entity;
- the number of employees.

The Agency shall, within 30 days after the deadline referred to in paragraph 1 of this Article, notify the Ministry in charge of economic affairs of the entities that have not received an acceptable expression of interest or have not received any letter of interest within the deadline referred to in Paragraph 1 of this Article.

Based on the proposal referred to in paragraph 1 of this Article, the ministry in charge of the economic affairs shall adopt a decision establishing the model and the method of privatization, (hereinafter: decision on the model and method), the initial price, and propose measures for disburdening and preparation of privatization entity, within 30 days of the submission of proposal by the Agency.

For the entities operating with majority capital of the Republic of Serbia, the Government shall render the decision on the method and model of privatization upon proposal of the ministry in charge of economic affairs within the deadline referred to in paragraph 5 of this Article.

For the entities operating with majority capital of the autonomous province and local self-government, the competent body of such autonomous province and local self-government shall render the decision on the method and model of privatization, upon proposal of the ministry in charge of economic affairs, within the period referred to in paragraph 5 of this Article.

The Agency shall notify the entity of the model and method decision within 5 days from delivery of such decision to the Agency.

For privatization entities classified as micro legal entities according to the laws governing accounting, with terminated agreements on the sale of capital, the Agency shall render the decision on the model and method of privatization or adjudicate the initiation of bankruptcy proceedings.

The Government shall decide on the model of strategic partnership and the manner of its implementation.

Modification of the Model and Method Decision

Article 22

If circumstances arise in the implementation of privatization that result in the inability to implement the method and model decisions, the Agency may propose an amendment of the privatization model and method.

The procedure referred to in Article 21 of this Law shall be applied to the adoption of new decisions.

III PRIVATIZATION METHODS

Public Collection of Bids with Subsequent Public Bidding

Article 23

Method of public collection of bids with subsequent public bidding is a privatization method for the sale of capital and/or assets of privatization entity.

The method referred to in paragraph 1 of this Article shall be realized by submitting bids and through public bidding of participants in accordance with this Law and the sales documents.

Sales Documents

Article 24

Sales documents in the process of public collection of bids with subsequent public bidding shall include:

- 1) Confidentiality Agreement;
- 2) Privatization documents;
- 3) Instructions to Bidders;
- 4) Application form for participation in the process of collecting public bids with subsequent public bidding;
- 5) Draft Sales Agreement.

Privatization documentation referred to in paragraph 1, item 2) of this Article shall be prepared by privatization entity and submitted to the Agency within 30 days of the date the Agency notified the entity of privatization model and method.

The person authorized to represent the privatization entity shall be responsible for the accuracy and completeness of the submitted privatization documents under criminal, moral and material liability.

Criteria for Participation in Public Collection of Bids with Subsequent public Bidding

Article 25

Criteria for participation in public collection of bids with subsequent public bidding, terms of sale and buyer's obligations (investment, social program, business continuity, etc.) shall be determined by the Agency, with the approval of the ministry responsible for economic affairs.

The ministry in charge of the economic affairs shall give consent referred to in paragraph 1 of this Article, within 15 days of the Agency's delivery of criteria and conditions of sale.

If the ministry in charge of the economic affairs does not agree with the proposal of the Agency, it shall determine the criteria, conditions of sale and the buyer's obligations and notify the Agency within 15 days of the Agency's delivery of criteria and conditions of sale.

If the ministry in charge of the economic affairs does not submit its consent within the term referred to in paragraph 2 of this Article, the process shall continue in accordance with the Agency's proposal.

Public Invitation

Article 26

The Agency shall prepare and publish a public invitation for the sale of capital and/or assets of privatization entity.

Public invitation contains the business name of the company, details on structure and value of the capital, description and value of capital and/or assets, initial price for the sale of capital and/or assets, deadline for submission of participation applications, as well as other information relevant to the implementation process.

The public invitation referred to in paragraph 1 of this Article shall be published in at least one widely circulated daily newspaper distributed throughout the territory of the Republic of Serbia and on the website of the Agency no later than 30 days before the date stipulated for submission of applications.

Purchase of the Sales Documents

Article 27

A person who has expressed an interest to participate in public collection of bids with subsequent public bidding shall be required to purchase the sales documents.

The minister responsible for economic affairs shall set the price of the sales documents referred to in paragraph 1 of this Article.

Commission for Conducting Public Collection of Bids with Subsequent Public Bidding

Article 28

Public collection of bids with subsequent public bidding shall be conducted by the Commission for Conducting Public Collection of Bids with Subsequent Public Bidding (hereinafter: Commission), which shall be appointed by the Agency.

The Commission shall have three members and shall include: a representative of the Agency, a representative of employees in the privatization entity and a representative of the ministry responsible for economic affairs.

A person complying with the following requirements may be appointed as a member of the Commission:

- five years of working experience in economy or privatization;

- university degree.

The person referred to in paragraph 3 of this Article shall be obliged to make a statement that he/she is not a shareholder in privatization entity or its purchaser.

The Commission shall decide by majority vote of all of its members.

The Commission shall take minutes of its work.

Initial Price

Article 29

The initial price for the sale of capital and/or assets shall amount to at least one-half of the estimated value of capital and/or assets offered for sale.

If the capital and/or assets are not sold for the price referred to in paragraph 1 of this Article, the Agency may, with the approval of the competent authority in terms of Article 21 of this Law, publish a new public invitation within 15 days from the day of declaring the sales procedure unsuccessful with a new starting price amounting to at least one-third of the estimated value of capital and/or assets.

Application for Participation

Article 30

Application for participation shall be submitted to the Agency within the time limit specified in the public invitation, which may not be less than 30 nor more than 90 days from the date of the public invitation announcement.

Bids must be equal to or may exceed the initial price.

The deposit can be paid in cash or by the first class bank guarantee.

The amount of deposit shall be 10% of the estimated value of capital and/or assets.

The application of a participant that does not contain evidence of deposit payment shall not be considered.

Public Bidding

Article 31

Public bidding shall be conducted immediately after the opening of bids, if at least two bidders submitted a bid that is equal to or exceeds the initial price.

The highest offered price shall be the starting price at the public bidding, whereas the sales price shall be the highest price achieved in the public bidding procedure.

