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Doing business in Croatia

A comparative guide

July 2023

A guide to doing business in Croatia

Deloitte Legal compiled this guide for Legal 500, providing an overview of the laws and regulations on doing business in a variety of jurisdictions. The following country chapter contains the relevant information on the systems of law, the legal forms through which people carry out business, capital requirements, how entities are operated and managed, expansion possibilities, corporate governance, employment law and more.

No.	Question

A. Legal system and landscape

1 **Is the system of law in your jurisdiction based on civil law, common law or something else?**

The legal system in Croatia is a civil law system and comprises of the laws adopted by the Parliament, EU legal framework and the international public law, such as the international conventions and treaties.

B. Entity Establishment

2 **What are the different types of vehicle / legal forms through which people carry on business in your jurisdiction?**

The Croatian Companies Act[1] (the "***Companies Act***") distinguishes following forms of companies:

- Joint stock company (Croatian: "*Dioničko društvo*") is a commercial company where its shareholders participate with contributions to the share capital, issued and divided into shares/stocks, and the company is, in principle, liable for its liabilities up to the amount of its registered share capital.
- Limited liability company (Croatian: "*Društvo s ograničenom odgovornošću*") is a commercial company in which one or more legal or natural persons invests contributions to the pre-agreed registered share capital, and where the company is, in principle, liable for its liabilities up to the amount of its registered share capital. In case of a so called *simple limited liability company* (Croatian: "*Jednostavno društvo s ograničenom odgovornošću*"), whose incorporation procedure is simpler, faster and cheaper, whose registered share capital amounts to EUR 1.5 and is limited to 3 shareholders.
- Public company (Croatian: "*Javno trgovačko društvo*") is a legal form in which each shareholder is liable to the creditors jointly and severally, with all its assets.
- Limited partnership (Croatian: "*Komanditno društvo*") is a company in which two or more persons join for the permanent performance of activities under a joint venture, at least one of which is jointly and severally liable for the company's liabilities with all its assets (*general partner*), and at least one is liable for the company's liabilities only up to a certain value of the invested contribution (*limited partner*).
- Economic interest association (Croatian: "*Gospodarsko interesno udruženje*") is a legal person established by two or more natural and legal persons to facilitate and promote the performance of economic activities which constitute the aim of their business and to improve or increase their performance, but without the possibility of making profit for themselves.

[1] Official Gazette No. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19, 34/22, 114/22, 18/23.

Joint stock company and a limited liability company are considered commercial companies, while public company, limited partnership and the economic interest association are considered partnerships.

There are also secret society and partnerships forms, but they are not considered commercial companies and used exceptionally.

3 Can non-domestic entities carry on business directly in your jurisdiction, i.e., without having to incorporate or register an entity?

As a general rule, a foreign entity intending to perform business activities in Croatia permanently should establish a branch or a subsidiary in Croatia. However, occasional, temporary or one-time performance of a business activity in Croatia does not require permanent establishment. In practice, the meaning of a "temporary business activity" is not clearly defined and should be decided in a case-by-case basis. The permanent establishment issue has more significant tax than legal aspects, so tax advisors should be advised in advance to avoid tax risks arising from the lack of incorporated brunch or subsidiary.

4 Are there are any capital requirements to consider when establishing different entity types?

Minimum capital requirements are mandatory and prescribed by the Companies Act, and some other industry-specific laws for banks, insurance and leasing companies. As of 1 January 2023, Croatia has entered into Eurozone so it's official currency became EUR. Accordingly, the Companies Act has been amended to indicate the conversion of the minimum amounts of registered share capital and the nominal share values from HRK to EUR for all forms of corporations, including the simple limited liability company, limited liability company and a joint stock company. The fixed official exchange rate for all conversions is set at 7,53450 HRK per EUR 1.

Joint stock companies should adjust its share capital and stock amounts at the first regular general assembly, but at the latest by 31 December 2023. The limited liability companies should implement conversion with the first amendment of the articles of association, division or merger of shares or other corporate change. The adjustment changes should be carried out within the company's regular business, therefore no additional costs should be incurred in the process.

As a general rule, in case of a limited liability company, the minimum share capital amounts to EUR 2,500, and the minimum share nominal value is EUR 10. In case of the so called "simple limited liability", minimum share capital amounts to EUR 1 and the minimum share nominal value is EUR 1. Minimum share capital of a joint stock company amounts to EUR 25,000, and minimum share nominal value is EUR 1.

As a general rule, the registered share capital can be paid in cash or as an in-kind contribution, subject to certain restrictions. As opposed to commercial companies, economic interest association does not have any capital requirements.

5 How are the different types of vehicle established in your jurisdiction? And which is the most common entity / branch for investors to utilize?

The most common entities are (i) joint stock companies, and (ii) limited liability companies.

A joint stock company can be established in two ways: (i) simultaneously, when the shareholders incorporate it by paying in the registered share capital, taking over the shares, and adopting and signing the articles of associations, and (ii) successively, when the shareholders adopt the articles of association, take over part of the issued shares and send a public invitation (*prospectus*) for the subscription of the remaining shares.

A limited liability company is incorporated by the shareholders adopting the articles of association, which generally prescribe the main terms such as the registered name, registered seat, registered business activities, corporate governance structure, restrictions on share transfer (if any), competences of management and supervisory board (if different than standard), distribution of dividends rules and similar. As the part of the incorporation process, the management and supervisory board members must sign the acceptance of their appointments, and the statement they are not criminally liable for severe business-related criminal charges. The shareholders must also declare they have no outstanding liabilities in relation to the employees, health, or pension funds. Once signed and notarized by the Croatian public notary, the incorporation documentation is submitted to the court registry of the competent commercial court for registration, which usually registers the company in couple of weeks by issuing a registration decision.

