

In accordance with the Art. 64 of the Law on the Market for Securities and Other Financial Instruments (RS Official Gazette No. 47/2006) and Art. 6 and 7 of the Regulation on Reporting Requirements for Public Companies and Notice of Possession of Voting Shares (RS Official Gazette No. 100/06 and 116/06), Energoprojekt Holding a.d. New Belgrade, Bulevar M. Pupina 12 (ID number 07023014, Business Code 74150 Holding operations) announces:

**SIGNIFICANT EVENT REPORT
(REDEFINITION OF THE ENERGOPROJEKT SYSTEM CORPORATE
STRUCTURE – REGULAR DYNAMIC IMPLEMENTATION PLAN)**

According to the Energoprojekt Holding Co. Executive Board resolution passed at the 29th meeting held on 19th and 25th May 2010, the Board of Directors of Energoprojekt Holding Co. adopted the revised dynamic plan of the project “Redefinition of the Energoprojekt system corporate structure”, on the 16th meeting held on 26th May 2010, as follows:

“The Executive Board of Energoprojekt Holding a.d. have considered the current state of project “Redefinition of the Energoprojekt system corporate structure” in the following aspects:

- decision of the Executive Board of Energoprojekt Holding a.d. of 4th meeting held on 3.11.2009 (point 3) and decision of the Board of Directors of Energoprojekt Holding a.d. of 7th meeting held on 18.11.2009 (point 2), by which the procedure was initiated;
- activities that are in progress (estimation of value of subsidiary companies for the purpose of definition of value of proportion of stock to exchange for the need of status change, drafting of an agreement on merger by incorporation and joint reports of boards of directors of companies that are merging, etc.);
- certain open issues of the procedure in progress (results of estimation of value of subsidiary companies for the purpose of definition of value of proportion of stock to exchange for the need of status change, possible sale of the state-owned package of stocks to a strategic partner, etc.);
- current aspects of the global economic crisis;
- current status and references/prospects of the Energoprojekt system.

Project “Redefinition of the Energoprojekt system corporate structure” was initiated in the light of program of the Energoprojekt system development and in current environment of the global economic crisis. The project represents an quintessential measure of anti-crisis management with the purpose of creation business conditions in the environment of economic crisis, overcoming of its negative impact and creating of conditions for growth in the period after the crisis.

The Executive Board of Energoprojekt Holding a.d. have analyzed the aspects of genesis of the global economic crisis, its current manifestations and impact on business environment of the Energoprojekt system as well as on the position of the Energoprojekt system regarding the status of its corporate structure today and in the future and taking into consideration the following:

Global economic crisis and business environment of the Energoprojekt system

Current global economic crisis has a structural character and the consequent economic recession and as such has a negative impact on the business environment of the Energoprojekt system.

Historical aspects of the crisis

Crises in the global economic and social system have a cyclic character and also such impact on overall business surroundings, including those of Energoprojekt.

In late 1960s and early 1970s, important events took place in the global social system. This was the period marked by the fall of two normal cycles of the global economic and political systems – the cycle of hegemony and general economic cycle and the beginning of the process called “neoliberal globalization”. This was the period in which Energoprojekt began its successful business expansion abroad.

This expansion was also favourably supported by the political position of ex Yugoslavia, the consequences of the first energetic crisis of 1973 and the end of the golden standard (dollar’s equivalent in gold) as well as by the general trend to abandon profiting from the production and establishing the system of profiting from the financial speculations. The basic mechanism of these speculations consisted of increased spending supported by borrowed money, from which Energoprojekt benefited substantially as its business activities took place in the third world countries which borrowed money on the international financial market and financed construction projects realized by Energoprojekt.

Over the years, bubbles of explosive growth blew and popped, beginning with the national debt of the third world countries in the 1970s (developing/non-aligned countries in which Energoprojekt had significant business results), over “dirty” obligations of big corporations during the 1980s, spending boom of the 1990s, Bush-era public debt, concluded with the last bubble – subventions to the banks, massive dollar emission and state intervention in an effort to support economically important business subjects – when the global economic crisis was already proclaimed. This is the environment in which Energoprojekt is now having its business activities.

Aspects of global and local business environment

The civilization began the 20th century with 1.7 billion and today there are around 6.7 billion people. Increasing number of people and limited resources (food, water, oil, gas, coal) add to the challenges of current economic crisis. It is already an axiom that solution of the crisis is only possible through new technological breakthroughs and innovation – **knowledge-based**

economy, renewable energy and ecology represent a global challenge and consequently impose the demand for a new strategy of Energoprojekt.

Besides, specific (interior) challenges in Serbia are poorly developed *infrastructure* and the field of *social policy*.

These five aspects: *infrastructure, knowledge-based economy, social policy, energy and ecology* are integral parts of the document “Serbia Development Plan 2020” which is about to be published by the middle of 2010. It is based on the EU document “Europe 2020”. Once this document is published, it will be an important basis of a new medium-term action and development plan of the Energoprojekt system, the writing of which is in progress.

