



Accountants &
business advisers

Doing business in Romania





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preface

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Chapter 1

Introduction

Introduction

Geography and population



You can find a piece of Romania anywhere in the world!

With beautiful sights and scenery, it is easily accessible from any point in Europe.

Romania is situated in South-East Central Europe, having an area of 238,391 square kilometres.

Romania's neighbours are: Ukraine and Moldavia to the North and East, Bulgaria to the South and Black Sea to the Southeast; Serbia and Montenegro to the Southwest; Hungary to the West.

The Danube Delta, the Carpathian mountains and the Black Sea are the main natural attractions.

Administratively Romania is divided into 42 counties. Bucharest, the capital, is the most important political, economical and cultural center of the country. It is situated on the Dambovită River in the South-Eastern part of the Wallachian Plain, and is surrounded by many natural lakes and forest. Other major cities are: Cluj, Timisoara, Iasi, Constanta, Brasov, Sibiu, Arad, Oradea. There are several port cities such as Sulina, Galati, Giurgiu, and Orsova on the Danube, and Constanta on the Black Sea. The population of Romania is approximately 23 million. Romanian-speaking people represent about 86% of the population.

As ethnic minorities, Hungarian and Germans live mainly in Banat and Transylvania, Serbiand in Banat, and Jews all over Romania. A limited number of Russians, Bulgarians and Turks live in Dobrudja, Ukrainians in Maramures and northern Moldavia.



We are here

Advantages of investment in Romania. Political system

According to the Constitution adopted in 1991, Romania is a parliamentary republic. Democratic rights and freedom are guaranteed by the Constitution.

Romania is a multi-political party state – many parties are currently registered, but only important ones are represented in the Parliament.

When considering Romania as a possible location for developing their businesses, foreign investors take a close look to the advantages provided by our country: market & location advantage: one of the largest markets in Central and

Eastern Europe (ranking 7th , with over 21 million inhabitants); EU unique market gateway (access to approximately 500 million consumers); attractive location: situated at the turning point between EU, the Balkans and CIS countries, Romania is crossed by three important pan- European transportation corridors: corridor no. IV linking Western and Eastern Europe, corridor no. IX connecting Northern and Southern Europe and no. VII – Danube River, facilitating inland water transportation, at the same time connecting the Romanian Port of Constanta (the biggest Port to the Black Sea) to Northern Europe, through the Rhine; resource advantage: highly skilled labor force at competitive prices (solid knowledge in foreign languages, technology, IT, engineering, etc); rich natural resources, including surface and underground waters, fertile agricultural land, oil and gas; high potential for tourism; political advantage: stability factor in the Area - NATO membership; stability Guarantee in South Eastern Europe; EU membership.

Communications

Romania has one of the most dynamic media markets in southeastern Europe. TV is the medium of choice for most Romanians. Most households in Bucharest have cable TV. There are hundreds of cable distributors offering access to Romanian, European and other stations.

The 1991 constitution upholds freedom of expression, but prohibits "defamation of the country".

The telephone direct dialing system gives instantaneous international communication from both fixed and mobile units.

Language and Currency

The official language, spoken by the majority of the population, is Romanian. The Romanian language is derived from the Latin used in ancient times in the Roman provinces of Dacia and Moesia. Hungarian is also used, mostly in the Northeastern part of the country. Other languages are also spoken by small numbers.

LEU (pl. Lei) with the subdivision BAN (pl. Bani), is the national currency.
Approximate official rates in September 2009: 1 EURO= 4,27 Lei
1 USD= 2,90 Lei

Legal System

Romania is in the process of developing its existing system of civil and commercial laws that govern business relationships and contractual matters. The modern legal system in Romania dates back to the mid-19th century. The Romanian justice system is based on French, Belgian, Italian and German models. To fulfill its responsibility for the functioning of the courts and the supervision of state marshals, state notaries, and the national bar organization, the Ministry of Justice was divided into six directorates:

- civil courts;
- military courts;
- studies and legislation;
- personnel;
- administration;
- planning and accounting.

The 1992 law on reorganization of the judiciary established a four-tier legal system, including the reestablishment of appellate courts, which existed prior to Communist rule in 1952. The four tiers consist of courts of:

- first instance Courts;
- intermediate appellate level courts;
- a Supreme Court;
- a Constitutional Court. The court system also includes military courts.

The Romanian Constitution reinstated the Superior Council of the Magistracy, a body of the judicial authority with management powers and disciplinary jurisdiction.

Major exports and imports

The Romanian market is open, requiring no special conditions for access or operation.

Romania is a signatory to the conventions on Preferential Trade among Developing Countries ("The 16") and Generalized System of Trade Preferences among Developing Countries.

Romania adopted an 8-digit customs tariff in March 1993. This tariff is similar to the International Harmonised System of Combined Nomenclature.

The major exportable commodities of the country are Basic metals and articles, mineral products and manufacturing products. The exports partners of the country are Italy, Germany, Turkey, France, Hungary, UK, US and Spain. The importable commodities of the country are food, fuel and energy, and the capital goods. The major imports partners of the country are Italy, Germany, Russia, France, Turkey, China, Austria, UK, Poland and US.

Government Policy on Foreign Investment

Romanian Agency for Foreign Investment represents according to Law no. 390/2002 regarding the setting up, organisation and functioning of ARIS, the Agency which responds of the Government policy on foreign investment in Romania. The decisions taken by the Government and applied by ARIS must comply with the Government Agenda and have the purpose of attracting the foreign capital in Romania.

Import licenses

Import licenses are required for such products as pharmaceuticals, chemicals, and toiletry. Also, sanitary and safety standards as well as special approvals for wastes and residues, toxic substances, explosives and firearms are in force.

Exchange controls

The exchange control regulations applicable in Romania, are provided by the Romanian National Bank, which can take safeguarding measures related to the monetary capital operations: obligation to notify the Romanian National Bank with

at least 10 days before the intention to conclude monetary capital operations on a short-time basis; establishing limitations for monetary capital operations on a short-term basis which generate incoming/outgoing of capital; applying a commission for the initiation of transactions regarding the monetary market; etc.

Source of finance

The need for financing is a common occurrence for many businesses both during the early stages of their life-cycle and for the development projects during their maturity stage.

Currently, the main sources of funding available to Romanian company are: the public capital market, the private equity funds, the banking sector and the leasing market for debt-type financing.

Labour force

The labour force in Romania is governed by the provisions of the Labour Code – Law on labour force in Romania is Law no. 53/ 2003- and of the agreements concluded at national and at other levels: work protection, the social security system, unions and other areas.

The objective of Romania labour law is to regulate the conditions of employment. This law provides for minimum standards of protection of the employees' rights. The labour legislation is quite strict with limitations of working hours and overtime (although cannot exceed 48 hours per week).

Economy

Romania is an upper-middle income European Union member economy of Central-Eastern Europe. Romania has the 11th largest economy in the European Union by total nominal GDP and the 8th largest based on purchasing power parity and is one of the fastest growing markets in recent history with consistent annual GDP growth rates above 6% (+8.4% for 2008).

Romania is a member of the European Union (7th largest country), its most important trading partner. Its capital, Bucharest, is one of the largest financial centres in the region, with a metropolitan area of more than 2.6 million people. Romania has experienced growth in foreign investment with a cumulative Foreign Development Investment totaling more than \$100 billion since 1989.

Some economic predictions indicate that Romanian GDP will grow from 2006 to 2011.

Future prospects are tied to the country's increasingly important integration with the European Union member states.

Chapter 2

Business Structures

Business Structures

Types of Business Structures



Individuals and legal entities may enter into partnerships and set up companies to develop business activities.

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

According to the provisions of Law on trading companies no. 31/1990, as republished and subsequently amended (the "Company Law"), there are five types of company incorporation:

- general partnership, "societate în nume colectiv", whose obligations are guaranteed by the company's assets and the unlimited and joint liability of the partners;
- limited partnership, "societate în comandita simplă", whose obligations are guaranteed by the company's assets and the unlimited and joint liability of the general partners. Limited partners are liable only up to the value of their subscribed contribution to the share capital;
- limited partnership by shares, "societate în comandita pe acțiuni", whose share capital is divided into shares and whose obligations are guaranteed with the company's assets and the unlimited and joint liability of the general partners. Limited partners are liable only up to the value of their subscribed contribution to the share capital;

- joint stock company, "societate pe acțiuni" whose obligations are guaranteed with the company's assets. Stockholders are liable only up to the value of their subscribed contribution to the share capital;

- limited liability company, "societate cu raspundere limitata" whose obligations are guaranteed with the company's assets. Shareholders are liable only for the payment of their contribution to the share capital;

The organization of general partnerships and limited partnerships is governed by a contract of association while joint stock companies, limited partnerships by shares and limited liability companies are organized under a contract of association and by-laws (which may be concluded as a single document "Constitutive Deed" or "Articles of Association").

The Constitutive Deed should mention:

- the identification data of the shareholders;
- type, name and registered office of the company;
- scope of activity;
- subscribed and paid share capital and, where the company has an authorized share capital, its value;
- identification data of the Board of Directors and Supervisory Board members;
- identification data of the first financial auditor;
- each shareholder's participation quote to the company's profits etc.

All companies must register with the Romanian Trade Office. This confers a legal status since their registration date. The Trade Registry Office will grant the newly set up companies with their registration certificate which has the unique registration code issued by the Ministry of Public Finance and the authorizations and permits in order to start their business activities.

According to the Law on Trading Companies, contributions to the share capital of a company may be in cash, in kind and in receivables. There are no special requirements with respect to the citizenship of a company's directors.

All types of companies must register their financial statements with the Trade Registry Office within maximum 15 days after the General Meeting, to be subsequently sent to the Ministry of Public Finance.

Listed companies must also file their financial statements, the director's, the censor's and the financial auditor's reports with the National Securities Commission.

Main business attractions

Following the accession to the European Union (January 1st, 2007), Romania enjoys EU financial assistance under the form of structural and cohesion funds allocated for a five consecutive year period, 2007-2013.

Romanian Government adopted a large number of state aid schemes stimulating economic growth by means of investment facilities granting.

State aid can be granted to large, small and medium-sized enterprises (including micro enterprises), depending on the type of investment, the field in which the investment will be implemented and the provisions of the state aid scheme applied for.

State aid is mainly granted under the following forms: subsidies; tax exemptions, postponements or reduction; state renouncing the normal income from public funds (including preferential interest rates for credits); public capital participation, if investment profit rate is lower than the normal rate anticipated by a prudent private investor; guarantees granted by public central or local authorities under preferential conditions etc.

Areas which are still under expansion:

1. Agriculture

Together with Bulgaria we account up to 50% of the registered farmland in the EU. Arable land represents 39.5% of the total land and only 5 other countries have a better position than Romania.

2. IT services industry

Highly skilled personnel with lower wage expectations than in the rest of Europe are the main attraction for investors. In Romania there are certain types of facilities allowed for different types of actions: one of the stimulating attractions is for the small and medium sized enterprises. According to Law no. 346/2004 regarding stimulating of investments and developing of small and medium size enterprises, the following facilities are allowed:

- the small and medium size enterprises have prior access to rent, concession or leasing of the available assets of the national companies and of the commercial companies with major state capital;
- the small and medium size enterprises have prior access to the public acquisitions of products, works and services, and they benefit of a discount of 50% for the conditions connected with the turnover, the guarantee of participation and the guarantee of good execution, requested by the public acquisitions of goods or services;
- non refundable financial acquisitions are allowed to the entrepreneurs when setting up a small or middle enterprise, for the purpose of making up the necessary capital in order to start the business;
- according to the Fiscal Code, small and medium sized enterprises which have the annual turnover smaller than 35,000 EUR, are exempted from the VAT payment.

Another type of facility allowed in our country is for the students with ingeniousness entrepreneurship who wish to set up a company. According to the facility, they benefit of exemptions from payment of taxes and fee. In order to benefit of these facilities, the student who set up a company must fulfill certain conditions: to be student at an accredited faculty; to pass all the obligations established by the University senate; the student should not be older than 30 years. A student can benefit of this fiscal facilities once for setting up a company

individually or together with other students which legally fulfill the conditions mentioned above.

Another important facility for students is the allowing of research grants regarding the reintegration for a period of 2 years since their return into country for the young researchers.

3. Alternative energy

This area is not sufficiently explored, even though a number of projects are expected to be concluded by the end of 2009. Constanta and the east of Romania is the ideal place for Wind Power projects due to the exposure to the Black Sea.

4. Hydro energy

Hydro is the cheapest form of power produced in Romania as the main mean to produce energy and meets the EU requirements.

The liberalization of the energy market is progressing according to EU schedules.

5. Private medicine

As the state health care system does not function properly in Romania, the private medical service market has seen an expansion over the last years.

Romania is long known for high-quality medical training. The medical tourism is growing quickly due to costs being lower than those in Poland or Hungary for example.