The company's incorporation should subsequently be registered with the Croatian Bureau of Statistics and the Tax Authority, and the bank account is opened with one of the Croatian banks.

Over 90% of Croatian companies are incorporated as limited liability companies.

6 How is the entity operated and managed, i.e., directors, officers or others? And how do they make decisions?

In general, companies are managed by management board members (directors), who adopt decisions at board meetings or by written resolutions. They are in charge of day-to-day operations and are liable personally with all their personal assets. supervisory board in a limited liability company is voluntary in most of the cases, and is mandatory exceptionally: when the number of employees exceed 200, the registered share capital exceeds EUR 80,000 and there is over 50 shareholders, and some other exceptional cases depending on the company's group's structure. The supervisory board appoints the management board members, oversees their work, and provides prior approvals to certain more significant business decisions. Certain more significant business and statutory decisions must be adopted by the shareholders at the shareholders' meeting, such as amendments of the articles of association, mergers, increase of the share capital and issuance of new shares, appointment of management board members, adoption of financial statements. Shareholder's decisions may be adopted by ordinary 51% majority or by special 75% majority, depending on the type of decision.

On the other hand, Croatian joint stock companies can choose between a one- or two-tier governance system. In the case of a two-tier governance system, the company has three mandatory corporate bodies: (i) the management board, which manages the company's business and represents the company, and whose members are appointed by the supervisory board, (ii) the supervisory board, which supervises the management of the company's business and whose members are appointed by the general assembly, and (iii) the general assembly, which consists of the company's shareholders. On the other hand, if the company chooses a one-tier governance system, it has (i) executive directors, who manage the company's business and represent the company, and are appointed by the board of directors; (ii) the board of

directors, which manages and supervises the company's business and its executive directors, and whose members are appointed by the general assembly; and (iii) the general assembly, which consists of the company's shareholders.

As a general rule, the liability of the management board members in a two-tier governance system corresponds to the liability of executive directors in a one-tier governance system, whereas the liability of supervisory board members in a two-tier governance system corresponds to the liability of the members of the board of directors in a one-tier governance system.

The Companies Act provides that management and supervisory board members, in two-tier systems, and members of the board of directors and executive directors in one-tier systems, must maintain company's confidences, act in the company's best interests, and carry out their respective responsibilities in a diligent, adequately informed and conscientious manner ("duty of care"). The duty of care of the management and supervisory board members, in two-tier systems, and of members of the board of directors and executive directors in one-tier systems, is not breached if it can be reasonably assumed that he acted in the company's best interest when undertaking a business decision, on the basis of sufficient information. In practice, this should mean that there is no breach of duty of care of a board member or executive director simply because a decision has negative business consequences. However, in a dispute, the burden of proof would remain on the board member or executive director, who would then have to establish that the duty of care was observed by proving that it could be reasonably assumed that a diligent and conscientious businessperson, in the similar circumstances, would have made the same business decision. The duty of care is applicable to both joint stock companies and limited liability companies.

7

Are there general requirements or restrictions relating to the appointment of (a) authorized representatives / directors or (b) shareholders, such as a requirement for a certain number, or local residency or nationality?

Management board members (directors) can only be adults with full legal capacity, provided that they are forbidden from being charged for criminal offenses such as the abuse of bankruptcy, favoring creditors or violation of the confidentiality, for a five-years period following the conviction, or in case of a preliminary injunction prohibiting the performance of a business activity, for the term of the prohibition.

8

Apart from the creation of an entity or establishment, what other possibilities are there for expanding business operations in your jurisdiction? Can one work with trade /commercial agents, resellers and are there any specific rules to be observed?

The Croatian company may use all standard business models to expand its business or increase its market share as long as they are compliant with the local and EU general anti-trust rules, consumer protection, anti-bribery and other EU-law compliant commercial conduct.

C. Entity operation

Please answer the following questions only for the most common entity / i.e. within your jurisdiction:

C1. Governance

9 **Are there any corporate governance codes or equivalent for privately owned companies or groups of companies? If so, please provide a summary of the main provisions and how they apply.**

The supervisory or management board of a company, whose shares traded on the regulated market, are obliged to ensure the company publishes regular compliant notifications on the following issues:

- information on the binding corporate governance code, the voluntary corporate governance code (if applicable), or corporate governance practices applicable beyond what is required by mandatory regulations, as well as the information on where the relevant corporate governance codes are published;
- whether the company deviates from the corporate governance code's terms;
- a description of the basic features of the implementation of the internal control and the risk management in relation to financial reporting;
- information on significant direct and indirect holders shareholders, including indirect holding of shares in pyramid structures and mutual shares, holders of securities with special control rights and a description of these rights, restrictions on voting rights such as restrictions on voting percentage or number of votes, time limits for exercising the voting right or cases in which, in cooperation with the company, financial rights arising from shares are separated from underlying shares, rules on appointment and revocation of members of management or executive directors or supervisory board members, particularly the power to issue shares or acquire treasury shares; and
- data on the structure and operation of the board of the supervisory or management board and their subsidiary bodies.

All listed companies are required to complete an Annual Report to disclose their compliance with the Corporate Governance Code of the Zagreb Stock Exchange according to a "*comply-or explain*" principle, where they must explain negative feedback, submit it annually to the stock exchange, and disclose it online.