Reduced spending, sharp competition in the global economy and lack of investment have introduced a massive application of low prices and low costs (including wages of employees) strategies on the part of companies on the one hand and the neoliberal globalization that has created open national markets and increased competition (often disloyal) on the other, both have very negative impact on the business surroundings of Energoprojekt (in the country and abroad).

Corporate structure of the Energoprojekt system and its redefinition

Up to the middle of the 20th century, it was thought that the corporate structure was determined upon foundation of the company once and for all. Modern theory and practice see the corporate structure as a living organism which is to be **continuously** adjusting to the mission, vision and strategy of a corporation as well as to its geopolitical and capital and working force market surroundings. Redefinition of the corporate structure has stopped to be a project that has its beginning and its end – it has become a continuous process of varying intensity.

In the crisis of today, management and leaders of every multinational company, including the Energoprojekt system, are facing the challenge to choose the right strategy and corporate structure by means of which to increase economic security of the corporation, protect the capital and profitability, provide the synergy for further growth of the system and maintain employment.

Specifically, considering the corporate structure of the Energoprojekt system, we come to two possible solutions – maintenance of the status quo and integration of subsidiary companies.

a) *Maintenance of existing corporate structure (parent company Energoprojekt Holding a.d. and eight joint-stock subsidiaries)*

Maintenance of existing corporate structure as a set of fragmented entities i.e. joint-stock subsidiaries will create the need for mutual subventions and loan burden due to sharp competition, low prices and waves of cyclical crisis in different sectors of business. In the short run, this would result in financial overburden of the system and the danger that some of the subsidiaries should collapse i.e. lose the market.

At present, there is a crisis in building construction sector and in the near future the wave of crisis is expected to hit all other sectors of civil engineering. Expected move of the crisis will

be caused by sharp competition and the demand for low production prices as well as by difficulties related to financing due to budget deficiencies in many countries in which Energoprojekt is having business activities.

At the same time, oil shortage and its high price will direct investment towards railway infrastructure and traffic as well as towards electrical energy (including nuclear energy).

A very similar consideration could also be given to the sectors of designing and consulting. Modern energy installations are often a combination of energetics and water management. Ecology is an inevitable component of any modern project and the projects are becoming ever more complex and demanding. Finance of ecological projects is constantly rising and it is sensible to intensify and consolidate ecological activities.

With the present corporate structure, the Energoprojekt system is not ready to meet expected expansions in building of the infrastructure (e.g. restoration of the railway system in Serbia), energetics and ecology or to adequately manage the risks of business dealing, which are because of the global crisis even higher than before.

Genesis and development of the global economic crisis only confirms the decision that the existing status should be changed i.e. that the Energoprojekt system should be integrated, about which the parent company of Energoprojekt Holding a.d. has already made a set of important resolutions.

b) Redefinition of corporate structure through integration of present subsidiary companies

The goals of integration should provide, apart from what is stated in decisions of the Executive Board of Energoprojekt Holding a.d. (4th meeting of 3.11.2009, Point 3) and Board of Directors of Energoprojekt Holding a.d. (7th meeting of 18.11.2009, Point 2) by which the process of redefinition of the System corporate structure was started, the following:

- advancement of the strategic position of the Energoprojekt system
- maintenance and preservation of overall integrity of the Energoprojekt system (in terms of its business activities, professional and market potentials as well as its property and resources)

Integration of subsidiaries in the case of the Energoprojekt system represents their joint interest to more effectively use the resources of two or more subsidiaries in order to jointly achieve their individual goals related to the mission of each company, the parent company of Energoprojekt Holding a.d. i.e. the System as a whole.

In the economy of today, all companies, even those whose strategy is low prices and profits inevitably end up in competition with companies offering lower prices with lower profits for the same product. There is a prevailing attitude that the strategy that is based only on competition in prices is not sufficient to provide sustainable competitiveness. Therefore, the solution is sought in integrations.

Such integrations in the Energoprojekt system are related to establishment of new subsidiaries that are going to have better economic security and results, in the proportion in which any of

the existing subsidiaries could not provide for itself and thus create the synergy in business and benefits as well as the security for both employees and shareholders.

- Vertical integration

The vertical integration means integration in compliance with the production chain i.e. with the final product (e.g. a road, a hydroelectric power plant, a building, etc.) and in the case of the Energoprojekt system this would be an integration from designing to realization (Arhitektura a.d. – Visokogradnja a.d. or Hidroinženjering a.d. – Niskogradnja a.d., Entel a.d. – Oprema a.d.).

In the case of the Energoprojekt system, the vertical integration is in opposition to the accepted attitude (19th meeting of the Board of Directors of Energoprojekt Holding a.d. of 22.05.2008, when the study of Roland Berger was accepted) that the activities of designing and consulting i.e. realization and engineering should be carried out through separate legal subjects in order to avoid the so-called conflicts of interest, technological, professional, developmental and other differences in these activities and provide adequate risk management policy from the System's point of view.

Taking into consideration the fact that it is directed towards a specific product, the vertical integration is inert and rigid against market turbulences – and this is the current state of affairs created by the genesis and development of the global economic crisis. Therefore, the vertical integration should not be accepted as a solution for the Energoprojekt system at this moment or in the on-coming middle-term period, either for stated examples of particular integrations or for overall integration of all existing subsidiaries into one legal entity.

