Serbia

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1 Setting the Scene – Sources and Overview

1.1 What are the main corporate entities to be discussed?

The most important legal forms of corporate entities relevant for providing an overview on corporate governance trends in Serbia are private and public joint-stock companies. Even though the Law on Companies (hereinafter, the "**LoC**") does not explicitly classify joint-stock companies into different categories, there are special obligations prescribed for joint-stock companies that publicly emit their shares through public offers. On the other hand, the LoC does allow the possibility for the founders of a joint-stock company to impose limitations on the transfer of shares in the company statute in the form of pre-emption right or compulsory preliminary approval of a transfer.

1.2 What are the main legislative, regulatory and other corporate governance sources?

The main legal source relevant for questions on corporate governance is the Law on Companies (*Official Gazette of the RS*, No. 36/2011, 99/2011, 83/2014 and 5/2015) as *lex generalis* applicable to all commercial entities, i.e. legal persons established for performing lucrative activities. In addition, there are several other laws regulating this field of law:

1. Law on Contracts and Torts (*Official Gazette of Socialistic Federal Republic of Yugoslavia*, No. 29/78, 39/85, 45/89 and 57/89; *Official Gazette of the Federal Republic of Yugoslavia*, No. 31/93; and *Official Gazette of Serbia and Montenegro*, No. 1/2003 – Constitutional Charter).
2. Law on the Capital Market (*Official Gazette of RS*, No. 31/2011, 112/2015 and 108/2016) (hereinafter, the "**LoCM**").
3. Law on Takeover of Joint-stock Companies (*Official Gazette of RS*, No. 31/2011, 112/2015 and 108/2016) (hereinafter, the "**LoT**").
4. Law on Protection of Competition (*Official Gazette of RS*, No. 51/2009 and 95/2013).
5. Law on Banks (*Official Gazette of RS*, No. 107/2005, 91/2010 and 14/2015).
6. Insurance Law (*Official Gazette of RS*, No. 139/2014).
7. Labour Law (*Official Gazette of RS*, No. 24/2005, 61/2005, 54/2009, 32/2013, 75/2014 and 13/2017) (hereinafter, the "**LL**").
8. Law on environmental impact assessment (*Official Gazette of RS*, No. 135/2004 and 36/2009) (hereinafter, the "**LEIA**").
9. Law on Accounting (*Official Gazette of RS*, No. 62/2013) (hereinafter, the "**LoAcc**").
10. Law on Audit (*Official Gazette of RS*, No. 62/2013) (hereinafter, the "**LoAud**").
11. Corporate Governance Code (*Official Gazette of RS*, No. 99/2012) (hereinafter, the "**CGC**").
12. Law on Public Companies (*Official Gazette of RS*, 15/2016) (hereinafter, the "**LPC**").

1.3 What are the current topical issues, developments, trends and challenges in corporate governance?

Serbia has not yet developed significant court practice in the sphere of corporate governance related to directors' liability. Given that the duties of care and loyalty are seen as foremost strategies towards addressing the so-called first agency problem, i.e. the potential conflict between the shareholders' and managers' interests, a consistent court practice would have to offer in future a higher degree of legal security in this area. Furthermore, with regard to public companies, the new Law on Public Companies ("**LPC**"), in force as of 4 March 2016, has made the effort to regulate some corporate governance issues which were left open with regard to public companies before its enactment and to follow the recommendation of the EU Commission Progress Report (2014) which called for "improving corporate governance of public companies".

2 Shareholders

2.1 What rights and powers do shareholders have in the operation and management of the corporate entity/entities?

The scope of activities of a shareholders' meeting is adopting decisions on the following: 1) amendments to the company statute; 2) share capital increases and reductions, as well as any issue of securities; 3) number of approved shares; 4) changes in rights or privileges attached to any class of shares; 5) corporate status changes and changes of legal form; 6) acquisition and disposal of high-value assets; 7) profit distribution and loss coverage; 8) adoption of financial statements, as well as of audit reports if financial statements were audited; 9) adoption of reports of the board of directors, or of the supervisory board in case of a two-tier management; 10) remuneration of directors, or members of the supervisory board in cases of a two-tier management, or rules for the determination of such remuneration, including remuneration payable in shares and other securities of the company; 11) appointment and dismissal of directors; 12) appointment and dismissal of supervisory board members in cases of a two-tier management; 13) initiation of liquidation and filing for bankruptcy; 14) appointment and compensation of the auditor; 15) other items included in the agenda of the shareholders' meeting in accordance with the LoC; and 16) other items in accordance with the LoC and the company statute.

Rights and powers of shareholders are stemming from the ownership rights on a share or more specifically, on a share of a certain class. In general, every shareholder has a right to be present at the shareholders' meeting and to participate in the work thereof – in person or via proxy. A company may not introduce special requirements for proxies or limit their number. Each shareholder has a voting right on questions concerning which of his/her class of shares has a right to vote. In addition, each shareholder also has a right to participate in the debate at a shareholders' meeting concerning items on the agenda, which includes a right to propose, raise questions concerning the shareholders' meeting agenda and the right to get an answer in accordance with the company statute and shareholders' meeting procedural rules. However, the company statute may specify a minimum number of shares a shareholder must hold in order to be able to participate in person in the shareholders' meeting, which may not be higher than 0.1% of the total number of shares of a relevant class. Shareholders who individually do not hold the above mentioned minimum number of shares are entitled to participate in the shareholders' meeting through a joint proxy holder or to vote *in absentia*.

Shareholders may vote in writing without attending a session, provided they have certified their signatures on the voting form in accordance with the law governing certification of signatures. However, the company statute may waive this signature certification requirement. A shareholder who voted *in absentia* is deemed to be present for the purposes of voting on the items of the agenda on which he/she voted.

The company statute or the shareholders' meeting procedural rules may provide for participation in the shareholders' meeting by electronic means.

2.2 What responsibilities, if any, do shareholders have as regards the corporate governance of their corporate entity/entities?

Shareholders who own a significant share in the company's share capital or a shareholder who is the controlling shareholder of the company in terms of the LoC are the persons with special duties towards the company to which special limitations and disclosure requirements are applicable. The rules described in question 3.4 below are *mutatis mutandis* applicable to those shareholders.

According to the LoC, significant share in the share capital exists if one person, independently or with other persons acting jointly with that person, owns more than 25% of the voting right in the company. Majority share in the share capital exists if one person, independently or with other persons acting jointly with that person, owns more than 50% of the voting right in the company. Control implies the right or possibility that one person, independently, or with other persons acting jointly with him, carries out the controlling influence on the business operations of another person by means of having a share in the share capital, by means of a contract or right to appoint the majority of directors, i.e. supervisory board members. It is considered that a particular person is the controlling member of the company whenever such a person owns the majority share in the company's share capital independently or with affiliated persons. Acting jointly exists when two or more persons, pursuant to a mutual express or tacit agreement, use voting rights in a certain way or take other actions for the purpose of carrying out joint influence on the management or operations of that person.

2.3 What shareholder meetings are commonly held and what rights do shareholders have as regards them?

Shareholders' meetings may be ordinary or extraordinary.

An ordinary shareholders' meeting is held once a year, within six months as of the end of an accounting year. However, any failure to hold an ordinary shareholders' meeting does not affect the legal validity of transactions, actions and decisions of a company. An ordinary shareholders' meeting is convened by the board of directors, or the supervisory board in case of a two-tier management. Notice of shareholders' meeting is sent not later than 30 days before the scheduled date of a session.

