

# Croatia

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## Amendments to financial legislation in 2007 and 2008

Dubravka Grujic (Vienna)  
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Wolf Theiss

In an effort to harmonise Croatian legislation with applicable EU directives as part of the EU accession process, the Croatian Parliament has continued to adopt a number of new Laws in 2007 and 2008. In the last quarter of 2007 and the first quarter of 2008, the Croatian Parliament passed a new (and first ever) Financial Security Act and the Act on Introducing the *Societas Europaea* and European Economic Interest Company, and made significant amendments to the Companies Act and the Takeover Act. Most of the provisions of these Laws came into force immediately, but some provisions will not take effect until Croatia becomes a full member of the EU.

### Amended Companies Act

One of the most important amendments to the Companies Act is introducing the monistic principle of corporate governance, which, together with the existing dual principle, provides for more freedom within an entrepreneurial organisation. The monistic principle enables a company to appoint a management board, which incorporates the functions of a standard management board with the functions of a supervisory board (the two of which are strictly distinguished in the dual principle of corporate governance), and which consists of executive and non-executive directors.

For the first time under Croatian law, the amendments regulate cross-border mergers and acquisitions. They also give companies the option to perform one-time or occasional business activities in Croatia without establishing a subsidiary, which was not possible before such amendments.

Further amendments were made to the regulation of capital reserves and the requirements regarding companies' annual financial

reports. As a part of the country's efforts to combat money laundering, the amended Companies Act also abolished bearer securities.

As a result of the amendments described above, the harmonisation of the Croatian Companies Act with the EU *acquis communautaire* has been completed.

### Financial Security Act

The Financial Security Act sets forth special rules for securing financial obligations through financial or cash instruments executed by subjects on the financial market. The purpose of the Financial Security Act is to remove the formal obstacles to conducting business (for such subjects in the financial market), increase legal certainty, decrease credit risk, facilitate cross-border transactions, and strengthen the financial market in general. The Financial Security Act also derogates some provisions of the Bankruptcy Act that pertain to financial security instruments, and introduces a special pledge over instruments of financial security so that the holder of the pledge can dispose freely of the pledge on the market.

### Amended Takeover Act

The Takeover Act governs the takeover of public joint-stock companies and the takeover of joint-stock companies with their headquarters in another country within the European Economic Area, the voting shares of which have been placed on the market of the country within the European Economic Area pursuant to applicable EU directives. Public joint-stock companies are companies that either (a) issue shares in a public offer, or (b) have over 100 shareholders and a share capital of at least K100 million (\$21 million).

The amendments regulate the thresholds for the submission of a mandatory takeover bid and the compensation for shares purchased in a takeover bid. The compensation for shares purchased in a takeover bid may be paid both in cash and in stocks of another

company (or in a combination of both), but the application of this provision has been postponed until Croatia becomes a full member of the EU.

The amendments also regulate the rights of parties in the squeeze-out process. However, again the application of these provisions has been postponed until Croatia achieves full membership in the EU. Further, the amended Takeover Act also provides for more detailed and stricter formal requirements for takeover bids.

The passing of the most recent amendments to the Takeover Act results in full harmonisation of the takeover process with European standards.

### *Societas europaea* and European economic interest company

The Act on Introducing the *Societas Europaea* and European Economic Interest Company was passed by the Croatian Parliament in 2007. This Act introduces these two legal entity forms into the Croatian legal system, but its application has been postponed until Croatia achieves full membership of the EU.

### Prospects for 2008

The plan to harmonise Croatian legislation with the *acquis communautaire* for 2008 envisages the enactment of a large number of Laws that regulate the financial, commercial and trade sectors. The Croatian Parliament is expected to pass or amend, among others, the following acts: the Trade Act, the Credit Institutions Act, the Customs Act, the Capital Market Act, the Public-Private Partnership Act, the Financial Conglomerates Act and the Competition Act. The intention of the legislature is both to harmonise Croatian legislation with EU standards and to provide stability and security in the Croatian financial market.

## Financial and corporate

Recommended firms	
<b>Tier 1</b>	
Bogdanovic Dolicki & Partners	
Porobija & Porobija	
Zuric i Partneri	
<b>Tier 2</b>	
Divjak Topic & Bahtijarevic	
Hanzekovic Radakovic & Partners	
Markovic & Pliso	
Savoric & Partners	
Vukic Jelusic Sulina Stankovic Jurcan & Jabuka	
<b>Tier 3</b>	
Babic & Partners	
Cipic-Bragadin	
Nikolina Golubic in association with Schoenherr	
Travas & Partners	
Vukmir & Associates	
Wolf Theiss in cooperation with local lawyers	

The credit crunch has not stopped property investors from seeking their fortunes in Croatia. On the contrary, the country is rapidly becoming the heir to Romania's real-estate crown. In response to international interest from hotel groups and, more recently, foreign buy-to-let investors, the country has streamlined its property legislation and is enjoying steady returns from tourism-related acquisitions and property developments.

With an average GDP growth of 7.5 % in 2007, and with a growing population of affluent young people, the retail sector is also attracting strong interest from investors.

The higher investment risk of being outside the EU (and thus falling outside the EU's scope of economic protection) means the country attracts high yields for adventurous lenders. However, Croatia is expected to join the EU in the next five years, which has sped up the number of opportunistic investors coming to the country looking for their last chance of a bargain.

### **Bogdanovic Dolicki & Partners**

Bogdanovic Dolicki & Partners has one of the largest and most experienced teams in the jurisdiction. The firm has a best-friends agreement with UK firm Lovells, which is described by competitors as "working really well". Lovells is said to have given the firm a more international approach, which has undoubtedly benefited the team's skill set.

