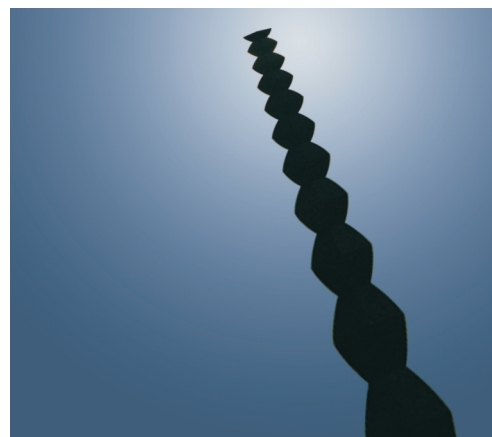


INVESTING IN ROMANIA



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LEGAL BACKGROUND

Fiscal legislation was codified at the end of 2003, and materially consists in the Fiscal Code (Law no. 571/2003, as most recently amended by Government Emergency Ordinance no. 109/2009), the Methodological Norms for implementing (Government Decision 44/2004, as most recently amended by Government Decision 1620/2009) and the Fiscal Procedure Code (Government Ordinance no. 92/2003, as most recently amended by Law no. 324/2009). Said normative acts are supplemented by the Deontological Code of Tax Inspectors (Order no. 1753/2003 of the Ministry of Public Finances). As far as its main content is concerned, the Fiscal Code brings together a body of detailed legal provisions regarding fees and taxes (the general fiscal regime), divided into the following categories:

- Tax on profit;
- Tax on income (salaries, pensions, independent activities, investments, the yielding of the use of assets, agricultural activities, prizes and gambling, etc.);
- Tax on incomes obtained by micro-

enterprises;

- Tax on income obtained by non-residents in Romania;
- Tax on incomes obtained by representative offices;
- Value added tax (the VAT);
- Excises; and
- Local taxes.

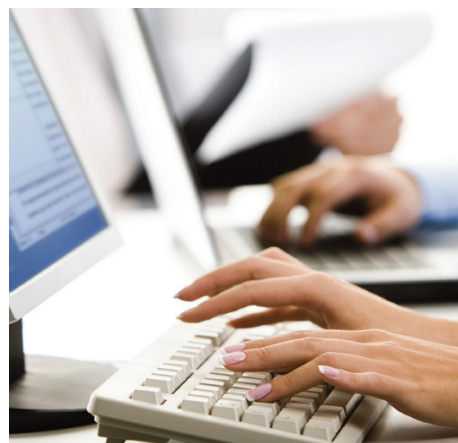
Starting from January 1, 2007, the Customs fees regime is regulated by Council Regulation (EEC) no. 2913/92 of October 12, 1992 establishing the Community Customs Code, as subsequently amended.

The provisions of the Fiscal Code prevail on any other provisions regarding fees and taxes. Expressing the principle of fiscal legislation stability, the Fiscal Code may be modified and supplemented only by means of a law, promoted (passed), as a general rule, 6 months before the date anticipated for its coming into force. A Central Tax Committee has also been created, which Committee shall offer a unitary framework for the interpretation and enforcement of the fiscal legislation, and shall be authorized to issue endorsements, instructions and/or any form of information of taxpayers with respect to fiscal legislation.

TAX ON PROFIT

Subjects of the tax on profit (taxpayers)

The following categories of taxpayers owe tax



on profit, under the law:

- (a) Romanian legal entities;
- (b) Foreign legal entities that carry out activities through permanent headquarters in Romania;
- (c) Foreign legal entities and non-resident individuals that carry out activities in Romania in an association that does not result in the creation of a legal entity – such associations (partnerships) are registered with the competent fiscal authorities and are bound to file annual profit statements according to the applicable legislation;
- (d) Foreign legal entities that obtain income from/or in connection with real estates located on the Romanian territory or from the sale/assignment of participation titles of a Romanian legal entity; and
- (e) Resident individuals associated with Romanian legal entities, for income obtained both in Romania and/or abroad from associations that do not create a new legal entity; in such case, the tax due by the individual being withheld and paid by the legal entity.

