

International Investors' Guide

Investing on the Bucharest Stock Exchange



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Why Romania?

Section developed in cooperation with Andrei Radulescu, Senior Economist, Banca Transilvania

Interested in Romania? Located at the crossroads between the European Union, the Balkans and CIS countries, Romania sees the conjunction of three important pan-European transportation corridors. With almost 20 million inhabitants it is the 7th largest EU market by population, and its capital, Bucharest, is the 6th largest European city.

Romania is the fastest-growing European economy and base on the latest Berenberg calculations, Romania will remain the fastest-growing European economy over the next two years and among the top 20 in emerging markets. It stands out in a regional emerging Europe context due to its pro-foreign investment and pro-EU stance. On top of that, Romania is considered a politically and economically stable country. With low inflation, relatively low public debt, low interest rates and a relatively stable exchange rate, Romania gives a great sense of security to foreign investors and contractors.

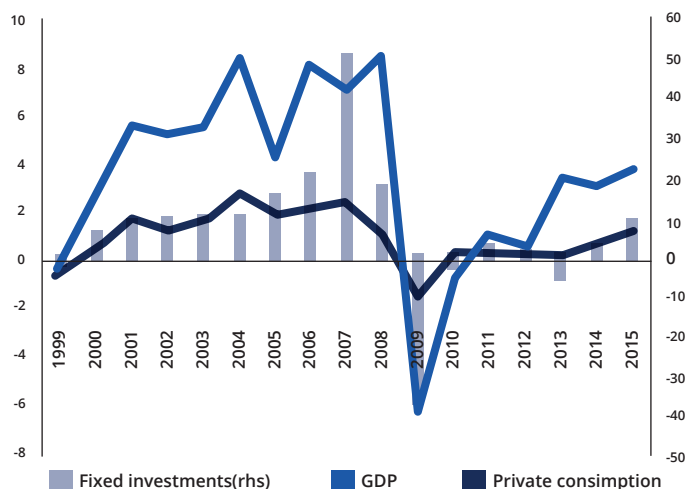
2016 represents the third year of the post-crisis economic cycle in Romania, as reflected by the dynamics of the fixed investments (on a positive trend since the summer of 2014).

2015 was a reference economic year in Romania, from the growth and financial stability points of view. On the one hand, the real GDP climbed by 3.8% YoY, the highest pace since 2008, being noticed the acceleration of the fixed investments (to 8.8% YoY) and of the private consumption (up by 6.1% YoY), supported by the expansionary policy-mix. However, the net foreign demand had a negative contribution to the dynamics of the GDP, as the exports decelerated to 5.5% YoY, while the imports accelerated to 9.1% YoY.

In nominal terms the GDP climbed by around EUR 10bn in 2015 compared with 2014 to over EUR 160bn, according to the Statistics Office (INS) estimates, an evolution strongly influenced by the efforts of the Administration to diminish the informal economy.

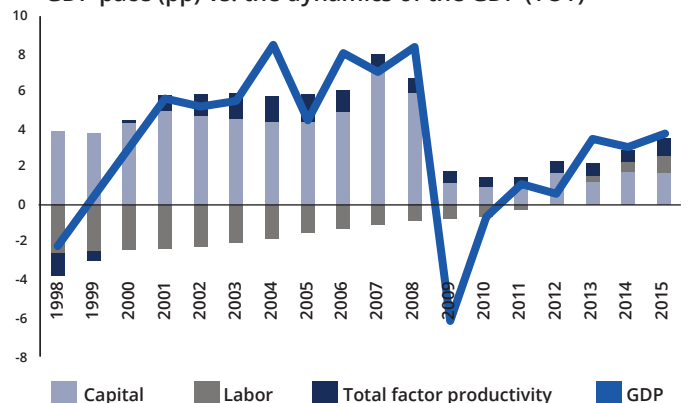
From the structural point of view the potential GDP dynamics improved from around 3% YoY in 2014 to almost 3.5% YoY in 2015 (the highest pace since 2008), with a relatively balanced contribution of the production factors: the capital (1.7 percentage points), the labor (0.9 percentage points) and the total factor productivity (0.9 percentage points). According to the macro-econometric estimates of Banca Transilvania the GDP performed close to the potential level over the past three years, an evolution confirming the post-crisis economic cycle.