In the event that only one bidder submits a bid, a public bidding shall not be conducted, but instead a contract shall be concluded and the sales price shall be the price offered, which must be equal to or may exceed the initial price.

Losing the Rights and Status of the Buyer

Article 32

If a participant in the public collection of bids with subsequent public bidding, who has been declared a buyer or who has the second highest bid, fails to sign the minutes, fails to conclude the agreement or fails to make the payment within the specified term, it shall lose the status of the buyer and the right to participate in the privatization process and the right of deposit return.

Public Collection of Bids Method

Article 33

Public collection of bids shall be carried out through announcement of public invitation for selection of strategic investor.

The Government shall prescribe the qualification requirements to be met by a strategic investor.

The Agency shall publish a public invitation referred to in paragraph 1 of this Article.

The public invitation referred to in paragraph 1 of this Article shall be published in at least one widely circulated daily newspaper distributed throughout the territory of the Republic of Serbia and on the website of the Agency no later than 30 days before the date stipulated for submission of applications.

Determining the Content of Application

Article 34

The content of the application for strategic partnership and the amount of deposit shall be determined by the Government at proposal of the ministry responsible for economic affairs.

Authorization of the Government to pass the By-laws

Article 35

The Government shall prescribe the conditions, procedure and manner of the sale of capital and/or assets by method of public collection of bids with subsequent public bidding as well as the strategic partnership model.

IV SALE OF CAPITAL

Subject of Sale

Article 36

The subject of sale shall be 70% of the socially-owned capital to be privatized, unless otherwise regulated by this law or the regulations governing the legal status of business entities and the terms and conditions of performing certain economic and other activities.

The percentage of public capital to be privatized shall be determined by the Government, the autonomous province or local self-government unit.

If after the sale of the socially-owned capital and transfer of the capital to employees there is still the unsold capital, such capital shall be transferred to the Shareholder Fund

Agreement on the Sale of Capital

Article 37

Agreement on the Sale of Capital is the adhesion contract which may include the provisions on the following: contracting parties, subject of sale, contracted price and deadline for payment, deadline and amount of investments provided by the buyer, required operations for privatization entity, restricted disposal of assets or capital of the entity to be privatized through alienation and encumbrance, prohibition of reducing the number of permanent employees, the obligation to pay regular salaries to employees, security instruments for duly performed contractual obligations and other provisions.

Privatization Agency and the buyer of the capital, as contracting parties, shall sign a record containing a specification of property, rights and liabilities of privatization entity, which is an integral part of the capital sales agreement.

The period of contractual obligations is typically two years.

Notwithstanding paragraph 3 of this Article, due to the importance of preservation of activities, the contractual obligations period may be termed to three years by the capital sales agreement, at proposal of the relevant ministry in charge of the activities of privatization entity.

Agreement on the sale of capital shall be deemed concluded when signed by the buyer and the Agency and certified by the competent authority.

The Agency shall submit the agreement on the sale of capital to the ministry in charge of finance for the record keeping within three days of its conclusion.

Agreement on the sale of capital shall be available on the official web site of the Agency, within three days of its conclusion

On the date of certification of the capital sales agreement, the Agency shall acquire a legal lien on the capital subject to sale, whilst the competent authority shall *ex officio* be obliged to register that right.

The Agency shall, within 15 days from the execution of the Buyer's last contractual obligation, inform the competent registry to delete the statutory lien referred to in paragraph 8 of this Article.

Assignment of the Capital Sales Agreement

Article 38

The buyer of the capital (hereinafter: Assignor) may assign the capital sales agreement to a third party (hereinafter referred to as: Receiver), under the conditions stipulated by this law and the law governing contractual obligation relations, with prior approval of the Agency.

The Receiver may only be a person who meets the legal requirements for the buyer of the capital.

By assigning the capital sales agreement, the Receiver shall become the holder of all rights and obligations under the agreement.

The Assignor and Receiver shall be jointly and severally liable to the Agency for the performance of duties under the assigned capital sales agreement.

Own Shares

Article 39

During the execution of contractual obligations, the capital increase and new shares arising from increase in capital of privatization entity shall be subject to regulations governing the capital increase of companies and capital market, except issues otherwise regulated by this law.

The Registry responsible for securities depository and clearing and the Register of Companies shall record the capital increase of privatization entity on the basis of agreed investment when the buyer submits a certificate by the Agency on the execution of the contractual investment commitment.

Capital increase of the privatization entity deriving from new share issue provided by a third party during the term of the contractual obligations shall not be permitted.

Shares acquired by the buyer from new issues arising from the capital increase of privatization entity during the execution of contractual obligations shall be considered the fully paid own shares of privatization entity.

When the buyer of capital fulfils obligations under the capital sales agreement, which fulfillment is verified by the Agency's certificate, the privatization entity that has acquired own shares referred to in paragraph 4 of this Article, shall transfer them free of charge to the buyer from which the shares were obtained.

The Agency shall submit to the register in charge of securities the decision under which the own shares are registered on privatization entity, as well as the decision based on which the own shares shall be transferred to the buyer for *ex officio* registry.

The Agency shall submit to the register in charge of registering the companies a decision under which the own stake is registered on privatization entity, the decision based on which the own stake shall be transferred to the buyer for *ex officio* registry.

Conditions for the Termination of the Capital Sales Agreement

Article 40

Agreement on the Sale of Capital shall be deemed terminated due to contract default if, even within the additionally approved deadlines, the buyer fails to remedy the following breaches of contractual obligations:

- 1) Failure to pay the agreed price in accordance with the sales agreement;
- 2) Disposal of privatization entity's assets contrary to the provisions of the agreement;
- 3) Disposal of privatization entity's capital contrary to the provisions of the agreement;
- 4) Failure to provide guarantees in accordance with the sales agreement;

Buyer may be granted no more than three consecutive subsequent deadlines for compliance with one contractual obligation if it has been verified that the buyer had submitted evidence of taking steps to enforce contractual obligations in the previously provided period.

Collaterals for proper performance of contractual obligations shall be activated in accordance with the agreement.

Legal transaction concluded without the Agency's consent, contrary to the provisions of the sales agreement, shall be null and void.

