Romania Business Passport

2011 edition

Ernst & Young

Quality In Everything We Do

This book reflects information current as of 1 January 2011.

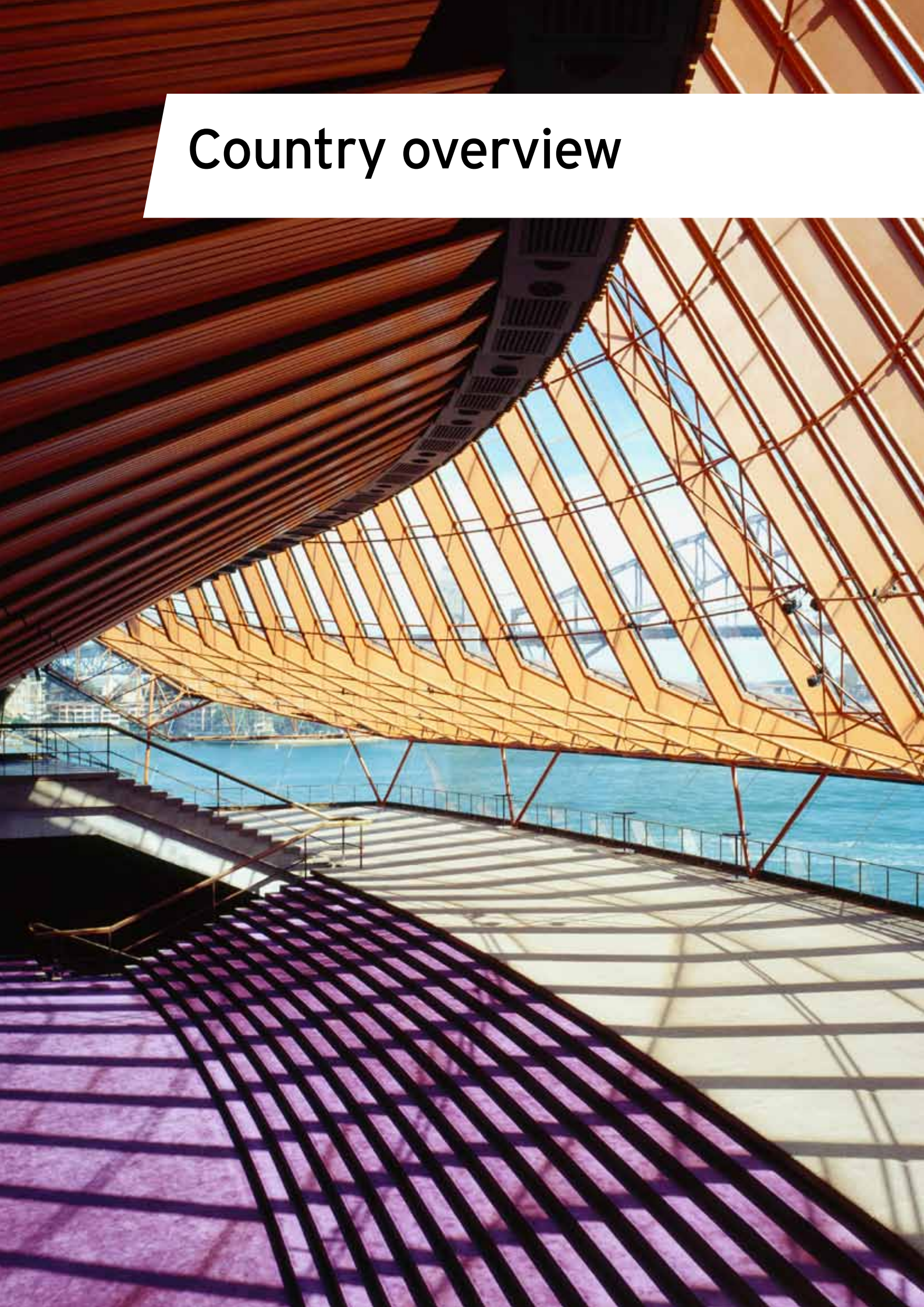
Ernst & Young is a global leader in assurance, tax, transaction, and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients, and our wider communities achieve potential.

For more information, please visit www.ey.com.

Additional copies may be obtained from our Marketing department.

Contents

Country overview



1.1 Geographical overview

Romania is situated west of the Black Sea in Southeast Europe and has an area of approximately 238,391 sq km. Moldova and Ukraine border Romania on its east and north, while Hungary and Serbia border Romania on its west, and Bulgaria borders its south. The country is broadly divided into three regions: the central and northwestern region, comprising Transylvania, Crisana, and Banat and encompassing the Carpathian mountains; the southern region, comprising the Wallachian Plain with the river Danube forming the country's southern border; and the eastern region, comprising the Moldovan Plain. Bucharest is the capital city, with a population of 2 million. Other large cities include Iasi, Cluj-Napoca, Timisoara, Constanta, Craiova, Galati, and Brasov. Romania has a continental European climate with warm summers and cold winters.

1.2 Population and language

Romania has an average density of 91 inhabitants per sq km and a population of 21.5 million (according to the latest available data, 2008), 91% of whom are ethnic Romanians. Minorities include Hungarian (6.7%), Roma (1.1%), German (0.2%), and Ukrainian (0.3%). Romanian is the common language used throughout the country. In the northwest and central regions, Hungarian and German are also spoken. Under the Constitution, ethnic minorities are allowed to use their mother tongue in certain circumstances (e.g., in court).

1.3 Political and legal environment

Romania is a republic, and its present Constitution was adopted by Parliament on 21 November 1991. It was subsequently amended and ratified by legislation, and has been effective since 29 October 2003. The Romanian Constitution guarantees a multi-party system, a free-market economy, and protection of human rights. Legislative power is vested in a bicameral Parliament made up of a lower house (Chamber of Deputies) of 345 seats and an upper house (Senate) of 140 seats. Parliamentary elections are held every four years, while presidential elections are held every five years. Being part of the European Union (EU), Romania also holds 33 seats in the European Parliament.

The President is elected by direct vote and has powers limited by the Constitution. The President is required to:

- Nominate the Prime Minister following consultation with the majority party
- Promulgate laws passed by Parliament
- Cooperate with the National Security Council on relevant issues

Under the Constitution, private property is guaranteed and protected by the Romanian state. Foreign nationals and stateless persons may obtain ownership right for land under conditions resulting from Romania's accession to the EU or by virtue of domestic laws and other international treaties to which Romania is a party.

All statutory provisions of civil, commercial, criminal, administrative, and tax matters are enacted by Parliament. International treaties are binding only if ratified by Parliament.

Since signing the association treaty with the EU in 1993, Romania has adopted several regulations issued by EU bodies in domestic legislation. In 1994, Romania ratified the European Convention for the Protection of Human Rights and Fundamental Freedoms and agreed to enforce its provisions, including the right of individual petition, and recognized the competence of the European Court of Human Rights. Any Romanian citizen may bring a case against the Romanian state before the European Court, whose rulings are binding upon the state.

Romania has enacted several legislations necessary for instituting and strengthening a free market, including laws concerning dispute resolution and related procedures. The concept of arbitration is also quite popular.

to directly apply certain EU regulations without the need to have them adopted in the domestic legislation.

Courts are divided into civil and criminal and organized at the national, county, and local levels. The High Court of Cassation and Justice is the highest judicial forum in Romania. Unlike the US Supreme Court, the Romanian High Court cannot exercise judicial review, adjudicating on the conformity of laws with the Constitution and other regulations of Parliament. This competence is attributed to the Constitutional Court. Romania has traditionally used the civil system of law where judicial precedence does not constitute a recognized source of law.

Romania has been a North Atlantic Treaty Organization (NATO) member since 2004.

In November 2008, the Romanian Government developed and approved a national strategy to join the Schengen area, aiming admission in 2011.

1.4 Reforms and economic development

Type of economy

Since early 1990, Romania has had a free market economy despite continuing government presence in the industrial sector. Successive governments have taken steps to liberalize and privatize the economy.

Romania sits on the crossroads of many historic trade routes that allow access to another 200 million consumers within a 1,000-km radius of Bucharest. The main channels of these routes are the Danube River and the port of Constanta, one of the largest ports on the Black Sea, which is linked to the North Sea by a new navigation route through the Rhine-Main-Danube Canal. Romania has a large, skilled workforce experienced in areas such as engineering and manufacturing with cheaper labor costs compared to many other East European countries. Many of the country's big cities boast a large industrial infrastructure, which along with Romania's considerable natural resources offer substantial potential for exploitation and development.

General economic trends

Like many countries in Eastern Europe and the former Soviet Union, Romania had been struggling to turn its command economy into a market economy. Successive governments have found it difficult to turn the economy around because of a lack of hard currency and the inability to secure external funds due to the country's high budget deficits. Much of this deficit accrued from financing loss-making state industries. Old economic and financial structures have been slow to change, similar to the bureaucratic culture inherent in many old institutions. In the last six years, the overall business climate has constantly improved and economic indicators look healthier.

The table below illustrates the main economic indicators for the past five years and the estimates for 2010 and 2011:

Particulars	2011e	2010e	2009	2008	2007	2006	2005
Real GDP, yoy (%)	1.30	-2.20	-7.10	7.10	6.00	7.90	4.20
Consumer price index, yoy, avg (%)	5.50	8.00	5.59	7.85	4.84	6.56	9.00
Unemployment rate (%)	8.00	8.10	7.80	4.40	4.10	5.20	5.90
Current Account / GDP (%)	-4.40	-6.60	-4.40	-12.30	-13.50	-10.15	-6.88
Exchange rate (EUR, end of period)	4.26	4.30	4.23	3.98	3.61	3.38	3.67

Source: The National Institute of Statistics, The National Bank of Romania

Impact of economic crisis
Despite steady economic growth since 2000, Romania started to show signs of recession in the fourth quarter of 2008, in line with the economies around the world. The effects of the recession became deeper in 2009 and the decline of the economy has continued in 2010.

Since Romania's main export partner, the EU, is still facing consequences of the recession, the industry experienced a significant contraction. The main sectors that have been suffering from the crisis are the ones highly dependent on exports, such as: textiles, apparel, metallurgy, machines and equipments. Not only exports, but also imports have been affected by the downturn, considering the depreciation of the RON in 2009 and the sharp fall in domestic demand over the past two years.

The previously buoyant construction sector has shrunk considerably, especially on the residential segment, due primarily to the unsustainable surge in prices in the recent years.

Agriculture also performed poorly in 2009 and 2010 and demands government support, which represents a difficult task considering the declining budget revenues.

In March 2009, Romania has received EUR 20b in foreign funds from the International Monetary Fund (IMF), EU, World Bank and the European Bank for Reconstruction and Development (EBRD), which need to efficiently sustain the government's efforts to reduce the effects of the global financial crisis.

Leading industries
Manufacturing and engineering are Romania's backbone industries. The country also possesses substantial energy resources and agricultural land. Most sectors of the economy remain under-exploited and offer great potential, particularly manufacturing, agriculture, and tourism.

The industrial production growth accelerated in November 2010 to an annual 4% on increased demand from western Europe for the country's manufactured goods, such as cars, textiles, chemicals and steel products.

The technology sector continues to play an increasingly important role in the economy due to the high level of skill among its workers and rather low wage costs. The real estate sector also offers significant growth opportunities.

Foreign direct investment
Foreign direct investments (FDI) in Romania fell 26.2% to EUR 2.15b in the first ten months of 2010, from EUR 2.91b in the year-earlier period.

Equity stakes (including reinvested profit) stood at EUR 1.4b in the period from January to October 2010, while intra-group loans amounted to EUR 0.71b.

FDI covered 43.4% of the country's current account deficit in the first ten months of 2010.

Sectors that attracted foreign investment in past years include automotives, insurance, food processing, telecommunications, construction, and consumer goods manufacturing. More recently investors have shown interest in the field of renewable energy, with a special focus on wind farms.

Regional and international trade agreements and associations
Romania has been a signatory to the General Agreement for Tariffs and Trade (GATT), the World Trade Organization (WTO), the European Free Trade Agreement (EFTA), and the Central European Free Trade Agreement (CEFTA). Furthermore, Romania has entered into over 80 agreements for the avoidance of double taxation and the prevention of tax evasion on income and capital (see in the Appendix). Romania is also a member of the International Monetary Fund, the World Bank (i.e., the International Bank for Reconstruction and Development and the International Finance Corporation), and the European Bank for Reconstruction and Development.

As an EU member state, Romania adheres to the bloc's Common Commercial Policy and accepts the European Commission as a collective negotiating body for important international trade-related matters, particularly negotiations within the WTO. It also conforms to the anti-dumping and anti-subsidy measures adopted by the Community, and does not adopt any trade defense measures or instruments against other EU member states.

Major trading partners and leading imports and exports

Imports and exports

The following table contains comparative figures of the import/export flows of Romania for the period from 2005 to 2009.

Year	FOB Exports (EUR b)	CIF Imports (EUR b)	Balance (EUR b)
2009	29.04	38.78	9.74
2008	33.72	57.24	23.52
2007	29.38	50.88	21.50
2006	25.85	40.75	14.90
2005	22.25	32.57	10.32

Source: The National Institute for Statistics

In 2009, the main export countries were Germany (18.9%), Italy (15.5%), France (7.9%), Turkey (5.1%) and Hungary (4.3%), while the imports were from Germany (16.9%), Italy (11.9%), Hungary (8.2%), France (6.4%), and Austria (4.9%).

1.5 Romania and the European Union

As of 1 January 2007 Romania's membership to the European Union became effective. The accession process involved undertaking a vast array of political and economical reforms and the harmonization of the national legislation with the *acquis communautaire*, in order to guarantee the four basic freedoms which are fundamental to the EU policies: the free movement of goods, services, capital, and labor within the common market.

Among these policies, the EU Cohesion Policy is designed to help reduce socio-economic disparities between the EU Member States and Regions. As such, Romania is eligible for substantial funding from the following European Structural Instruments: the European Fund for Regional Development, the European Social Fund - known as Structural Funds - and the Cohesion Fund. In this context, a main goal is reduction of the economic and social development disparities between Romania and the EU Member States, by generating a 15-20% additional growth of the GDP by 2015.

Through these Funds, the EU will co-finance the national effort for development of priority areas previously identified in an EU-national partnership. The total financial support from the European Union amounts to EUR 19.7b, complemented by additional EUR 5.5b representing national co-financing from both public and private sources. The European Agricultural Fund for Rural Development and the European Fisheries Fund will complement the financial assistance, with an allocation of approximately EUR 8.3b.

Development priorities for Romania

Five national priorities have been identified and make up Romania's developmental plan for the period 2007-2013: development of basic infrastructure for transport and environment, competitiveness of the Romanian economy, human capital, administrative capacity, and territorial development.

In the framework of the Convergence objective of the Cohesion Policy, seven Operational Programs have been elaborated by the Romanian Government and approved by the European Commission:

- Transport
- Environment
- Regional Development
- Human Resources Development
- Increase of Economic Competitiveness
- Increase of Administrative Capacity
- Technical Assistance

There are several other Operational Programs targeting territorial cooperation objectives.

Public authorities – national, regional, and local authorities (county councils and municipalities) – are eligible to receive financing for projects in modernization and development of the transport infrastructure, water and waste management systems, rehabilitation of urban heating and power systems, social and health infrastructure, etc.

Grants for private sector entities provide support to projects in the following areas:

- Establishing eco-efficient productive facilities
- Acquisition of licenses
- Know-how and production software
- Foreign markets promotion
- Improved access to finance for SMEs
- Research
- Technological development and innovation
- Sustainable and renewable energy resources
- Development of human capital

The maximum value of a grant varies according to state aid rules and specific requirements of each of the Operational Programs, and may generally cover between 40% and 80% of the financing needs.

Status of implementation of EU assistance [1]

Despite of the fact that Romania was one of the first Member States to have their operational programmes approved by the Commission, the actual implementation saw a difficult start given the hurdles of a new and complex financing system.

In the year 2007, the first calls for selecting projects were launched and by the end of 2008 the Authorities responsible for implementation managed to open most of the operations envisaged in the programmes (around 90%).

2009 may be seen as the "contracting year", given the rapid increase in the number of contracts/financing decisions concluded with the beneficiaries.

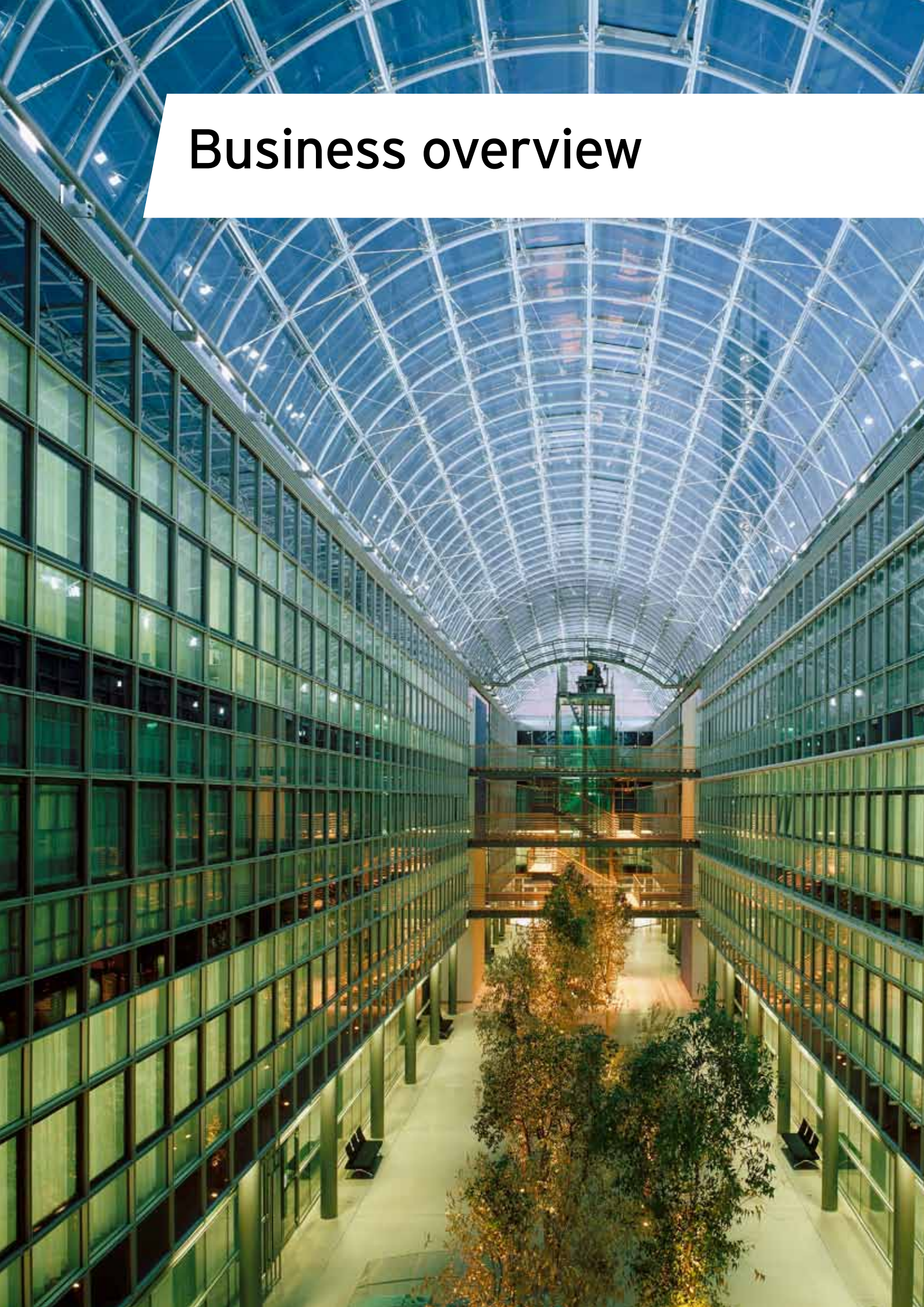
In figures, the general implementation stage on 30 September 2009 was the following:

- The total number of projects submitted for financing under the seven Operational Programs was 12,975, amounting to EUR 23.6b. The requested EU contribution was approximately EUR 16b exceeding by 2.8 times the EUR 5.6b of EU allocation for the interval 2007-2009.
- The number of financing contracts signed with project beneficiaries was 1,887 (out of 2,672 projects approved), for a total eligible value of EUR 3.3b, out of which the EU contribution was EUR 2.7b, accounting for 47.6% of the EU allocation for the interval 2007-2009.
- Payments to beneficiaries, including pre-financing and reimbursements by the Managing Authorities, amounted to EUR 447.8m, of which EUR 443.7m from EU funds and EUR 4.12m in State Budget co-financing.