Extraordinary shareholders' meeting is held as and when needed, as well as in cases provided by the LoC or the company statute. Should it be established that during the preparation of annual or other financial statements that a company operates with a loss due to which the value of its net assets fell below 50% of its share capital, an extraordinary shareholders' meeting must be convened and a notice of such session must specify the reason for convocation and contain a draft agenda which must include a draft decision to liquidate the company and/or a draft decision on other measures that need to be taken.

An extraordinary shareholders' meeting is convened by the decision of the board of directors or the supervisory board in cases of a two-tier management: 1) on its own initiative; 2) upon request from shareholders holding a minimum of 5% of the company's share capital, or shareholders holding a minimum of 5% of shares within a class with the right to vote on items on the proposed agenda, unless the company statute provides for a lower percentage threshold of the company's share capital or a lower number of shares within a class with the right to vote on items on the proposed agenda. The said request must include information on every petitioner and a reasoned draft agenda for the session. In order to qualify as a petitioner, the shareholder must hold shareholder status for a minimum of three months before lodging such request and retain such status until the passing of a decision pursuant to the request. In addition, the agenda for an extraordinary shareholders' meeting must be based solely on the draft agenda included in the said request, except where certain items are outside the scope of the shareholders' meeting. Exceptionally, an extraordinary shareholders' meeting of a company in liquidation is convened by the company's liquidator. Notice of an extraordinary shareholders' meeting is sent at least 21 days before the date of such session.

In general, the shareholders' meeting agenda is determined by a decision on convocation of the shareholders' meeting passed by the board of directors, or the supervisory board if a company has a two-tier management. The shareholders' meeting may decide and debate only on items included in the agenda.

One or more shareholders holding or representing a minimum of 5% of voting shares may propose to the board of directors, or the supervisory board in case of a two-tier management, additional items to be included in the shareholders' meeting agenda for debate and additional items for decision-making by the shareholders' meeting, provided that they provide an explanation for their proposal or submit the text of a proposed decision. Such proposal is made and contains information on petitioners, and is sent to the company not later than 20 days before the date of an ordinary shareholders' meeting, or not later than ten days before the date of an extraordinary shareholders' meeting. A public joint-stock company shall publish such proposal on its web page not later than the first succeeding business day as of the date of receipt. If the board of directors, or the supervisory board in case of a two-tier management, accepts the proposal, the company submits the new agenda without delay to all shareholders entitled to participate in the shareholders' meeting. If the board of directors, or the supervisory board in case of a two-tier management, does not accept the proposal within three days of receipt, a petitioner of such proposal is entitled to request within a further period of three days a court award in non-litigious proceedings ordering the company to include the proposed items in the shareholders' meeting agenda.

A list of shareholders entitled to participate in a shareholders' meeting is produced on a cut-off day that is referred to as a shareholders' day, which is the tenth day before the date of such session. The mentioned shareholders' list is produced on the basis of a certificate from the central records of shareholders maintained with the Registry of the Central Securities and Depositary Clearing House. Even if a shareholder included in a the mentioned list transfers his/her shares to a third party after the shareholders' day, he/she will retain the right to participate in such shareholders' meeting based on shares he/she held on the shareholders' day. Each shareholder included in the mentioned shareholders' list has a right to lodge a written request to the board of directors, or the executive board if a company has a two-tier management, to be provided with the mentioned list in writing or electronically without delay, and in any case not later than on the first succeeding business date after the date of receipt of a request. However, in case of a public joint-stock company with more than 10,000 shareholders as at the shareholders' day, the company is considered in compliance with the obligation to disclose the shareholders' list if it gives all shareholders lodging a request the access to the shareholders' list at company premises starting from the first succeeding business day after the shareholders' day until the day preceding the date of a shareholders' meeting. The company has a duty to inform its shareholders of the possibility of such access in the invitation to the shareholders' meeting session.

Notices sent to shareholders regarding a shareholders' meeting contain, in particular: 1) the date of dispatch; 2) the time and venue of the session; 3) a draft agenda, with a clear indication of items on which voting of the shareholders' meeting is proposed, as well as the indication of the class and total number of shares entitled to vote on such decision and the required majority; 4) information on ways to receive session handouts; 5) instruction on shareholders' rights in connection with their participation in the shareholders' meeting and clear and precise information about the rules for exercising those rights, which rules must be in accordance with the LoC, the company statute and the shareholders' meeting procedural rules; 6) a proxy form, if a company stipulated the mandatory use of such form; and 7) a notification concerning the shareholders' day, with an explanation that only those shareholders who are the company's shareholders on that date are entitled to participate at the shareholders' meeting. A company does need to include the elements referred to under numbers 4), 6) and 7) should it indicate the web pages from which such data and/or documents can be downloaded. A notice on the shareholders' meeting is sent to persons who are company shareholders on the date when the board of directors or the supervisory board decided to convene the shareholders' meeting, or the date of passing of a court decision if the shareholders' meeting is convened by court order. The notice is sent: 1) to the addresses of shareholders stated in the records of shareholder information and such notice is considered delivered on the date of its dispatch by registered mail, or by electronic mail if a shareholder agreed in writing to a different method of invitation; or 2) by publication on the company's web page and the web page of the Serbian Business Registers Agency.

A public joint-stock company shall also publish its notices of shareholders' meetings on the web page of a regulated market or multilateral trading platform where its shares are listed and it must always publish all notices on shareholders' meeting on its web page. Such web page publication must last at least until the date of the shareholders' meeting. In addition, a company's statute may stipulate that notice of the shareholders' meeting is also to be published in at least one top-selling daily newspaper with nationwide distribution in the Republic of Serbia.

Session handouts for shareholders' meetings must be made available to shareholders at the time of sending of notice: 1) at the company's premises during normal working hours, either in person or through a proxy; or 2) on the company's web page, so that shareholders may download the handouts in their entirety. The company statute may also stipulate other ways of making session handouts available to a company's shareholders.

A public joint-stock company shall publish on its web page, together with a notice of the shareholders' meeting, the total number of shares and voting rights as at the date of publication of such notice, including the number of shares of each class with the right to vote on individual items of the agenda.

Notwithstanding the above, a shareholders' meeting of a company other than a public joint-stock company may be held even without compliance with the above-mentioned requirements if all shareholders attend and if none of them oppose it.

A shareholders' meeting is, as a rule, held in a company-registered office. The board of directors, or the supervisory board in case of a two-tier management structure, may decide to hold a shareholders' meeting in another venue, should it be necessary in order to facilitate the organisation of the meeting.

Quorum for a shareholders' meeting is constituted by a simple majority of the total number of votes attached to the class of shares entitled to vote on an issue, unless a different majority is provided by the company statute. Own shares of a given class and shares for which the voting rights are suspended are not taken into account for quorum purposes. The shareholders' meeting may decide on an issue only if the meeting is attended by shareholders or their representatives that hold or represent a required number of votes attached to a class of shares entitled to vote on an issue.

The shareholders' meeting adopts decisions by a simple majority of votes of the present shareholders with a right to vote on an issue, unless a higher number of votes is required for specific issues in accordance with the LoC or the company statute.

The qualified majority is, on the other hand, required for adopting certain decisions such as, for example: decisions on the acquisition and disposal of high-value assets, which requires a three-quarters majority of the votes of the present shareholders with voting rights; a decision on a change of legal form, which requires a three-quarters majority of the votes of the present shareholders with voting rights, unless a different majority is provided by the company statute; and a decision on corporate status change, which requires a three-quarters majority of the votes of the present shareholders with voting rights, unless a different majority is provided by the company statute, etc.

