



I. Economic overview

1.1. General economic indicators

Indicators	2002	2003	2004	2005
1. GDP, EUR bln	43.31	45.98	62.11	78.10
2. GDP per capita, EUR	1,996	2,119	2,862	3,599
3. GDP growth rate, %	5.1	5.2	8.4	4.1
4. Industrial production growth rate, %	4.3	3.1	5.3	2.0
5. Annual inflation rate, %	17.8	14.1	9.3	8.6
6. Annual unemployment rate, %	8.4	7.4	6.3	5.9
7. Balance of current account, EUR mln	-1,623	-3,060	-5,099	-6,891
8. Average monthly gross salary, EUR	174	180	204	267
9. Interest rate on long-term loans (capital assets), %	20.40	18.87	20.16	9.68
10. Interest rate on short-term loans to companies, %	36.65	26.19	25.81	19.19
11. Interest rate on demand deposits, %	18.39	10.78	11.34	6.22
12. Gross external debt stock, EUR mln	14,969.4	15,859.1	18,296.9	24,550.7
13. Foreign exchange reserves, EUR mln	8,051.3	8,251.6	13,144.3	19,406.1
14. Exchange rate of RON for 1 EUR, end of year	3.4919	4.1117	3.9663	3.6771

Source: National Institute of Statistics, National Bank of Romania

1.2. Foreign trade

1.2.1. Foreign trade regime and major regulations

Over the past few years there has been export and import liberalisation, and Romania has enforced the agreements concluded within the WTO (1 January 1995). Starting from 1 January 2002, Romania has abolished all customs duties for industrial goods imported from the EU on the basis of the European Association Agreement ratified by Law No. 20/1993. Romania is progressively aligning its preferential trade regime with that of the EU with regards to third countries.

1.2.2. Customs regime

The exports and imports of goods from and into the customs territory of Romania are liberalised. The Import Customs Tariff and the Customs Code (Law No. 86/2006) are the main trade policy instruments used by Romania. Customs duties are applied on an ad valorem basis. The Import Customs Tariff is based on the customs classification and denomination set up by the Harmonised System.

Since 1 January 1998, Romania has applied no quantitative restrictions to exports and there are no articles banned for export. Automatic export licensing has been applied, in 1999,

only to 511 tariff lines (out of a total of 10,587 tariff lines) for the following products: a few raw materials, products containing precious metals and stones, oil and petroleum products, iron and steel products for countries outside of the European Union.

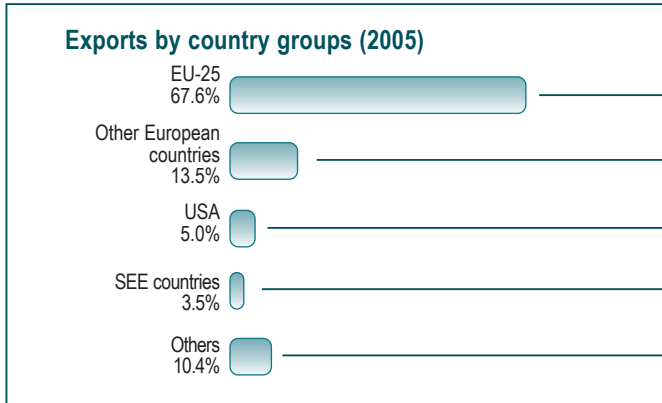
Imports and exports of commodities into and out of Romania do not generally need a license. Exceptions are made for those commodities, subject to quota restrictions as stipulated by international trade agreements, to which Romania is a party, and those considered as potentially dangerous for the human health or environment, as well as commodities for which the end-use is controlled or products which could have dual use (both civil and military). The License Department of the Ministry of Economy and Trade is in charge of issuing trade licenses.

1.2.3. Exports and imports

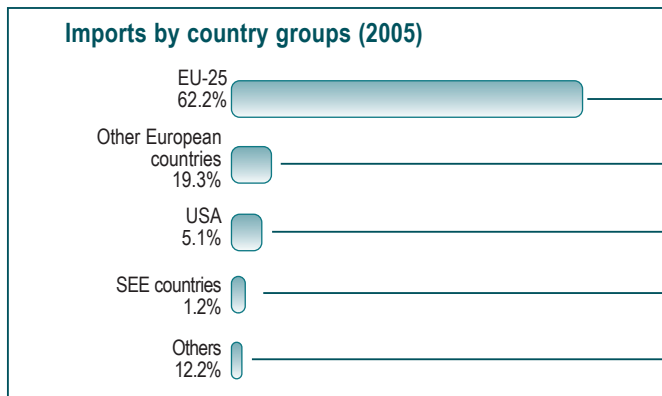
Trade volume, EUR bln	2002	2003	2004	2005
Exports	14.6	15.6	18.9	22.2
Imports	17.4	19.5	24.2	30.0

Source: National Bank of Romania

1.2.4. Structure of foreign trade by regions



Source: Department for Foreign Trade



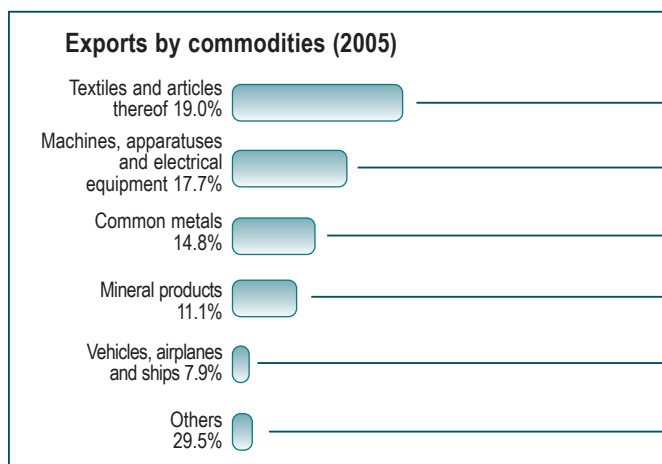
Source: Department for Foreign Trade

1.2.5. Major trade partners

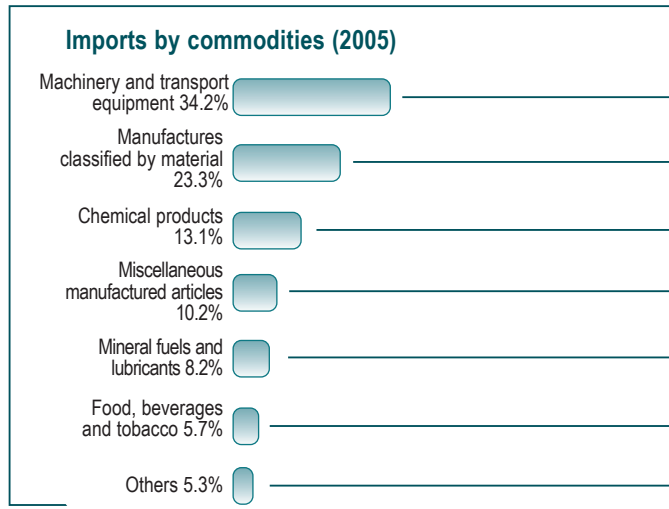
The 10 major export partners in 2005 were: Italy (19.2%), Germany (14.0%), Turkey (7.9%), France (7.4%), United Kingdom (5.5%), Hungary (4.2%), USA (4.1%), Austria (3.1%), the Netherlands (2.7%) and Bulgaria (2.7%).

The 10 major import partners in 2005 were: Italy (15.5%), Germany (14.0%), the Russian Federation (8.3%), France (6.7%), Turkey (4.9%), China (4.1%), Austria (3.7%), Hungary (3.3%), Kazakhstan (3.3%) and Poland (2.9%).

1.2.6. Structure of foreign trade by commodities



Source: Department for Foreign Trade



Source: Department for Foreign Trade

1.2.7. Free trade agreements

Romania has an Association Agreement with the European Union (forthcoming accession expected in 2007), a Free Trade Agreement with EFTA, a CEFTA Agreement (since May 2004 applicable only to Bulgaria and Croatia) and free trade agreements with Albania, Bosnia and Herzegovina, Israel, Macedonia, Moldova, Serbia and Montenegro and Turkey.

1.2.8. Free trade zones

Law No. 84/1992 with further amendments governs the regime of free zones in Romania. The free zones are determined by the Government, following proposals made by interested ministries and the local public administration.

