

THE PRIVATIZATION ACT

I. GENERAL PROVISIONS

Article 1

(1) Privatization is a part of the overall economic and developmental strategy and policy of the Republic of Croatia and it shall be implemented in order to achieve the following objectives:

- a) enhanced economic growth under the conditions of a market economy,
- b) the maintenance of productive employment with expectations for the creation of new jobs,

The purchase of shares in a legal person shall not be paid, financed or guaranteed by the

(3) A decision on the sale of shares or stakes owned by the Fund with a nominal value not exceeding 100,000,000.00 (one hundred million) kuna for an individual legal person shall be passed at the proposal of the President of the Fund by the Board of Directors of the Fund by a majority vote of all of its members.

(4) A decision on the sale of shares or stakes owned by the Fund with a nominal value exceeding 100,000,000.00 (ona hundred million) kuna for an individual legal person shall be passed by the Government at the proposal of the Ministry with the previously obtained opinion of the Board of Directors of the Fund.

(5) In the selection of the most favourable offers, the Managing Board of the Fund, Board of Directors of the Fund and the Government shall implement the objectives of privatization confirmed in Article 1, Paragraph 1 of this Act, while adhering to the following guidelines:

- a) the protection of productive jobs,
- b) new investments in companies and the economy,
- c) the technological modernization of a company on the part of the buyer,
- d) the financial, market and technological soundness of the buyer
(creditworthiness),
- e) the offered price,
- f) the initiation of investments from Croatian emigrants,
- g) stimulation of t

(1) Shares of or stakes in legal persons which belong to the Fund and which could not be sold under the conditions from Articles 6 and 8 of this Act, i. e. those to which the Law on the Rehabilitation of Selected Enterprises (Narodne novine, no. 56/95) does not apply, may be sold under special conditions.

(2) Based on the objectives of privatization from Article 1, Paragraph 1 of this Act, the Government, at the proposal of the Ministry and the competent ministry, shall decide on the sales conditions from Paragraph 1 of this Article. These conditions of sale shall be made public.

(3) The decision on the sale of shares or stakes from Paragraph 1 of this Article shall be passed in accordance with the provisions of Article 7 of this Act.

(4) The contract on the sale of shares or stakes from Paragraph 1 of this Article shall contain all of the elements of the offer, the objective which is to be achieved and the responsibility of the persons for assumed obligations.

Article 10

(1) A contract on the sale of shares, stakes, physical assets and rights shall be concluded by the Fund in writing. A contract which is not concluded in writing shall have no legal effect.

(2) If the subject of sale is real estate, the signature on the contract must be notarized.

Article 11

(1) The proceeds realized from sales according to the provisions of this Chapter and the proceeds realized from the profits of legal persons in which the Fund has

- b) participation in the allocation of credit on the basis of an approved rehabilitation program and financial restructuring model,
- c) the repair or reconstruction of destroyed assets of companies on the basis of an approved program or project,
- d) the allocation of start-up loans to laid off workers with the goal of stimulating private entrepreneurship,
- e) participation in the financing of approved infrastructure construction programs,
- f) the allocation of housing credit,
- g) the allocation of credit with the goal of stimulating small - and midscale

III. PRIVATIZATION OF LEGAL PERSONS OWNED BY THE REPUBLIC OF CROATIA

Article 13

- (1) The privatization of legal persons owned by the Republic of Croatia shall be implemented in accordance with the provisions of this Act.
- (2) The provisions of this Chapter shall also be applied to the privatization of shares or stakes owned by the Republic of Croatia.
- (3) The decision on the privatization of legal persons owned by the Republic of Croatia shall be passed by the Government at the proposal of the Ministry with a previously obtained opinion of the competent ministry.
- (4) The decision from Paragraph 3 of this Article shall establish the conditions and methods of privatization.
- (5) The privatization of the following legal persons owned by the Republic of Croatia:

INA - Industrija nafte, d.d. (Petroleum Industry)
Hrvatska elektroprivreda d.d. (Electrical Power Company)
Hrvatska radio-televizija (Croatian Radio - Television)
"H@" - Hrvatske željeznice (Croatian Railways)
JP Hrvatska pošta i telekomunikacije - HPT (Croatian Postal and Telecommunications Service)
JP Hrvatske ceste (Croatian Roads)
and JP Hrvatske šume (Croatian Forests)

shall be regulated by separate laws.

- (6) Decisions of the competent assemblies of municipalities, cities and counties shall determine the legal persons for which a decision on privatization shall be passed by the said assembly.

Article 14

- (1) Prior to the privatization of a legal person owned by the Republic of Croatia, the value of its share capital shall be determined.