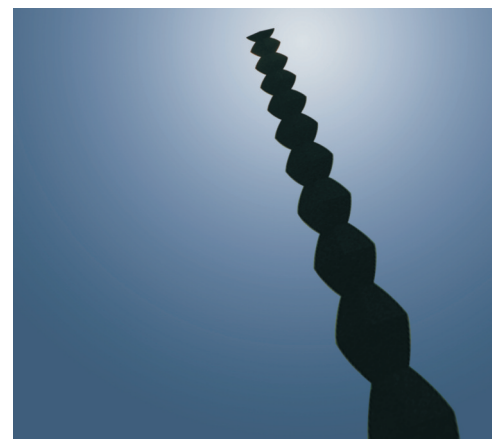
Tax on profit quota

The tax on profit quota is 16%, with the exceptions expressly provided for under the Fiscal Code. In the event that the tax on profit owed for the activities of nightclubs, casinos or sports bets is lower than 5% of the incomes obtained from such activities, the persons who obtain such incomes (including legal entities that obtain such incomes under an association contract) are obligated to pay a 5% tax applied to such obtained incomes.

The tax on profit may not be lower than a minimum tax established in accordance with the total incomes determined at the end of the previous year.

Beginning with 2010, the applicable regime is the regime of anticipated quarterly payments the amount of which is established by means of dividing the tax on profit owed for the previous year, updated with the inflation rate, into four. Special rules are applicable to the transfer of shares in Romanian companies and real estates located in Romania by local and foreign legal entities. Profits from such transfers are taxed at 16%.

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The distribution of fixed assets by a Romanian legal entity to its shareholders in the form of dividends or following the liquidation procedure is deemed as a taxable operation with the exceptions provided for under the Fiscal Code. Otherwise, the transfer of assets and liabilities within the reorganization procedure is not deemed to be an operation that is subject to taxation.

Taxable basis

The taxable basis is calculated as the variation between the income obtained from any source and the expenses incurred with achieving the same, within one fiscal year, out of which one deducts non-taxable incomes and to which one adds non-deductible expenses. The income categories which are not subject to taxation, relevant for the calculation of the profit tax, are expressly and restrictively provided for under the law. Expenses, in the sense of calculating the taxable income, may be: deductible, partly deductible and non-deductible. The main condition, yet not the only one, underlying the classification of expenses as either deductible or not refers to whether the respective expenses are performed for income purposes.

Fiscal loss may be carried forward to the following year for a period of a maximum of seven (7) consecutive years, beginning with the losses corresponding to year 2009. Previously, the period for reporting a fiscal loss was of five (5) years. The aforementioned rule does, however, not apply in the case of Romanian companies created as a result of mergers and acquisitions, which companies do not have the right to carry forward the fiscal loss of the entity the successors of which they are.

Also, foreign (non-resident) companies that carry out activities in Romania through permanent headquarters, are subject to the aforementioned rule regarding the carrying forward of the fiscal loss only with respect to the balance of the incomes and expenses that may be directly attributed to the activities carried out through such permanent headquarters.

MICRO-ENTERPRISES

The provisions regarding microenterprises have not been explicitly repealed. The manner in which this chapter is formulated reveals that the specific taxation regime of microenterprises is no longer applicable as of January 1, 2010. Microenterprises shall apply the common taxation regime regulated by title II of the Fiscal Code, on Tax on Profit. Taxpayers

TAX ON DIVIDENDS

Under the law, dividends are any distributions, either in cash or in kind, in favor of the shareholders from the profit determined on the basis of the annual balance sheet and the profit and loss statement, in proportion with the quota of participation to the share capital. Dividends paid to Romanian legal entities are subject to the tax on dividends, by means of the withholding of a quota of the total amount of the same. The obligation to calculate, withhold and pay the tax on dividends is incumbent upon the legal entities, together with the distribution of the dividends to the shareholders.

The tax quota applicable to the payment of dividends to individuals is of 16%, whereas the quota set out for the payment of dividends to legal entities is of 10%. By way of exception, the dividends payable to a Romanian legal entity shall not be subject to taxation, provided that the respective legal entity which is to receive the dividends holds not less than 10% of participations within the dividend payer, for a continuous two-year period ending upon dividend payment. The condition of the 10% holding was introduced in 2009, as compared to the previous 15%.