If a shareholders' meeting of a joint-stock company is delayed due to a lack of quorum, it may be reconvened with the same agenda not later than 30 days and not earlier than 15 days after the adjourned session. Notice on a repeated session must be sent to shareholders not later than ten days before the date of such repeated session. If the date of a repeated session is predetermined in the notice on an adjourned session, a repeated session is held on that date, which cannot fall earlier than eight days or later than 30 days after the date of the adjourned session. The shareholders' day for an adjourned session shall remain valid for a repeated session.

A repeated ordinary session may be held even if the above-mentioned quorum requirement is not met, unless provided otherwise in the company statute. Quorum for a repeated extraordinary session is one third of the total number of shares with the right to vote on an issue, unless a different number of votes is provided by the company statute.

If there is no quorum in a repeated shareholders' meeting or if the meeting is not held when due, the board of directors, or the supervisory board in case of a two-tier management structure, shall convene a new shareholders' meeting.

Decisions in repeated meetings are passed by a majority provided for by the LoC and the company statute, which in case of a public joint-stock company may not be lower than one quarter of the total number of shares with a voting right on an issue.

Finally, if certain issues on the agenda need to be voted on by special classes of shareholders, such voting may be held in the ordinary shareholders' meeting or in a specially convened shareholders' meeting of shareholders of that class, if so required by shareholders of a special class of shares representing at least 10% of the total votes of the shares with the right to vote on that issue. The company statute may exclude the possibility of a special shareholders' meeting. The convocation, conduct, determination of quorum and participation in a special shareholders' meeting is governed by the provisions of the LoC on convocation, conduct, determination of quorum and participation in an ordinary shareholders' meeting.

2.4 Can shareholders be liable for acts or omissions of the corporate entity/entities?

According to Serbian law, the lifting of the corporate veil is possible under certain conditions. A shareholder, as well as a legal representative of such person if the person concerned has diminished capacity, is liable for the company's obligations if they abuse the rule of limited liability. Such abuse is considered to have taken place in particular if the mentioned shareholder: 1) uses the company to achieve an objective that is otherwise prohibited for that person; 2) uses or disposes of the company's assets as their own personal property; 3) uses the company or its assets to cause damage to the company's creditors; or 4) reduces the company's assets for their own personal gain or for the gain of third parties, although they knew or ought to have known that the company would be unable to meet its obligations. A creditor of a company may take legal action against such shareholder before a competent court within six months of learning of such abuse, but in any case not later than five years as of the date of committing such abuse. If creditors' claims are not due and payable at the time of learning of such abuse, the six-month period shall commence on the date when such claims become due and payable.

2.5 Can shareholders be disenfranchised?

A shareholder of a share with voting rights and his/her related parties are barred from voting in sessions deciding on: 1) his/her release from liabilities to the company or a reduction of those liabilities; 2) filing or dropping of lawsuits against him; and 3) approval of transactions in which such shareholder has a personal interest. All such instances represent a clear conflict of interest. The votes of shareholders barred from voting in the mentioned situations are not taken into account for quorum purposes. However, even in those situations, mentioned shareholders are not barred from participating in the meeting and debates on those questions.

In addition, there are shares where voting rights are excluded such as own shares, preferential shares (save for certain situations defined by the LoC), cases of certain cross-holdings of shares in linked companies, warrants and convertibles.

At the proposal of a shareholder who holds the shares accounting for at least 90% of the share capital of the company and who has at least 90% of votes of all shareholders holding common shares (redeemer), the shareholders' meeting renders a decision on compulsory repurchase of all stocks of the remaining stockholders of the company with the payment of the price determined by *mutatis mutandis* application of the provisions of the LoC regarding payment to dissenting stockholders. The shares held by the persons affiliated to the redeemer are deemed to be the stocks held by the redeemer, provided that those persons have been affiliated to the redeemer for a period of at least one year prior to the adoption of the decision on compulsory repurchase. The company statute may stipulate that the compulsory repurchase is not permitted or a higher percentage of the redeemer's participation in the share capital of the company may be stipulated as a condition for compulsory repurchase. A decision to amend the company statute modifying the mentioned provisions needs to be adopted by a three-quarter majority of the votes of the attending shareholders, unless a higher majority is laid down by the company statute.

2.6 Can shareholders seek enforcement action against members of the management body?

A director can be held liable to a company for any damage he/she causes to it by violating the provisions of the LoC, the company statute or a decision of the shareholders' meeting. Notwithstanding the foregoing, a director shall not be liable for damage if he/she acted in accordance with a decision of the shareholders' meeting.

If the damage occurs as a result of a decision of the board of directors, all directors who voted in favour of such decision are liable for the damage. Any director who abstained from voting is deemed to have cast an affirmative vote for the purposes of establishing liability for damage. Any director who did not attend a meeting in which the board of directors passed the decision in question and did not vote in favour of such decision by other means is deemed to have cast an affirmative vote for the purposes of establishing liability for damage unless he/she opposed the decision in writing within eight days of learning of its passing. The period of limitations for a company's damage claims is three years as of the occurrence of damage. A company may not waive a damage claim, except by a decision of the shareholders' meeting passed by a three-quarters majority of votes of present shareholders with voting right. However, shareholders holding or representing at least 10% of a company's share capital have a right to veto such decision.

The LoC mandates special duties *inter alia* upon directors, supervisory board members, representatives and procurator of the company. In certain cases of breaches of those special duties, shareholders have right to: 1) bring an individual legal action, i.e. file a claim on his/her behalf and for his/her own account for compensation of damage caused to him/her by such person through a breach of special duties owed to a company; 2) bring a derivative legal action, i.e. file a claim on his/her behalf and for the company's account; or 3) enter the lawsuit as an intervener on the claimant's behalf. Special preclusive periods are applicable for filing those claims.

2.7 Are there any limitations on, and disclosures required, in relation to interests in securities held by shareholders in the corporate entity/entities?

Shareholders with special duties towards the company (as defined in question 2.2 above) are subject to special limitations and disclosure requirements might be applicable. The rules described in question 3.4 below are *mutatis mutandis* applicable in this context as well.

Moreover, Serbian law prescribes a duty to publish a takeover bid in case of acquiring shares above certain thresholds in a target company which is joint-stock company that fulfils either of the following cases: 1) its shares are traded on the Serbian regulated market or multilateral trade platform (MTP); or 2) it has over 100 shareholders on the last day of each of the preceding three months and share capital of at least EUR 3,000,000.

A person is obliged to publish a takeover bid when, directly or indirectly, acting solely or jointly, he/she acquires shares with voting rights of the target company which, together with the shares he/she already holds, surpass the threshold of 25% of the shares with voting rights of the target company ("control threshold"). After going above the control threshold and publishing the takeover bid, the acquirer is obliged to publish a takeover bid when, acting solely or jointly, through direct or indirect acquiring of shares with voting rights of the target company increases the percentage of voting rights by more than 10% ("additional threshold"). Exceptionally, the acquirer is obliged to publish a takeover bid when, acting solely or jointly, through direct or indirect acquiring of shares with voting rights of the target company increases the percentage of voting rights by less than 10%, if with such acquisition he/she will exceed the threshold of 75% of the voting rights ("the final threshold"). However, there is no duty to publish a takeover bid for the acquirer who, after reaching the mentioned final threshold of at least 75% of shares with voting rights, further acquires shares with voting rights. The LoT also provides for certain exceptions to the above duty to publish a takeover bid.

In addition, separate competition laws requiring clearance from the Serbian Commission for Protection of Competition might be applicable prior to carrying out mergers or acquisitions in certain cases. Furthermore, a separate clearance might also be needed from the National Bank of Serbia prior to acquiring a qualified shareholding in certain companies active in the financial sector, such as banks, insurance companies, etc.