The incentives provided by the Law, reinforced by the Fiscal Code, for developing activities in the free zones are:

- Exemption from payment of customs duties for transferring the goods from one free zone into another
- The state-owned goods and the related services that are in the administration of the free zones may be subject to concession upon concluding a Concession Agreement for up to 49 years. The assets that are in the administration of the free zones may also be leased based on a lease agreement concluded with the free zone's Administration
- For investments within the free zones, the operators may benefit from state aid up to 65% of the eligible cost of investment
- Exemption from VAT for:
 - Imported goods that are introduced into the free zones for the sole purpose of being stored there
 - Trade operations inside the free zones or between merchants inside and outside the free zones
 - Exit of imported goods from the free zones without export customs clearance, the goods being in the same

configuration as at the moment of their entrance into the free zones

- Services in connection with the abovementioned activities
- Investors developing manufacturing activities within a free zone who have started their investments with a value of above USD 1 mln before 1 July 2002, benefit from corporate profit tax exemption until 31 December 2006.

The following seven free trade zones have been established in Romania: Sulina Free Zone (101 ha), Constanta South Free Zone (37.5 ha), Basarabi Free Zone (11 ha, an extension of Constanta South Free Zone), Galati Free Zone (262.81 ha inside the Galati Harbour), Braila Free Zone (110.4 ha), Giurgiu Free Zone (includes also the Giurgiu Industrial Park) and Curtici-Arad Free Zone (in the Western part of Romania).

1.3. Foreign investment

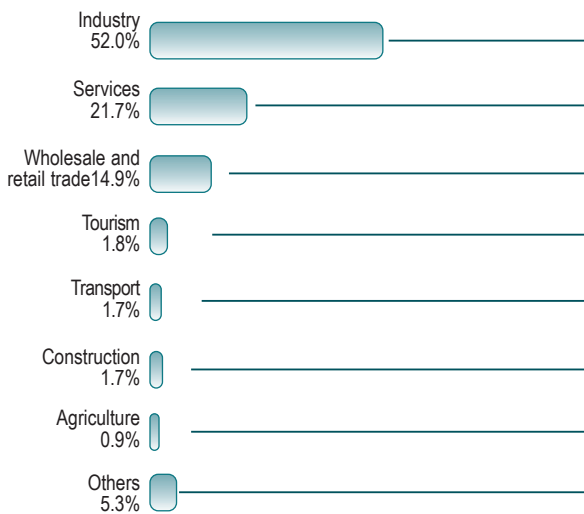
The total FDI stock over the period 1991-2005 has reached EUR 20.2 billion.

1.3.1. FDI by years and by type of investment

	2000	2001	2002	2003	2004	2005
Annual FDI inflows, EUR mln	1,147	1,294	1,212	1,946	5,183	5,197

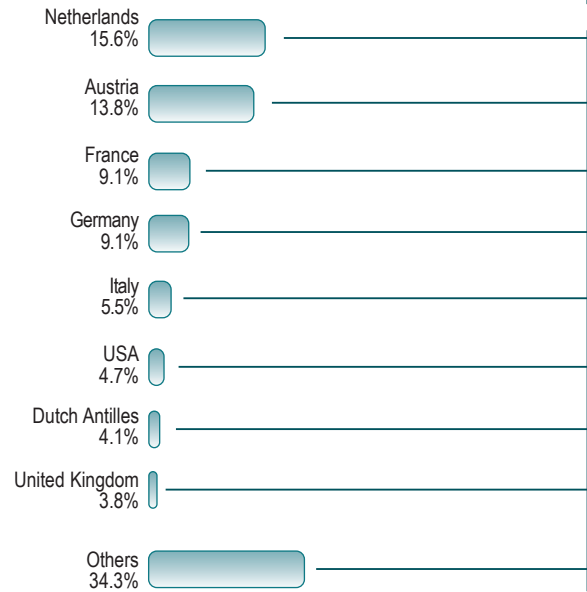
Source: National Bank of Romania

1.3.2. FDI by sectors (2005)



Source: National Office of Trade Register

1.3.3. FDI by countries (2005)



Source: National Office of Trade Register

1.3.4. Top foreign investors

The top foreign investors are: OMV (Austria), Renault (France), Mittal Steel Holding (Dutch Antilles), Siemens (Austria), Inquam (Virgin British Islands), Cosmote (Greece), Mobifon (Netherlands), Bearbull (France), Mol (Hungary), Kaufland (France), Raiffeisen (Austria), Colgate-Palmolive (U.S.A.), OTE (Greece), E.On. (Germany), Enel (Italy), Brau Union (Austria), Philip Morris (Netherlands), Ina Schaeffler (Germany).

1.3.5. Government institutions in the field of foreign investment

The **Romanian Agency for Foreign Investments** was established according to Law No. 390/2002 as a specialised governmental body of the central public administration responsible for implementing the Government policy for promotion and attraction of foreign direct investments in the economy. The Agency has the following main responsibilities:

- Co-ordination of the preparation of strategies and action plans for the attraction of foreign capital in Romania, as well as effective promotion of Romania's investment projects, both on the domestic and international markets
- Monitoring of the compliance with the legal frame regarding foreign investments in Romania and drafting of proposals for its improvement
- Establishment of all necessary conditions for providing a friendly business environment for promoting foreign direct investments
- Delivery of specialised assistance to investors interested in developing projects in Romania, prior to and following the achievement of their investments
- Identification and promotion of priority investment fields and their existing opportunities, as well as organisation of

a data base with available information for investors regarding investment projects, financing sources, potential business partners, available locations, etc.

- Foreign investment promotion and promotion of Romania's image and the existing investment climate
- Delivery of periodical reports to the Government with reference to the volume, origin, structure and trend of foreign investments in Romania and abroad

1.4. Investment opportunities by sectors¹

1.4.1. Automotive industry

The most important development in the Romanian automotive industry was the sale in 1999 of a majority stake in the biggest Romanian car maker - Dacia to Renault. In 2000, Renault started the reorganisation and modernisation of Dacia's management and production facilities and launched the Dacia Logan model (EUR 5,000) by the middle of 2004. In 2005, Logan represented 6% of the total turnover of the Renault Group, with a total number of 163,000 units.

The development of the automotive industry has created a positive environment for investment in car parts manufacturing by large international players, such as Solvay (Belgium) and Autoliv (Sweden). Continental (Germany) has developed a state-of-the-art tire production facility in the West of Romania with an initial investment of USD 50 million. Johnson Controls Romania will manufacture chairs and automobile covers at a 2.7 ha facility that costs EUR 16 million. Other companies in the automotive parts are also investing in the country, e.g. Ina Schaeffler (Germany) which has started construction of a factory in Brasov. The total investment is estimated to reach EUR 180 million and will be finished in 2007. In the first phase, Ina Schaeffler has started production of bearings and other automotive parts in 2004.

Romania is well positioned to attract further FDI in the automotive industry thanks to its combination of skilled and cheap labour.

1.4.2. Information technologies

IT is growing rapidly in Romania, and seems to be one of the most interesting sectors for foreign direct investment. Romania can offer highly trained professionals, both in engineering and software, requiring lower wages than in the developed countries, and a dynamic private sector of IT companies with experience in the sector. The most important investment in the sector is the 5-year hardware manufacture project started by Solectron in Timisoara, which will eventually employ 6,500 people. The hardware and software market is expected to increase with 12-15% per year, which will create additional investment opportunities. One important source of growth for the sector is represented by the IT reforms for the administration, such as the national public administration, the digital mapping of the country's territory, health insurance, ministry of

finance and local fiscal administrations, etc.

The flagship deal in the IT sector has been announced in June 2003, with the acquisition by Microsoft of the antivirus product created by GeCad, a local software development company, whose RAV Antivirus has an estimated 10 million users world-wide. The value of the transaction is estimated at around USD 10 million. Other similar transactions are also expected to take place, as the IT companies are consolidating their position and becoming more attractive to investors.

1.4.3. Telecommunications

Between 1997 and 2003 the state sold in two stages a 54% stake with majority voting rights in RomTelecom, the national fixed-line telephone operator, to OTE (Greece). The residual participation of the state of 45% will be sold in 2006, through an IPO on the London Stock Exchange.

On 1 January 2003, the fixed-line telephony market was liberalised and opened to private competition. The Romanian market became one of the most permissive in Europe, open to almost all technologies: CATV, NMT450, GSM LEMS, CDMA, and DECT have found here a trial field. Moreover, the Romanian liberalised market has benefited from no entry barriers (no charge for license, numbering, etc.). By the first quarter of 2005, the National Regulatory Authority for Communications has authorised more than 2,600 companies to offer electronic communications services.

The mobile telephony market has recorded an incredible boom, as by the end of 2005 about 45% of the Romanians are having a mobile phone. The wireless market is distributed among four private companies: Mobifon (a consortium controlled by Vodafone), Orange Romania, Telemobil (controlled by the US Inquam), and Cosmote (the wireless division of OTE).