The exemption from the dividend tax also applies in the case of the dividends distributed to legal entity shareholders that are non-residents in a different EU member state, provided that certain requirements are met (it must be a fiscal resident in a EU member state, a profit tax payer, it must have a form of organization set forth in the fiscal code, it must hold at least 10% of the equity participations in the payer of, over a continuous period of 2

years, ending on the date of payment of the dividends).

INCOME TAX

Taxpayers

The tax on income provided for under the relevant legislation applies to the following persons:

- (a) Romanian individuals having their residence in Romania for incomes obtained from any source, both in Romania and abroad;
 - (b) Resident individuals, other than Romanian individuals, for incomes obtained in Romania;
 - (c) Non-resident individuals that carry out independent activities through a permanent headquarters in Romania, for the net income attributable to that permanent headquarters;
 - (d) Non-resident individuals who carry out dependent activities in Romania, for the net salary, resulted from that dependent activity.
- Taxpayers also include non-resident individuals who obtain incomes in Romania in conditions other than as set forth above. The Fiscal Code maintains the possibility for individuals who are nationals of certain states that have concluded double taxation treaties with Romania, to benefit from tax exemption under the conditions of the respective treaties. In order to benefit from such exemption, the non-residents must produce a certificate of fiscal residency.

Scope of the tax on income

The incomes for which one owes income tax are those obtained from:

- (a) Independent activities;
- (b) Salaries;
- (c) Yielding of the use of goods;
- (d) Investments;
- (e) Pensions;
- (f) Agricultural activities;
- (g) Prizes and games of fortune;
- (h) Transfer of the real estate properties; and
- (i) Incomes from other sources, as identified in the law.

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Taxation period and taxation quota

As a general rule, the taxable period is the fiscal year corresponding to the calendar year. The taxation quota in the case of the income tax is 16%, save for incomes obtained from investments, incomes resulting from the transfer of real estate properties from one's own patrimony, and incomes resulting from gambling.

The income secured from interests is taxed with a quota of 16%. By way of exception, the interest-related income for term deposits and/or saving instruments secured as of January 1, 2009 shall not be subject to taxation. Incomes in the form of dividends, including amounts received as a result of holding participation titles in closed investment funds, shall be taxed by a 16% rate of the amount of such incomes. Legal entities are required to compute and withhold dividend tax at the same time as the payment of such dividends to shareholders or partners.

The tax on the gain from the transfer of value titles, other than shares and securities in case of closed companies is of 1%, which shall be withheld as advance payment for the account of the annual tax due. The obligation to compute, withhold and transfer the tax representing the advance payment shall lie with agents, investment management companies, in case of redemption of securities in open investment funds, or other income payers, as the case may be, on each transaction. For transactions of the fiscal year, the taxpayer shall file the return on gained incomes, based on which the tax authorities set the annual tax due or to be recovered and issue an annual taxation decision, also considering the withholding tax and representing the advance payment. The annual tax due shall be assessed by the competent tax authorities as follows:

(a) By applying a 16% rate to the net annual gain of each taxpayer for value titles transferred or redeemed, in case of participation titles to open investment funds, starting with January 1, 2007, for a period less than 365 days as of acquisition;

(b) By applying a 1% rate to the net annual gain of each taxpayer for value titles transferred



or redeemed, in case of participation titles to open investment funds, starting with January 1, 2007, for a period exceeding 365 days as of acquisition.

The tax on the gain from the transfer of securities, in the case of private companies, and from the transfer of shares is of 16%, whereas the obligation to withhold and transfer the said tax shall lie with the acquirer.

The incomes resulting from the transfer of real estates shall also be taxed as follows:

(a) For constructions of any kind with the afferent lands, as well as for lands of any kind without constructions, acquired within a term of up to 3 years inclusively:

(i) 3% up or equal to the amount of RON 200,000;

(ii) Over RON 200,000, RON 6,000 and 2% computed to the amount which exceeds RON 200,000 inclusively.

(b) For immovable assets acquired within a period exceeding 3 years:

(iii) 2% up to the amount of RON 200,000 inclusively;

(iv) Over RON 200,000, RON 4,000 and 1% computed to the amount exceeding RON 200,000 inclusively.