When considering Romania as a possible location for developing their businesses, foreign investors take a close look to the advantages provided by our country:

- Attractive location: situated at the turning point between EU, the Balkans and CIS countries, Romania is crossed by three important pan-European transportation corridors: corridor no. IV linking Western and Eastern Europe, corridor no. IX connecting Northern and Southern Europe and

no. VII Danube River, facilitating inland water transportation, at the same time connecting the Romanian Port of Constanta (the biggest Port to the Black Sea) to Northern Europe, through the Rhine;

- Stability factor in the Area - NATO membership;
- Stability Guarantee in South Eastern Europe;
- Bilateral agreements between Romania and other countries on investments promotion and protection;
- Free trade agreements with EU, EFTA countries, CEFTA countries; Sustainable economic growth;
- Similar legal provisions as in UE (Acquis Communautaire implementation);
- Fiscal policy regulated by the Fiscal Code;
- Presence of branch offices and representatives of various well-known international banks;
- Extensive maritime and river navigation facilities;
- Sound fiscal policy (16% flat tax).

Setting up a company: SRL (Limited Liability Company) and SA (Joint Stock Company)

Limited liability companies and joint stock companies are the most common types of companies set up in Romania.

Limited liability company

According to the Law on Trading Companies no. 31/1990, a limited liability company (S.R.L) may be set up by a number of shareholders which cannot exceed 50 and an individual or a legal entity cannot be a sole shareholder in more than one S.R.L. Also, a S.R.L with one shareholder may not be the sole shareholder in another S.R.L). The share capital of a S.R.L undertake any

operations required for the business of company, with the exception of the restrictions or limitations provided by the Constitutive Deed or by the general meeting of shareholders.

According to the Law no. 31/1990 on trading companies, a S.R.L. has the obligation to keep the register of shareholders where the identification of the shareholder and the number of shares held by each of them are recorded.

Joint stock company

A joint stock company (S.A.) can be set up by at least two shareholders. The share capital of the S.A. may not be less than RON 90,000. The Government can change at every 2 years the minimum value of the share capital by reference to the exchange rate, so as to keep this amount at the RON equivalent to EUR 25,000.

The share capital is divided into shares, and each with the value of at least RON 0.1. The initial capital paid by each shareholder may not be less than 30% of the subscribed capital. The remaining 70% of the subscribed capital must be paid over a period which must not exceed 12 months after the incorporation date, where the shares have been issued in exchange for contribution in cash and 2 years where the shares have been issued in exchange for contribution in kind.

The shares are marketable titles and they can be nominal or bearer shares. Ownership over nominal shares is transferred under a statement made in the shareholders corporate register, with such transfer to be registered in the shares certificate, whereas ownership over bearer shares can be transferred by simple remittance.

Shares can be pledged under a statement made by the concerned shareholder under private signature.

The General Meeting of Shareholders may be ordinary or extraordinary. Normally, the Extraordinary General Meeting of Shareholders is called whenever it is necessary to adopt a decision that modifies the company's constitutive deed. The ordinary meeting is called at least once every year and also five months after the

end of the fiscal year in order to: discuss, approve and modify the annual financial statements after presentation of the report by the Board of Directors, or by the Management Board or Supervisory Board, by the censors, as applicable, by the financial auditors and to establish the distribution of dividends; appoint and revoke the members of the Board of the Directors, or, as applicable, of the Supervisory Board, and of censors; set the remuneration of the Board of Directors members and of the censors; evaluate the performance of the Board of the Directors or of the Management Board, as applicable; establish the budget and business plan for the next fiscal year; decide with regard to the pledge, lease or dissolution of one or several of the company's branches; discuss any other issues on the agenda. In the ordinary general meeting, decisions are taken if shareholders representing a quarter of the share capital attend the meeting, and the decision is adopted with absolute majority of the share capital represented in the meeting.

The decision to amend the company's main object of activity, to decrease or increase the share capital, to change the company's legal form, to merge, demerge or dissolve the company is taken with a majority of at least 2/3 of the voting rights held by the present or represented shareholders.

Joint stock companies have the possibility to choose between two alternative management systems:

The sole management system

The company's management will be ensured by a sole director or a board of directors who can delegate the company's management to Managers and/or the General Manager.

The board of directors may be formed of non-executive members and as well as executive members.

The dual system

In this situation, the management will be ensured by a supervisory board and a management board. The management board bears exclusive responsibility for

the management of the company and is formed of one or several members, within a minimum number of 3 members for the companies subject to a mandatory financial audit.

In case a director has been designated to hold this position from the company's employees, the employment contract will be suspended during the director's term of office.

The directors and the members of the Management Board or of the Supervisory Board must conclude a professional liability insurance.

The managers of joint stock companies in the sole management system and the members of the Management Board in the dualist management system must be individuals.

The legal entities can be appointed as directors or members of the Supervisory Board of joint stock companies, but in this case they must appoint a permanent individual representative.

The Board of Directors may delegate the executive management of the company to one or more managers, with one of them appointed as general manager. In case the actual management of a joint stock company is delegated to one or several managers, most of the Board of Directors members shall be non-executive members.

The delegation of a company's management is compulsory for the companies whose annual financial statements must be subject to financial audit. The managers are responsible for the day-to-day operations of the company within the limits of the company's object of activity.

The Supervisory Board may set up advisory committees formed of at least two members of the Supervisory Board who are in charge for making investigations and recommendations in areas such as audit, the remuneration of the Management Board and Supervisory Board members and of the employees, or the nomination of candidates to management positions.

Joint stock companies whose annual financial statements are subject to mandatory financial audit must set up an Audit Committee within their Supervisory Board. At least one member of the Audit Committee should be an independent director and at least one member should have accounting-financial experience.

Joint stock companies whose annual financial statements are not subject to a financial audit under the law or by decision of the shareholders must appoint at least three censors and one deputy. Censors must certify the annual financial statements and present a report to the annual general meeting of shareholders.

The financial statements of the companies subject to a financial audit shall be verified and certified by financial auditors registered with the Romanian Chamber of Financial Auditors with the provisions regarding censors activity no longer being applicable in this case.

Joint ventures

Joint ventures are regulated by the provisions of the Commercial Code, Fiscal Code and the implementation norms.

Pursuant to the Romanian Commercial Code, joint ventures do not require any specific formalities, other than a written contract, contrary to the distinct formalities required when organizing a new company under the provisions of the Romanian Company Law, i.e. Law 31/1990. The only compulsory formality is, according to the Fiscal Code, that joint ventures must be registered with the competent fiscal authority before the commencement of any activity.

Joint ventures are not distinct legal entities, i.e. they do not have legal personality, they do not have separate assets and also they do not create rights and obligations of the joint venture itself in relation to third parties.

In case the participants to the joint venture are either a Romanian individual and a Romanian legal entity, or a foreign and a Romanian legal entity, there are no specific issues raised in connection with the accountancy and payment of the

profit tax for the activity performed according to the joint venture agreement. In such cases, the one responsible for keeping the accounts and making the payment of the profit tax is the manager of the joint venture, i.e. the Romanian legal entity.

However, when the participants to the joint venture are Romanian legal entities they must pay careful attention to the accountancy and payment of the profit tax. In such situations, the manager of the joint venture must keep the accounts of the joint venture by registering all the income and expenses generated by the activity performed based on the joint venture agreement. Afterwards, the manager must transmit the records corresponding to the contribution of the auxiliary participant to the latter, who must register them in its own accounts. Afterwards, both participants to the joint venture must pay the corresponding profit tax to the competent fiscal authority.

Registration and filing requirements for public securities

Any listed company intending to register securities (e.g. shares) for public sale must issue a prospectus that complies with the rules contained in the Corporations Law.

The National Securities Commission regulates and supervises the capital market from Romania and also the institutions and specific operations of this.

The securities are represented by different forms of ownership which could easily be transacted on the capital market, for example: shares, bonds, public securities, other types of securities, derivatives securities (futures contracts and options) and funds units.

There are six modalities of issuing new securities (shares): introduction to stock exchange; placement; issue on the basis of the prospectus; offer to sell; offer by auction; subscriptions.

Also, the right of buying new shares could be obtained by means of shares warrants.

These entities must publicly disclose all information that is considered to have a material effect on the price or value of their securities.

Foreign companies and foreign investments

One of the recent EU members, Romania offers an incredible market opportunity in terms of size (the 9th in EU 27) and population (the 7th in EU 27), offering investors a strong market potential.

If the experience proved until now that most investors establishing their manufacturing activities were export oriented, currently the trend in investment is oriented towards large consumer markets, and in this respect Romania is the second largest in Central and Eastern Europe after Poland.

Foreign investors may invest in the Romanian territory in any legal forms and they are granted full protection of rights and interests.

There are 10 major reasons to invest in Romania: great market potential, strategic location, high skilled labour force, high potential for economic growth, friendly business environment, competitive taxation, new EU member, access to European funds, infrastructure growing steadily, significant natural resources and tourism potential.

Romania enjoys certain competitive advantages that encourage foreign investors to consider developing their business here. Beginning with its strategic location and natural resources, continuing with its European membership and international relations network, together with undeniable economic and social advantages, Romania represents the hot-spot for the Foreign Direct Investments in the region.

According to Romanian legislation in force, all investors enjoy the same rights and incur the same obligations, irrespectively of they are Romanian or foreign citizens, residents or non-residents.

Regarding the investment support, over the years, various tax incentives for fostering foreign investments have been provided by the Romanian legislation.

The foreign investments regime has been affected by continuously changing legislation, particularly in view of the country's accession to the European Union.

Romania's competitive fiscal regime puts our country amongst the most appealing in the region.

The general framework in the field of state aid was established in Government Ordinance no. 85/2008 regulating the principles of investments stimulation, investments fields, types of incentives and subsidies available, general eligibility conditions etc.

State aid can be granted to large, small and medium-sized enterprises (including micro enterprises), depending on the type of investment, the field in which the investment will be implemented and the provisions of the state aid scheme applied.

The investments stimulation is based on the following principles: equal treatment for all people interested in investment; transparency regarding the modalities and criteria of allowing the facilities; efficiency in using the incentives; confidentiality regarding the guarantee of protecting the information regarding the intellectual property rights of the investors; eligibility regarding the provenience of the financing fund.

The registration procedure of a branch of a foreign company is in general similar to the registration of a Romanian company:

- must have a general manager appointed by the parent company, who will represent the branch in dealing with third parties in Romania;
- are not allowed to perform activities other than the ones performed by the parent company.

Most common form of investing in Romania is buying into a Romanian company or establishing a new one with foreign or mixed participation.

Shareholding by non-residents

Shares in Romanian companies can be owed by non-resident persons. There are no specific restrictions in our legislation regarding the trading companies.

Audit requirements and practices

Considerations for investors and users of financial statements

Historically, Romanian accounting records have been heavily influenced by the use of information for tax compliance purposes.

The primary function of financial/accounting details collection and recording process has been seen by many Romanian entities and management/staff within the entities (both State and private) as being for taxation compliance and taxation reporting purposes. As a result of this, the reported information has tended to reflect a “form over substance” disclosure, that is, greater importance is placed on having particular documents or recording something in a specific way, rather than in “accurately” reflecting the financial position of the enterprise at a point in time or indicating whether the results for the period are an appropriate representation of what has occurred.

Legal framework

Under Order no. 1752/2005, legal entities are required to prepare detailed or simplified financial statements, depending on the fulfillment of various criteria as detailed below. Legal persons who meet at least two of the following criteria must prepare detailed annual financial statements and must appoint a statutory auditor:

- (i) net turnover: EUR 7,300,000;
- (ii) cumulated value of assets: EUR 3,650,000;
- (iii) average number of employees: 50.

The consolidated financial statements shall be drawn-up by legal persons in accordance with the provisions of 7th Directive of European Communities if the companies which follow to be consolidated exceed together two of the following criteria:

- (i) net turnover: EUR 35,040,000;
- (ii) cumulated value of assets: EUR 17,520,000;
- (iii) Average number of employees: 250.

For the companies mentioned above, it is mandatory to appoint one or more statutory auditors.

According to the Order no. 1752/2005 and Law 297/2004 regarding the capital market, publicly held companies must draft their financial statements in accordance with the provisions of 4th Directive of European Communities, irrespective of whether they meet the criteria mentioned above regarding net turnover, cumulated value of assets and average number of employees. The financial statements of publicly held companies are submitted to the financial auditors in order to be audited.

The financial auditor issues a report, which as indicated in the Company Law is addressed to the shareholders (or equivalent) at the Annual General Meeting of Shareholders. Matters to be included in the Report of the financial auditor are indicated in Order no. 1752/2005, as well as in the Romanian National Auditing Standards and Company Law.

Auditing standards

Emergency Order 90/2008 (EO 90/2008) has introduced the European Union 8th Directive requirements into Romania for the conduct of statutory audits and for the operation of a public oversight body for the statutory audit function. EO 90/2008 was passed in June 2008 and aspects of its operations are subject to issuance of further regulations and amendments to previous legislation in this area.

Under EO 90/2008, the Romanian Chamber of Auditors continues to be 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. The Romanian

Chamber of Auditors reports to and is under the authority of the public oversight body.

The auditing profession follows the Romanian National Auditing Standards issued by the Romanian Chambers of Auditors, which are in full compliance with the International Standards of Auditing (ISA) set up by the International Auditing and Assurance Standards Board (IAASB), which are translated into Romanian language and also with the Code of Ethics issued by the International Federation of Accountants (IFAC).