Legal Consequences of the Termination of the Capital Sales Agreement

Article 41

In case of termination due to contract default by the buyer, and in order to protect general public interest, the buyer of the capital shall lose the right:

- of refund of the amount paid on behalf of the agreed price;
- over the entire capital of the privatization entity that the buyer directly or indirectly acquired under the obligations from the sales agreement and any compensation or indemnity under the same, except shares acquired through purchase on the organized securities market.

In case of termination of the agreement on the sale of capital, the entire capital referred to in paragraph 1 of this Article including own shares acquired in the capital increase through new stakes, shall be transferred to Privatization Agency.

Funds generated from the sale of own shares shall not be paid to the buyer of the capital with whom the sales agreement has been terminated, and the buyer shall lose the right to any remuneration or compensation in respect of assets and rights entered into the privatization entity, which have increased the capital of the entity.

Capital Representative

Article 42

For privatization entities for which the agreement of sale has been terminated in accordance with provisions of this Law, the Agency, with the approval of the ministry responsible for economic affairs, shall appoint a temporary capital representative (hereinafter: Capital Representative) to manage the privatization entity until the completion of its privatization process.

- Capital Representative may be a person who meets the following requirements:
- holds a university degree;

- at least 5 years of experience in the area of business of the privatization entity or in business in general;
- he/she is not a shareholder in the privatization entity or its buyer;
- has not been convicted of a criminal offence which is punishable by imprisonment or other criminal offence which makes him/her unfit to perform the duty of a representative;
- he/she is not a creditor or debtor of the privatization entity.

Capital Representative shall manage the privatization entity in proportion to the share of capital which is transferred to the Agency.

Capital Representative shall in particular:

- 1) take necessary measures for the protection of property and capital in privatization entity;
- 2) manage the operations of the privatization entity as a prudent businessman, and take care of other activities that are needed to prevent the occurrence of damage to assets of privatization entity;
- 3) take measures to facilitate the completion of the privatization process;
- 4) performs other duties as required.

Capital Representative shall perform entrusted tasks independently, with due care and diligence of a prudent businessman, in accordance with the law.

Capital Representative shall be liable directly in the amount of his/her own property, for the damage caused to a privatization entity, if the damage occurred intentionally or through gross negligence.

Claims for damages have a five years statute of limitation from the date the damage occurred.

Capital Representative's Report

Article 43

Capital Representative shall submit to the Agency the following reports:

- Monthly reports on the property status and business operations of the privatization entity;
- Other reports, at the request of the Agency.

The content of reports shall be prescribed by the minister competent for economic affairs.

All the reports shall be published on the official web site of the Agency.

A monthly report required to be submitted by the Capital Representative, shall give an overview of business performance and operating results in an observed period (month), as well as comparison of that period with the previous period (month), i.e. with the same period (month) in the previous year.

Capital Representative's Fee

Article 44

Capital Representative shall be entitled to remuneration and reimbursement of actual costs.

Remuneration costs and reimbursement of actual costs of the Capital Representative shall be borne by the privatization entity in the amount prescribed by the minister competent for economic affairs.

Capital Representative Acquittal

Article 45

The Agency will acquit Capital Representative if it determines that the Capital Representative does not fulfill the obligations prescribed by this Law and other acts regulating his/her actions.

Capital Representative may be acquitted at his/her personal request.

Providing conditions for trade of shares

Article 46

In case a decision on the sale of shares on the organized market is adopted in accordance with Article 9 paragraph 2 item 1 of this Law, Capital Representative shall be obliged to provide conditions for trading with shares of the privatization entity organized as a joint stock company on the organized securities market, within 90 days from the adoption of the decision.

If the Capital Representative fails to ensure share trading conditions, the Agency will send an order to the Belgrade Stock Exchange to include shares on the Belgrade Stock Exchange market. Belgrade Stock Exchange will include entity's shares on the market free of charge and by Agency's order.

The Agency will offer shares of the privatization entity for sale in accordance with current market conditions. Shares will be offered for sale for the maximum of 90 days.

The capital referred to in Article 41 paragraph 1 and 2 of this Law that is expressed in shares shall be sold with a method of public collection of bids and public bidding.

Duties of the Management Bodies of the Privatization Entity

Article 47

The management body of the privatization entity shall be obliged to undertake all legal and factual actions in order to enable the Capital Representative to manage the privatization entity, as well as to carry out all the actions necessary for the registration of changes in the registrar competent for companies, and other competent registrars.

In case the management body does not act in the manner referred to in the previous paragraph of this Article, all the rights, obligations and competences of the management bodies, including the right to convene the Assembly of the privatization entity in the manner and within time limits envisaged by the law governing the legal status of companies, shall be transferred to the Capital Representative.

After termination of the agreement on the sale of capital, the Management Bodies of the privatization entity cannot adopt the following decisions prior to selection of new management bodies:

- 1) On the company's capital decrease or increase;
- 2) On the acquisition or disposal of real estate or the high value assets;

- 3) On the reorganization of the company;
- 4) On pledging of items, mortgage and other manner of encumbering the property;
- 5) On giving or taking a lease on the property;
- 6) On the offset of creditors.

Decision adopted contrary to paragraph 3 of this Article shall be null and void.

Representatives of the privatization entity management bodies shall be proposed by the ministry competent for economic affairs, in proportion with the capital share transferred to the Agency in the total capital of the privatization entity, within 15 days from the day of termination of the agreement on sale of capital.

V ASSET SALE

Subject of Sale

Article 48

In the privatization procedure, assets of a privatization entity or a part thereof can be sold.

Asset sale is organized and conducted by the Agency.

Asset Sale Program

Article 49

Program shall be adopted by the competent authority of the privatization entity.

Privatization entity shall be obliged to submit the Program to the Agency within 60 days from the date of the decision on the model method.

The Agency may extend the time limit for the submission of the Program for a maximum of 30 days, at the request of the privatization entity, if there are reasonable grounds for this.

The Agency shall be obliged to adopt a decision on acceptance, refusal, return for Program corrections or amendments within a period of maximum 30 days from the day of receipt of the Program.

The privatization entity shall be obliged to make corrections or amendments to the Program within a time limit determined by the Agency, which may not exceed 30 days from the day of submission of the decision referred to in paragraph 4 of this Article.

The Program shall be considered adopted after the Agency passes a decision on the acceptance of the Program.