C2. Capital

10 **What are the options available when looking to provide the entity with working capital? i.e., capital injection, loans etc.**

Long-term working capital is obtained through long-term loans, retained profits, issued debenture notes and share capital. Short-term working capital includes dividend or tax provisions, short-term loans, public deposits and other.

Croatian Bank for Reconstruction and Development is the public financial institution which plays the role of the Croatian development and export bank having an objective of financing the reconstruction and development of the Croatian economy. Its main purpose for issuing loans is financing of current business operations and settlement of short-term obligations towards financial institutions, the state and settlement of other short-term obligations, excluding the repayment of debt to the shareholders, related entities and other third persons, with the maximum repayment period of up to 12 months.

C3. Return of proceeds

11 **What are the processes for returning proceeds from entities? i.e., dividends, returns of capital, loans etc.**

Ordinary shares entitle the holder to the payment of part of the company's profit (*dividend*). When a joint stock company makes a profit, it is able to pass on part of the profit to its shareholders. The portion of unpaid profits is reinvested in the company and is called "retained earnings". For the payment of dividends, retained earnings from the current, as well as from previous periods, are available. Payment to shareholders is usually made by payment to a bank account, but there is also the possibility of an agreement on payment in the form of additional shares. The decision on the payment of dividends is made at the annual general assembly of the issuer by voting of the present shareholders, i.e. the owners. Whether there will be dividend payments and how much it will be depends on the company's operating results and the company's needs for investment funds. If the general assembly does not determine by the decision on the use of profits the day when the shareholders acquire claims for dividend payment determined by that decision, which may not be later than 30 days after the decision, shareholders acquire dividend claims against the company.

No dividend may be paid to shareholders if in the annual financial statements for the last business year the net assets are less than the amount of share capital increased by the amount of reserves which by law or the articles of association may not be paid to shareholders or would be lower by such payment. In doing so, the amount of share capital less the amount not paid is taken into account, if that unpaid part is not stated in the active side of the statement of financial position. The amount paid to shareholders may not exceed the amount of profit shown in the annual financial statements for the last business year plus retained earnings from previous years and reserve funds that can be used for payments to shareholders, less losses from previous business years and amounts that are by law or statute were entered into the company's reserves.

The articles of association may authorize the management board, i.e. the executive directors to make an advance in the name of dividends from the foreseeable part of the net profit of the payment to the shareholders after the end of the business year.

C4. Shareholder rights

12 **Are specific voting requirements / percentages required for specific decisions?**

Simple majority (50%+one vote) is required for regular shareholder meeting decisions, such as the appointment of the management or supervisory board members, adoption of the annual financial statements, payment of dividends, appointment of the auditors and similar. Qualified

majority of at least 75% is required for special shareholder's decisions such as the amendments of the articles of association, mergers and demergers, increase and decrease of the share capital, dissolution of the company, liquidation and waiving pre-emptive rights. Super-qualified majority of 90% or over is required for squeeze-out procedures and certain waivers of damage claims against the management board members, and shareholders with 10% can bring derivative claims against the company.

13 **Are shareholders authorized to issue binding instructions to the management? Are these rules the same for all entities? What are the consequences and limitations?**

As a rule, in case of a joint stock companies, binding instructions of the shareholders to the management board are prohibited. Accordingly, the management board members cannot be revoked for not following instructions of the shareholders or otherwise without an existence of a significant and justified reason.

On the other hand, in case of the limited liability company, shareholders are permitted to give binding instructions to the management board, even the guidelines that are damaging, provided that they would be liable to the company for damages arising therefrom.

Shareholders may also raise a claim for damages the company may have against its management and supervisory board members, and the appointing a court representative in case of lack of sufficient representation.

C5. Employment

14 **What are the core employment law protection rules in your country (e.g., discrimination, minimum wage, dismissal etc.)?**

The core employment act in Croatia is Croatian Labor Act[2] (the "***Labor Act***").

Right / Protection	Details
National Minimum Wage	The minimum wage depends on various factors and is determined once a year for the next year. The national minimum wage for 2023 amounts to gross EUR 700.
Holiday	Employees are entitled to at least 4 weeks of paid holiday each year (equivalent of 20 days). Employees that are under-age and employees working on jobs affecting them harmfully are entitled to at least 5 weeks of paid holiday (equivalent of 25 days). Public holidays and statutory non-working days are not accounted for in the calculation of annual holiday.
Working Hours	A regular working week for a full-time employee consists of 40 working hours, which when distributed evenly, amounting to 8 hours per day (provided that the working week consists of 5 days).

[2] Official Gazette No. 93/14, 127/17, 98/19, 151/22.

	Overtime work is only allowed in the following circumstances (and at the employer's written request): • in force majeure cases; • if there is an extraordinary rise in the volume of business; and • in other cases where an urgent business need exists. In any event, the employer may not request more than 10 hours of overtime work per week and 180 hours per year (unless otherwise provided for in collective bargaining agreement, in which case it may not exceed 250 hours a year).
Rest Periods	Employees are entitled to the following rest periods: • 30 minutes rest brake per day when working 6 hours or more per day; • 12 hours of uninterrupted rest per day (daily minimum rest period); and • 24 hours of uninterrupted rest per week (weekly minimum rest period).
Pension rights	The Croatian pension system consists of three pillars. The first pillar is based on the so-called "generational solidarity", and the second one is based on the individual savings. Both systems are compulsory in their nature. The third pillar is based on voluntary savings. An employer is required to automatically enroll an eligible employee as an active member of pension system with effect from the date from which the employee becomes eligible. An employer needs to apply employees for gaining entitlements from the pension insurance, implementation of the pension insurance and for other purposes determined by the law and general acts of Croatian Pension Insurance Institute.
Discrimination	Employees are protected against direct or indirect discrimination at work or regarding with labor conditions on the basis of the following protected characteristics: • age; • disability; • gender reassignment; • marriage and civil partnership; • pregnancy and maternity including foster parenting; • religion or belief; and • sex and sexual orientation.
Maternity Leave / Pay	Maternity leave is used until the child turns 6 months, while parental leave may be used after the child has turned 6 months. Employed and self-employed pregnant women have to take maternity leave 28 days prior to the expected date of birth and may take it (no earlier than) 45 days prior to the expected date of birth. Maternity leave lasts until the child is 6 months old, with the mandatory part of it covering the period between 28 days prior to