GDP, private consumption and fixed investments (% YOY)



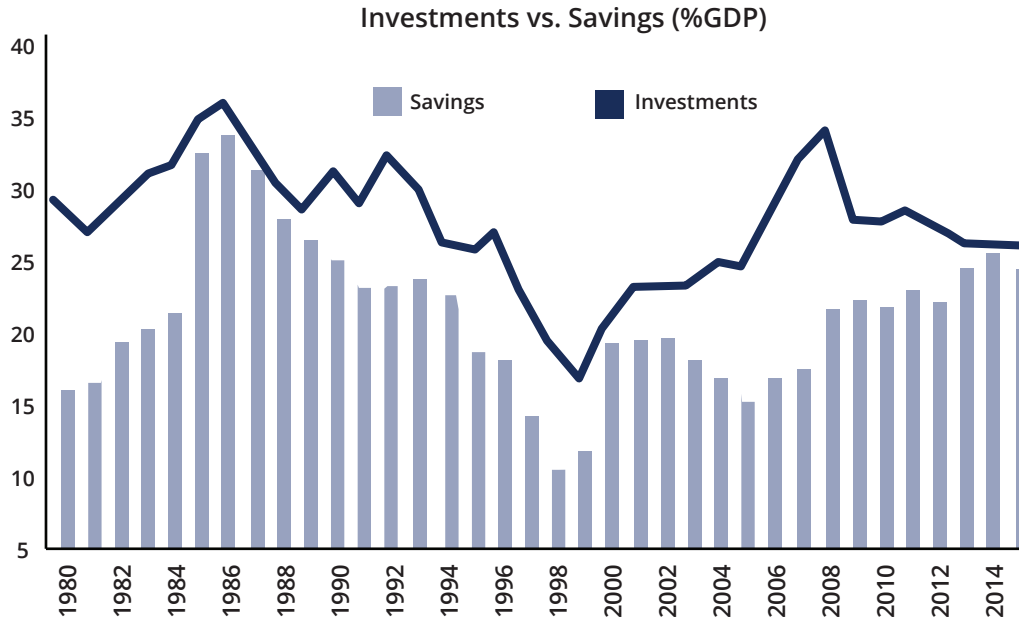
Source: Banca Transilvania based on the Statistics Office database

The contribution of the production factors to the potential GDP pace (pp) vs. the dynamics of the GDP (YOY)



Source: BT macro-econometric estimates by applying the Cobb-Douglas methodology

On the other hand, the financial stability improved in 2015, as the investments – savings differential consolidated around the record low levels. This evolution was determined by the relatively balanced behavior of the private and public sector last year, with the current account and the public finance deficits presenting low levels (1.1% of GDP and 0.7% of GDP), close to the lowest levels in the post-1989 history.