Tin Dolicki is singled out by clients and competitors, particularly for his skill and activity in banking and capital markets law.

He has been particularly active advising banks in Croatia across southeast Europe.

The firm has strong reputations as a quality adviser in cross-border deals, and counts prominent international banks such as Deutsche Bank, UBS, JP Morgan and the World Bank as clients, advising them on various domestic issues.

#### **Leading lawyers**

Mirko Bogdanovic  
Tin Dolicki

### **Porobija & Porobija**

Porobija & Porobija comprises four partners with a great deal of experience in the banking market. The firm has made a reputation for itself as one of the largest firms in the jurisdiction, with a particular strength in cross-border and international transactions.

One highlight was advising the Bank of Tokyo-Mitsubishi UFJ and Bayerische Landesbank in an unsecured loan facility provided to Croatian petroleum company INA. The firm also acted for the Croatian government in several bond issuances.

The firm is rapidly gaining experience in M&A transactions, where Boris Porobija is highly recommended by the market for his experience.

Porobija & Porobija has also acted in several project finance transactions this year. Renewable energy was a focus, with one notable role advising an international bank in a e57 million wind-power project.

#### **Leading lawyers**

Drazen Grubisic Cabo  
Boris Porobija  
Zeljka Rostas-Blazekovic

### **Zuric i Partneri**

Zuric i Partneri has been in the market for 16 years and has a strong emphasis on banking and finance - areas where the firm receives a mountain of praise from the market.

The firm has a broad range of domestic clients, but according to the market is now rapidly building a strong international base.

Zuric i Partneri has advised the Croatian government in a range of legal matters, including the privatisation of a telecoms company, and the drafting of the country's securitisation law.

#### **Leading lawyers**

Dusko Zuric  
Ratko Zuric

### **Divjak Topic & Bahtijarevic**

Divjak Topic & Bahtijarevic has strengthened its practice even further this year with the appointments of Marijana Bozic as head of the securitisation practice and Slaven Sego as head of the real-estate practice.

The firm has been developing its banking expertise for some time, and this year it has finally capitalised on its expansion, advising several key clients on lending transactions. Divjak Topic & Bahtijarevic advised Investkredit in the lending of a set of cross-border loans to Croatian corporate clients, and also acted for the GTC/Kardan group in a e10 million facility for the development of a tourist and residential resort.

Given the market conditions, the practice has done well to remain active in the debt capital markets. The firm advised Banca Intesa Mobiliare on its issuance of e15 million convertible bonds, and Calyon on the issuance of e22 million hybrid instruments.

Damir Topic is one of the firm's leading lawyers, and this year advised Calyon in the negotiation and structuring of cross-border repurchase agreements. Topic also advised Goldman Sachs in the development of structured finance programmes for a number of Croatian institutions.

The firm has also been active with M&A transactions, advising Gaz de France in its e26 million acquisition of a leading Croatian gas distributor. In the private-equity market, the firm advised Europolis in its e60 million acquisition of a company which owns an operational business tower; and acted for Dolphin in the e40 million acquisition of land for the development of a tourist resort.

The project finance team also advised a consortium of Trigranit and Ingra in the e140 million construction of the biggest sports dome in Croatia through a PPP structure.

#### **Leading lawyers**

Damir Topic

### **Hanzekovic Radakovic & Partners**

Hanzekovic Radakovic & Partners has a strong focus on banking, capital markets, M&A and project finance work. The firm showed its commitment to growth by promoting three associates to the partnership in the past year.

Among its highest-profile transactions of 2007, the firm advised in the e381 million refinancing of Zagreb-Macelj Motorway, the e46 million financing of the construction of a sport venue hall and the acquisition of one of the largest manufacturers of animal health products.

### **Savoric & Partners**

Under the leadership of highly reputed Boris Savoric, the firm has constructed an impressive record of accomplishment in the last years, adding several new clients to its list.

Savoric & Partners recruited three senior associates in the last year, increasing considerably its banking and capital markets capacities. In capital markets, the firm has advised important clients such as Atlantic Group in its IPO, and Merrill Lynch in the financing for the acquisition of a Croatian listed company. The firm's highlight deals for the year also include advising European Bank for Reconstruction and Development in an equity investment in the Jadranka hotel resort; advising an international investment fund, Marfin Investment Group, in the acquisition of the Sunce Konzern hotel chain; and advising foreign lenders in the Triganit project finance.

### **Wolf Theiss in cooperation with local lawyers**

Austrian firm Wolf Theiss has a very reputable banking and finance practice, and has been strengthened this year with the appointment of six new associates.

The firm has a focus on representing Austrian banking clients on its investments in Croatia, with one highlight being its advice to Raiffeisen Zentralbank Österreich on the secured financing of the acquisition of a shopping centre in Karlovac. Wolf Theiss followed this up to advise Raiffeisen Leasing on Croatian law issues on the secured financing of the acquisition of real estate in Sisak, Croatia.

Wolf Theiss is also advising Hypo Alpe Adria Bank on Croatian law issues in connection with its secured financing of the acquisition of Croatian real estate.

The firm's activity in the M&A market includes acting for the Baloise Holding Group on the acquisition of Croatian insurer Osiguranje Zagreb, and advising Goldman Sachs on its acquisition of Arenaturist.

Wolf Theiss was also active in the project finance market this year. The firm advised an international consortium on the public tender for the construction and operation of three football stadiums in Croatia. In addition, the team has capitalised on the increase of restructurings in the region. Wolf Theiss advised Tyco International on the Croatian issues of its worldwide corporate restructurings, and was also mandated by AfgaGevaer as Croatian counsel on its corporate restructuring.