1.4.4. Petrochemicals

Romania has a diversified petrochemicals sector with processing capacities exceeding the volume of locally extracted oil. The sectors' reform started in 1997, by the establishment of the national Oil Company Petrom. Petrom, now privatised with Austrian OMV, is a vertically integrated company, incorporating an oil producer, three refineries and a distribution arm, the largest on the market. Petrom is competing with Rompetrol, OMV, Mol, Agip and other private retailers. In 1998, Lukoil Europe acquired 51% of the Petrotel Refinery (the third largest in Romania).

The diversity of production facilities and the highly qualified workforce in the industry, create favourable conditions for an increase in foreign investment in this sector.

1.4.5. Construction materials

With a construction output of about EUR 4.4 billion in 2004, the Romanian construction sector shows a rapid annual

¹ Source: Romanian Business Digest 2006, Larive Romania IBD SRL

growth of around 6% to 8%.

Many international contracting groups are present in the country: Bouygues (France), Italstrade (Italy), Strabag (Austria), Typsa (Spain). The building materials sector is represented by the Romanian subsidiaries of Lafarge (France), the Swiss Holcim and the German Heidelberg Cement. The Romanian construction materials market is expected to grow on an annual basis by at least 5% on average over the period 2005-2008.

1.4.6. Energy

The Romanian Government has made significant investments in the CANDU nuclear power plant in Cernavod, where the first unit has been put into operation in 1996. Private investment is currently at work for the completion of Unit 2 at Cernavod, as significant investment opportunities could present the completion of Units 3 and 4, which are currently under conservation. In the area of fossil fuel-based generation, some of the most efficient units will be open for privatisation in the next 2-3 years.

In 2003, the government started the privatisation of two regional electricity distribution companies as the privatisation contracts were signed in July 2004 with the Italian ENEL. Privatisation of gas distribution was also accomplished in 2004 with Gas de France and Ruhrgas. In terms of sector policy, the key targets for the near future are the progressive opening of the market to competition, removal of state subsidies and attraction of foreign investment.

1.5. Foreign investment regime

The Romanian legislation provides national treatment for foreign investors. Non-resident investors benefit from the same rights as any resident investor. There is no limit on the foreign participation in companies; a foreign investor may establish or acquire a 100% enterprise in Romania.

The capital of a foreign investor can take many forms, including foreign currency, equipment, services, rights of intellectual property, know-how and management expertise, and the proceeds and profits from other businesses in Romania.

The Romanian legislation also provides for investment guarantees against measures of nationalisation and expropriation, and other similar measures. Foreign investors have the right to convert and transfer abroad, without any restrictions, after payment of taxes and fees, the income derived from their investment in Romania. There is no discrimination between foreign-controlled enterprises and local investors with respect to establishment rights or scope of activity. There is no discrimination of foreign investors and/or foreign controlled enterprises per se. There are no ab initio restrictions (no ceilings) no trans-sectoral performance requirements/no prohibition (double tax treaties and other similar agreements may provide in fact more favourable conditions). Also, when Romania is a party to bilat-

eral agreements for the mutual promotion and protection of investment with other countries and the provisions of such agreements are more favourable than the Romanian investment legislation, investors from such countries benefit from the provisions of these agreements. Foreign investors in Romania can organise their businesses in the same organisational forms as domestic investors; besides, they can establish branches and open representative offices.

Ownership rights over real estate

Foreign citizens, stateless persons and non-resident legal persons may not directly own land in Romania until Romania's accession to the EU. The abovementioned persons may own buildings and acquire other rights over land, such as the right to use, obtained by way of concession or lease agreement.

However, there is no restriction on foreign investors acquiring ownership rights over real estate in Romania, including land, through the establishment of a local company, irrespective of the structure of the share capital of such a company (i.e. fully or partially foreign-owned). Within one year of closing the company, the foreign person must transfer its rights over land to a buyer with the legal right to purchase such an asset.

Incentives for investments with significant impact on the economy

Under Law No. 332/2001, direct investments above USD 1 million, which contribute to the development and modernisation of the economic infrastructure of Romania, have spin-off effects and create new jobs, benefit from a number of incentives. These, however, are not applicable to companies in the sectors of banking and finance, insurance and reinsurance, as well as to sectors regulated by special laws.

The investments subject to this Law, must be either in RON or in foreign convertible currency, and have to be completed within 30 months of their registration. The following incentives are envisaged:

- Exemption from payment of customs duties for high-tech equipment, installations, measuring and control appliances, automation equipment and software products purchased from Romania or abroad, necessary for realizing the investment, which are in accordance with a list approved by a joint Order of the President of the National Commission for Prognosis and the Minister of Public Finance, provided that the goods are new or have been produced up to 1 year before their import into Romania and have never been used
- Deduction of 20% of the value of new investments, fiscally calculated in the month the investment has been completed (valid until 31 December 2006)
- Use of accelerated depreciation, defined according to Law 15/1994 with no obligation for prior approval from the local

fiscal authorities

- The Local Council may approve the exemption or reduction of the tax on land, for no more than 3 years from the starting date of the works (valid until 31 December 2006)

Investors are obliged to keep their investment for a period of 10 years. Failure to do so entails retroactive payment of all taxes and charges applicable in the absence of special incentives, plus payment of delay penalties accrued thereof. In addition, investors transferring within less than 2 years the assets subject to incentives may be penalised by reimbursing the money equivalent of these incentives and all related delay penalties.

Incentives for activity relocation in Romania

Government Ordinance No. 59/2003, with further amendments, provides for exemption from paying of import duties for capital goods and other equipments belonging to enterprises that have ceased their activity in a third country for developing a similar activity in Romania. The capital goods and equipment must fulfil certain conditions, as follows:

- They have effectively been used within the enterprise for at least 12 months before the activity in the third country from where the activity has been transferred, has ceased
- After the transfer they have the same use
- Their nature and size are adequate for the enterprise

Incentives for investment in industrial parks

Companies operating in industrial parks benefit from the following incentives:

- Exemption from payment of taxes for modifying the land destination or land withdrawal from the agricultural use for the industrial park's land
- Deduction of 20% of the value of investments made in the industrial parks by 31 December 2006 for constructions, building rehabilitation, internal infrastructure and connection to the public utility network
- Tax exemption for the land and buildings within the industrial parks
- Tax deduction granted by the local public administration authorities for the real estate used by the industrial park
- Other incentives that can be granted by local authorities

Incentives for scientific and technological parks

For their establishment and operation, the scientific and technological parks benefit from the following incentives:

- Tax reduction granted by the local authorities for the fixed assets and land given to the park for its use, as well as other incentives, which may be granted by the public local authority according to the law
- Exemption from payment of taxes for modifying the land destination or land withdrawal from the agricultural use for the land used in the scientific and technological parks
- Deferred payment of VAT for materials, equipment and connecting to the public utilities during the investment period until the opening of the park

- Development programmes for infrastructure, investment and delivery of equipment granted by the central and local public administration, private companies and foreign financial assistance
- Donations, concessions and structural funds for development

The companies operating in the scientific and technological parks benefit from the following incentives:

- Favourable location, infrastructure and communication use, by payment on an installment basis, ensured or facilitated by the administrator for a determined functioning period
- Tariff reduction or free of charge services offered by the administrator

II. Establishing business in Romania

2.1. Forms of business and corporate governance

Company Regime	Legal Framework: Company Law No. 31/1990, and Law No. 359/2004 regarding the simplification of the formalities for registration and authorization of business operations, completed and modified.
Types of Companies	General partnership – “Societate in Nume Colectiv” (SNC); Limited partnership by shares – “Societate in Comandita Simpla” (SCS); Limited liability company – “Societate cu Raspundere Limitata” (SRL); Joint-stock company – “Societate pe Actiuni” (SA); Partnership limited by shares – “Societate in Comandita pe Actiuni” (SCA); Consortium – “Contract de Asociere in Participatiune” (CAP); Economic Interest Group – “Grup de interes economic” (GIE); European Economic Interest Group – “Grup European de interes economic” (EEIG).
Partnerships	Partners: Two or more partners – domestic or foreign legal or natural persons. Characteristics: There are no requirements for minimum or maximum contributions. Partners may contribute in cash or kind, as well as in rights or services. All partners bear unlimited liability for the obligations of the general partnership but can be claimed only after a creditor's unsuccessful claim against the general partnership itself. In a limited partnership there must be at least one general partner who is fully liable (private assets included) and at least one limited partner whose liability is limited to the amount of the contribution agreed. In a limited partnership by shares, besides the corporation itself, one or several general partners assume full liability.
Limited Liability Company	Members: 2 to 50 shareholders; under certain conditions a single person may set up a limited liability company. Minimum capital: RON 200 (or ROL 2,000,000 – till 1 January 2007) Share and contribution requirements: The shares must have a registered value of no less than RON 10 (ROL 100,000). The shares cannot be freely traded or be pledged as collateral for a loan. Company management: Decisions are made by a majority vote in the general meeting of shareholders (one share equals one vote). All shareholders must agree to decisions involving changes in the articles of association unless otherwise provided therein. One or more managing directors are appointed by the general meeting and are put in charge of the company management.