	the expected date of birth until 70 days after the child's birth (a total of 98 days without interruptions). Additional maternity leaves covers the period after the expiry of mandatory part of maternity leave (from the 71st day from the child's birth) until the child turns 6 months old. While using maternity leave, the beneficiary is entitled to salary compensation equal to 100% of the salary compensation base determined pursuant to the regulations on mandatory health insurance.
Paternity Leave	Employed or self-employed father is entitled to 10 working days of paternal leave in case of birth of 1 child and 15 working days in case of birth of twins, triplets or birth of more children. Paternity leave is used until the child reaches 6 months. The right to paternal leave is not transferable. For the use of paternity leave, the father is entitled to 100% of the renumeration compensation base, which is paid at the expense of the state budget.
Shared Parental Leave	Parents are entitled to a maximum of 8 months of parental leave (provided that both parents take a period of parental leave) for the first and second child, and for a maximum of 30 months (provided that both parents take a period of parental leave) for twins, a third child and for every additional child thereafter. Each parent is entitled to 4 months (or to 15 months in case of twins, third child and every additional child thereafter) of parental leave, with the provision that each parent retains 2 months of parental leave that cannot be transferred to the other parent. If only one parent uses parental leave, its maximum duration can be 6 months (or 28 months in case of twins, third child and every additional child thereafter). The recent amendments to the maternal and parental benefits legislation have introduced more flexibility to the use of parental leave, which parents can now use individually, simultaneously or alternately, according to personal agreement.
Statutory sick pay	During the period of sick leave, the employee is entitled to receive sick pay from the employer on the basis of his average salary for the preceding 6 months for the first 42 days. If the employee´s sick leave lasts longer than 42 days, then sick pay need to be paid by the Croatian Health Institute. Salary compensation cannot be lower than 70% of the base for salary compensation, taken into consideration that a monthly amount of the salary compensation for full-time work cannot be lower than 25% of the budget base, i.e. EUR 110.36.

	However, it must be kept in mind that the highest monthly amount of salary compensation, which is paid at the expense of the Croatian Health Institute's funds, cannot amount to more than the budget base increased by 28%, i.e. EUR 565.04, except in specially prescribed situations.
Statutory Notice Periods	In case of a regular notice, the notice period is at least: • 2 weeks, if the employee has continuously worked for the same employer for less than 1 year; • 1 month, if the employee has continuously worked for the same employer for 1 year; • 1 month and 2 weeks, if the employee has continuously worked for the same employer for 2 years; • 2 months, if the employee has continuously worked for the same employer for 5 years; • 2 months and 2 weeks, if the employee has continuously worked for the same employer for 10 years; and • 3 months, if the employee has continuously worked for the same employer for 20 years. In case of an employee who has continuously worked for the same employer for 20 years, the notice period of 3 months is extended by 2 weeks if the employee has reached 50 years of age, and by 1 month if the employee has reached 55 years of age. During the notice period the employee is entitled to receive his salary and all other entitlements under statute. Employee can be absent from work at least 4h per week during notice period for the purpose of seeking new employment. In case of an employee whose employment contract is terminated due to the violation of an employment obligation ("notice due to the employee's misconduct"), the notice period is twice as short as aforementioned notice periods.
Unfair dismissal	The employer must generally have a lawful reason for terminating an employment contract. The following valid reasons for termination/dismissal of an employee are set out exhaustively in the Labor Act: • Dismissal due to economic, technical or organizational reasons (termination for redundancy); • Inability of the employee to duly perform his duties under the employment contract (dismissal based on the employee's abilities or state of health); • Violation by the employee of his obligations arising from the employment contract (dismissal for misconduct); and • Dissatisfaction with the employee during the probationary period (dismissal due to incompetence during probationary period).

	Temporary absence from work caused by an illness or personal injury is not considered to be a cause for dismissal. Filling an appeal or complaint, or taking part in the proceedings against the employer on the ground of a violation of a law, another regulation, collective bargaining agreement or employment bylaws, as well as the employee's turning to the competent executive bodies, are not considered to be justified cause for the dismissal of a labor contract. The employee's appeal to responsible persons or competent state administration bodies or filing a *bona fide* application with these persons or bodies, regarding a reasonable suspicion about corruption, is not considered to be just cause for dismissal. If the court establishes that a dismissal was not permissible and that employment relationship accordingly has not terminated, it shall order the employer to admit the employee's return to work.
Statutory Redundancy Payment	When the employer dismisses an employee following a two-year period of continuous employment, unless dismissal is given for the reasons related to the employee's conduct, the employee is entitled to receive severance pay in an amount determined on the basis of the length of prior continuous employment with that employer.
Statement of particulars	In accordance with General Data Protection Regulation (GDPR) which is implemented in Croatian law by the Implementation Act of the EU General Data.

