



Croatia

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Guide to doing business in Croatia

2015

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I. THE COUNTRY AT A GLANCE

WHAT LANGUAGES ARE SPOKEN

The official language in the Republic of Croatia is the Croatian language and Latin script.

In certain local units, in addition to the Croatian language and Latin script, languages and scripts of minorities may be introduced in official use.

Minorities in the Republic of Croatia are allowed to freely use their own languages and scripts.

CURRENCY

The Croatian monetary unit is Kuna. In English the word "Kuna" means marten since in medieval times marten skins were used for a unit of trade. The Croatian Kuna was issued in 1994 as a replacement for the Yugoslav Dinar. The Croatian National Bank (HNB) determines in accordance with the stipulated trade and foreign currency rates on the market of foreign exchange payments the value of Kuna in relation to other currencies.

As of 31 December 2015, at the mean rate of exchange of the Croatian National Bank, 1 US\$ equaled 6.991801 kuna and 1 euro equaled 7.635047 kuna.

GEOGRAPHY

The Official name of Croatia in the Croatian language is "Republika Hrvatska" (Republic of Croatia). Croatia is strategically placed at the crossroads of Central Europe, the Balkans and the Adriatic Sea and is close to the Mediterranean. It is bordering Hungary to the northeast, Serbia to the east, Bosnia and Herzegovina to the southeast, Montenegro to the southeast, the Adriatic Sea and Italy to the southwest and Slovenia to the northwest.

Croatia is shaped like a horseshoe stretching from Vukovar in the northeast past Zagreb in the west to Dubrovnik in the far south. Having an area of 56.594 km², Croatia is the 19th largest country of the European Union. Croatia is an extremely diverse country in terms of relief and climate. Its area includes both vast plains in the continental part between the Drava and Sava river (Slavonia), mountainous areas in the central part (Lika and Gorski Kotar), and a long, indented and sunny coastline in the west and south (Istria and Dalmatia). As a country belonging to the Danube Basin and Adriatic Sea, Croatia constitutes the Mediterranean front of Central Europe, is favorably positioned in terms of geography and communications, and its ports serve as sea exits to northern neighboring countries.

Croatia comprises 20 counties and the city of Zagreb.

The Croatian Adriatic coast is one of the most indented in the world: it has 1244 islands and islets with a total coastline of 4398 km, the length of the mainland coast

being 1880 km. The largest islands are Cres and Krk. The largest peninsulas are Istria and Pelješac, and the largest bay is the Kvarner Bay.

The Republic of Croatia has three climate zones. The plains and the inlands are governed by a moderate continental climate, mountainous areas over 1,200 m are governed by a mountain climate and the Adriatic coast is governed by Mediterranean climate with many sunny days, hot summers and mild and humid winters.

On 1 January 2015, Croatia had 4,225,300 inhabitants. The share of the Croatian population in the total population of the EU was 0.9 percent.

RELIGION

Croatia is predominantly a Roman Catholic country. According to recent results (in 2011), 86,28% of the population defines itself as Catholic, 4,44% as Orthodox and 1.47% as Muslim.

INFRASTRUCTURE

As Croatia enjoys a favorable geo-communication position, several pan-European transport corridors and their branches pass through Croatia. Croatia has over 1,250 km of highways, 1,000 km of which were built in the last 15 years. The transportation in Croatia relies on several main modes - road, rail, water and air. The road transport incorporates a comprehensive network of state, county and local routes augmented by a network of **highways** for long-distance traveling. The water transport can be divided into sea and river transport.

The 6 seaports in Croatia (Rijeka, Zadar, Šibenik, Split, Ploče and Dubrovnik) are open for public transport of special (international) economic interest.

Since Croatia belongs to the Danube River Basin, it has an important role in international transport on the Danube. The most significant routes are the Danube and the Sava river. Ports of international significance are Osijek, Slavonski Brod, Sisak and Vukovar. The Republic of Croatia is part of the Rhine–Main–Danube Canal which was opened in 1992 creating an uninterrupted navigable artery between the North Sea and the Black Sea.

Croatia has seven international airports – they are in the city of Zagreb, Split, Rijeka, Dubrovnik, Zadar, Pula, Osijek, and two airports in Brač and Mali Lošinj.

The country has two airlines Croatia Airlines and TRADE AIR.

The rail transport is fairly developed through the country. The Republic of Croatia has direct rail connections to Slovenia, Bosnia and Herzegovina, Hungary, Austria, Switzerland, Germany and Serbia.

COMMUNICATION

The international dialing code number for Croatia is +385. Mobile coverage is widespread with the majority of the country having GSM/UMTS coverage, and LTE coverage is available as well. GSM/UMTS/LTE operators have active roaming

agreements with most international networks. ADSL broadband is common in Croatia with Internet cafes available in all major cities. 300 free Wi-Fi access points (hotspots) are available throughout Croatia and almost all cafés have free Wi-Fi.

Croatia has a national postal service with post offices in most cities, towns and villages.

PUBLIC SERVICES

The supply with drinking water is a public utilities service which can be performed by companies, public institutions or services being established by units of local self-government or by legal entities or natural persons under concession agreements.

The supply with electricity and gas are energy activities. In Croatia, the electricity voltage is 220V, 50Hz. Most companies with a license for the performance of electricity supply activities that exist in Croatia are part of the Hrvatska elektroprivreda, the national electricity company, but also private companies performing electricity supply activities have recently entered the Croatian market.

The gas supply is performed by over 40 companies under the license for the performance of gas supply activities and the concession for the gas supply.

II. GENERAL CONSIDERATION

INVESTMENT POLICIES

One of the main goals of Croatia's economic policy are investments which are vital for the future development of the country and the further restructuring and modernization of the Croatian economy.

For this purpose Croatia enacted two key laws and a number of other regulations creating the necessary requirements for increased investments in Croatia's economy.

The Act on Strategic Investment Projects of the Republic of Croatia is aimed at reducing and significantly accelerating the process of obtaining all the documents needed for the realization of projects, both public and private, which are of strategic interest for the Republic of Croatia, and at defining a clear procedure of preparing and implementing investment projects for the purpose of their successful realization.

The Investment Promotion Act has been adopted with the aim of harmonization with EU legislation for the new programming period 2014 – 2020. This Act is governing state aid and incentives on behalf of the Croatian state with the aim of encouraging new foreign and domestic investments all with the aim of successful and time defined realization of investment projects in Croatia aimed at the improvement and growth of Croatian economy.

The beneficiary of the state aid can be either an individual person subject to corporate income tax, or a legal entity: micro, small, medium or large entrepreneur, registered in Croatia.

The following types of state aid forms are anticipated by the Act: tax related aid, aid for the eligible expenses of creating new jobs and the eligible expenses for training and education, aid for development and innovation activities, activities of business support and activities and high value added services, aid for projects' capital expenditure, aid for labor - intensive investment projects, and a new measure for investments of minimum 13 million EUR and 10 new university degree job positions.

Agency for Investments and Competitiveness (www.aik-invest.hr) is an agency whose main task is to promote Croatia as a desirable investment destination, proactive attracting and implementation of investment projects of large companies as well as an enhancement of the competitiveness of the Croatian economy on a global level.

Providing all necessary help and assistance to foreign and domestic investors, facilitating the implementation of investments and enabling these projects to achieve their maximum business potential in the Republic of Croatia are primary objectives of the Agency for Investments and Competitiveness.

Agricultural land and forests, forest land, agricultural plots, public roads and public waters, i.e. properties managed by the Republic of Croatia enjoy special protection; therefore the acquisition of ownership rights on the abovementioned properties is regulated under a special regime, which especially refers to the inability of foreign legal entities and natural persons to acquire ownership of the abovementioned properties in the Republic of Croatia under a legal transaction.

In this sense foreign citizens will not be permitted to purchase agricultural land for seven years after Croatia's accession to the EU, with the possibility of this deadline being extended for another three years.

Croatia is a small market, but plays an important role in the economic and political stability of Southeast Europe. This region represents a market of roughly 60 million people and over \$600 billion in the GDP. It has a significant growth potential.

Investments in Croatia are mainly made in tourism, real estate, infrastructure, energy sector, telecommunications and banking.

DIPLOMATIC RELATIONSHIPS

Croatia joined the European Union on 1 July 2013. Taking part in the activities of international organizations is one of Croatia's most important foreign policy aims and the Croatian government works hard in order to strengthen Croatia's role in those organization of which Croatia is a member, namely the EU, NATO, UN, Council of Europe, OSCE, and other international institutions.

Another important aim of Croatia is the permanent stabilization and democratization of South East Europe and the establishment of good neighborly relations based on equality and reciprocity. Apart from this it is also focused on finding a political way on the basis of international law to solve all open issues resulting after the breakup of Former Yugoslavia.

The Croatian government develops its relations with neighbor countries based on the principles of good-neighborliness, mutual respect of sovereignty, independence and territorial integrity, equality and solving of open issues through political dialogue, based on the principles of international law, or with international legal help.

Although the Republic of Croatia has become a member of the EU and the fundamental freedoms of a common European market apply to Croatia (free movement of goods, free movement of workers, free movement of services and freedom of establishment), Croatia still has certain restrictions, namely:

- transport of passengers and cargo between domestic airports and seaports activities may be performed by domestic legal entities only;
- in terms of fishing, only domestic legal entities may perform professional fishing activities in Croatian waters, namely by boats under the Croatian flag which are registered in the Croatian register of boats;
- for the EU member countries Austria, Malta, the Netherlands, Slovenia and the United Kingdom of Great Britain and Northern Ireland based on the reciprocity principle an employment restriction is in force until 1 July 2018.

Pursuant to the Government's Decision, starting with 22 July 2014, the Republic of Croatia applies the Decision No 565/2014/EU. All aliens who are holders of valid Schengen documents, as well as national visas and residence permits of Bulgaria, Cyprus and Romania do not require an additional (Croatian) visa for Croatia.

Aliens who are holders of:

- a uniform visa (C) for two or multiple entries, valid for all Schengen Area Member States;
- a visa with limited territorial validity (LTV visa), for two or multiple entries, issued to the holder of a travel document that is not recognized by one or more, but not all of the Schengen Area Member States and which is valid for the territory of the Member States recognizing the travel document;
- a long-stay visa (D) for stays exceeding three months, issued by one of the Schengen Area Member State;
- a residence permit issued by one of the Schengen Area Member State;
- national visas for two or multiple entries and residence permits of Bulgaria, listed in Annex I of the Decision No 565/2014/EU;
- national visas for two or multiple entries and residence permits of Cyprus, listed in Annex III of the Decision No 565/2014/EU;
- national visas for two or multiple entries and residence permits of Romania, listed in Annex IV of the Decision No 565/2014/EU;

do not require a transit visa or visas for intended stays in the territory of Croatia if not exceeding 90 days in any 180-day period.

Basic information on diplomatic missions and consular offices of Croatia around the world are available on the website of the Ministry of Foreign Affairs and European Integration www.mvpei.hr.

GOVERNMENT

The system of the three-way partition at the legislative, judiciary and executive authority was established by the Croatian Constitution.

The Croatian legal system is based on a civil law system and the Croatian Parliament is the holder of legislative power. The Croatian Parliament decides on the adoption and amendment of the Constitution, passes laws, the state budget, decisions, declarations, resolutions, charters and conclusions and provides reliable interpretations of the laws in accordance with prescribed procedures.

In the parliamentary elections in the Republic of Croatia the representatives to the Croatian Parliament (Sabor) are chosen. The Croatian Parliament is the representative body of the citizens in the Republic of Croatia and in accordance with the Constitution of the Republic of Croatia it has at least 100 and at most 160 members. In accordance with the general and equal right of election, the representatives are elected directly by secret ballot for the period of four years. The Law determines the number, the conditions and the procedure of the electing representatives to the Croatian Parliament. The Croatian Parliament can be dissolved for the purpose of premature elections, if so decided by the majority of representatives. Elections for the representatives to the Croatian Parliament are held at the latest 60 days upon the expiry of the mandate and the dissolution of the Croatian Parliament.

The 2015 Croatian parliamentary election was held on 8 November 2015. All 151 seats in the Parliament were up for election. This parliamentary election was the 8th since the 1990 first multi-party election and the first since Croatia joined the European Union in 2013. In the last decade an alternation in power between democrats and social-democrats has been recorded. At the 2015 election an independent list of candidates won 19 key seats necessary to both political option in order to form the government. The President of the Republic of Croatia represents the Republic of Croatia in the country and abroad and is elected in accordance with the general and equal right of election at direct elections by secret ballot for a period of five years, whereby nobody can be elected President of the Republic of Croatia more than two times. In reference to the elections of the representatives to the Croatian Parliament, the election model for the presidential elections is determined by the Constitution of the Republic of Croatia which regulates that the President of the Republic is elected by the majority of all electors who voted (absolute majority system). If no candidate achieves such a majority, the elections are repeated after 14 days. In the second ballot, the President is elected between the two candidates who achieved the majority of votes in the first ballot. Therewith also in the second ballot is ensured that the candidate is elected by absolute majority of votes which is important due to the strong constitutional position the President of the Republic as the holder of the executive power in the Croatian constitutional model.