(3) The Government may decide that the value of apartments at the disposal of a legal person owned by the Republic of Croatia shall not be included in its share capital.

(4) Unless the Government decides otherwise, the apartments of state-owned legal persons which have not been sold according to the provisions of the Law on the Sale of Apartments with Tenancy Rights shall be transferred to the state.

Article 15

(1) The value of the share capital of the legal persons from Article 14, Paragraph 1 of this Act shall be determined according to a Value Appraisal Study.

(2) The Value Appraisal Study shall be prepared by a legal person authorized by the Ministry.

(3) The funds to finance the Value Appraisal Study shall be secured by the Fund from the proceeds that belong to it in accordance with Article 11, Paragraph 2 of this Act.

(4) The Fund shall have the right to compensation of the expenses from Paragraph 3 of this Article from the proceeds obtained from the sale of a legal person owned by

Article 18

The professional tasks in the privatization procedure according to the provisions of this Chapter shall be executed by the Fund.

Article 19

(1) Shares with a value of 30% of the share capital of a legal person owned by the Republic of Croatia shall be excluded from sale and shall be allocated after the changes in the pension insurance system have become effective in accordance with a special law.

Article 20

The proceeds realized through the privatization of legal persons owned by the Republic of Croatia shall be considered the revenue of the budget of the Republic of Croatia.

IV. THE RIGHT TO SHARES FREE OF CHARGE

Article 21

(1) The right to receive shares free of charge shall be granted to:

1. wartime military personnel disabled in the Homeland War,
2. families of fallen Croatian soldiers,
3. families of interned or missing Croatian soldiers,
4. families of killed, interned or missing civilians,
5. formerly interned Croatian soldiers and civilians,
6. wartime civilian disabled,
7. military personnel disabled in non-wartime circumstances, and
8. displaced persons and refugees/returnees and
9. former political prisoners.

(2) The right to receive shares free of charge shall also be granted to citizens of the Republic of Croatia who were employed in legal persons whose seat is located in the previously or currently occupied territory, if they are unemployed and if they have permanent residence in the territory of the Republic of Croatia, but were not granted the status of displaced persons and refugees.

Article 22

(1) The wartime military personnel disabled in the Homeland War from Article 5, Paragraph 1, Item 1 and Paragraph 2 of the Law on the Protection of Military and Civilian War Disabled (Narodne novine, broj 33/92, 57/92, 77/92, 86/96, 58/93, 2/94, 76/94) shall have the right to receive shares free of charge depending on the degree of disability, at a rate determined by Article 11, Paragraph 1 of the Law on Amendments to the Law on the Transformation of Socially-Owned Enterprises (Narodne novine, no. 83/92).

Article 23

(1) The families of fallen, interned or missing Croatian soldiers of the Homeland War from the first and second inheritance categories shall have the right to receive shares free of charge at the highest amount as established by Article 19, Paragraph 1 of the Transformation Law.

(2) The right from the previous Paragraph of this Article shall also apply to the family members of killed, interned or missing civilians after 17 August 1990, from the first and second inheritance category of the regulations on inheritance.

(3) When in the situations from Paragraphs 1 and 2 of this Article the right to shares is fulfilled by the spouse and children, each of the parents shall have the right to shares free of charge at a rate of 50% (fifty percent) of the highest amount as established by Article 19, Paragraph 1 of the Transformation Law.

(4) For the purpose of this Act, Croatian soldiers shall be persons determined by Article 2 of the Law on the Rights of Croatian Soldiers of the Homeland War (Narodne novine, 2/94, 52/94, 36/95).

(5) The right from Paragraph 1 of this Article shall apply to Croatian soldiers who were interned and to civilians who were interned after 17 August 1990.

Article 24

Civilian war-disabled persons from Article 8, Paragraph 1, Items 1 through 4 and Paragraph 2, and military personnel disabled in non-wartime circumstances from Article 6, Paragraph 1, Items 1, 2, 5, and 6 of the Law on the Protection of Military and Civilian War Disabled (Narodne novine 33/92, 57/92, 77/92, 86/92, 58/93, 2/94 and 76/94) shall have the right to shares free of charge, depending on the degree of disability, at a rate established by Article 11 of the Law on Amendments to the Law on the Transformation Law (Narodne novine, no. 83/92).