15 **On what basis can an employee be dismissed in your country, what process must be followed and what are the associated costs? Does this differ for collective dismissals and if so, how?**

The following valid reasons for dismissing an employee are set out exhaustively in the Labor Act:

- redundancy situations due to economic, technical or organization reasons (dismissal for redundancy);
- inability of the employee to duly perform his duties under the employment contract (dismissal based on the employee's abilities or state of health);
- violation by the employee of his obligations arising from the employment contract (dismissal for misconduct); and
- dissatisfaction with the employee during the probationary period (dismissal due to incompetence during probationary period).

Employers and employees have just cause to cancel an open-ended or fixed-duration labor

contract, without having an obligation to comply with a prescribed or agreed notice period

("extraordinary notice") if, due to an extremely grave violation of an employment obligation or due to any other highly important fact and recognizing all the circumstances or interests of both contracting parties, continuation of the employment is not possible.

An employment contract may be terminated by giving extraordinary notice only within 15 days of the day when the person concerned finds about the fact on which the extraordinary notice is based.

A notice of dismissal must be made in written form. The employer must give reasons for dismissal in written form. A notice of dismissal must be submitted to the person being dismissed. The notice period starts running on the day of submission of the notice of dismissal. The notice period does not run during pregnancy, maternity leave, parental leave, adoptive and paternity leave or leave which in terms of content and method of use is identical to the right to paternity leave, part-time work, part-time work due to increased child care, leave of a pregnant employee, leave of an employee who gave birth or employee who breastfeeds a child and takes leave or works part-time due to care for a child with severe developmental disabilities, temporary inability to work, temporary incapacity for work during treatment or recovery from a work injury or occupational disease, annual leave, paid leave, military service, and other cases of the employee's justifiable absence from work, as prescribed by the Labor Act or by another law.

Prior to giving regular notice due to the employee's conduct, the employer shall draw the employee's attention, in writing, to his employment obligations and inform him about the possibility of dismissal if further violations occur, unless circumstances exist due to which the employer cannot be reasonably expected to do so. Prior to giving a regular notice or extraordinary notice due to the employee's conduct or work, the employer shall give the employee an opportunity to present his defense, unless circumstances exist due to which the employer cannot be reasonably expected to do so.

In the case of collective dismissals, the employer who intends to terminate at least 20 employment contracts in the period of 90 days, which at least 5 of them are dismissal for redundancy, the employer must consult with the employees' council as well as Croatian Employment Bureau.

16

Does your jurisdiction have a system of employee representation / participation (e.g., works councils, co-determined supervisory boards, trade unions etc.)? Are there entities which are exempt from the corresponding regulations?

Employees employed with an employer, who employs at least 20 employees, with the exception of employees employed at state administration bodies, have the right to take part in decision-making on issues related to their economic and social rights and interests, in the manner and under the conditions prescribed by Labor Act.

Employees have the right to elect, in free and direct elections, by secret ballot, one or more

of their representatives which shall represent them before their employer in relation to the protection and promotion of their rights and interests. The procedure for the establishment of an employees' council is initiated upon the proposal of a trade union or at least 20% of the employees employed with an employer.

Also, in a company or a cooperative society, where a body (supervisory board, management board or another appropriate body) that supervises business management is established in accordance with specific provisions, and in a public institution, one member of the company's or cooperative's body that supervises business management or one member of a public institution's body (governing council or another appropriate body) shall be a employees' representative.

Employees shall have the right, according to their own free choice, to found and join a trade union, subject to only such requirements which may be prescribed by the articles of association or internal rules of this trade union.

C6. Anti-corruption / bribery / money laundering / supply chain

17 **Is there a system governing anti-bribery or anti-corruption or similar? Does this system extend to nondomestic constellations, i.e., have extraterritorial reach?**

Anti-bribery and anti-corruption system relies on the Croatian Conflict of Interest Prevention Act[3] (the "***Conflict of Interest Prevention Act***"), which regulates the prevention of conflicts between private and public interest in the performance of public duties, those obliged to act in accordance with the provisions of this act, the obligation to submit and content of property cards, public disclosure of certain data from property cards; duration of obligations under the said act, election, composition, status and competence of the Commission for deciding on conflicts of interest , procedure before the Commission and other issues of importance for the prevention of conflicts of interest. The purpose of this Conflict of Interest Prevention Act is to prevent conflicts of interest in the performance of public duties, to prevent private influence on decision-making in the performance of public duties, to strengthen integrity, objectivity, impartiality and transparency in the performance of public duties and to strengthen citizens' trust in public authorities.

Under certain conditions, Croatian anti-bribery laws can apply to non-Croatian residents committing crime within Croatian territory.

18 **What, if any, are the laws relating to economic crime? If such laws exist, is there an obligation to report economic crimes to the relevant authorities?**

Criminal offenses of this kind are regulated by the Croatian Criminal Code[4] and the Croatian Criminal Procedure Code[5], as a procedural regulation, and are prosecuted *ex officio* by public authorities and non-reporting of a criminal offense is also sanctioned. In other words, it is obligatory to report crime to the police and the DA's office.

19 **How is money laundering and terrorist financing regulated in your jurisdiction?**

The Croatian Act on the Prevention of Money Laundering and Terrorist Financing [6], is fully aligned and harmonized with the EU AML regulatory framework, prescribing measures, actions and procedures taken by taxpayers and competent state authorities to prevent and detect money laundering and terrorist financing and other preventive measures to prevent the use of the financial system for money laundering and terrorist financing.

[3] Official Gazette No. 143/2021.