3 Management Body and Management

3.1 Who manages the corporate entity/entities and how?

According to Serbian law, management of the company may be organised as a single-tier management structure or as a two-tier management structure. The statute of the company prescribes whether the management of the company is organised as single tier or a two-tier.

In case of a single-tier management structure, company bodies are classed as the shareholders' meeting and one or more directors, i.e. board of directors. In case of a two-tier management structure, company bodies are classed as the shareholders' meeting, supervisory board and one or more executive directors, i.e. executive board. In case of a sole-member company, the function of the shareholders' meeting is exercised by the sole shareholder. Any change in the type of management organisation is made in the form of amendments to the company statute.

Directors, supervisory board members, representatives and procurators are persons with special duties towards the company, one of which is a duty to act in accordance with due diligence standards. The members of the company management need to perform, in that capacity, their duties with due diligence, showing the care of a prudent businessman, and with reasonable conviction that they act in the company's best interest. Care of a prudent businessman implies the degree of attention enacted by a reasonably diligent person who possesses knowledge, skills and experience which could reasonably be expected for carrying out of that duty in a company. If such person possesses specific knowledge, skills or experience, this knowledge, skills and experience is taken into account on assessing the degree of diligence. It is considered that the members of the company management may also base their actions on information and opinions of persons who are experts in a particular field, for whom they reasonably believe that they acted with diligence in that case. The member of the company management who proves that they acted in keeping with their due diligence duty shall not be held liable for damages incurred by the company as a result of such act.

One-tier management:

Any person with legal capacity may be a director. The company statute may also lay down further stipulations with which a potential director must comply. A director may not be: 1) a director or a member of the supervisory board in more than five companies; 2) a person sentenced for a crime against the economy, during a period of five years, as of the day of finality of the ruling, where this period does not include the time spent serving a prison sentence; or 3) a person imposed with a security injunction prohibiting him from conducting the activity which constitutes the predominant business activity of the company, for the duration of such prohibition.

A company has one or more directors. The number of directors of a company is set out by the company statute. If a company has three or more directors, they make up the board of directors of the company. Provisions of the LoC on the board of directors apply *mutatis mutandis* to a company that has one or two directors, except for the provisions on the meetings of the board of directors. A public joint-stock company has a board of directors which comprises at least three directors. A director is registered in accordance with the registration act.

Directors may be: 1) executive directors; or 2) non-executive directors. If a company has less than three directors, each director is an executive director. A public joint-stock company shall have non-executive directors whose number is higher than the number of executive directors. Executive directors conduct the operations of the company and are legal representatives of the company, unless the company statute prescribes that only some executive directors represent the company. Directors may appoint one of the executive directors authorised to represent the company to be the general manager of the company. The general manager of the company coordinates the work of executive directors and organises the operations of the company. The company statute or a decision of the general meeting may lay down the requirements that a director must fulfil in order to be appointed as the general manager, and prescribe in detail its authorities and competences. Non-executive directors oversee the work of executive directors, propose a business strategy of the company and oversee its implementation. Non-executive directors decide on granting approval in the cases of existence of personal interest of an executive director of the company. A public joint-stock company has at least one non-executive director who is at the same time independent from the company (independent director).

Two-tier management:

I) Executive board (directors): If the company has three or more executive directors, they form an executive board. A public joint-stock company has at least three executive directors. Executive directors are subject to the same conditions and limitations for the appointment as discussed above in case of directors in a one-tier management structure. The number of executive directors is determined by the articles of association. Executive directors may have no deputies and are registered in accordance with the Registration Act.

II) Supervisory board: Supervisory board members are subject to the same conditions and limitations for the appointment as discussed above in case of directors in a one-tier management structure. The supervisory board has at least three members.

The number of supervisory board members is determined by the articles of association and is odd. Supervisory board members may have no deputies. Supervisory board members may neither be executive directors, nor procurators of the company. Supervisory board members are registered in accordance with the Registration Act. A public joint-stock company has at least one member of the supervisory board who is independent from the company. The above provisions regulating the independent director in a one-tier management structure apply *mutatis mutandis* to the independent member of the supervisory board.

The company adopts by-laws in order to regulate the manner for conducting and organising internal supervision of operations. In public joint-stock companies at least one person competent for internal supervision of operations shall meet the conditions prescribed for an internal auditor, in accordance with the law governing accounting and auditing. Annual financial statements of public joint-stock companies are subject to audit.

3.2 How are members of the management body appointed and removed?

One-tier management:

Directors are appointed by the shareholders' meeting. A candidate for the director may be nominated by: 1) a director, i.e. a board of directors; 2) an appointment commission, if any; or 3) shareholders entitled to propose the agenda for the shareholders' meeting of the company. In a public joint-stock company, a candidate for the director may be nominated by the appointment commission and the stockholders entitled to propose an agenda for a session of the general meeting of the company. In a public joint-stock company, directors are appointed by the cumulative vote, if so prescribed by the company statute. Directors are appointed for a period stipulated by the company statute, which may not be longer than four years. Upon the expiry of the term of office, a director may be reappointed. The LoC also prescribes separate rules for co-opting of directors.

The term of office of a director terminates upon the expiry of the period for which he was appointed. If, during his term of office, a director ceases to fulfil the requirements for the duty of the company's director, it is considered that his term of office ceased as of the day he ceased fulfilling such requirements. The term of office of a director shall terminate if the shareholders' meeting fails to adopt the company's annual financial statements within the deadline set for holding of an ordinary session of the shareholders' meeting. Unless otherwise prescribed by the company statute, the appointment of a director after termination of the term of office is done at the first upcoming session of the shareholders' meeting, during which time the director whose term of office terminated continues to perform his duty, unless his post has been filled by co-opting. The general meeting of the company may dismiss the director even prior to the expiry of the term of office for which he was appointed, without stating the reasons. A director may resign at any time by giving written notice to the remaining directors. In single director companies, the director submits his resignation by giving notice to the chairman of the shareholders' meeting or to the shareholder of the company who owns the highest number of shares carrying the right to vote. The resignation produces effect in relation to the company as of the day of submission, unless a later date was specified therein. The resignation of a director is registered in accordance with the Registration Act. If the sole director of the company resigned, he shall continue to conduct the activities which may not be postponed until a new director is appointed, but not for more than 30 days from the day of registration of that resignation in accordance with the Registration Act.

If a company is left without a director, and a new director is not registered in the register of business entities within a further 30-day deadline, a shareholder or another interested party may seek that director of the company be appointed by a court in an urgent non-contentious proceeding and the court shall render a decision upon the motion within a term of eight days from the day the motion was received.

Two-tier management:

Executive directors are appointed by the supervisory board of a company. The appointment commission, if any, nominates a candidate for an executive director. If no appointment commission has been set up in the company, each member of the supervisory board may nominate a candidate for an executive director. Concerning the term of office of the executive directors, the same rules as discussed above in case of one-tier management apply. The supervisory board may appoint one of the executive directors, authorised to represent the company, to be the general manager of the company. The supervisory board shall appoint a general manager if the company has an executive board. The term of office of an executive director terminates upon the expiry of the period for which he was elected. If, during his term of office, an executive director stops fulfilling the eligibility requirements, it is deemed that his term of office terminated as of the day of cessation of fulfilment of those requirements. The supervisory board may dismiss an executive director even prior to the expiry of the term of office for which he was elected without stating reasons. An executive director may, at any time, resign by giving a written notice to the supervisory board. The resignation produces effect as of the date of the submission of notice, unless a later date is specified therein. If a sole executive director of the company resigned, he shall continue to conduct the activities which may not be postponed until appointment of a new director, but not longer than 30 days as of the day of registration of such resignation, in accordance with the Registration Act. If within a term of 60 days from the day when the company remained without the sole executive director, a new executive director is not elected, the business entities register shall *ex officio*, or at the request of an interested party, initiate the procedure of forced liquidation of the company.