The prospects for 2010 and the remaining programming period are positive. In fact, additional simplification measures enforced in 2009 and 2010, the experience accumulated by the structures responsible for the management of operational programmes, the very high interest of applicants, the experience accumulated by beneficiaries implementing projects, as well as the economic recovery expected in the second half of 2010, are expected to favor an acceleration of the absorption.

[1] *Source: National Strategic Report 2009 on the implementation of the Structural and Cohesion Funds*

Business overview



2.1 Types of business

There are no specific investment approvals required for setting up a business in Romania. The procedure requires fulfilling certain legal formalities such as registering with the Romanian Trade Registry and the Fiscal Administration.

Limited Liability Company (SRL)
The shareholder liability is limited to the amount subscribed as participation to the company's share capital. The share capital of a SRL must be at least RON 200 (approximately EUR 47, calculated at the exchange rate of RON 4.2/EUR), divided into shares with a minimum face value of RON 10 each. A SRL may be formed by a minimum of one shareholder and a maximum of fifty. These shareholders may include individuals and/or legal entities. A person, either natural or legal, cannot be the sole shareholder of more than one SRL. If a person intends to form several companies, it is necessary for a minimum of one share to be held by another person or entity. Moreover, an SRL cannot have, as sole shareholder, another limited liability company that is also owned by a single shareholder.

The shareholder liability is in general limited to the amount subscribed in the company's share capital.

A SRL is managed by one or more administrators who may have full or limited powers and who may be Romanian or foreign nationals. There is no distinction between companies operating with or without foreign share capital.

For US tax purposes, SRL is a check-the-box entity.

Joint Stock Company (SA)
The minimum statutory capital for a joint stock company is RON 90,000 (approximately 21,428, calculated at the exchange rate of RON 4.2/EUR). Shares must be held by a minimum of two shareholders, individuals and/or legal entities (there is no maximum limit), and can be open to either public or private participation. The minimum face value of one share is RON 0.1.

Pursuant to recent amendments, company shareholders may empower the administrators to increase the share capital by a specified amount, provided it does not exceed half of the value of the existing share capital.

Two options have been provided for administration of joint stock companies: the unitary system and the dualist system.

Unitary system – the company is managed by one or several administrators, always in an odd number, organized as a Board. The Board can assign management of the company to one or several directors. For those companies whose financial statements are subject to auditing, such an assignment is compulsory and the minimum number of administrators is three.

Dualist (two-tier) system – the management of the company is ensured by a Directorate and a Supervisory Board with the following duties:

- The Directorate carries out the activities and management of the company and reports to the Supervisory Board
- The Supervisory Board exerts permanent control over the Directorate and reports to the General Meeting of Shareholders

Administrators and other members of the Directorate and the Supervisory Board may not conclude a labor agreement with the company; a management agreement is required instead.

Representative Office
A representative office is usually set up by foreign companies in Romania to carry out non-commercial activities, such as advertising and market research, on behalf of the parent company. Representative offices cannot carry out commercial activities in Romania. In order to register a representative office, company officials should apply to the Ministry of Economy, Commerce and Business Environment and pay an annual fee of the RON equivalent of USD 1,200 for the license. Upon authorization, the representative office

must be also registered with the Ministry of Public Finances, and with the Romanian Chamber of Commerce and pay an annual income tax of the RON equivalent of EUR 4,000.

Branch of a foreign company
A branch of a foreign company does not have its own legal personality or share capital. Being a unit of the parent company, branch activities cannot exceed the scope of activity of the parent company.

Partnership
Partnership as a legal form is seldom used in Romania. The three kinds of partnerships provided by law that lead to the creation of an entity with legal personality are:

- General partnership (societate în nume colectiv)
- Limited partnership (societate în comandită simplă)
- Partnership limited by shares (societate în comandită pe acţiuni)

The partners in a general partnership and the active partners in a limited partnership have unlimited liability with respect to the obligations of the partnership toward third parties. Among themselves, each partner is individually and collectively responsible for these obligations. The minimum capital is stipulated only for a partnership limited by shares (i.e., RON 90,000, equivalent of approximately EUR 21,428, calculated at the exchange rate of RON 4.2/EUR). No capital requirements are provided for the other forms of partnerships.

Consortium
Domestic legislation allows for the conclusion of a joint venture agreement (contract de asociaţiune în participaţiune). Under this agreement, parties act together for the accomplishment of a common business goal. This form of doing business in Romania does not create a legal entity. Generally, one party is in charge of the bookkeeping of the joint venture.

Trust
Romanian legislation does not recognize the concept of a trust.

Economic Interest Group (EIG)
An EIG is an association of two or more individuals or companies set up for a definite period. Its main objective is the development of the activities of the members; the development of the EIG itself is secondary. An EIG is allowed a maximum of 20 members.

A key feature of EIGs is the unlimited joint liability of its members and the fact that it may not, directly or indirectly, own shares in one of its member companies or in another EIG. An EIG is not allowed to issue shares, bonds, or other negotiable instruments.

European Economic Interest Group (EEIG)
An EEIG is similar to an EIG; it can be set up in any EU member state and may function in Romania through subsidiaries, branches, representative offices, or other non-legal entities provided these comply with domestic legislation. The subsidiaries and branches of an EEIG are subject to the same registration procedure as EIGs.

Societas Europaea (SE)
A SE may be created on registration in any of the EU member states in accordance with the EC Regulation 2157/2001. European law requires member states to treat a SE as if it is a public limited company formed in accordance with the law of the member state in which it has its registered office. By using the SE, businesses operating in several member states can establish themselves as a single company, rather than following different rules for each country in which they have subsidiaries. SEs are only suitable for large companies.

Entities commonly used by foreign investors
Limited liability companies are the most popular vehicles for business in Romania because of their simple administrative requirements, greater flexibility compared to other types of companies, and low capital requirement. However, joint stock companies remain an attractive option for investors which plan to list their companies on the stock exchange.

2.2 Accounting, auditing and reporting

Accounting and financial reporting
The financial reporting and auditing requirements in Romania are consistent with accounting and financial reporting matters as covered by EU Directives.

The legislation currently regulating accounting and financial reporting comprises the Accounting Law 82/1991 and Minister of Public Finance Order 3055/2009 (MoF Order 3055), and subsequent related modifications, as well as specific legislation relating to the application of the International Financial Reporting Standards (IFRS) to the preparation of financial statements in Romania (MoF Order 907/2005 and MoF Order 1121/2006).

The Accounting Law indicates the requirements for the general accounting framework for Romanian entities, while MoF Order 3055 covers financial reporting and related accounting requirements. The provisions of MoF Order 3055 have been prepared to reflect relevant EU Directives in force, namely Directive IV for stand-alone financial statements, and Directive VII for consolidated financial statements. The previous MoF Order 1752/2005 was replaced by MoF Order 3055 from 1 January 2010.

MoF Order 3055 covers all Romanian entities, which, based on certain criteria, may need to prepare either a full or an abridged set of financial statements (these statements are the basis for dividend distribution and are subject to annual approval by the General Meeting of Shareholders).

If an entity fulfils at least two of the three criteria indicated below for two consecutive years (the previous year and the current year), or is a listed company, it is required to prepare a full set of financial statements, while other entities prepare an abridged set of financial statements. The criteria for qualification are:

- Turnover (for the period): over EUR 7.3m
- Total assets (at year end): over EUR 3.65m
- Average number of employees for the period: over 50

A full set of financial statements under MoF Order 3055 comprises the following:

- Balance sheet
- Profit and loss statement
- Statement of changes in equity
- Cash-flow statement
- Explanatory notes

An abridged set of financial statements comprises the following:

- Abridged balance sheet
- Profit and loss statement
- Explanatory notes to the simplified financial statements
- At their own discretion, entities below the size criteria may prepare a statement of changes in equity and/or cash-flow statement

Consolidated financial statements
Preparation of consolidated financial statements is a requirement for entities meeting certain criteria and listed entities. These consolidated financial statements are in addition to the individual financial statements prepared by each Romanian entity in a group in accordance with MoF Order 3055.

In addition to listed entities, consolidated financial statements should be prepared where at least two out of the three criteria indicated below are met, based on the latest annual financial statements:

- Turnover (for the period): over EUR 35.04m
- Total assets (at year end): over EUR 17.52m
- Average number of employees for the period: over 250

An exemption is available, except for listed entities, if the group holding company is part of a larger group (in Romania or in an EU member state) that prepares and publishes group results in which the group holding company and all its subsidiaries are included, given that there is at least 90% ownership of the group holding company and the remaining shareholders have approved not to prepare consolidated financial statements.

In addition to the consolidated financial statements, an Administrator's Report is required to be completed along with an auditors' report.

Preparation of IFRS financial statements
MoF Order 907/2005 required credit institutions to prepare annual financial statements in accordance with the IFRS for the year ending 31 December 2006, for user information purposes (which implies preparation of consolidated financial statements for credit institutions which are parents as defined by IAS 27). Further, under MoF Order 1121/2006, additional requirements for preparation of financial statements in accordance with the IFRS were issued covering credit institutions and public interest entities.

The issued regulations indicate that the IFRS financial statements are in addition to statutory financial statements issued according to MoF Order 3055.

The National Bank of Romania requires credit institutions to issue also standalone financial statements in accordance with the IFRS for the years 2009-2011 by restatement of the statutory financial statements (Order 15/2009) and from 2012 onwards IFRS will become the only accounting base for credit institutions (Order 9/2010).

Auditing
All entities meeting the criteria for full financial statements and public interest entities (including listed companies and financial institutions) are required to have a financial audit. Such audits are required to be performed by an independent external financial auditor that is a member of the Romanian Chamber of Financial Auditors (CAFR).

The applied auditing standards are issued by CAFR and reflect the International Standards on Auditing issued by the International Federation of Accountants (IFAC).

Under Company Law 31/1990, a company requiring an audit should make available the auditors' report for shareholders 15 days before the Annual General Assembly (30 days for listed entities, in accordance with CNVM Regulation 6/2009).

Entities preparing simplified financial statements do not require a financial audit, unless required by other legislation or regulatory bodies which supervise their operations. For SA entities not audited by an independent external financial auditor, Company Law 31/1990 requires a report issued by censors on its financial statements. Such entities require a minimum of three Censors who meet certain criteria on independence and qualifications.

Law 278/2008 (as subsequently modified by Government Emergency Ordinance 78/2009) has established the Council for the Public Oversight of the Statutory Audit Activity and other principles for the operation of auditors in accordance with the EU VIII Directive (2006/43/CE). Under Law 278/2008 the Romanian Chamber of Auditors continues as the body responsible for establish auditing standards in Romania and to monitor the profession in relation to membership and qualification standards, including establishment of examinations and membership criteria, ongoing training programs, ethical standards and quality review procedures.

Law 278/2008 includes a requirement that International Standards on Auditing, as translated into Romanian, will be the Romanian national auditing standards and includes additional requirements for public interest entities and the statutory audit of public interest entities.

Main bookkeeping and document submission requirements
The following documentation and submission requirements apply for bookkeeping purposes:

Daily routine
- Petty cash register updated with the payments and the collections made during the day
- Transactions included in the accounting system normally on a daily basis in chronological order

Monthly routine
- Trial balance prepared for the month (though it is mandatory to be prepared only once a year)

- VAT return submitted and VAT paid (if applicable) until the 25th of the next month based on sales and purchases of the month (the return shall be prepared on a quarterly basis for small companies)
- Sale-purchase registers
- Daily book (registru jurnal)
- General ledger (cartea mare)
- Payroll statements and salary related taxes computed and returns submitted by the 25th of the next month
- Intrastat statement (if applicable) submitted to the National Institute for Statistics by the 15th of the following month

Quarterly routine

- Corporate tax return submitted by the 25th of the month following the end of the quarter
- VAT return submitted and paid (if applicable) by the 25th of the month following the end of the quarter if the company qualifies and chooses quarterly submission of VAT return
- VIES statement (if applicable)

Semester routine

- Simplified financial statements prepared in accordance with MoF Order 3055
- Half-yearly statement of local transactions (if applicable)

Annual routine

- Financial statements prepared in accordance with MoF Order 3055 submitted to the Trade Registry (including auditors' report where applicable) within 15 days after the Annual General Assembly, which is required to be held within 5 months from the previous financial reporting year end (4 months for listed companies)
- Accounts inventory journal (registru inventar)
- Corporate tax return by 25 April for the previous year end
- Personnel fiscal statements (fise fiscale) by the last day of February for the previous year
- Annual fiscal statement regarding the withholding tax return in case of revenues paid to non-residents, due by the last day of February for the previous year
- Annual statement regarding the computation and withholding of taxes corresponding to revenues other than salaries paid to Romanian individuals by 30 June of the following year (for incomes from independent activities, from salaries, and certain other incomes, the annual statement should be submitted until the last day of February)

Other annual financial statements submission requirements

Under the Accounting Law, all entities are required to submit the annual financial statements to the Trade Register, and from 2009 onwards only non-commercial companies also to the Ministry of Public Finance.

Entities regulated by the Romanian National Securities Commission (CNVM) are required to submit their annual financial statements, accompanied by the financial auditors' report to the CNVM by 30 April following the reporting year end.

Credit institutions are regulated by the National Bank of Romania (NBR), to which they are required to submit their annual audited statutory financial statements and annual audited financial statements prepared in accordance with the IFRS.

Insurance and reinsurance brokers regulated by the Insurance Supervisory Commission (CSA) are required to submit financial statements accompanied by the financial auditors' report to the CSA by 30 April following the reporting year end.

2.3 Investment legislation

Small and medium enterprises (SME)
Law 346/2004 provides certain incentives for private investors who set up or run small and medium-sized enterprises (SMEs).

Domestic legislation defines a SME as a company with the following characteristics:

i. An annual average number of employees below 250

ii. Net annual turnover does not exceed EUR 50m, or whose total assets value does not exceed EUR 43m, according to the latest approved financial statements

iii. Fulfils independence criterion (it should not hold more than 25% of the shares or voting rights of another entity and not more than 25% of its share capital or voting rights should be held directly or indirectly on a global or sole basis by one or more public entities)

Regarding the independence criterion, the following exception is allowed; enterprises owned by public investment companies, venture capital companies, institutional investors, business angels (on condition that the total investment amount of such investor into the same company does not exceed EUR 1.25m), universities and non-profit research centers, and local public administration authorities. Banking companies, insurance and reinsurance companies, companies managing investment funds, financial investments companies (i.e., security trading companies), and companies that have foreign trade as the sole object of activity cannot qualify as SMEs.

Romanian legislation provides certain financing incentives to SMEs such as state assistance and loans guaranteed by the state.

Micro enterprises
As of 1 January 2010, all micro enterprises were automatically switched to the standard income tax regime. Prior to this regulation, micro enterprises were required to pay 3% tax on any income, except certain items of revenue specifically provided (e.g., income from stock variations, income from provisions). Starting 1 January 2011, the 3% taxation regime was reintroduced.

Disfavored zones
Emergency Ordinance 24/1998 regulates disfavored zones. Such zones are determined by Government Decision for a period of at least three, but not more than 10 years.

Currently, there are 3 disfavored zones situated in the mining areas of the country.

Legal entities that obtained a permanent certificate of investor in a disfavored zone before 1 July 2003 benefit of tax exemption for profits on new investments, for the period during which the disfavored zone status exists.

The incentives granted under this law are subject to the limitations imposed by state aid regulations. The disfavored zones shall not be valid after December 2010.

Industrial parks
According to Government Ordinance 65/2001, industrial parks are strictly delimited areas where research and development, industrial production, and technological development activities are carried out.

An industrial park may be set up through collaboration between central and local administration authorities and companies, research and development institutes, and/or other interested partners. An industrial park is administered by a Romanian legal entity, called the administrator-company. No shareholder company using the facilities and/or infrastructure of the industrial park can hold direct or indirect control over the administrator-company.

The following incentives currently apply to the setting up and development of industrial parks:

- Exemption from taxes due on conversion of agricultural land used for industrial parks
- Buildings, constructions and land located inside industrial parks are exempt from local property tax
- Other incentives granted in compliance with the law by the local administration

Scientific and technological parks
According to Government Ordinance 14/2002, scientific and technological parks are strictly delimited areas where educational and research activities are carried out, as well as technological implementation of the results for their use in the economy.

A scientific and technological park may be set up by a partnership agreement between an accredited university and/or another research and development centre and a consortium of companies, associations or individuals, Romanian or foreign.
A scientific and technological park needs to be authorized by the Ministry of Education and Research, which is empowered to monitor the activities of the park. The park must be administered by a Romanian company, designated by the partnership.

The following incentives are granted for the setting up and development of scientific and technological parks:

- Facilities for location and use of infrastructure and communications, with deferral of payments, ensured or facilitated by the administrator for a determined period
- Discounts or gratuities for certain services supplied by the administrator
- Exemption from taxes due on conversion of agricultural land to be used for industrial parks
- Buildings, constructions and land located inside scientific and technological parks are exempt from local property tax

Free trade zones
The Free Trade Zones regime is regulated by Law 84/1992, subsequently amended. There are six free trade zones in Romania, located in Constanţa (on the Black Sea, including the harbor area), Sulina, Galaţi, Brăila, Giurgiu (along the Danube) and Curtici-Arad (on the Romania-Hungary border).

The activities carried out within a specific free trade zone should comply with the list of activities provided by the legislation and should be licensed by the administrative authority of the zone.

Free trade zones are characterized by a specific customs regime; the customs supervision is limited to the boundary of such areas.

Means of transport, products, and other goods are admitted into the free trade zones regardless of their country of origin or destination. However, import of goods subject to prohibition under domestic law or under international agreements to which Romania is a party, is forbidden.

2.4 Financial services industry

Banking, insurance, securities, and investment fund activities are subject to special laws, which regulate the terms of conducting business, authorizing operators on the market, and determining capital limits for carrying out such activities.

Since 1990, Romania's banking system has undergone major restructuring. The key elements of this restructuring process include:

- Enforcing legislation to give the NBR the statute of country's central bank
- Opening up the banking system to private and foreign banks
- Privatization of state-owned banks
- Most of the banks currently operating in Romania are privately owned and belong to foreign shareholders

Banking
The National Bank of Romania
The NBR is the sole issuer of notes and coins to be used as legal tender on Romanian territory. Its main declared objective is ensuring and maintaining stability of prices.

The NBR implements and is responsible for monetary and foreign exchange policies, bank licensing and prudential supervision, monitoring of payments, issue of domestic currency, and the administration of Romania's international currency reserves. The NBR collaborates with government agencies and foreign financial and banking institutions. The bank draws up and

implements foreign exchange and monetary policies by using specific procedures and instruments; it discounts, pledges, acquires and sells claims and securities, grants loans, and opens accounts for maintaining minimum reserves of banks. The NBR also draws up and implements regulations governing currency operations and supervises implementation of Romania's foreign exchange regime.

The NBR can grant loans to banks against collateral under certain terms and conditions. It also sets the modalities for performing operations with banks such as opening accounts, payment systems, clearing, depository and payment services, and mitigating and hedging risk. Operations with the General Account of Treasury (including government securities operations) are jointly agreed upon between the NBR and the Ministry of Finance.

The NBR maintains government reserves and is authorized to carry out operations in gold and foreign assets.

The NBR has a board of directors and is headed by four NBR executives: the governor and three vice-governors (of whom one is the first vice-governor). Board members are appointed for a five-year term by Parliament.

Banking regulations
Government Emergency Ordinance 99/2006, on credit institutions and capital adequacy (GEO 99/2006), and NBR Regulation 18/2006, on the own funds of the credit institutions and investments companies, replaced the former capital adequacy and authorization requirements and provide for a regulatory framework harmonized with the EU norms.

GEO 99/2006 allows financial institutions from Member States to perform banking services within the EU based only upon a notification (i.e., without authorization requirement) made between the central banks of the relevant countries with the observance of certain limited documents to be submitted. The banking services may be performed either (i) directly, or (ii) through establishment of a branch.

A new set of requirements applicable to capital levels and maintained by entities operating in this field has been also put forward.

As a first requirement, GEO 99/2006 sets a threshold of EUR 5m (payable at RON equivalent) for the minimum initial capital that credit institutions must maintain in order for them to receive NBR's authorization. Similarly, credit cooperatives are required to maintain a minimum level of capital of at least the RON equivalent of EUR 5m.

Second, EU-based credit institutions may open Romanian branches without being subject to any minimum endowment capital requirement, unlike non-EU credit institutions whose Romanian branches should have endowment capital of at least the RON equivalent of EUR 5m.