In the case of the tax on incomes obtained from salaries, the law sets out a series of personal deductions set out on different levels, depending upon the number of persons under their care, for the employees that have gross monthly incomes of under RON 3,000. The employees who obtain monthly gross incomes from salaries that exceed RON 3,000, as well as individuals who obtain incomes from leasing and independent activities, do not benefit from personal deductions.

THE TAX ON INCOME ACQUIRED BY NON-RESIDENTS AND REPRESENTATIVE OFFICES

The tax owed by non-residents for taxable incomes obtained in Romania is computed by applying the following quotas on the gross incomes:

- 10% for interest and royalty income if the beneficial owner thereof is a legal entity that is a resident of a Member State or of any of the states within the European Free Trade Association or a permanent head office of an undertaking from a Member State, situated in a different Member State. This taxation quota applied during the transition period, as of Romania's accession to the European Union and it shall continue to apply up to December 31, 2010, provided that the beneficial owner of interest or royalties holds at least 25% of the value/number of securities in the Romanian legal entity, for an uninterrupted period of at least 2 years, ending on the payment of interest or royalties;

- 10% for the dividends paid by an enterprise, Romanian legal entity, to a legal entity residing in another Member State of the European Union or in any of the states within the European Free Trade Association.

- 20% for the incomes obtained from the games of fortune played in Romania, from each individual game of fortune, obtained from the same organizer, in a single day of gambling; The 16% quota also applies to other incomes similar in nature to interests, such as: credit interests, interests in the case of financial leasing contracts, interests to credits contracted between companies belonging to the same

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group, as well as interests related to the collateral deposits, escrow accounts, considered interests for term deposits, according to the norms of the National Bank of Romania, established as of, and including, January 1, 2007.

The following categories of incomes obtained by non-residents in Romania are exempted from taxation:

- Interest related to demand deposits/current accounts;
- Interest to external instruments/credits, the debentures representing external credits, under certain circumstances;
- Interest related to instruments/debentures issued by Romanian companies;
- Prizes obtained in Romania by a non-resident individual pursuant to his/her participation in national and international festivals financed out of public funds, as well as the prizes obtained by non-residents pupils and students in contests financed out of public funds;
- Incomes obtained in Romania by foreign legal entities that carry out consulting activities under free financing agreements or under agreements financed by loan agreements entered into by the Romanian state with other financial institutions, should the interest rate not go beyond 3% per year, as well as the incomes obtained in Romania by non-residents who carry out consulting, technical assistance and other similar services in any field;
- Dividends paid by an enterprise that is a Romanian legal entity to a legal entity that is a resident of another Member State are exempted from taxation under certain

circumstances provided for under the law ; and

- Incomes from savings in the form of interest payments obtained in Romania by individuals who are residents of the European Union Member States.

The tax on representative offices for one fiscal year is the RON equivalent of EUR 4,000, set out for one fiscal year, at the exchange rate of the currency market, communicated by the NBR, in force on the day when the tax is paid to the state budget. The payment of the tax must be made in two equal annual installments, by June 25 and December 25, respectively.

The VAT represents a tax owed to the state budget, included in the category of indirect taxes, which apply to operations that the law deemed to be subject to this tax.

VALUE ADDED TAX (VAT)

Scope

The scope of the VAT includes operations that imply payment, as well as operations assimilated to the same, carried out by the entrepreneurs in an independent manner, as follows:

Deliveries of goods or the performance of services for payment, all being carried out in the course of exercise of an economic activity;

- Import of goods;
- Services carried out by the performers having their headquarters or residence abroad, for which the performing place is deemed to be in Romania,
- Intra-community acquisitions of goods, new means of transport, excisable products.

Taxation rules. Taxation quota. Taxation basis.

Depending upon the taxation rule applied, the operations included in the scope of the VAT are divided into:

Operations the taxation of which is mandatory, over which the standard quota of 19% is applied;

- Operations over which a reduced quota of 9% is applied; such operations must have as

an object the sale of museum tickets, delivery of school books and other books, except for advertising materials, braces and accessories of the same, save for dental braces, orthopedic products, medicines for human and veterinary use, hotel accommodation;

- Operations over which a reduced quota of 5% is applied; this 5% quota shall be applied to the taxable basis for the delivery of dwellings as part of the social policy, including the land on which such dwelling has been erected; and

- Operations exempted from the payment of VAT.