Joint-Stock Company	<p>Shareholders: Five or more; there is no limit to the maximum number of shareholders.</p> <p>Minimum capital: RON 2,500 (or ROL 25,000,000 – till 1 January 2007)</p> <p>Share and contribution requirements: The face value of each share must be at least RON 0.10 (or ROL 1,000). Paid-up capital must be at least 30% of the subscribed capital (100% for contributions in kind). The remaining 70% must be paid in within a maximum of 12 months. The shares may be either registered or at the bearer and can be freely traded or pledged. The company may issue debentures up to 75% of share capital.</p> <p>Company management: Decisions are made by a majority vote in the general meeting of shareholders, held at least once a year, no more than 3 months before the end of the financial year. A board of directors manages the joint-stock company, although it is possible to have only one administrator. At least half of the members of the board of directors must be Romanian citizens, unless provided otherwise by the articles of association. The members of the board of directors are elected by the general meeting of shareholders for a maximum of 2 years, unless stipulated otherwise. They may be re-elected. The initial members of the board of directors may be appointed for a maximum of 4 years and may be re-elected. Before the start of the activity, the members must deposit a guarantee, representing at least the value of ten shares or twice the amount of their monthly remuneration. The general meeting of shareholders must appoint at least three auditors. At least one of them must be a Romanian chartered or certified accountant.</p> <p>Specific features: There are specific management requirements for joint-stock companies with either more than RON 40,000 (ROL 400 million) of founding capital, more than 100 registered shareholders, or if the companies are listed on the stock exchange.</p>
Economic Interest Group (EIG)	<p>Associates: Two or no more than 20 individuals or companies, associated for a determined period of time in order to develop the activities of the members.</p> <p>Shareholders: An EIG is not allowed to issue shares, bonds or other negotiable instruments.</p> <p>Specific features: The members of EIG have unlimited joint liability and they may not, directly or indirectly, own shares in one of its member companies or in another EIG.</p>
Branches	<p>Branches are forms of business under which a non-Romanian company registers in Romania. The branch, which has a limited power to conduct business, does not become a separate legal entity; rather, it represents a permanent establishment of the foreign parent in Romania.</p> <p>Branches are working units registered at the Commercial Register in accordance with the location of their office. The legal status of the branch applies to any other secondary office (agency, working point), to which the foreign company confers branch status. Branches must have a general manager appointed by the board of directors of the parent company who will represent the branch in dealings with third parties in Romania. The general manager can be a foreign citizen. Branches can only operate in the same field of activity as their parent companies.</p>

Representative Offices	<p>Representative offices are a preferred route for certain start-up and liaison activities. They do not have a legal identity separate and distinct from the foreign company, of which they are part. To the extent that a representative office limits its activities to those prescribed by the law, it will not normally constitute a permanent establishment in Romania of the foreign company, of which is part.</p> <p>Representative offices are established and operate in accordance with the provisions of Decree No. 122/1990 regarding the Authorisation and Functioning in Romania of Foreign Companies' Representative Offices and of Foreign Economic Entities, as further amended and supplemented.</p> <p>Foreign companies and economic entities may open representative offices in Romania, subject to authorisation by the Ministry of Economy and Commerce. Upon registration, an operation authorisation is issued, stipulating, inter alia, the object of activity, the terms and conditions for carrying out the activity, the duration and headquarters of the representative office. Representative offices cannot carry out commercial activities on their behalf but are entitled to promote and supervise the business of their parent organisations.</p>
Bankruptcy	<p>Legal framework: Law on the Procedure of the Juridical Reorganization and Bankruptcy No. 64/1995; Law on Banking Bankruptcy Procedure 83/1998.</p>
Anti-Trust Rules	<p>Legal framework: Competition Law No. 21/1996.</p>

2.2. Foreign exchange regulations

On 1 July 2005, the leu, Romania's legal tender, was redenominated so that 10,000 old lei (ROL), became equal to 1 new leu (RON). Redenomination reduced the nominal value of the currency. The new leu is Romania's currency unit, hereinafter called the leu and is divided into 100 bani. Starting 1 January 2007, the National Bank of Romania (NBR) shall exchange the old banknotes and coins for new ones, in accordance with its regulations. There is no time limit for exchanging ROL notes and coins for RON notes and coins.

Regulation No. 4/2005 issued by the National Bank of Romania sets the foreign exchange regime in Romania. Romania has accepted (25 March 1998) the obligations laid down in Article VIII, Sections 2, 3 and 4 of the IMF's Articles of Agreement, namely:

- The authorities' commitment to remove all restrictions on current transactions
- Non-introduction of other restrictions in the future
- Creation of conditions as favourable as possible for the re-launching of economic reforms
- The foreign exchange policy should not be subject to significant alterations

According to the liberalisation calendar, long-term flows with a bearing on the real economy have been liberalised by end-2003. Capital transactions impacting directly the monetary policy will be liberalised by the date of Romania's joining the European Union.

Rights of residents and non-residents

- Residents and non-residents:
- May acquire, hold and use any foreign and domestic currency-denominated financial assets ("full retention")
- May open and keep accounts in both foreign and domestic currency in Romania, with authorised credit institutions
- May perform freely and without restrictions current and capital transactions (except for those subject to authorisation by the National Bank of Romania)
- Non-residents may repatriate and transfer abroad financial assets held in Romania

Access to the forex market

- Access to residents and non-residents to purchasing/selling of foreign currency free for all the operations that may be performed in compliance with the provisions of the Regulation on foreign exchange regime
- Convertibility of current transactions is ensured both for residents and non-residents
- Purchasing/selling of foreign currency may be performed by forex market intermediaries only
- Purchasing/selling of foreign currency by resident natural persons via exchange offices and credit institutions is not limited

Capital transactions

The following capital transactions are further subject to prior authorisation by the National Bank of Romania unless they represent external public debt:

- Operations with securities normally dealt in on the monetary market
- Operations in current and deposit accounts opened by residents abroad

The provisions on authorising do not apply to credit institutions for the following capital transactions made on own behalf and account:

- Transactions - purchase of foreign securities on the monetary market
- Operations in current and deposit accounts in foreign currency, opened abroad

For statistical purposes, capital transactions causing external obligations arising out of commitments longer than one year, other than those of the nature of external public debt, shall be registered with the National Bank of Romania in Romania's Register of External Private Debt.

Collections and payments between residents

Collections and payments between residents may be performed:

- In domestic currency (leu) and in foreign currency - for the operations that are not subject to goods and services trade
- In domestic currency (leu) - for the operations that are subject to goods and services trade
- In foreign currency - for the operations that are subject to goods and services trade and are authorised in accordance with the provisions of the Regulation on Foreign Exchange Regime:

Legal persons - for operations arising out of trade contracts and provision of external services based on agency contracts; subcontracts arising out of international economic co-operation contracts, export contracts for complex units and long manufacturing cycle products

- Natural persons - for occasional operations subject to the foreign exchange regime regulations between natural persons
- Natural and legal persons and other entities - for operations laid down by express legal provisions; for operations arising out of organisation and/or provision of external services (transport, tourism); for operations arising out of external contracts under outward processing traffic arrangements; for operations arising out of trade carried out in harbours, airport „free zones”, border checkpoints, international trains, aboard aircraft and ships on international routes; operations performed abroad

Foreign exchange control

Natural persons must declare to the customs authorities the cash payment instruments in both domestic and foreign currencies equalling or exceeding the equivalent of EUR 10,000 per person and per travel.

Harmonisation with the EU legislation

- The definition of current and capital transactions, as well as their nomenclature, are harmonised with the EU directives
- The definition of current transactions is broadly in line with the provisions of Art. XXX of the IMF's Articles of Association
- A firm calendar for liberalising capital movements has been established by decisions of the NBR Board of Directors of July 1999 and February 2001

2.3. Legislative framework of concessions

Government Emergency Ordinance No. 34/2006 sets out the legal framework for concessions. Romania's new legislation for public procurement and concessions respects the EU Directives 18/2004/CE and 17/2004/CE (published in the EU Official Journal No. L 134 from 30 April 2004). It respects also the provisions of Directives 89/665/CEE and 92/13/CEE. The law has entered into force on 30 June 2006.