The Program adopted in accordance of this Law shall be an enforceable document.

Program Contents

Article 50

The Program particularly contains the following: Operating data of the privatization entity, asset values, social program, i.e. obligations towards employees, environment protection program, and other data relevant for conducting sales of the assets of the privatization entity.

In addition to the data referred to in paragraph 1 of this Article, the Program shall also contain data about:

- The property that is the subject of sale,
- Property rights and encumbrances on the property that is the subject of sale,
- Claims that are settled by sales of the assets,
- Percentage share of the pledged property in the subject of sales and percentage share of the settlement of secured creditors from the proceeds obtained from the sale of pledged property,
- Terms of sale,
- Purpose of funds remaining after the settling of privatization costs and secured creditors,
- A possibility for further operation of the privatization entity or winding up of the privatization entity,
- Other data relevant for asset sale.

The Program shall contain a signed statement of all secured creditors having a security interest on the property that is the subject of sale, that they approve the Program;

Application

Article 51

Provisions of this Law on Asset Sale shall be accordingly applied in case of Asset Sale in accordance with the Program of the privatization entity with shares or stakes of the Shareholder Fund in its capital structure.

Asset Sale Agreement

Article 52

Asset Sale Agreement shall be a contract of adhesion and may contain provisions on: contracting parties, subject of sale, contracted price and term of payment, amount and time frame for buyer's investments, obligation to continue business operations, limitation of assets disposal by alienation and pledge, prohibition of reduction of the number of employees who have been employed for an indefinite period of time, obligation of regular payment of salaries to employees, collaterals for proper fulfillment of contractual obligations, and other provisions.

Buyer's contractual obligations under the Asset Sale Agreement shall, as a rule, last for 2 years.

Notwithstanding paragraph 2 of this Article, due to importance of business preservation, at a proposal of the line ministry, duration of buyer's contractual obligations may be extended to 3 years.

The buyer shall be obliged to submit a first class bank guarantee, unconditional, irrevocable, payable on the first call, in the amount of the purchase price, which shall guarantee fulfillment of contractual obligations, in accordance with the asset sale agreement.

The buyer shall acquire the title immediately after the payment of the contracted price and submission of the guarantee, in accordance with the Asset Sale Agreement.

After conclusion of the Asset Sale Agreement, the Agency shall adopt a conclusion on conducted sales on the basis of which the competent registrar shall, *ex officio* and free of charge, register the prohibition of asset disposal without consent of the Agency, for the duration of contractual obligations.

The Agency shall be obliged to notify the registrars referred to in paragraph 6 of this Article for the purpose of deletion of the disposal prohibition within 15 days from the date of execution of the buyer's last contractual obligation.

A legal transaction concluded without consent of the Agency, contrary to provisions of the Asset Sale Agreement, shall be null and void.

Assignment of the Asset Sale Agreement

Article 53

Provisions of Article 38 of this Law relating to the assignation of the Capital Sale Agreement, shall accordingly apply on the assignment of the Asset Sale Agreement.

Terms for Termination of the Asset Sale Agreement

Article 54

The Asset Sale Agreement shall be considered terminated due to a failure to fulfill contractual obligations if, even in the additionally extended time limit for fulfillment of a contractual obligation, the buyer does not eliminate following violations of contractual obligations:

- 1) Failure to pay the contracted price;
- 2) Failure to provide a guarantee in accordance with the Sales Agreement;
- 3) Disposing the assets of the privatization entity contrary to provisions of the agreement.

The buyer may have maximum three consecutive extensions of the deadline for execution of one contractual obligation if it is estimated that in the previously provided additional time the buyer provided evidence that it took actions to execute contractual obligations.

Collaterals for proper execution of a contractual obligation shall be activated in accordance with the agreement.

A legal transaction concluded without consent of the Agency, contrary to provisions of the Sales agreement, shall be null and void.

In case of termination of the Asset Sale agreement, the buyer shall not be entitled to refund the amount paid as contracted price, for the purpose of protection of a general interest, and the Agency may activate the bank guarantee.

Funds generated through cashing in the bank guarantee shall be transferred to the budget account of the Republic of Serbia.

In case of termination on the basis of item 3) paragraph 1 of this Article, the property that was the subject of sales shall remain in the ownership of the buyer or a newly established company.

Conclusion on the Settlement of Secured Creditors

Article 55

Secured creditor whose claim is secured on the property that is the subject of sale shall have the right to collect in full, before other creditors, from the proceeds generated from the sale of that part of the property.

If the creditor referred to in paragraph 1 of this Article does not settle its claims in full, the remaining amount of claims shall be settled together with claims of non-secured creditors.

Upon completion of the sale of the property, i.e. after fulfilling all the terms stipulated in the Sales Agreement for the transfer of title over the property that was the subject of sale, the Agency shall adopt a conclusion on the settlement of secured creditors.

The conclusion referred to in paragraph 3 of this Article shall be final and the Agency shall submit it to competent registrars for recording lien, for the purpose of deletion of encumbrances on the property that was the subject of sale.

Competent registrars shall be obliged to conduct deletion of encumbrances on the property that was the subject of sale *ex officio* and free of charge.

Completion of the Asset Sale Procedure and Initiation of the Liquidation Procedure

Article 56

If the entire property of the privatization entity was sold in accordance with the Program, the Agency shall submit a proposal for initiating liquidation of the privatization entity if there are reasons for bankruptcy in accordance with this Law.

Exceptionally, if terms for liquidation of the privatization entity are met, the Agency shall initiate a liquidation procedure in accordance with the law governing companies.

The liquidation procedure shall be implemented in accordance with the Company Law.

In the initiation decision the Agency shall appoint a liquidator who has to meet the following requirements:

- 1) Hold a university degree,
- 2) Have minimum 5 years of work experience related to the business of the privatization entity or business in general,

- 3) has not been convicted of a criminal offence punishable by imprisonment or other criminal offence that makes this person inadequate for conducting activities of a liquidator,
- 4) is not a creditor or debtor of the privatization entity.

The liquidator shall submit to the Agency the following reports:

- Monthly reports on the progress of the liquidation procedure;
- Other reports, at the request of the Agency.

All the reports shall be published on the official web site of the Agency.

The content of the report shall be prescribed by the Agency.