Starting with January 1, 2005, certain taxable operations (i.e. the waste and the secondary raw materials, resulting from capitalizing upon the former, wood materials) benefit from certain simplification measures, by the fact that between the supplier and the beneficiary there are no actual payments of VAT, but there exists an obligation for the invoice to specify "reversed charge", without the related tax actually being paid. The taxation basis is represented by the equivalent value of the delivered goods or performed services, VAT not included, and the supplier and the beneficiary must be registered for VAT purposes in order for the aforementioned simplification methods to apply.

The delivery, by any person, of a construction, of a portion thereof and of the land on which such construction has been erected, as well as the delivery of any type of land are deemed as VAT-exempt operations. As an exception, the exemption from the payment of the VAT does not apply for the delivery of a new construction, of a portion of the same or of a building land.

Triggering factor, exigibility, exchange rate, deductibility

As a general rule, the exigibility of the value added tax falls on the date when the triggering factor occurs, and such triggering factor occurs on the date of delivery of goods or on the date of performance of the services. There are exceptions with respect to services, at the issuance of the invoice prior to the date of the triggering factor, the cashing of advance payments.

In the case of imports, the exchange rate is set in accordance with the customs regulations, while



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in the case of any transactions other than imports, the exchange rate is the one communicated by the NBR or by the bank through which the settlements are made as of the date when the exigibility occurs.

In order to benefit from the deductibility of the value added tax, the supporting documents, especially the invoice, must meet a series of requirements regulated by the Fiscal Code.

Intra-community transactions

In the matter of the value added tax, particular consideration is given to intra-community transactions. Both acquisitions and deliveries of goods and performances of services are subject to a strict invoicing, registration, declaration and control regime.

As of January 1, 2010 the European directive regarding services has been transposed into Romanian legislation. Thus, as of said date, the basic rule with respect to „business to business” transactions is that the place of performance is the place where the beneficiary has its headquarters, while, in the case of “business to consumer” transactions, the place of taxation is the place where the performer’s headquarters are located. In both cases strictly regulated exceptions exist.

EXCISES

Harmonized excises are special consumption taxes owed to the state budget for certain domestic and imported products. The products subject to excises are:

- Beer, wines;
- Fermented beverages, other than beer and wines;
- Intermediary products;
- Ethyl alcohol;
- Energy products; and
- Electricity.

The applicable excise quotas are regulated by the law per product categories/quantities. Starting with January 2004, excisable products can be manufactured and stored only in fiscal warehouses. Thus, no excisable product may be manufactured or distributed unless the producer is authorized by the Ministry of Finance as a holder of a fiscal warehouse. A fiscal warehouse may not be used for the retail sale of excisable products. An exception to this rule is represented by certain products intended for the consumption of individual households, as provided for under the law.

LOCAL TAXES

The Fiscal Code unified the regulations regarding the buildings tax, the land tax, the motor vehicle tax, the hotel accommodation tax (hotel fees) as well as other taxes on public services rendered for the benefit of individuals or legal entities.

Taxes on buildings, on lands, on motor vehicles, are paid in two equal annual tranches up to the dates of March 31 and September 30, respectively, of each calendar year.

The general rule regarding the payment of local taxes is that according to which the person who

is obligated to pay such taxes is the owner. As an exception, as of January 1, 2007, in the case of financial leasing contracts, the person obligated to pay the local taxes is the beneficiary.

CUSTOMS FEES

Customs fees apply to imports of goods on the basis of the European Common Customs Tariff, approved by Council Regulation (EEC) no. 2658/87 of July 23, 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff. The customs tariff contains a combined system of classification of merchandise, the customs fees expressed in a percentage, as well as the customs fees resulting from applying preferential tariffs provided for under the legislation in force. Customs fees are expressed as a percentage and apply on the customs value of the merchandise. Certain merchandise categories may benefit from a favorable tariff treatment, depending upon the type of merchandise or its specific destination, according to the Integrated Tariff of the European Communities referred to as TARIC. TARIC incorporates all Community and trade measures applied to goods imported into and exported out of the Community. It is managed by the Commission, which publishes a daily updated version of the same on the official TARIC website.

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