Regulated industries

If applicable, the report of the independent financial auditor is also issued to the regulatory bodies such as Securities Commission (CNVM), Insurance Industry (CSA), National Bank of Romania (BNR) and Pension Funds (CSSPP) with the annual financial statements.

a) Taxation

General remarks

The Romanian Fiscal Code provides the legal framework for taxes which are income of the state budget and local budgets, specifies the taxpayers that must pay such taxes, as well as the manner of calculating and paying such taxes.

The legal framework for administering the taxes from the Romanian Fiscal Code is provided by the legislation regarding fiscal procedures.

The provisions of the Romanian Fiscal Code prevail over any provisions from other normative acts, and in case of conflict, the provisions of the Fiscal Code apply. However, if any provision of the present code contradicts any provision of any treaty to which Romania is a party, the provision of such treaty applies.\

The main taxes applicable in Romania are as follows:

- profit tax;
- income tax;
- tax on income of micro-enterprises;
- tax on income obtained in Romania by non-residents;
- tax on representative offices;
- value added tax;
- custom duties and excises;
- local taxes.

The taxes from the Romanian Fiscal Code are based on the following principles: neutrality of the fiscal measures, certainty of taxation, fiscal equity and efficiency of taxation.

The modification and completion of the Romanian Fiscal Code is possible only by law, which usually is promoted six months before of its entry into force.

The Ministry of Public Finance has the authority to develop the norms (i.e. methodological norms, instructions, and orders), which will be published in the Official Gazette of Romania Part I, necessary for the consistent application of the Romanian Fiscal Code.

Fiscal year

In Romania the fiscal year is the calendar year, starts at January 1st and ends at December 31st.

When a tax payer sets up or stops to function during a fiscal year, the taxable period is the period from the calendar year for which the tax payer existed. The taxable period is the fiscal year which corresponds to the calendar year.

Law taxation & Administration

In our country, the Fiscal Procedure Code (“FPC”) stipulates the rights and obligations of the parties from the fiscal judicial reports regarding the administration of taxes owe to the state budget and to the local budgets stipulated by the Fiscal Code, and also the administration of the customs obligations, contributions, penalties and any other amounts which constitutes income to the budget.

The taxes administration refers to the following:

1. fiscal registration;
2. declaration, establishing, checking and collecting all the taxes;
3. solving all the appeals against the fiscal administrative documents.

The Fiscal Procedural Code stipulates the general principles of conduct in taxes administration: unitary application of the legislation; exercising the right of assessment; the active role of the fiscal authority; the official language in the fiscal administration is Romanian; the right to be heard; the obligation of cooperation; the fiscal confidentiality; the good faith.

The FPC stipulates the specific procedures regarding the following: fiscal registration, fiscal and accountable evidence; fiscal declaration; establishing the taxes; fiscal inspection; collecting the fiscal debts; solving the caveat made against the fiscal administrative documents; penalties.

The Fiscal Procedural Code defines new concepts or modifies some of the old concepts, for example: the active role and the good faith; empowered as representatives of the tax payers; the fiscal curator named by a competent judicial court; “fiscal control” was replaced with “fiscal inspection”; the delay interests and penalties for the taxes named generically “penalties for payment obligations”; solidary liability; the successor's rights and obligations of the fiscal domicile; the fiscal administrative act; fiscal executor; fiscal custody.

A remarkable importance has the provision of art. 54 which states that banks are obliged to monthly communicate to the fiscal authorities the list with the individuals or with the legal persons who opens accounts, the legal form, the domicile or their headquarter.

Residence and source

In Romania, for the taxation of the income/profits both principles are applied: the principle of the residence and the principle of the source of income.

The following income obtained by individuals are taxed in Romania:

- The income of the resident individuals, obtained from any source;
- The revenues obtained from Romania by non-resident individuals. These income are subject to withholding tax.

The following profits/income of legal persons are taxed in Romania:

- The profits obtained from any source by the Romanian legal persons; The revenue/income obtained from Romania by non-resident legal persons. These income are subject to withholding tax.

Details regarding the taxation of income obtained from Romania by non-resident individuals and legal persons and the conditions for establishing the fiscal residence are found below in the “Withholding Tax”.

Corporate Income Tax

The following entities are liable for corporate income tax:

- Romanian companies;
- Foreign companies doing business in Romania through a permanent establishment;
- Foreign companies and non-resident individuals that are doing business in Romania through a joint-venture;
- Foreign companies which obtain revenues from real estate transactions or from transactions with shares of a Romanian company;
- Romanian individuals who form joint-ventures with Romanian companies, for revenues derived in/or outside Romania.

The standard corporate income tax rate is 16%.

For nightclubs and gambling operations, the corporate income tax rate cannot be lower than 5% from the revenues obtained from such activities.

There are special types of companies, micro-companies that can choose to apply a special fiscal regime, with a tax rate of 3% of the total revenues earned, no matter the expenses.

A Romanian legal entity is considered micro-company if: it has an annual turnover less than EUR 100,000, more than 50% from it obtained from activities other than consultancy and management and a number of employees between 1 and 9.

All entities doing business in Romania are required to keep their accountancy by the calendar year.

Starting to January 2010, the payers of the corporate income tax will apply the advance payments system.

Regarding the profit tax and micro-companies turnover tax, the concept of “minimum tax” is introduced, as described below.

Profit tax payers (Romanian companies as well as foreign companies operating in Romania through permanent establishments) as well as micro-enterprises are obliged to pay this minimum tax. The minimum tax is due if the profit tax or the micro-company's turnover tax is lower than the minimum tax, which is determined, based on the revenues reported at 31 December of the previous year, using the following thresholds:

Total annual revenue (RON)	Annual minimum tax (RON)
0 – 52,000	2,200
52,001 – 215,000	4,300
215,001 – 430,000	6,500
430,001 – 4,300,000	8,600
4,300,001 – 21,500,000	11,000
21,500,001 – 129,000,000	22,000
Over 129,000,001	43, 000

Certain categories of revenues are expressly excluded by the law for assessing the threshold. However, revenues from dividends received from Romanian or foreign companies are not excluded.

The minimum tax is applicable starting with May 1st 2009.

Specific provisions and transitory measures:

- Recently created Romanian banks and Romanian branches of foreign banks have to perform advance payments in the first year of RON 2,200, recalculated for the respective taxable period. Where losses were registered, banks have to make advance payments amounting to a quarter of the minimum annual tax. Banks that benefited from profit tax exemptions in the previous year but no longer benefit from this incentive in the current year have to determine the advance payments at the level of the profit tax for the previous tax year without taking into account the exemption;

- Regular companies, excluding banks, have to determine the tax liability in the 2nd quarter from whichever is higher between the profit tax and the annual minimum tax calculated for the period 1 May-30 June 2009;

- For the 3rd and 4th quarters, the tax payment is determined from whichever is higher between the profit tax and the annual minimum tax, calculated by dividing by 12 and multiplying by the number of months afferent to the quarter;
- These provisions also apply to micro-companies, but the comparisons have to be made between the micro-companies' turnover tax and the annual minimum tax.

Deductibility of company vehicle expenses

During the period 1st May 2009 to 31st December 2010, fuel expenses for company vehicles used exclusively for passenger transport, weighting under 3,500 kg and having fewer than nine passenger seats (including the driver's seat), are non-deductible for profit tax purposes.

By exception, fuel expenses are deductible for vehicles used in the following activities: intervention, repair, safety and security, courier services, transporting staff to and from the work place, TV vans, cars used by sales agents and recruitment agents; paid transportation services and taxi activities; rental; driver schools.

Specific provisions for executives are in place as follows: operation, maintenance and repair expenses for vehicles used by individuals in company leadership and management positions are deductible within the limits of one vehicle per person; fuel expenses have been expressly excluded from this category of limited deductibility expenses, so they fall under the general rule mentioned above.

Interest deduction and thin capitalisation

The Romanian Fiscal Code provides that the interest expenses related to the loans obtained from international development banks and similar organizations (European Bank for Investments, European Bank for Reconstruction and Development, similar banks and organizations), loans guaranteed by the state, and those related to loans from Romanian or foreign credit institutions, from financial institutions, loans from legal persons that grant loans according to law, as well as loans obtained based on the bonds traded on a regulated market are fully deductible.

The interest expenses related to the loans obtained from non-financial institutions (e.g. shareholder loans, intercompany loans) are deductible according to the debt/equity ratio (thin capitalization rules). Thus, if the debt/equity ratio is negative or over 3 (computed as the ratio between the loans with a period of maturity over 1 year and the company's equity), the interest expenses are non-deductible, but available to be carried forward in the following period for an indefinite period of time, until the debt/equity ratio falls below the relevant threshold.

Moreover, the law limits the level of interest deductibility for the loans obtained from non-financial institutions, at the level of the reference interest rate of the National Bank of Romania that corresponds to the last month in a quarter for loans denominated in RON, and the level of an annual interest rate of 8% for loans denominated in foreign currency (the level of interest is updated, every year, by Government decision). Any excess of the interest rate for loans denominated in RON and loans denominated in foreign currency is permanently non-deductible.

Where foreign exchange losses exceed foreign exchange gains, the difference (i.e. loss) is treated as interest expense, following the same fiscal treatment as the one mentioned above.

Repatriation of profits

The profits obtained by foreign investors from Romania (non-resident legal entities and individuals), generated from the activities mentioned below at 'Withholding tax' title, can be transferred in the foreign investors' residency country.

However, the amounts transferred have to comply with the exchange control regulations applicable in Romania. The regulations are provided by the Romanian National Bank, which can take safeguarding measures related to the monetary capital operations: obligation to notify the Romanian National Bank with at least 10 days before the intention to conclude monetary capital operations on a short-time basis; establishing limitations for monetary capital operations on a short-

term basis which generate incoming/outgoing of capital; nominating a commission for the initiation of transactions regarding the monetary market; etc.

Transfer Pricing

In the past years the Romanian legal framework regulating transfer pricing has become more rigorous and detailed. That is why the transfer pricing is set to become an increasingly important topic for the Romanian tax authorities and taxpayers.

The Romanian transfer pricing legislation is largely similar to the regulations applied by developed countries, making specific references to the OECD doctrine and following the EU code of conduct on transfer pricing documentation. Although specific provisions in the field of transfer pricing have been presented in Romanian tax laws for several years, the legislation on the subject became more rigorous and detailed especially during last year, when an order was issued by the National Agency for Tax Administration regarding the contents of the transfer pricing file.

The requirement to prepare a transfer pricing file has been introduced into Romanian legislation under the Fiscal Procedure Code. The obligation has been strengthened by the provisions of Government Decision no. 529/2007 for obtaining an Advanced Pricing Agreement and by Order of National Agency for Fiscal Administration no. 222/2008 which brings detailed norms in relation to the preparation of transfer pricing documentation.

This mandatory documentation should be made available by taxpayers upon the request of the Romanian tax authorities and should include information such as details on the group (that is, legal, organizational and operational structure, details on transactions between related parties), as well as information on the taxpayer and functional analysis. Also, the documentation should include details on the method used for the purpose of analyzing the related party transactions and details on the results of the benchmarking exercise.

The failure to provide the transfer pricing file within the specified term (generally not exceeding three months) will allow the tax inspectors to adjust the tax position of the Romanian entity based on their own estimation of the applicable transfer prices. The estimation of the transfer price is made by identifying 3 examples of similar transactions. To establish the estimated value of the analysed transaction it is used the arithmetic average of the amounts of the 3 transactions. Such an adjustment may lead to an increased tax burden at the taxpayer's level and also to late payment penalties being imposed. Fines can be also imposed if adequate documentation is not provided (up to RON 14,000 i.e. EUR 3,300).

Taxation of capital gain

The foreign legal persons who obtain income from real estate located in Romania or from the sale-assignment of securities held in a Romanian legal person shall be liable to pay the profit tax for the taxable profit related to such income.

During January 1st 2009-December 31st 2009 inclusively, the profit obtained by the foreign legal persons from dealings with the units held in a Romanian legal persons on a market authorised and supervised by the National Commission of Securities are not taxable.

The income from real estate located in Romania include the following:

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- income from rental or grant of use of real estate located in Romania; gain from the sale-assignment of property rights or other rights related to real estate located in Romania;
- gain from sale-assignment of securities in a legal person, if a minimum of 50% of the value of the fixed assets of the legal person is, either directly or
- through one or more legal persons, real estate located in Romania; income obtained from the exploitation of natural resources located in Romania, including gain from the sale-assignment of any right related to such natural resources.

Any foreign legal person who obtains income from real estate located in Romania or from the sale-assignment of securities in a Romanian legal person, has the

obligation to pay the profit tax (16%) and to submit profit tax statements. Any foreign legal person may appoint a fiscal representative to satisfy such obligations.

Any Romanian legal person or any foreign legal person with a permanent head office in Romania who pays the income provided in real estate located in Romania or the sale-assignment of securities held in a Romanian legal person to a foreign legal person, has the obligation to withhold the tax calculated from the paid income (16%) and to transfer the tax withheld to the state budget.