[4] Official Gazette No. 125/11, 144/12, 56/15, 61/15, 101/17, 118/18, 126/19, 84/21, 114/22.

[5] Official Gazette No. 152/08, 76/09, 80/11, 121/11, 91/12, 143/12, 56/13, 145/13, 152/14, 70/17, 126/19, 126/19, 130/20, 80/22.

[6] Official Gazette No. 108/17, 39/19, 151/22

20 **Are there rules regulating compliance in the supply chain (for example comparable to the UK Modern Slavery Act, the Dutch wet kinderarbeid, the French loi de vigilance)?**

Croatian Act on the Prohibition of Unfair Commercial Practices in the Food Supply Chain[7], establishing rules and system of measures to prevent unfair commercial practices, defines unfair commercial practices in the supply chain of agricultural and food products as the ones imposing significant bargaining power over the buyer in relation to its suppliers. The law also regulates the powers, tasks and actions of the Croatian Competition agency as the authority in charge of its implementation, and cooperation between enforcement authorities for the purpose of sanctioning unfair trade practices throughout EU Member States and the European Commission.

C7. Compliance

21 **Please describe the requirements to prepare, audit, approve and disclose annual accounts / annual financial statements in your jurisdiction.**

Annual Compliance obligations are as follows:

- The CITR in the prescribed form need to be prepared and submitted through the e-tax system. In addition to CITR, it is necessary to submit a balance sheet, a profit and loss account and an explanation of the differences between accounting and tax profit.

Along with the CITR but as separate report the client needs to submit also report called PD-IPO report – related parties report. Deadline is the same as deadline for the CITR submission.

The deadline for submission is as follows:

- 30 April for the financial year ending at 31 December or 4 months after the end of the financial year.

In Croatia, we have two types of annual financial reports that need to be submitted as follows:

a) Annual financial statement for statistical purposes, for which the deadline is 30 April for the financial year ending at 31 December or 4 months after the end of the financial year.

b) The annual financial statement for public announcement for which the deadline is 30 June for the financial year ending at 31 December or 6 months after the end of the financial year. If the client is subject to audit, then along with above mentioned report it is necessary to submit the audit findings i.e. audited financial statements.

22 **Please detail any corporate / company secretarial annual compliance requirements?**

Companies Act prescribes the obligation of the management board to submit a written report on the state of the company to the general assembly once a year. The annual report on the company's condition must correctly present at least the development and results of the company's operations and the financial condition in which it is, along with a description of the main risks and uncertainties to which it is exposed.

[7] Official Gazette No. 117/17, 52/21.

This must be a balanced presentation and complete analysis of the development and results of operations and the position of the company in accordance with the scope and complexity of its operations. To the extent necessary to understand the development, results of operations and financial position of the company, the analysis must include financial and, if necessary, other indicators related to individual activities, including information on environmental protection and employees. Where necessary, the analysis must further explain the amounts stated in the annual financial statements.

23 **Is there a requirement for annual meetings of shareholders, or other stakeholders, to be held? If so, what matters need to be considered and approved at the annual shareholder meeting?**

The shareholders meeting must be convened at least once a year and, besides all other cases determined by the Companies Act and the articles of association, whenever the interests of the company so require, and without delay when company has lost half of its registered share capital.

Matters that need to be considered and approved at the annual shareholders meeting consist of the regular set of annual financial statements (balance sheet, profit and loss account) and consolidated financial statements.

24 **Are there any reporting / notification / disclosure requirements on beneficial ownership / ultimate beneficial owners ("UBO") of entities? If yes, please briefly describe these requirements.**

Registry of beneficial owners is the central electronic database on beneficial owners of private legal entities established in Croatia, and all the private commercial companies have an obligation to report UBO since 2019. The registry is managed by the Croatian Financial Agency and the UBO requirements arise from the AML regulations.

C8. Tax

25 **What main taxes are businesses subject to in your jurisdiction, and on what are they levied (usually profits), and at what rate?**

Corporate income tax is levied on accounting profit adjusted for specific expenses and revenue based on the Croatian Corporate Income Tax Act. The reduced rate of 10% applies if in the taxation period revenue has been generated up to EUR 995,421.06. The taxpayers whose profits exceed the threshold apply the standard 18% rate.

VAT is imposed on the sale of goods, the provision of services, the intra-community acquisition of goods and on imports. The standard rate is 25%, with reduced rates of 13% and 5%. Certain supplies are VAT exempt. From 1 October 2022 Croatia also implemented 0% to the supply and installation of solar panels to certain categories of customers under prescribed conditions.

Personal income tax is a direct tax levied on individual's income. Types of individual's income are employment income, self-employment income, income from property and property rights, capital income and other income. Applicable tax rates are 10%, 20% and 30%, depending on the type of realized income. Employment income, self-employment income and other income are considered on an annual basis (annual income) and additional tax liability or tax refund

may arise on an annual level, whereas income from property and property rights and capital income are considered as final. On top of personal income tax liability, city tax is calculated at 0-18%, depending on the individual's residence address.

26 **Are there any particular incentive regimes that make your jurisdiction attractive to businesses from a tax perspective (e.g., tax holidays, incentive regimes, employee schemes, or other?)**

Corporate tax relief is given on expenses incurred on employee education. Tax relief may be granted on investments and related employment and education expenses, R&D activities depending on the investment value and size of the entrepreneur.