Any Romanian or foreign private individual, or a legal entity can become a concessionaire. Concessions may be initiated by the grantor or by any interested investor on the grounds of an opportunity studies made by the grantor. The concession of assets, activities or public services may be granted through a public auction (open or open with pre-selection) or through direct negotiations or competitive dialog.

A concession is granted on the basis of a contract which may not exceed 49 years. The concession agreement can be extended for a period equal to no more than half of its initial

duration, by the mere consent of the parties. Upon expiration of the term of concession, the concessionaire must return the asset to full ownership, free of charge, including the investment. In case of concessions with an estimated value above the equivalent of EUR 5 million, a participation announcement must be published in the EU Official Journal.

Subject to a concession may be assets, activities and public services in the following fields: public transport infrastructure (roads, highways, bridges and road tunnels with taxation, railway, port and civil airport infrastructure); construction and operation of new hydropower plants, including plants in conservation; postal services; spectrum of frequencies and telecommunications transport and distribution networks; economic activities related to natural and artificial water ways, work of water administration, stations and measuring installations – hydrological, weather, water quality and fisheries; public land, beaches, quays and free zones; pipelines for supply networks; transport and supply networks for potable water; exploitation of mineral resources and substances – solid and liquid; exploitation of thermal resources; natural resources of the economic zone of maritime and continental plateau; sports grounds, entertainment places, specialized show establishments; medical units, as well as medical services; economic activities related to capitalising historical monuments and sites; collection, storage and valuation of waste or any other goods; activities or public services that are not prohibited by the law.

2.4. Legislative framework of public procurement

The Romanian legislation on public procurement has been harmonised with the EU directives through Government Emergency Ordinance No. 34/2006 which sets out the legal framework for concessions and public procurement in Romania.

On 4 March 2002 the electronic system of public procurement at national level has been launched. The most popular procedures above the thresholds are the open and restricted ones (65% of all contracts). Below the thresholds, 65% of contracts are awarded in open procedures, while about 25% use the price quotation procedure. The remainder accounts to the single source procedure.

Contracts' span cannot exceed 4 years. The contract can be extended for a period equal to no more than half of its initial duration, by the mere consent of the parties. Concessions and public procurements contracts can be ascribed also by demands of offers issued by the contracting entity, if their value (before VAT) is smaller than the equivalent in RON of:

- EUR 40,000 for service contracts
- EUR 250,000 for works contracts

2.5. Dispute resolution mechanisms

Foreign investors can claim their rights before the Romanian court system or before a third-party arbitration if agreed on by the par-

ties to the dispute. International commercial arbitration may take place at the Romanian International Arbitration Court, administrated by the Romanian Chamber of Commerce and Industry.

Romania is adhering to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards and to the European Convention on International Commercial Arbitration. It is a member of the International Centre for Settlement of Investment Disputes.

2.6. Operational costs (2005)

Electricity for industrial users (average price), EUR/kWh	0.0727
Industrial water, EUR/m ³	0.13
Drinking water, EUR/m ³	
Industrial users	0.34
Households	0.40
Sewerage, EUR/m ³	
Industrial users	0.07
Households	0.09
Gas, EUR/1,000 m ³	
Final consumers connected to the national transportation system	
<12,400	148-158
12,400-124,000	148-153
124,001-1,240,000	147-152
1,240,001-12,400,000	147-150
Final consumers connected to the distribution system	
<2,400	193-194
2,401-12,400	180-193
12,401-124,000	177-179
124,001-1,240,000	174-176
1,240,001-12,400,000	164-176
>12,400,000	164-174

Sources: National Authority for Regulating Natural Gas Activities, National Authority for Energy Regulation, APA NOVA

III. Taxation

3.1. Direct taxation

3.1.1. Corporate income tax

Taxpayers	<ul style="list-style-type: none"> • Romanian legal entities – for the taxable profit from Romania and abroad • Foreign legal entities that carry out activities through a permanent establishment in Romania – for the related income • Foreign legal entities and non-resident individuals that carry out activities in Romania in an association without legal personality – for the portion of the taxable profit of the association attributable to each person • Romanian legal entities and resident individuals – for their worldwide income from associations without legal personality for the taxable profit of the association attributable to resident individuals • Foreign legal entities obtaining incomes from immovable properties located in Romania, or from the sale/assignment of shares of a Romanian legal entity – for the taxable profit related to such incomes
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Tax rate	<ul style="list-style-type: none"> • 16% standard rate, except for investments and gambling • 16% on capital gains on disposals of long-term holdings of real estate and share investments gains • 1% for all the other shares owned over 365 days • 16% on capital gains on sales of private real estates holdings • 16% on interest income earned from term deposits, savings instruments and civil law agreements set up or acquired after 1 June 2005 • 16% on gains forward currency transactions and other similar operations • 10%² on the gross dividend paid to a Romanian juridical entity on dividends distributed to stockholders/associates juridical persons • 20% on gambling activities for net income not exceeding RON 10,000 (ROL 100,000,000) • 25% on gambling activities for net income over RON 10,000 (ROL 100,000,000)
Allowances and incentives	<ul style="list-style-type: none"> • Taxes for buildings and related land owned by a legal person, which are used exclusively for the provision of tourist services for no longer than 5 months during a calendar year, are reduced with 50% • Building tax is to be reduced with 50% for newly constructed buildings owned by consumption or handicraft co-operatives, but only for the first 5 years as of the acquisition date • Building tax and land tax may be exempted for no longer than 5 years for entities, which invest over EUR 500,000 • The expenses, related to acquisitions, production, construction, assembly, installation or improvement of depreciable fixed assets or the immobilised capitals used for exploitation or production purposes, are recovered from a fiscal standpoint by deducting depreciation expenses. The depreciation regime for fixed assets is to be determined in accordance with the following rule: <ul style="list-style-type: none"> • In case of constructions, the straight-line method of depreciation is to be applied • In case of technical equipment and machines, tools and installations, as well as for computers and equipment peripheral to computers, the taxpayers may choose between straight-line depreciation, accelerated depreciation or the declining-balance method • In case of any other depreciable fixed assets, the taxpayer may apply either the straight-line method or the declining-balance method • From a tax perspective, the law prescribes the concept of "useful lives", which are determined as follows: <ul style="list-style-type: none"> • 8 to 60 years – for building and constructions (e.g. roads and fences) • 4 to 60 years – for machinery and equipment • 3 to 15 years – for furniture and fittings • 3 to 9 years – for motor vehicles • Patents, licenses, know-how, manufacturer's brands, trademarks, as well as other similar industrial and commercial property rights, are depreciated over a period provided for their utilisation or the contractual period, as the case may be, using the straight-line depreciation method. Expenses for production or purchase of software programmes are deductible on a straight-line basis over a period of three years. The reduced-balance and accelerated depreciation methods may be used for patents. Goodwill is not considered as a depreciable asset for tax purposes.

Treatment of losses	<ul style="list-style-type: none"> • Annual losses, as established by the profit tax return, are to be recovered from the taxable profits obtained during the next 5 consecutive years. Loss recovery is to be made provided that such losses are recovered, at each deadline for the payment of the profit tax, according to the legal provisions in force for the year when such losses are recorded.
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² Starting with the date Romania joins European Union, the dividends received from a foreign legal entity resident within a member state of the European Union will not be taxable provided that the Romanian legal entity holds at least 25% of the participation titles in the respective foreign legal entity for an uninterrupted period of at least 2 years ending on the date of paying the dividend.