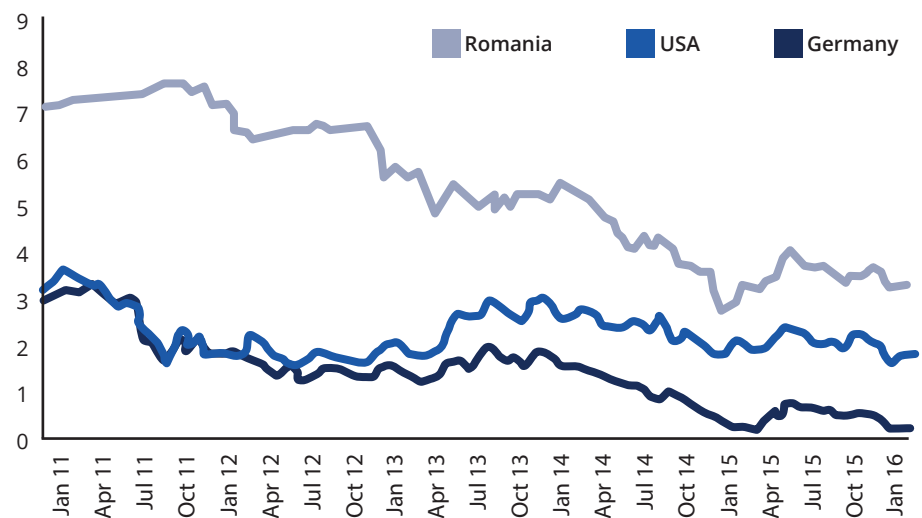
Source: IMF, WEO, April 2016

The improvement of the macro-financial stability over the past quarters is also reflected by the consolidation of the financing costs around the record low levels (see graph).

The acceleration process continued in 2016, being noticed the resilience to the global and EU challenges.

10 YR sovereign bonds rate (%)

According to the preliminary estimates of the National Institute of Statistics (INS) the domestic economy rose by 1.6% QoQ and 4.3% YoY in 1Q2016, the best performance of the past quarters, with the domestic demand supported by the record low financing costs, the improvement of the real disposable income of the population and the strong momentum for the RON denominated loans.



Source: Bloomberg

On the other hand, the net foreign demand continued to have a negative contribution to the

evolution of the GDP, as the imports presented a higher dynamics compared with the exports, due to the strong momentum at the private consumption level (as reflected by the increase of the retail sales by over 19% YoY during January-April 2016)

Starting 2006, the Romanian Government has used the Bucharest Stock Exchange (BVB) to privatize its best energy and utilities' companies, the two largest in the history occurring in October 2013 (Romgaz – EUR 383 mn) and June 2014 (Electrica – EUR 440 mn).

With 13% Domestic Market Cap to GDP at end-2014 and less than 100k investment accounts, doubled by a broad market reform, Romanian capital markets have a substantial development potential and the chance of becoming a recognized international investment case and venue.

Improved medium-term perspectives

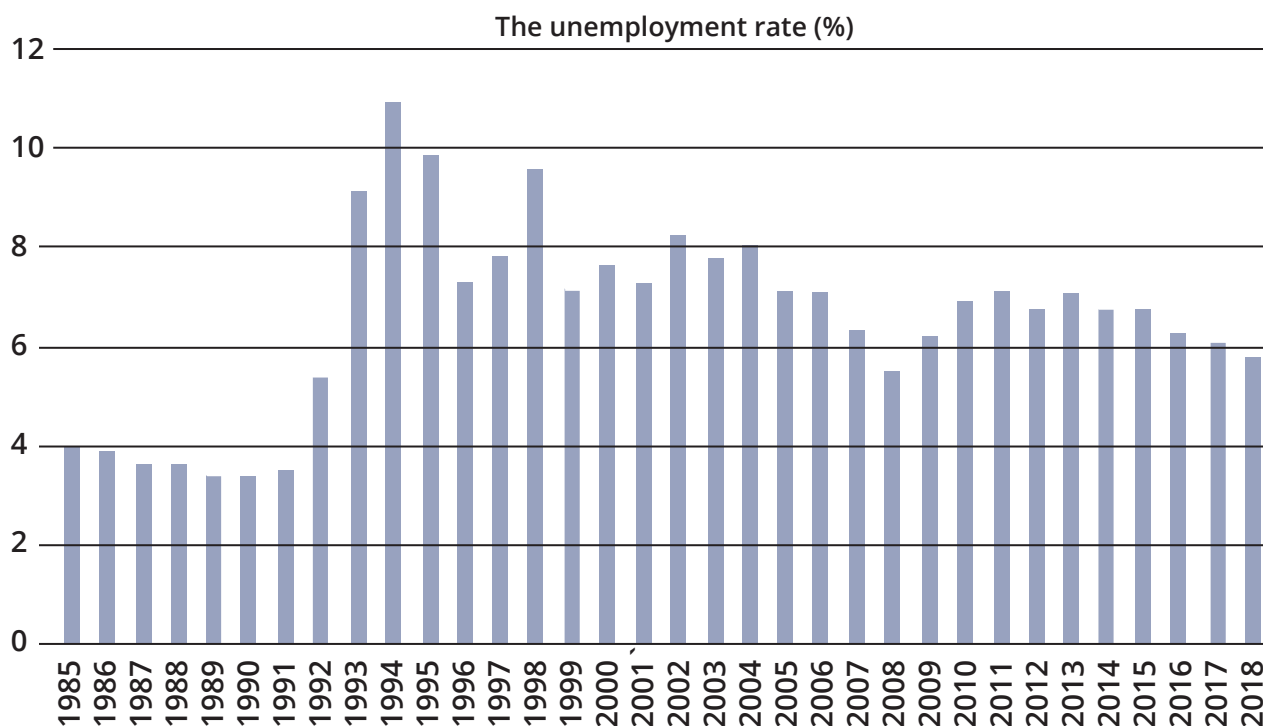
The macro-financial prospects for Romania are positive in the short and mid-run, being supported by the dynamics of the real disposable income of the population, the low level of the financing costs, the favorable momentum in the RON credit markets and by the European post-crisis economic cycle.