Additionally, Regulation 18/2006 provides for the specific minimum initial capital values applicable to several types of credit institutions, which include the following:

- Banks seated in Romania – RON 37m
- Mortgage loan banks – RON 25m
- Saving houses – RON 25m
- Institutions issuing electronic money – RON 12m
- Credit cooperatives – RON 300,000 (though for a cooperative network it must be at least the RON equivalent of EUR 10m)

Insurance
The insurance industry is regulated by Law 136/1995, on insurance and reinsurance, and by Law 32/2000, on insurance companies and supervision of insurance. The implementation of these legal provisions and the monitoring of their implementation are carried out by the Insurance Supervisory Commission (CSA), which safeguards the rights of the insured and promotes growth and stability of the insurance sector.

The legislation allows setting up of insurance companies under any of the following options:

- Romanian legal entities, established either as joint stock companies or as mutual fund companies authorized by the CSA
- Insurance or reinsurance companies from Member States that perform insurance or reinsurance activities in Romania according to their rights of establishment and provision of services
- Branches of foreign companies authorized by the CSA
- Subsidiaries of foreign insurance or reinsurance companies authorized by the CSA
- Insurance or reinsurance companies that adopt the form of Societas Europaea

The paid up share capital (or freely paid up reserve) of insurance providers cannot be lower than the following amounts:

a) RON 0.7m for general insurance, excluding compulsory insurance

b) RON 1.4m for general insurance

c) RON 1.0m for life insurance

d) Sum of the amounts in a) and c), or b) and c), depending on the insurance activities

Romania's insurance market is growing both in the number of operators and the quality of the services provided. At present, there are 45 active insurance companies authorized by the CSA.

2.5 Capital markets

Stock exchange and regulatory authority
The Romanian capital markets function according to the provisions of the Consolidated Capital Markets Law 297/2004. The main regulations are implemented through instructions and norms issued by the CNVM, which is the main regulatory body and supervising authority.

The regulated market in Romania is the Bucharest Stock Exchange (BSE). The regulated market is governed by the BSE Code that provides (i) the conditions for admission to trading on different categories of sections, (ii) the types and procedures of the market orders, and (iii) the main principles applicable to the trading.

The BSE was established in 1995 with Canadian assistance and uses a computerized trading system that connects brokers (through remote terminals), the shareholder registry, and the clearing and settlement system. Trading is carried out through an order-driven system. As of September 2010, 88 companies were listed on the BSE, with a total market capitalization of around EUR 21b. The BSE has three official indexes: the BET, based on the 10 most liquid stocks listed in the first tier; the overall BET-Composite index; and the BET-FI, which measures the performance of investment funds. The ROTX (Romanian traded index) was introduced in 2005, which reflects the movement of the most liquid blue chip stocks traded on the BSE.

Additionally, the Alternative Trading System has been established, however, its operations shall begin on the date CNVM approves the applicable rules and regulations.

The Monetary, Financial, and Commodities Exchange in Sibiu (BMFMS) is Romania's premier futures and options exchange. The BMFMS, operating since 2004, provides trading in futures and options contracts in the most important currencies (e.g., RON/USD, RON/EUR, EUR/USD) and on the BET index.

2.6 Labor force and employment regulations

Employment regulations and the employer-employee relationship are governed by the Labor Code (Law 53/2003, subsequently amended).

Applicability
The Labor Code covers Romanian employees with employment contracts, who perform activities in Romania or abroad for a Romanian employer, as well as foreign individuals with employment contracts who perform activities for a Romanian employer in Romania. An individual may be employed only based on his/her health certificate.

Working relationship
Types of employment contracts
The law stipulates individual employment contracts for an indefinite period as the common method of employment. In addition, other forms of permitted employment are:

- Individual employment contract for a fixed duration
- Temporary employment
- Part-time employment
- Flexible working arrangements (home-based work)

Service agreements (convenţii civile de prestări servicii) are no longer regulated by the Labor Code and therefore are not considered as employment.

Special clauses in the employment contract
Before or upon the conclusion of a new or amending an existing employment contract, the employer has the obligation to inform the employee about the terms of the employment (e.g., terms of the agreement, leave periods, allowances). Along with the general terms, an individual employment contract may also include special clauses such as:

Non-competition clause – this clause obliges the employee not to perform any activities, for himself/herself or for others, considered as being in competition with the activities performed by him/her for the employer, or to perform activities for a competing third party, in exchange of non-competition compensation paid by the employer for the duration of the non-competition clause.

The non-competition clause can only be effective if the individual employment contract expressly provides the following:

- The activities an employee is forbidden to undertake at the end of the contract
- The amount of the monthly non-competition compensation
- The period for which the clause will be in effect (maximum two years)
- The third parties for which the employee is forbidden to undertake activities
- The geographical area where the employee can be considered as competing with the employer

The Labor Code provides that non-competition compensation has to be negotiated and amount to at least 50% of the gross average income of the employee for the last six months before the end of the employment contract.

In case of an individual employment contract valid for less than six months, the compensation shall be calculated according to the gross income average within the duration of the contract.

In case of breach of the non-competition clause, an employee can be obliged to return the compensation and pay damages according to the prejudice suffered by the employer.

- Mobility clause – by which the employee accepts to perform his/her duties under the employment agreement in different locations and is entitled to additional allowances in cash or in kind.
- Confidentiality clause – through the confidentiality clause among parties, during and after the period of an individual employment contract, there is an obligation not to divulge any information obtained during the employment relations.

The party in breach of this obligation is liable to pay damages to the other party.

General register of employees
Government Decision 161/2006, subsequently amended, the methodology for preparing and filling the General Register of Employees, has been in force since 31 December 2006. According to the Decision, the Register shall be prepared and transmitted in electronic format using software approved by the labor authorities and carry the following information:

- Identification elements of all employees: name, surname, personal identification code
- Employment date

- Position according to the Classification of Professions in Romania (COR)
- Type of individual labor agreement
- Date and grounds for terminating individual labor agreement (when applicable)

The Register shall be sent to the Territorial Labor Agencies electronically, no later than the working day preceding the beginning of the activity. Non-compliance, as well as completion of the Register with inaccurate information may be considered as contravention and be subject to various fines.

Working hours and paid holidays
Normal working days are of eight-hour duration for full-time employment. Maximum working time per week cannot exceed 48 hours, including overtime. According to law, payment for overtime must be settled with paid leave or a minimum 75% bonus calculated on the base salary. The standard working week is Monday to Friday.

In addition to statutory holidays, employees are entitled to a paid holiday equal to a minimum of 20 working days.

Work security and healthcare
The employer is required to take necessary measures for the security and well-being of employees. The employer is also required to ensure employees have access to medical check-ups. Moreover, the employer is responsible for insuring all employees against accidents on the job and work-related diseases.

Professional training
The employer is required to ensure adequate professional training for employees on a continuous basis by setting up an annual training schedule, which should be attached in the form of an addendum to the individual employment contract. Moreover, employers are required to grant employees paid or unpaid leave for professional training purposes.

Employees' representation
The interests of employees can be pursued via trade unions or elected employees' representatives in accordance with the Labor Regulations.

Employers having over 20 employees must negotiate a collective labor agreement with the employees.

Labor market in Romania
Employed population
The Romanian labor market faced significant changes in the economic transition process experiencing 6% increase in the employed population during the period of accelerated growth 2006 – 2008, according to the data available with the National Institute of Statistics in their Monthly statistical bulletins.

After lay-offs caused by the impact of the economic recession, the number of employed individuals decreased by 9% from Q3 2008 until the beginning of Q4 2009. In 2010, the trend continued at a slower rate, with a decrease of 3.98% until the end Q3 of 2010.

Until the end of Q3 2010, approximately one quarter (23%) of the employed population works in manufacturing, most of them in food and clothing manufacturing. Some of the other high employing sectors are Retail & Wholesale (16%) – showing a decreasing trend in absolute numbers and Public sector – i.e., public administration, education, health (22%), while some of the low employing sectors are Agriculture (2%), Hotels and Restaurants (3%) and Real Estate with less than 1% at the beginning of the Q4 2010.

Unemployment
The registered unemployment rate experienced its lowest points during 2008, at values of around 4%. In 2009 and 2010 however, the registered unemployment rate showed an increase trend, reaching 7.43% at the end of Q3 2010.

Labor costs
Romania has lower labor costs compared to most of the EU countries and benefits from a multilingual workforce with qualified professionals in high growth areas like IT, engineering, and financial services.

The average gross salary earning in the Romanian economy was of RON 1,846 at the end of of Q3 2010, while for three years of accelerated economy growth, between 2006 and 2008, the average gross salary earnings in grew in average by 20% per year (12% in 2006, 33% in 2007 and 12% in 2008). During the year 2009, a significant slowdown of average gross salary earnings increase rate – 2% - was registered.

Labor market challenges

The challenges faced by employers in the present labor market are fundamentally threefold:

- Control / reduce the employment related costs
- Retain / re-skill the key high performing employees
- Attract more / better quality of educated / trained workforce (in case of growth)

In the matter of employment package, Romania has low use of flexible working arrangements or flexible benefits programs. The current labor market environment is an opportunity for organizations to restructure their organizational processes to accommodate flexible working arrangements; the firms might also focus on reviewing the efficiency of the remuneration structure, which was agreed in times of accelerated growth, but which may no longer be advantageous for companies' endeavor to contain employees related cost spiral and manage costs. Several other areas impacting the workforce associated costs are currently under more scrutiny to identify cost reduction possibilities, likelihood of risks and related mitigation mechanisms.

Another key area where organizations may need to focus is retaining the key, high performing employees as, in practice and in times of distress, there is a higher risk of this population to voluntarily leave the company in absence of effective retention mechanisms.

In case of growth, the employers may find more workforce available on the current labor market as opposed to the period 2007 - 2008 when scarcity of workforce represented an important issue for most companies. The most effective recruitment channels for highly skilled and experienced workforce are networking and referrals. The other recruitment channels currently used are recruitment agencies, national or regional newspapers, and job websites. Large international recruitment firms are also present in the market.

2.7 Work regulations for foreigners

Romanian visa regime

Romanian legislation allows two main categories of visas for foreigners, i.e., short-term and long-term visa, single or multiple entries.

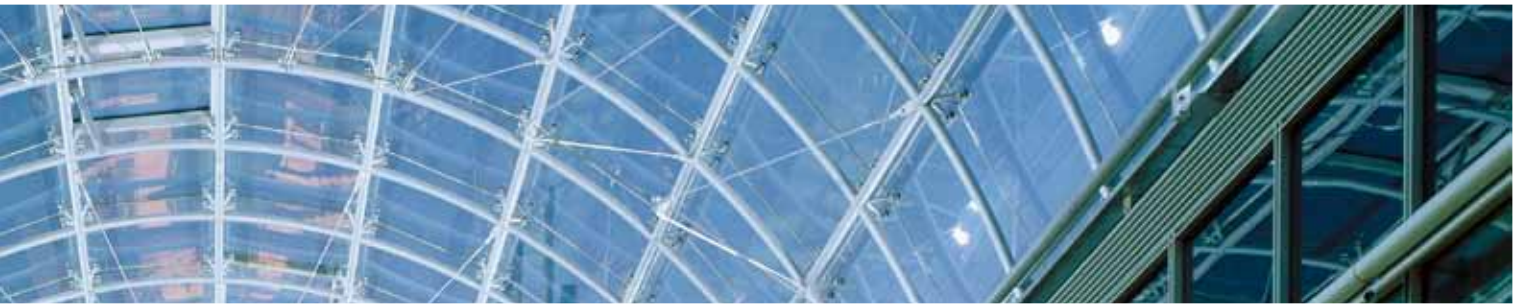
Both visa categories allow foreign citizens to stay in Romania for a period or several periods exceeding 90 days within a six-month period. While the short-term visa cannot be extended, the long-term visa may be extended upon request by applying for a residence permit from Romanian authorities.

Visas are obtained from Romania's diplomatic missions or consulates while abroad and prior to the individual's arrival to Romania.

The main documents foreign nationals must submit to obtain a Romanian long-term visa are as follows:

- Medical insurance for the visa period
- Proof of accommodation in Romania
- Means of support in Romania
- Proof of crime-free record issued by the authorities in the home country

Citizens of EU countries and of the European Economic Area (EEA) member states (i.e., Norway, Liechtenstein, Iceland)



may enter Romania without a visa, and are allowed to stay for a period or several periods not exceeding 90 consecutive days at once, by using either of the following:

- Passports
- Valid identity cards issued by relevant authorities from the home country

Citizens of certain states (e.g., United States of America, Canada, Japan) may also enter Romania without visa.

Special conditions are stipulated by existing legislation with regard to foreigners who intend to set up companies in Romania.

Under immigration law, foreign citizens can obtain in certain cases (i.e., frequent business trips) short-term multiple entries visas, valid for a period of up to five years.

Residence permits
According to the Romanian immigration law, foreign nationals staying in Romania for more than 90 days in a six-month period should apply for a Romanian residence permit. Similar residence permits will be issued, upon request, to the family members (i.e., spouse, children) accompanying the individual during the assignment in Romania.

According to the current Romanian legislation, companies located in an EU or EEA member state can second the EU and EEA nationals to Romania for an undetermined period without the need to obtain a Romanian work authorization. The individuals should apply directly for a Romanian registration certificate/residence permit.

The secondment of the non-EU nationals is limited to one year, and any subsequent extension is contingent upon obtaining a Romanian work authorization for local employment purposes.

Foreigners assigned as heads of Romanian branches of foreign companies, as well as foreigners nominated as administrators of Romanian companies, may apply for a residence permit only if certain conditions are fulfilled.

Work authorizations
The EU citizens carrying out activities in Romania based on secondment letters or local employment agreements are no longer required to obtain Romanian work authorizations. In addition, the assignors (i.e., foreign company) must give Romanian labor authorities at least five days prior notice regarding the beginning of the individuals' assignment.

Expatriate tax registration
Foreign nationals assigned to perform activities in Romania are obliged to register for tax purposes within 15 days of the first day of assignment if certain conditions are met.

As of 1 July 2010, non-resident individuals are taxed in Romania, for the income generated from dependent activities, as of their first day of presence in Romania, irrespective of the number of days spent in the country. However, the provisions of the Double Tax Treaties entered into by Romania should prevail over the domestic legislation. In order for the treaty's provisions to be claimed, the individuals should be able to provide to the Romanian tax authorities their tax residency certificate and its legalized Romanian translation.

If a Double Tax Treaty does not exist between Romania and the country where the individual in question is tax resident, or for any reasons its provisions cannot be claimed, then the non-resident individual would become taxable here as of his/hers first day of Romanian activities.

The individuals are personally liable to compute, declare, and pay the income tax by the 25th of the month following the one the income is earned. Failure to meet this deadline triggers fines and late payment penalties.

If a foreign individual has a local employment contract, the obligation to compute, withhold, and pay the income tax stays with the Romanian employer.

Also, the Romanian company at the premises of which the individual carries out activities in Romania has the obligation to notify the tax authorities about the start/end of the individual's assignment to Romania within 15 days since the event occurred. This obligation is applicable for both the long-term and short-term assignments.

2.8 Intellectual and industrial property

As a result of political and economic pressure from the international community, intellectual and industrial property has become a major concern of the Romanian government since 1990. As a signatory to major international conventions and treaties on intellectual property rights, Romania's legislation has been subject to important changes. Important legislations have been enacted to this effect such as Patents Law (Law 64/1991 as further amended), Semi-conductor Products Law (Law 16/1995), Copyright Law (Law 8/1996), Trademark and Geographical Indications Law (Law 84/1998), and Industrial Designs Law (Law 208/2007 implementing the provisions of the Directive 98/71/CE and amending Law 129/1992 on the protection of Industrial designs).

The relevant authority for registration and protection of patents and trademarks is the Office for Patents and Trademarks (OSIM). Patents and trademarks are issued and protected based only on an OSIM issued certificate.

The regulatory body for copyright is the Romanian Office for Copyright (ORDA). There are also private entities such as non-governmental organizations, set up with prior approval of ORDA, to ensure administration and protection of copyright.

Romanian legislation specifically regulates licensing agreements and assignment agreements (with regard to patents, trademarks, and copyright). Such agreements should observe the legal framework established by each applicable law.

Ownership rights for trademarks, patents, and copyrights can be contributed as share capital of Romanian companies subject to independent valuation.

Special attention has been paid to regulate e-business since 2000. The Electronic Signature Law was enacted in 2001 (Law 455/2001), while in 2002 Romania's Parliament approved Law 365/2002, on electronic commerce.

2.9 Competition legislation

Romania's competition regulations (Law 21/1996 and subsequent application procedures) are well harmonized with similar EU rules.

Significant changes have occurred as a result of Romania's accession to the EU. Thus, the former state aid law was repealed with a new regulation (i.e., Government Emergency Ordinance 117/2006) that transposes most of the provisions and notification procedures set forth by EC Regulations 659/1999 and 794/2004 into Romanian competition legislation. As a result, granted state aid shall be notified to and authorized by the relevant department of the European Commission. Accordingly, no authorization powers on state aid matters are left to the Romanian Competition Council. On such matters, the Romanian Competition Council acts only as a liaising authority between state aid providers, beneficiaries, and the European Commission.

The EC Regulation 139/2004 on mergers control became directly applicable in Romania as a result of the 2007 accession. This regulation sets forth the procedure for notifying to the European Commission economic concentrations bearing a "community dimension". Such concentrations fall under the exclusive authority of the Competition Directorate within the European Commission.

An economic concentration bears a "community dimension" if: (a) the combined aggregate worldwide turnover of all the undertakings concerned is over EUR 5,000m; and (b) the aggregate Community-wide turnover of each of at least two of the undertakings concerned is over EUR 250m. By way of exception, where each of the undertakings concerned achieves more than two-thirds of its aggregate Community-wide turnover within the same Member State, such concentrations are subject to the authority of the competition authorities within the respective Member State.

The Romanian Competition Council remains responsible for monitoring the competitive behavior of businesses on the Romanian market, collusions between competitors in the Romanian market, and the growth of market structures (mergers and acquisitions). Collusive arrangements and anti-competitive agreements between competitors are strictly forbidden, but mergers and acquisitions are permitted provided these do not hinder free competition in the market.

Approval of the Competition Council is required in case of economic concentrations that exceed the following:

i. EUR 10m in RON equivalent of aggregate turnover of the entities involved, and

ii. EUR 4m in RON equivalent of individual turnovers generated in Romania by at least two of the entities involved

The threshold is assessed based on the year preceding the transaction, and the applicable exchange rate is published by the NBR for the last day of the year.

Following an economic concentration, all parties have the obligation to notify the Competition Council of the parties involved, in case of mergers, and the party otherwise acquiring control.

Following notification and inspection, the Competition Council evaluates and authorizes the transaction.

If companies involved do not notify the Competition Council, its representatives may conduct investigations regarding the economic concentration. The Competition Council may decide to cancel the share purchase or the merger and may impose fines up to 1% of the company's total annual turnover for the previous year.