27 **Are there any impediments / tax charges that typically apply to the inflow or outflow of capital to and from your jurisdiction (e.g., withholding taxes, exchange controls, capital controls, etc.)?**

Withholding tax is a tax applied to profit generated by a non-resident in the Republic of Croatia. It is paid for interest, dividends, profit shares, and royalties and other intellectual property rights paid to foreign legal entities. The withholding tax is paid at a rate of 15% except for dividends and profit shares for which the withholding tax is paid at a rate of 10%. A lower or zero withholding tax rate can apply under an Agreement on Avoidance of Double Taxation (DTT) signed between the country of the payer and country of the recipient or the applicable EU Directives.

Additionally, exit taxation provisions have been introduced as part of the implementation of the ATAD. Under exit taxation provisions, the company shall be obliged to include in its tax base the difference between the market value of assets and their value established for taxation purposes when transferring assets or business in a way that the right to tax the transferred assets or business no longer exists due to the transfer.

28 **Are there any significant transfer taxes, stamp duties, etc. to be taken into consideration?**

Transfers of real estate that are not subject to VAT are subject to a 3% real estate transfer tax (RETT), with certain exemptions. The tax base for RETT purposes is the market value of the property. The tax is due by the acquirer.

C9. M&A

29 **Are there any public takeover rules?**

The Croatian Takeover Act[8] (the "***Takeover Act***"), which has implemented EU regulatory framework on takeover bids, regulates takeovers in a way that is very similar to that of many EU member states.

Public takeover bids for Croatian companies are relatively common. The program initially initiated by the Croatian government to privatize state-owned companies resulted in

[8] Official Gazette No. 109/07, 36/09, 108/12, 90/13, 99/13, 148/13.

widespread public share ownership, with most large, privatized companies being listed on the stock exchange. The Croatian legislation on takeovers provides for a mandatory takeover offer once a person has acquired a 25% stake in a public company. This mandatory bid procedure has resulted in there being a large number of takeover bids relative to the size of the Croatian market.

Initially, Croatia has seen a significant increase in the number of takeovers, prompted largely by Croatia's entering into negotiations to join the EU and the strengthening of the Croatian financial market.

30 Is there a merger control regime and is it mandatory / how does it broadly work?

Under the Croatian Competition Act[9] (the "***Competition Act***"), a concentration arises by change of control over an undertaking on a lasting basis. The control may be changed as a consequence of: (i) merger between previously independent undertakings (or parts thereof); or (ii) acquisition of direct or indirect control or the controlling influence over the undertakings (or parts thereof) by acquiring a majority shareholding or a majority of the voting rights, or by other means with the same effect (iii) establishing a full functioning joint venture (that will perform the activities of otherwise independent entities, on the long lasting basis). An undertaking is deemed to control another undertaking, if it directly or indirectly, holds more than half of its shares, may exercise more than half of its voting rights, has the right to appoint more than half of the members of the manager board, supervisory board or similar managing or supervising bodies, or is able to exercise decisive influence on the business of the controlled undertaking in any way.

The Competition Act adopted the significant impediment to effective competition test (SIEC test), thus implying, that the Competition Agency will more focus on effect-based approach. Namely, the Competition Acts states that a concentration of undertakings which would significantly impede effective competition on the market, particularly if this impediment is a result of creation or strengthening of a dominant position of a party to the concentration represents a prohibited transaction.

A concentration must be notified if the following financial thresholds are met: (i) the combined worldwide turnover of all participating undertakings is at least EUR 134 million; and (ii) the aggregate turnover in Croatia of each of at least two of the participants is at least EUR 13.4 million in the financial year preceding the concentration. Where the concentration consists in the acquisition of only the part of one or more undertakings only the turnover generated by that part of the target shall be taken into account. Two or more such transactions that take place within a two-year period shall be deemed one concentration arising on the date of the last transaction.

Transactions in media sector are to be notified to the Competition Agency regardless of the turnover achieved by the parties. In addition, under certain conditions, transactions within the electronic communications, credit institutions and insurance sectors, are to be notified to the relevant authorities.

[9] Official Gazette No. 79/09, 80/13, 41/21.

31 Is there an obligation to negotiate in good faith?

It is common for a bidder to acquire a majority stake in the target from a controlling shareholder (where one exists) in a negotiated transaction prior to launching the mandatory bid for the rest of the shares. A negotiated purchase of a majority stake usually eliminates the risk of a competing bid, since any competing bidder would be precluded from acquiring majority ownership. A negotiated purchase typically allows the acquirer to structure the transaction as a normal private share acquisition, involving due diligence on the target. The acquisition agreement will typically include standard closing conditions, representations and warranties, indemnities, etc.

If it is trying to organize the acquisition of a controlling stake from a number of large, but not controlling, shareholders, the bidder must take care to ensure that confidentiality is maintained and that rumors do not develop that influence the share price of the target. If confidentiality is not maintained and there is unusual share activity, the bidder may be forced to inform the Croatian Financial Services Supervisory Agency (HANFA) of its intentions and initiate a mandatory takeover bid procedure.

Care must be taken not to inadvertently trip the obligation to launch a takeover bid by entering into a binding and final share purchase agreement. Under the Takeover Act, even if an agreement for the purchase of over 25% of an issuer's shares is subject to standard conditions precedent (that is, the share purchase agreement has been executed but its legal effectiveness is postponed until fulfillment of certain condition precedents), it can be deemed to constitute a legal transaction that triggers the obligation to publish a takeover bid. In practice, it is difficult to avoid a premature triggering of the Takeover Act.

32 What protections do employees benefit from when their employer is being acquired, for example, are there employee and / or employee representatives' information and consultation or co-determination obligations, and what process must be followed? Do these obligations differ depending on whether an asset or share deal is undertaken?