According to the core macro-econometric scenario of Banca Transilvania the GDP would increase YoY by 5% in 2016, 4.9% in 2017 and 4.5% in 2018.

In this scenario the fixed investments are the engine of the economy, with YoY estimated paces of 8.1% in 2016, 9% in 2017 and 9.1% in 2018.

The dynamics of the fixed investments would spill-over to the other components of the GDP: the private consumption may increase by an annual average of 5.5% during 2016-2018, as the labor markets climate improves (the unemployment rate to decline to 5.8% in 2018), the salaries increase, while the financing costs would maintain at affordable levels.

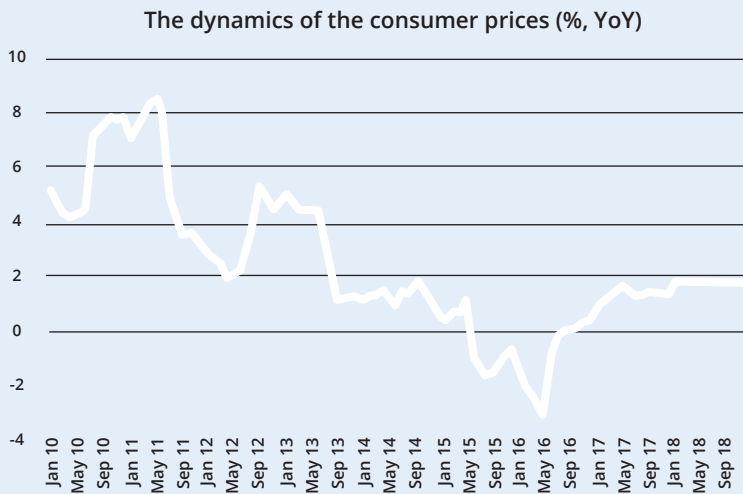
On the other hand, the net foreign demand would continue to have a negative contribution to the dynamics of the economy in the mid-run, as the exports would increase YoY by around 6.1%, while the imports would climb by 8.1% during 2016-2018.



Source: Statistics Office (INS), BT forecasts

Negative dynamics of consumer prices

The YoY dynamics of the consumer prices entered the negative territory in the summer of 2015, as the Government reduced the VAT for food and foodservices, from 24% to 9% starting 1st of June.