Local and regional elections in Croatia are held on the third Sunday of May every four years. The elections for members of representative bodies of local and regional government units and members of municipal councils or city councils, county assemblies and the Assembly of the City of Zagreb are called by the Government of the Republic of Croatia. Members of representative bodies are elected at direct elections by secret ballot.

The Constitution of the Republic of Croatia provides that the right to vote is general and equal and may be executed by all citizens who have turned 18.

The courts are state authority bodies which perform the judicial authority independently within the scope and competence determined under the law. Everybody has the right for a legally established independent and impartial court to fairly and in a reasonable period decide on their rights and obligation or on the suspicion or charge for a criminal act. Any form of influencing the passing of the court decisions is prohibited, especially every form of coercion of judges, abuse of public authority and personal influence and use of media and public appearance contrary to the principles of a democratic society, which would be aimed at influencing the course and outcome of court proceedings.

In the Republic of Croatia the judicial authority is performed by ordinary and specialized courts and by the Supreme Court of the Republic of Croatia, as the highest court. Ordinary courts are municipal courts and county courts. Specialized courts are commercial courts, administrative courts, misdemeanor courts, high commercial courts, the High Administrative Court of the Republic of Croatia and the High Misdemeanor Court of the Republic of Croatia.

In accordance with the legal tradition of continental Europe, Croatia also recognizes the institution of the Constitutional Court, which is separate from the judicial pyramid. The Constitutional Court decides on the conformity of law with the Constitution, on the conformity of other regulations with the Constitution and law, and on constitutional claims against individual rulings of state bodies, bodies of units of local and regional government and legal persons vested with public authority. The Constitutional Court monitors constitutionality and legality, resolves jurisdictional disputes between the legislative, executive and judicial branches, decides on the impeachment of the President of the Republic, supervises the constitutionality of the programs and activities of political parties and supervises the constitutionality and legality of elections, state referenda, etc.

The Constitutional Court of the Republic of Croatian is composed of 13 judges who are elected by the Croatian Parliament for a period of 8 years.

The legal framework for an alternative way of settling disputes in the Republic of Croatia was introduced by the passing of the Mediation Act in 2003 which was replaced with a new Mediation Act adopted in 2011, in order to fully harmonize the Croatian Law with the Directive 2008/52 / EC of the European Parliament and the Council. The institute of mediation can be applied during the entire duration of civil proceedings. This provides the courts with the possibility to settle disputes alternatively in a faster and more cost effective manner. Foreign court decisions that do not have the power of European enforcement orders in their countries of origin (EU member state) are equaled to the decisions of the courts of the Republic of Croatia and have legal effect in the Republic of Croatia only if they are recognized by the courts of the Republic of Croatia. If contractual parties agree on arbitration for the settlement of disputes, an authority outside of Croatia may be competent for the resolution of disputes in accordance with the agreed rules.

The length of dispute resolution in Croatia depends on whether the dispute is being resolved before a court of arbitration or an ordinary court. If the dispute is conducted

before an ordinary court, the parties enjoy the protection that in case the dispute lasts longer than three years they are entitled to compensation because the dispute was not resolved in a reasonable period of time.

ENVIRONMENTAL CONSIDERATION

The right to a healthy environment is a constitutional prerogative of the Republic of Croatia.

The period from 2009 to 2012 was marked by intense negotiations between the Republic of Croatia and the European Union (EU). This requested extensive work in the area of environmental protection in terms of aligning the national legislation with the *acquis communautaire* of the EU.

The Republic of Croatia ratified and signed many international treaties in the field of environmental protection, a list of which may be found at www.mzopu.hr.

Since different state administrative authorities are in charge of environmental protection in the Republic of Croatia, including the operative implementation through state and specialized institutions and persons authorized to perform specialist environmental protection tasks, a systematic approach to examining and resolving key interactions between the natural environment, economic needs and social movements has been ensured.

Environmental protection in Croatia is regulated by a number of regulations. The basic regulation regulating environmental protection is the Environmental Protection Act from 2013 which regulates the principles of environmental protection and sustainable development, the protection of the environment against environmental burdening, actors in environmental protection, environmental protection instruments, environmental monitoring, public participation in environmental matters, liability for damage, financing and instruments of general environmental policy and inspection supervision of the implementation of this Act.

In the State of the Environment Report of the Republic of Croatia for 2014, it was concluded that good progress has been made in certain segments, for example, in air protection, as reflected in the considerable reduction of CO₂ emissions and the air is mostly of first quality; an improved energy efficiency trend is evident, a general reduction of pollutant emissions as well as a decrease in energy consumption and industrial production. On the level of forest eco systems a flora rehabilitation trend is evident. The number of municipal wastewater treatment plants has increased, the sea quality is higher than the European average and due to state incentives the number of fishing boats has been decreased due to the modernization of the fleet, but there are still some preconditions and key measures to be taken in order to generally improve the state.

The Croatian Environmental Agency is a central body for the collection and processing of environmental information and cooperation with relevant EU institutions. The Environmental Protection and Energy Efficiency Fund was established in 2003 to provide funding for environmental protection and for internalization of a portion of environmental pollution costs.

INTELLECTUAL PROPERTY

The activities in the field of intellectual property rights are exercised by the state administration and the Croatian State Intellectual Property Office headquartered in Zagreb.

The main intellectual property rights that are capable of protection in our jurisdiction are:

Patents

Patents are regulated by the Patent Act. Inventions are protected by patents and consensual patents.

A patent can be registered for every invention from any area of technology which is new, inventive and can be used industrially.

The right holder is entitled to use the protected invention.

To be protected, patents must be registered with the State Intellectual Property Office (IPO).

The patent holder or the exclusive of license holder for the utilization of an invention can bring a claim in the court against the infringing party and can seek:

- determination of patent right;
- determination of infringement and termination of infringement and prohibition of infringement in future;
- an injunction;
- damages;
- seizure and destruction of infringing products and objects mostly used for the production of infringing products;
- publication of the verdict at the expense of the defendant.

An inventor may request to have his name entered in the register in the capacity of the inventor if the person who is not the inventor of a patent is already entered or if no inventor is registered.

The protection of rights lasts for 20 years as of the date the application was submitted. The protection lasts only for ten years for consensual patents. The patent owner with contractual relationships defines who and under what conditions can use the patent in the process of commercialization.

Trademarks

Trademarks are regulated by the Trademark Act. Any sign that can be depicted graphically and that can differentiate the products or services of one entrepreneur from those of another can be protected as a trade mark. The registered trade mark gives the holder exclusive rights.

To be protected, trademarks must be registered with the IPO.

The method of enforcement and the remedies available are similar to those available for patents (see above, Patents).

The protection of rights lasts for ten years from the filing date, renewable indefinitely for successive ten-year periods.

Registered designs

Industrial designs are regulated by the Industrial Design Act. The spatial or flat form of the entire product or part of the product can be protected as an industrial design, provided that it has individual characteristics. The object of protection is the appearance (external form) of the product marked by its visible characteristics.

The right holder has exclusive right to:

- use the registered design; and
- prevent others from using the design without his approval.

To be protected, industrial designs must be registered with the IPO.

The method of enforcement and the remedies available are similar to those available for patents (see above, Patents).

The protection of rights lasts for five years from the filing date, renewable for successive five-year periods (up to a maximum of 25 years).

Unregistered designs

Unregistered designs are protected under copyright rules (see below, Copyright).

Copyright

Copyright is regulated by the Copyright and Adjacent Rights Act. Any original literary, scientific and artistic creation with individual character, regardless of the manner and form of expression, type, value or purpose, is protected by copyright. Ideas, procedures, methods of work or mathematical concepts are not protected.

The right holder has:

- moral rights (for example, the right to first publication and copyright acknowledgement);
- property rights (for example, the right to reproduce, distribute and communicate the author's work to the public); and
- other rights (for example, reimbursement).

Copyright subsists in the work from the moment it is created. There is no official copyright register.

The method of enforcement and the available remedies are similar to those available for patents (see above, Patents).

In general, the protection of rights lasts during the author's life plus 70 years.

Intellectual property rights are in absolute nature, which means that the right holder has the exclusive right to use the subject matter of protection (e.g. invention, trademarks, industrial designs and copyright works).

Any other person who wishes in a certain way to use such an object of protection (e.g. to print or translate a book, use industrial design, produce the product protected by the invention etc.), must have the permission (license) by the holders of intellectual property rights for such use of intellectual creations.

The contracts governing relations between the rights holders and users of this protected rights are normally concluded in writing. They regulate the conditions of use of the protected matter, such as the purpose, time and territorial extent of use, the number of copies made, payment of compensation to the right holder and others.

If a person begins using objects of intellectual property without the prior authorization of the right holder, such use is unauthorized and will be a violation of intellectual property rights.

Confidential information

Confidential information is regulated by the Act on Protection of Data Confidentiality and the Data Secrecy Act. Business secrets are data specified as business secret by law, regulations or the general by-laws of the company, institution or another legal person, and representing:

- production know-how;
- results of research or construction work; and
- other data, the disclosure of which to an unauthorized person could harm the entity's economic value.

All employees who, in any manner, learn about data considered to be business secrets must keep such data secret provided that the employer has clearly defined what constitutes a business secret.

The unlawful obtaining of, or attempts to obtain, information or a business secret, and the use or disclosure of any such information, is prohibited.

In cases of a breach of confidential information, the holder of the information can initiate court proceedings demanding:

- determination of the caused violation;
- prohibition of the respective action and of any similar actions in the future; and
- damages.

Topography of semi-conducting products

The protection of topography of semi-conducting products is regulated by the Act on Protection of the Topography of Semi-Conducting Products. The legislation grants the right to protection to:

- natural persons who created the topography;

- the employer under an employment contract; or
- another person in his capacity of employer under a service contract.

Topography is protected by exclusive rights if it is:

- the result of intellectual effort of its creator; and
- not common in the semi-conducting products industry.

The right holder can approve or prohibit:

- the multiplication of the topography; and
- the import or sale of the semi-conducting products or topography.

The protection of rights is obtained by registration with the IPO.

The holder of the exclusive rights can request:

- damages; and
- any measures to be taken so as to prevent further violation of his exclusive rights.

The protection of rights lasts for ten years from the date of commercial exploitation or the application date.

Under an agreement the rights holder (of an invention, know-how, trademark, design or model) can assign for a fee the right to use the object of license. The license is regulated in detail under the provisions of the Civil Obligations Act.

The license fee has to be proportional to the income the licensee receives from the use of the object of license, otherwise the interested party may request the amendment of the license agreement.

On the official website of the State Intellectual Property Office there are the fees amounts and charges for initiating procedure and for protection realization of particular intellectual property rights: www.dziv.hr

With the accession to the EU Croatia entered the system of unitary intellectual property rights on the territory of the European Union, and all treaties of the EU are being applied.

The direct consequence of Croatia's accession to the European Union referring to all forms of intellectual property right protection is the change of territory on which the principle of the so-called exhaustion of intellectual property rights is applicable, which shall be expanded to the whole territory of the EU. This principle implies that the rights holder cannot prohibit the further distribution of a product containing an intellectual property object on the territory on which market it has been marketed for the first time.

Market competition rules apply to intellectual property rights. The Market Competition Act and other subordinate regulations constitute the legal framework in the field of protection of market competition.

With Croatia's accession to the European Union the provisions of the *acquis communautaire* regulating the protection of market competition are directly applied, especially the provisions on prohibited agreements between undertakings and the provisions on the abuse of dominant positions by undertakings.

III. INVESTMENT INCENTIVES

The incentive measures are regulated by the Investment Promotion Act and apply to investment projects covering:

- the manufacturing sector activities;
- technology development-innovation centers;
- strategic business support services.

Incentive measures refer to investments of domestic and foreign legal entities or natural persons performing economic activities and participating in the trade of goods and services, with the aim to stimulate economic growth, development and the realization of economic policies of the Republic of Croatia.

Investors can benefit from various types of incentives as:

- Tax and Customs benefits
- Support for opening new workplaces
- Support for the training and re-training of employees
- Support for the development of Technology and innovation centers
- Support for the strategic business support activities
- Special incentives for large investment projects

Tax incentives prescribed by the Investment Promotion Act are determined in accordance with the amount of the investment, for example:

- for investments in the amount of the HRK counter value of EUR 1 million, the profit tax rate for the holder of the incentive measures is decreased by 50% of the prescribed profit tax rate in the period of 10 years as of the year of the commencement of the investment, under the condition of opening at least 5 new work places in relation to the investment.
- for investments in the amount of the HRK counter value of EUR 1 to 3 million, the profit tax rate for the holder of the incentive measures is decreased by 75% of the prescribed profit tax rate in the period of 10 years as of the year of the commencement of the investment, under the condition of opening at least 10 new work places in relation to the investment.
- for investments in the amount of the HRK counter value of EUR 3 million, the profit tax rate for the holder of the incentive measures is decreased by 100% of the prescribed profit tax rate in the period of 10 years as of the year of the commencement of the investment, under the condition of opening at least 15 new work places in relation to the investment.