The Agency will acquit the liquidator if it determines that the liquidator does not fulfill obligations prescribed by this Law and other acts regulating his/her actions.

The liquidator may be acquitted at his/her personal request.

Remaining liquidation estate that is proportional to the share of state owned capital in the total capital of the privatization entity shall be paid to the budget account of the Republic of Serbia.

VI PROCEDURE AND METHOD OF CONTROL OF EXECUTION OF OBLIGATIONS UNDER THE AGREEMENT FOR SALE OF CAPITAL OR ASSETS

Control of Execution of Contractual Obligations

Article 57

The Agency shall control execution of buyer's contractual obligations envisaged by the sales agreement.

Control referred to in paragraph 1 of this Article shall be carried out on the basis of a report of an authorized auditor which shall be submitted by the buyer to the Agency for the duration of the agreement, as well as on the basis of assessment of a court expert for the investment subject.

The Government shall more closely prescribe the procedure of control of execution of contractual obligations.

The buyer and the person authorized to represent the privatization entity shall be responsible, under criminal and material liability, for the accuracy and completeness of the documentation and data submitted to the Agency for the purpose of implementing the procedure of control of execution of contractual obligations.

VII SALE OF SHARES AND STAKES

Application of regulations and sales criteria

Article 58

The sale of shares and stakes shall be accordingly governed by provisions of this Law that refer to the sale of capital.

Shares may also be sold in accordance with the law regulating the securities market and in accordance with the law regulating takeover of joint stock companies.

A criterion for the sale of shares out of the securities market or on the securities market shall be achievement of the highest sales price, starting from an assessed fair market value of the joint stock company capital and share price on the stock exchange.

A criterion for the sale of shares with a takeover bid shall be achievement of the highest sales price, taking into consideration an estimated fair market value of the joint stock company capital, share price on the stock exchange, and price per share offered in the takeover bid.

The decision on a method of the sale of shares i.e. stakes in the ownership of the Republic of Serbia, autonomous province and local self-government, shall be adopted by the Government, a competent authority of the autonomous province or local self-government.

Sale of Shares Transferred to the Agency

Article 59

Shares of the privatization entity assigned to the Agency after termination of the Agreement on sale of capital shall be sold by the Agency by method of public collection of bids with subsequent public bidding, method of public collection of bids in case of a strategic partnership, on the securities market, or a takeover bid.

A minister competent for economic affairs shall prescribe criteria for determining the price of shares of the privatization entity referred to in paragraph 1 of this Article when they are sold on the securities market or by takeover bid.

Joint Sale of Individual Shareholder Shares

Article 60

In the process of privatization by the method of public collection of bids with subsequent public bidding, simultaneously with an offer for the sale of shares transferred to the Shareholder Fund i.e. the Agency after termination of the sales agreement, shares of individual shareholders may be offered for the sale, for the purpose of selling majority share .

VIII TRANSFER OF CAPITAL FREE OF CHARGE

Transfer of Capital to Employees Free of Charge

Article 61

Part of the equity shall be transferred in shares and free of charge to the employees of the privatization entity with socially owned capital that is being privatized by capital sales model.

The employees referred to in paragraph 1 of this Article are citizens of the Republic of Serbia who are:

- 1) Employed or were employed in the privatization entity.
- 2) Employed in a control company or subsidiary if the privatization entity is a subsidiary or control company.

A pensioner shall also be considered to be a person previously employed in terms of paragraph 2 item 1) of this Article.

The employees shall have the right to acquire shares free of charge for every full year of employment in the privatization entity.

The right to acquire shares free of charge may be obtained for a maximum of 35 years of employment.

The right to acquire shares free of charge shall not be obtained:

- 1) When shares or assets of the privatization entity are transferred free of charge to the Republic of Serbia, autonomous province or a local self-government unit;
- 2) When the right to free shares and financial compensation was obtained in accordance with the law governing the right to free shares and financial compensation.

Decision on Share Issue

Article 62

The privatization entity shall adopt a decision on issuing shares free of charge and inform the employees thereof in a public invitation.

The privatization entity shall be obliged to adopt a decision on issuing shares free of charge within a time limit determined by the Agency.

The public invitation referred to in paragraph 1 of this Article shall contain data about: date, time and place of registration of shares, number of shares, nominal value of shares, and other data in accordance with the decision on issuing shares free of charge.

Public invitation shall be published on privatization entity's notice board and in the "Official Gazette of the Republic of Serbia" and in one high-circulation daily newspaper distributed throughout the territory of the Republic of Serbia.

A deadline for registration of shares free of charge shall commence from the date of publication of the public invitation in the daily newspaper referred to in paragraph 4 of this Article.

Acquiring Shares Free of Charge

Article 63

Capital intended for the acquisition of shares free of charge in the process of capital sale may not be higher than 30% of the socially owned capital being privatized.

The employees shall have the right to acquire shares free of charge in accordance with Article 64 of this Law whose total nominal value amounts to EUR 200 in RSD counter value at

the official exchange rate on the date of publication of the public invitation referred to in Article 18 of this Law, for each full year of employment.

If the value of capital for the acquisition of shares free of charge is smaller than the total nominal value of the shares which the employees acquire free of charge, the employees shall have the right to a smaller number of shares, in proportion to the ratio of these values.

Legal Nature of the Free Shares

Article 64

Shares that are transferred to the employees free of charge shall be ordinary and registered on the name of the owner.

Transfer of Capital to the Strategic Investor Free of Charge

Article 65

Terms and manner of transfer of capital free of charge to strategic investor shall be determined in accordance with regulations governing the incentive of investments, on the basis of a decision of the Government.

IX STRATEGIC PARTNERSHIP

Notion of Strategic Partnership

Article 66

Strategic partnership shall be a model of privatization through an institutional relation between national or foreign legal entities (hereinafter referred to as the “strategic investor”) and the privatization entity i.e. the Republic of Serbia, for the purpose of:

- Ensuring financing;
- Increasing productivity and employment;
- Management professionalization;
- Creating conditions for the production or provision of services to end users;
- Other reasons that enable performance of activity.

Manner of Implementation

Article 67

Strategic partnership shall be carried out:

- By a joint venture by establishing a new company;

- By capital increase in the existing privatization entity.