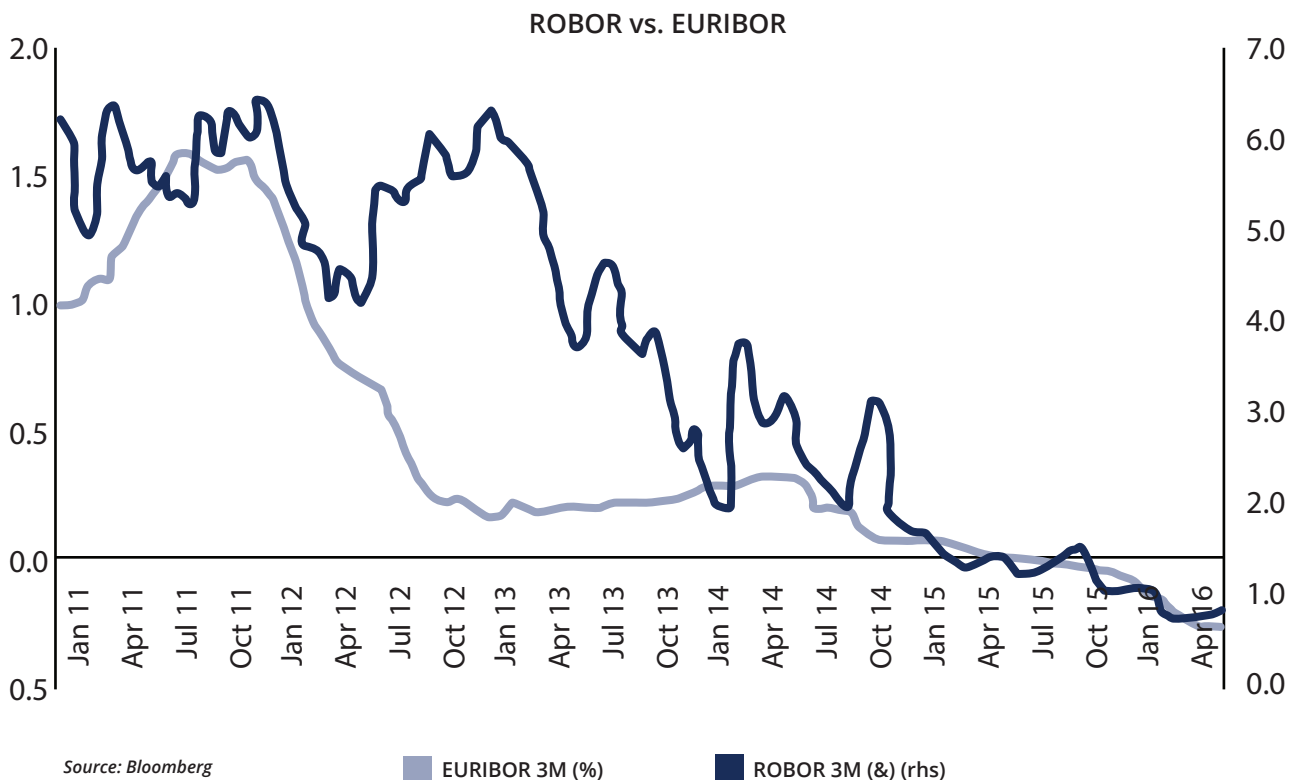
The YoY contraction pace intensified in the 1H2016 (to -3.25% in April), as the general VAT was cut from 24% to 20% starting 1 January 2016.

According to the Banca Transilvania macro-econometric scenario the average YoY dynamics of the consumer prices would maintain negative in 2016 (-1%), due to the VAT cuts and to the decline of the international oil prices. However, the YoY dynamics of the consumer prices would gradually increase after the impact of the New Fiscal Act fades out, to annual averages of 1.3% in 2017 and 1.7% in 2018 (on Harmonized Index of Consumer Prices).

Source: Statistics Office (INS), Banca Transilvania forecasts

Record low financing costs

The financing costs decreased to record low levels over the past months, due to the monetary policy decisions in Romania and the Euro Area, but also given the excess liquidity. As can be noticed on the right hand graph, the spread ROBOR-EURIBOR consolidated at record low levels (around 1 percentage point).



Source: Bloomberg

■ EURIBOR 3M (%)

■ ROBOR 3M (&) (rhs)

In Romania NBR cut the monetary policy rate to 1.75% (a record low level) since May 2015. The central bank also diminished the levels of the minimum reserve requirements ratios to 8% for RON and 12% for FX over the past quarters.