Supervisory board members are appointed by the shareholders' meeting. A candidate for a supervisory board member is nominated by: 1) the supervisory board; 2) the appointment commission, if any; or 3) the shareholders entitled to propose an agenda for the session of the shareholders' meeting.

The above provisions on the term of office, its termination, dismissal and co-option of directors in a one-tier management structure apply *mutatis mutandis* to the term of office and co-optation of the supervisory board members. A member of the supervisory may at any time resign by giving written notice to the remaining members of the supervisory board. The resignation produces effect as of the day of submission, unless a later date is specified therein.

There are additional requirements applicable to the management of companies active in financial sector such as banks, insurance companies, etc.

3.3 What are the main legislative, regulatory and other sources impacting on contracts and remuneration of members of the management body?

One-tier management:

A person employed in the company may not be a non-executive director. A director is entitled to remuneration for his work, and may also be rewarded by being awarded with shares. The company statute, a decision of the general meeting or a decision of the supervisory board if the company has a two-tier management structure determine the remuneration and reward package, as well as the method of its determination. Remuneration and rewards may depend on the company's operating results, but remuneration may not be determined as a share in the company's profits. Rewards may also be in the form of shares, i.e. warrants of the company or another company that is affiliated to the company. In a public joint-stock company, the remuneration and rewards package are presented separately within the company's annual financial statements. If stocks have been given as a reward, there should be a note on the type, class, number and par value of the stocks, i.e. book value in case of no-par stocks, acquired by the director or the acquisition of which he/she is entitled to on those grounds.

Two-tier management: The provisions of the LoC relating to remuneration of directors apply *mutatis mutandis* to the remuneration for the work of executive directors and members of the supervisory board. According to the LL, rights and duties of a director or other legal representatives may be set out in an employment contract or a contract on rights, obligations and responsibilities. A director or other legal representative of the employer may establish labour relations by means of an employment contract either for a definite or indefinite period of time. The employment relation for a definite period of time shall last until the expiry of the period of engaging the director or other legal representative of the employer, and/or until his/her release of duty. In case of the conclusion of a contract on rights, obligations and responsibilities the director or other legal representative shall have the rights to remuneration for work, and other rights, obligations and responsibilities in conformity with the contract. On behalf of the company, the above-mentioned contracts are concluded with the director or other legal representative by the competent authority established by law or general act of the employer.

3.4 What are the limitations on, and what disclosure is required in relation to, interests in securities held by members of the management body in the corporate entity/entities?

In general terms, the members of the company management are not limited in their right to hold shares in the corporate entity/entities. However, according to the LoC, directors, supervisory board members, representatives and procurators have in general special duties towards the company, such as *inter alia*: 1) a duty to keep the company secret; 2) a duty to avoid conflict of interest; 3) a duty to keep business secrets; and 4) a duty to abide by any ban on competition. In some of these situations, there are certain disclosure duties on behalf of the company manager(s) in question and also some possibilities for approval of certain actions by company bodies that have competence to act in that particular situation.

The member of the company management shall notify the board of directors, i.e. supervisory board in case of a company with a two-tier management structure, of the existence of any personal interest (or interest of its affiliated person) in the legal transaction entered into by the company, or in the legal action taken by the company. In case of a company which has one director, the notification is sent to the shareholders' meeting, i.e. supervisory board in case of a two-tier management structure. It is considered that there is a personal interest of a member of the company management in case of: 1) entering into a legal transaction between the company and that person (or its affiliated person); 2) a legal action (taking actions in court and other proceedings, waiving the rights, and similar) that the company undertakes towards this person (or towards its affiliated person); 3) entering into a legal transaction between the company and a third party, or undertaking a legal action towards a third party, if such third party has a financial relationship with it (or with its affiliated person), and if it can be expected that the existence of such a relationship affects its actions; or 4) entering into a legal transaction, i.e. undertaking a legal action by the company from which a third party has a commercial interest, if such third party has a financial relationship with it (or with its affiliated person), and if it can be expected that the existence of such relationship affects its actions.

The members of the company management shall not, for their own personal interest or in the interest of their affiliated persons: 1) use the company's property; 2) use information they had access to in their official capacity, which otherwise was not publicly available; 3) abuse their position in the company; or 4) use possibilities for concluding transactions available to the company. The duty to avoid the conflict of interest exists regardless of whether the company was able to use the assets, information, or conclude the mentioned transactions.

The members of the company management shall keep the company's business secrets. The mentioned duty to keep business secrets exists even after they cease to have their official capacity, in the period of two years following the day of termination of that capacity. Articles of association, the company statute, the company's resolution or a contract concluded with such member of the management may provide for that period to be longer, but it must not exceed five years. A business secret is defined as information which, if disclosed to a third party, may damage the company, as well as information that has, or may have, economic value because it is not generally known or easily available to third parties who could acquire economic benefit through its use or disclosure, and with regard to which the company took appropriate measures to maintain its secrecy. A business secret is also information determined by law, another regulation or company document as a business secret. A company document: 1) may determine as a business secret only a piece of information which meets the conditions set out the LoC; and 2) may not determine as a business secret all information which refers to the operation of the company. The information designated to be a business secret may be of a productive, technical, technological, financial or commercial nature, a study or a research finding, as well as a document, formula, drawing, facility, method, procedure, notice or internal instruction, and the like.

A member of the company management may not, without obtaining approval: 1) have the capacity of a general partner, a member of a limited liability company who own a significant share in the company's share capital or a limited liability company member who is the controlling member of the company in terms of the LoC; be a shareholder who owns a significant share in the company's share capital or a shareholder who is the controlling shareholder of the company in terms of the LoC; be a director, supervisory board member, representative or procurator; or liquidator (other persons may also be designated by means the company statute) in another company which has the same or similar scope of business activity (hereinafter referred to as: the competing company); 2) be a sole trader who has the same or similar scope of business activity; 3) be employed in a competing company; 4) be otherwise engaged in a competing company; or 5) be a member or founder of another legal entity that has the same or similar scope of business activity. Articles of association, or the company statute: 1) may extend the mentioned ban to other persons, but may not intrude upon these persons' acquired rights; 2) may determine that the ban is valid even after the termination of the capacity, but for no longer than two years; and 3) may designate tasks, the manner or place of their performance that do not constitute a breach of the duty to abide by the ban on competition. This ban is not relevant if there is only one company member.