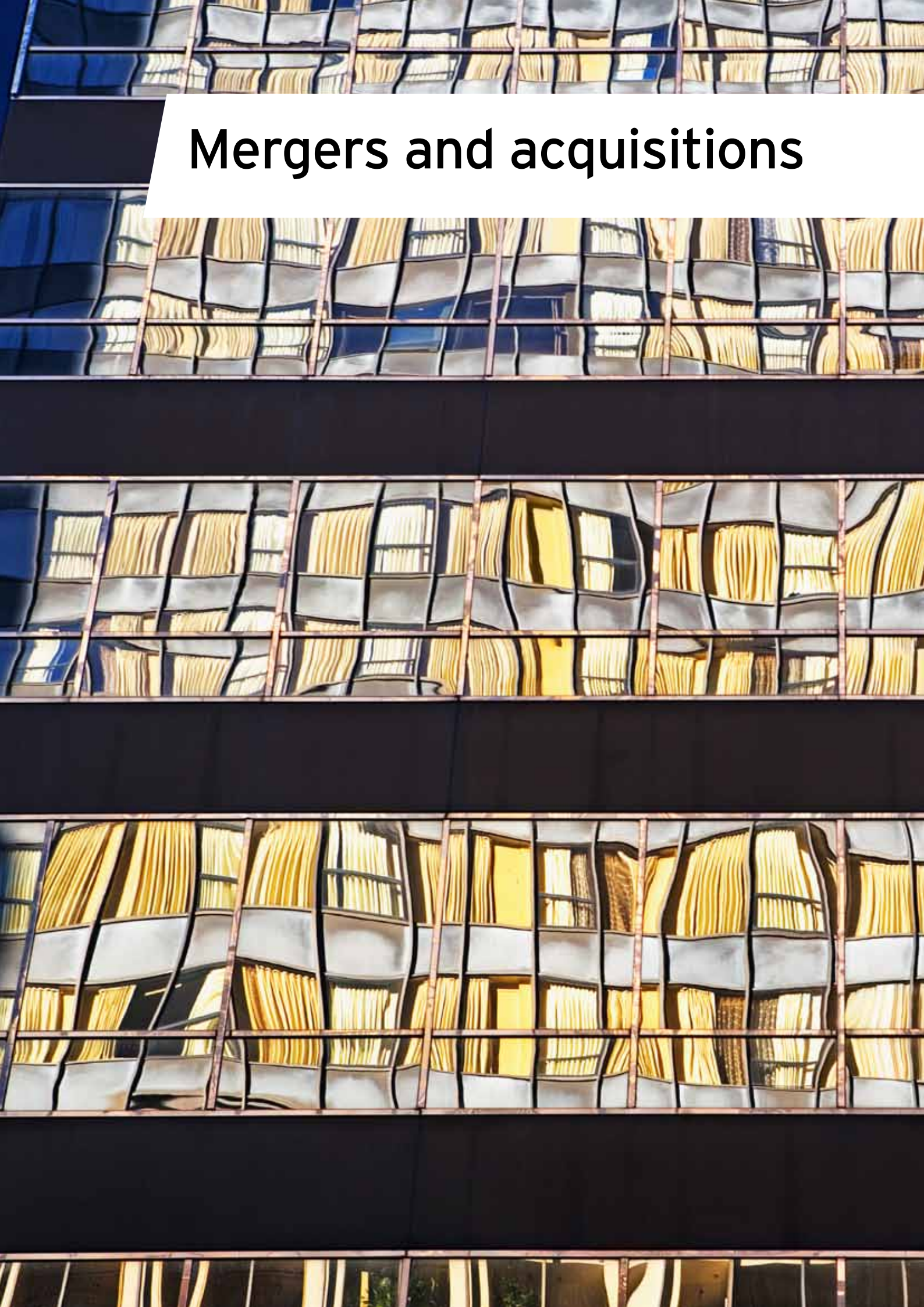
2.10 Environmental legislation

In the context of Romania's EU membership, environmental protection represents an important and sensitive area.

Starting with 2008, Romania has designed its new National Strategy for Durable Development, which follows EU environment-related priorities and objectives.

The main institutions responsible for environmental protection are the Ministry of Environment and Forests, which is the central regulatory authority, along with the National Environmental Protection Agency, the Environmental Guard, local environmental protection authorities and the Danube Delta Biosphere Reservation Administration.

Mergers and acquisitions



Transactions represent one of the fastest ways of improving any company's commercial and strategic position in the market place. Following significant increases in the number of mergers and acquisitions, in light of EU ascension, Romania, in recent times, has experienced a significant drop in the number of acquisitions both in terms of size and of volume, while it has seen an increase in the number of mergers. This was mainly caused by difficult economic conditions that made the access to leveraged funds increasingly more difficult. Sellers' high expectations for exit returns clashed with investors' hope for cheaper deals, leading to prolonged negotiations and fewer transactions being closed. Investors displayed prudence towards potential targets and only closed best-deal transactions.

The legal framework for M&A transactions is rather limited, including Company Law 31/1990 and Order 1376/2004 (concerning accounting procedures for merger, spin-off, dissolution, liquidation, withdrawal and exclusion of shareholders, as well as the fiscal regime for such operations). M&As involving at least one public company must also comply with the Capital Market Law 297/2004 and observe the regulations issued by the Romanian National Securities Commission (CNVM).

3.1 Mergers

The existing Romanian regulations provide two options for a merger:

- Two or more companies resulting in a new company with the original companies ceasing to exist
- Absorption of one or more companies into another company with only the absorbed company/ies ceasing to exist

The merger process involves a number of steps:

- General Meeting of Shareholders deciding on the structure of the merger
- Preparation of a merger plan
- Preparation of a set of financial statements for the planned merger date, as well as other valuations and expert reports
- Registration of the merger plan with the Trade Registry for examination and a judge's approval
- Publication of the merger plan in the Official Gazette, followed by a 30-day break allowing any creditor of the merging companies to file an opposition to the merger

For specific sectors, a supervisory body must issue an endorsement for the merger to be completed (e.g., in case of financial institutions, the approval of the NBR is required). There are some instances where companies involved in a merger are subject to certain competition regulations if they are part of the same group.

3.2 Acquisitions

There are two ways of acquiring shares in a Romanian company:

- Purchase of existing shares
- Share capital increase

Other options of acquiring a business are through asset deals and transfers of business.

Purchase of shares

There are no restrictions on the acquisition of shares in a Romanian company listed on a stock exchange, but a closed company may have such restrictions specified in its articles of incorporation.

The Company Law regulates the acquisition of shares in a limited liability company or in a joint stock company. The acquisition procedures are different because shares in a limited liability company are not freely transferable to third parties (i.e., a special quorum and a majority in the General Meeting of Shareholders is required), while shares in a joint stock company normally are.

The transfer of ownership over the purchased shares is complete once the sale-purchase agreement is executed and the registration with the Trade Registry is carried out, in the case of limited liability companies. In the case of joint stock companies, the transfer is completed upon the registration of the purchaser in the company's shareholder register.

Economic concentrations that exceed certain thresholds (see the section on Competition legislation) at the turnover level must be subject to the approval of the Competition Council.

Share capital increase
An interested party may purchase newly-issued shares of a company if the existing shareholders did not use their pre-emption right or such a right was revoked by a resolution of a Shareholders' Meeting.

For a listed company, a sales prospectus must be published, and the issue of new shares is completed through a public offering approved by the CNVM.

3.3 Privatization

Background
The privatization process offered foreign investors a wide range of opportunities to invest in Romania by acquiring shares or assets, as well as set up joint ventures with state-owned companies. Moreover, strategic investors were offered a number of incentives.

Fondul Proprietatea (FP) was set up by the Romanian Government in December 2005 to indemnify persons whose assets were abusively expropriated by the communists (when restitution in kind was no longer possible).

Main shareholders in FP are: the Romanian Government - approximately 44% and private individuals - approximately 40% (source: FP website). Based on latest available information, FP's shareholder structure consists of: corporate structers - approximately 58% (including the Ministry of Finance with a holding of circa 39%) and individuals - 42% (source: The Central Depository).

Top 10 FP portfolio companies include, in the order of holding size, OMV Petrom SA, Hidroelectrica SA, Romgaz SA, CN Aeroporturi Bucuresti SA, Nuclearelectrica SA, Transgaz SA, Complexul Energetic Turceni SA, Enel Distributie Muntenia SA, GDF Suez Energy Romania SA and Enel Distributie Banat SA (source: Prospectus for Listing).

The investment manager and sole administrator of FP is Franklin Templeton Investment Management Limited. FP's net assets value (NAV) was estimated at EUR 3.4b as at 31 August 2010.

On 6 January 2011, the Bucharest Stock Exchange (BSE) has approved the FP's listing (scheduled for 25 January 2011). The expected FP listing will increase the visibility of the BSE in the region, and attract both foreign and local funds.

Main regulatory bodies
Currently, the Government approves the privatization strategy, with a number of ministries and agencies coordinating and monitoring the process, such as:

- The Authority for State Assets Recovery (AVAS), the major privatization body, operating under the government's authority which merged with the Office of State Ownership and Privatization in Industry (OPSPI) the former public authority under the Ministry of Economy and Commerce
- Various ministries such as the Ministry of Agriculture, Forest and Rural Development, the Ministry of Transportation, Construction and Tourism for state-owned transportation companies, railways, airports, etc., the Ministry of Communication and Information Technology, and local councils

Privatization methods
In accordance with the provisions of Law 137/2002, the state's share in a commercial company could be reduced through:

- Sale of shares
- Increase of share capital by private capital contribution
- Free transfer of shares with assets
- Sale of assets
- Any combination of the above

Important elements in the privatization process could be reconsideration of the company's debts with a view of increasing its attractiveness for privatization and the issuance of an official tax health-check certificate showing the company's outstanding liabilities to the state budget.

Sale of shares is the most common privatization method. Shares may be sold to either individuals or legal entities, Romanian or foreign, using one of the following methods:

- Public offer
- Sale methods specific to the capital market
- Negotiation
- Open or sealed auctions
- Certificates of deposit issued by investment banks on the international capital market
- Any combination of the above

Irrespective of the method used, potential investors are required to prepare and submit a presentation file and a letter of intent to the privatization authority. For listed companies, these documents must follow CNVM's rules.

Prospective investors are entitled to carry out full due diligence prior to submitting their non-binding/binding offers. The minimum offered price should be equal to the nominal value of shares.

Public offer
The public offer of shares is carried out based on the CNVM rules through brokerage companies selected through auction. The number of shares subject to public offer, as well as their nominal value, must remain unchanged during the entire sale process.

Sale methods specific to the capital market
Such methods are mainly comprised of the following:

- Sale by order – applied in case of publicly listed companies, where state shareholding does not exceed 5% of the share capital
- Sale initiated by public institutions upon direct purchase offer
- Electronic tenders applied in case of a public institution selling more than 5% of the shares
- A combination of the above

Negotiation
Sale of shares through negotiation is used for strategic investors represented by qualified bidders acquiring a controlling interest in a company.

The negotiation process may involve one of the following methods:

- Negotiation based on final, improved and irrevocable bids, in which case potential investors submit initial binding offers subject to further negotiations with the involved authorities, after which they present the final and improved binding bid
- Negotiation based on a preliminary non-binding offer
- Negotiation with selection based on technical offers, followed by the financial offer

Open or sealed bid auctions
These represent methods of public tender, and follow the principles of negotiation, except that the awarding of the winning bidder is carried out using English or Dutch auction norms, in case of sealed auctions.

Sale of assets
Assets may be privatized either by sale in installments or by leasing subject to an irrevocable sale clause. The privatization method used is the open auction, and the offer price is established through an independent expert appraisal.

3.4 Post-privatization

The buyer has to notify the privatization authority of the status of investments, financial results, and any change in ownership.

All privatization agreements concluded with AVAS, as well as previous agreements concluded with State Ownership Fund (SOF) or The Authority for Privatization and Administration of State Participations (APAPS), are monitored to ensure that the sale-purchase obligations are fulfilled.

The company's external auditors are required to issue a certificate attesting that any investment obligations under the privatization agreement are fulfilled. For environmental investments, the external auditor's certificate must be accompanied by a certificate issued by local environment authorities.

The buyer may reschedule investments by amending the privatization agreement should the privatization agency allow it. However, the level of investments, as well as the price paid, is not subject to change unless specific clauses in this respect are included in the privatization agreement.

A privatization agreement could be transferred to another interested buyer, subject to the privatization agency's approval.

Taxation in Romania

4.1 Corporate taxes at a glance

Profits tax rate (%)	16	(a)
Capital gains tax rate (%)	16	(a)
Branch tax rate (%)	16	(a)
Withholding tax (%)		(b)
- Dividends	0/16	(c)
- Interest	0/16	(d)
- Royalties	0/16	(d)
- Services	16	(e)
- Commissions	16	
- Entertainment and sports activities	16	
- Proceeds from liquidation	16	(f)
- Branch remittance tax	N/A	
Net operating losses (years)		
- Carry-back	N/A	
- Carry-forward	7 (5)	(g)

(a) See section on profits tax.

(b) The withholding taxes referred to above are levied on income earned in Romania by non-resident individuals and legal entities (referred to below as "non-residents"), income that is not attributable to a Romanian permanent establishment of the non-resident income recipient.

(c) See section on dividends.

(d) See section on withholding tax.

(e) Withholding tax generally applies to services rendered in Romania, except for international transport and services related to such transport. However, income from management and consulting services is taxable regardless of whether these services are rendered in Romania or abroad, if such income is obtained from a resident, or if it is a cost of a permanent establishment in Romania.

(f) Withholding tax applies to the proceeds from liquidation of a Romanian legal entity.

(g) See section on determination of taxable income.

4.2 Taxes on corporate income and gains

The Fiscal Code came into effect on 1 January 2004. The code has integrated key tax legislation and provides the basis for a more stable framework of tax legislation by requiring amendments to follow a specific juridical route.

Fiscal year
In Romania, the fiscal year is the calendar year.

Profits tax
Resident entities as well as legal entities having their headquarters in Romania, but incorporated as per the European legislation (i.e., European companies) are subject to tax on worldwide income. An entity is resident in Romania if it is incorporated according to the Romanian legislation, if it is a foreign legal person having its place of effective management in Romania or if it is a legal entity having its headquarter in Romania and it is incorporated according to the European legislation.

Associations or consortia between Romanian legal entities, which do not qualify as legal persons, are taxable in Romania separately at the level of each partner. For such associations between a Romanian legal entity and individuals or foreign entities, the tax must be computed and paid by the Romanian legal entity on behalf of the individuals or its foreign partners.

Non-resident companies are subject to tax on their Romanian-sourced income only. Sale of shares held in Romanian companies by non-resident companies, and sale of real estate located in Romania, are also subject to profits tax in Romania (see section on *Capital gains tax*).

A permanent establishment in Romania may be constituted inter-alia by: an office, a branch, a factory, a mine, land for oil and gas extraction, or a building site that exists for a period exceeding six months. Also, a permanent establishment includes the place where an activity continues using the assets and liabilities of a Romanian legal entity undergoing a restructuring process (e.g., merger, spin-off) involving entity/entities from other member state of the European Union.

Romanian legal entities should register with the relevant tax authorities any contracts signed with non-resident legal entities or individuals performing in Romania construction and assembly works, surveillance, consultancy, technical assistance or any other activity performed in Romania if such activities could give rise to a permanent establishment of the non-resident in Romania. The contracts should be registered by submitting a declaration within 30 days from the date they were concluded. The form and content of the respective declaration is approved by order of the National Agency of Fiscal Administration (ANAF).

The fine for non-compliance with the above registration requirements ranges between RON 1,000 – RON 5,000.

Rates of profits tax
The standard profits tax rate is 16%.

Profits tax payable by companies earning revenues from bars, nightclubs, discos, casinos and sports bets, including revenues from an association agreement, is computed at the standard 16% rate, provided the tax amount is not less than 5% of the total declared revenue. In case the profits tax payable is below this threshold, the taxpayer is liable to pay profits tax computed at 5% of the declared revenue from such activities. If certain conditions are met, companies may opt for the micro enterprise regime, under which a 3% income tax rate is applied to revenues derived by the company (in 2010 this regime was cancelled but reintroduced from 2011).

Representative offices are taxed on a yearly basis at a lump sum of the RON equivalent of EUR 4,000, payable in two equal installments, until 25th of June and 25th of December.

Capital gains tax
No separate capital gains tax is payable by resident entities. Capital gains of non-resident entities from the sale of immovable property in Romania, or from sale/transfer of shares held in a Romanian legal entity, are taxed at the standard corporate tax rate of 16%.

During the period 1 January – 31 December 2009, profits derived by non-resident legal entities from transactions with participation titles held in Romanian companies and traded on the regulated market in Romania were treated as non-taxable.

Dividends
Dividends distributed/paid by resident legal entities or by European companies to their shareholders (namely, Romanian legal entities, EU resident legal entities and legal entities from the countries of the European Free Trade Association, i.e., Iceland, Norway, and Lichtenstein) are exempt from withholding tax in Romania, provided some conditions are met, including the condition that the shareholders own a minimum 10% of the share capital of the Romanian legal entity for an uninterrupted two years period ending at the date of dividend payment. Unless the above conditions are met, a 16% tax rate applies to dividends paid by resident entities to other resident entities, as well as dividends paid to any non-resident legal entities (or a tax rate available under a tax treaty, if favourable).

Starting from 2010, the dividends distributed by the Romanian legal entities to voluntary pension funds or to private pension funds, as well as to public administration bodies exercising the rights and obligations arising from the quality

of state shareholder of the respective Romanian legal entities are exempt of dividend tax.

Starting from 2010, in order to benefit of the more favourable provisions of the double tax treaties and the EU legislation, non-residents have to provide to the income payer a tax residency certificate as well as a statement on the fulfilment of the income beneficiary condition.

If the condition of the shareholding period is fulfilled at a later stage, the dividend beneficiary is entitled to exemption and may request reimbursement of the tax withheld in Romania.

Dividends paid by a Romanian entity to individual shareholders are subject to a 16% withholding tax rate.

Dividends reinvested beginning with 2009 with the purpose of securing and creating new jobs for the business development of the Romanian legal entities are exempt from dividend tax.

Dividends invested in the share capital of another Romanian legal entity in order to create new jobs or aiming at the development of its activities are exempt from dividend tax.

The procedure to apply the above provisions on reinvested dividends should have been detailed into an Order of the Ministry of Finance which to date has not been issued.

Payments made by a Romanian legal entity to any of its shareholders for goods or services provided by the latter, in excess of the market value of the transaction, are assimilated to dividends from a tax point of view. The same tax treatment applies to payments made for the supply of goods and services used for personal purposes by the company's shareholders or associates.

The dividend tax must be withheld and paid to the state budget by the 25th of the month following the distribution/payment of dividend. In case of dividends distributed, which were not effectively paid by the end of the year, the dividend tax must be paid by 25 January of the following year.

Foreign tax relief

Foreign income of Romanian entities is included in taxable income. This includes passive income as well as capital gains. However, a credit is allowed for foreign taxes paid, up to the level of the Romanian tax on that income. Such credit is also conditioned by the applicability of the provisions of the conventions for the avoidance of double taxation concluded between Romania and the foreign state, as well as documentation requirements.

Dividends received from EU resident entities constitute non-taxable income at the level of the Romanian recipient, if the Romanian beneficiary of dividends holds at least 10% of the shares of the EU entity for an uninterrupted period of minimum two years.

External fiscal losses

Fiscal losses incurred by a permanent establishment located in a state that is not a member of the European Union or of the European Free Trade Association or with which Romania has not concluded a convention for the avoidance of double taxation, are deductible only from the income obtained by the respective permanent establishment (separately, on each income source) in the next 5 consecutive fiscal years.

For the year 2010, fiscal losses incurred by a permanent establishment located in a state which is a member of the European Union, of the European Free Trade Association or a state with which Romania has concluded a convention for the avoidance of double taxation are computed by taking into account the income and expenses recorded from the beginning of the fiscal year.

Tax exemption on reinvested profit

The profits invested by taxpayers in the production and/or acquisition of technological equipments used for deriving taxable income is exempt from profits tax, should the respective equipments be maintained in the patrimony of the taxpayer at least half of the assets' normal useful life.

The profits tax exemption applies for new assets, i.e., which were not subject to prior use, and is granted up to the value of the profits tax due for that period.

In the cases where further to the application of this exemption, the profits tax is lower than the minimum tax, the taxpayers are liable for paying such minimum tax.

The profits tax exemption expired on 31 December 2010.

The amount of profit covered by the profits tax exemption shall be mainly distributed for the set-up of reserves until reaching the amount of accounting profit for the financial year (if the case). The tax value

or the entry value of equipments produced/ acquired shall be reduced with the amount covered by the profits tax exemption. In conclusion, the profits tax exemption is only a deferral of the profits tax, up to the moment when the respective assets are taken out of the patrimony.

Determination of taxable profit

Starting point for determining taxable profit

The taxable profit is computed as the difference between the revenues from all sources, including the delivery of goods and the supply of services, and the expenses incurred for purpose of earning the income in a fiscal year, minus the non-taxable revenues, plus the non-deductible expenses.

The following revenues are considered as non-taxable:

- Dividends received by a Romanian entity from another Romanian legal entity. Dividends received from a non-resident (except for EU resident entities, under certain conditions) are taxable (see also the *Foreign tax relief* and *Dividends* sections)
- Gains in the value of the participation titles held in other entities, registered further to the increase of capital in those entities through incorporation of reserves, profits or issue premiums as well as gains from the valuation of the participation titles and long-term bonds, carried out according to accounting regulations
- Revenues from the reversal of non-deductible expenses and of provisions for which no deduction was allowed
- Non-taxable income, expressly provided by specific regulations and
- During the period 1 January 2009 - 31 December 2009, income derived from transactions with participation titles traded on the regulated market in Romania

Deductions

As a general rule, expenses incurred for the purpose of earning taxable revenues, including those regulated by legal norms, are considered deductible for the profits tax computation.