- Horizontal integration

The horizontal integration means integration of similar business activities, which in the case of the Energoprojekt system would be integration in direction of designing towards designing and realization towards realization, e.g. Entel a.d. – Hidroinženjering a.d. or Niskogradnja a.d. – Visokogradnja a.d.

Such integrations represent the intention to create the synergy, increase the market power and enable a prompt access to foreign markets with the following economic and other business motives:

1. Tendency to achieve more economic power by joining the productive power and taking a bigger market share by integrating into a new business entity;
2. Reduction of costs by: elimination of double subsidiaries and offices abroad, establishment of the same provision chain, less need for engagement of subcontractors, less payment of loan interests, etc.;
3. Increase of loan and guarantee potentials and stronger balance sheets;
4. Increased resistance to waves of cyclical crisis in similar business activities (civil engineering - building construction, thermo-hydro consulting);
5. More efficient and more effective participation in fast-growing economies;

6. Less need for inner subventions;
7. Increased economical security of the company and perservation of profitability, value and employment;
8. Horizonatally integrated companies have a better ability to learn and accept new technologies.

The horizontal integration within the Energoprojekt system is necessary in order to ensure the survival of entire spectrum of professional activities of the System in a dynamic, very competitive and more and more insecure global business environment dictated by the global economic crisis and to fulfil stated and all other goals defined by decisions of Executive Board of Energoprojekt Holding a.d. (4th meeting of 3.11.2009, Point 3) and the Board of Directors of Energoprojekt Holding a.d. (7th meeting of 18.11.2009, Point 2) by which the procedure of redefinition of the corporate structure was initiated.

Conclusive considerations

The period from 1945 to mid 1970s was an epoch of the most intensive economic growth also called “glorious thirty” or “les trente glorieuses” and the trends of the period were also followed by Energoprojekt. Founded in 1951, in the course of its dynamic growth, it had two recognizable organizational units: Designing and Construction i.e. the forms that enabled the most productive functioning of the company in the period of growth after the crisis and the world war.

The global economic crisis and profound changes leading to a new political and economic order demand understanding of development challanges of the moment (development of new technologies and knowledge-based economy, investment in infrastucture and energetics, etc.), anticipation of future changes and timely reaction in terms of corporate structure. This is crucial as the costs of strategy change and corporate restructuring increase as the need for a change becomes more and more obvious.

Therefore, it is not surprising that the aforementioned analysis cleraly shows that the horizontal integration are the most appropriate form of corporate structure for the Enegroprojekt system at the moment as the answer to current global economic and synergy crises in the eve of a new growth of the global economy after the recession.

The procedure of corporate structure redefinition that has begun i.e. the integration of subsidiaries of the Energorpojekt system is in compliance with the decision of the 31st general meeting of shareholders of Energoprojekt Holding a.d. of 27.06.2007 and is based on the study of Roland Berger consultant. The study was made before the crisis and cannot be duly applied in all its aspects now in the crisis environment, therefor its application is adjusted to meet the current needs caused by the effects of the global economic crisis.

Executive Board of Energoprojekt Holding a.d. reconfirms that the project “Redefinition of the Energoprojekt system corporate structure” was commenced on time as a development and

essential anti-crisis measure and that the dynamics of the rest of activities for its realization should be adjusted with solution of open issues in the procedure so far (first of all, the estimation of value of subsidiaries with the purpose to determine the value of proportion of exchange of shares for the needs of status change as well as the possible sale of the state-owned package of shares to a strategic partner). “

After detailed consideration and having in mind the rest of activities aimed at realization of project “Redefinition of the Energoprojekt system corporate structure” and planned time to solve open issues related to estimation of value of subsidiary companies for the purpose to determine the value of proportion of change of shares and possible sale of the state-owned package of shares to a strategic partner as well as all relevant legal regulations (especially those relating to financial reports – balance sheets), upon proposal of the Executive Board of Energoprojekt Holding a.d. and the Director General, the Board of Directors of Energoprojekt Holding a.d. has made the following

DECISION

Enclosed revised dynamic plan of project “Redefinition of the Energoprojekt system corporate structure” is accepted.

Boards of Directors of subsidiary companies included in the project of “Redefinition of the Energoprojekt system corporate structure” are ordered to, if necessary, carry out appropriate changes of decisions accepted earlier in accordance with revised dynamic plan.

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The above status changes apply to Energoprojekt Group affiliates only and do not include the parent company Energoprojekt Holding a.d..

While the Project is underway, current affiliates will continue with their regular business operations until completion of the legal transformation.

In compliance with the adopted schedule, the statutory change process will commence following the resolutions of relevant Affiliates Extraordinary Shareholders' Meeting and is expected to be finalized by end-2010.

In accordance with the Art. 8 of the Regulation on Reporting Requirements for Public Companies, this Significant Event Report will be published in a daily newspaper, distributed throughout the entire Serbian territory.

Energoprojekt Holding a.d.
Director General (CEO)

Vladan Pirivatrić, B.Sc.Eng.