Personal Income Tax

In Romania, the income of the individuals obtained from the following activities are subject to tax:

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- independent activities;
- salaries and other similar activities;
- grant of the use of goods;
investments (dividends, interests and other income from sale/purchase operations of foreign currency on term);
- pensions;
- agricultural activities;
- prizes and gambling;
- transfer of immovable properties;
other sources.

Income from independent activities are:

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- commercial income;
- income from free professions;
income from intellectual property rights.

The fiscal year is the calendar year and starts at January 1 and ends at December 31.

Taxpayers, for the income obtained during the course of a year, have the obligation to submit to the tax authorities, before May 15th of the following year, the annual income statement. The tax rate is 16%, applied to the taxable income with the following exceptions:

- income from the transfer of real estate from the own patrimony, which are taxed depending on the value of income and on the holding period of the property with rates between 1% and 3%;
- income from heritage, if the debate of the succession last more than 2 years, are taxed at a rate of 1%;
- income from gambling are taxed at a rate of 20% for gains up to 10,000 RON and at a rate of 25% for gains over 10,000 RON.

The taxable base is determined specifically to each category of income, either by deduction from the income of the expenses performed for obtaining the income, determined on single entry accountancy, or by applying expenses flat rates determined as a percentage from the income or fixed amounts depending on the value of income.

The payment of the tax is made by:

1. Withholding at source by the payer of income for:

- a part of the income from independent activities (income from commissions, commercial mandate, accountancy and technical expertise);
- income from salaries;
- income from intellectual property rights;
- income from pensions;
- income from dividends;
- income from interests;

- income from sale/purchase operations of foreign currency on term based on contract;
- income from the transfer of the participation titles;
- income from the liquidation of a legal entity;
- income from prizes and gambling;
- income from other sources.

2. Withholding by the public notary of the tax due, for:

a part from the independent activities (commercial income);
income from grant of the use of goods;
income from agricultural activities;
income from abroad.

The following income obtained in Romania, by non-residents individuals, are subject to tax in Romania: dividends; interests; royalties; commissions; sporting and entertainment activities; consultancy and management services; services performed in Romania, only international transport and the services related to this; independent professions carried out in Romania during a period that exceeds 183 days during a year; pensions; prizes and gambling.

The following income obtained in Romania, by non-resident individuals, are exempted:

- interest for current accounts and sight or term deposits;
- interest for instruments of public debt;
- interest from instruments/receivables issued by Romanian trading companies, if the instruments/receivables are transacted on a real estate market regulated by the competent authority of the state;
- income of the members of diplomatic missions and press correspondents under conditions of reciprocity;
- income of the officials of international organizations recognized by the Ministry of External Affairs;
- income obtained by non-residents individuals that perform consultancy services according to the non-reimbursable financing agreements concluded by Romania;

- prizes of non-resident individuals obtained from Romania, as a result of participation in national and international artistic, cultural and sporting festivals, as well as granted to non-resident pupils and students at contests financed from public funds.

The tax rate is 16%, applied to the income obtained, except gambling income which is taxed at a rate of 20%. The tax is withheld at source by the income payers.

In case where between Romania and the residence country of the beneficiary of the income is concluded a double tax treaty agreement, and the beneficiary of the income presents a fiscal residency certificate, the provisions of the respective treaty applies if these are more favourable than the ones of the Romanian Fiscal Code.

Fringe benefits tax

Any advantages or benefits received by an individual from its employer or from other third parties are taxable.

The most frequent advantages received by employees from their employers or from other third parties are provided by the Romanian Fiscal Code, but the list is limited:

- use of some goods, in its own interest, from the patrimony of the company (cars, telephones, calculation method, fitness rooms, etc)
payment by the employer of the insurance premiums, other than the mandatory ones;
accommodation, food, clothes, etc;
premises or travel tickets for means of transport;
non-reimbursable loans;
free of charge services or services offered at a lower price than the market price;
household staff to work;
vacation and shopping vouchers;
money for entertainment;

- gifts, with the exception of the ones offered to children for the two most important religious holidays and children's day within the limit of 150 RON, as well as the gifts given to women on the occasion of March 8th within the same limit;
- aid, other than funeral aid, childbirth aid, incurable diseases aid, aid for natural disasters, as well as for the tickets for treatment and rest offered in accordance with the collective labour contract.

Benefits in kind or in money are taxed together with the income from salaries on the month in which are granted to the employees or to other persons similar to employees, or taxed as income from other sources for the individuals who do not have concluded labour contracts or other contracts with the income payer.

The tax rate is 16% and the tax is retained at source by the income payer.

Withholding Tax

Non-resident companies are subject to a 16% withholding tax on other revenues derived from Romania, such as: interest; royalties; revenues from services performed in Romania; dividends; revenues obtained from management and consultancy services, irrespective of where the services are performed; commissions and revenues derived from liquidation of a Romanian legal entity.

There are certain specific provisions and exceptions to the above rates, as follows:

1. 10% to the gross dividends paid by Romanian companies to companies resident in EU and EFTA;
2. As Romania is an EU member state, the provisions of the Parent Subsidiary Directive apply. Therefore, dividends paid by Romanian companies to companies resident in EU and EFTA are exempt from withholding tax, if the dividend beneficiary owns a minimum of 10% of the participation titles of the Romanian company on the date when the dividend is paid, for a period of two years ending on the date when the dividend is paid;

3. Romania has implemented the Interest and Royalties Directive with a transitional period for the application of this Directive until 2010. During the period between the accession date of January 1st 2007 and December 31st 2010, 10% WHT applies on payments of interest and royalties made by Romanian companies to companies resident in EU and EFTA member states and holding at least 25% of the share capital of the Romanian company for a continuous period of at least two years prior to the date of payment of interest/royalties. Such payments are WHT exempt from January 1st 2011, under the same conditions as stated above;

4. The withholding tax rate applicable for income from interest on time deposits, demand deposits/current accounts, created certificates of deposits and saving instruments purchased before January 1st 2007 is that valid at the moment of creation/purchase;

5. Withholding tax for gambling proceeds obtained by non-residents is 20%. The following categories of income derived from Romania by non-residents are exempt from withholding tax: bonds issued and/or guaranteed by the Romanian government; revenues derived from interest on demand deposits/current accounts, as well as interest from term deposits and/or other types of saving instruments; revenues from consultancy, technical assistance and similar services financed by means of non-reimbursable funds and loans granted to the Romanian state, or loans guaranteed by the Romanian state, provided that the interest rate for such loans is below 3% per annum; revenues from international transportation and accessory services; prizes paid from public funds; income obtained from a partnership constituted in Romania by non-resident companies. Such income is taxed with corporate income tax.

Double taxation avoidance

If more favourable, the withholding tax rates under the Double Tax Treaties concluded between Romania and the country of residence of the payment beneficiary may be applied if the non-resident makes its tax residency certificate available to the Romanian payer of income.

The tax residency certificate must be made available by the non-resident at the moment of payment, in order to benefit from treaty protection. Otherwise, domestic withholding taxes apply and a refund can be requested if the tax residence certificate is made available during the five year statute of limitation period.

Value Added Tax

Title VI of the Fiscal Code covers the VAT regime in Romania and its provisions are generally in line with the EU VAT Directive (Directive 2006/112/EC).

VAT applies to the import, domestic supply of goods and services and transfer of real estate properties. Unless specifically exempted, all commercial transactions are subject to VAT.

Goods imported in Romania are generally subject to VAT at the customs point. Intra-community acquisition of goods and the acquisition of services are also subject to VAT under the reverse charge mechanism, amount which is only recorded as input and output VAT in the month when incurred.

The standard VAT rate is 19%. There are two reduced rates of VAT, 9% and 5% for constructions.

The reduced rate of 9% is applied to certain transactions such as:

- tickets to museums, castles, historical;
- monuments, fairs and expositions, movie-theatres (cinemas), etc.;
- supply of school books, books, newspapers and magazines, except for those intended solely for advertising purposes;
- supplies of all sort of prosthesis, except for dental plates and orthopaedic products;
- drugs for human and animal use;
- accommodation in hotels and similar structures, including the rental of land for camping.

The reduced rate of 5% applies to the taxable base computed for the supply of buildings as part of the social policy, including the land on which they are built. The building supplied as part of the social policy include among others the supply of buildings intended to be used as old people's homes, foster home and centres for recovery and rehabilitation of disabled children, the supply of buildings to city halls with the purpose of subsidised renting-out to certain persons or families whose economic situation does not allow buying or renting a home under market conditions, the supply of buildings with a maximum utilisable space of 120 square meters, excluding building annexes, whose value, including the value of the land on which they are built, does not exceed RON 380,000 (excluding VAT).

Generally, exported goods are not subject to VAT. However, certain conditions shall be fulfilled in order to qualify for this exemption. Intra-community supplies of goods are VAT exempted if the VAT number of the beneficiary and the proof of transport are available.

Starting from 2008, the simplification measures related to the application of reverse charge for construction-assembly works, deliveries of buildings, parts of buildings and land are no longer in force. VAT payers that carry out transactions with waste materials and wooden materials apply simplified VAT measures. Both the suppliers and the clients show the input and output VAT in the sales, purchase ledgers and in the VAT returns without actual payment of VAT between parties.

Romanian companies should register as VAT payers if their annual turnover exceeds EUR 35,000. Registration as a VAT payer where turnover is under this threshold is optional.

VAT compliance provides for monthly submission of VAT returns with the competent tax authority by the VAT registered companies and monthly payment of VAT due by the 25th of the month following the reporting month. For small companies (defined by the law as having less than EUR 100,000 in taxable revenues), the VAT compliance is performed quarterly by 25th of the first month following the reporting quarter.

The relevant legal provisions also provide for VAT reimbursement and refund options.

Starting with the accession date, VAT reimbursements under 8th Directive (for companies established in other EU member states) is possible. VAT reimbursement under the 13th Directive (for companies established outside the EU), however, is granted under reciprocity basis.

During the period May 1st 2009 to December 31st 2010, companies cannot deduct VAT on acquisitions of fuel and of vehicles exclusively used for passenger transport, weighting under 3,500 kg and with fewer than nine passenger seats (including the driver's seat). The same exceptions apply as mentioned under profit tax and individual income tax above.

In addition, VAT is deductible on the acquisitions of fuel and of the following categories of vehicles: cars used for providing services for consideration, including rental to others, the transfer of usage rights under a financial or operational leasing contract, vehicles used for commercial purposes (i.e. for the purpose of resale).

Subsequent sale of vehicles for which no VAT deduction was allowed at the time of acquisition is VAT exempt.

For those taxpayers whose fiscal period is the calendar quarter, the fiscal period becomes the calendar month if they perform a taxable intra-Community acquisition in Romania.

Non-taxation of business profits reinvested in the purchase of machinery and equipment will apply even next month.

If, so far, the general rule was paying the VAT at the place of the provider of the services, with several exceptions, starting to January 1st 2010 services will be taxed at the beneficiary. That is, for example, a Bulgarian company which buys services from a Romanian company will not pay VAT on our budget, but will pay a 20% tax rate to the Bulgarian budget. An exception will be real estate services that

will be charged at construction. Instead, individuals are charged VAT on services in the country where they buy.

Excise Tax

In Romania there are two separate categories of excise duties.

Harmonized excise duties

The harmonized excise duties are complying with the provisions of Directive 92/12/EEC in general for products subject to excise duty and on the holding, movement and monitoring these types of products. The excisable products are: beer, wines, fermented beverages other than beer and wines, intermediate products, ethyl alcohol, tobacco products, energy products, electrical power.

The production and/or storage of excisable products for which the excise duty has not been paid, is possible only in a fiscal warehouse. The fiscal warehouse is a place under the control of relevant authorities, where excisable products are produced, transformed, held, received or dispatched under a suspension regime by the authorized warehouse keeper.

Registered operators are individuals or legal persons to which have been granted an authorization to receive excise goods from another Member State under excise suspension regime and the non-registered operators are entities which are authorized occasionally to carry-out the same operations as the registered operators.

Generally, the generating event of excise duties is at the moment of their production on the Community territory or at the moment of their import to the territory and the excise is chargeable at the moment of release for consumption (any exit of excisable products from a suspension regime; any production of excisable products outside a suspension regime, any import of excisable products-except electricity, natural gas, coal and coke-if the excisable products are not placed under a suspension regime) or when losses or shortages of excisable products are discovered.

In general, the excise duties are payable until the 25th of the month following the one in which the excise became chargeable. Exceptions represents the registered operators (the working day following immediately the one when the excisable products were received) and authorized suppliers of electrical energy and natural gas (the 25th of the month following the one when the final consumer was invoiced). Also, the excise duty for an import of an excisable product which is not under a suspension regime is the moment of registration of the custom declaration.

Excise duties specific to Romania (non-harmonized excises)

The products for which this type of excise duties applies are: green, roasted and soluble coffee, natural fur products with some exceptions, gold and/or platinum jewels with some exceptions, perfumery products, guns and hunting guns with some exceptions, yachts and other boats for recreation with or without engine, engines with a capacity over 25 HP for yachts and other boats for recreation. The excise duty for coffee will be gradually decreased to nil by 2011. For the other excisable products no excise duty will be due starting with April 1st, 2010.

For the goods mentioned above, excises are generally applied as a lump sum or as a percentage.