The Fiscal Code also provides for certain types of expenses that are specifically deductible, including:

- Contributions for insurance against labour accidents and occupational illness and expenses with insurance premiums for insurance against professional risks
- Advertising and publicity expenses for the promotion of business, products and/ or services, if properly documented, as well as expenses with other goods and services provided with the view to boost sales
- Transport and accommodation expenses in Romania and abroad incurred by employees and directors as well as by other individuals assimilated to them
- Subscription fees, dues and other mandatory contributions, as provided by legal norms
- Contributions to the fund for the negotiation of the collective labour contract
- Expenses associated with vocational and professional training of employees
- Marketing expenses, market research, promotion expenses in existing or new markets, participations in fairs and exhibitions, business trips
- Research and development expenses that do not meet the recognition criteria as intangible assets from an accounting perspective
- Expenses for the improvement of management, of information systems, for the implementation, maintenance and improvement of quality management systems, for the acquisition of certificates attesting quality standards
- Expenses for the protection of environment and conservation of resources
- Expenses related to losses made by companies when writing off doubtful or disputed uncollected receivables in case of bankruptcy of the debtor (based on a final court decision), as well as in other cases such as death of the debtor (when the receivable cannot be collected from the heirs) or liquidation in case no successor exists and when the debtor has major financial difficulties that affect its entire patrimony, and
- Registration fees, dues, and contributions owed to commercial chambers, unions, and owners' associations

Key items which are partially deductible include, *inter alia*:

- Provision expenses and contribution to reserve funds within specified limits (see the *Provisions and reserves* section)

- Protocol and entertainment expenses up to 2% of the adjusted accounting profit for the protocol expenses before tax
- Daily allowances for domestic and foreign travel expenses up to the level of 2.5 times the ceiling set for public institutions
- Social expenses (e.g., birth, death, incurable disease support, expenses aimed at the proper functioning of certain units or activities of taxpayers, e.g., kindergartens, health units, canteens, sports clubs, schools, expenses stipulated in the collective labour agreement, as well as gifts in cash or in kind granted to e.g., underage children, certain employees, the cost for the supplies for treatment and rest of own employees and their family) currently up to 2% of the personnel salaries
- Expenses for meal vouchers, granted according to the law
- Perishables within the limits provided by government-approved norms
- Interest expenses and foreign exchange differences within the limits described in the *Thin capitalisation rules* section
- Expenses on behalf of employees in relation to optional occupational pension schemes, within the limit of the RON equivalent of EUR 400/employee during a fiscal year
- Voluntary health insurance premiums within the limit of the RON equivalent of EUR 250/ participant during a fiscal year
- Expenses for the operation, maintenance or repair, excluding fuel expenses related to cars used by management and administrative personnel, limited to one car per person, and
- Additional allowance amounting to 20% of eligible costs for research and development activities (quarterly/annual computation)

Key expenses which are non-deductible include, *inter alia*:

- Romanian and foreign profits tax (a tax credit is allowed for taxes paid in other countries – see the *Foreign tax relief* section)
- Sponsorship expenses (a tax credit is allowed for sponsorship expenses on meeting certain conditions – see the *Sponsorship* section)
- Late payment interest, penalties, and fines paid to Romanian or foreign authorities
- Expenses with inventory or tangible assets that are missing from stock or that are damaged and non-chargeable, for which no insurance contracts were concluded, including the corresponding VAT as applicable
- VAT on goods given to employees as benefits in kind, if the value of such goods was not taxed at employees' level
- Any expenses made in favour of shareholders or associates, other than those generated by payments for goods provided or services rendered at the market value
- Insurance premiums that are not related to the taxpayer's assets or its business scope, except for those relating to rented or leased assets or assets used as collateral for a business-related loan
- Insurance premiums and other employment-related expenses that are not taxable at the level of the employee
- Expenses related to non-taxable income with certain exceptions
- Service expenses, including management and consultancy expenses, for which their provision for business purposes cannot be supported by written contracts and documents
- Losses in the value of shares held in other entities, except for losses made by selling such shares (the exception does not apply for shares held in Romanian companies traded on the regulated market during 1 January – 31 December 2009)
- Contributions paid in excess of the legal limits or those that are not regulated by legal norms
- Expenses related to the decrease in the value of fixed assets upon revaluation
- Losses recorded when writing off uncollected bad or litigious receivables, for the part that is not covered by a provision, and
- During the period 1 May 2009 – 31 December 2011, fuel expenses related to vehicles (except for certain situations specifically mentioned under law, for vehicles used for e.g., paid transportation services, rental activities, security services, repairs, sales activities)

Sponsorship
Taxpayers incurring sponsorship expenses in accordance with relevant legislation are entitled to a tax credit, i.e., deduction from the profits tax payable of an amount of the sponsorship representing the minimum of:

- 0.3% of turnover and
- 20% of the profits tax liability

Provisions and reserves
- Under the existing regulations, the following provisions and reserves are deductible for profits tax purposes:
- Contributions to the legal reserve fund, generally up to 5% of the adjusted annual accounting profits before tax, till the reserve fund reaches 20% of the share capital
- Bad debt provisions, if certain conditions are met
- Provisions for quality performance guarantees granted to clients
- Specific provisions created by credit institutions, non-banking financial institutions registered in the NBR General Register, as provided by the laws governing these entities, as well as specific provisions created by similar legal entities
- Technical reserves set by insurance and reinsurance companies, as provided by the relevant regulatory laws, except for the equalization reserve and
- Risk provisions for financial market operations, as provided by the regulations of the National Securities Commission

Thin capitalization rules
Usually, interest expenses incurred by companies (other than credit institutions) are subject to the following limitations:

- Debt-equity ratio – interest expenses are fully deductible if the debt-equity ratio is not higher than three. In case such ratio is higher or is negative, interest expenses are non-deductible for profits tax purposes and can be carried forward until they are fully deductible under the same conditions and
- Interest expenses for loans granted by companies other than financial institutions are deductible based on the following limits:
  - The reference interest rate of the NBR relating to the last month of the quarter, for loans denominated in RON, or
  - The annual interest rate of 6%, on loans in foreign currencies (but it can be updated based on Government Decision)

The difference between foreign exchange losses and foreign exchange revenues relating to long-term loans (over one year) is treated as interest expense and is subject to the debt-equity ratio limitation (see above).

Interest expenses as well as foreign exchange differences related to loans obtained from Romanian banks (including subsidiaries of foreign banks), leasing companies (for leasing operations), and other legal entities allowed to grant loans according to the law are not subject to the thin capitalization rules.

Deductibility of interest expenses incurred by financial institutions is not limited based on thin capitalization rules as mentioned above.

Tax depreciation
Three alternative methods are available for the computation of tax depreciation, namely:

- Straight-line depreciation
- Reducing balance depreciation and
- Accelerated depreciation (for equipment and patents)

These methods must be followed consistently.

Buildings can be depreciated only on the straight-line method. Land is not a depreciable asset.

From a tax perspective, the law prescribes the concept of "useful lives", which are provided by Government Decision, as follows:

Asset	Years
Buildings and constructions (e.g., roads and fences)	8 to 60
Machinery and equipment	2 to 24
Furniture, fittings, and protection systems	2 to 24
Vehicles	3 to 9

The useful life for each type of asset is provided as an interval. Upon commissioning, the taxpayer is allowed to choose a useful life within such an interval.

Patents, licenses, author rights, know-how, manufacturer's brands, trademarks, as well as other similar industrial and commercial property rights, development expenses, considered as intangible assets from an accounting perspective, are depreciated over the period provided for their utilization or the contractual period, as the case may be. Goodwill is not considered a depreciable asset for tax purposes.

Equipment intended for research and development activities may be depreciated using the accelerated depreciation method.

Up to 30 April 2009, revaluations of fixed assets, performed in accordance with the accounting regulations, were taken into account for tax purposes (except revaluations of entirely depreciated fixed assets made after 1 January 2004). As of 1 May 2009, the tax revaluation of assets is effectively eliminated, as reserves from revaluations performed after 1 January 2004 are taxable for corporate income tax purposes proportionally with the deduction of the incremental tax depreciation, respectively upon the disposal of the revalued fixed assets.

Reorganization, liquidation, other transfers

Under the domestic legislation, the below mentioned principles apply in relation to business reorganization operations.

Capital contributions in exchange of shares are not considered taxable transfers. The tax value of the assets received as contribution is equal to the tax value of these assets when held by the contributor. At the same time, the tax value of shares received by the contributor equals the tax value of the contributed assets.

Asset distribution by a Romanian legal entity to its shareholders, either as dividend or following liquidation, is taxable, except in case of:

- Merger of two or more Romanian legal entities, whereby the shareholders of merging entities receive shares in the resulting entity
- Split of a Romanian legal entity, whereby shareholders receive proportional stakes in the resulting entities
- Acquisition of all assets and liabilities pertaining to one or more activities of another Romanian legal entity by another Romanian entity only in exchange of shares, and
- Acquisition by a Romanian legal entity of at least 50% of shares in another Romanian entity, in exchange of its own shares, and, as the case may be, for a cash payment not exceeding 10% of the nominal value of the newly issued shares

In the above-mentioned cases, the following rules apply:

- Transfers of assets and liabilities and exchange of shares held in one Romanian entity with the shares in another Romanian entity are not taxable
- In the split of a Romanian legal entity, the distribution of shares is not treated as dividend payment
- Tax value of assets/liabilities for the receiver equals the tax value of the same items for the transferor

- Tax depreciation for assets continues in the same manner as before the transfer
- Transfer of provisions/reserves is not taxable if the receiver takes them over and maintains them at the same value as before the transfer
- In a share exchange (as mentioned at the first point above), the tax value of shares received equals the tax value of the shares transferred and
- In a split, the tax value of shares held before the distribution is allocated between these shares and distributed shares proportionally with their market value immediately after the distribution

Starting 1 January 2007, similar principles apply to cross-border reorganizations, as a result of the implementation of the EU Merger Directive in the Romanian Fiscal Code. Under the Directive, cross-border business reorganizations (i.e., mergers, spin-offs, transfers of assets and exchange of shares) between different EU member states should be tax neutral subject to certain conditions.

However, the tax loss of the transferring entity could not be taken over by the Romanian permanent establishment of the receiving entity.

Transfer pricing
According to domestic tax legislation, transactions between related parties must be carried out in accordance with the arm's length principle (i.e., transactions should be carried out at the same price as if concluded between non-related parties).

The methods for the assessment of market value include the Comparable Uncontrolled Price Method, the Cost Plus Method, the Resale Price Method, and any other method recognized by the transfer pricing guidelines issued by the Organization for Economic Cooperation and Development (OECD).

According to the Romanian legislation, taxpayers involved in transactions with related parties should present, upon tax authorities' request, a transfer pricing file, whose content is approved by ANAF Order. The deadline for presentation of the file is a maximum of three months and may be extended only once for the same period. Failure to present the file allows the tax authorities to impose a certain level of transfer pricing using a simplified methodology.

It is possible for the taxpayer to apply for an advance pricing agreement with the authorities that would in theory eliminate the risk of an adverse transfer pricing assessment, as long as the taxpayer respects the terms and conditions of such agreement over its validity period.

Relief for losses
Tax losses posted starting with 2009 may be carried forward for the following 7 years and are not updated for inflation purposes. Tax losses before 2009 may be carried forward over a period of only 5 years.

Loss carry-forward is not available for entities that cease to exist as a result of a split or merger. The carry-back of losses is not permitted.

Tax consolidation
The legislation for the consolidation of companies is at an early stage of development, and until now only the consolidation for accounting purposes has been regulated. There is no provision in the legislation on consolidation for profits tax purposes.

Filing tax returns
Taxpayers are required to file profits tax returns and pay profits tax quarterly by the 25th of the month following the quarter for which the computation is made. The final annual tax return should be filed by 25th April of the following year. As an exception, certain categories of taxpayers are required to pay profits tax by 25th February of the following year, while other categories of taxpayers (e.g., taxpayers that finalise the year-end closing by 25th of February of the following year) may submit the profits tax returns and pay the related tax by the same date.

For 2010, as an exception, for certain tax payers, the callendar year was divided in two fiscal years, i.e. 1 January - 30 September, 10 October - 31 December, respectively.

Legal entities ceasing to exist during the course of the year need to file the final annual tax return and pay the profits tax by the date of submission of the financial statements to the Trade Registry.

Banks and branches of foreign banks in Romania are required to pay quarterly profits tax in advance, based on inflation-adjusted past-year tax results.

The other profits tax payers will apply this system of advance payments starting from

2012.

4.3 Withholding taxes

Withholding tax is applicable on a number of payments made by Romanian tax residents to non-resident recipients.

Types of payments which are subject to withholding tax are presented in the table below.

Type of payment	WHT Rate (%)
Royalties (see explanations below)	0/16
Interest (see explanations below)	0/16
Commissions	16
Dividends (see explanations below)	0/16
Various services	16
Gambling income	25

Under certain conditions, an exemption is available for dividends paid to companies incorporated in the EU, as well as in the European Free Trade Association (EFTA) countries. Starting 1 January 2011, the reduced 10% withholding tax rate which could previously apply under certain conditions for dividends paid to EU or EFTA beneficiaries, is no longer applicable (please see also the *Dividends* section).

Under the EU Interest & Royalties Directive implemented in the Fiscal Code, starting with 1 January 2011 interest/royalty payments made by a resident legal entity to an EU or EFTA resident legal entity or to an EU or EFTA permanent establishment of an EU or EFTA resident company are exempt from withholding tax in Romania if the beneficiary holds a minimum 25% of the share capital of the domestic legal entity for an uninterrupted two-year period at the date of the payment. The Directive was incorporated in the Fiscal Code with a transition period lasting until 31 December 2010 during which the withholding tax rate for interest/royalty was 10%. If the above conditions are not met, the 16% tax rate applies or a tax rate available under a tax treaty, if favorable.

If the shareholding period condition is fulfilled at a later stage, the beneficiary would be entitled to an exemption and may request a reimbursement of the withholding tax paid.

Also, generally a reimbursement could be requested by the non-resident beneficiary of income in case of tax withheld in excess of the rates imposed by the tax treaties or the EU legislation, respectively.

For interest income related to current accounts, sight and term deposits, deposit certificates, and other savings instruments provided by banks and other authorized lending institutions from Romania earned starting 1 July 2010, a 16% withholding tax rate is applicable. Such income earned prior to 1 July 2010 is exempt from withholding tax in Romania.

The following income types are not taxable:

- Income obtained by non-resident collective investment bodies (without corporate status) from the transfer of securities held directly or indirectly in a Romanian legal entity
- Income derived by non-residents on foreign capital markets from transfer of participations and other securities issued by Romanian residents

The following categories of interest derived by non-residents from Romania are exempt from withholding tax:

- Interest related to public debt instruments in RON and in foreign currency and revenues from the trade of State bonds and debentures issued by local authorities, in RON and in foreign currency, on the domestic and foreign capital market, as well as interest related to instruments issued by the National Bank of Romania for monetary policy purposes and revenues from the trade of securities issued by the National Bank of Romania
- Interest and/or dividends paid to pension funds, as they are defined according to the legislation of the EU Member States

Under the EU Savings Directive, savings incomes paid to EU resident individuals are exempt from withholding tax in Romania subject to certain conditions.

Incomes received by non-resident entities earned from consulting services based on non-reimbursable financing agreements signed between the Romanian government and foreign governments or organizations are exempt from withholding tax in Romania.

The withholding tax must be paid to the state budget by the 25th of the month following the one in which payment was made.

The withholding tax for dividends distributed but not paid to the shareholders until the end of the year in which the annual financial statements have been approved must be declared and paid by the 25th of January of the following year.

Companies are required to file an annual withholding tax return until 30 June of the year following the relevant tax year.

Romania has signed over 80 agreements since the 1970s for the avoidance of double taxation, which may reduce the applicable withholding tax rate.

In order to apply the more beneficial provisions of a treaty, the income beneficiary has to provide a certificate of tax residence issued by the foreign tax authority. The domestic law does not allow application of double tax treaties in case of net-of-tax arrangements when it is the Romanian payer of income, and not the beneficiary, that bears the tax.

In order to apply the more beneficial provisions of the EU legislation, the non-resident has to provide to the income payer (beside the tax residence certificate) also an own liability statement indicating the fulfillment of the beneficiary requirements.

4.4 Value added tax (VAT)

Regime

The Romanian VAT system is harmonized with EU VAT Directive.

Taxable persons

General

Any person supplying taxable goods or services in the course of business on a regular basis is considered a taxable person. The term "business" refers to all independently carried out activities of producers, traders and suppliers of services.

Taxable persons established in Romania with an annual turnover exceeding EUR 35,000 are required to register for VAT purposes. Persons not meeting the above-mentioned turnover criterion may also register for VAT purposes.

The registration may be performed before carrying out any taxable and/or exempt with right of deduction operations (by opting for registration or by declaring an envisaged turnover higher than the registration threshold upon starting the activity). Persons that were not registered as VAT payers will have to register within 10 days from the end of the month, during which the above threshold was reached or exceeded. A taxable person having the place of business outside Romania but established in Romania via a fixed

establishment is required to register for VAT purposes in Romania (i) before receiving services from taxable persons established in another Member State for which he is liable to pay VAT (general B2B rule), (ii) before supply of services from that fixed establishment to a beneficiary, taxable person established in another Member State, for which the beneficiary is required to pay VAT, (iii) before e.g., performance from that fixed establishment of activities which are taxable and/or exempt with credit.

A taxable person having the place of business in Romania, but not registered for VAT yet, is required to register for VAT purposes before supply / receipt of services to / from taxable persons established in other Member States for which the beneficiary is liable to pay VAT (general B2B rule).

Until January 2012, VAT tax groups may be formed only by taxable persons deemed as large taxpayers. The VAT tax groups do not have the meaning defined by the EU VAT Directive. In Romania the members of such a group could only offset their VAT payable/ refundable positions (with impact on the VAT cash flow).

VAT representative
Taxable persons that are established in the Community (but outside Romania), and obliged to pay Romanian VAT (for certain transactions and provided they do not give rise to a fixed establishment in Romania), have to register directly or appoint a fiscal representative for VAT purposes to fulfill their VAT obligations in Romania. If the person liable to pay tax is a taxable person who is not established in the Community, such a person is required to appoint a tax representative as the person liable to pay tax. Under certain cases, if the foreign taxable person does not register for VAT purposes, the VAT liability shifts, in principle, to the Romanian beneficiary of the supply (under the reverse-charge mechanism).

Intra-Community operators Register
Starting 1 August 2010, all taxable persons and non-taxable legal persons registered for VAT purposes in Romania and performing certain intra-Community transactions have the obligation to register in the intra-Community operators Register.

Taxable operations
Transactions subject to VAT refer to the supply of goods and services, import of goods, and intra-Community acquisitions of goods. To be taxable in Romania, a supply must cumulatively meet certain requirements (e.g., it is made by a taxable person for consideration, the place of the transaction is in Romania).

Supply of goods
Supply of goods refers to the actual transfer of the right to dispose as owner of the goods from one person to another against payment, directly or through an intermediary.

As a rule, a supply of goods has the place of supply where the goods are located at the moment when the delivery takes place – with certain exceptions for goods to be transported, installed, delivered on board of ships, aircraft, trains, for distance sales, and for supply of natural gas, electricity, heat energy or cooling – provided certain conditions are met.

Supply of services
The place of supply of services to a taxable person acting as such is the place where the person receiving the services has established the place of business. If services are supplied to a fixed establishment of the taxable person, located in a place other than the place where he has established the place of business, the place of supply of services is the place where the fixed establishment of the person receiving the services is located (general B2B rule).

The place of supply of services to a non-taxable person is the place where the supplier has established the seat of business. If services are supplied from a fixed establishment of the supplier, located in a place other than where the person has established the seat of business, the place of supply of services is the place where that fixed establishment is situated (general B2C rule).

There are a few derogations from the general rule concerning the place of supply of services (e.g., services in connection with immovable property, passenger transport, catering services and short term hiring of means of transport, etc). Also, Romania implemented the use and enjoyment rule for certain services supplied to taxable persons established in third countries (e.g., work on tangible movable

property, local transport of goods and ancillary services). Use and enjoyment rule is also implemented for (i) services related to access to cultural, artistic, sports, educational, etc. events rendered to taxable persons and (ii) transport of goods performed outside the EU rendered to taxable persons established in Romania.

The term "services" applies to all transactions not treated as supply of goods.

Import of goods
Goods brought from outside the Community and introduced into EU territory in Romania are considered to be imports and fall within the scope of VAT with certain exceptions (i.e., entry of goods under a qualifying customs duty suspension procedure).