In the Euro Area (the main economic partner of Romania) the European Central Bank cut the interest rates to record low levels (the reference interest rate to 0%, the deposits interest rate to -0.4%), while it also introduced new unconventional expansionary measures (a program of buying assets, public and private in a volume of EUR 80bn/month at least until the Spring of 2017) in order to counter the deflationary pressures in the region.

Why the Bucharest Stock Exchange?

Largest dividends in the world

According to a recent report issued in May 2016 by investment bank Berenberg, this year Romania will offer the highest dividend yields globally. The analysts estimate that in 2016 Romania's BET stock market index is paying a dividend yield of 7.9%. This is the highest yield in the world, above Kuwait (7.6%) and Bahrain (7.2%). The dividend yield also looks attractive compared to the 10-year bond yield, which trades around 3.7% currently Romania Energy and utilities shares are among the most traded on BVB.

Banca Transilvania, Romgaz and Transgaz are likely to pay yields of more than 10% in 2016, according to Berenberg. Banca Transilvania is set to become the highest dividend payer in Romania in 2016, with a yield of estimated 15% after achieving very high earnings last year, following the acquisition of Volksbank's Romania unit. Romgaz and Transgaz are both set to pay estimated 10% to 11%.

For the entire market, 37 companies out of 84 issuers on the main market are paying dividends from last year's net profits.

More about **Dividends**.

Growing Domestic Potential

Attracting new companies to be listed on the market and building a strong retail investors base are top priorities for BVB. A number of educational projects has been launched, targeting both the entrepreneurs as well as local retail investors that aim to approximate the opportunities in the Romanian capital markets. BVB's business strategy aims at 100,000 retail accounts until 2018, compared to around 70,000 currently. For that BVB has ambitious projects aimed to increase the financial literacy in Romania which would allow the conversion to investors of more than 4 million Romanian holding more than EUR 32 bn. in bank deposits.

When it comes to attracting new issuers, since the launch of AeRO in February 2015, the new market for SMEs and start-ups attracted 10 new private companies in the first year, issuing both equities and bonds. The companies listed there come from various industries, like IT, courier services or consumer goods.

At the same time, we are registering a steady growth of the pension fund as well as asset management industry. At the end of 2015, the Assets under Management (AuM) of the local institutional investors have reached EUR 12.3 bn. The AuM of the Romanian pension funds equaled EUR 5.6 bn euro, out of which estimated 20% was invested in Romanian equities. The AuM of the Romanian investment funds equal 6.7 bn euro.

Increasing transparency of the issuers

Bucharest Stock Exchange is putting further attention to improving the transparency of its issuers by bringing new standards to the market. On September 22nd, 2015 BVB has launched the new Code of Corporate Governance which was developed in cooperation with the European Bank for Reconstruction and Development. The code, which is applicable to

all the issuers on the BVB's Regulated Market, entered into force on January 4th, 2016. The Code focuses around 4 sections: responsibilities, risk management and internal control system, fair rewards and motivation and building value through investor relations and the system of enforcement is enhanced by 'comply or explain' rule.

Additionally, in June 2016 Bucharest Stock Exchange (BVB) launched new reporting system for companies listed on BVB's regulated market, called Issuers Reporting Information System (IRIS). IRIS will provide to issuers a mechanism at the highest international standards for a fast and efficient public dissemination of regulatory reports and announcements to investors, analysts and distributors of market data. The platform aims to standardize the reporting format and increase the market transparency by providing a secure and reliable communication system for publication and distribution of issuer's reports in a text (HTML) format. In practice this means that the data information provided by the issuers will be integrated in a format immediately accessible for data processing. By the launch of the IRIS platform, the Exchange will provide a dedicated information channel for the listed companies to communicate with the market in a fast, transparent and reliable manner. IRIS reporting system will be gradually implemented starting end of June 2016.

On top of that, Bucharest Stock Exchange remains committed to bringing best international standards in the field of investor relations, reporting and transparency to all its listed companies, by organizing regular conferences and workshops dedicated to the corporate governance issues.

Future upgrade to the Emerging Market status

One of BVB main objective, widely supported by market participants, Romanian Financial Supervisory Authority (FSA) and the Government, is to be upgraded to the Emerging market status by internationally acknowledged institutions. Both quantitative and qualitative criteria should be met in order to access this superior classification.