Under the takeover rules, a target company must inform its employees about the takeover bid notification submitted by the bidder. The takeover notification contains very limited information about the bidder, the target and the bidder's shareholdings in the target. The notification must be published in the Croatian language in the Croatian Official Gazette and through the stock exchange.

On the other hand, the Takeover Act is very specific about the content of the offer document, where the bidder has a duty to provide the information on possible consequences for the target's employees and the management board's view of the bidder's strategic plans in relation to the target company and potential consequences arising out of these plans with respect to the target's employment policy, the employees' status, and the potential change of the location in which the target performs its business activities.

Within 5 days after the publication of the offer and before the opinion is published, the management board of the target is obliged to submit its opinion to the target's employees' representatives or to the employees directly, who can give their opinion on the offer within the next 3 days. If the management board of the target receives the employees' opinion on time, it is obliged to attach it to its opinion on the offer. If the opinion on the offer or the employees' opinion on the offer contains false or misleading information, and if the persons who have prepared the opinion or participated in its issuance knew or should have known that the

information was false and/or misleading, they shall be jointly and severally liable to the shareholders for the damage caused.

On the other hand, in case of asset deals and an ongoing business concern transfers, the employees being part of the transferred business, who are transferred to a new employer by default, must be notified prior to their transfer about the background of the transaction and details of the new employer, plus they retain all their employment-related rights irrespective of their transfer to a new employer.

C10. Foreign direct investment

33 **Please detail any foreign direct investment restrictions, controls or requirements? For example, please detail any limitations, notifications and / or approvals required for corporate acquisitions.**

As an EU Member state, Croatia is subject to Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union. The Foreign Direct Investment Verification Department operates within the Ministry of Economy and Sustainable Development and issues opinions on the matter. Although some Member States have their own parallel verification mechanisms in place, such a mechanism has still not been established in Croatia but is planned to be established in the future.

The regulation is consistent with other EU policies, including the free movement of capital and freedom of establishment, the EU Merger Regulation, etc.

34 **Does your jurisdiction have any exchange control requirements?**

Croatian Foreign Exchange Operations Act[10] (the "***Foreign Exchange Operations Act***") (regulates:

- business between residents and non-residents in foreign means of payment;
- business between residents in foreign means of payment; and
- unilateral transfers of property from the Republic of Croatia and to the Republic of Croatia that do not have the characteristics of performing business between residents and non-residents.

The Foreign Exchange Operations Act transposes EU legal framework.

The Ministry of Finance, i.e. Financial Inspectorate supervises the application and implementation of the said act and the operations of residents and non-residents when performing their economic or other activity in the territory of the Republic of Croatia.

[10] Official Gazette, No. 96/03, 140/05, 132/06, 150/08, 92/09, 133/09, 153/09, 145/10 and 76/13, 52/21, 141/22

D. Entity closure

35 **What are the most common ways to wind up / liquidate / dissolve an entity in your jurisdiction? Please provide a brief explanation of the process.**

According to the Companies Act, reasons for the dissolution of a company are:

1. Expiration of the period for which the company was established;
2. Shareholders' decision;
3. Final court decision establishing that the company's registration in the court register was unlawful;
4. Institution of bankruptcy proceedings against a company;
5. Death or dissolution of a shareholder, unless otherwise defined by the articles of association ;
6. Institution of bankruptcy proceedings against a company shareholder;
7. Termination of a shareholder or his creditor;
8. Final court decision.

A company can be liquidated by a standard or shortened liquidation procedure.

The standard liquidation process is based on the shareholders' decision to terminate (liquidate) the company, which decision must be reported to the competent commercial court without delay. Liquidation is carried out by members of the company's management board or appointed liquidator. Liquidators are required to terminate ongoing transactions, collect receivables, liquidate company assets and settle creditors. The company's creditors must be invited to file their claims towards the company. Such invitation must be appropriately published and creditors are allowed to report their claims withing 6 months following the publication. Known creditors should be specifically informed. After settling the company's debts, the liquidators are obliged to prepare a report on the liquidation and a proposal on the division of the company's assets. The company's assets can be distributed to shareholders at the earliest one year starting from the date when the invitation to creditors has been duly published. After the distribution of assets to the shareholders, the liquidators submit the final liquidation reports and the report on the conducted liquidation.

Finally, the liquidators shall submit to the competent commercial court an application requesting deletion of the company from the court register, evidencing that the shareholders of the liquidated company accepted the final liquidation financial statements and the liquidator's report.

The dissolution of a company in a shortened procedure (i.e., without undertaking a standard liquidation procedure) is initiated by a shareholders' decision which needs to be adopted in a form of a notarial deed or a private document certified by a notary public.

No specific conditions that should be met before the process imitation. However, in the process of such dissolution of a company, the shareholders shall provide binding statement confirming that:

- The company has no outstanding liabilities arising from employment relationship, either towards current or former employees of the company; and

- The company has no other, disputed, or non-disputed, due, or outstanding liabilities towards creditors.

By providing such statement, shareholders assume joint and several liability towards company's creditors, for all potential liabilities subsequently discovered, for a period of two years following the company being dissolved. Circumstance that a company is going to be dissolved in a shortened procedure should be publicly announced on the court registry's web or in the company's gazette and relevant filings with the competent commercial court (court registry) should be done. Decision on dissolution of the company under a shortened procedure is issued by the commercial court. The decision should become final and binding following the laps of 30 days' period (assuming nobody is challenging the decision). Finally, the company is deleted from the court registry and consequently cease to exist.

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