3.1.2. Personal income tax

Taxpayers	<ul style="list-style-type: none"> • Resident natural persons • Non-resident natural persons
- Resident taxpayers	<p>Natural persons meeting at least one of the following requirements:</p> <ul style="list-style-type: none"> • Domiciled in Romania • With a centre of vital interests located in Romania • With presence in Romania exceeding 183 days within a consecutive 12-month's period, ending in the respective calendar year, or • Romanian state employees working abroad
- Non-resident taxpayers	<ul style="list-style-type: none"> • Non-resident natural persons conducting independent activities through a permanent establishment in Romania • Non-resident natural persons deriving specific income • Non-residents natural persons earning other type of income in Romania
Taxable income	A flat income tax of 16% on: income from salaries, independent activities, transfer of rights of use, investments, pensions exceeding RON 900 (ROL 9,000,000) per month, agricultural activities, prizes, etc.
Calculation of income tax	<ul style="list-style-type: none"> • 16% on the taxable income • 20% on gambling activities for net income not exceeding RON 10,000 (ROL 100,000,000) • 25% on gambling activities for net income over RON 10,000 (ROL 100,000,000)
Taxable benefits	<p>For employees, tax is applied on:</p> <ul style="list-style-type: none"> • Wage premiums • Income in cash or in kind • Temporary disability payments • Paid holidays • Other income received by an employment agreement <p>For directors and managers of private companies, members of administration councils and audit commissions, freelancers, etc., the tax is applied on the taxable compensation.</p>
Deductions	<p>Romanian individuals domiciled in Romania, as well as foreigners meeting the residence criteria for 3 consecutive years, are entitled to personal deductions, which vary depending on the monthly gross income and the number of dependents, as follows:</p> <ul style="list-style-type: none"> • For gross monthly income up to RON 1,000 (ROL 10 million), the monthly deduction varies between RON 250 (ROL 2.5 million) for non-dependents and RON 650 (ROL 6.5 million) for at least 4 dependents • For gross monthly income between RON 1,000 (ROL 10 million) and RON 3,000 (ROL 30 million), the digressive deductions have been

	<p>established through an order issued by the Ministry of Public Finance</p> <ul style="list-style-type: none"> For gross monthly income higher than RON 3,000 (ROL 30 million), the taxpayer's right to deduction is withdrawn
Capital gains	<ul style="list-style-type: none"> 16% in case of shares acquired after 1 June 2005, and sold after 1 January 2006, if held for less than 365 days 1% in all other cases of shares owned over 365 calendar days
Property income	<ul style="list-style-type: none"> 16% on the taxable amount of income from rental of movable and real estate properties (after deducting 25% expenses quota from the gross rental income) 16% tax on: <ul style="list-style-type: none"> Sale of constructions of any kind, as well as related land, if such sale is performed in a period not exceeding 3 years from the acquisition Sale of land of any kind without constructions, if such land has been purchased after 1 January 1990 <p>For inherited or exchanged properties, certain exemptions are envisaged.</p>
Property rights income	<p>16% on the net income from intellectual property rights. The net income from intellectual property rights results by deducing from the gross income the following:</p> <ul style="list-style-type: none"> Deductible expenses representing 40% of the gross income Compulsory social security contributions
Agricultural income	2% ³ on the taxable income (in cash, not in kind or subjected to barter)
Payroll tax	<ul style="list-style-type: none"> 9.5% on the gross salary – for social security insurance 6.5% on the gross monthly income subjected to income tax – for health insurance 1% on the basic monthly salary – for unemployment risk

³The provision will be applied starting from 1 January 2008.

3.1.3. Withholding taxes

Withholding tax is applicable to a number of payments made by Romanian tax residents to non-residents recipients. Types of payments which trigger withholding tax are:

Type of payment	Withholding tax rate (%)
Royalties	16
Interests on bank deposits	10/16 ⁴
Other interest	16 ⁵
Commissions	16
Dividends	10/16 ⁶
Various services rendered in Romania	16
Management and consultancy services	16
Gambling income	20/25

⁴The 10% rate applies to income derived from deposits that have been set-up during the period 1 June 2005-31 December 2005. The 16% rate applies to income derived from deposits set-up after 1 January 2006.

⁵The following categories of interest derived by non-residents are not subject to withholding tax: interests related to certain non-term deposits; interest relat-

ed to foreign loans or debt instruments, as well as interest related to state bills issued on the domestic and external market, if they are guaranteed by the Romanian government, local authorities, the National Bank of Romania and financial institutions acting as agents of the Romanian government; interest related to tradable debt instruments or securities issued by a Romanian legal entity that is not affiliated with the interest recipient.

⁶The 10% rate applies to dividends paid by resident legal entities to other resident legal entities. Dividends paid by resident legal entities to non-resident s (i.e. individuals and legal entities), are subject to the 16% withhold tax rate.

After Romania's accession to the European Union (2007), a participation exemption will be available for dividends paid out to companies incorporated in the European Union countries, provided the beneficiary of dividend holds a minimum participation of 25% in the Romanian company paying the dividends, for a period of two years till the date of payment.

The interest earned by International Financial Institutions, with which Romania has signed financing agreements, are not subjected to withholding tax if the interest rate charged on loans granted is less than 3%. The qualifying entities are the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association, the International Monetary Fund and the European Investment Bank.

3.2. Indirect taxation

3.2.1. Value added tax (VAT)

The Romanian VAT system is modeled following the 6th EU Directive and aims at full harmonisation in the next future.

Taxable person	Any person supplying taxable goods or services in the course of business on a regular basis. The term of "business" refers to all independently carried out activities of producers, traders and suppliers of services.
Residents and Non-residents	The Fiscal Code makes no difference between residents and non-residents with respect to VAT. Foreign entrepreneurs without an establishment in Romania but making taxable supplies in Romania are required to appoint a VAT representative, who will be responsible for fulfilling the administrative obligations and the payment of tax due on behalf of the foreign entrepreneur. In case foreign suppliers of services fail to comply with such an obligation, beneficiaries are liable to account for/pay the related VAT.
Out of scope supply	The Fiscal Code provides specific rules for goods benefiting from special customs regimes. The following transactions are VAT exempt with credit for input tax, provided they do not lead to a final use/consumption of goods in Romania: <ul style="list-style-type: none"> Supply of goods placed under a bonded warehouse customs regime Goods imported into free trade zones for storage purpose only Goods introduced into a free trade zone from abroad and sold within the free trade zone

VAT exemptions	<p>Exempt operations are divided as follows:</p> <ul style="list-style-type: none"> • Exempt supplies with credit for input tax (exemption for exports and other similar supplies, international transportation, as well as specific exemptions related to international traffic of goods and certain transactions within the free zones) • Exempt supplies without credit for input tax (e.g. health care services, educational services, financial and banking services, leasing and renting of immovable property with certain exceptions, etc.) • Import operation exempt from the payment of VAT: <ul style="list-style-type: none"> - Import of industrial machines, technological equipment, installations, equipment, measurement and control devices, automations, intended to carry out investments, as well as import of agricultural machines and transportation means intended to carry out manufacturing activities - Import of raw materials and consumables that are not produced or are insufficient in the country and that are intended to be used for the economic activity of the person performing the import • Import of goods received as donation for humanitarian, social, religious, cultural, artistic, sports and scientific purposes, are VAT exempt.
VAT refund for residents and non-residents	<p>As a rule, the performance of taxable supplies allows the offsetting of output VAT against input VAT. Exempt supplies do not allow the recovery of input VAT, except in the event of VAT exempt supplies with credit, for which input VAT can be recovered. Companies performing a combination of taxable and exempt supplies generally have the right to recover the input VAT on a pro-rata basis. The unrecovered input VAT would generally represent a cost. If the input VAT exceeds the output VAT, the recoverable VAT balance (defined as "negative VAT balance") can be:</p> <ul style="list-style-type: none"> • Carried forward to the next period, or • Compensated/refunded by the tax authorities, based on the option expressed by the taxpayer in the VAT return. The option can be exercised only for negative VAT exceeding RON 5,000 (ROL 50 million)
VAT rates	<ul style="list-style-type: none"> • 19% standard rate, which is applicable to supplies of goods and services not subjected to the VAT reduced rate or which do not qualify for an exemption • 9% reduced rate, which is applicable to the suppliers of certain goods or services specifically listed in the Fiscal Code, such as medicines, hotel accommodation, books, tickets for museums, etc. • 0% applicable to exports with the right of deduction

3.2.2. Other indirect taxation

Excise duties	Excise duties are applicable for the following products: beer, wine, fermented beverages other than beer and wine, intermediary products, ethyl alcohol, tobacco products, mineral oils, coffee, car fuel, crude oil which is exported, vehicles, fur, jewels, crystal, perfumes and electricity
Immovable property transfer tax	<p>Building tax:</p> <ul style="list-style-type: none"> • 0.4% on the value of the building for individuals • 0.5-1% on the value of the building for companies
Land tax	Generally, a fixed amount per sq. meter, depending on the location of the land within certain determined zones, towns and villages and depending on the use of the land.