3.5 What is the process for meetings of members of the management body?

One-tier management:

The company statute may regulate the method of work of the board of directors and the board of directors may also adopt the rules of its procedure which is in accordance with the LoC and the company statute. The board of directors of a public joint-stock company shall adopt the rules of procedure of the board of directors at its first session. The board of directors of a public joint-stock company holds at least four sessions a year. If the chairman of the board of directors fails to convene a board session at the written request of any of the directors, in the manner that the session is held within 30 days from the day the request was submitted, the session may also be convened by that director stating the reason for convening the session and proposing an agenda. A written invitation for a session of the board of directors stating the agenda incorporated with files for the session is served on directors within the term set forth by the articles of association or the rules of procedure of the board of directors, and if such term is not prescribed, the invitation is served eight days prior to the day of the session, at the latest, unless otherwise agreed by all directors. Decisions passed at the session of the board of directors which has not been convened in accordance with the LoC, with the company statute or the rules of procedure of the board of directors, are not valid, unless otherwise agreed by all directors. A majority of the total number of directors constitutes a quorum for the work of a session of the board of directors, unless a higher number is prescribed by the company statute or the rules of procedure of the board of directors. Sessions of the board of directors may also be held in writing or electronically, by phone, telegraph, fax or some other means of audio-visual communication, provided none of the directors oppose it in writing, unless otherwise prescribed by the company statute or the rules of procedure of the board of directors. Absent directors may also vote in writing, and then they are deemed to have attended the session for the purposes of quorum, unless otherwise prescribed by the company statute or the rules of procedure of the board of directors. The attendance of the company auditor at the session of the board of directors, at which the company's financial statements are discussed, is mandatory. The board of directors passes decisions by a majority vote of the directors present, unless a higher majority is prescribed by the company statute or the rules of procedure. If during decision-making, the votes of directors are evenly distributed, the chairman of the board of directors has the casting vote, unless otherwise prescribed by the articles of association or the rules of procedure.

The board of directors may set up commissions to assist it in its work, particularly for the purpose of preparing decisions it adopts, i.e. supervising the implementation of certain decisions, or performing particular expert tasks for the needs of the board of directors. The board of directors of a public joint-stock company shall set up an audit commission.

Two-tier management:

The executive board renders decisions and acts outside sessions. If executive directors disagree on a certain issue, the general manager may convene a session of the executive board. At the session, a decision is rendered by a majority vote of the executive directors, and in the event of an even distribution of votes the general manager has a casting vote. The provisions on sessions of the board of directors in a one-tier management structure that are discussed above apply *mutatis mutandis* to the quorum for holding, and the method of holding the sessions of the executive board. The company statute and decision of the supervisory board may regulate the method of work of the executive board, and the executive board may adopt rules of its procedure which must be in accordance with the LoC, the company statute and supervisory board decisions.

The above-mentioned rules on method of work of the board of directors, its sessions, their convening, quorum and method of holding thereof, presence of other persons and its decision-making in a one-tier management structure apply *mutatis mutandis* to the supervisory board.

3.6 What are the principal general legal duties and liabilities of members of the management body?

According to the LoC, in general, directors, supervisory board members, representatives and procurators have special duties towards the company such as: 1) a duty to act with due diligence, showing the care of a prudent businessman, and with reasonable conviction that their actions are in the company's best interest; 2) a duty to report transactions and actions in which there is personal interest; 3) a duty to avoid conflicts of interest; 4) a duty to keep business secrets; and 5) a duty to abide by a ban on competition.

In addition, according to the LoCM, the director and members of the management board of the issuer, unless a member of the management board has specifically voted against authorisation of the public offering, are considered legally responsible in the event that a prospectus or summary contains materially false, inaccurate or misleading information, or omits material facts.

One-tier management:

The board of directors, at an ordinary session of the general meeting submits reports on the following: 1) accounting and financial reporting practices of the company and its affiliated companies, if any; 2) compliance of the company's operations with the law and other regulations; 3) qualification and independence of the company auditors in relation to the company, if the financial statements of the company were subject to an audit; and 4) contracts concluded between the company and directors, as well as with persons affiliated to them in terms of the LoC.

A director is liable to the company for damages he/she caused to it by a breach of the provisions of the LoC, company statute or of a resolution of the shareholders' meeting. Exceptionally, a director shall not be liable for damages if he/she acted in accordance with a resolution of the shareholders' meeting.

If the damage occurs as a consequence of a decision of the board of directors, all the directors who voted for that decision are liable for the damages. In that case, a director who abstained from voting is deemed to have voted for the decision in respect of the liability for the damages. If a director neither attended the board of directors session at which the decision was passed, nor voted for it in another manner, it is deemed that he/she voted for that decision in respect of the liability for damages, if he/she failed to oppose the decision in writing within a term of eight days upon becoming aware of its adoption. The company's claim for damages becomes statute-barred within a term of three years, counting from the day the damage occurred.

A company may not waive a claim for damages, other than in accordance with a resolution of the shareholders' meeting of the company which is passed by a three-fourths majority vote of the present shareholders, but such a resolution may not be passed if the shareholders that hold or represent at least 10% of the share capital of the company oppose it.

Two-tier management:

The same rules as discussed above on liability of executive directors and reporting obligations apply *mutatis mutandis* to the liability and the reporting obligation of the executive board and the supervisory board.

3.7 What are the main specific corporate governance responsibilities/functions of members of the management body and what are perceived to be the key, current challenges for the management body?

One-tier management:

The board of directors has the following competences: 1) defining business strategy and business objectives of the company; 2) conducting the company's operations and defining the internal organisation of the company; 3) performing internal supervision over the company's operations; 4) establishing the company's accounting policies and risk management policies; 5) being liable for accuracy of the company's ledgers; 6) being liable for accuracy of the company's financial statements; 7) issuing and revoking a procuration; 8) convening the sessions of shareholders' meeting of the company and determining a proposal of the agenda with draft resolutions; 9) issuing authorised shares, if so empowered by the company statute or a resolution of the shareholders' meeting; 10) determining the issue price of shares and other securities in accordance with the LoC; 11) establishing the market value of stocks in accordance with the LoC; 12) deciding on the acquisition of own shares in accordance with the LoC; 13) calculating the amounts of the dividends, which, in compliance with the LoC, the company statute and a resolution of the shareholders' meeting, belong to certain classes of shareholders, determining the day and procedure of their payment, and also determining the method of their payment within the scope of authorisations given to the board under the company statute or a resolution of the shareholders' meeting; 14) passing a decision on the distribution of interim dividends to the stockholders, in accordance with the LoC; 15) proposing to the general meeting a policy of remunerations for the directors, if this was not defined by the articles of association, and proposing employment contracts, i.e. contracts for hiring the directors on other grounds; 16) implementing the decisions of the shareholders' meeting; and 17) performing other duties and rendering decisions in compliance with the LoC, the company statute and resolutions of the shareholders' meeting. The issues falling within the scope of competence of the board of directors: 1) may not be delegated to executive directors of the company; and 2) may be transferred into the competence of the shareholders' meeting only by a decision of the board of directors, unless otherwise prescribed by the company statute.

Two-tier management:

The scope of work of the executive directors is generally the same as discussed above in case of directors in a one-tier management structure. However, the performance, i.e. undertaking of the following tasks requires the consent of the supervisory board: 1) acquisition, disposal and encumbrance of shares and stocks that the company holds in other legal persons; 2) acquisition, disposal and encumbrance of immovable property; 3) getting a credit facility, i.e. getting and granting loans, creating security interest on the company's assets, as well as giving sureties and guarantees for third party liabilities; and 4) other transactions which fall, as prescribed by the LoC, in the scope of work of the supervisory board. The company statute or a decision of the supervisory board may set forth: 1) that the consent of the supervisory board is not necessary for transactions referred to in items 1) to 3), if such transactions are undertaken within the scope of the company's regular operations; and 2) the value of transactions referred to in item 3) that may be performed i.e. undertaken without the consent of the supervisory board. The company statute or a decision of the supervisory board may also set forth other transactions for whose performance i.e. undertaking consent of the supervisory board is needed. When managing the company's operations, the executive directors shall observe the limitations regarding the closing of certain transactions or types of affairs that require the consent of the supervisory board or the shareholders' meeting, and which are prescribed by the LoC, the company statute, resolutions of the general meeting and decisions of the supervisory board. The company statute, resolution of the general meeting or a decision of the supervisory board, if the supervisory board is so authorised by the company statute, may limit some or all executive directors in representing the company by the co-signature of the procurator. An executive director may neither issue a power of attorney for representation, nor represent the company in a dispute in which he/she is the opposing party, and in case the company has no other executive director authorised to represent the company such power of attorney is issued by the supervisory board. The executive board: 1) manages the operations of the company and establishes the internal organisation of the company; 2) is responsible for the accuracy of the company's ledgers; 3) is responsible for the accuracy of the company's financial statements; 4) prepares sessions of the general meeting of the company and proposes the agenda to the supervisory board; 5) calculates the amounts of dividend which, in accordance with the LoC, the company statute and a decision of the shareholders' meeting, belong to certain classes of shareholders, determines the day and procedure of their payment, and also determines the method of their payment within the scope of authorisations given to it by the company statute or a resolution of the general meeting; 6) executes the decisions of the shareholders' meeting; and 7) performs other tasks and makes decisions in accordance with the LoC, company statute, resolutions of the general meeting and decisions of the supervisory board. The issues falling within the scope of work of the executive board may not be transferred to the supervisory board of the company. When managing the company's operations, the executive board acts independently.