Article 25

- (1) Displaced persons and refugees from Article 2 of the Law on the Status of Displaced Persons and Refugees (Narodne novine 96/93) shall have the right to receive shares free of charge per person at a rate of 35% (thirty-five percent) of the highest amount as established by Article 19, Paragraph 1 of the Transformation Law, under the condition that they return to their place of residence.
- (2) The offices from Article 5 of the Law on the Status of Displaced Persons and Refugees (Narodne novine, no. 96/93) shall determine the fulfilment of the conditions from Paragraph 1 of this Article, in accordance with the provisions of the Law on the Residency of Citizens (Narodne novine, no. 53/91) and based on their own records of displaced persons and refugees.
- (3) The persons from Article 21, Paragraph 2 of this Act shall have the right to receive shares free of charge at the rate established by Paragraph 1 of this Article.

Article 26

Former political prisoners from Article 2 of the Law on the Rights of Former Political Prisoners (Narodne novine, no. 34/95 - revised text) shall have the right to receive shares free of charge depending on the sentence of imprisonment or confinement served as follows:

- for serving not more than one year of imprisonment or confinement, a rate of 5% (five percent) of the highest amount established by Article 19, Paragraph 1 of the Law on the Transformation of Socially-Owned Enterprises,

- of - for serving fifteen or more years of imprisonment or confinement, a rate 100% (one hundred percent) of the highest amount established by Article 19, Paragraph 1 of the Law on the Transformation of Socially-Owned Enterprises.

Article 27

- (1) A voucher shall be issued to persons who, in accordance with this Act, have the right to receive shares free of charge.
- (2) The voucher may be transferred only to investment funds and legal successors.
- (3) Holders of vouchers employed or formerly employed in the legal person whose shares are distributed shall have a priority in the allocation of

V. THE RIGHT TO PURCHASE SHARES AT A DISCOUNT

Article 30

- (1) A contract on the purchase of shares at a discount in instalment payments up to the amount established by Article 19, Paragraph 1 of the Transformation Law shall be concluded for a period of up to 20 years.
- (2) In the situation from Paragraph 1 of this Article, the value adjustment of the debt shall be implemented once a year by the application of the retail price growth index.
- (3) The right to purchase shares at a discount in accordance with the provisions of this Act shall apply to Croatian soldiers who were prevented from participating in the purchase of shares during the implementation of transformation because of military conscription.
- (4) The circumstances from Paragraph 3 of this Article shall be established by a confirmation of the body responsible for military conscription.
- (5) The Fund shall sell the shares at its disposal to the persons from Paragraph 3 of this Article at their written request.

Article 31

- (1) The buyer of shares at a discount in instalment payments shall acquire the right to vote and the right to a share in the profits of the company on the basis of all subscribed shares.
- (2) The right from Paragraph 1 of this Article shall be granted to the shareholder who has paid at least 5 percent of the amount due.
- (3) The contract on the purchase of shares at a discount concluded for a period of not more than 20 years shall be terminated without prior notice if three consecutive instalments have not been paid when due. The remaining shares shall be transferred to the Fund.
- (4) The buyer of shares without a discount in instalment payments shall have the right to vote on the basis of all subscribed shares, and the right to a share in the profits of the company on the basis of the paid shares.

Article 32

- (1) The buyer of shares with payment in instalments shall have the right to pay the outstanding instalments in a single payment before the expiration of the contractual period.

(2) When the buyer pays all outstanding

2. 30 percent of the said portion to the Croatian Agricultural Pension and Disability Insurance Fund,
3. 10 percent of the said portion to the Croatian Self-Employed Businessmen's Pension and Disability Insurance Fund.

(3) Shares of the Fund with a value of 1,821,232,000.00 kuna shall be transferred to the Croatian Self-Employed Businessmen's Pension and Disability Insurance Fund on the day of entry into force of this Act.

(4) The Croatian Self-Employed Businessmen's Pension and Disability Insurance Fund shall realize the right to shares or stakes in the order by which other Funds have realized this right according to the Transformation Law.

Article 39

(1) The Fund shall have the right to exchange the shares at its disposal with the pension funds from Article 38 of this Act, as well as with other holders of shares.

(2) The conditions and methods of the exchange of shares shall be prescribed by the minister in charge of privatization.

(3) The decision on the exchange of shares shall be passed by the Board of Directors of the Fund.

VII. SPECIAL PROVISIONS

Article 40

(1) In conjunction with competent ministries, the Ministry shall execute professional tasks in the implementation of this Act related to:

- the determination of the strategy of financial restructuring of legal persons owned by the Republic of Croatia;
- the proposal of models of financial restructuring and privatization for individual legal persons owned by the Republic of Croatia;
- the proposal of models of privatization and financial restructuring for individual groups of legal persons according to branch of industry;
- the determination of legal persons owned by the Republic of Croatia whose sale shall be done on the international market.