Intra-Community acquisition of goods
Intra-Community acquisition of goods means acquisition of the right to dispose, as owner, of movable, tangible property dispatched or transported to the destination indicated by or on behalf of the purchaser or the supplier to Romania from another EU member state from which the goods are dispatched or transported.

"Reverse-charge" VAT
In case of taxable intra-Community acquisitions, certain acquisitions of goods/services and imports (if the postponement certificate is obtained by the taxable persons registered for VAT purposes performing such operations), for which the "place of supply" is deemed to be in Romania, the law imposes the application of the so-called VAT "reverse-charge" mechanism by the Romanian beneficiary provided certain conditions (which vary for different operations) are met.

Under the reverse-charge mechanism, the beneficiaries must recognize the related output VAT in their return for the respective month. The input VAT may, as a general rule, be recovered in the same VAT return to the extent of the beneficiary's right to deduct VAT.

Simplified recording of VAT
For certain supplies (e.g., waste and scrap materials, wooden material, greenhouse gas emission allowances), a simplified VAT mechanism is applicable, provided that both the seller and the purchaser are registered as VAT payers in Romania.

Under this mechanism, the purchaser has to simultaneously recognize the related VAT, both as an output and input VAT in the return of the respective month, without any cash flow implications (provided the purchaser has a full right to deduct VAT).

Specific VAT schemes and simplification rules
Romania adopted in the national legislation simplification rules referring, *inter alia*, to:

- Triangulation transactions
- Consignment / call-off-stock
- Multilateral work on movable tangible property within the Community
- Repairs during the guarantee period
- Returns of goods within the Community

Also, a series of special VAT schemes are applicable, such as:

- Special scheme for small undertakings
- Special scheme for travel agents
- Special scheme for second-hand goods
- Special scheme for investment gold, etc.

Taxable base
VAT is assessed on the total amount received or to be received by the supplier as consideration for the supply of goods or services; this includes taxes, commissions, packaging, transport and insurance expenses. Certain elements such as price discounts are not included in the taxable base.

Tax rates
The following rates apply in Romania:

- 24% standard rate, which is applicable to supplies of goods and services not subject to VAT exemptions or to the reduced rate
- 9% reduced rate, which is applicable to the supplies of certain goods/services specifically enumerated in the Fiscal Code, such as sale of medicines, hotel accommodation, books, tickets for museums, cinemas, etc.
- 5% reduced rate, which is applicable to supplies of social housing, including related land (certain conditions have to be fulfilled for applying this provision)

Exempt operations
Supplies within the scope of VAT are classified as taxable operations and exempt operations.

Exempt operations are divided as follows:

- Exempt supplies with credit for input tax (e.g., exemption for intra-Community supplies of goods under certain conditions, exports and other similar supplies, international transportation, as well as specific exemptions related to international traffic of goods, etc.)

- Exempt supplies without credit for input tax (e.g., healthcare services, educational services, financial and banking services, supply of immovable property, except for new buildings, lease and renting of immovable property with certain exceptions)
- Exemption for import and intra-Community acquisitions of goods whose local supplies are exempted, etc.

The Fiscal Code provides specific rules on goods benefiting from special customs regimes. The following transactions are VAT exempt with credit for input tax:

- Supply of goods placed under a bonded warehouse customs procedure
- Goods introduced in free zones
- Goods under an inward processing procedure, etc.

Credit for input VAT

General rule

Carrying out taxable supplies allows offsetting output VAT against input VAT. Exempt supplies do not allow the recovery of input VAT, except in the case of VAT exempt supplies with credit, for which input VAT can be recovered. Companies performing both taxable transactions and exempt transactions without credit shall deduct VAT based on the direct allocation method and pro rata mechanism. VAT deduction is allowed also based on invoices sent by electronic means which comply with certain conditions.

As of 1 May 2009, the VAT related to the acquisition of motorized road vehicles, as well as the one related to the acquisition of fuel for the vehicles, owned or used by taxpayers (provided they meet certain criteria), is generally non-deductible. The rule applies until 31 December 2011, with certain exceptions (vehicles used for commercial/resale purposes, used for paid passenger transport including taxi, the ones used for supply of services against consideration, for interventions, security and protection, etc.). In case of lease of such vehicles a VAT deduction on lease installments is, in principle, allowed.

Refund of VAT

If the input VAT exceeds the output VAT, the recoverable balance VAT (defined as "negative VAT balance") may be:

- Carried forward to the next period
- Refunded by the tax authorities, based on the option expressed by the taxpayer in the VAT return. The option can be exercised only for a negative VAT balance exceeding RON 5,000

Starting February 2010, VAT returns with a negative VAT balance with a refund option for a maximum VAT amount of RON 10,000 are by default assigned a low tax risk. Also, large taxpayers may decrease the tax risk assigned to their VAT refund claims from high to low (with some exceptions) by filing bank guarantee letters for an amount equal with the negative VAT requested for refund.

For low tax risk claims, VAT refund should be performed without a tax audit or documentary analysis and in a shorter period of time. However, in the above-mentioned cases, the respective taxpayers would be nevertheless subject to a subsequent VAT audit.

A taxable person established in the Community that is not registered or liable to register for VAT purposes in Romania may request a refund of VAT paid in Romania.

A taxable person not established in the Community that is not registered or liable to register for VAT purposes in Romania may request the refund of the VAT paid if, under the laws of its country of establishment, a taxable person established in Romania has the same right in that country.

Taxable persons established in or outside the EU can claim a VAT refund if the application refers to a period:

- Less than a calendar year but not less than three months; the amount requested for reimbursement cannot be less than the RON equivalent of EUR 400
- Equal to a calendar year or the remaining period of a calendar year; the amount requested for reimbursement cannot be less than the RON equivalent of EUR 50

Invoicing

Documents or messages, both electronic and hard copy versions, are accepted by the Romanian authorities if they meet the requirements provided by the Romanian Fiscal Code in respect of content of invoices. Moreover, any document that specifically and without ambiguities modifies or refers to an initial invoice will be considered as invoice.

Taxable persons supplying goods or services should generally issue invoices by the 15th of the month following the one in which the chargeable event occurs, unless the invoice has already been issued.

Payment and filing requirements
Taxpayers must file VAT returns with the tax authorities and pay VAT on a monthly basis, specifying the taxable amount and the tax due. The tax return must be filed and the respective VAT paid by the 25th of the following month. In case of taxpayers whose annual turnover is less than EUR 100,000 who do not carry out any intra-Community acquisition of goods, VAT returns should be filed with the tax authorities on a quarterly basis and VAT shall be paid quarterly.

A VAT recapitulative statement should be filed with the tax authorities on a monthly basis on or before the 15th day of the following month. Such statement should comprise: intra-Community supplies of goods exempt from VAT, intra-Community acquisitions of goods for which the beneficiary is obliged to pay VAT, and acquisitions as part of operations within the triangulation scheme, as well as acquisitions and supplies of intra-Community services taxed based on the general B2B rule.

Taxpayers should also submit a declaration of all supplies/acquisitions of goods/services taking place in Romania to/from other taxable persons registered for VAT purposes in Romania. The declaration should be submitted on a half-yearly basis, by the 25th of the month following the end of the semester.

Companies registered for VAT purposes in Romania, having deliveries of goods to/arrivals of goods from other EU member states which exceed an annual amount of RON 900,000/ RON 300,000 are obliged to submit INTRASTAT declarations on a monthly basis, by the 15th day of the following month.

4.5 Community customs legislation

Council Regulation (EEC) No. 2913/92, establishing the Community Customs Code (CCC), and Commission Regulation (EEC) No. 2454/93, laying down provisions for implementation of CCC, have become directly applicable in Romania as from the accession date (i.e., 1 January 2007).

As of 1 July 2009, the persons who perform activities which are regulated by the customs legislation must register for customs purposes.

Also, the statute of authorized economic operator may be granted upon request under certain conditions. The respective statute concedes certain administrative incentives to its holder.

Common customs tariff
The specific customs duties payable upon releasing the goods into free circulation, are established based on the Community Customs Tariff (adopted for each year by the Commission) and related preferential tariff measures. There is an online EU customs tariff database (TARIC) which comprises the following:

- The combined nomenclature of goods
- The rates and other items of charge normally applicable to goods covered by the combined nomenclature, as regards customs duties and import charges laid down under the common agricultural policy, or under the specific arrangements applicable to certain goods resulting from the processing of agricultural products
- The preferential tariff measures contained in agreements which the European Community has concluded with certain countries or groups of countries and which provide for the granting of preferential tariff treatment

- Preferential tariff measures adopted unilaterally by the European Community in respect of certain countries, groups of countries, or territories
- Autonomous suspensive measures providing for a reduction in, or relief from, import duties chargeable on certain goods
- Other tariff measures provided for by other Community legislation

Customs duties are expressed as a percentage of the customs value of goods. Other taxes, duties and levies may be required to be paid upon import in addition to customs duties, such as excise duty, VAT, etc.

The CCC and its Implementing Regulations include rules and provisions in respect of the status of the goods, customs valuation, amendment of customs declarations, binding origin information and binding tariff information, quota administration system, etc.

Establishing the customs value of goods
Where the goods to be imported into Romania as from the Accession date will be subject to a sale, the customs value should be based generally on the sale price increased with certain other costs that may have been incurred with purchasing the goods (e.g., insurance, transport, commissions, royalty and license fees).

The cost of (i) transport and insurance of the imported goods, and (ii) loading and handling charges associated with the transport of the imported goods to the place of entering into the customs territory of the Community shall be added to the price actually paid or payable by the importer when declaring the customs value of the goods, to the extent that they are incurred by the buyer but are not included in the price actually paid or payable for the goods.

Customs procedures
As provided by the Community Customs regulations, the goods may be placed under one of the customs procedures, as follows:

- Release of goods for free circulation
- Transit
- Customs warehousing
- Inward processing
- Processing under customs control
- Temporary admission
- Outward processing
- Exportation
- Free warehouse
- Free zone

The *release for free circulation* confers non-Community goods the status of Community goods. This means that the customs duties and charges have been paid and, as a result, the goods may freely move within the territory of the European Community from a customs perspective.

The specific customs procedures suspending the payment of the import duties are generally subject to authorization from the customs authorities.

The *transit* procedure allows the movement of non-Community goods from one point to another within the customs Community territory, without such goods being subject to import duties and other charges or to commercial policy measures for a certain period of time.

A *customs warehouse* is any place approved by, and under the supervision of, the customs authorities where goods may be stored under certain conditions.

The customs warehousing procedure allows the storage in a customs warehouse of the following:

- Non-Community goods, without such goods being subject to import duties or commercial policy measures
- Community goods, where Community legislation governing specific fields provides that their placement in a customs warehouse attracts the application of measures normally used for export of such goods

The *inward processing* procedure provides non-Community goods intended for re-export from the territory of the Community in the form of compensating products, without application of import duties or commercial policy measures. This specific procedure is also applicable to goods released for free circulation with repayment or remission of import duties chargeable on such goods if they are exported from the territory of the Community as compensatory products.

Processing under customs control procedure allows non-Community goods to be used in the territory of the Community in operations which alter their nature or state, without application of import duties or commercial policy measures, and shall allow the products resulting from such operations to be released for free circulation at the rate of import duty appropriate to them.

The *temporary admission* procedure allows the use in the customs territory of the Community, with total or partial relief from import duties and without them being subject to commercial policy measures, of non-Community goods intended for re-export without having undergone any change except normal depreciation due to their use.

The *outward processing* allows Community goods to be exported temporarily from the customs territory of the Community in order to undergo processing operations and the products resulting from those operations to be released for free circulation, with total or partial relief from import duties.

The *export* allows Community goods to leave the customs territory and entails the application of exit formalities, including commercial policy measures.

Free zones and free warehouses are parts of the customs territory of the Community or premises situated in that territory and separated from the rest of it in which non-Community goods are considered, for the purpose of import duties and commercial policy import measures, as not being on Community customs territory, provided they are not released for free circulation or placed under another customs procedure or used or consumed under conditions other than those provided for in customs regulations.

Customs regime for individuals
Customs regulations provide for specific customs duty treatment for the personal belongings of individuals establishing domicile or residence in the Community, goods introduced into the Community upon marriage, inherited goods, as well as goods shipped between individuals.

Goods from the personal luggage of travelers brought into EU without commercial purposes may be exempt from customs duty. The customs duties, VAT and excise duties exemption can be granted up to a total value of EUR 430 per traveler for air and sea travellers and up to a total value of EUR 300 per traveller for other travelers.

For certain goods, such exemption is granted within the following quantity limits:

- Tobacco products:
  - 40 cigarettes
  - 100 cigarillos (cigarillos are cigars of a maximum weight of 3 grams each)
  - 50 cigars
  - 250 grams smoking tobacco
- Alcohol and alcoholic beverages:
  - a total of 1 litre of alcohol and alcoholic beverages of an alcoholic strength exceeding 22% vol, or un-denatured ethyl alcohol of 80% vol and over, or
  - a total of 2 litres of alcoholic beverages of an alcoholic strength not exceeding 22% vol
  - a total of 4 litres of still wine, and
  - 16 litres of beer

The duty exemption mentioned above for tobacco and alcoholic beverages does not apply for travelers under 17 years.

4.6 Excise duty

Excise duty is a consumption tax payable on certain categories of goods including alcoholic beverages, gasoline, tobacco products, coffee, electricity and certain other items. The tax is payable on import and sales of locally produced items on the domestic market and is set as fixed EUR amount per unit ("specific excises") or as a percentage of a specified taxable base.

The excise duties in respect to the main categories of goods are given in EUR in the table below:

Category of products	Excise duty rates valid for 2010
Alcoholic products	up to EUR 750 per hl
Cigarettes	EUR 48.5 / 1,000 cigarettes + 22% of the declared retail price
Coffee	EUR 153 – EUR 900 per ton
Car fuel	EUR 358 – EUR 547 per ton
Electricity	EUR 0.5 or EUR 1/MWh

Taxpayers are normally required to submit monthly tax returns and pay the excise duties for excisable goods by the 25th of the following month, with certain exceptions. In case of imported goods, the related excise duty, if applicable, should be paid at the time of making import declaration at customs.

A special supervision and control system is provided for the production and distribution of excisable goods.

A specific reimbursement procedure for harmonized excise duties based on fiscal risk analysis is available for supplies of certain excisable goods.

Fiscal warehouse regime
The fiscal warehouse regime allows the production, transformation and/or storage of products subject to harmonized excise duties (e.g., beer, wines, other fermented beverages, intermediary products, ethyl alcohol, tobacco products, mineral oils) without the payment of related excise duties. Generally, the fiscal warehouse regime cannot be used for retail sale of such products.

The Fiscal Code allows production (and storage) of electricity and natural gas outside fiscal warehouses.

Excise duty suspension regime
In certain condition, the excisable goods could be moved under an excise duty suspension regime within the territory of the Community. The movement of the excisable goods under the suspension of excise duty must be covered by an administrative document.

The paper document that previously accompanied the movement of the excisable goods under the suspension of duty (the Administrative Accompanying Document or AAD) was replaced with an electronic message from the consignor to the consignee, certified by the authorities of the Member States involved.

For this purposes, a computerised system for monitoring movements of the harmonised excisable goods under suspension excise duty within the Community, named EMCS (Excise Movement and Control System) was implemented starting with 1 April 2010. For movements of excisable goods under the suspension of duty on the Romanian territory, the component EMCS - RO of the computerized system is used.

4.7 Local taxes

Local taxes in Romania are regulated by the Fiscal Code. Local taxes represent a distinct category of taxes set by the local administration, which are payable by both individuals and entities in Romania.

The local councils may annually increase local taxes over the level established for any local tax provided by the Fiscal Code up to 20%, with a few exceptions.

The legislation also provides for some exemptions, for example local councils may grant building and land tax exemptions to legal entities, provided these are in line with the state aid legislation.

These local taxes include:

Building tax
Building tax is payable by owners of buildings located in Romania, regardless of their residence. Starting 1 July 2010 the tax rate ranges between 0.10% and 0.40% for individuals (previously between 0.10% and 0.20%. For legal entities it is between 0.25% and 1.50%. For buildings not revaluated three years prior to the concerned year, the tax payable by legal entities may vary between 5% and 10%. The tax is applied to the value of the building (established values are provided) for individuals and to the book value of the building for legal entities. The tax must be paid annually, in two equal instalments by 31 March and 30 September.

Land tax
Land tax is payable by owners of land. Generally, the tax is established as a fixed amount per hectare, depending on the location of the land within certain determined zones, towns or villages and depending on land use. The tax is payable annually, in two equal installments, by 31 March and 30 September.

Vehicle tax
Vehicle tax is payable by owners of land/water vehicles, which should be registered in Romania. The tax depends on the engine capacity or vehicle characteristics (e.g., number of axles, suspension system, weight, etc.). The tax is payable annually, in two equal installments, by 31 March and 30 September.

Tax for construction authorizations
The tax is established as a percentage on the construction value and is payable upon obtaining the construction authorization.

Publicity and advertising tax
Advertising tax is payable by the 10th of each month during the execution of the contract by the suppliers of publicity and advertising services rendered in Romania, except for publicity and advertising services through audio, video and the print medium. The tax rate is established by the local councils and ranges between 1% and 3%. It is applied to the value of the publicity and advertising services. Users of outdoor advertising must pay an outdoor media advertising tax computed as a fixed amount established by the local councils per square meter, depending on the surface used for advertising. Such tax should be paid in four equal instalments by 15 March, 15 June, 15 September, and 15 November.

Resort tax
The tax is payable by individuals over 18 years for their stay in resorts and is included in the accommodation tariff. The tax rate is established by local councils and ranges between 0.5% and 5% on the accommodation tariff.

Show tax
Show tax is payable by individuals and entities for public performances at a rate of between 2% and 5% of revenues, or a fixed fee depending on the surface area of the premises. The show tax is payable monthly, in arrears by the 15th of the month following the performance.

Other local taxes
The local councils may impose a daily fee for temporary use of public places and for admissions to museums, memorials, or historical, architectural, and archaeological monuments, and also for the ownership or use of equipment that is held for the purpose of obtaining income using public infrastructure, as well as fees for activities with an impact on the environment.

4.8 Stamp duty

Stamp duty is payable on most judicial claims, issue of certificates and licenses, and documentary transactions which require authentication.

There are two types of stamp duty, which include the following:

- Judicial stamp duty
- Extra-judicial stamp duty

Judicial stamp duty is levied on claims and requests filed with courts and the Ministry of Justice, depending on the value of the claim. Quantifiable claims are taxed under the regressive tax mechanism. Non-quantifiable claims are taxed at fixed amount levels. A judicial stamp duty may also be levied at the transfer of real estate property under certain circumstances.

Extra-judicial stamp duty is charged for the issue of various certifications such as identity cards, car registrations, etc.

4.9 Individual taxation

Romanian citizens domiciled in Romania are considered to be Romanian tax residents and are taxed in Romania on their worldwide income. Foreigners and Romanian individuals without a Romanian domicile may be subject to taxation in Romania on worldwide income under certain circumstances.

Residence
An individual is considered to be a Romanian tax resident if he/she fulfils at least one of the following conditions:

- Individual is domiciled in Romania
- Individual's centre of vital interest is located in Romania
- Individual is present in Romania for a period or periods exceeding in aggregate183 days during the 12 months to the end of the calendar year concerned
- Individual is a Romanian citizen working abroad as an employee of the Romanian state.

Taxpayers
Individuals liable to income tax fall into the following two categories:

- Residents, Romanian individuals domiciled in Romania for income obtained from any source, both from Romania and abroad, and residents other than Romanian individuals domiciled in Romania - only for Romanian – sourced income;
- Non-residents, who either:
  - Carry out independent activities through a permanent establishment in Romania, for the net income attributable to the permanent establishment, or
  - Carry out dependent activities in Romania, for the net income from such dependent activities, or
  - Earn other types of income

If a non-resident individual complies with the second or third condition, mentioned in the Residence section above, for a period of three consecutive years, he/she becomes subject to taxation on worldwide income starting from the fourth year. Until the end of the three year period, the respective individual is subject to Romanian income tax only for Romanian-sourced income.

Individuals who are tax residents in countries that have signed double tax treaties with Romania may benefit from a reduced tax rate or a tax exemption under the terms of the respective treaties. Individuals who are tax residents in countries that have not entered into a double tax treaty with Romania may become subject to Romanian taxation from the first day of presence in Romania. Also, foreign individuals working in Romania less than 183 days may become taxable herein for income from dependent activities if they cannot present a tax residency certificate.