The scope of work of the supervisory board is as follows: 1) determines the business strategy and business objectives of the company and oversees their fulfilment; 2) supervises the work of executive directors; 3) performs internal control of the company's operations; 4) establishes accounting policies of the company and risk management policies; 5) determines financial statements of the company and submits them to the shareholders' meeting for adoption; 6) grants and revokes a procuration; 7) convenes sessions of the shareholders' meeting and determines the proposal of the agenda; 8) issues authorised shares, if so empowered by the company statute or a resolution of the shareholders' meeting; 9) determines the issue price of shares and other securities, in accordance with the LoC; 10) determines the market value of shares, in accordance with the LoC; 11) renders a decision on the acquisition of own shares in accordance with the LoC; 12) renders a decision on the distribution of interim dividends to shareholders, in the cases referred to in the LoC; 13) proposes to the shareholders' meeting of the company a policy of remuneration for the executive directors, if such policy is not prescribed by the company statute, and proposes employment contracts, i.e. contracts for hiring executive directors; 14) grants consent to the executive directors for entering into transactions or undertaking actions in accordance with the LoC, company statute, resolution of the general meeting and a decision of the supervisory board; and 15) performs other tasks and renders decisions in compliance with the LoC, company statute and resolutions of the shareholders' meeting. The issues that fall within the scope of work of the supervisory board: 1) may not be transferred to the executive directors of the company; and 2) may be transferred into the competence of the shareholders' meeting of the company only by a decision of the supervisory board, if not stipulated otherwise by the company statute. The supervisory board decides whether to grant approval in cases where there is a personal interest of a company's executive director.

3.8 What public disclosures concerning management body practices are required?

A public joint-stock company shall publish the annual report on operations and the consolidated annual report on operations, in accordance with the law governing the capital market, as well as registering them in compliance with the registration act.

The statement on application of the code of corporate management is an integral part of the annual report on the operation of a public joint-stock company and includes in particular: 1) notification about the code of corporate management applied by the company, as well as the place where its text is publicly available; 2) all important notifications regarding the practice of corporate management exercised by the company, in particular those that are not expressly prescribed by law; and 3) derogations from the rules of the code of corporate management, if such derogations exist and the explanation of such derogations.

3.9 Are indemnities, or insurance, permitted in relation to members of the management body and others?

According to Serbian law, it is possible to enter into an agreement with a golden parachute clause between the company and the member of the management. Such clause would stipulate that the latter will receive certain significant benefits in cases of dismissal.

4 Other Stakeholders

4.1 What, if any, is the role of employees in corporate governance?

According to the LL, there is a possibility for employees who work for a company with over 50 employees to establish a council of employees. The council of employees is entitled to render opinion and participate in decision-making relating to economic and social rights of employees, in the way and under the conditions specified by law and the Company General Labour Act. However, this legal institute is still only a theoretical option in most if not all Serbian companies and it remains to be seen if it will be used more in the future.

The other possibility for employees to influence corporate governance to a certain extent is to organise a trade union. The trade union is entitled to be notified by the employer regarding economic, labour and social matters that are significant for the position of employees, and/or trade union members. Trade unions are very active in Serbia.

4.2 What, if any, is the role of other stakeholders in corporate governance?

Serbian law prescribes special rules which aim to protect the interests of a company's creditors: 1) the ban on a reduction of share capital of a company that is not aimed for covering losses (reduction in a regular procedure), unless the creditors have been offered adequate collateral; 2) protection of interests of creditors in case of changes in corporate status; 3) the obligation to maintain the amount of share capital of the company; 4) the ban on payments to shareholders if such payments would lead to the insolvency of the company; 5) the possibility of "piercing of the corporate veil" of the company; 6) upholding accounting and auditing standards; 7) a responsibility for transparency; 8) provisions on responsibility of directors; 9) special protection of creditors in case of changes of corporate status; and 10) protection of competitors in other specified situations, such as responsibility in situations where incorporation is null and void, responsibility of founders for obligations before incorporations, etc.

According to LEIA, the environmental impact assessments is elaborated for certain projects in the fields of industry, mining, energy production, transport, tourism, agriculture, forestry, water management, waste management and utility services, as well as for all the projects that are planned in areas with protected natural resources of special value and within the protected zones of immobile cultural resources. A developer may not commence the project implementation without having previously completed the impact assessment procedure and obtained the approval of the environmental impact assessment study ("EIA study") from the competent authority. The public concerned is an active party in such impact assessment procedure. Public concerned includes the public affected by or likely to be affected by the project, including non-governmental organisations that promote environmental protection and are registered with the competent authority.

4.3 What, if any, is the law, regulation and practice concerning corporate social responsibility?

It is up to each company to decide whether and to what extent it will incorporate corporate social responsibility in their business strategy. There is a visible trend led by the local subsidiaries of large international companies in supporting social projects that are of the importance to local communities.

5 Transparency and Reporting

5.1 Who is responsible for disclosure and transparency?

According to the LoAcc, the accounting is carried out in accordance with the Framework for the Preparation and Presentation of Financial Statements, the International Accounting Standards – IAS, International Financial Reporting Standards – IFRS, and related interpretations published by the International Financial Reporting Interpretations Committee – IFRIC, subsequent amendments to those standards and related interpretations, approved by the International Accounting Standards Board – IASB, the translation of which was determined and published by the ministry responsible for finance affairs. The LoAcc prescribes that the legal representative, management body and supervisory body of a legal person in accordance with the law, or a sole proprietor, as well as the person responsible for keeping books of account and preparing financial statements is responsible for a true and fair presentation of the financial position and operating performance of the legal person. The legal representative of a legal person or a sole proprietor shall sign the financial statements.

5.2 What corporate governance related disclosures are required?

There are several corporate governance related disclosures mandated by the Serbian law: 1) periodic publication of the financial statements; 2) notification on major shareholdings; and 3) prospectus

According to the LoCM, a public company shall prepare and make its full and exhaustive annual report public, communicate it to the Securities Commission and the regulated market or multilateral trading facility (MTF), if its securities are admitted to trading, at the latest four months after the end of each financial year and shall ensure that the annual financial report remains publicly available for at least five years after it has been made available to the public. The annual report contains: 1) annual financial statements, including auditors' reports; 2) annual reports of operations of the company; and 3) responsibility statements made by persons responsible for the making of the annual report. The mentioned annual report of operations of a company must contain: 1) a fair review of the development and performance of the business and especially the financial position of the company, as well as the information important for the assessment of the company's assets; 2) a description of the expected development of the company for the following period, changes in business policies and the principal risks and threats to the company operations; 3) all the significant business events that occurred after the end of the financial year for which the report has been prepared; 4) all significant transactions with related parties; and 5) company activities regarding research and development.