(2) The Ministry shall propose the persons for the appointment of members to the bodies of the legal persons in which the Fund has shareholder status.

Article 41

(1) Legal persons in which the Fund has shares or stakes which consist of not less than twenty-five percent of the share capital shall be obliged to submit a quarterly business report to the Fund, which the Fund may make public.

(2) The Fund shall appoint an authorized legal person for the performance of auditing. The expenses of auditing shall be covered by the Fund.

(3) The Fund shall regulate the form and content of the report from Paragraph 1 of this Article.

Article 42

(1) The fund shall issue a decision which shall determine the real estate which has been incorporated in the value of socially-owned capital under the transformation procedure based on the Transformation Law.

(2) The decision shall be issued at the request of an interested party, and for the needs of registering the real estate in the land registry or the official records.

(3) The interested party shall cover the expenses for the issuance of the decision.

(4) The Minister responsible for privatization shall regulate the rate of compensation for the issuance of the decision from the previous Paragraph.

VIII. PENAL PROVISIONS

Article 43

(1) Any person, either as a buyer or a member of the management or bodies of a legal person, who pays, finances or guarantees the purchase of shares of or stakes in a certain legal person with the assets of the same legal person, shall be subject to a fine of 500,000.00 (five hundred thousand) to 1,000,000.00 (one million) kuna.

(2) The following violations shall be punishable by a fine of 300,000.00 (three hundred thousand) kuna:

- Article 1. If a competent person in a state-owned company fails to submit data within the specified period, or submits inaccurate or false data from 15, Paragraph 4 of this Act,
2. If a joint stock company fails to inform its shareholders within the period from Article 33, Paragraph 2 of this Act,
3. If a competent person in a company fails to submit business results within the period from Article 41 of this Act.

IX. TRANSITIONAL AND FINAL PROVISIONS

Article 44

- (1) A decision on the division of a legal person, with the goal of restructuring, may be passed in relation to persons in which shares or stakes subscribed to in instalment payments have not been paid for.
- (2) The decision which grants approval for the division of a legal person shall be passed by a majority vote which represents not less than three fourths of the share capital.

Article 45

- (1) Legal persons which during transformation registered their assets on the temporarily occupied territories of the Republic of Croatia according to their book value in their socially-owned capital, shall have the rights to post such property in their business records of balance sheet.
- (2) The Fund shall not have the right to vote, nor the right to profits on the basis of shares in the equivalent value of the property from the previous Paragraph.
- (3) The provisions from Paragraph 1 and 2 of this Article shall also be applied to legal persons whose property is in the territory of the Republic of Bosnia-Herzegovina.

Article 46

- (1) Companies whose seat is located in the temporarily occupied territories of the Republic of Croatia and which have not acted according to the provisions of the Transformation Law shall have the right, within a period of six months from the day on which this Act comes into force, to announce their intention of transformation to the Fund, based on the conditions of the Transformation Law and this Act.

(2) The Fund shall determine the period of not longer than one year within which the legal persons from Paragraph 1 of this Article shall be required to submit their documentation.

Article 47

Shares, stakes, physical assets and rights which have not been appraised for their value in the socially-owned capital of the legal person based on the Transformation Law shall be transferred to the Fund, if there are no reasons for a renewal of the procedure or if it does not influence the existing technological whole.

Article 48

(1) The regulations from Article 6, Paragraph 4, Article 11, Paragraph 4, Article 27, Paragraph 4 and Article 41, Paragraph 3 of this Act shall be passed within a period of 60 days, and the regulation from Article 42, Paragraph 4 within a period of 15 days from the day of entry into force of this Act.

(2) When necessary, the minister in charge of privatization shall also be authorized to pass other regulations for the implementation of this Act.

(3) The minister of finance shall, within a period of not more than 15 days from the day of entry into force of this Act, regulate the type of document which the buyer of shares, stakes, physical assets and rights shall be obliged to submit to the Fund upon the conclusion of a contract on the purchase of shares, and by which the fulfilment of the financial obligations of the buyer may be substantiated according to effective legislation.

Article 49

Article 21b, Paragraph 3, Item 4 and Paragraph 4 of the Transformation Law shall cease to be valid.

Article 50

Article 51

The provisions of this Act shall not govern the privatization of healthcare institutions.

Article 52

This Act shall enter into force on the eighth day of its publication in Narodne novine.

Class: 305-01/94-01/02
Zagreb, 1. March 1996.

**HOUSE OF REPRESENTATIVES
OF THE PARLIAMENT OF THE REPUBLIC OF CROATIA**

**SPEAKER
OF THE HOUSE OF REPRESENTATIVES**

Vlatko Pavletić