Excise payers are legal entities, family associations and authorized individuals which produce or purchase from the community territory or from the extra-community territories such products. Individuals are also excise payers for some products.

The chargeable moment for non-harmonized excises is:

- for products from domestic production, the date of actual delivery, the date of granting products as dividends or as payment in kind, the date on which consumed for advertising and publicity and the date of alienation or use for any purpose other than selling;

- for products from the Community territory, upon their receipt;
- for imported products, on the date of registration of the custom import declaration.

Non-harmonized excises are to be paid until 25th of the month following the month in which the excise becomes chargeable. For other excisable products, from the community territory or from import, the payment of excises is made in the working day following to the receipt date of the products.

For yachts and other boats for recreation with or without engine, the chargeability and the payment of excise is at the moment of first registration in Romania.

Final remarks

For both harmonized and non-harmonized excises, each payer is required to submit to the competent authorities an excise declaration for each month, regardless whether excise is or is not payable for such month.

The currency exchange rate for the calculation of excises is 3.7364 RON/EUR for 2009 and 4.2688 RON/EUR for 2010.

Exemptions or refunds of excise duties may apply under certain conditions.

Other taxes and duties

Stamp duties

The stamp duties are regulated by Law no. 146/1997 regarding the stamp duties. The duties applies on the shares and requests introduced to the judicial courts, and also on the requests addressed to the Ministry of Justice and to the Parquet attached to the High Court of Cassation and Justice.

There are established in absolute amount, the amount contained between 1 Romanian lei and 5.126 Romanian lei and also in percentage (between 1%-10%), depending on the value of shares and of the requests introduced.

State or local taxes

The local taxes and duties shall be the following:

1. tax on buildings;
2. tax on land;
3. duty on means of transport;
4. duty for the issuing of certificates, advisory opinions and authorisations;
5. duty for using means of advertising and publicity;
6. tax on performing activities;
7. hotel duty;
8. special duties;
9. other local duties.

1. Tax and fee on buildings:

- any person who owns a building located in Romania shall owe an annual tax for such building, except otherwise provided in the Fiscal Code;
- in case of natural persons, the tax on buildings shall be calculated by applying the taxation rate of 0,1% to the taxable value of the building, and this tax increase from 15% to 100%, if this person owns two or more buildings which are used as dwellings and which are not rented to another person;
- in case of legal persons, the tax on buildings shall be calculated by applying a tax rate to the inventory value of the building and it may be between 0.25% and 1,50% inclusive.

2. Tax and fee on land:

- any person who owns land located in Romania shall owe an annual tax for such land, except otherwise provided in the Fiscal Code;
- the tax on land shall be determined by taking into account the number of square metres of land, the rank of the locality where the land is located, and the zone and/or category of use of the land, according to the decisions of the local council.

3. Duty on means of transport:

- any person who owns a means of transport which must be registered in Romania shall owe an annual duty for the means of transport, except otherwise provided in the Fiscal Code;
- the duty on means of transport shall be calculated depending on the type of the means of transport;
- the tax on the means of transport shall be calculated depending on their cylinder capacity.

4. Duty for the issue of certificates, advisory opinions and authorizations:

- any person who must obtain a certificate, advisory opinion or other authorisation must pay the duty specialised department of the local public administration authority before the issuing of the necessary certificate, advisory opinion or authorization;
- those duty are: duty for the issuing of urbanisation certificates, construction authorizations, duty for issuing of authorisations to carry on economic activities.

5. Duty for using means of advertising and publicity:

- duty for advertising and publicity services - any person, which benefits from advertising and publicity services in Romania on the basis of a contract or another form of agreement concluded with another person, shall owe this duty, with the exception of advertising and publicity services provided by means of written and audio-visual mass media;
- duty for the display for purposes of advertising and publicity - any person who uses an advertising hoarding, display or display structure for advertising or publicity in a public place shall owe the payment of this annual duty to the local budget of local public administration authority in whose jurisdiction such advertising hoarding, display or display structure is located.

6. Tax on performing activities:

- any person who organises an artistic performance, sporting competition or other entertainment activity in Romania shall have the obligation to pay this tax;
- the tax on performing activities shall be calculated by applying the taxation rate to the amount cashed from the sale of entrance tickets and of subscriptions, the rate is 2%-5%;
- in case of an artistic performance or entertainment activity which takes place in a video or disco room, the tax on performing activities shall be calculated based on the surface area.

7. Hotel duty:

- the local council may impose a duty for the stay in a unit of accommodation in the locality over which the local council exercises its authority;
- the hotel duty shall be calculated by applying the established rate of the duty to the accommodation tariffs practised by the units of accommodation.

8. Special duties:

- the special duties shall only be charged to the natural and legal persons who benefit by the services offered by the public institution/service of local interest, according to its regulation for organisation and functioning or to those persons bound, according to the law, to provide services which fall within the scope of this type of service.

9. Other local duties

- the local Councils, General Council of Bucharest Municipality or county councils may institute duties for the temporary use of the public places and for the admission to museums, memorial houses, or historical, architectural or archaeological monuments and others similar, duties for

the possession or use of equipment and tools held for the purpose of obtaining income which use the local public infrastructure, within the locality where they are used, as well as duties for the activities having an impact on the environment.

b) Selling into Romania

Custom treatments

Custom Value

The custom value is determined and declared by importer in accordance with the provisions of the WTO Custom Valuation Agreement (i.e. the Agreement pertaining to the implementation of Article VII of the GATT Agreement).

For chain transactions with goods intended for import, the custom value may be determined, under certain conditions, based on the price in any of the transactions in the chain ("first sale principle"). This way, the custom value can be determined based on a price lower than that paid/payable by the importer (e.g. based on the price of the first transaction in the chain).

The custom value can be modified within 12 months of the acceptance of the custom declaration for the release of the goods for free circulation, in specific cases (e.g. in the case of defective goods). Under specific conditions, determining custom value upon import is possible, even if certain elements that need to be added to the custom value are not quantifiable on the importation date (e.g. licence fees, royalties) or are missing.

The custom authorities may inspect the custom value either during the custom clearance or during a post-import audit (the custom authorities are entitled to perform such an audit during a five-year period following the date of import). It is also possible to amend or invalidate the custom declaration, as follows:

amendment of the custom declaration before the custom clearance is obtained and invalidation of the custom declaration within 90 days of the custom clearance being obtained;

- amendment after the custom clearance is obtained can be performed at the request of the traders within three years of the custom clearance date.

Custom charges and duties

The custom duties are those specified in the EU Common Custom Tariff.

Custom duties are expressed as a percentage applied to the custom value (i.e. ad valorem taxes) or as a fixed amount applied to a specific quantity (i.e. specific taxes).

Agricultural products (i.e. products from chapters 1-24) are subject to specific taxation.

There are cases (e.g. meat) where the custom duty rate is established with regard to the CIF or the entry price of the products. In other cases, the custom duty rate is established by adding to the ad valorem tax additional duties such as agricultural components (EA), for sugar (AD S/Z) and for flour (AD F/M).

The representation in Custom

Legal entities established in non-EU states can declare goods by indirect representation. The indirect representation can be used for custom regimes as transit or temporary import.

Moreover, legal entities established in non-EU states can occasionally declare goods on their own through direct representation provided that the custom authorities consider this to be justified. Custom brokers can be authorised to use the local custom clearance procedure or to submit simplified custom declarations for the companies they represent (either directly or indirectly).

Any legal person established in the EU can act as an indirect representative, for a sole person, using the simplified custom clearance procedures.

Trade Barriers, including Tariffs, Non-Tariff Barriers and Import Taxes

The Romanian market is open, requiring no special conditions for access or operation.

Romania is a signatory to the conventions on Preferential Trade among Developing Countries ("The 16") and Generalized System of Trade Preferences among Developing Countries.

Romania adopted an 8-digit custom tariff in March 1993. This tariff is similar to the International Harmonised System of Combined Nomenclature.

The custom duty rates vary depending upon the product being imported. The weighted average of custom duty is 11.7% with notable exceptions for ores and fuels, for which the taxation is nil or reduced to 3-10 %. However, tariffs are considerably higher for such items as cigarettes, furs, carpets, vehicles, photographic equipment and supplies, bicycles, TV sets and sound and video registration equipment. Duties applied to industrial equipment are generally about 15 % ad valorem.

Import incentives are currently available to private SMEs (under Law no. 133), for current account import for goods to be exported within 45 days, as well as for equipment imported for investments in excess of \$1 million. Also, custom incentives are granted for goods imported inside Romanian Free Trade Zones and disfavoured areas, as provided by specific regulations.

The following imported goods are exempted from duties:

- a) samples and models with no commercial value, as well as promotional materials, if certain conditions are met;
- b) humanitarian materials and legacies.

Imported goods can be replaced/repared during the warranty period. The damaged ones can be exported and re-imported under import duty exemptions.

To benefit from the exemption upon the re-import of the goods the replacement/repairs should be performed within the warranty period and the re-imported goods should have the same tariff classification and same technical characteristics as the exported ones.

In case the intention is to replace the goods and the warranty clause has expired, then the re-importation is only partially exempted (i.e. the custom value is represented by the value of repairs).

With few exceptions, imports from all countries are subject to value-added-tax (VAT). VAT generally applies to the supply of goods, transfer of real estate and services. Exempted activities include healthcare, scientific, educational and charitable activities, banking and financial services, insurance, and schoolbooks editing.

The tax reform in late 1999-early 2000 lowered the standard VAT rate to 19%; no reduced rate is available and zero rates applies for export of goods and services for which the hard currency was effectively cashed in Romania. Imported raw materials designed exclusively to the manufacturing of finished products which are exported within 45 days from import are eligible for VAT exemption.

Under the new legislation, the products and services previously taxed at the lower rate of 11 % are now subject to the standard rate. These include: milk and dairy products, fish and fish products, meat and meat products, edible oils, medicines, livestock, fertilizers, and agricultural services. Under the new law, essential products and services as bread, electricity for domestic use, fuel, wood, and coal for domestic use, public transportation and public utilities, which previously were VAT exempt, are now subject to the standard VAT rate.

Custom Valuation

An important objective during the transition period to a market economy was the protection of Romanian companies from goods being dumped or subsidized. Accordingly, in 1992 Romania introduced anti-dumping duties for goods

imported at very low or dumping prices and countervailing duties for goods which have received subsidies. Safeguard measures can also be implemented to assist domestic producers affected by import. Safeguard measures may consist in additional custom duties or quantitative restrictions (quotas).

The Ministry of Trade investigates and sets remedies in cases of dumping, subsidized imports and import surges.

In Romania, custom duties are ad valorem duties. The custom value of imported goods is based on:

- a) the external price of the transaction, converted into lei at the market exchange rate;
- b) charges not included in the price of goods, such as freight, handling and insurance on external route.

If documentation concerning the value of imported goods is not available, the specific World Trade Organization (WTO) provisions will apply; import prices usually charged for such goods or similar items could be then used as the basis for valuation. Romania value goods on the basis of the WTO Valuation Code. As stated above for most items, custom valuation is based on the contract value (i.e. transaction value).

Import Licenses

Import licenses are required for such products as pharmaceuticals, chemicals, and toiletry. Also, sanitary and safety standards as well as special approvals for wastes and residues, toxic substances, explosives and firearms are in force.

Export Controls

Export of goods and services are not subject to custom duties or VAT. For the majority of goods, no export license is required. Authorizations are required however for exports of fuels, unfinished wood products, metallurgical products, ferrous and non-ferrous waste.

Non-automatic export licenses are issued on a case-by-case basis by the Department of Foreign Trade within the Ministry of Foreign Affairs.

The National Agency for the Control of Strategic Exports and Prohibition of Chemical Weapons (ANCESIAC) is the authority responsible for the implementation of the procedures for exports of conventional arms and related technology.

Exports of strategic goods can only be authorized by ANCESIAC. The license may be individual or general. A general license may be issued based on the goods' level of sensitivity and the ultimate consignee of the goods.

Import/Export Documentation

Regular import documentation is required by the Custom Office depending on each specific import/export operation.

Generally, the consignments must be accompanied by the invoice, by specific lists describing the goods in detail (if needed), by international transport documents and by documents of origin (if applicable).

Additional documentation (e.g. corporate documents/by-laws of the Romanian importing entity, custom forms, such as: statement of value, custom declaration, etc.) should be presented by the importing entity at the custom office of destination where the clearance formalities are completed.

Depending on the type of the custom regime (e.g. bonded warehousing, temporary admission/leasing), relevant contracts between the parties should also be presented for clearance purpose. Also, specific documents are required to introduce guns, munition, drugs, and environmentally dangerous products. Goods brought temporarily into Romania for repairing and re-export are placed under the inward processing regime.

The "duty drawback" system permits a refund of import duties previously paid at the time that the goods in question are exported from Romania after having been

transformed, processed or repaired or after having been incorporated into products being exported.

Labelling, Marking Requirements

Labelling and marking requirements for goods imported into Romania are complying with rules and regulations similar to those in other developed jurisdictions.

Prohibited Imports

Prohibited imports include products such as firearms, munition, illegal drugs and other similar items that can affect national security, public health or good morals.