Investors who intend to use the incentives under the Act shall submit the application for approval of the status of a beneficiary of incentive measures, and the application

to use incentive measures. The application is submitted to the competent ministry before the commencement of the investment project.

Based on the submitted application, the competent ministry, in cooperation with the Ministry of Finance and other relevant ministries and other bodies in charge of encouraging investment, will ascertain whether the application was filed in accordance with the provisions of this law and shall notify the applicant, and issue him a confirmation of the status of the recipient of incentive measures, no later than 60 days from the submission of the application which is in line with the provisions of this Act.

The State Aid Act came into force on the day Croatia acceded to the EU, primarily in order to integrate in the state aid system of the European Union which is under the exclusive competence of the European Union.

With the entry into force of this Act, the Croatian Competition Agency ceased to approve state aid, as well as to supervise the legality of state aid and to order the return of illegal state aid since these powers were ceded to the European Commission.

The term *state aid* as well as the rules for their award is regulated by the *acquis communautaire*, namely in founding treaties and soft laws of the European Commission (guidelines, announcements, frameworks etc.).

The beneficiaries of state grants, in the sense of the State Grants Act are legal entities and natural persons who while performing economic activities participate in the trade of goods and services, and use one form of state grants.

State aid may be granted under the state aid program and may also be granted as individual aid.

There are also various state credits for entrepreneurs granted by the Croatian Bank for Reconstruction and Development.

The Croatian Bank for Reconstruction and Development (the HBOR) is a development and export bank of the Republic of Croatia whose main task is to stimulate a uniform regional development of Croatian economy. Their activities are regulated and supervised by the central bank - the Croatian National Bank (HNB).

The role of the HBOR is to provide exporters a number of financial products with the objective of enabling their equal competition in the international market. Within its task of stimulating export, the HBOR supporting the exporters in all export stages through credit programs, issuing guarantees at the request of the exporter and securing export claims.

Loans are granted exclusively for the preparation of export and export of goods, while the export of services is excluded.

Tax allowances for export of goods and services exist in the Republic of Croatia, and in accordance with this also the following transactions are exempt from the payment of value added tax:

1. delivery of goods which are shipped or transported from the Republic of Croatia by the supplier or another person for their account outside the European Union;
2. delivery of goods, other than delivery of fuel and goods for the equipping and provisioning of any means of transport to be used for private purposes, which is shipped or transported outside the European Union from the Republic of Croatia by the buyer who does not have its seat in the Republic of Croatia or by another person for their account;
3. delivery of goods to authorized authorities which export them from the European Union within their humanitarian, charitable or educational activities they perform outside the European Union.

Free zones are active in the Republic of Croatia in accordance with the provision of the Free Zones Act. The Act is aimed at increasing investments through special forms of operations. A special operation regime that differs from the regime in the remaining territory is applied in free zones. Tax and customs incentives are applicable in free zones and enable an easier and quicker procedure and more favorable business terms.

IV. FINANCIAL FACILITIES

BANKING/FINANCIAL FACILITIES

In the financial system of the Republic of Croatia, the banks play a dominant role. The Croatian financial system is bank oriented i.e. bank centric. In addition to banks, the banking sector of financial intermediaries in the Republic of Croatia comprises also savings banks, housing saving banks and the Croatian Bank for Reconstruction and Development (HBOR). The policy behind the housing savings banks is to encourage national savings and help meet housing needs by collecting annuity-type savings from natural persons with the primary goal to lend the accumulated funds back to them in the form of affordable fixed-rate housing loans, after an accumulation period of predetermined length.

The Credit Institution Act defines the terms for the establishment, the bank operations and the cessation of bank operations as well as the supervision of bank operations. A bank is a financial institution which the approval to operate was granted by the Croatian National Bank and which is established as a joint-stock company with a seat in the Republic of Croatia. Banking services comprise the receipt of monetary deposits and loan approvals as well as other investments from these funds in its name and on its behalf, as well as the issuance of means of payment in form of electronic money. Banking services may only be provided by banks which obtained the approval for the provision of these services from the Croatian National Bank, a bank from a EU Member State which establishes a branch on the territory of the Republic of Croatia or which is in accordance with the Credit Institution Act authorized to provide direct banking services on the territory of the Republic of Croatia, and a branch of a foreign bank which is granted approval for the provision of

these services on the territory of the Republic of Croatia from the Croatian National Bank.

The decision on the Method of Opening a Transaction Account prescribes the method of the opening of transaction accounts and additional data of the transaction accounts with credit institutions. A credit institution may open a transaction account on the basis of a framework agreement concluded with the user of payment services. When opening a transaction account, the credit institution is obliged to establish the identity of the user of payment services and perform other actions in accordance with the regulation that regulates the prevention of money laundering and the financing of terrorism.

Authorized payment service providers may block a payment instrument:

- for reasons referring to the safety of the payment instrument;
- for reasons referring to the suspicion of unauthorized use or use of the payment instrument for intended fraud;
- in case the payment instrument with a credit line referring to a significant increased risk that the payer will not be able to fulfill their payment obligation.

The non-banking sector of financial intermediaries comprises insurance companies, leasing companies, pension fund management companies, and investment fund management companies, all regulated and supervised by the Croatian Financial Services Supervisory Agency (HANFA).

The **Zagreb Stock Exchange** or **ZSE** (Croatian: *Zagrebačka burza*) is a stock exchange which operates in Zagreb, Croatia. The exchange trades shares of Croatian companies, as well as bonds and commercial bills.

ZSE was established in 1991. In March 2007 it incorporated the Varaždin Stock Exchange, forming a single Croatian capital market, leading in the region by market capitalization and trading volume.

The trade with securities (shares and bonds) at the Zagreb Stock Exchange is performed through the electronic trade system. Brokerage companies, members of the stock exchange, are linked through special telecommunication links with the seat of the Stock Exchange and through entering buying or selling orders directly from their offices and concluding transactions with other brokers. This means that there is no unified physical place (the traditional *floor*) where the securities trade is performed, but it is performed by electronically linked traders. All member brokers have access to the trade system in real time (without time delays/delays) in order to be in the same position in terms of receipt of information on the current securities on offer.

The trade is opened every business day from 09:00 to 16:30 hrs., except for holidays which are indicated on the website of the Stock Exchange, and the trade results and daily prices of shares are available to all interested parties through daily newspapers, companies specialized in the distribution of financial information as well as the

website of the Stock Exchange and via the specialized stock exchange information distribution system **ZSE Monitor**.

The Zagreb Stock Exchange publishes the following indices:

- CROBEX, stocks
- CROBIStr, bonds

V. EXCHANGE CONTROLS

BUSINESS TRANSACTIONS WITH NATIONALS, RESIDENTS OR NON-RESIDENTS

The Croatian Central Bank (HNB) is, among other things, authorized to pass subordinate legislation and other acts which regulate foreign exchange transactions or legal entities and natural persons, as well as the supervision of foreign exchange operations in Croatia.

With the accession to the European Union the Croatian foreign exchange system for transactions has been liberalized resulting in extensive facilitation for the average business entity.

Under the Foreign Exchange Act residents are:

1. legal persons having their seat in the Republic of Croatia, except for their branches abroad;
2. branches of foreign companies and sole traders registered with a register kept by the competent government authority or administration in the Republic of Croatia;
3. sole traders, craftsmen and other natural persons having their seat or place of residence in the Republic of Croatia who are self-employed and are registered to perform a specific business activity. Natural persons with a place of residence in the Republic of Croatia;
4. natural persons staying in the Republic of Croatia on the basis of a valid residence permit for a minimum period of 183 days;
5. diplomatic, consular and other representative offices of the Republic of Croatia that are based abroad and financed by the national budget, as well as all Croatian citizens employed in those representative offices, including their family members.

All other persons are considered non-residents. The Foreign Exchange Act defines:

1. transactions between residents and non-residents both in foreign currency and in Kuna;
2. transactions between residents in foreign currency;
3. unilateral transfers of assets from and into the Republic of Croatia that cannot be considered as transaction executions between residents and non-residents.

Although the liberalization of foreign exchange regulations abolished the majority of restrictions in transactions with non-residents in foreign currencies, there are still certain restrictions and obligations when collecting and paying in foreign currencies.

Thus residents when doing business with non-residents, in case of the sale of real estate and the sale of securities which are listed or issued in Croatia, cannot receive payment in foreign currencies.

In certain cases payment in foreign currencies are also permitted between residents. Residents can thus perform mutual payments in foreign currencies in agency services in international transport and tourist agency services, between the agent and another resident natural person, for the services provided by a non-resident.

INVESTMENT CONTROLS

Direct investments by non-residents in the Republic of Croatia are unrestricted, unless otherwise provided by special laws. Direct investments comprise all investments by residents abroad and all investments in the Republic of Croatia by non-residents, made with the purpose of establishing permanent economic relationships or gaining significant control over the management of a legal entity.

The intent to establish permanent economic relationships and to gain significant control over the management of a legal entity will exist in the following cases:

1. the establishment of, or an increase in the basic capital of, a company fully owned by the investor, the establishment of a branch office or the acquisition of the full ownership of an already existing company by the investor or an investment for the purpose of performing the activities of an individual undertaking;
2. an investment into a new or an existing company, provided the investor acquires a minimum 10% stake in the initial capital of a company, or a minimum 10% of the voting rights;
3. loans with a minimum maturity of five years, granted for the purpose of establishing permanent economic relationships, provided such loans can be classified as subordinate or hybrid claims.

Following the establishment of a direct ownership relationship between residents and non-residents, direct investment transactions also comprise:

1. reinvested profit or any direct investor's share in the profits of a company which is not distributed in the form of dividends or other forms of profit distribution;
2. debt transactions between any direct investor and a company into which direct investment has already been made. This includes debt securities, commercial loans, financial loans and other debtor-creditor relations. Investments by financial institutions involving debt transactions related to current operations are not be considered direct investments; only those transactions, which are motivated by permanent interest in ownership status are considered direct investments.

The following are not considered direct investments: investments by investment funds, brokerage companies, pension funds, insurance companies, banks and other persons granted the status of an institutional investor, and investments in financial assets made for the purpose of issuing depository bills.

Residents have to report to the Croatian National Bank on any credit transactions with non-residents in the manner and within the time limits prescribed by the Croatian National Bank.

For reporting purposes, the Croatian National Bank may stipulate that certain other transactions between residents and non-residents may be classed as credit transactions, where the economic purpose of the transaction is equivalent to that of a credit transaction.

Each authorized company and each custodian bank have to report to the Croatian National Bank on any resident securities transactions abroad and any non-resident securities transactions in the Republic of Croatia.

Statistics on foreign investments in the Republic of Croatia are kept by the Croatian National Bank, namely per activity and per country of origin.

MONEY TRANSFER

Payments and transfers based on capital transactions are unrestricted, provided that the transaction is concluded and reported in accordance with the Foreign Exchange Act, and provided that all tax obligations arising from any such transaction in the Republic of Croatia have been met.

The transfer abroad of profits made by any non-resident through direct investment is unrestricted, provided that all profit tax relating to the amount to be transferred abroad has been paid in the Republic of Croatia.

The transfer abroad of the balance of assets in liquidation or of bankruptcy assets is unrestricted, provided that all tax and other legally prescribed obligations relating to such assets have been met in the Republic of Croatia.

The Constitution of the Republic of Croatia provides several **guarantees for foreign investors**. It is specially enacted that all rights acquired by the investment of capital cannot be restricted by law or any other legal act, and that foreign investors are guaranteed free transfer and repatriation of profit and invested capital.

The exchange rate of foreign currency against the HRK is formed freely on the foreign exchange market transactions on the basis of supply and demand, however by occasional engagement on the foreign exchange market, the Croatian National Bank prevents exchange rate fluctuation and strives to maintain currency stability.

The credit and financial institutions, including companies that perform certain payment services and money transfer, shall collect accurate and complete data of the payers and include them in the form of a message accompanying the electronic transfer of funds, sent or received in any currency.

Foreign cash and checks denominated in foreign currency may be taken into and out of the Republic of Croatia without restrictions, except that both residents and non-residents must, when crossing a national border, have to report to the customs office the amount of cash in Kuna, foreign currency or checks being taken into or out of the country, where this is in excess of the statutory threshold. The statutory threshold is EUR 10,000.00.

Credit and financial institutions are reporting entities under the Anti Money Laundering and Terrorist Financing Act and are obliged to pay special attention to any risk of money laundering and financing of terrorism which could arise from new technologies which provide anonymity (internet banking, the use of ATMs, telephone banking etc.) and set policies and undertake measures for the prevention of the use of new technologies for the purpose of money laundering and/or financing of terrorism.

In accordance with the Anti Money Laundering and Terrorist Financing Act prohibited is the collection in cash in the amount exceeding HRK 105,000.00 i.e. in transactions with non-residents in the value which exceeds EUR 15,000.00 in the following cases:

- the sale of goods and provision of services
- the sale of real estate,
- the receipt of loans,
- the sale of transferable securities or shares.