Strategic Partnership Agreement

Article 68

Contractual obligations of the strategic investor, as well as terms, method and legal consequences of termination of the agreement shall be agreed between the parties and regulated under the Strategic Partnership Agreement.

Strategic Partnership Agreement shall be published on official web sites of the Privatization Agency and Serbian Government within three days after the signing date.

Control of the Execution of Contractual Obligations

Article 69

The Agency shall control the execution of contractual obligations by the strategic investor as specified by the strategic partnership agreement.

The control referred in paragraph 1 of this Article shall be conducted based on the report of an authorized auditor delivered to the Agency by the strategic investor during the term of the agreement, as well as based on the evaluation of the court expert for the subject matter of the investment.

The Agency shall deliver the report on performed control to the ministry in charge of economic affairs.

Pursuant to the report referred to in paragraph 3 of this Article, the ministry in charge of economic affairs shall determine fulfillment of the contractual obligations and propose relevant measures to the Government.

Strategic investor and the person authorized to represent privatization entity shall be responsible, under material and criminal liability, for correctness and completeness of documentation and data delivered to the Agency for the purpose of conducting the control of execution of contractual obligations.

Decision of the Government

Article 70

The decision on strategic partnership through foundation of new company shall be rendered by the Government, based on the proposal of the ministry in charge of economic affairs.

Foundation of New Company

Article 71

The Republic of Serbia and the strategic investor shall found new company, pursuant to the company law.

Contribution of the Republic of Serbia in the new company shall be the property acquired by the Republic of Serbia based on the claims it has towards the privatization entity for which it rendered the decision on strategic partnership.

The Republic of Serbia shall acquire ownership of the property referred to in paragraph 2 of this Article through “giving in payment” (*datio in solutum*), pursuant to the law regulating contracts and torts.

Value of the property acquired by the Republic of Serbia shall be established in the amount of 100% of evaluated fair market value.

Contribution of the strategic investor in newly founded company may be in cash or in-kind.

Contract on foundation of new company referred to in paragraph 1 of this Article shall be signed by the representative of the Republic of Serbia and the strategic investor.

Pursuant to paragraph 3 of this Article, the Republic of Serbia shall acquire property proportionate to the share of state creditors’ claims in the total amount of claims against the privatization entity when the capital of the privatization entity is negative.

In case there is a pledge on the property being the contribution in the new company, consent of all secured creditors must be obtained.

Property rights shall be deleted from the real estate cadastre or other public registries, upon request of the Republic of Serbia, in line with the law.

Decision on Privatization of the Remaining Property or Capital

Article 72

The Government shall, pursuant to provisions of this Law, render a Decision on further privatization procedure of the property or capital which remained after foundation of a new company, pursuant to Article 71 of this Law.

Capital Increase in the Existing Privatization Entity

Article 73

Pursuant to this Law, capital increase means increase of share capital of the privatization entity for which the Government has rendered the decision on capital increase.

Contribution of the strategic investor may be in cash or in kind.

Agreement on capital increase shall be concluded by the representative of the Republic of Serbia, privatization entity and strategic investor, pursuant to the law which regulates companies.

Organization of the Socially Owned Company after Capital Increase

Article 74

Upon rendering the decision on capital increase, socially owned company shall be organized as a joint stock company or limited liability company.

The Privatization Agency shall be obliged to offer the strategic partner to purchase remaining socially owned capital not later than three months prior to expiry of the deadline for privatization of socially owned capital referred to in paragraph 2, Article 6 hereof.

In case the strategic partner fails to purchase socially owned capital referred to in paragraph 2 of this Article, that capital shall be transferred to the Shareholder Fund.

X MEASURES FOR DISBURDENING AND PREPARATION OF PRIVATIZATION ENTITIES

Criteria for Disburdening of Privatization Entities

Article 75

The Government may render a decision on the measures for preparation and disburdening of the privatization entity, once the privatization entity meets at least one of the following criteria:

- 1) strategic importance for the region;
- 2) size of property;
- 3) number of employees;
- 4) amount of income from registered predominant activity;
- 5) market potential.

Debt write-off (conditional)

Article 76

The Government may render a decision for the state creditors of the privatization entity to write off the debt as of 31 December 2013 towards the privatization entity which operates entirely or with majority of socially owned or public capital.

State creditors shall write off the debt towards subordinate (subsidiary) company:

- 1) which, in its capital structure, has majority capital of controlling (parent) company which operates with majority socially owned or public capital;
- 2) in which socially owned and public capital presents majority together with the capital of the controlling company.

The decision on debt write-off referred to in paragraph 1 of this Article may be rendered when the subject is privatized through sale of capital, or strategic partnership through capital

increase, or as a measure of Pre-Packaged Reorganization Plan (PPRP) pursuant to the law which regulates bankruptcy.

Debt write-off shall be valid in case **the** capital of the privatization entity was sold, capital increase was done by the strategic partner or in case a valid decision confirming PPRP of the privatization entity was adopted.

Debt - Equity Swap (conversion)

Article 77

In the process of privatization, creditor's claims may be converted into capital contribution in the privatization entity, if the Government renders a decision on conversion of state creditors' claims into capital contribution in the privatization entity.

State creditors shall be obliged to convert claims into capital in case the Government adopted the decision referred to in paragraph 1 of this Article.

Decision on conversion may be rendered after the decision had been rendered on the model of privatization through sale of capital or strategic partnership through capital increase or as a measure of Pre-Packaged Reorganization Plan (PPRP), pursuant to the law regulating bankruptcy.

Rendering Decision on Conversion

Article 78

Relevant authority of the privatization entity shall render a decision on conversion of creditors' claims into capital contribution in the privatization entity.

Decision referred to in paragraph 1 of this Article contains the data on the basis and amount of claims to be converted in the share capital of the company and the capital structure after conversion.

Along with the decision referred to in paragraph 1 of this Article, special opinion of the auditor pertaining to the audit of financial statement items that are subject of conversion, which is a mandatory element of documentation delivered to the Agency and the Government, shall be submitted.

Competent body in the privatization entity shall render a decision on capital increase pursuant to the provisions of the law regulating companies.

Subject of the conversion may be claims which were due at least 6 months before adoption of the Government's decision and must be presented in annual financial statements, which are the subject of review and adoption by the company assembly.