Vehicle tax	Payable by owners of land/water vehicles, which are registered in Romania. The tax depends on the engine capacity, year of fabrication and the Selected Catalytic Reduction used for the fuel.
Tax for construction authorisation	The tax is established as a percentage of the construction value and is payable upon obtaining the construction authorisation.
Publicity and advertising tax	The tax rate is established by the local council and ranges between 1% and 3%. It is applicable on the value of the publicity and advertising services. Users of outdoor advertising must pay an outdoor media advertising tax computed as a fixed quota per square meter, depending on the surface used for advertising.
Resort tax	The tax is payable by individuals over 18 years for their stay in resorts and is included in the price for accommodation. The tax rate is established by the local councils and ranges between 0.5% and 5%.
Show tax	Show tax is paid by individuals and entities for public performances at a rate of between 2 and 5% of the revenues, or a fixed fee depending on the surface of the premises (from RON 0.12 per sq. m per day to RON 0.24 per sq. m per day).
Other local taxes	<p>The local council may impose a daily fee of up to RON 11.9 (ROL 119,000) for the temporary use of public places and for admission to museums, memorials or historical, architectural and archeological monuments, as well as for the ownership or use of equipment that is held for the purpose of obtaining income.</p> <p>An annual fee of RON 32.1 (ROL 321,000) may be levied by the local councils for a number of specifically provided slow-moving vehicles which are normally used in construction (e.g. bulldozers, cranes, tractors, etc.).</p> <p>For the functioning of local public services created for the benefit of natural and legal persons, the local councils, county councils and the General Council of the Municipality of Bucharest, as the case may be, may adopt special fees. The domains in which such fees may be adopted, as well as their amounts are to be established in accordance with the provisions of the Government Emergency Ordinance No. 45/2003 on local public finance, as further amended.</p>
Stamp duty	<p>Stamp duty is payable on most juridical claims, the issuance of certificates and licenses, and documentary transactions which require notary registration. There are 3 types of stamp duties:</p> <ul style="list-style-type: none"> • Notary stamp duty • Judicial stamp duty • Extra-judicial stamp duty <p>Notary stamp duty is charged for the authentication of documents and other services rendered by the Public Notary. The duty is applied either as a regressive tax, as a fixed percentage tax, or as a fixed amount, depending on the type of notary service. Judicial stamp duty is levied on claims and requests filed with courts and the Ministry of Justice, determined depending of the claim.</p> <p>Quantifiable claims are taxed under the regressive tax mechanism. Non-quantifiable claims are taxed at fixed amount levels. Extra-judicial stamp duty is charged for the issue of various certifications, such as identity cards, car registration, etc.</p>

3.3. Double taxation treaties

Romania has enforced double tax treaties with around 80 countries.

Country	Date of entry into force	Country	Date of entry into force
Albania	20.10.1995	Luxembourg	08.12.1995
Algeria	11.07.1996	Macedonia	16.08.2002
Armenia	24.08.1997	Malaysia	07.04.1984
Australia	11.04.2001	Malta	16.08.1996
Austria	10.01.1979	Mexico	15.08.2001
Azerbaijan	11.04.2001	Moldova	10.04.1996
Bangladesh	21.08.1988	Morocco	30.08.1987
Belarus	15.07.1998	Namibia	05.08.1999
Belgium	03.10.1978 17.10.1998	Netherlands	05.12.1980 29.07.1999
Bulgaria	12.09.1995	Nigeria	18.04.1993
Canada	29.12.1980	North Korea	25.08.2000
China	05.03.1992	Norway	27.09.1981
Costa Rica	n/a	Pakistan	20.03.1980 13.01.2001
Croatia	28.11.1996	Philippines	27.11.1997
Cyprus	08.11.1982	Poland	15.09.1995
Czech Republic	10.08.1994	Portugal	14.07.1999
Denmark	28.12.1977	Qatar	n/a
Ecuador	22.01.1996	Russian Federation	11.08.1995
Egypt	05.01.1981	Singapore	28.11.2002
Estonia	01.12.2004	Slovakia	29.12.1995
Ethiopia	15.11.2004	Slovenia	28.03.2003
Finland	27.12.1978 04.02.2000	South Africa	29.10.1995
France	27.09.1975	South Korea	06.10.1994
Georgia	15.05.1999	Spain	26.06.1980
Germany	21.10.1988 17.12.2003	Sri Lanka	28.02.1986
Greece	07.04.1995	Sudan	n/a
Hungary	14.12.1995	Sweden	08.12.1978
India	14.11.1987	Switzerland	27.12.1994
Indonesia	13.01.1998	Syria	07.11.1991
Ireland	29.12.2000	Thailand	03.04.1997
Iran	n/a	Tunisia	19.01.1989
Israel	21.06.1998	Tunisia	15.09.1988
Italy	06.02.1979	Ukraine	17.11.1997
Japan	09.04.1978	United Arab Emirates	23.01.1996
Jordan	02.08.1984	United Kingdom	22.11.1976

Kazakhstan	21.04.2000	USA	26.02.1976
Kuwait	05.10.1994	Uzbekistan	17.10.1997
Latvia	28.11.2002	Vietnam	24.04.1996
Lebanon	06.04.1997	Yugoslavia	21.10.1988 01.01.1998
Lithuania	15.07.2002	Zambia	29.10.1992

IV. Accounting

4.1. Accounting and auditing legislation

Accounting in Romania is regulated by the provisions of the Accounting Law 82/1991, republished in January 2005. Fundamental changes in Romania's accounting and auditing legislation have taken place as a result of the national programme of the Ministry of Finance launched in 1997 and aimed at making Romania's accounting and auditing legislation compatible with international standards and EU directives. The programme included:

- Harmonisation with the requirements of the International Accounting Standards and EU's 4th Directive – Minister of Finance Order (MFO) 94/2001
- Harmonisation of the financial reporting for Romanian companies not applying MFO 94/2001 with the requirements of the EU's 4th Directive – MFO 306/2002
- Setting up a body responsible for the training and regulation of the independent audit function in Romania, the Chamber of Auditors – Emergency Ordinance 75/1999 approved by Law 133/2002
- Approvement of Accounting Regulations to comply with EU Directives – MFO 1752/2005
- Conformity of Accounting Regulations with International Financial Reporting Standards and Respecting Conformity of Accounting Regulations with EU Directives – MFO 907/2005

MFO 1752 entered into force on 1 January 2006 has replaced MFO 94/2001 and MFO 306/2002, together with a number of previous orders and regulations issued by the Minister of Finance.

4.2. Accounting principles

MFO 1752/2005 stipulates that the following general principles are applied in Romania's accounting, auditing and financial reporting system:

- **Accruals basis** – transactions and other events are recognised when they arise and are entered into the accounting records and reported in the financial statements for the related period. Accounts in the balance sheet that represent liabilities and non-cash assets used in accrual-based accounting include, among others, accounts payable, accounts receivable, goodwill, future tax liability and future interest costs
- **True and fair view** – the annual financial statements are to be prepared in order to give a true and fair view of the assets, liabilities, financial position and the results of the

- entity for the respective period
- **Comparative figures** (details about price including the bid and offer) – are to be disclosed for all statements prepared
 - **Going concern** – the entity is presumed to be carrying out its business as a going concern; in other words, the company strives to have the resources needed to continue its operations. If the basis is not appropriate and the managers of the company are aware of that, there is a doubt in the ability of the entity to continue its activities as this should be disclosed in the explanatory notes
 - **Consistency** – there should be an application of valuation rules on a consistent y-o-y basis
 - **Prudence:**
 - Only profits made at the balance sheet day are to be included
 - Includes all liabilities relating to the financial year or previous years, even if such liabilities become apparent or known between the balance sheet date and the date of the completion of its preparation
 - All depreciation (value adjustments) is to be included, irrespective of whether the result for the financial year is a loss or a profit
 - **Independence** – income and expenditures related to the financial year are recorded irrespective of the date of receipt or payment
 - **Separation** – the components of asset and liability items are valued separately
 - **Intangibility** – the opening balance sheet for each final year must correspond to the closing balance sheet of the previous financial year
 - **No offset** – offset between asset and liability items at the end of the period for which balance sheet is prepared, is not allowed
 - **Economic substance and reality of events** – carrying values and transactions should be considered and not only the legal form and/or substance

Legal entities or individuals have to keep written evidence of all transactions and record these transactions in their accounting books. The records required by the Accounting Law include: journal register, stock register (based on inventory of assets and liabilities) and general ledger (based on an analysis of the accounting information or the journal register). The books can be used as evidence in court and are subject to review by the Romanian fiscal or judicial authorities.

The accountants should prepare a trial balance from the general ledger on an annual basis for the preparation of periodical financial statements. The accounting regulations require a specific chart of accounts and a specific reporting disclosure contents and format for the entities.