The two main institutions relevant in this process are FTSE Russell and MSCI.

In March 2016, **FTSE Russell certified that the local stock market** met all the criteria necessary to be promoted to the superior category, with one exception – the liquidity criterion. The "Liquidity - sufficient liquidity to allow international investment large" criterion refers to a larger number of companies in terms of market capitalization and number of shares available for trading, with higher transaction values.

In case of MSCI, **the June review revealed** an upgrade for The Registry/Depository qualitative criteria to the maximum grade and also a change regarding the Transferability requirement, mentioning the availability of OTC transactions with restrictions. Romania's weight in MSCI indexes could increase in November 2016, following a potential removal of Nigeria from MSCI FM index and its classification as a stand-alone market. In 2017 the weight could further increase as Pakistan and Argentina could be upgraded to Emerging Markets, according to the **MSCI announcement**.

Potential Privatizations

The listing of the Romanian electricity producer Hidroelectrica on the Bucharest Stock Exchange could be the largest transaction in Romania's history. In May 2016, Hidroelectrica's shareholders approved the agreement with the intermediary syndicate comprising Morgan Stanley and Raiffeisen Bank, which establishes the resumption of the obligations under the Engagement Letter regarding Hidroelectrica's Initial Public Offering (IPO). In June 2016, as per decision of the judges at the Bucharest Court, the company exited the insolvency thus taking one step closer to the IPO at the Bucharest Stock Exchange.

Several other companies are in various stages of preparation for privatization. Currently, the state has a share in 114 companies, out of which 56 companies are in the portfolio of the Ministry of Economy, Commerce and Business Environment. It was recently stated, by the State Secretary in the Ministry of Economy, that year 2016 has been dedicated to appointment of professional and strong management that would improve the corporate governance and increase the efficiency of these companies, preparing them for their future listing on the Bucharest Stock Exchange.

As per the already accomplished IPO pipeline, three companies were privatized between 2013 and 2014 - Nuclearelectrica (nuclear power generation), Romgaz (natgas production) and Electrica (electricity distribution). Electrica IPO, worth of EUR 444 million, was the largest IPO to date ever registered in the Romanian capital market. Romgaz was the second largest IPO, worth of EUR 383 million.

More about **Electrica**, **Nuclearelectrica** and **Romgaz**.

Wide market reform

A broad legislative transformation occurred since 2014, with several FSA regulations changed, amending and supplementing the Law no. 297/2004, addressing issues referring to account opening procedures, investors' corporate rights, dividend payment procedures and primary market offerings. In May 2016 new regulations were approved to make available short selling, trading on margin, lending and borrowing techniques.

The fees charged by the regulator on the buy side trades were reduced by 25%. BVB decreased its trading fees as well, by approx. 15%.

Another breakthrough was the centralization of dividend payments via one capital market institution, i.e. the Central Depository (Central Depository). Starting with 2015, the dividend payment process was simplified, as investors holding accounts with market intermediaries now receive dividends directly in their brokerage or custodian accounts. Non-residents that wish to invoke for the application of the more favorable provisions of a Double Tax Treaty concluded between Romania and their country of residence should submit Tax Residency Certificate within the deadlines set by the issuers.

Developments of the post-trading

The Romanian Central Depository migrated to the pan-European settlement platform TARGET2-Securities within the first wave, on June 22nd, 2015. CSD is thus connected to the most modern European settlement platform, the settlement of transactions taking place in central bank money, thus reducing the associated risks. By using this pioneering system, CSD is able to offer innovative services, comparable with the ones from the other European markets for the Euro settlements. Also, the European best practices that are integrated into this system will be extended, at a later stage, for the settlements in local currency, increasing the competitiveness of the Romanian capital market. The A2A interface will be implemented by the end of 2016.