Conversion of creditors' claims into capital contribution in the privatization entity shall not be done by persons which, pursuant to Article 12 of this Law, cannot be buyers of the capital.

XI PRIVATIZATION OF SOCIALLY OWNED CAPITAL FROM SUCCESSION

Manner of Privatization

Article 79

Capital of socially owned companies in the Republic of Serbia which were founded by the companies with the seat on the territory of the former SFRY republics shall be privatized pursuant to the provisions of this Law.

Proceeds from the sale of companies referred to in paragraph 1 of this Article shall remain on the special purpose account of the Agency, and be used in line with agreements regulating the succession issues.

XII INITIATION OF BANKRUPTCY FOR THE PURPOSE OF COMPLETION OF PRIVATISATION

Bankruptcy Reasons

Article 80

The Agency may file a motion for initiation of bankruptcy of the privatization entity in case one of the following bankruptcy reasons has been met:

- failure to perform business activity in the period longer than 6 months,
- lack of interest in privatization,
- it has not had employees in the period longer than 6 months,
- decision on model and method of privatization has not been rendered after expiration of deadline referred to in Article 21 of this Law,
- in case the Program has not been adopted due to lack of consent from the creditors pursuant to Article 50 of this Law,
- in other cases defined by the law on bankruptcy.

If a privatization entity with majority socially owned capital has not been privatized within the period specified in Article 6, paragraph 2 of this Law, the Agency shall file a motion for bankruptcy of the privatization entity.

XIII PRIVATIZATION OF THE PRIVATIZATION ENTITY WITH MINORITY CAPITAL

Privatization of Minority Capital

Article 81

In case the subject of privatization is capital which constitutes less than 50% of the total capital of the privatization entity, provisions of this law pertaining to sale of assets, strategic

partnership, measures for preparation and disburdening, initiation of liquidation and initiation of bankruptcy for the purpose of completion of privatization, shall not apply.

XIV SPECIAL PROVISIONS

Costs of Third Parties in Dealing with the Agency

Article 82

Costs of privatization borne by third persons, i.e. privatization entities, cooperatives and buyers in the process of privatization, as well as other legal entities and natural persons, shall be charged by the Agency in the amount of real costs.

Real costs pursuant to paragraph 1 of this Article include the costs:

- for addressing requests for issuing consent of the companies which operate with majority socially owned capital, pursuant to the provisions regulating companies;
- for addressing requests for issuing consent of privatization entities, pursuant to Article 95 of this Law;
- for addressing requests for issuing consent of the companies in which the Agency appointed a representative of capital;
- for addressing requests for issuing consent of the cooperatives, pursuant to the provisions of the law regulating cooperatives;
- for annexes to the agreements;
- other costs.

Minister in charge economic affairs shall define the amount and type of costs which are recognized as real costs referred to in paragraph 1 of this Article.

Environmental Protection

Article 83

Funds for eliminating damage inflicted on the environment by the privatization entity before conclusion of the agreement on sale, i.e. agreement on capital increase, shall be provided from the budget of the Republic of Serbia.

The Government of the Republic of Serbia shall prescribe in more details the manner and terms for use of funds referred to in paragraph 1 of this Article.

XV SUPERVISION OF LAW IMPLEMENTATION

Competence and Content

Article 84

Supervision of implementation of the provisions of this Law and acts adopted pursuant to it shall be conducted by the ministry in charge of economic affairs.

The Government shall conduct supervision of actions of the ministry in implementation of this Law.

The Ministry shall submit, to the relevant committee of the National Assembly of the Republic of Serbia, regular monthly reports on the status of the privatization process, concluded agreements on sale of capital or assets, with attached agreements, initiated privatization processes, work of the subjects competent for implementation of privatization process listed in Article 7 of this Law, as well as provide all necessary data and information as requested by the competent committee.

Supervision referred to in paragraph 1 of this Article shall also include supervision of sale of shares from the privatization process which is conducted through regulated market, and supervision of sale of shares from the privatization process by accepting takeover bid.

XVI CRIMINAL OFFENSE

Liability of Responsible Person

Article 85

Responsible person in the privatization entity referred to in Article 20, paragraph 1 hereof, which failed to deliver the data within specified deadline, as well as responsible person in the privatization entity referred to in Article 24, paragraph 2 and Article 57, paragraph 4 of this Law which submits untrue or incomplete data on the property and liabilities of the privatization entity or delivers untrue or incomplete documentation, shall be punished by imprisonment for a term between three months to five years, and pecuniary fine in the amount from 100,000 to 1,000,000 RSD.

XVII DUE APPLICATION OF THE LAW AND SUSPENSION OF THE PROCEDURE

Due Application

Article 86

Provisions of this Law which pertain to shares shall apply accordingly to stakes.

Suspension of Procedure

Article 87

The Agency shall suspend the procedure of privatization in case it becomes aware of the circumstances which prevent sale of capital or assets of the privatization entity.

The Agency shall suspend the privatization procedure in case it is determined that the privatization entity is not at the registered address, does not conduct business activity, does not have employees or legal representative, or if for other objective reasons, it is not possible to implement the privatization procedure thereof.

Decision on suspension of the privatization procedure referred to in paragraph 2 of this Article, shall be delivered by the Agency to the relevant company registry which shall delete these companies free of charge.

XVIII TRANSITIONAL AND FINAL PROVISIONS

Continuation of Initiated Procedures and Use of Funds on the Agency's Account

Article 88

Privatization procedures initiated pursuant to the Law on Privatization ("Official Gazette of RS", no. 38/01, 18/03, 45/05, 123/07, 123/07 – oth. law, 30/10 - oth. law, 93/12, 119/12, 51/14 and 52/14 - CC), shall continue pursuant to the provisions of this Law.

For the privatization entities for which the initiative was launched pursuant to the law referred to in paragraph 1 of this Article, the initiative shall not be launched pursuant to the provisions of this Law.

Agreements on sale of capital or assets concluded until the day this Law came into force, in case of buyer's default, shall be terminated pursuant to the regulations which were in force until the effectuation date of this Law.

With coming into force of this Law, temporary representatives of capital shall continue to perform their duty, in line with act on appointment and this law.