VI. IMPORT/EXPORT REGULATIONS

CUSTOMS REGULATIONS

From 1 July 2013, when Croatia became a member of the European Union all national regulations ceased to apply in the area of trade policy, as well as bilateral and multilateral free trade agreements that the Republic of Croatia concluded prior to EU membership, i.e. the validity of the free trade agreements with the CEFTA, EFTA and Turkey had expired.

As a member of the European Union, the Republic of Croatia applies the Common Trade Policy of the European Union (EU Trade Policy) in trade relations with third countries. The Common Trade Policy covers and governs bilateral trade relations of the EU with third countries and multilateral relations of the EU through cooperation with multilateral organizations (World Trade Organization - WTO).

With the membership in the European Union, the Republic of Croatia has become part of the single EU internal market and there are no dues, duties or custom tariffs on products imported from or exported to EU member states.

The Republic of Croatia has taken over directly applicable European regulations, regarding trade and customs towards third countries. Uniform external tariffs for all member states are prescribed in the annually published European Common Customs Tariff.

Croatia is a member of WTO and EEA.

In Croatia, the goods are valued and cleared by Customs Departments, according to the applicable tariff, defined pursuant to the category of goods.

IMPORTS

The Republic of Croatia applies a number of measures which are part of the *acquis communautaire* (e.g. prohibition and limitation of import/export) in trade with third countries.

When importing goods of non-preferential origin from third countries, the valid customs rates under the Common Customs Tariff are applicable, including:

- conventional rates of duty established by the Combined Nomenclature (rates established by the Protocol concluded between the EU and the WTO);
- autonomous rates of duty established by the Combined Nomenclature, if any, constitute autonomous (unilateral) reduced rates of duty in relation to the rates under the mandatory schedule;
- customs quotas applicable to import of goods from member states of the World Trade Organization, also established under the negotiations between the EU and the WTO.

The most significant measures of a common trade policy in trade with third countries are anti-dumping and countervailing duties. Anti-dumping duties may be introduced in relation to any goods with dumping prices being imported from third countries the marketing of which causes damages or threatens the causing of damages, for the purpose of protecting the common market, i.e. manufacturer in the European Union.

In addition to the mentioned tariff measures, a number of non-tariff measures is applicable which prescribe the prohibition or restrictions in trade with third countries, for example:

- import and export licenses in agriculture,
- specific requirements for the import of certain nutritional products (hop, garlic, hemp etc.),
- import licenses in the textile sector,
- quantity restrictions and import licenses in the steel sector,
- a number of restrictions in trade with third countries (e.g. ozone, precursors, CITES, dual-use, food safety, cultural goods etc.).

In relation to import of goods from the territory of the EU, the Republic of Croatia applies the common trade policy of the EU.

EXPORTS

Each movement of goods within the EU constitutes trade among member states and depending on the status of the goods it is or is not subject to the obligation of implementing customs formalities.

If goods are imported from EU member states that have the status of Community goods no obligation or possibility of using customs procedures or treatment exists for these goods.

Under the Trade Act, trade with third countries is performed in accordance with the common trade policy of the European Union.

This means that all goods being imported from third countries to the customs territory of the European Union (or exported to third countries) are subject to customs supervision measures, therefore customs-approved treatment or use of goods has to be determined.

MANUFACTURING REQUIREMENTS

Rules on the origin of goods are divided into:

- preferential origin and
- non-preferential origin

Preferential rules are stricter than non-preferential, and for goods to obtain origin, they need to meet stricter criteria. Stricter criteria ensure that the privileged duty rate is applied only to goods that have obtained origin in one of the contracting states when they are imported into another contracting state.

The preferential duty rate may be applied on the import of goods into the EU on three different grounds, namely under:

- the Free Trade Agreement and Origin Protocol;
- the independent (unilateral) preferences which the EU provides to goods which originate from lesser-developed countries when they are imported into the EU;
- customs unions.

In contrast to the EU preferential rules of origin which purpose is that goods, that meet those rules realize the preferential duty rate when being imported, the non-preferential rules constitute the “economic” nationality of goods. The purpose of the rules is not the application of the privileged duty rate, but to prove EU/Croatian origin and to correctly apply the measures of economic policies, e.g.:

- proving the EU non-preferential origin when exported (into countries with which the EU did not conclude a Free Trade Agreement or any unilateral arrangement);
- anti-dumping duty and countervailing duty;
- import and export quotas for specific states;
- embargos and other sanctions or restrictions which affect specific countries;
- export incentives within the Common Agricultural Policy ;
- for public tenders;
- for proving the origin of goods when using EU funds etc.

Under non-preferential rules of origin, goods may obtain origin in one of two ways depending on whether:

- goods have been wholly obtained in a country (e.g. mineral products extracted within that country, products of hunting or fishing carried on therein, products taken from the seabed; or

- goods whose production involved more than one country is deemed to originate in the country where they underwent their last, substantial, economically justified processing or working in an undertaking equipped for that purpose and resulting in the manufacture of a new product or representing an important stage of manufacture.

The Certificate of origin is issued as proof of non-preferential origin of goods. In the Republic of Croatia this certificate is issued by the Croatian Chamber of Economy. This Certificate confirms that the goods obtained EU non-preferential origin. If necessary due to export trade conditions the certificate of origin confirms that the goods have been produced in a specific EU member state. However, if the goods obtained the origin by satisfying processing or working processes in different members states, the certificate only certifies that the goods originate in the EU.

FOREIGN TRADE REGULATIONS

With Croatia's accession to the EU, trade interests become European trade interests and they are represented by the European Commission both in the region and in the world.

From the day of its accession to the EU, Croatia for example applies the Stabilization and Association Agreement (SAA) with Albania, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia. In trade with Kosovo and Moldova, Croatia applies duties under the Most Favored Nation (MFN) status since the EU did not signed the SAA with the above-mentioned countries.

PRODUCT LABELING

Products that are being offered to consumers on the territory of the Republic of Croatia have to at least contain the following information on the packaging, tag, label or on the product itself:

1. basic characteristics of the product, namely: name, type and model of the product, name under which the product is sold, composition of the product, features and technical characteristics of the product;
2. name and seat of the manufacturer or importer who has its seat on the territory of the European Union.

The mentioned data have to be clear, visible and legible and written in the Croatian language and Latin script which does not exclude the possibility of simultaneously using another language, and may also include marks and pictograms that are easily comprehensible to the consumer.

If the data are written in several languages, the information in each language has to be substantially equal.

For certain product categories special regulations determine the content of the product information, thus e.g. the labeling of food being place on the Croatian market is subject to special regulations on food labeling.

In accordance with the General Product Safety Act, in order for the safety of the product to be guaranteed, user instructions and other useful information have to be enclosed to the product.

In accordance with the Law on Technical Product Requirements and Conformity Assessment, the manufacturer shall on the product or, where that is not possible, on its packaging or in a document accompanying the product, give their name, registered trade name or registered trademark and the address where it is available. The address must indicate the single point at which the manufacturer can be contacted.

VII. STRUCTURES FOR DOING BUSINESS

Different companies are recognized in Croatia, namely: general partnerships, limited partnerships, joint-stock companies, limited liability companies, simple limited liability companies and economic interest groupings. Joint-stock companies, limited liability companies and simple limited liability companies are corporations, and public companies, undisclosed companies, limited partnerships and economic interest groupings are partnerships. The most frequent form of business entities founded by Croatians and foreign nationals are limited liability companies and joint-stock companies.

For the establishment and commencement of work of a company in Croatia, it is necessary to register the establishment with the register of the competent commercial court and with the State Statistics Bureau, the Tax Authority, the Croatian Institute for Pension Insurance and the Croatian Institute for Health Insurance. All documents filed to the competent authorities have to be in Croatian, and any document in a foreign language has to be translated by a certified court interpreter.

For certain activities, the company has to obtain a license.

The costs and fees involved in the registration or establishment of all types of companies, apart from the basic/share capital, are:

- the court fees for establishment;
- the attorney and notary public fees;
- the costs of making the company stamp;
- the costs of opening a transaction account.

The most important legislation governing companies is contained in the following acts:

- the Company Act;
- the Capital Market Act;
- the Law on Takeover of Joint-Stock Companies;
- the Trade Act

For taxation aspects, please see the Section on taxes.

GOVERNMENTAL PARTICIPATION

The Government of the Republic of Croatia participates in the ownership or operation of an entity when its financial support is needed for the development of a project. The extent of the governmental participation depends on the type and the amount of financial support.

JOINT VENTURES

Joint ventures are not explicitly defined by the law, but are widespread in practice, e.g. as contracts entered into by the consortium of contractors, as various forms of public private partnerships, or between shareholders, etc.

In practice two types of joint venture exist - contractual and incorporated joint venture. The tax treatment, obligations of investors, application of market competition regulations, accounting treatment, conditions for the cessation of operations etc. depend on the type of joint venture.

Pursuant to the Competition Act, a joint venture created by two or more independent undertakings operating on a long-term basis as an independent economic operator is considered a concentration.

A concentration may result from:

- the acquisition or merger of a part/parts of undertakings;
- the acquisition of control or majority influence of one or more undertakings over the other, such as: the acquisition of the majority of shares or business shares, the acquisition of the majority of voting rights.

Parties to the joint venture agreement may be individuals or legal entities. Joint venture is governed by applicable regulations on partnership. The process of joint venturing can be divided into three stages: choosing the right partner, entering into joint venture agreement and structuring the organization.

Pursuant to the Croatian law, a joint venture is not deemed to be a separate legal person, therefore partners are held personally liable for obligations of the partnership.

In respect of the tax treatment it has to be pointed out that unless the joint investment is incorporated the share in profit of each member is taxed in accordance with their share in the joint investment, and if the joint investment is incorporated, each investor holds a certain percentage of shares, and the joint investment is subject to corporate profit tax.

LIMITED LIABILITY COMPANIES

A limited liability company is the most frequently used type of business organizations in Croatia. It may be formed by one or more individuals or legal entities. The company becomes a legal entity upon its registration with the commercial register kept by the competent commercial court. The minimum basic capital amounts to HRK 20,000.00, which is the equivalent of approx. EUR 2,600.00. The capital may be

contributed in moneys, kind and rights. The contributions in kind and rights have to be evaluated by an auditor. The company members acquire a business share in the company, transferable without limitations. An agreement on transfer requires the notarial form. Apart from the basic capital, the founders also have to pay the expenses pertaining to the establishment and registration of the company (e.g. court and notarial fees). The approximate time necessary for the entire procedure is three weeks.

The management structure of a limited liability company is characterized by two main bodies: the general assembly of the company (body in which the members of the company realize their rights), and the management board consisting of one or more directors (foreign or domestic persons, employed or not employed by the company), appointed and revoked by the general assembly of the company, which manages and represents the company.

The limited liability company may have a supervisory board consisting of at least three members, but except in some particular cases it is not a mandatory body.

Limited liability companies are governed by the Companies Act.

SIMPLE LIABILITY COMPANIES

A simple limited liability company is a corporation whose lowest amount of basic capital amounts to HRK 10.00, and the lowest nominal amount of the business share HRK 1.00. The basic capital of the company has to be paid in monies and the incorporation of the company by entry of assets of rights in the share capital is not permitted.

The Companies Act prescribes certain restrictions in respect of the incorporation of this type of company. Particularly, the company cannot have more than three members and can have only one management board member.

The company must have legal reserves in which a quarter of the amount of the company's profit stated in the annual financial statements less the amount of losses from the preceding year has to be entered.

The procedure of incorporating the company is performed by a form which is completed by a notary public.

This form actually constitutes the company agreement i.e. the declaration of incorporation of the company.

In case the basic capital is increased from the legal reserves, the company agreement i.e. declaration of incorporation needs to be changed.

The company is obliged to pay profit tax.

The costs of registering this type of company in the court register are significantly lesser than in the case of incorporating a regular limited liability company.

JOINT-STOCK COMPANIES

A joint-stock company is a corporation with a share capital divided into shares, the shareholders are not liable for the liabilities of the company and the Articles of Association are the fundamental act of the company. It may be formed by private individuals or legal entities. All shares may be held by one shareholder. The capital of a joint-stock company must amount to at least HRK 200,000.00, which is the equivalent of approx. EUR 26,000.00. The capital can be contributed in moneys, kind or rights. The contributions in kind and rights have to be evaluated by an auditor.

A joint-stock company may issue shares with nominal value of minimum HRK 10.00 (approx. EUR 1.3) per share or shares with no nominal value.

It may issue different classes of shares, i.e. ordinary and preference shares, the latter representing special rights with respect to dividends, liquidation proceeds and voting. The shares may be issued in form of securities (materialized shares) or in form of electronic records of securities account in the computer system of the Central Depository Agency (dematerialized shares). Generally, the issuance of shares in materialized form is extremely restricted.

The bodies of a joint-stock company are regulated by the Articles of Association of the company, and there are two possible systems of governing bodies:

- double board system (two-tier system) – management board and supervisory board;
- single board system (one-tier system) – administrative board.

Regardless of the choice of the board system, each company has a general assembly.

Joint-stock companies are governed by the Companies Act.