In addition, public companies the securities of which are traded on the regulated market shall compile their half-yearly financial reports in accordance with the rules for the annual reports, as soon as possible and within two months following the completion of the first six-month period of the financial year, make it public and file it with the Securities Commission and the regulated market where their securities are admitted to trading. The company shall ensure that the report remains publicly available for at least five years after it has been made available to the public. Finally, public companies the securities of which are listed on the regulated market are required to compile their quarterly reports, make them available to the public and file them with the Securities Commission and the market operator, within 45 days following the end of each of the first three quarters of the current financial year, and it shall ensure that the report remains available to the public for at least five years after its publication.

In cases when a natural or legal person directly or indirectly reaches, exceeds or falls below the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of voting rights of the same joint-stock company the shares of which are traded on the regulated market or MTF, the person shall notify the Securities Commission, the company and the regulated market or MTF on which the shares are admitted to trading about such event. The mentioned obligation applies also to reaching, exceeding or falling below the stipulated thresholds in the joint-stock company, as a result of events in number of shares comprising the issuer's core capital or a change in the number of votes stemming from such shares.

5.3 What is the role of audit and auditors in such disclosures?

According to the LoAud, an audit is conducted in accordance with the International Standards on Auditing (ISA) and the International Standard on Quality Control (ISQC) and related opinions and standards that are published by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), amendments to these standards, as well as future standards issued or adopted by this body, the translation of which was determined and published by the ministry competent for finance affairs.

Pursuant to the LoAud, there are two instances in which the audit is mandatory. An audit is mandatory for regular annual financial statements of large and medium-sized legal entities classified in accordance with the law regulating accounting, public companies in accordance with the law regulating the capital market regardless of their size, as well as any legal person or sole proprietor whose business income earned in the preceding business year exceeds EUR 4.4 million in dinar equivalent (statutory audit). In addition, audit of the consolidated financial statements is mandatory for parent companies that prepare consolidated financial statements in accordance with the law regulating accounting.

The audit report is made in accordance with ISA and shall contain at least the following: 1) an introduction listing the financial statements being audited, together with accounting policies used for their making; 2) a description of the purpose and scope of the audit, stating the auditing standards in accordance with which the audit was performed; 3) an opinion of a licensed certified auditor that clearly expresses whether the financial statements give a true and fair view of the financial position of the legal entity in accordance with the relevant legal framework, as well as whether the annual financial statements are in accordance with special regulations governing the operations of the legal person, if that is provided in these regulations. The auditor's opinion may be positive, reserved, negative, or the certified auditor may refrain from expressing an opinion if he is not able to express it; 4) special warnings and problems to which the licensed certified auditor wishes to draw attention, but without expressing a reserved opinion; and 5) an opinion on the conformity of the business report with the financial statements for the same financial year. The audit report is drawn up and published in the Serbian language and signed by a key audit partner. Financial statements that were audited are attached to the audit report.

A key audit partner as the auditor of the group is responsible for the audit of consolidated financial statements. A licensed certified auditor as the auditor of the group shall review and safeguard the working documentation that is part of audit work of another audit firm that audited the financial statements of legal persons within the economic entity. If the audit of the financial statements of the subsidiary within the economic unit consisting of parent and subsidiary legal persons is conducted by the third country auditor or third country audit firm, the key audit partner as the auditor of the group is responsible for delivering the documentation on the work of the third country auditor or third country audit firm for the purposes of quality control and supervision.

The provisions of the LoAud secure independence of the auditors and auditing companies through the ban on carrying out audits in certain situations.

An auditing firm may not perform the audit of a legal person: 1) in which it has shares or stocks; 2) that owns the shares or stocks of the audit firm; 3) if the audit firm, or any organisational unit in the Network to which it belongs, or an affiliated person with the audit firm, provided the legal person in the year for which the audit is performed, the following services (important services): (i) bookkeeping and preparation of financial statements; (ii) evaluation of the value of equity, assets and/or liabilities that will be reflected in the financial statements, or where there is an obvious conflict of interest; (iii) representation in court proceedings regarding tax matters; (iv) tax calculation and filing of tax returns for individuals – managers in the finance sector in the company; (v) advice on accounting entries of tax liabilities; (vi) creation of a system of internal audit and internal control, as well as their implementation; (vii) creation and implementation of information systems in the accounting field; (viii) actuarial services; and (ix) other services, which, in specific circumstances, could compromise the independence of the licensed authorised auditor or the audit firm and/or to influence the evaluation of items in the financial statements; or 4) if it is affiliated with the legal person in any other way, so that such affiliation may affect the independence and impartiality of the audit.

Licensed certified auditors may not perform audits of the following legal entities: 1) in which he is the owner of any shares or stocks; 2) in which he is a director or a member of the board of managers or the supervisory board, proxy or a legal representative; 3) in which a director or a member of the board of managers or the supervisory board, or a proxy is his blood relative in the direct line, blood relative in the collateral line up to the third degree of consanguinity and spouse; 4) in which he/she provided the important services as defined above for the year for which the audit is performed; and 5) if other circumstances occur that may affect the independence of the licensed certified auditor.

Audit firms shall, not later than every seven years since the start of their audit operations in the field of financial statements and the same subject of audit, replace the licensed certified auditor who signs the audit report, or the key audit partner, unless a special law stipulates otherwise. They may again perform the audit for the same subject of audit two years after the date of signing of the last audit report for that subject in accordance with the mentioned terms.

A key audit partner may not be appointed as a member of the management body of the subject of audit the audit reports of which were signed by him, for at least two years after termination of employment in the audit firm.

5.4 What corporate governance information should be published on websites?

According to the LoCM, issuers the securities of which are admitted to trading on a regulated market or MTF shall at least annually provide a registration document that contains or refers to all information that they have published or made available to the public over the preceding 12 months in compliance with their obligations under the LoCM, respective bylaws and the law governing companies. The annual registration document about the published information is filed with the Securities Commission within 20 working days after the publication of the issuer's annual audited financial statements and made available to the public. Where the document refers to information, it is stated where the information can be obtained, and the document shall include a statement indicating that some information may be out-of-date, if such is the case.

The mentioned obligation shall not apply to issuers the only securities of which admitted to trading on a securities market are debt securities the denomination of which per unit is at least EUR 50,000 in dinar equivalent.

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LAW OFFICE TOMIC SINDJELIC GROZA

TSG Law Office was founded in 2000 by a group of Serbian lawyers of international orientation. Today, a highly-efficient team of professionals renders legal services under the protected trademark, TSG, in German, English and Serbian.

TSG's practice areas include corporate law and corporate governance, mergers & acquisitions, foreign investments & state incentives, commercial law, franchising, intellectual property, antitrust, public procurement, employment law, real estate & construction, media law, litigation & enforcement, arbitration.

TSG's professional team has been described as "*creating an atmosphere of mutual trust and co-operation with investors in a very volatile and challenging environment*", "*very responsive and responsible, the TSG team takes an active role in representing its clients and offers personal and tailor-made advice*". "*These lawyers find the time to understand client's business, before giving advice. Their attentive approach is outstanding... they focus on relevant problems from an economic point of view*". (*The Legal 500 2008, The Legal 500 2010*, *The Legal 500 2014* and *2016*.)

TSG Law Office was awarded the Corporate INTL annual legal award as the Corporate Governance Law Firm of the year in Serbia for 2015.