Standards (ISO 9000 usage)

Romanian standards of quality and safety are under the jurisdiction of the Romanian Association for Standardization (ASRO). Generally, they match ISO and Western European Standards. Romania adopted international quality control standards such as ISO 9000 and incorporated them in its national standardization system.

Although the ISO standards are not compulsory by law for individual companies, the buyers increasingly impose on the suppliers to prove the quality of their products and services by the certification of the quality control system they practice.

Free Trade Zones/Warehouses

Free Trade Zones (FTZs) operates under Law No. 84/1992. General provisions include unrestricted entry and re-export of goods as well as exemption from custom duties and value added tax (for specific activities performed inside). They also include an exemption from profit taxes for the duration of a company's operations in the FTZ. The law further permits the leasing or transfer of buildings or lands for terms of up to 50 years to either legal person or natural persons, Romanian and non-Romanian.

Currently, there are six FTZs: Sulina (located at the mouth of the Danube); Constanta-Sud Agigea (located close to the port of Constanta, at the entrance to the Black Sea-Danube Canal); Galati (located about 100 km from the Danube mouth); Braila (located 30 km up the Danube from Galati); Curtici-Arad (located about 30 km from the cross border with Hungary); and Giurgiu (located on the Danube, 60 km south of Bucharest).

Chapter 3

Regulatory Framework

Regulatory Framework



Activities requiring a license

In Romania a license means an official document which allows a particular type of activity carried out within a specified period of time. The license is issued separate for each type of activity. In order to receive a license an applicant shall comply with licensing requirements and conditions, which are stipulated in the legislation.

The license is given by the Licensing Authority and it is valid for a certain period of time, depending on the type of activity

Competitive law

The relevant domestic legislation on merger control (control of economic concentrations), anti-competitive agreements, concerted practices and abuse of dominant position includes Competition Law no. 21/1996, as well as the secondary legislation issued by the Competition Council. The competition law apply to acts and deeds that have or may have as an effect the restriction, prevention or distortion of competition and that have been committed.

Intellectual property

The Romanian State Office for Inventions and Trademarks is the competent authority to ensure intellectual property protection in compliance with national legislation and the international conventions and treaties to which Romania is part. Its main purpose is to register and examine intellectual property applications and issue certificates of protection granting the right holder exclusivity on Romanian territory as well as to serve as the national depositary for registered certificates of protection.

The Romanian legislation in force provides for the following areas which are subject to the national intellectual property: patents; supplementary protection certificates (for medicines and plant protection products); utility models; trademarks; industrial design; topographies of semiconductor products; plant varieties.

Money laundering

The Romanian legislation provides for measures regarding preventing and controlling of money laundering (Law no. 656/2002, as subsequently amended). The legislation is harmonized with the EU Money Laundering Directive.

The central authority for reporting is the National Office for the Prevention and Control of Money Laundering.

The money laundering legislation provides for regulations with respect to identification of the customer, transaction reporting, information disclosure and transaction recording.

The regulations apply to the following: credit and financial institutions (including branches); managers of private pension funds and marketing agents authorized in the private pension systems; casinos; auditors, individuals and legal persons providing fiscal or accounting consultancy; public notaries, lawyers and legal counsel; any service providers for companies; persons with prerogatives in the privatization process; real estate agents; associations and foundations; other individual or legal persons for payments in cash (RON or foreign currency) where the minimum amount of RON is equivalent to 15,000 EUR whether or not the transaction is performed in a single operation or in several operations which appear to be linked.

Unfair trade practices

The traders practices in relation with the consumers are defined by the Romanian Law of Unfair Trade Practices (Law 363/2007). The law is harmonized with the European legislation regarding the protection of consumers.

Trade practices represents any action, omission, behavior, measure or commercial presentation performed by a trader in close relationship with promoting, selling or delivering a product to the consumers.

The law provides regulations regarding the categories of unfair trade practices (misleading and abusive), competence, control and sanctions.

Moreover, recently in Romania was adopted the Law regarding Merchandising of Alimentary Products (Law no. 321/2009). The law applies to any individuals or legal persons that performs commercial activities with alimentary products and provides for regulations regarding the protection against unfair competition and the payment term between the trader and the supplier of alimentary products.

Grants and incentives

Federal and state government incentives

A number of grant schemes and other incentives are provided by the Romanian Government, such as: Government Decision no. 718/2008 approving horizontal state aid scheme for regional sustainable development and reduction of emissions; Order no. 479/2008 issued by the Minister of Economy and Finance approving the state aid scheme granting support for the consolidation and development of the Romanian productive sector through investments of big enterprises; Government Decision no. 1165/2007 on stimulating economic growth by supporting investments and Government Decision no. 1680/2008 implementing a state aid scheme for ensuring sustainable economic development; Government Decision no. 753/2008 regulating a state aid scheme on supporting regional development by stimulating investment.

Romanian legislation stipulates some special provisions regarding the incentives allowed for: labour force (Law no. 76/2002) regarding the unemployment social insurance system and employment situation; Law no. 72/2007 regulating student employment stimulation; Order no. 308/2009 of the Minister of Labour, Family and Social Protection approving the state aid scheme for employment: “Funds for completing your team”.

Government Decision no. 1164/2007 on granting the minimis state aid for the development and modernization of enterprises and also Order no. 632/2008 issued by the Minister of Economy and Finance approving de minimis state aid scheme supporting small and medium sized enterprises access to broadband and related services, represents two important regulations for the stimulation of small and medium sized enterprises.

Research and development

Companies could get EU funds for industrial research and precompetitive development activities that generate results of economic interest and support the transformation of the research results into new or improved products, technologies and services with high demand on the market. Different forms of collaboration between enterprises and R&D institutions are encouraged with the aim of enhancing their R&D activities and fostering the technology transfer. In order to raise their level of innovation and their market competitiveness and to create new R&D jobs, support is provided for the development of the research capacities in enterprises.

The procurement of instruments, equipment, computers, software, etc, necessary for R&D activity is financed.

Export market grants

Romanian Government allows some export market grants for the agro-alimentary products for the eligible activities stipulated in the Framework Agreement regarding the agriculture, mainly for the following products: vegetal and animal certified biological products.

Chapter 4

Reporting requirements,
accounting principles and auditing

Reporting requirements, accounting principles and auditing



Reporting, accounting and auditing requirements have as legal framework the followings:

- Accounting Law no. 82/1991 on the accounting system, republished, as further amended and completed (“Law no. 82/1991”);
- Minister of Finance Order no. 1752/2005 (Official Gazette Order 1752/2005) regarding the approval of the accounting regulations in compliance with the European Directives (“Order no. 1752/2005”), amended and completed further;
- Minister of Finance Order 907/2005 (Official Gazette Order 907/2005) regarding Conformity of Accounting Regulations with International Financial Reporting Standards and respecting conformity of accounting regulations with European Directives;
- Minister of Finance Order 1121/2006 (Official Gazette Order 1121/2006) regarding the Application of International Financial Reporting Standards;
- Government Emergency Ordinance no. 75/1999 on financial audit activity, as further amended and completed (“GO no. 75/1999”);
- Emergency Ordinance no. 90/2008 (EO 90/2008) which has introduced the European Union 8th Directive requirements into Romania for the conduct of statutory audits and for the operation of a public oversight body for the statutory audit function.

Accounting Law

The entities subject to accounting regulations are:

- the trading companies;
- the national societies/companies;
- the autonomous regies;
- the national research and development institutes;
- the co-operative societies;
- the public institutions;
- associations and the other profit and non-profit-making legal persons;
- the other legal persons.

There is an obligation to organize and conduct their own accounting system, according to the Accounting Law no. 82/1991 also for the sub-units without legal personality, with the head office abroad, which belong to the entities mentioned above, with the head office or domicile in Romania, as well as the sub-units without legal personality from Romania which belong to certain legal persons with the head office or domicile abroad.

The administrator of the entities mentioned above has usually the primary responsibility for the organization and management of the accounting.

The accounting records must be kept in the Romanian language and in the national currency (RON). The accounting for foreign currency operations is kept both in the national and foreign currency.

The entities subject to accounting regulations may opt for the drawing up of the financial statements in another currency as well, but only for their own information needs.

Legal entities or individuals have to keep written evidence of all transactions and record these transactions in their accounting books. The mandatory records required by the Accounting Law include:

- Journal Register;

- the trading companies;
- Stock Register (based on an annual inventory of assets and liabilities).
- Nominal Ledger (based on analysis of the accounting information posted from source documents or Journal Register).

Accountants should prepare a trial balance from the nominal ledger, at least on an annual basis, and this trial balance is the basis for preparation of periodic financial statements.

The financial year is the period for which the annual financial statements must be prepared and, usually, it is the same with the calendar year. The length of the financial year is of 12 months.

Financial Statements

For the preparation of financial statements, the entities are classified according to specified “size criteria”. The size criteria indicated in Official Gazette Order no. 1752/2005 are:

- total assets: EUR 3,650,000;
- net turnover: EUR 7,300,000;
- average number of employees during a financial year 50.

An entity that meets two of three criteria during two consecutive financial years or that is a listed company is required to complete annual financial statements that comprise:

- Balance sheet (the format is presented in Appendix 1.1);
- Profit and loss statement (the format is presented in Appendix 2);
- Statement of changes in equity;
- Cash-flow statement;
- Notes to financial statements.

Entities that doesn't meet the size criteria required to prepare:

- Simplified balance sheet (the format is presented in Appendix 1.2);
- Profit and loss statement;
- Notes to financial statements.

The entities situated below the size threshold may choose to prepare the statement of changes in equity and/or cash-flow statement.

Official Gazette Order no. 1752/2005 has prescribed a chart of accounts listing to be applied and includes direction for the mapping of individual accounts to the balance sheet and income statement formats.

The general chart of accounts has the following main categories:

- Class 1 – Equity accounts
- Class 2 – Non-current assets
- Class 3 – Inventories and work in progress
- Class 4 – Third party accounts (receivables and payables)
- Class 5 – Treasury accounts
- Class 6 – Expense accounts
- Class 7 – Revenue accounts
- Class 8 – Special accounts (off-balance sheet)
- Class 9 – Management accounts

In addition, the annual financial statements for all entities, regardless of size, should be also accompanied by:

- a written declaration of the responsibility for entity management for the annual financial statement;
- an Administrator(s) Report on operations which should provide comment on the current year's activities of the entity, the financial position, a description of the main risks and uncertainties facing the entity and a disclosure of financial and nonfinancial ratios.

The timing for submission of the annual financial statements is the following:

- within 150 days as of the end of the financial year – for the trading companies, the national societies/companies, autonomous regies, research and development institutes;

- within 120 days as of the end of the financial year – for the other persons than those stated above;
- within 60 days as of the end of the financial year – for the entities with no activity during the year, as well as those undergoing liquidation.

Certain groups may be required to prepare and submit consolidated financial statements, considering the following:

Consolidation is required where an entity has the majority of voting rights in another entity or substantially controls another entity:

- If any entity in the group is a listed company, then consolidated financial statements must be prepared;
- If the group parent is a listed company or if the preparation is required by state authorities or for employees' information, then consolidation is required;
- If the above is not the case, then the next consideration is if the company group meets two of the following “size criteria”, based on the last annual financial statements, then consolidated financial statement must be prepared:
 - total assets over EUR 17,520,000;
 - net turnover over EUR 35,040,000;
 - average number of employees during a financial year 250.

A company group which meets the “size criteria” indicated above and is not listed, it is not required to prepare consolidated financial statements if the Romanian parent entity of the group is also a subsidiary entity and its own parent entity is set-up by Romanian law or EU member state law and:

- if the parent entity holds all the shares in the exempted entity, or
- if the parent entity holds 90% or more of the shares in the exempted entity and the rest of shareholders have approved the exemption.

In addition to the paragraph above, a subsidiary could be excluded of the group consolidation if:

- it is not material to provide a true and fair view of the assets, liabilities, financial position, results for the period for the consolidated group as a whole.

The timing for submission of consolidated financial statements is 31st August following the reporting year end (Law no. 259/2007);

The consolidated financial statements must be audited by a financial auditor and they should be accompanied by Administrators' Report and must be approved by a General Assembly of Shareholders and published in accordance with legislation in force.

Regarding IFRS application in Romania, the following companies have the obligation to apply the International Financial Reporting Standards when preparing their financial statements:

- publicly traded companies that prepare consolidated statements;
- credit institutions for the purpose of preparing their consolidated statements.

Individual entities, whether preparing IFRS financial statements or not, are required to prepare and submit an annual set of financial statement prepared in accordance with Official Gazette Order no. 1752/2005.