PARTNERSHIPS, GENERAL OR LIMITED

Partnerships are general partnerships, limited partnerships and economic interest groupings. Unlike corporations, the partnerships are not obligated to have a basic capital. They may be created by two or more entities. The members of a partnership have joint and unlimited liability to creditors of the company with all of their assets, except in the case of a limited partnership in which a general partner has joint and unlimited liability for the obligations of the company with all of his assets, and a limited partner is liable for the obligations of the company up to the amount of the assets contributed into the company. The partnerships have only members, and not bodies. The business of a partnership is conducted by its members.

Partnerships are governed by the Companies Act.

General partnership

A general partnership is a company into which two or more persons are joined with the aim of continuous performance of activities under a common company name, whereby each member of the company has joint and unlimited liability to creditors of

the company with all of his assets. Any natural or legal person may be a member of the company.

General partnerships are governed by the Companies Act.

Limited partnership

A limited partnership has mostly the same features as a general partnership. The difference between these two companies is that a limited partnership has two types of members: a general partner and a limited partner. It must have at least one general partner and at least one limited partner. The company is managed by general partners. Limited partners do not have the authority to manage business activities of the company. General partner has unlimited and joint liability for company debts with all his/her assets.

Limited partnerships are governed by the Companies Act.

PARTNERSHIP, UNDISCLOSED

An undisclosed partnership is formed by an agreement by which a person (silent member) invests a certain economic value as money, objects or rights into another person's undertaking, and on the grounds of this investment acquires the right to participate in the profit and loss of the undertaking. The contribution of a silent member shall form part of the assets of the undertaking.

An undisclosed partnership is not a legal person and it has no company name. However, name/company name of a silent member may be included in the name of the undertaking.

The undertaking is acting in all legal transactions and is the exclusive holder of all rights and obligations resulting there from.

Undisclosed partnerships are governed by the Companies Act.

SOLE PROPRIETORSHIP

A sole proprietorship is any natural person that independently conducts economic activities in accordance with the regulations on trade and crafts and is registered with the commercial register as sole trader.

Any natural person conducting business in compliance with regulations on crafts may apply for registration with the commercial court register as sole proprietorship provided that their annual income exceeds HRK 2 million (approx. EUR 264,900.00) and is obliged to apply for such registration if their annual income exceeds HRK 15 million (approx. EUR 2 million). A natural person conducting business applies for the entry in the commercial court register by submitting their application for the entry within 60 days from the submission of the annual financial income statement to the Croatian Financial Agency. The status of a sole proprietorship is acquired by the entry in the commercial court register. In the event that the annual income is reduced below the prescribed amount, a natural person / craftsman can request to be stricken off the register of the commercial court.

Sole proprietorships are governed by the Companies Act.

SUBSIDIARIES/BRANCHES/REPRESENTATIVE OFFICES

Pursuant to the provisions of the Companies Act, foreign companies and foreign merchants cannot permanently perform activities on the territory of the Republic of Croatia without opening a branch office.

Business entities from EU member states can be registered in the Republic of Croatia only as branch offices or companies if they intend to operate in Croatia. The same rules in respect of incorporating companies and business operations mentioned in the above paragraphs apply to Croatian companies and subsidiaries.

Business entities having their seats in third countries and countries that are not members of the EU, but are members of the EEA, may also register a representative office in the Republic of Croatia.

Foreign countries and sole proprietorship may establish branches for the purpose of conducting their business activities.

A branch is established by the decision of the founder. The decision on establishment of branch office requires the notarial form.

Branches are not legal persons. The company acquires rights and obligations through the business activities of its branch. A branch transacts business under its own company name and indicates its seat as well as the seat of its founder. A branch is entered into the commercial register of the court having jurisdiction in the place of the seat of the founder and into the commercial register of the court having jurisdiction in the place of the seat of the branch.

Branches are governed by the Companies Act.

The representative office is not a legal person, it conducts its business upon instruction of its founder. It has to be registered with the competent Ministry of the Republic of Croatia. Representative offices may not conduct economic activities, but only market research, promotional and information activities and represent their founder.

Representative offices are governed by the Trade Act and Decree on the Requirements for the Establishment and Operation of Representative Offices of Foreign Entities in the Republic of Croatia.

VIII. REQUIREMENTS FOR THE ESTABLISHMENT OF A BUSINESS

ANTITRUST LAWS

The protection of competition between EU member states is an integral part of the *acquis communautaire* and refers to both the control of the behavior of undertakings on the market as well as the control of EU member states in granting state aid that could distort trade on the EU market.

The protection of competition in the EU is regulated under the provisions of Articles 101, 102 and 106 of the Treaty on the Functioning of the European Union (Official Journal No. C 115 of 19 May 2008, hereinafter: the TFEU). Article 101 of the TFEU regulates prohibited agreements between undertakings which could affect trade between member states and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, as well as exceptions to the general prohibition of concluding such agreements.

Article 102 of the TFEU regulates the abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it which is incompatible with the internal market in so far as it may affect trade between member states.

Article 106 of the TFEU regulates the application of the provisions of Articles 101 and 102 to public undertakings to which member states grant special or exclusive rights and to undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly.

Member states are obliged to ensure the application of the *acquis communautaire* from the field of competition in accordance with the mentioned obligations from the TFEU and appertaining regulations in case of a potential disruption of trade within the EU, and to simultaneously ensure the application of national laws and regulations in case of disruption of competition on the national territory which could affect trade in the EU.

The Competition Act ensures the protection of equal market terms for all undertakings regardless of their size and market power and the prevention of distortion, restriction or elimination of competition in certain markets.

The Competition Act regulates issues referring to agreements between undertakings, dominant position and its abuse, as well as the control of concentration (merger, takeover, acquisition of control).

The Croatian Competition Agency is in charge of implementing the Competition Act.

In accordance with the mentioned Act, the following is prohibited:

- agreements between two or more independent undertakings, decisions by associations of undertakings and concerted practices, which have as their object or effect the distortion of competition in the relevant market;

- abuse by one or more undertakings of a dominant position in the relevant market;
- concentration of undertakings which may significantly disrupt competition, and especially if such disruption of competition is the result of the strengthening of the existing or creates a new dominant position of a party to the concentration.

In case the provisions of the Competition Act are infringed, the Competition Agency may pronounce administrative-punitive measures ranging from 1% - 10% of the total turnover of the undertaking in the last year for which final annual financial statements exist.

ENVIRONMENTAL REGULATIONS

The legislation concerning environmental protection in the Republic of Croatia comprises international treaties, laws and their implementing regulations. The framework law concerning environmental protection in the Republic of Croatia is the Environmental Protection Act by which the legislation of the Republic of Croatia was aligned with the European legislation.

The obligations resulting under the environmental protection legislation may be divided in accordance with the stages of the business process: 1st stage - launching of business and 2nd stage - established operations.

When launching a business undertakings must obtain necessary approvals, authorizations and/or licenses from the competent authority for the performance of activities, depending on the activity they perform.

In the stage of established business undertakings have several obligations that may be grouped as follows: 1. monitoring the state of the environment, 2. reporting, 3. financing of environmental protection, 4. liabilities for environmental damages, 5. obligations in case of not abiding by laws and regulations.

Undertakings are obliged to pay a number of fees aimed at the financing of environmental protection depending on the activities they perform. For example, manufacturers of hazardous industrial waste and those disposing of non-hazardous industrial waste at waste landfills are obliged to pay a fee for polluting the environment with waste.

In case an infringement of the legislation is established the payment of fines for misdemeanors is prescribed, and the inspection is authorized to issue a misdemeanor warrant, file criminal charges etc.

INSURANCE

A number of companies are registered for the provision of insurance services in the Republic of Croatia. The insurance business in Croatia is governed by the Insurance Act and by a number of regulations, decisions and by-laws. In accordance with Croatian legislation, professional liability insurance is mandatory for certain activities, namely as one of the requirements for the performance of these activities (architects, notaries public, attorneys at law, doctors, auditors, insurance agents, real estate agents, security guards etc.).

GOVERNMENT APPROVALS / LICENSES

Certain business activities in Croatia may only be performed with a special certificate, approval, consent, license or other document issued by the relevant governmental body or institution. Without such document, it is impossible to register a company and, consequently, to commence operations.

For example the activities concerned are:

- Banking;
- Insurance;
- Production of and trade in tobacco and tobacco products;
- Production of and trade in explosives;
- Energy;
- Protection and preservation of cultural heritage;
- Production of and trade in drugs and medical products;
- Production of and trade in veterinary drugs and veterinary medical products;
- Production of and trade in arms and ammunition;
- Auditing;
- Mine clearance;
- Telecommunication services;
- Veterinary services;
- Employment agency services;
- Security services;
- Air transport.

IX. OPERATION OF THE BUSINESS

ADVERTISING

Restrictions on advertising are mainly governed by the Consumer Protection Act and the Act on Prohibited Advertising.

Under the Consumer Protection Act deceptive business practice constitutes any form of product marketing, including also comparative advertising which leads to the identification of that product with another product, which is protected by law, trademark or any other distinguishing mark of a market competitors. Procedures that constitute aggressive business practice include advertising by which children are directly led to buy the advertised product or to persuade their parents or other persons of full age to buy them the advertised product. The abovementioned procedure is not permitted.

The Act on Prohibited Advertising regulates the protection of merchants from misleading advertising and its unfair consequences, as well as the prescribing of requirements under which the comparative advertising will be permitted.

Misleading advertising is generally prohibited. Misleading advertising is any advertising which misleads or is likely to mislead persons at whom it is directed or who receive it, due to which it may influence economic behavior of these persons, or has or is likely to have an adverse impact on the competitors on the market.

Comparative/Parallel advertising is any advertising which directly or indirectly refers to participants of market competition or which directly or indirectly refers to goods or services of the market competitor. Such advertising is only permitted if the separate legal requirements have been met.

ATTORNEYS

The legal profession has a long tradition in Croatia – e.g. in Dalmatia the roots of the legal profession reach to the times of the Roman Empire.

The activity of the legal profession as an independent service which ensures the provision of legal aid to legal entities and natural persons in the exercise and protection of their rights and legal interests is guaranteed by the constitution and the Law on the Legal Profession.

Attorneys are obliged to provide legal aid conscientiously and in accordance with the Constitution of the Republic of Croatia and the Law on the Legal Profession, the Statute of the Croatian Bar Association and in accordance with the Attorneys' Code of Ethics.

Membership in the Croatian Bar Association and in the local bar associations is mandatory for all attorneys. Information concerning the Croatian Bar Association and the legal profession in Croatia, as well as lawyers, law trainees, law offices and law firms can be found on the internet (<http://www.hok-cba.hr/en>).

Attorneys in Croatia are entitled to a fee for their legal services and to a compensation for the costs incurred in connection with the work done, according to the tariff set by the Bar Association as approved by the Ministry of Justice.

BOOKKEEPING REQUIREMENTS

In accordance with the Accounting Act, an undertaking is obliged to collect and prepare accounting documents, keep business books and prepare financial statements abiding by the financial reporting standards and the basic principles of orderly accounting. Business books have to be kept in Croatian and the main and subsidiary ledger have to be stored for eleven years.

Data on the basis of accounting documents are entered in the business books.

Accounting documents are kept as original written documents on an electronic recording device.

An undertaking is obliged to prepare and present annual financial statements by the application of the Croatian Financial Reporting Standards or the International Financial Reporting Standards.

The annual financial statements comprise: the balance sheet, profit and loss statement, cash flow statement, capital changes report, notes to the financial statements.

All companies are obliged to file their Annual financial statements and the Auditor's

report to the Financial Agency (FINA) for purpose of public disclosure.

BUSINESS ETHICS/CODES

The Companies Act provides that the supervisory boards, or management board of a company whose shares are traded on stock market are obliged to ensure that, in a special section of the annual report on the condition of the company, the management board lists at least the following:

1. information on the Corporate Governance Code it is bound by and/or the Corporate Governance Code the company applies voluntarily and/or the practice of corporate governance applied above and beyond that which is required by the regulations, and information as to where the appropriate Corporate Governance Code or the practical corporate governance applied is published;
2. whether the company deviates from the Corporate Governance Code as outlined under item a and explanation as to where such deviation occurs and reasons for such deviation;
3. description of the basic criteria of implementation of internal supervision in the company and risk management with respect to financial reporting;
4. information on significant indirect and direct shareholders in the company;
5. information on the composition and activities of the management and supervisory boards, or management board and their auxiliary bodies.

The Croatian Chamber of Economy prescribes the Code of Business Ethics, and companies which are subject to its application are listed on the official website of the Chamber at <http://www2.hgk.hr/komora/potpisnice/index.asp>.

CONSUMER PROTECTION LAWS

The legislation of the Republic of Croatia was completely aligned with the *acquis communautaire* with the entry into force of the Consumer Protection Act. However, in addition to the Consumer Protection Act, consumer protection is also regulated by a number of other acts. The most important are:

1. the Civil Obligations Act;
2. the General Product Safety Act;
3. the Act on Prohibited Advertising;
4. the Consumer Credit Act;
5. the Credit Institution Act.