Proceeds from sale of assets of the privatization entities in restructuring pursuant to the provisions of the Law on Privatization ("Official Gazette of RS", no. 38/01, 18/03, 45/05, 123/07, 123/07 – oth. law, 30/10 – oth. law, 93/12, 119/12, 51/14 and 52/14 - CC) that are, on the effectuation date of this Law, deposited on temporary account of the Agency, pursuant to the Regulation on the method and terms for execution of obligations of privatization entities towards creditors ("Official Gazette of RS", no. 45/06, 108/07, 126/07 and 60/08), shall remain on the temporary account of the Agency and shall not be the subject of compulsory enforcement until completion or suspension of the privatization procedure, after which they shall be transferred to the account of the privatization entity.

Privatization of Remaining Capital Privatized under Previous Regulations

Article 89

If a company, which until the effectuation date of this Law completed privatization of more than 50% of socially owned capital, pursuant to the provisions of the Law on Socially Owned Capital (“Official Gazette of SFRY“, no. 84/89 and 56/90) and the Law on Conditions and Procedure of Conversion of Socially Owned Property into other types of Property (“Official Gazette of RS“, no. 48/91, 75/91, 48/94 and 51/94), as well company which, until the effectuation date of this Law, completed privatization of the part of the capital pursuant to the provisions of the Law on Ownership Transformation (“Official Gazette of RS“, no. 32/97 and 10/2001), is not privatized within the deadline defined by Article 6 of this Law, as of the day of expiration of that deadline, 70% of socially owned capital that is not privatized shall be transferred to the Shareholder Fund, and 30% of socially owned capital that is not privatized shall be transferred to the employees free of charge, pursuant to the provisions of Articles 61-64 of this Law.

In case the decision on transfer of capital to the Shareholder Fund has been rendered for the company referred to in paragraph 1 of this Article, the company shall transfer the shares and stakes to the Shareholder Fund not later than within 30 days as of the date of the decision.

In case a company referred to in paragraph 1 of this Article fails to transfer shares or stakes to the Shareholder Fund within the deadline referred to in paragraph 2 of this Article, ministry in charge of economic affairs shall render the decision on transfer of those shares, i.e. stakes.

The decision referred to in paragraph 3 of this Article shall be final.

The Shareholder Fund shall submit the application for registration in relevant registries, which shall be obligated to perform registration without a fee within 8 days as of the date of the decision referred to in paragraph 4 of this Article.

Exception from the Law

Article 90

Provisions of this Law shall not apply to the privatization entities for which, until the effectuation date of this Law, the Agency rendered the decision that the representative of capital should undertake measures in order to initiate bankruptcy procedure.

Notifying Competent Registry

Article 91

Within the period of 15 days as of coming into force of this Law, the Agency shall deliver to the registry of companies list of privatization entities, which were in restructuring on the effectuation date of this law.

Competent registry referred to in paragraph 1 shall, *ex officio*, delete mark “in restructuring” from the business name of the privatization entity.

Deadline for Adoption of By-laws

Article 92

By-laws which shall be adopted based on the authorizations stipulated by this Law shall be adopted within 30 days as of coming into force of this Law.

Termination of other Laws

Article 93

On the effective date of this Law, the Law on Privatization (“Official Gazette of RS”, no. 38/01, 18/03, 45/05, 123/07, 123/07 – oth. law, 30/10 - oth. law, 93/12, 119/12, 51/14 and 52/14 - CC) and regulations adopted based on that law shall be repealed.

Notwithstanding paragraph 1 of this Article, Article 11 of the Regulation on the process and method of restructuring (“Official Gazette of RS“, no. 52/05, 96/08, 98/09, 44/13 and 59/13) shall stay in force until completion of the sale process of privatization entities that were in restructuring on the effective date of this Law.

Privatization entities referred to in paragraph 2 of this Article shall not, without consent of the Agency, render decisions referred to in Article 11 of the Regulation on the process and method of restructuring (“Official Gazette of RS“, no. 52/05, 96/08, 98/09, 44/13 and 59/13).

Decisions rendered contrary to paragraph 3 of this Article shall be null and void.

Settlement of Creditors' Claims

Article 94

Within 60 days as of the date of the decision on the model of privatization pursuant to this Law, the Agency shall record Requests for payment of creditors' claims filed pursuant to the Law on Amendments to the Law on Privatization (“Official Gazette of RS“, number 51/14), and establish the amount of claims for each creditor and prepare proposal for settlement of claims which shall be delivered to the creditors.

Procedures of compulsory enforcement and forced collection against the privatization entities which were in restructuring on the effective date of this Law, and which were suspended pursuant to Article 20ž of the Law on Privatization (“Official Gazette of RS”, no. 38/01, 18/03, 45/05, 123/07, 123/07 – oth.law, 30/10 – oth.law, 93/12 and 119/12), may be continued after 180 days as of the expiration of the deadline for adoption of the decision on model of privatization of the privatization entity.

Procedures of compulsory enforcement and forced collection against privatization entities that were in restructuring on the effective date of this Law, and which were not initiated until this Law came into force, may be initiated upon expiration of the deadline referred to in paragraph 2 of this Article.

Procedures of compulsory enforcement and forced collection against companies for professional rehabilitation and employment of disabled persons that were in restructuring on the effective date of this Law, and which were suspended pursuant to Article 20ž of the Law on Privatization (“Official Gazette of RS”, no. 38/01, 18/03, 45/05, 123/07, 123/07 – oth.law, 30/10 – oth.law, 93/12 and 119/12), may be continued after the adoption of regulations governing the position of these companies, and not later than upon the expiration of the period referred to in paragraph 2 of this Article.

Procedures of compulsory enforcement and forced collection against companies for professional rehabilitation and employment of disabled persons that were in restructuring on the effective date of this Law, and which were not initiated until this Law came into force, may be initiated upon passing of law that regulate the status of such companies, but not later than upon expiry of the deadline set in paragraph 2 of this Article.

Provisions of this Article shall not apply to the privatization entity for which the Agency, pursuant to the Government act, renders a decision on initiation of bankruptcy, as well as the privatization entity for which the Agency gave consent for PPRP.

Coming into Force

Article 95

This Law shall come into force on the eighth day as of its publishing in the “Official Gazette of the Republic of Serbia”.