Accounting Principles

According to Official Gazette Order no. 1752/2005, the following general accounting principles are applied in Romania:

- **Accrual basis:** Transactions and other events are recognized when they arise and are registered in accounting and reported in the financial statements for the related period;
- **Going concern:** The entity is presumed to be carrying on its business as a going concern. If this principle is not appropriate and the administrators are aware of this, there is a doubt on the ability of an entity to continue its activities; this should be disclosed in the explanatory notes;

- Consistency: It is needed an application of valuation rules on a consistent basis from one year to another;
- Only profits made at the balance sheet date are to be included;
- Includes all liabilities relating to financial year or previous years, even if such liabilities become apparent or become known between the balance sheet date and the date of completion of 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 charges relating to the financial year are recorded irrespective of the date of receipt or payment;
- Separation: Components of asset and liability items are valued separately;
- Intangibility: Opening balance sheet for each financial year must correspond to the closing balance sheet for the previous financial year;
- No offset: Offset between asset and liability items in the period end balance sheet is not allowed;
- Substance over form: Carrying values and transactions should be considered appropriate to reverse in full any pre-Official Gazette Order no. 1752/2005 deferred tax balances and not to apply deferred tax for subsequent periods;
- Materiality: Each item from balance sheet or income statement should be presented separately in these financial statements. Items of a dissimilar nature or function should be presented separately unless they are immaterial;
- True and fair view: Annual financial statements are prepared to give a true and fair view of the assets, liabilities, financial position and period results of an entity;
- Comparative figures: Must be disclosed for all statements.

Any incompliance of the above principles is considered as being exceptional and should be disclosed in the notes to financial statements indicating reason of incompliance and the effect on the disclosure of assets and liabilities carrying value, the financial position and period results.

Mandatory Annual Audit

All companies meeting the size criteria requirements, specified above and public interest entities are required to have a financial audit.

Companies preparing simplified financial statements (which are outside the size criteria) do not require a financial audit, unless required by other legislation (such as Company Law).

The financial auditor issues a report, which is addressed to the shareholders (or equivalent) at the Annual General Meeting of Shareholders. Matters to be included in the Report of the financial auditor, as they are indicated in Official Gazette Order no. 1752/2005, as well as in the Romanian national auditing standards and Company Law, are as follows:

- (a) the annual financial statements that are subject to auditing, together with the financial reporting framework applied when they were prepared;
- (b) a description of the audit standards applied;
- (c) an audit opinion clearly expressing that annual financial statements give a true and fair view according to the relevant financial reporting framework and, as applicable, if the annual financial statements comply with the legal requirements. The audit opinion could be an unmodified opinion, a modified opinion or the impossibility to express an opinion;
- (d) a disclosure paragraph with reference to aspects on which financial auditors draw attention, without modifying the opinion;
- (e) an opinion concerning the compliance level of the administrators' report with the annual financial statements for the same financial year.

Emergency Ordinance no. 90/2008 (EO 90/2008) has introduced the European Union 8th Directive requirements into Romania for the conduct of statutory audits and for the operation of a public oversight body for the statutory audit function.

Where applicable, the report of the independent financial auditor is also issued to the regulatory bodies such as CNVM (Securities Commission), CSA (Insurance Industry), BNR (National Bank of Romania) and CSSPP (Pension Funds) with the annual financial statements.

Chapter 5

Personnel

Personnel



Personnel chapter has as legal framework the followings:

- Law no. 53/2003 regarding Labour Code;
- Single Collective labour agreement at national level for the years 2007–2010;
- Law no. 19/2000 on the public system of pensions and other social insurance benefits;
- Law no. 76/2002 on the unemployment insurance system and employment stimulation;
- Law no. 95/2006 on the reformation of health system;
Government Emergency Ordinance no. 158/2006 on the leaves and allowances of health social insurance;
- Law no. 200/2006 on the setting up and use of the Wage Claims Payment Guarantee Fund;
- Law no. 130/1999 on certain protection measures for the employees;
- Law no. 571/2003 regarding the Fiscal Code.

General Remarks

The objective of Romanian labour law is to regulate the conditions of employment. This law provides for minimum standards of protection of the employees' rights.

This role is fulfilled mainly by the Labour Code of March 2003– the most important legal act in the area of labour law in Romania. A labour contract departs from the provisions of labour law and of the collective agreement to the advantage of the employee but can not modify the legal rules to their disadvantage.

Collective agreements may provide for more favorable terms and conditions for employee.

In case the provisions of the collective contract of employment at national level are different from the provisions of the labour code than the provisions most favorable for the employee shall be enforced.

Upon the negotiation/conclusion of an individual contract of employment, it is taken into consideration the fact that the rights granted to the employee and provided by the labour code have a minimal character.

Contract of employment

In Romania, there are, in principal, the following types of individual contracts of employment:

- Full time contract of employment;
- Part time contract of employment.

Each of these two types from above may be concluded as follows:

- For an undetermined period of time;
- For a determined period of time, but for maximum 2 years, in certain cases such as:
 - a) replacement of an employee in case of interruption of his/her contract of employment, except the case when that employee takes part in the strike;
 - b) temporary growth of the activity of the employer;
 - c) carrying on of certain activities with a seasonal character;
 - d) other cases.

The individual contract of employment for a determined period of time may not be concluded for a period longer than 24 months. At the most 3 individual contracts of employment for a determined period of time may be successively concluded between the same parties, but only within the term of 24 months. The individual

contracts of employment for a determined period of time, concluded within 3 months from the cessation of a contract of employment for a determined period of time, are considered to be successive contracts.

The person employed with an individual contract of employment for a determined period of time may be put to period of test, which shall not exceed between 5 and 45 business days, depending on the duration of the individual contract of employment.

Remuneration

The wage shall be paid at least once a month, on the date which was settled in the individual contract of employment.

The payment in kind of a part of the wage is possible only if it is expressly provided in the individual contract of employment. This may have the form of food, accommodation or other facilities. The rest of payment cannot be less than the country minimum gross wage, provided by the law.

The employer may not negotiate and settle basic wages in the individual contract of employment under the level of the country minimum gross wage, rectified with certain minimum hierarchy coefficients depending on the training level of the employee.

The minimum wage approved by a Government Decision is at present of RON 600. Depending on the minimum hierarchy coefficients, the minimum wage is placed between RON 600 for unskilled workers and RON 1200 for the personnel with high education.

Working Time

The normal duration of the working time is of 8 hours per day, 40 hours per week. The work carried on outside the normal duration of the working time is considered to be additional work.

Upon request of the employer, but only with the approval of the employees, the

employees may carry on additional work, but the maximum legal duration of the working time may not exceed 48 hours per week, including the additional hours. Carrying on of additional work beyond this limit is forbidden.

The minimum duration of the annual paid leave is of 21 business days, except the underage employees who have a minimum of 24 business days. The paid leave shall be performed every year.

Public Holidays

The public holidays which are not business days are the following:

- January 1st and 2nd;
- the first and the second Eastern days;
- the 1st of May;
- the first and the second Whitsuntide days;
- August the 15th (Assumption of the Virgin);
- December the 1st (Romania's National Day);
- the first and the second Christmas days;
2 days for each of the two annual religious holidays, declared as such by the legal religious cults, others than the Christian ones, for the persons belonging to these cults.

In case of certain special family events, the employees are entitled to paid free days, which shall not be included in the duration of the paid leave.

Taxation on individuals: Personal Income Tax, Exemptions, Deductions And Social Security Taxes

The following binding contributions are due for the income:

- a) Social Security Contributions (CAS):
 - Employer: 20.8%;
 - Employee: 10.5%.

Payment of the contributions entitles the insured to receive a pension.

b) Contributions to the Health Social Security Unique National Fund:

- Employer: 5.2;
- Employee: 5.5%.

By payment of these two contributions, the insured is entitled to receive free of charge medical care, according to the basic services package.

The contribution for paid leaves and allowances in a quota of 0.85%, entitles the employee to paid medical leaves, under the law, for their entire duration.

c) Contributions to the unemployment insurance budget:

- Employer: 0.5%;
- Employee: 0.5%

Payment of the contributions, minimum 12 months during the last 24 months, entitles the dismissed employee to receive unemployment allowance.

d) The contribution of the employer to the Guarantee Fund for the Payment of Wage Receivables: 0.25%. The payment of wage receivables which result from the individual contracts of employment concluded by the employees with the employers in an insolvency state is secured from this fund.

e) Contribution of the employer to the Insurance Fund for Work Accidents and Professional Disease: between 0.15% and 0.85%, depending on the CAEN code of the main activity (the activity with the greatest number of employees). The payment of the contribution entitles the employee to medical care, to paid medical leave for work accidents and professional diseases and to an aid for decease, if the decease occurred as a result of a work accident. The allowance for temporary disablement, in case of work accident or professional disease, shall be borne by the employer for the first 3 days of temporary disablement and starting with the 4th day from the Insurance fund for work accidents and professional diseases

(FAAMBP). The decease aid is not granted by the employer, the applicant submits a request to the pension house – work accidents office.

f) The fee of 0.75% due by the employer at the territorial labour inspectorate (ITM), for rendering of services of completion and keeping of the employees' work records. The fee shall be paid in a quota of 0.25% if the employer receives, under the law, the approval from ITM for completing and keeping at the head office of the company of the work records.

g) Income tax: 16%. It is only a fiscal obligation; the employee obtains no benefits from the payment of the tax.

SPECIFICATION: the taxable bases of the contributions are presented in Appendix no. 1 to this chapter.

Chapter 6

Immigration

Immigration



Immigration chapter has a legal framework as follows:

- Government Emergency Ordinance no. 194/2002 regarding the regime of foreigners in Romania;
- Law on Romanian citizenship no. 21/1991;
- Government Emergency Ordinance no. 56/2007 on the employment and transfer of foreigners on the Romanian territory.

Migration laws

The Emergency Ordinance no. 194/2002 represents the framework by means of which the entrance, the stay, and the exit of the foreigners on the territory of Romania or from the territory of Romania, their rights and duties, as well as specific immigration control measures are regulated, according to the obligations assumed by Romania through the international documents it is part of.

The foreigners who live legally in Romania enjoy the general protection of persons and properties guaranteed by the Constitution and by other, as well as by the rights provided by the international treaties Romania is part of.

Types of Visa

Depending on the aims for which they are granted, the visas may be as follows:

- Airport transit visa;
- Transit visa;
- Short stay visa;
- Long stay visa.

The long stay visa is necessary for employment.

The Emergency Ordinance no. 56/2007 regarding employment and detachment of the foreigners on the territory of Romania defines the foreigner as being the person who has not the Romanian citizenship or the citizenship of another member state of the European Union or of the European Economic Space.

The foreigners may be employed on the territory of Romania, if the following conditions are fulfilled cumulatively: the vacant jobs cannot be taken by Romanian citizens, citizens of other member states of the European Union, of the signatory states of the Agreement regarding the European Economic Space, as well as by permanent residents on the territory of Romania.

The work permit is the official document which entitles its holder to be employed or detached in Romania with a single employer. The work permit is necessary for obtaining the long stay visa for employment or, as the case may be, of the stay permit for work.

The types of work permits which may be granted to the foreigners are the following: work permit for permanent workers; work permit for detached workers; work permit for seasonal workers; work permit for trainee workers; work permit for sportsmen; nominal work permit; work permit for trans-border workers.

The work permit shall be also issued to the foreigners who:

- come from states Romania where has concluded agreements, conventions or understandings with for annulling the visas for crossing the borders to this aim or for which Romania gave up unilaterally the compulsoriness of the visas;
- benefit from a temporary stay right for family reunification, granted under the conditions prescribed by the legislation regarding the conditions of the foreigners in Romania;
- benefit from a temporary stay right for studies and request the employment under a part time individual contract of employment, with a maximum program of 4 hours per day;

- are detached on the territory of Romania.

The following categories may be employed or may perform a work in Romania without a work permit:

- the foreigners holders of a permanent stay right on the territory of Romania (have their domicile in Romania);
- the foreigners whose access on the labour market from Romania is regulated by agreements, conventions or bilateral understandings concluded by Romania with other states, if this possibility is settled by the text of the agreement, of the convention or of the understanding (as far as we know, there are at present such conventions with Lithuania, Latvia, Czech Republic, Finland, Slovakia, Cyprus, Bulgaria);
- foreigners who got a form of protection in Romania;
- foreigners who carry on didactic, scientific or other categories of specific activities with temporary character in this type of institutions accredited in Romania;
- foreigners who are going to carry on temporary activities on the territory of Romania, which were requested by ministries or by other authorities of the central or local public administration or by autonomous administrative authorities;
- foreigners who are appointed on the territory of Romania chiefs of subsidiary, representative office or branch of a company which has its head office abroad, according to the documents provided by the Romanian legislation in this sense;
- foreigners family members of the Romanian citizens;
- foreigners employees of legal persons with the main office in one of the member states of the European Union or in one of the states signatory of the Agreement regarding the European Economic Space, detached in Romania, provided that they present the stay permit from that state. In their position of employees, the foreigners have the same rights and duties as the Romanian citizens.

Labour Agreements

An individual labour contract shall be a contract based on which a natural entity, called employee, undertakes to perform work for and under the authority of an employer, who is a natural or legal entity, in return for a remuneration, called wages. An individual labour contract shall be concluded for an unlimited duration. As an exception, an individual labour contract may also be concluded for a limited duration, under the express terms stipulated by the law. A natural entity shall be allowed to work after having turned 16 years of age. A legal entity may also conclude a labour contract, as an employee, after turning 15 years of age, based on his/her parents' or lawful guardians' consent, for activities in accordance with his/her physical development, aptitudes and knowledge, unless this places his/her health, development, and vocational formation under risk.