The Consumer Protection Act regulates the protection of the basic rights of the consumer when buying goods and services as well as with other forms of acquiring goods and services on the market, namely:

1. the entitlement to the protection of the consumer's economic interests,
2. the entitlement to the protection from dangerous to life, health and property,
3. the entitlement to the consumer's legal protection,
4. the entitlement to information and education of the consumer,

5. the entitlement to association of consumers for the purpose of protecting their interests,
6. the entitlement to representation of consumers and the representative's participation in the work of the authorities dealing with issues of their interests.

The Civil Obligations Act is a general legislation applied when consumer protection is concerned to all mandatory legal relations not explicitly regulated under the Consumer Protection Act.

The General Product Safety Act regulates that all products being offered on the market have to be safe, and all relevant information referring to the safety of products being offered on the market have to be available to the consumers at all times. The Act extends the prohibition of production, import, export, advertising or marketing, apart from hazardous imitations also to hazardous products.

The purpose of the Act on Prohibited Advertising is the protection of merchants from misleading advertising and negative consequences of such advertising, as well as the prescribing of prerequisites under which comparative advertising is permitted.

The Consumer Credit Act provides that prior to the conclusion of a loan agreement the consumer has to be informed of a number of elements of the future agreement, and especially of the effective interest rate and the total loan costs, and the consumer is entitled to unilaterally cancel the agreement. This act also regulates the issue of revolving credits, early repayment of the loan, linked loan agreements, implicit overdrafts of the approved overdraft and the position and role of loan agents.

The Credit Institution Act provides that the credit institution is obliged at least once a year to inform the consumer, co-debtor and guarantor of the balance of their loan, i.e. the balance of the deposit (due and payable debts of the debtor, the deadline of the first and second collection letter and the warning on a pending cancellation of the credit). In addition to this, it prescribes that when selling placements the credit institution is obliged to ensure that the consumer whose placements are the subject matter of the agreement are not put in a less favorable position, otherwise it is jointly and severally liable for the damages incurred by the consumer.

CONSTRUCTION

The costs of construction depend on the market price. When the investor is the state or a public law entity, they are the subject to the Public Procurement Act.

The area of spatial planning and construction are regulated by three laws: the Spatial Planning Act, the Construction Act and the Construction Inspection Act. The location permit is issued only for fields on which mineral raw materials are exploited and similar construction works for which the Ministry of Economy issues building permits, new military buildings, buildings which are built in stages and buildings for which an expropriation procedure must be implemented.

Acts of spatial planning are: location information, information on special terms that need to be met prior to the issuance of the location permit, the location permit, the permit to change the purpose and use of the existing building, the ruling on the establishment of the building plot and the confirmation of the allotment plan.

Constructions acts are: the building permit, the report of the commencement or continuation of works and the approval for use.

Buildings are classified into five categories, and the obligation to issue a permit depends on the category of the building.

The ministry competent for construction affairs is competent for the issuance of the spatial planning and construction acts for buildings of state importance. The ministry can transfer its competence to the counties and county and municipal administrative departments are competent for all other buildings.

To receive the building permit takes approx. 2 months, if the filed request meets the legal requirements. The costs include the administrative fee for the issuance of the building permit which is prescribed by the Tariff of the Administrative Fee Act.

After receiving the building permit, the investor is required to pay utility and water contributions.

The building permit ceases to be valid if the investor fails to commence construction works within three years as of the day the permit became final.

A built or reconstructed building may be used i.e. put to use and a decision on the performance of activities in that building may be passed, after a certificate of occupancy has been issued for the building.

The investor i.e. owner of the building for which an energy performance certificate is issued is obliged to obtain an energy performance certificate prior to the issuance of the certificate of occupancy.

CONTRACTS

If one of the parties to a contract is a foreign natural person or a foreign legal entity, the foreign law may be stipulated as governing law.

PRICE CONTROLS

On an exceptional basis, prices may be controlled by the competent national authority, to the purpose of preventing negative effects which might occur due to a change in prices or to the purpose of preventing monopoly on price determination, in cases when such purposes may not be achieved by other restrictions of political economy.

PRODUCT REGISTRATION

No prior product registration is required in Croatia, except in specific industries. However, products must comply with all the relevant provisions regarding product composition and safety, packaging and labeling.

If, for instance, a company wants to produce, distribute or sell a drug, medical device, a biocide, a cosmetic product or a dietary supplement, it is necessary to obtain the appropriate permission of the competent regulatory authority.

In case of medical products, the medical products manufacturer based in the Republic of Croatia and the authorized representative of the medical manufacturer based in the Republic of Croatia that put on the market a medical product with class risk I are obliged to apply to the competent Agency for the registration of the medical device in the register of medical devices no later than 15 days from the beginning of their placing on the market.

About the registration process of the medical devices in the register of medical devices, the competent Agency issues a decision that it is required to pass within 60 days of receipt of the complete request.

The competent Agency charges an annual fee for a registration in the register of medical products, the license for the retail and wholesale entry in the register of medical devices. The amount of the annual fee is determined by the Agency with the approval of the competent Minister and is paid by the holder of the registration or license holder.

REDUCTIONS OR RETURN ON CAPITAL

The Foreign Exchange Act enables the free transfer of profit to a foreign investor that is achieved by direct investment provided that the investor has paid all profit tax on the amount that is transferred abroad. The transfer abroad of the remainder of the liquidation or bankruptcy estate is free provided that all taxes and other legally prescribed liabilities under that transaction have been settled in the Republic of Croatia.

SALE OF GOODS

The Trade Act regulates the terms for the performance of trade activities on the domestic market, the terms for performing trade abroad, the import and export protective measures, the measures of limiting the performance of trade, the working hours in the trade business, measures of prohibiting unfair trade and the supervisory and administrative measures.

In Croatia, generally there are no restrictions on the manner, time or place of sale of goods. Seasonal sales are subject to special regulations which are defined by the competent minister. The Civil Obligations Act prescribes cases when consumers may request the reduction of prices, e.g. in the event of material defects of goods.

The retail sale of alcoholic beverages, tobacco and advertising and selling pornographic goods to persons under the age of 18 is prohibited.

TRADE ASSOCIATIONS

In accordance with the Act on the Croatian Chamber of Economy, the Croatian Chamber of Economy is an independent professional business organization that promotes, represents and aligns the common interests of its members before state and other authorities in Croatia and abroad. The Croatian Chamber of Economy has the capacity of a legal entity.

The members of the Croatian Chamber of Economy are all legal entities and natural persons who perform economic activities and have their seat on the territory of the Republic of Croatia. The membership in the Croatian Chamber of Economy starts with the entry in the court register of the competent court.

The members of the Croatian Chamber of Economy pay a fee depending on the group in which they have been classified.

The Croatian Chamber of Economy represents businesses before state and other authorities in the country and abroad. The Croatian Chamber of Economy is a legal entity. Membership in the Croatian Chamber of Economy is mandatory. Members of the Croatian Chamber of Economy are businesses which operate on the territory of the Republic of Croatia in accordance with the law. Businesses become members of the Croatian Chamber of Economy as of the day they are entered in the register of businesses. Members are obliged to pay a chamber fee.

Legal entities and natural persons performing tourist and related activities are members of the local tourist boards and are obliged to pay a membership fee to the local tourist board.

X. CESSATION OR TERMINATION OF BUSINESS

TERMINATION

A company in Croatia can be terminated as prescribed by law and the termination can be the result of changes in the status of the company. The reasons for termination are defined by the Companies Act. In the period from the occurrence of the reason for termination of a company until the moment of its deletion from the court register, the liquidation procedure is being conducted. The liquidation procedure is performed by the company or by the liquidator. As a rule, liquidators are persons authorized to conduct the business of the company and to represent the company. Before the company is terminated, the company should complete all of its transactions, collect its claims, sell its assets, settle its liabilities and disburse the sums that remain thereafter to its shareholders. During the liquidation procedure, there are no significant legal changes. The purpose of the liquidation procedure is the monetization of the assets of the company, settling the creditors' claims and thereafter deleting the business from the court register. The liquidation procedure lasts for approximately eight months. In Croatia, a business can be terminated without any governmental approval or intervention. The costs involved in the termination of a business are court fees, attorney's, notary public's fees and accountant's fees.

PRE-BANKRUPTCY / INSOLVENCY/BANKRUPTCY

The Croatian Bankruptcy Act sets out a new integrated pre-bankruptcy and bankruptcy regime.

Pre-bankruptcy proceedings are conducted for the purpose of establishing the legal position of the debtor and his relationship towards the creditors and the maintenance of his activities.

The pre-bankruptcy proceedings allows the debtor to write off a part of their debts to creditors and the remaining debt to be paid back in accordance with a repayment plan which fits the business plan of the debtor.

Pre-bankruptcy proceedings may be initiated either by the debtor, or by the creditors, if the debtor agrees.

In order for the pre-bankruptcy settlement to be reached it has to be ratified by the legally prescribed majority of creditors. If the debtor fails to comply with the pre-bankruptcy settlement, bankruptcy will be initiated.

The Croatian Bankruptcy Act stipulates that after the company's assets have been seized for 60 days, the debtor loses the right to initiate a pre-bankruptcy settlement.

Bankruptcy proceedings are conducted for the purpose of collective settlement of the creditors of the bankruptcy debtor, by monetizing the debtors' assets and distributing the funds to the creditors. Creditors are reimbursed from the value of the debtor's assets, according to the percentage of their claims with respect to all the debts of the debtor, after the expenses of the proceedings have been paid as well as privileged claims (e. g. employee salaries). Bankruptcy proceedings may be initiated by the involved company itself or by its creditors or by the Financial Agency.

Bankruptcy proceedings are actually an enforcement procedure against the entire assets of the bankruptcy debtor. The initiation of bankruptcy proceedings results in a number of consequences concerning procedural and substantive law, such as that the company is managed by a bankruptcy trustee instead of the company's management, that the bankruptcy trustee manages and disposes with the bankruptcy debtor's assets, that enforcement and securities against the debtor are prohibited and the opening of bankruptcy proceedings is a justified reason for the termination of employment contracts etc.

In cases prescribed by law the debtor is allowed to continue doing business during the course of the bankruptcy proceedings, as well as to draft an insolvency plan without restrictions. However, the continuation of business is allowed for a maximum length of one and a half years since the initial hearing, unless an insolvency plan has been submitted to the judge in charge of the bankruptcy proceedings.

As of 1 January 2016 the Consumer Bankruptcy Act entered into force which provides regulations that honest consumers (who cannot settle their obligations in the amount of HRK 30,000.00 or more [approx. EUR 4,000.00] for more than 90 days) is released from obligations that remain after the sale of their assets and the disbursement of the proceeds obtained therefrom have been distributed to their creditors. The Act envisages two stages of proceedings. Extrajudicial proceedings are conducted before a counseling center as one type of formula procedure the purpose of which, in addition to mediating between the participants of the proceedings, is to gather all relevant information on the creditors' claims and the consumer's assets. If in this stage the consumer fails to reach an agreement with the creditors as to the settlement of the existing claims, the proceedings are continued before the competent courts. The court proceedings also have elements of voluntariness and the consumer is given the opportunity to reach a agreement with the creditors before court in the form of a court settlement. If the settlement is not

concluded, the court appoints a trustee who has the task of dividing the consumer's estate.

XI. LABOR LEGISLATION, RELATION, AND SUPPLY

EMPLOYMENT REGULATIONS

In general, the Employment Act regulates the employment of all employees working in Croatia, regardless of whether they are foreign or Croatian nationals. The provisions of the Employment Act are mandatory, unless otherwise provided by a separate law or an international agreement.

The Employment Act regulates:

- Conclusion of employment contracts;
- Working hours;
- Holidays and annual leave;
- Night work;
- Maternity rights;
- Salaries;
- Termination of employment contracts;
- Unions and associations of employers;
- Participation of employees in decision-making, strike and collective bargaining agreements.

The minimum salary is determined by the Law on the Minimum Salary, and for the period from 1 January 2016 to 31 December 2016 it amounts to HRK 3,120.00 (approx. EUR 400.00).

Before starting with work, the employer shall provide the employee with the regulations relating to employment relations, and the employer is obliged to inform the employee about the work organization and about health protection and safety at work.

Exceptionally, it is prescribed for certain activities (legal profession, medicine) that the employer has to train employees. A trial period may be stipulated in the duration of up to 1 year. A person employed for the first time in the occupation for which he/she was educated may be employed as a trainee. An employment contract may be concluded with a trainee for a definite period. If a law or another regulation provides that an occupational exam or work experience is a prerequisite for the performance of jobs within a certain occupation, the employer may admit a person who completed schooling for such an occupation to occupational training without commencing employment with him or her (which constitutes "unpaid internship").

Every calendar year the employee is entitled to paid annual leave in the duration of at least four weeks.

Full working hours are still limited to 40 working hours per week, but the act introduced an exception, which allows full-time employees to conclude an additional employment contract for a maximum of eight working hours per week.