Categories of income subject to taxation
A flat income tax rate of 16% applies to the following categories of income:

- Income from independent activities
- Salary income
- Rental income
- Pension income
- Prizes
- Agricultural income
- Other income
- Income whose source was not identified

The Fiscal Code provides special tax rates in case of income obtained from gambling, and transfer of real estate from personal patrimony.

Employment income
Taxable compensation includes salaries, benefits in cash or in kind, wage premiums, rewards, temporary disability payments, paid holidays, and any other income received by an individual based on an employment agreement. Taxable compensation also includes compensation received by daily or temporary workers, fees and compensation paid to directors and managers of private commercial companies, to members of the board of directors and General Shareholders Meeting, to members of the administration council, and to members of the audit committee.

For employment income, the taxable amount is determined by deducting the following from the gross income:

- Mandatory social security charges
- Personal deductions allowed, if any
- Monthly trade union contribution
- Contribution to the voluntary occupational pension scheme (up to EUR 400 per year)

Income from independent activities
Income from independent activities includes the following:

- Income from commercial/freelance activities
- Income from intellectual property rights

Income from commercial/freelance activities
The net taxable income from commercial/freelance activities is computed as gross income less specified deductible expenses that may be subject to certain limits. Individuals authorized as freelancers are obliged to maintain single entry books.

Alternatively, income earned by certain categories of freelancers who do not have employees is subject to income tax based on income quota(s), which are annually established by the Ministry of Economy and Finance.

Freelancers are required to make anticipated payments on a quarterly basis, by the 15th of the last month of each quarter.

Income from intellectual property rights
The net income from intellectual property rights results by deducting from the gross income the following:

- Deductible expenses representing 20% of gross income
- Compulsory social security charges

Payers of intellectual property rights compensation are required to compute, withhold, and pay a 10% advance income tax by the 25th of the following month, if the income beneficiary did not choose the final taxation at 16%.

Income from other independent activities
Income from the following sources is also taxed at 10% advance income tax, if the income beneficiary did not choose the final taxation at 16%:

- Income from sale of goods on consignment
- Income from agent, commission or commercial mandate agreements
- Income from civil conventions based on the Civil Code
- Income from accounting, technical, judicial and extra-judicial expertise

Payers of such income are required to compute, withhold and pay the advance income tax by the 25th of the following month. Separately, payers of income required to compute, withhold, and pay the advance income tax are also required to submit a statement for each individual by the end of February for the previous year.

Only payers of salary income are exempt from this obligation. Income from all types of independent activities is subject to an annual regularization, which is performed by applying a 16% tax rate to the annual

taxable income, less carried forward tax losses (if any) for a period of five consecutive years.

Taxpayers who earn income from independent activities, for which 10% advance income tax is withheld at source, can choose for final taxation with 16% at source. Final taxation is allowed also for income from intellectual property rights, sale of goods in consignment, commercial mandate, agent, commission agreements, accounting, technical, legal expertise (allowed before only for income paid based on civil services agreements).

Rental income
Gross rental income consists of amounts in cash or in kind stipulated in the rental agreements and related to a fiscal year (regardless of the time of effective cashing), as well as certain expenses borne by the tenant and which, based on the law, are the landlord's liability.

The taxable amount is determined by deducting a 25% expense quota from the gross income. Tax on rental income is determined by applying 16% on the taxable amount. As an exception, taxpayers may opt for the determination of the net rental income based on single entry accounting.

Investment income
Investment income includes:

- Dividend income
- Interest income
- Gains from transfer of securities
- Income from futures/forward transactions with foreign currencies and other similar operations
- Income from liquidation

Dividend income
Dividends are defined as any grant of benefits in cash or kind by a legal entity to shareholders or associates as a consequence of holding participation titles (with certain exceptions). Any amount paid by a legal entity for goods or services provided by a shareholder is treated as dividend for the portion of the value of such goods or services that exceeds the market value.

The tax rate applicable to dividends distributed to resident individuals is 16% and is calculated, withheld, and paid by the payer of dividend. The tax should be paid by the 25th of the month following the dividend payment. In case of dividends distributed but not paid until the end of the year, the tax is payable by 25 January of the following year. The dividend tax is final (i.e., the income is not subject to regularization). The withholding tax for non-resident individuals is either 16% or a more favorable rate if a double tax treaty is applicable.

Interest income
Taxable income from interest is any income in the form of interest other than interest related to debt instruments and municipal bonds.

The tax rate applicable to interest income is 16%, and is calculated, withheld and paid by the payer of interest by the 25th of the month following the interest payment. The interest tax represents a final tax.

The withholding tax applied to interest income earned by non-resident individuals, as per the domestic legislation, is 16% or a more favorable rate if a double tax treaty is applicable.

Gains from transfer of securities
Capital gain represents the positive difference between the sale price and the purchase price of different types of securities, reduced by related costs, as the case may be. In case of transfer of shares in a limited liability company, the capital gain represents the difference between the sale price and the nominal value/purchase price of such shares. In case of redemption of investment titles held in open investment funds, the capital gain is the positive difference between the redemption price and the purchase/subscription price. A capital gain on share sale obtained as a result of a stock option plan is defined as the difference between the sale price and the preferential acquisition price. A concept of "net capital gain" has been introduced as representing the difference between gains and losses registered during one year (i.e., positive or negative differences between the sale and purchase price, less the related transfer costs).

The net capital gains from sale of shares in open companies and open investment funds is subject to 16% tax applied to gains obtained from the sale of the shares regardless of the holding period of shares.

Gains from transfer of shares and participation titles in closed companies are subject to 16% tax.

Any loss incurred during the period 1 January - 30 June 2010 can be offset with any gain realized during the period 1 July 2010 – 31 December 2010. Any further loss resulted can be carried forward for the fiscal year 2011 only.

Any loss incurred during the period 1 July – 31 December 2010 shall be recovered within 7 consecutive fiscal years.

Income from futures/forward transactions with foreign currencies and other similar operations
Gains from sale-purchase transactions of foreign currencies with subsequent term settlements, as well as from any other similar operations, are taxable at an anticipated tax rate of 16%, computed and withheld by the intermediary of such transactions (e.g., a bank), upon finalization of the operation. The anticipated tax is payable by the 25th of the following month. The final tax of 16% is assessed by the tax authorities based on the annual tax return.

Income from pensions
Income from pensions comprises any amount received in form of pension from funds created from mandatory social contributions made to a social insurance system. Income from pensions includes any amount from optional occupational pension schemes and those financed by the state budget. Monthly pension income of up to RON 1,000 is not taxable. The tax is final, and is to be determined by levying 16% on the taxable amount. The tax computed for pension is withheld on the date of actual payment of the pension and remitted to the state budget by the 25th of the following month.

The withholding of tax on income from pensions is not applicable in case of individuals with severe disabilities.

Income from agricultural activities
Taxable income from agricultural activities is determined on income quotas issued by specialized territorial directorates of the Ministry of Agriculture and Rural Development, and shall be approved by the territorial general directorates of public finance. Alternatively, taxpayers earning income from agricultural activities may choose to determine the income based on single entry bookkeeping. The tax is computed by levying 16% on the taxable income.

Income derived from sale of agricultural products obtained after harvest under certain conditions is subject to a reduced income tax rate of 2%.

Prizes and gambling income
The tax on prizes is 16%, and is levied on the net income representing the balance between gross realized income and the tax free amount (i.e., currently RON 600). The tax is payable by the 25th of the following month and the liability to compute, withhold, and pay the tax rests with the payer of the income. The tax is final. The tax on gambling is also final and is determined by applying a tax rate of 25% on the net income. The net income in the case of gambling income is computed similarly to income from prizes.

Taxation of real estate transactions
The real estate transfer tax, which has to be paid by the taxpayer on the transfer of the property right or its divisions, is computed as follows:

- For buildings and their related land, as well as land without constructions, acquired and sold within a three-year period inclusively:
  - 3% of the sale amount, if this amount is up to RON 200,000 inclusively
  - For a sale amount over RON 200,000, the due tax is RON 6,000 plus 2% of the amount which exceeds RON 200,000
- for buildings and their related land, as well as land without constructions, acquired and sold after three years:
  - 2% of the amount, if the amount is up to RON 200,000 inclusively
  - For a sale amount over RON 200,000, the due tax is RON 4,000 plus 1% of the amount exceeding RON 200,000

Income from other sources
Income from other sources includes, *inter alia*:

- Insurance premiums borne by a freelancer or any other entity on behalf of an individual who is not an employee of the respective freelancer/entity. Such income is taxable in the hands of the recipient at 16%, through withholding, the tax being final.
- Income received by pensioners who are former employees arising out of the employment contracts concluded with their former employers or based on certain special laws, in the form of price differences for certain goods, services or other rights. Such income is taxable in the hands of the recipient at 16%, through withholding, and the obligation for the calculation and withholding rests with the payer of such income.

Tax on income from other sources is payable by the 25th of the month following the realization of the income.

Income whose source was not identified
Starting with 1 January 2011, any income whose source was not identified should be subject to 16% income tax applied to the taxable base adjusted according to the procedures and indirect methods of reconstitution of revenues and expenses. The income tax and late payment penalties will be computed by the tax authorities.

Personal deductions
Romanian individuals domiciled in Romania, as well as foreigners meeting the residence criteria for three consecutive years, are entitled to personal deductions, which vary depending on the gross monthly income and the number of dependents, as follows:

- For gross monthly income up to RON 1,000, the monthly deductions vary between RON 250 for persons without dependents and RON 650 for at least four dependents
- For gross monthly income between RON 1,000 and RON 3,000, personal deductions are regressive in comparison to the above and shall be set by order of the Minister of Finance
- For gross monthly income higher than RON 3,000, no personal deductions are granted

Filing and payment requirements
Taxpayers, with certain exceptions, have to file an annual income tax return with the tax authorities by 15 May of the following year.

Taxpayers earning only salary income throughout the entire fiscal year fulfill their tax obligations through employer withholdings. Employers withhold the income tax on a monthly basis. Expatriates employed abroad but performing an activity in Romania should file monthly tax returns and pay monthly tax in Romania by the 25th of the following month if certain conditions are met.

Social security
Under Romanian employment regulations, both employer and employee are required to contribute to the social security system.

Starting with 1 January 2011, the social security charges are regulated by the Romanian Fiscal Code.

Social security charges at the individual level

- *Social security contribution (i.e., pension)* – 10.5% on the monthly gross earnings (capped at 5 national average gross earnings)
- *Health fund contribution* – 5.5% on the gross monthly earnings
- *Unemployment fund contribution* – 0.5% on the gross monthly earnings

Social security charges at the employer level

- *Social security contribution* – between 20.8% and 30.8% depending on working conditions, of the total gross earnings (capped at 5 national average gross earnings multiplied with the number of employees)
- *Health fund contribution* – 5.2% of the total gross earnings
- *Unemployment fund contribution* – 0.5% of the total gross earnings
- *Contribution for medical leave and indemnity* – 0.85% of the total gross amount paid to employees on a monthly basis, capped at 12 national minimum gross earning multiplied with the number of insured persons

- *Contribution to the National insurance fund for work accidents and professional diseases* – the contribution ranges between 0.15% and 0.85% of the total gross earning, depending on the risk category
- *Contribution to the Guarantee fund for payment of salary debts* – 0.25% of the total gross earning

Contribution to the health fund by foreign individuals
Citizens of the European Union countries and Switzerland (as of 1 June 2009) benefit from coverage of medical expenses incurred on Romanian territory, as well as exemption from the social security charges based on certificates of coverage (E101 forms) issued according to the EU legislation on social security.

However, if an individual is not subject to social contributions in the home country, that person will fall under the jurisdiction of the Romanian social security system and will be liable to pay social security charges due under Romanian regulations.

4.10 Fiscal Procedure Code

The Fiscal Procedure Code regulates the rights and obligations of parties engaged in fiscal juridical relations regarding:

- Administration of taxes (i.e., activities related to fiscal registration, declaration, assessment, verification and collection of taxes, solving of appeals against fiscal assessments) provided by the Fiscal Code
- Administration of customs duties
- Contributions, fines, and other revenues of the general consolidated budget

The Fiscal Procedure Code constitutes the common law for administration of taxes and if silent on certain matters, provisions of the Civil Procedure Code are to be applied.

General principles for administration of taxes
Consistent application – states the obligation of the tax authorities to apply in a consistent manner the provisions of tax legislation with a view to correctly assess taxes due by taxpayers.

Right to be heard – according to this principle, the tax authorities are obliged to allow the taxpayer to express its position with respect to the deeds and circumstances relevant for decision-making prior to making a decision. The Fiscal Procedure Code stipulates several exceptions from this general principle.

Confidentiality – tax authorities are obliged to ensure the confidentiality of information pertaining to taxes and taxpayers.

Representation and certification
Taxpayers may appoint representatives in their relations with the tax authority. Representatives of taxpayers without Romanian tax residence should themselves be Romanian tax residents.

Starting from 1 January 2010 annual profits tax declarations must be certified by an authorized tax consultant, except where auditing is mandatory.

General procedure provisions
Competence of tax authorities
The tax authorities are empowered to administer tax claims, perform tax audits, and issue application norms for the tax legislation. Customs authorities are empowered to manage customs related duties.

The competent tax authority for administration of taxes is the tax authority of the district, locality or Bucharest where the taxpayer or the income payer has its tax domicile. In the case of taxpayers performing activities through a permanent Romanian establishment, the competent tax authority is determined based on the place where the permanent establishment is located.

Correction of material errors
The tax authority may proceed to correction of material errors identified in the tax administrative acts on its own initiative, or further to an application submitted by the taxpayers.

Material errors are errors or omissions with respect to the name, capacity of parties of the fiscal legal relationship, computation errors or other errors similar to these, and do not refer to the substance of the tax act.

The corrected act will be notified to taxpayers.

Obligation to provide information
Taxpayers or their appointed representatives are obliged to provide, in writing, the tax authorities with the requested information necessary for the determination of the facts regarding the tax position. The tax authorities may request information from other persons, such information being considered only if confirmed by other evidence.

Charge of proof
Taxpayers are held responsible to prove the facts and deeds supporting their declarations and appeals to the tax authorities, whereas the latter have the obligation to motivate the amount payable by taxpayers.

4.11 Fiscal sanctions

Failure to submit tax returns and failure to pay taxes in due time entails fines and penalties as follows:

Failure to file tax returns

Non-filing of tax returns by the respective deadline may attract the following fines:

- RON 500 to RON 1,000 for individuals
- RON 1,000 to RON 5,000 for legal entities

Failure to submit the recapitulative statement shall be sanctioned with a fine of 2% of the total amount of intra-community supplies/acquisitions of goods that have not been declared/undeclared differences due to submission of Recapitulative statements that contain incorrect or incomplete amounts. The fine will be reduced by 50% if the taxable person corrects the Recapitulative statement by the legal term of submission of the next statement.

Failure to provide transfer pricing documentation in conditions requested by the tax authorities is subject to a fine of up to RON 14,000.

Taxpayers remain liable for the payment of fines for late filing of returns regardless of the payment of the tax due.

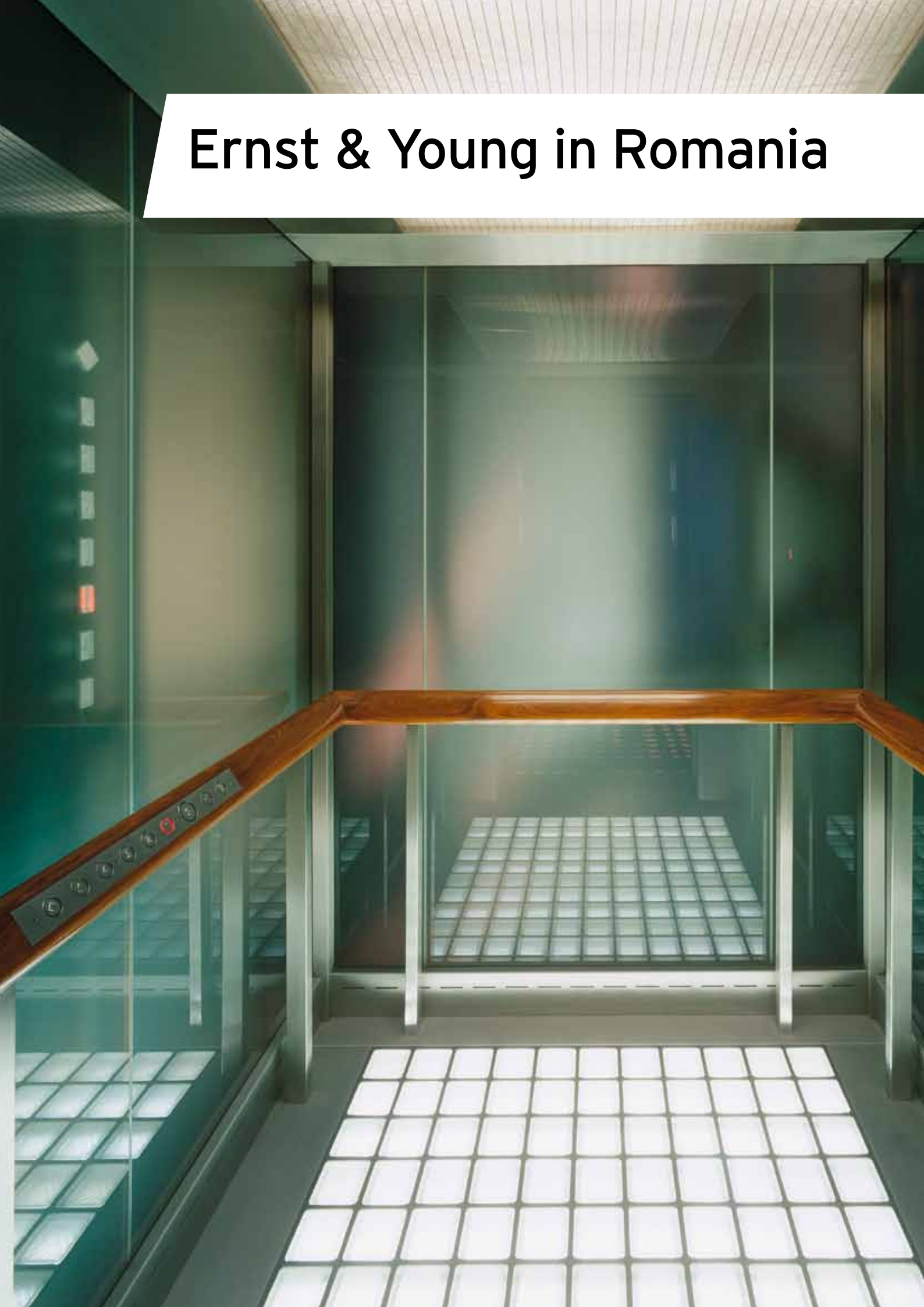
Interest and penalties on delays in payment of tax due
For the late payment of tax liabilities, late payment interest and late payment penalties are due, as follows:

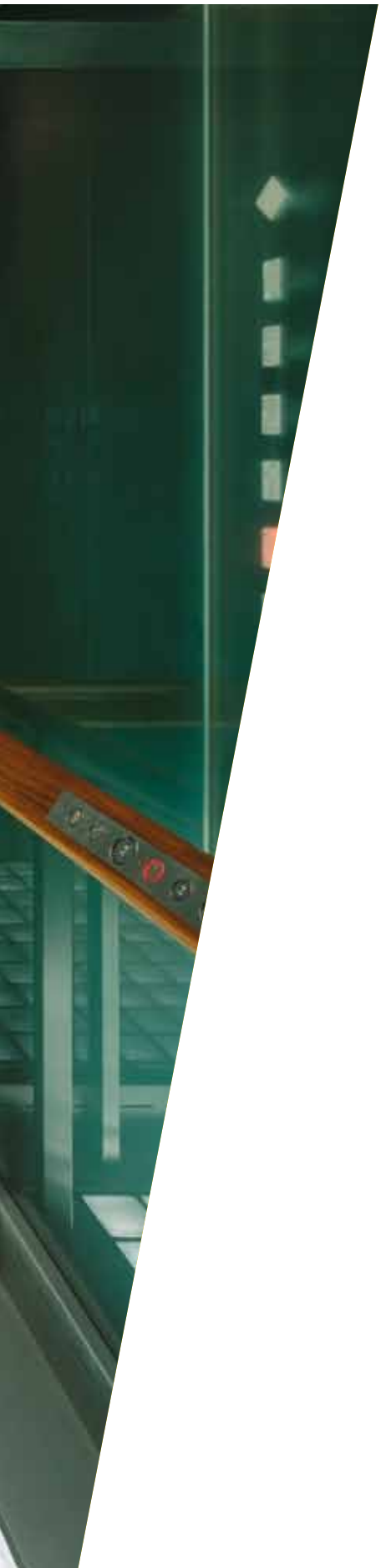
- Late payment interest, computed at 0.04% per day of delay
- Late payment penalties due for outstanding tax liabilities of more than 30 days: 5% for outstanding tax liabilities paid within the next 60 days; 15% for outstanding tax liabilities remained unpaid thereafter.