Temporary Residence/Temporary Workers

The foreigners being legally temporary in Romania may remain on the territory of the Romanian state only up to the date when their right to stay settled by the visa/permit of stay ceases.

The short stay visa allows the foreigners to request the entry on the territory of Romania for reasons other than immigration, for an uninterrupted stay or for more stays the duration of which should not exceed 90 days, within 6 months as of the date of the first entry.

The temporary stay permit shall be issued upon granting the right of temporary stay.

Permanent Residence

According to the Romanian law, the permanent resident is the foreigner holder of a permanent stay permit or of a permanent residence card granted under the law. The permanent stay right shall be granted on request, under the law, on an undetermined period, to the foreigners holders of a stay right.

The permanent stay right shall be granted to the foreigners who fulfill cumulatively the following conditions:

- a) Had a continuous and legal stay on the territory of Romania during the last 5 years previous to the submission of the application;
- b) Prove the fact that they have the means to support themselves at the level of the minimum net wage;
- c) Prove that they have a health social security;
- d) Prove that they legally hold the dwelling space;
- e) They know the Romanian language, at least at a satisfactory level;
- f) They are not a menace for the public order and for the national security.

A permanent stay permit is issued upon granting/extension of the permanent stay right, which is valid for 5 years but which shall be successively renewed for the same period.

Citizenship

Romanian citizenship shall be obtained in the following instances:

- a) at birth;
- b) by adoption;
- c) granted on request.

The Romanian citizenship may be granted, on request, to the stateless person or the foreign citizen, if the following conditions are met:

- a) he/she was born and resides, on the date of the request, on the Romanian territory, or, although he/she was not born on this territory, resides under the law on the territory of the Romanian state for at least 8 years or, in case he/she is married and cohabits with a Romanian citizen, for at least 5 years since the date of his/her marriage;
- b) proves, by his/her behaviour, actions and attitude, that he/she is loyal to the Romanian state, does not undertake or support actions against the rule of law or of the national security and declares that he/she did not undertake such actions in the past;
- c) he/she reached the age of 18;
- d) he/she has ensured in Romania the legal means for a decent life, under the terms established by the legislation on the status of foreigners;

- e) he/she is known as having an appropriate behaviour and has not been sentenced in the country or abroad for an offence which makes him/her unworthy of being a Romanian citizen;
- f) he/she has knowledge of Romanian language and has basic knowledge of Romanian culture and civilisation, enough to be a part of the social life;
- g) he/she is familiar with the provisions of the Romanian Constitution and the national anthem.

The time limits provided in paragraph a) above may be reduced to half, in case the applicant is a famous figure at international level or has invested in Romania amounts exceeding EUR 500,000.

If the foreign citizen or the stateless person having applied for Romanian citizenship is outside the territory of the Romanian state for a period longer than 6 months throughout one year, that year shall not be considered in determining the period provided in paragraph a).

APPENDIX 1.1.

TO CHAPTER V

APPENDIX 1.1. TO CHAPTER V



BALANCE SHEET

A. Fixed assets

I. Intangible assets

1. Set-up costs
2. Development expenses
3. Concessions, patents, licences, trade marks and similar rights and assets, if they were acquired for valuable consideration
4. Goodwill, to the extent that it was acquired for valuable consideration
5. Advanced payments on account and intangible assets in course of execution

II. Property, plant and equipment

1. Land and buildings
2. Plant and machinery
3. Other fixtures and fittings, tools and equipment
4. Payments on account and property, plant and equipment in course of construction

III. Financial assets

1. Shares in affiliated undertakings
2. Loans to affiliated undertakings
3. Participating interests
4. Loans to undertakings with which the company is linked by virtue of participating interests
5. Investments held as fixed assets
6. Other loans

B. Current assets

I. Stocks

1. Raw materials and consumables
2. Work in progress
3. Finished goods and goods for resale
4. Payments on account for stock purchasing

II. Debtors

1. Trade debtors
2. Amounts owed by affiliated undertakings
3. Amounts owed by undertakings with which the company is linked by virtue of participating interests
4. Other debtors
5. Subscribed capital called but not paid

III. Short-term investments

1. Shares in affiliated undertakings
2. Other short-term investments

IV. Cash at bank and in hand

C. Prepayments

D. Liabilities payable within one year

1. Debenture loans, showing convertible loans separately
2. Amounts owed to credit institutions
3. Payments received on account of orders
4. Trade suppliers
5. Bills of exchange payable
6. Amounts owed to affiliated undertakings
7. Amounts owed to undertakings with which the company is linked by virtue of participating interests
8. Other creditors including tax and social security

E. Net current assets/liabilities

F. Total assets less current liabilities

G. Liabilities payable after more than one year

1. Debenture loans, showing convertible loans separately
2. Amounts owed to credit institutions
3. Payments received on account of orders
4. Trade suppliers
5. Bills of exchange payable
6. Amounts owed to affiliated undertakings
7. Amounts owed to undertakings with which the company is linked by virtue of participating interests
8. Other creditors including tax and social security.

H. Provisions

1. Provisions for pensions and similar obligations
2. Provisions for taxation
3. Other provisions

I. Deferred revenues

1. Investment subsidies
2. Deferred income

J. Capital and reserves

- I. Subscribed share capital
 1. Subscribed paid share capital
 2. Subscribed not paid share capital
- II. Share premium account
- III. Revaluation reserves
- IV. Reserves
 1. Legal reserve
 2. Statutory or contractual reserves
 3. Reserves obtained from realized revaluation reserve
 4. Other reserves
- V. Profit or loss brought forward (retained earnings)
- VI. Profit or loss for the financial year
- VII. Profit allocation

APPENDIX 1.2.

TO CHAPTER V

APPENDIX 1.2. TO CHAPTER V



SIMPLIFIED BALANCE SHEET

A. Fixed assets

- I. Intangible assets
- II. Property, plant and equipment
- III. Financial assets

B. Current assets

- I. Stocks
- II. Debtors
- III. Short-term investments
- IV. Cash at bank and in hand

C. Prepayments

D. Liabilities payable within one year

E. Net current assets/liabilities

F. Total assets less current liabilities

G. Liabilities payable after more than one year

H. Provisions

I. Deferred revenues

J. Capital and reserves

I. Subscribed share capital

II. Share premium account

III. Revaluation reserves

IV. Reserves

V. Profit or loss brought forward

VI. Profit or loss for the financial year Profit allocation

APPENDIX 2

TO CHAPTER VI

APPENDIX 2 TO CHAPTER VI



CONTRIBUTIONS TAXABLE BASE

NO.	CONTRIBUTION	TAXABLE BASE
1	Social security taxes-benefits (CAS)	<p>1. EMPLOYEE CAS 10.5%</p> <p>a) gross income achieved on a monthly basis</p> <p>b) country gross minimum base pay guaranteed on payment, in case of health social security allowances, according to the number of business days from the medical leave, except the cases of work accidents or professional diseases.</p> <p>2. EMPLOYER CAS 20.8%</p> <p>The amount of the income which make the taxable base of the individual social security contribution.</p>
		<p>CAS is not due over the amounts representing:</p> <p>a) labour conscriptions borne from the state social security budget, including those granted for work accidents and professional diseases;</p> <p>b) allowance fees for traveling and detachment, allowances for detachment, traveling and transfer, royalty, as well as the income received based on certain civil agreements or collaboration contracts;</p>

		<p>c) employees' profit-sharing.</p> <p>The taxable base of the contributions shall not be limited.</p>
2	<p>Contribution of the employer to the Insurance Fund for work accidents and professional diseases between 0.15% and 0.85%</p>	<p>a) the amount of the gross income achieved on a monthly basis;</p> <p>b) country gross minimum base pay guaranteed on payment, according to the number of business days from the medical leave, except the cases of work accidents or professional diseases.</p> <p>The contribution is not due over the amounts representing:</p> <p>a) labour conscriptions borne from the state social security budget, including those granted for work accidents and professional diseases;</p> <p>b) allowance fees for traveling and detachment, allowances for detachment, traveling and transfer, royalty, as well as the income received based on certain civil agreements or collaboration contracts;</p> <p>c) employees' profit-sharing.</p>
3	<p>Contributions to the Health Social Security Unique National Fund (CASS)</p>	<p>1. EMPLOYEE CASS 5.5 %</p> <p>Monthly achieved gross income except medical leaves (others than work accidents and professional diseases).</p> <p>The contribution calculated over the medical leave allowance for work accident and professional disease shall be borne by the employer (the contribution related to the allowances borne by the employer) or from the insurance fund for work accidents and</p>

		<p>professional diseases (contribution related to the allowances borne from the accidents fund).</p> <p>For the persons who achieve income from wages which according to the Fiscal Code are not taxable (income from wages achieved by natural persons with serious and aggravated disability at the basic position, income from wages as a result of an activity of computer program creation), the contribution shall be calculated over the achieved income.</p> <p>The contribution of the employee shall not be due over the amounts granted when the professional diseases (contribution related to the allowances borne from the accidents fund).</p> <p>For the persons who achieve income from wages which according to the Fiscal Code are not taxable (income from wages achieved by natural persons with serious and aggravated disability at the basic position, income from wages as a result of an activity of computer program creation), the contribution shall be calculated over the achieved income.</p> <p>The contribution of the employee shall not be due over the amounts granted when the employee was laid off, to the completion monthly income or to the compensating payments, according to the normative documents which regulate those fields.</p> <p>2. EMPLOYER CASS 5.2%</p> <p>Total fund gross wages achieved, including medical leaves borne by the company.</p>
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		<p>3. CONTRIBUTION FOR LEAVES AND ALLOWANCES 0.85%</p> <p>Total fund gross wages achieved, including medical leaves borne by the company.</p> <p>Limited base = no. of employees x 12 x country gross minimum base pay guaranteed on payment.</p> <p>The contribution shall be also applied over the medical leaves in case of work accident or professional disease. The contribution to FNUASS related to the work accidents borne from the fund for work accidents shall be deducted from the insurance contribution for work accidents and professional diseases.</p>
4	Contributions to the unemployment insurances budget	<p>1. UNEMPLOYMENT EMPLOYEE 0.5%</p> <p>Gross income achieved on a monthly basis. Shall not be due for the period when the work relations are interrupted, except the period of temporary disablement, provided this is not a period longer than 30 days.</p> <p>2. UNEMPLOYMENT EMPLOYER 0.5%</p> <p>The amount of the income which make the taxable base of the contribution of the employee.</p> <p>The contributions to the unemployment fund shall not be due for pensioners.</p> <p>The contributions to the unemployment fund shall not be due over the amounts representing:</p> <p>a) labour conscriptions borne from the state social security budget, including those granted for work accidents and professional diseases;</p>

		<p>b) allowance fees for traveling and detachment, allowances for detachment, traveling and transfer;</p> <p>c) royalty;</p> <p>c) employees' profit-sharing.</p> <p>e) compensations granted, under the law or under the collective or individual contract of employment, to the employees dismissed for reasons which do not concern their person;</p> <p>f) the gross income achieved by the persons which are no longer to be found in the cases provided by Art. 19 of the Law 76/2002, but who receive income as a result of the fact that they held the quality of binding insured under the law.</p>
5	The contribution of the employer to the Guarantee Fund for the Payment of the wage receivables: 0.25%	<p>The amount of the income which make the taxable base of the individual contribution to the unemployment insurances budget achieved by the employees employed with individual contract of employment, under the law.</p> <p>The contributions to the guarantee fund shall be due for pensioners.</p>
6	Fee at the territorial labour inspectorate (0.75% or 0.25%)	Total fund of the achieved gross wages, including medical leaves borne by the company.
7	Income tax 16%	<p>1. for the basic position: gross income-social security contributions-personal deduction-trade union quota-contribution to the optional pension funds (max. EUR 400 per year);</p> <p>2. for the income achieved in the other cases: gross income – social security contributions.</p>

APPENDIX 3

APPENDIX 3



Double Taxation Treaties to which Romania is a party:

Albania	Indonesia	Philippines
Algeria	Iran	Poland
Armenia	Ireland	Portugal
Australia	Israel	Qatar
Austria	Italy	Russian Federation
Azerbaijan	Japan	San Marino*
Bangladesh	Jordan	Slovakia
Belarus	Kazakhstan	Slovenia
Belgium	Korea (Republic)	South Africa
Bulgaria	Kuwait	Spain
Canada	Latvia	Sri Lanka
China	Lebanon	Sudan
Costa Rica*	Lithuania	Sweden
Croatia	Luxembourg	Switzerland
Cyprus	Macedonia	Singapore
Czech Republic	Malaysia	Syria
Denmark	Malta	Thailand
Ecuador	Mexico	Tunisia
Egypt	Moldova	Turkey
Estonia	Mongolia	Ukraine
Finland	Morocco	United Arab Emirates
France	Namibia	United Kingdom
Georgia	Netherlands	United States
Germany	Nigeria	Uzbekistan
Greece	North Korea	Vietnam
Hungary	Norway	Yugoslavia**
India	Pakistan	Zambia

* not in force yet

** The treaty concluded with S.F.R. Yugoslavia which entered into force in 1989 applies for Bosnia-Herzegovina, while the treaty with F.R. Yugoslavia which entered into force in 1998 applies for Montenegro and Serbia

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