The Labor Act also introduced the concept of an unequal working hours schedule, which gives the employer the right to modify an employee's working hours according to current work needs. An irregular schedule must be in place for at least a month and no longer than a year, and the maximum weekly working time including overtime remains 50 hours (or up to 60 hours if a collective bargaining agreement makes this possible).

However in case of force majeure, an extraordinary increase in the scope of work and in other similar cases of pressing need, the employee is obliged at the written request of the employer to work longer than full or part-time working hours (overtime).

If the employee works overtime, the total duration of working hours must not be more than 50 hours a week. The overtime of the individual employee should not last more than 180 hours a year, unless it is agreed in the collective bargaining agreement, in which case it must not last more than two hundred and fifty hours per year.

HIRING AND FIRING REQUIREMENTS

The investor is not obliged to employ a minimum number of employees or a minimum number of nationals. The Employment Act contains the basic rules of hiring an employee. Collective bargaining agreements and internal company regulations also govern employment. Employment is based on a written contract. Any kind of discrimination is prohibited under the Labor Act, the Anti-discrimination Act and the Criminal Act.

The employment contract must set out certain information, such as the:

- 1) the parties, their residence or seat,
- 2) the location of work, if no permanent or main location of work exists, a note that the work is performed at different locations,
- 3) the name of the position, i.e. the nature or type of work post at which the employee is employed or a short list or description of tasks,
- 4) the day the employment commences,
- 5) in case of a fixed-duration employment contract, the expected duration of the contract,
- 6) the expected duration of the paid annual leave to which the employee is entitled, and when such information is not available at the time the contract is concluded or the certificate issued, the manner in which the duration of this leave shall be determined;
- 7) the notice periods with which the worker and the employer must comply, and when such information is not available at the time the contract is concluded or the certificate issued, the manner in which the notice periods shall be determined;
- 8) basic salary, salary supplements and the periods in which payments to which the worker is entitled shall be made;
- 9) the duration of a normal working day or week.

The employment contract concluded for indefinite time may be terminated by ordinary dismissal, extraordinary dismissal, mutual agreement and prompt termination during the probation period stipulated.

The employer may terminate the employment contract with the prescribed or agreed notice period (regular notice), if he has a legitimate reason, in the case of:

- 1) if the employee is no longer required for the job, due to economic, technical or organizational reasons (notice due to business reasons)
- 2) if the employee is not capable of fulfilling its obligations arising from employment because of certain characteristics or skills (notice due to personal reasons)
- 3) if the employee breaches the obligations arising from employment (notice due to the employee's misconduct) or
- 4) if the employee has not performed satisfactorily (notice because of unsatisfactory probation work).

When deciding on notice due to business reasons, the employer must take into account the length of service, age and maintenance obligations of employees.

An employee may terminate the employment contract with notice period of up to 30 days, without stating reasons.

An employer who has dismissed an employee due to business reasons, cannot employ another employee at the same job for six months as of the day the decision was presented to the employee.

If the employer violates the employee's contractual rights, the employee firstly has to request the realization of such a right from the employer. If the employer does not fulfill the employee's request, the employee can file the request in the prescribed preclusive term before the competent court. This does not refer to monetary claims for which the employee can turn to the competent court without turning to the employer and provided that the request was filed within the legally prescribed term of 5 years.

An employer who intends to dismiss at least twenty employees within 90 days, of whom at least five employees would be dismissed due to business reasons is obliged to consult the works council.

In case of ordinary dismissal (except in cases of the employee's violation of his employment obligations) the employer must provide the employee with:

- Two weeks to four months notice, depending on the length of the employment.
- Severance payment, provided the employee was continuously employed by the employer for two years.

LABOR PERMITS

Foreign employees who are not citizens of EU member states, and employees from Austria, Malta, the Netherlands, Slovenia and the United Kingdom of Great Britain and Northern Ireland, require a residence and work permit to work in Croatia, depending on the specific conditions of their stay in Croatia.

For the residence and work permit, the employer must apply to the competent authority. Both permits are usually issued within 30 days.

SAFETY STANDARDS

Safety at work is regulated under the Safety at Work Act. Safety at work is a system of rules, principles, measures, procedures and activities the organized implementation of which achieves and improves safety and the protection of health at the workplace for the purpose of preventing risks and injuries at the workplace, work related occupational illnesses and other material and immaterial damages at and in relation to the work place. The employer is obliged to take account of the type of activity, adjust the work to changed circumstances with the aim to systematically improve safety at work. The employer is obliged to implement safety at work measures based on general prevention principles, for example by adjusting the work of employees in respect of designing the work space, choosing work equipment and work procedures in order to mitigate monotonous work, work with imposed rhythm, work performance in certain periods (standardized work) and other endeavors aimed at reducing their adverse effect on the employees' health.

Employees have to be qualified for safe work and, depending on the size of the employer and the activities performed, trained in respect of protection against fire and for providing first aid.

The costs of implementing safety at work are borne by the employer, i.e. its implementation cannot be charged to the employee.

UNIONS

If an employer employs at least twenty employees, the employees are entitled to participate in the decision-making in relation to their economic and social rights and interests in the manner and under the terms prescribed by the Labor Act. Employees are entitled at independent and direct elections, by secret ballot to choose one or more of their representatives in the works council who will represent them before the employer in the protection and promotion of their rights and interests.

In companies which in accordance with separate regulations are obliged to have a body which supervises the management of business one member of the supervisory board has to be an employee as the representative of the employees..

Employees are entitled at their own choice to establish a union and to be a member of it, under the terms prescribed by the article of association or the regulations of such a union. The union can be established by at least ten adults having business ability. Unions decide independently on the manner of their representation before the employer and the unions whose members are employed with a certain employer may appoint or chose one or more union representative, i.e. union trustees who shall represent them before that employer.

The Ministry of Labor and Pension System may at the motion of all parties to the collective bargaining agreement extend the application of the collective bargaining agreement.

The minister will pass a decision in case public interest exists for the extension of the collective bargaining agreement.

The minister is obliged to indicate in the decision the application area of the collective bargaining agreement whose application is expanded.

The extended application of the collective bargaining agreement from the catering and construction industry is currently in force.

Unions are very active in Croatia.

XII. TAXATION IN CROATIA

INTRODUCTION

The General Tax Act is the framework act which regulates the tax system in the Republic of Croatia, in addition to that act, the tax issues in the Republic of Croatia are regulated by a number of acts, and the main are as follows:

- Corporate Income Tax Act and Regulations,
- Personal Income Tax Act and Regulations,
- Value Added Tax Act and Regulations,
- Real Estate Transfer Tax Act,
- Act on Local and Regional Financing.

An entity is resident if incorporated and registered in Croatia or controlled and managed in the Republic of Croatia. An entity also may become resident by carrying out business activities in the Republic of Croatia that meet the criteria for a permanent establishment.

An individual is resident if he/she has permanent residence or habitual abode in the Republic of Croatia. An individual is nonresident if he/she does not have permanent residence or habitual abode in the Republic of Croatia, but receives taxable income in the Republic of Croatia.

Residents are taxed on worldwide income. Nonresidents are taxed only on Croatia-source income.

Taxes may be divided into:

- State tax - income of the state budget of the Republic of Croatia (profit tax, ship tonnage tax, value added tax, excise taxes and special taxes);
- County taxes - income of county budgets (inheritance and donation tax, motor vehicle tax, vessel tax and slot machine winnings tax);
- Local and city tax - income of the local/city budgets (surtax to value added tax, consumer tax, tax on holiday houses, tax on companies or company names, tax on the use of public areas);
- Shared taxes - a part of the income belongs to the state, a part to the county and a part to the municipal/city budget (income tax and real estate tax)

The basic duty of the tax administrations is to implement tax regulations and regulations concerning the payment of obligatory contributions. The Tax Administration is responsible for controlling the calculations and executing the

collection of obligatory contributions and for filing and pursuing cases of misbehavior due to the violation of regulations on the payment of obligatory contributions.

CORPORATE TAX

The Profit Tax Law imposes taxes on all enterprises that carry out activities for the purpose of making a profit.

The taxpayer is any company or any other legal or natural person resident in Croatia, who is permanently and independently engaged in an economic activity with the purpose of making profit, income or other economic benefits. The taxpayer is also any branch office of a foreign undertaking (non-resident).

The tax period, according to the Profit Tax Act is the calendar year, except at the request of the taxpayer, however the chosen tax period may not exceed 12 months. The chosen tax period cannot be changed for five years.

The tax base for the payment of profit tax is the profit established in accordance with the accounting regulations as the difference between income and expenses prior to the calculation of profit tax, increased and reduced in accordance with the Profit Tax Act. The tax base of the resident taxpayer is the profit realized in Croatia and abroad. The tax base of the non-resident is only the profit realized in Croatia and it is established in accordance with the provisions of the Profit Tax Act.

The tax rate on corporate income is 20% and capital gains are included in taxable income. There is no surtax on corporate income.

If in the procedure of establishing the tax base a negative base is established, the taxpayer has a tax loss. The tax loss is carried forward and recovered by decreasing the tax base during the next five years, if not otherwise provided under the Tax Value Act.

Investment incentives can reduce the corporate tax rate, depending on the amount invested and the number of employees connected to the investment.

The corporate tax is payable in 12 equal monthly installments. The tax return must be filed within four months as of the end of the financial year.

The Profit Tax Act prescribes that the depreciation of fixed tangible and intangible assets is recognized as expenditure on the amount calculated based on the costs of the acquisition, by applying the linear method and annual depreciation rates.

Fixed tangible and intangible assets include things and rights whose single acquisition cost exceeds HRK 3,500.00 (approx. EUR 450.00) and whose useful life exceeds one year.

Annual depreciation rates are determined according to the depreciation periods for taxation purposes for each group of fixed assets. Annual depreciation rates range from 5-50%, and the time necessary for the depreciation is 2-20 years depending on the asset's category.

The annual depreciation rates may be doubled.

Land, forests and similar renewable natural resources, financial assets, cultural monuments and works of art are not subject to the depreciation.

Dividends paid to a nonresident, other than private individual, are subject to a 12% withholding tax, unless the rate is reduced or exempted under a tax treaty or the dividends qualify for an exemption under the EU parent-subsidiary directive.

A 15% withholding tax is levied on:

- the interest paid to a nonresident (other than a private individual) unless the rate is reduced or exempted under the tax treaty or the EU interest and the Royalties Directive;
- royalties paid to a nonresident, who is not a private individual, unless the rate is reduced or exempted under a tax treaty or the EU interest and Royalties Directive;
- technical services fees (market research, audit, tax consulting, business consulting) paid to a nonresident unless the rate is reduced or exempted under a tax treaty.

A mandatory 20% withholding tax applies to services other than the ones listed above that are paid to entities located in countries which are considered to be tax havens or financial centers, excluding the EU countries and countries that have concluded a tax treaty with Croatia.

VALUE ADDED TAX

Value Added Tax Law prescribes that value added tax (VAT) is paid on the supply of goods in Croatia for consideration, performing services in the Country for consideration and import of goods.

Any person who, independently, carries out any economic activity, regardless of the purpose or results of that activity is a taxpayer.

The standard VAT rate is 25% and exceptionally rates are reduced to 13% (e.g. services of organized tourist stays, cultural and art magazines, concert tickets, baby food) and to 5% (e.g. bread, milk, certain types of books). Exports/imports in free zones for future exports and imports of donated goods are not subject to VAT.

For taxpayers the entry in the VAT system is compulsory where the annual value of the transactions exceeds HRK 230,000.00 (cca EUR 30,000.00). Taxpayers may voluntarily enter in the VAT system and, if they do not exceed the above-mentioned threshold however once entered in the VAT system voluntarily, a taxpayer cannot opt out for the next five years. Nonresidents carrying out taxable activities in Croatia generally have to register for VAT purposes.

VAT returns should be submitted to the competent authority by the 20th of the current month for the prior VAT period.

VAT payments have to be made by the end of the month following the VAT period.

Exceptionally, the taxpayer who has its seat, permanent business unit, residence and habitual residence in Croatia and whose value of supply of goods and services in the prior calendar year did not exceed the amount of HRK 3,000.000.00 (approx. EUR 400,000.00) without the VAT, may calculate and pay the VAT on the basis of consideration for the performed supply of goods.

The calculation of VAT in accordance with the taxation procedure on paid consideration does not apply to supplies and acquisitions of goods within the EU and to supplies defined under the Value Added Tax Act.

Supplies of real properties made by taxable persons are subject to the VAT, if made before the first occupation or within 2 years from the day of the first occupation. Supplies of construction property are always subject to the VAT. Under certain conditions, previously occupied reconstructed buildings can be considered unoccupied, and thus fall under the VAT. All other transfers of buildings and land, exempt from VAT, are subject to 5% of the real estate transfer tax. The tax base in terms of the real estate transfer tax is the market value of the real estate.

TAX ON INDIVIDUALS

The Income Tax Act stipulates that every person who acquires an income is a taxpayer, with differences between residents and non-residents.

Income itself is the difference between the receipts obtained in the tax period and the expenses incurred in the same period, with deductions for losses made in Croatia and personal tax benefits.