The penalty for the late payment of tax liabilities due to the local budgets is as follows: late payment charges of 2% are due, computed to the amount of outstanding tax liabilities, assessed for each month or fraction of the month, starting the day immediately following the deadline and up to their settlement.

Additionally, for failure to withhold or failure to pay taxes withheld at source (taxes on salary type income, dividend income and non-residents' income), a fine ranging between RON 1,000 and RON 27,000 be applied, depending on the fiscal obligations.

Ernst & Young in Romania





Ernst & Young Romania is a member of Ernst & Young Central and Eastern Europe, which comprises the practices of 19 countries in the region including Greece, Turkey, Hungary, Poland, and Czech Republic.

Since 1992, Ernst & Young Romania has been a leading company in the professional services market. Our over 400 professionals have years of relevant experience in specialized industries in which Ernst & Young is acknowledged as a market leader in Romania: financial services, oil and gas, energy and utilities, telecommunications, automotive, real estate, and, consumer products.

Ernst & Young professionals in Romania are experienced in all aspects of business services, particularly in the following areas:

Assurance
We provide core assurance services along with other specialty advisory services. Our audit is individually tailored, cost-effective, and focused on the client's areas of highest risk. We also assist clients in understanding and managing the process of converting their financial statements to IFRS, including changes required for processes and systems to support the generation of necessary financial information and training of employees.

Advisory
The suite of services we provide in Advisory helps CEOs, CFOs and CIOs in managing their wide agenda of improvement initiatives in an integrated and efficient way. Our service range includes: performance improvement, risk and IT advisory.

By providing an independent view of a business, its performance and its opportunities, we help our clients unlock customer value through organizational and strategic changes, improving customer service, enhancing performance and increasing operational efficiency. Our finance services are designed to improve the performance of clients' finance organizations and their businesses as a whole. In supply chain and operations, we work with clients to analyze, design and implement recommendations to solve complex challenges throughout their value chain.

The relationship between risk and performance improvement is an increasingly complex and central business challenge, with business performance directly connected to the recognition and effective management of risk. By leveraging and sharing their operational knowledge and in-depth industry experience, our Risk Services professionals will help you develop effective approaches to internal audit and risk management in a proactive and objective way.

Furthermore, we help our clients focus on both fundamental and emerging IT issues. We can provide you with a clear framework to evaluate trust-related risks, as well as the necessary tools to assess, control and measure your exposure in areas such as information privacy and confidentiality, information security, systems reliability and outsourced process controls, all in a cost effective manner.

Tax and Legal
We design and implement domestic and international tax planning solutions, provide complete solutions on human capital management, and consult on how to access available government and institutional grants and incentives for business. Whether our clients need tax advice in connection with a key business decision or full outsourcing of tax functions, optimizing human resources or availing business incentives, we provide assistance on optimizing operations. In Human Capital, we provide advice on tax issues affecting employers, including employment law and contracts, income tax and social security withholding and are market leaders in expatriate services.

Legal services are provided through Platis, Bazilescu LLLP, the associated law office of Ernst & Young in Romania. Our lawyers provide legal assistance in the fields of corporate law, real estate, mergers and acquisitions, privatizations, capital markets, fiscal and commercial litigation and arbitration, employee benefits, intellectual property, information technology law, telecommunications, competition (antitrust) law and labor law.

Transaction Advisory
We assist companies in initiating, structuring and managing transactions, undertaking due diligence reviews on both buy-side and sell-side, raising money through debt, equity and development capital, negotiating joint ventures and strategic alliances, conducting business valuations and conforming to stock market requirements. We help our clients locate suitable business partners, targets for mergers and acquisitions, and buyers and investors for their companies. We also help in integrating acquired operations into existing companies.

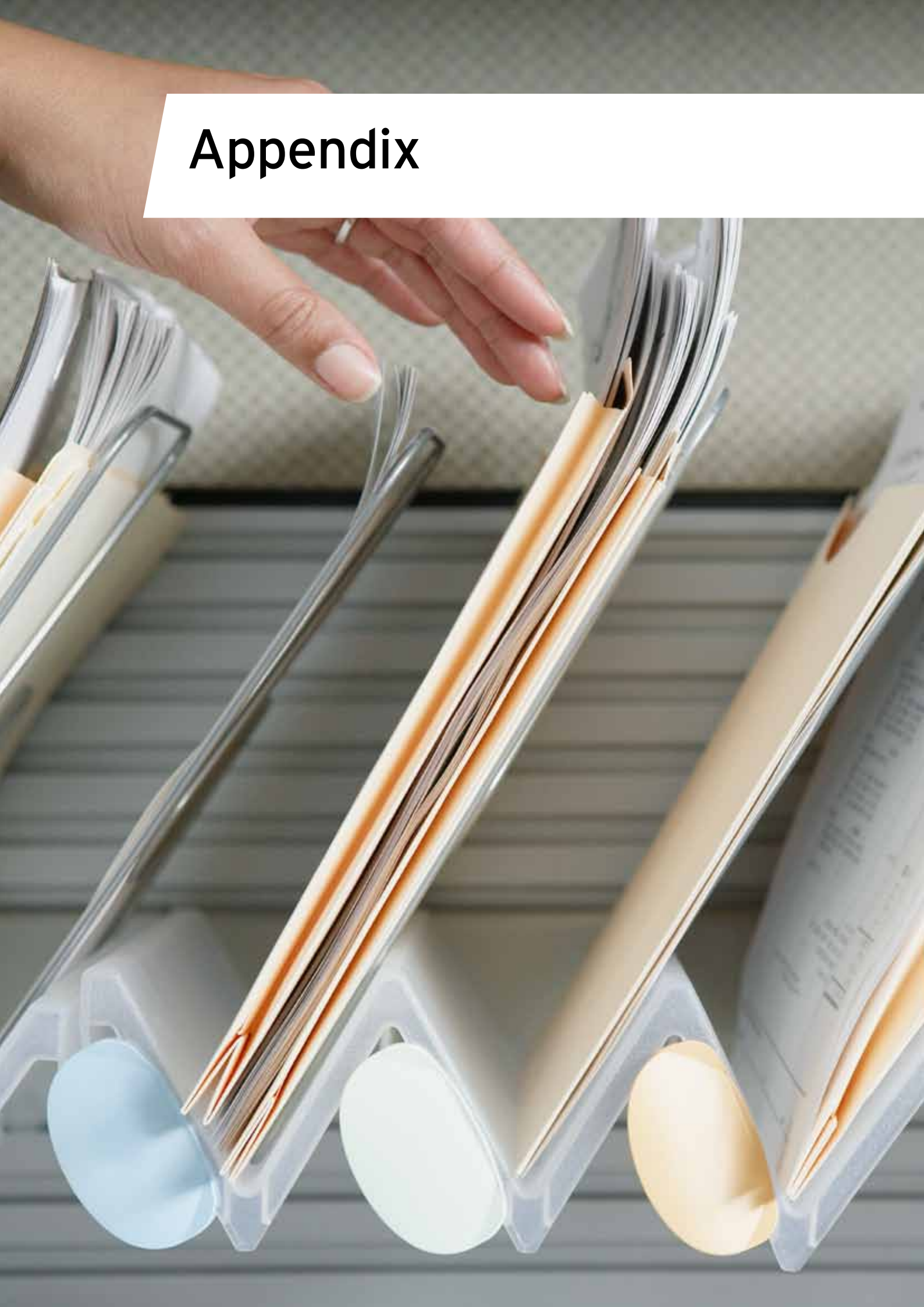
We help clients identify financial and operational strategies aimed at improving liquidity, credit availability and restructure their business as well as deal with underperformance and cash management.

Ernst & Young Romania serves a wide range of organizations, from large, multinational corporations to emerging local companies. Our clients include public and private companies, cooperatives, partnerships, trusts, non-profit organizations, mutual funds and public bodies.

"Although nature commences with reason and ends in experience it is necessary for us to do the opposite, that is to commence with experience and from this to proceed to investigate the reason."

Leonardo da Vinci

Appendix



6.1 Double Tax Avoidance Agreements /Treaties Withholding Tax Rates

The following table shows the applicable withholding rates under Romania's bilateral tax treaties.

	Dividends %	Interest %	Royalties %	Commissions %
Albania	10/15 (a)	10	15	15
Algeria	15	15	15	n/a
Armenia	5/10 (a)	10	10	15 (gg)
Australia	5/15 (b)	10	10	n/a
Austria	0/5 (a)	0/3 (n)	3	n/a
Azerbaijan	5/10 (a)	8	10	n/a
Bangladesh	10/15 (b)	10	10	n/a
Belarus	10	10	15	n/a
Belgium	5/15 (a)	10	5	5
Bulgaria	10/15 (a)	15	15	n/a
Canada	5/15 (b)	10	5/10 (r)	n/a
China	10	10	7	5 (hh)
Costa Rica (dd)	5/15 (a)	10	10	5
Croatia	5	10	10	n/a
Cyprus	10	10	0/5 (e)	5
Czech Republic	10	7	10	n/a
Denmark	10/15 (a)	10	10	4
Ecuador	15	10	10	10
Egypt	10	15	15	- (ii)
Estonia	10	0/10	10	2
Ethiopia	10	15	15	n/a
Finland	5	0/5	2.5/5 (f)	n/a
France	10	10	10	n/a
Georgia	8	10	5	5
Germany	5/15 (b)	0/3 (g)	3	n/a
Greece	25/45 (h)	10	5/7 (i)	5
Hungary	5/15 (j)	15	10	5
Iceland	5/10 (a)	3	5	n/a
India	15/20 (a)	0/15	22.5	5
Indonesia	12.5/15 (a)	12.5	12.5/15 (k)	10
Iran	10	8	10	n/a
Ireland	3	0/3 (l)	0/3 (i)	n/a
Israel	15	0/5/10 (m)	10	n/a
Italy	10	10	10	5
Japan	10	10	10/15 (i)	n/a

	Dividends %	Interest %	Royalties %	Commissions %
Jordan	15	12.5	15	15
Kazakhstan	10	10	10	10
Kuwait	0/1 (a*)	1	20	n/a
Latvia	10	10	10	2
Lebanon	5	5	5	n/a
Lithuania	10	10	10	2
Luxembourg	5/15 (a)	0/10 (c)	10	5
Macedonia	5	10	10	n/a
Malaysia	0/10 (o)	0/15 (p)	0/12 (q)	- (ii)
Malta	5/30 (h)	5	5	10
Mexico	10	15	15	n/a
Moldova	10	10	10/15 (k)	n/a
Morocco	10	10	10	10
Namibia	15	15	15	n/a
Netherlands	0/5/15 (s)	0/3 (t)	0/3 (t)	n/a
Nigeria	12.5	12.5	12.5	- (jj)
North Korea	10	10	10	n/a
Norway	10	10	10	4
Pakistan	10	10	12.5	10
Philippines	10/15 (a)	10/15 (u)	10/15/25 (v)	n/a
Poland	5/15 (a)	10	10	0/10 (kk)
Portugal	10/15 (a**)	10	10	n/a
Qatar	3	3	5	3
Russian Federation	15	15	10	n/a
San Marino	0/5/10 (ee)	3	3	n/a
Singapore	0/5 (ff)	5	5	n/a
Slovak Republic	10	10	10/15 (k)	n/a

(a) The lower rate applies if the beneficiary of dividends is a company owning at least 25% of the capital of the payer.

(a*) The 0% rate applies to dividends paid to the Government or any sub-political division, local authorities or administrative territorial units. The 0% rate also applies to majority state-owned companies (at least 51%) provided that minority shareholders are residents of that State.

(a**) The lower rate applies if the beneficiary of dividends is a company owning at least 25% of the capital of the payer for an uninterrupted period of two years.

(b) The lower rate applies if the beneficiary of dividends is a company owning at least 10% of the capital of the payer.

(c) The 0% rate applies if the indebtedness on which such interest is paid is guaranteed, insured, or financed by the other State or by a financial institution which is a resident of that other State.

	Dividends %	Interest %	Royalties %	Commissions %
Slovenia	5	5	5	n/a
South Africa	15	15	15	n/a
South Korea	7/10 (a)	0/10 (x)	7/10 (k)	10
Spain	10/15 (a)	10	10	5
Sri Lanka	12.5	10	10	10
Sudan	5/10 (a)	0/5	5	n/a
Sweden	10	10	10	10 (ll)
Switzerland	10	10	0/10 (y)	n/a
Syria	5/15 (a)	10	12	n/a
Tajikistan (dd)	5/10 (a)	10	10	n/a
Thailand	15/20 (a)	10/20/25 (z)	15	10
Tunisia	12	10	12	4
Turkey	15	10	10	6
Turkmenistan	10	10	15	n/a
Ukraine	10/15 (a)	10	10/15 (k)	n/a
United Arab Emirates	0/3 (d)	3	0/3 (aa)	3
United Kingdom	10/15 (a)	10	10/15 (i)	12.5 (mm)
United States	10	10	10/15 (i)	n/a
Uzbekistan	10	10	10	n/a
Vietnam	15	10	15	n/a
Yugoslavia (Federal Republic of)	10	10	10	10
Yugoslavia (former) (bb)	5	7.5	10	10
Zambia	10	10	15	n/a
Non-treaty countries	16	0/16 (cc)	16	16

(d) The 0% rate applies if the beneficial owner of the dividends is: the Government of any Contracting State or any governmental institutions or entity thereof or a company which is a resident of either Contracting State and the capital of which is owned directly or indirectly (at least 25%) by the government or governmental institutions of either Contracting State.

(e) The 5% rate applies to royalties paid for patents, brands, designs and models and know-how.

(f) The 2.5% rate applies to royalties relating to computer software or industrial equipment.

(g) The 0% applies to interest paid to the German government, Deutsche Bundesbank Kreditanstalt fur Wiederaufbau or Deutsche Investitions und Entwicklungsgesellschaft (DEG) and to interest paid on a loan guaranteed by Hermes-Deckung. The 0% rate also applies to interest paid to the Romanian government if it is derived and beneficially owned by the certain types of institutions (for example, the Romanian government, an administrative-territorial unit, a local authority, or an agency, bank unit or institution

of the Romanian government) or if the debt claims of Romanian residents are warranted, insured or financed by a financial institution wholly owned by the Romanian government. In addition, as long as Germany does not impose taxes on interest, Romania may not tax interest. The protocol to the treaty provides that the following types of interest are taxed only in the State where the interest arises and according to the law of that State, under the condition that they are deductible in the determination of profits of the debtor of such income: interest derived from rights or debt claims carrying a right to participate in profits; interest linked to the borrower's profits; and interest derived from profit-sharing bonds.

(h) The lower rate applies to dividends paid by companies resident in Romania.

(i) The lower rate applies to cultural royalties.

(j) The lower rate applies if the beneficiary of dividends is a company owning at least 40% of the capital of the payer.

(k) The lower rate applies to payments received for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas and processes, or industrial, commercial or scientific equipment, and for information concerning industrial, commercial or scientific experience.

(l) The 0% rate applies to the following types of interest: interest paid in connection with sales on credit of industrial, commercial or scientific equipment; interest on loans granted by banks or other financial institutions (including insurance companies); interest on loans with a term greater than two years and interest on any debt-claim of whatever kind guaranteed, insured or directly or indirectly financed by or on behalf of the Government of either Contracting State.

(m) The 0% rate applies to interest arising in one Contracting State with respect to debentures, public funds or similar instruments of the government that is paid to residents of the other Contracting State and to interest on loans granted or guaranteed by the National Bank of Romania or by the Bank of Israel. The 5% rate applies to interest paid with respect to sales on credit of merchandise or industrial, commercial or scientific equipment and to interest on loans granted by banks. The 10% rate applies to other interest.

(n) As long as Austria, under its national legislation, levies no withholding tax on interest paid to a Romanian resident, the percentage shall be reduced to 0%.

(o) The 0% rate applies to dividends paid by a company resident in Malaysia to a Romanian resident; the 10% rate applies to dividends paid by a company resident in Romania to a Malaysian resident.

(p) The 0% rate applies to interest paid to Romanian residents on long-term loans.

(q) The 0% rate applies to industrial royalties obtained from Malaysia by Romanian residents.

(r) The 5% rate applies in case of:

(1) copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or other artistic work (but not including royalties in respect of motion picture films nor royalties in respect of works on film or videotape or other means of reproduction for use in connection with television broadcasting); or

(2) royalties for the use of, or the right to use, computer software or any patent or for information concerning industrial, commercial or scientific experience (but not including any such royalty provided in connection with a rental or franchise agreement).

(s) The 0% rate applies if the beneficiary of the dividends is a company owning at least 25% of the capital of the payer. The 5% rate applies if the beneficiary of the dividends is a company owning at least 10% of the capital of the payer. The 15% rate applies to other dividends.

(t) Romania will not impose withholding tax on interest and royalties paid to Dutch residents as long as Dutch domestic law does not impose withholding tax on these types of payments.

(u) The lower rate applies to interest related to sales on credit of equipment, loans granted by a bank, as well as to public issues of bonds and debentures.

(v) The 10% rate applies to royalties paid by a company that is registered as a foreign investor and is engaged in an activity in a priority economic field. The 15% rate applies to royalties related to film or television production. The 25% rate applies to other royalties.

(x) The 0% rate applies to interest related to sales on credit of industrial and scientific equipment.

(y) Romania will not impose withholding tax on royalties paid to Swiss residents as long as Swiss domestic law does not impose withholding tax on these types of payments.

(z) The 10% rate applies if the beneficiary of the interest is a financial company, including an insurance company. The 20% rate applies to interest with respect to sales on credit. The 25% rate applies to other interest payments.

(aa) The 0% rate applies to industrial royalties.

(bb) This treaty is currently applied only to Bosnia-Herzegovina.

(cc) The 0% rate applies to the following types of interest: interest related to public debt instruments and interest related to instruments issued by the National Bank of Romania with the purposes of reaching monetary policy objectives; interest paid to EU / EEFTA pension funds. The 16% rate applies to other interest payments.

(dd) The treaty is not yet effective.

(ee) The 0% rate applies if the beneficiary of the dividends is a company owning at least 50% of the capital of the payer. The 5% rate applies if the beneficiary of the dividends is a company owning at least 10% of the capital of the payer. The 10% rate applies to all other dividends.

(ff) The 0% rate applies in case of dividends paid to the government of the other Contracting State.

(gg) As per the existing Protocol, the provisions of the article referring to commissions apply only as regards Romania.

(hh) As per the provisions of the Protocol concluded between the two States.

(ii) Commissions may be taxed in the Contracting State in which they arise, according to the law of that State.

(jj) As per the provisions of the relevant Protocol, the commission sourced in Romania will be subject to the provisions of the domestic legislation.

(kk) The 0% rate applies as long as Poland does not introduce in its domestic legislation the withholding tax of commissions paid to nonresidents, as such the commissions are taxable only in the residence country of the beneficial owner of the commission.

(ll) Expenses related to commission income may be deducted from the taxable base up to 50% of the commission gross amount.

(mm) The beneficiary of the commission can elect for the taxation of commissions in the Contracting State where such income is sourced, as if he had a PE in the respective Contracting State.

Our leaders:

Camelia Horlaci,
Country Managing Partner

Nikolaos Moropoulos,
Executive Director
Head of Advisory

Garry Collins, Partner
Head of Assurance

Venkatesh Srinivasan, Partner
Head of Tax and Legal

Cornelia Bumbacea, Partner
Head of Transaction Advisory

Ernst & Young SRL

Bucharest office

Premium Plaza Building, 15th Floor
63-69 Dr. I. Felix Street
Sector 1, 011033 Bucharest
Romania

Phone: +40 21 402 4000
Fax: +40 21 310 7193
E-mail: office@ro.ey.com
Web: www.ey.com

Cluj-Napoca office

Victor Babes Business Center
21 Victor Babes Street, 1st Floor
400012 Cluj-Napoca
Romania

Phone: +40 264 598 221
Fax: +40 264 598 231

Timisoara office

Flavia Palace Building, 1st Floor
10 Tudor Vladimirescu Street
300195 Timisoara, Timis County
Romania

Phone: +40 256 499 742
Fax: +40 256 499 743


ATHENEUL ROMAN

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit

www.ey.com