4.3. Valuation of the balance sheet items

As of 1 January 2006, MFO 1752/2005 provides the applicable base to be followed and is accompanied by two regulations:

- Accounting regulations for compliance with EU's 4th Directive – AR4, and
- Accounting regulations for compliance with EU's 7th Directive – AR7

There is, as far as AR4 and AR7 are concerned, a consistency in many areas with the International Financial Reporting Standards (IFRS) and the International Accounting Standards Board (IASB). Moreover, in the situation where no specific accounting treatment is provided, the entities should apply the provisions of IFRS, a provision stipulated by the Order of the National Bank of Romania No. 5/2005, issued for approving the accounting regulations harmonized with the EU directives, applicable to credit institutions, as further amended.

MFO 1752/2005 includes guidance on valuation methods and accounting principles to be considered in the maintenance of the financial records and in the preparation of the annual financial statements. In relation to the accounting policies, AR4 indicates that:

- Specific principles and policies shall be adopted by the entity in preparing, drafting and completing its annual financial statements
- The management of each entity shall set the accounting policies for the operations carried out, to reflect the specific activity of the entity
- In establishing the accounting policies, the entity needs to ensure that the general accounting principles ("fundamental concepts") as included in AR4, are observed
- The accounting policies should be:
 - Relevant for the need of the users in the decision-making process
 - "Credible" – to present a "true and fair" situation, be neutral, be prudent and be complete in all significant aspects
 - Only be changed if required by law or to present more relevant or "credible" information

4.4. Annual financial statements

MFO 1752/2005 differentiates between entities that need to meet certain financial reporting requirements and those who can use simplified financial reporting. The entities are differentiated by size criteria, as follows:

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

Any entity which for two consecutive financial years⁷, at the balance sheet date, meets and surpasses two of the three criteria above or which is a listed⁸ company, is required to annually complete financial statements which comprise: balance sheet, profit and loss statement, statement for changes in equity, cash-flow statements and explanatory notes.

Entities which do not meet the size criteria above are required

⁷ For the 2006 reporting, the abovementioned criteria are to be based on the financial statements for the year ending on 31 December 2005.

⁸ A listed company trades its securities on the regulated market.

to prepare: simplified balance sheet, profit and loss statement and explanatory notes to the simplified financial statement. At their own discretion, the entities below the size criteria may prepare a statement for changes in equity and/or a cash-flow statement.

Certain parent companies may be required to complete consolidated financial statements, in conformity with the AR7 Directive. Parent companies are exempted of making full consolidated financial statements if, at the date of the consolidated balance sheet, the subsidiaries that has to be consolidated⁹ do not surpass together, on the basis of their most recent annual financial situations, two of the size criteria below:

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

The annual financial statements, the report of the administrator(s) and the report of the auditor are published in compliance with the legislation, harmonized with the AR7 Directive.

V. Donor funded programmes and projects

5.1. Main donors and programmes

European Bank for Reconstruction and Development (EBRD)

By the end of December 2005, EBRD has signed 106 investments in Romania, totaling almost EUR 3.2 billion. This has helped generating an additional of EUR 6 billion from other sources. About 67% of the investments are in the private sector. The objective of the Bank, as stated in its latest strategy approved in December 2005, is to deepen and broaden the role of the private sector in the Romanian economy. EBRD's sectors of investment are:

- Energy (energy efficiency, natural resources, power and energy)
- Financial institutions (bank equity, bank tending, equity funds, non-bank financial institutions)
- Manufacturing (general industry)
- Infrastructure (municipal and environmental infrastructure, transport)
- Other sectors (agribusiness, property and tourism, telecommunications)

EBRD donors are also involved in multi-donor funds and/or special funds administrated by EBRD.

United Nations Development Programme (UNDP)

Since 1990 until now, UNDP has offered to Romania a non-reimbursable financial assistance of over USD 60 million. Since 1997, UNDP's activity in Romania has been based on Country Co-operation Frameworks (CCFs), developed through dialogue with the Government, UN agencies and donors. The current CCF covers the period of 2000-2004 and focuses on three programme areas: Democratic Governance and

Decentralized Development, Enabling Environment for Sustainable Livelihoods, and Support to Environmental Governance. UNDP's CCF for the period 2000-2004 had an approved budget of USD 10.9 million. UNDP has delivered approximately USD 6.9 million in the 2000-2003 period.

United States Agency for International Development (USAID)

The US government has many programmes to assist Romania, which are administered by the US Embassy in Bucharest and implemented through the Romanian USAID office.

Objectives	FY 2004	FY 2005	FY 2006
Expanding the market-driven private sector	10,170,000	9,950,000	7,137,000
Improved local democratic governance	7,255,000	7,550,000	6,000,000
Children's welfare and women's health care reform	5,635,000	6,050,000	4,300,000
Transfers	4,775,000	3,450,000	2,563,000
Total	27,835,000	27,000,000	20,000,000

Source: Romanian Agency for Foreign Investment

Note: FY = financial year

World Bank

In its current strategy for Romania, the World Bank has programmed up to USD 995 million for the 2002-2004 period.

5.2. Pre-accession funds

Phare Programme

The European Union supports Romania through the Phare Programme since 1991 and has dedicated non-reimbursable funds of around EUR 1.7 billion over the period from 1991 to 2001.

Starting from 1998, the Phare support to Romania has been allocated in proportion of 70% for investments and 30% for institutional building. In 2001, the funds allocated for cross-border co-operation with Bulgaria and Hungary have amounted to EUR 261.89 million (of which 96.9% have been utilised).

Phare allocation in Romania (2002-2004)

	2002	2003	2004
Phare budget, EUR mln	279.0	284.5	405.3

Source: Romanian Agency for Foreign Investment

ISPA Programme

Like the Phare programme, the ISPA programme has the aim of economic and social cohesion. ISPA's exclusive focus on environmental and transport infrastructure measures has subsequently allowed the Phare programme to focus on other aspects of economic and social development.

⁹ The exemption does not apply if one of the subsidiaries is a listed company.

ISPA allocation in Romania (2000-2006)

	2000	2001	2002	2003	2004	2005	2006
ISPA budget, EUR mln	239	246	255	261	315	348	347

Source: Romanian Agency for Foreign Investment

SAPARD programme

The implementation of SAPARD programme (agricultural and rural development) as of September 2004 is presented below:

- Measure 1.1. – “Improvement of the processing and marketing of agricultural and piscicultural products”: 122 projects have been contracted with a total value of EUR 61.22 million
- Measure 2.1. – “Development and improvement of the rural infrastructure”: 592 projects have been contracted with a total value of EUR 479.31 million
- Measure 3.1. – “Investments in agricultural operations”: 93 projects have been contracted with a total value of EUR 11.50 million
- Measure 3.4. – “Development and diversification of economic activities for generating multiple activities and alternative income”: 99 projects have been contracted with a total value of EUR 6.22 million
- Measure 4.2. – “Technical assistance”: 6 projects have been contracted with a total value of EUR 1.18 million

Useful Internet links

Government of the Republic of Romania	www.gov.ro
Ministry of Foreign Affairs	www.mae.ro
Ministry of European Integration	www.mie.ro
Ministry of Economy and Trade	www.minind.ro
Ministry of Public Finance	www.mfinante.ro
Ministry for Communication and Information Technology	www.mcti.ro
Ministry of Transport, Constructions and Tourism	www.mt.ro
Romanian Agency for Foreign Investment	www.arisinvest.ro
National Agency for SMEs and Co-operatives	www.animmc.ro
Authority for State Assets Recovery	www.avas.ro
National Institute of Statistics	www.insse.ro
National Bank of Romania	www.bnro.ro
Foreign Investors Council	www.fic.ro
Bucharest Stock Exchange	www.bvb.ro
RASDAQ Securities Market	www.rasd.ro
Chamber of Commerce and Industry of Romania	www.ccir.ro
Mediafax-Romanian Press Agency	www.mediafax.ro
General Information, Links and News	www.romania.com
Internet Directory	www.kappa.ro

Participation of Romania in European Community programmes

Pre-accession financial assistance from the EU, different from Phare, ISPA and SAPARD is also provided to Romania through European Union Community programmes. Romania's participation in them has become operational in 1998 in areas, such as education and vocational training of youths, culture, health care, social politics, environmental protection, technological research and development.

	2001	2002	2003	2004
Number of programmes	8	16	n/a	19
Total contribution, EUR mln, of which:	35.6	38.5	n/a	39.2
State budget contribution	20.0	21.0	n/a	20.2
Phare contribution	15.6	17.5	18.4	19.0

Source: Romanian Agency for Foreign Investment

Bilateral financial assistance from EU member states

EU member states that offer bilateral financial assistance to Romania are: Austria, Belgium, Denmark, France, Germany, Greece, Italy, the Netherlands, the United Kingdom and the joint commission Romania – French community – Wallonia region (Belgium).