The Croatian tax laws recognise six income categories:

1. Income from employment (employment income) 2. Income from self-employment (crafts, self-employment income) 3. Income from property and proprietary rights (rental or sale of real estate) 4. Capital income 5. Security income 6. Other income
2. Income from employment includes an individual's regular salary and contributions in moneys or other assets used as part of a salary. All other receipts provided to an employee by the employer exceeding the prescribed sums are also considered as income and are liable to taxation.

In calculating the income tax earned from the labor of the employee, the tax base is the gross salary minus contributions from the salary and tax deductions prescribed by the law.

Gross salary is decreased for contributions from salaries (pension contribution for the 1st pillar (15%) and for the 2nd pillar (5%)).

In order to ascertain the tax base, after the deduction of these contributions, it is also necessary to deduct tax exemptions. The current personal exemption amounts to HRK 2,600.00 per month (approx. EUR 350.00).

The law also provides for monthly personal allowances for economically non-active members of the family, namely for the spouse, for the first child, etc.

Three tax rates are applied: 12%, 25% and 40% depending on gross income.

The taxpayer must submit an annual tax return by the end of February of the year following the tax year. Any outstanding tax liability must be paid within 15 days of receipt of the annual tax assessment.

The surtax is an additional expenditure imposed by towns/municipalities. Whether it applies, and the amount payable, is determined by the town or municipality where the taxpayer is resident. Surtax is calculated on the basis of income tax.

The employer is also obliged to calculate and pay the contributions on salary (e.g. 15% for general health insurance, 0.5% for health insurance against work-related accidents, and 1.7% for employment contribution).

It should be pointed out that as of 1 January 2016 under the Income Tax Act, income achieved from capital gains is taxed. The tax base for income achieved from capital gains is the difference between the achieved selling and the achieved purchase price after 1 January 2016 and the financial assets. For example, income achieved on the basis of the sale of shares will not be taxed if three years have passed since the acquisition of these shares.

All natural persons, residents and nonresidents must pay tax on income achieved from capital gains. The taxpayer is obliged to keep records regarding the investment of the same type of financial assets. The taxpayer is obliged until 31 January of the current year, for all the capital gains achieved in the past year, decreased by the achieved capital losses, to calculate and to pay tax and to keep records thereof in the corresponding form.

Capital gains are subject to tax rates ranging from 12% to 40%, depending on the nature of the transaction.

Income from the sale of property (tangible/intangible) is taxable at 25% if the property is alienated within three years of the ownership. Alienation costs may be deducted as expenses.

Under the Real Estate Transfer Tax Act the purchase of real estate from a private individual is subject to 5% of the real estate transfer tax. For this purpose, the tax base is the market value of the real estate.

The inheritance and donation tax is prescribed by the Law on Financing Local and Regional Self-Government Units.

Transfers of cash, securities or movables, where their individual market value exceeds HRK 50,000.00, are subject to 5% inheritance and gift tax. This tax does not apply to movable property inherited or received as a gift, if the transfer is subject to VAT. Taxation of inherited or donated real estate is governed by the Real Estate Transfer Tax Act. Transfers between immediate relatives (spouses, siblings and children) regarded as inheritance or gifts are not subject to taxation.

TAX TREATIES AND ANTI-AVOIDANCE RULES

If the double taxation agreement is in force with the country in which the foreign receiver of the compensation has its seat, the provisions of the agreement will apply.

The Republic of Croatia applies double taxation agreements with 57 states as follows:

Albania; Armenia, Austria; Azerbaijan, Belgium; Belarus; Belgium, Bosnia and Hercegovina; Bulgaria; Canada; Chile; China, Czech; Denmark; Estonia; Finland; France; Georgia; Germany; Greece; Hungary; Indonesia; Iran; Ireland; Island; Israel; Italy; Jordan; Korea; Kuwait; Latvia; Lithuania; Macedonia; Malaysia; Malta; Mauritius; Morocco, Moldova; Montenegro; the Netherlands; Norway; Oman; Poland; Qatar; Romania; the Russian Federation; San Marino; Syria; Serbia; Slovakia; Slovenia; Spain; Sweden; Switzerland; Syria; Turkey; Ukraine; the United Kingdom of Great Britain and Northern Ireland.

In accordance with the Income Tax Act and the appertaining subordinate legislation the Republic of Croatia applies anti-avoidance rules, namely: transfer pricing rules and thin capitalization rules.

The transfer pricing regulations are applied to all cross-border transactions between domestic entities and their related parties, as well as to transactions between resident related parties if one of the parties is operating at a loss, has tax losses carried forward, pays tax at lower rate or qualifies for tax relief. Transfer pricing methodologies are prescribed in accordance with the Organization for Economic Co-operation and Development (OECD) Guidelines.

The thin capitalization rules proscribe that interest on loans granted by the shareholder, by the shareholder's related party or third party and guaranteed by the shareholder, is not deductible if the shareholder holds 25% or more of the shares/voting rights of the taxpayer and if the value of the loan exceeds four times the value of the shareholder's share in taxpayer's equity. The thin capitalization rules do not apply to loans granted by banks or other financial institutions, even if the shareholder is the guarantor of the loan.

XIII. IMMIGRATION REQUIREMENTS

IMMIGRATION REGULATION

The requirements for the granting of temporary and permanent residence to aliens are prescribed by the provisions of the Alien Act and the appertaining subordinate legislation.

Foreign nationals who wish to live or work in Croatia may be classified into several categories, namely:

- nationals of member states of the European Economic Area (EEA) and the Swiss Confederation;
- third country nationals with granted permanent residence in another EEA member state;

- highly qualified third country nationals ;
- third country nationals .

Nationals of EEA member states, of the Swiss Confederation and members of their families who intend to stay in Croatia for more than three months are obliged at the latest within 8 days as of the expiry of the three month stay report temporary residence to the competent police authority or police station in accordance with the place of residence.

Nationals of EU member states and members of their families may work and provide services in the Republic of Croatia without a residence and work permit i.e. without the certificate of registration of work.

However, the Republic of Croatia has introduced the national measure of restricting labor market access for certain countries (Slovenia, Austria, the Netherlands, the United Kingdom of Great Britain and Northern Ireland and Malta) and they are subject to the provisions of the Alien Act when obtaining a residence and work permit as nationals of third countries.

Aliens who are nationals of countries for which the Republic of Croatia has introduced the national measure of restricting labor market access may work in Croatia under the work registration certificate (up to 90 days a year) or a work permit. The work registration certificate may be issued for a term of 30, 60 or 90 days per year, depending on the category of employees.

Aliens who are nationals of third countries with granted permanent residence in another EEA member state and the members of their families may submit applications for temporary residence at diplomatic missions/consular offices of the Republic of Croatia in the EEA member state in which they were granted permanent residence or with the police authority/station in the Republic of Croatia.

Third country nationals who are highly qualified are obliged to submit the application for the issuance of the "EU blue card" i.e. residence and work permit at the diplomatic mission or consular office of the Republic of Croatia or the police authority/station in accordance with the intended place of residence.

Aliens who are third country nationals who do not need a visa for the entry to Croatia may submit the application for the granting of temporary residence at the diplomatic mission/consular office of the Republic of Croatia abroad or at the police authority/station in accordance with the intended place of residence, the seat of the employer or the place of work.

Aliens who are third country nationals who need a visa for the entry to Croatia generally submit the application for the granting of temporary residence i.e. the application for the issuance of the residence and work permit at the diplomatic mission/consular office of the Republic of Croatia.

Residence and work permits are issued within 30 days as of the submission of the orderly application.

Within 30 days as of the receipt of the notice on the approval of temporary residence, the alien is obliged to report their residence to the police authority/station. If an alien fails to report their residence within this term, the approval of temporary residence/residence and work permit cease to be valid.

The residence and work permit is issued in accordance with the annual quota and outside the annual quota.

The decision on the annual quota is passed by the Government of the Republic of Croatia and is announced in the Official Gazette.

XIV. IMMIGRATION

VISAS

A visa is a permit for transit through the territory of the Republic of Croatia or the entry to and stay for a maximum period of 3 months in each six-month period from the date of the first entry. Nationals of certain countries need to have a valid visa for the entry to the Republic of Croatia.

The visa is issued for one, two or several entries for the purpose of transit, tourist, business, private or other travel.

The validity term depends on the travel circumstances of the foreign national in Croatia and cannot be longer than five years.

The possession of a visa does not guarantee the entry to Croatia, but also other legally prescribed requirements for the entry of foreign nationals have to be met. A foreign national cannot work in Croatia on the basis of a visa.

An alien is obliged to obtain a visa at the competent embassy/consulate prior to the entry to Croatia. If Croatia does not have an embassy/consulate in a country, the alien can submit the application at the nearest Croatian embassy/consulate.

The alien submits the visa application in person. The visa application is submitted at the earliest three months prior to the intended travel.

XV. EXPATRIATE EMPLOYEES

COST OF LIVING

According to statistics the average cost of living of a family of four are higher than the average net salary.

The average annual inflation rate in 2014 amounted to -0.2%, from January to November 2015 the annual inflation rate amounted to 0.5.

According to IMF data, the nominal GDP in 2014 was \$57.159 billion, which means that the per capita GDP was \$13,493.

DRIVING LICENSES

Under the Road Traffic Safety Act an alien who stays in the Republic of Croatia may under a valid foreign driving license that was issued by the competent authority of a foreign country, based on reciprocity, operate motor vehicles on the territory of the Republic of Croatia and in such cases no international driving license is needed. Aliens who have been granted a temporary stay or permanent residence in the Republic of Croatia, as well as employees of foreign commercial, traffic, cultural and other agencies, may drive a motor vehicle if they have a valid foreign driving license for a period of one year following the day of entry into the Republic of Croatia. After this term, the foreign driving license has to be replaced with a Croatian driving license in order to operate a vehicle. The costs of the replacement of the driving license amount to approx. EUR 50.00. Aliens from countries that are not members of the European Economic area have to enclose a medical certificate of mental and physical capacity for the operation of motor vehicles to the application - not older than six months.

The Directive 2006/126/EC of the European Parliament and the Council on driving licenses stipulates that driving licenses issued by member states are mutually recognized.

EDUCATION

Foreign nationals may enroll their children in the same schools as Croatian nationals, provided that the children speak Croatian. If not, there are foreign-speaking schools available to the children.

Education is carried out in public and private schools.

The education system in the Republic of Croatia includes:

- preschool education;
- elementary education;
- secondary education;
- university education.

Preschool education in the Republic of Croatia includes education and care of preschool children, and is achieved through educational programs, health protection, nutrition and social care of children from the age of six months until their school enrolment.

The eight-year elementary education in Croatia is mandatory and is free for all children from the age of six to fifteen in public schools.

Secondary education is free and enables everyone under the same condition and in accordance with their capacities to acquire knowledge and skills for work and the continuation of education. Secondary schools, depending on the type of educational program are: grammar schools, professional schools and art schools.

Activities of higher education are performed by institutions of higher education. Institutions of higher education are universities, the faculties and art academies comprised by universities, polytechnics and colleges of applied sciences..

HOUSING

An alien may rent houses, flats, rooms or other type of accommodation available in Croatia. The rental fees vary depending on the number of rooms, neighborhood, etc. The monthly rental fee of a two-roomed flat with kitchen, bathroom in the center of Zagreb amounts to approximately €500.00-1,000.00.

A condition to obtain a residence and work permit is evidence that the alien has secured accommodation (lease agreement, title deed for a real estate in the Republic of Croatia).

Foreign nationals outside the European Union can buy real estate in the Republic of Croatia based on reciprocity. For the acquisition of real estate it is necessarily to obtain approval of the Ministry of Justice on the Republic of Croatia.

Nationals and legal persons from Member States of the European Union acquire the ownership right of real estate in Republic of Croatia under the presumptions which are valid for the acquisition of ownership rights for nationals of the Republic of Croatia and for legal entities having their seat in the Republic of Croatia, except for real estate on excluded areas, e.g. agricultural land.

IMPORTING PERSONAL POSSESSIONS

In accordance with the Regulations on the Exercise of the Right to Customs Duty Exemptions aliens who were granted residence in the Republic of Croatia under the basis of permanent residence or acknowledged refugee status may import, enter or receive household items and personal items in accordance with the regulations on the type, quantity and value of items being imported with the application of tariff preferences.

MEDICAL CARE

Primary, secondary and tertiary levels of medical care exist in the Republic of Croatia. Primary medical care is provided in medical centers, which have to include family (general) practice, dental medical care, medical care for women, infants and preschool children and the elderly, the mental health care and community nursing medical care. Medical care on the secondary level is organized in the form of polyclinics and hospitals. Medical care on the tertiary level is provided in clinics, clinical hospitals and clinical hospital centers.

In accordance with the Mandatory Health Insurance Act all persons having their domicile in the Republic of Croatia and aliens who were granted permanent residence in the Republic of Croatia are obliged to conclude mandatory health insurance, unless an international treaty or a special act provide differently.

In accordance with the Voluntary Health Insurance Act, voluntary health insurance constitutes: supplemental health insurance, additional and private health insurance.