Another important project that CSD is focusing on is the implementation of the European Standards in Corporate Actions Processing. This project will offer customers new perspectives on corporate actions and on the importance of reliable and transparent communication regarding the major events of a company and will increase the Romanian capital market attractiveness. By implementing the Corporate Actions processing according to European standards, the relationship between issuers and their investors will be improved and will follow a standard format. All entitlements, both in cash and securities, will be processed through CSD, using the established key dates. Thus cash and securities flows will be better managed as all payments for clients will be made by CSD in the same day.

Exposure to the development of the market through Bucharest Stock Exchange share

Bucharest Stock Exchange is a private company, with majority institutional ownership, including the European Bank for Reconstruction and Development (EBRD) and other foreign institutional investors, local pension and investment funds as well as local brokers.

BVB's business model offers operating leverage, with most of the revenues from trading, and the rest from data vending, listing or IT services. The expenses are mainly fixed, the main categories being personnel and at the end of June 2016, Bucharest Stock Exchange announced the conclusion of a coordination agreement with SIBEX – Sibiu Stock Exchange that will allow carrying out of concrete steps in the following period towards the potential merger process between the two companies. The agreement allowed the implementation of critical elements for such a process, i.e. the phase of the evaluation of the companies. Teams of experts from both companies have been dedicated

to this project in order to establish principles and conditions for collaboration, aiming at creating the fundamentals with regard to the potential merger. Sibex - Sibiu Stock Exchange was founded in 1994, having as initial main activity commodities intermediation. Starting with 1997 the company focused on the development and the administration of financial derivatives, such as futures contracts. Currently, SIBEX is market operator and administrator of a derivatives markets and also operator of a cash regulated market and an alternative trading system. SIBEX is since 2010 a company listed on its own regulated securities market.

Trading and settlement

Trading System

Trading on the BVB is done electronically, centralized and paperless. It provides support for trading various financial instruments (shares, bonds, government bonds, structured products, warrants, rights). Remote terminals for order input and administration into the trading system are available to the authorized brokers.

Each type of the financial instrument is traded based on the two types of markets: main market (which is an order-driven market) and a deal market (negotiating market). The shares are traded based one of the two trading models in the Regular market: continuous model and auction model. The various types of orders are available for the main market: limit, market, unpriced, hidden, cross orders, contingent orders. The securities must be traded in round lots (a round lot consist of 1 share).

The maximum price variation in the regular and the deal markets (+/-15%) is counted by reference to the regular market reference price. Deal prices from deal market do not participate at the calculation of the share reference price.

Settlement

Central Depository provides safekeeping, settlement and registration services for securities traded on the regulated markets and alternative trading systems: Bucharest Stock Exchange (regular spot market), Alternative Trading System (AeRO and ATS International) and the unlisted market.

The settlement cycles are as follows:

- T+2 for on exchange trades, as well as T+x (x=0,1,2 for the deals done on the gross basis, with shares and bonds traded on the regulated market)

- T+0 - max T+3 for off-exchange trades.

Central Depository provides netting services on the cash leg of settlement at the participant level while the security leg of settlement is settled on a gross basis. Central Depository is the sole provider of trade netting services for all transactions concluded on the Exchange. Off-exchange transactions are settled on a gross basis.

Central Depository's system currently uses 2 daily sessions for net settlement of the stock exchange trades and 4 daily sessions for gross settlement of the off-exchange trades.

Cost of trading and settlement

For regular trades on the equity market, BVB currently charges 10 bps on the sell side and 4 bps on the buy side. The FSA charges another 6 bps fee for the buy side of each trade. Fees for clearing and settlement of 0.85 bps for each side of the trade (applied on a net basis) are charged by the Central Securities Depository (CSD).

On top of the above fees, Brokers set up their own fees on a case by case situation. Brokers may allow investors to choose between a fixed fee applied to the value of each transaction or a fee schedule depending on the total traded value.

Fiscal compliance procedures

Income & Capital Gains Tax

Double taxation treaties govern the non-resident fiscal regime in Romania, upon providing the Fiscal Registration Certificate. Otherwise, capital gains resulting from the transfer of securities (including shares in limited liability companies) are taxed at a 16% rate.

Dividends are currently applied a withholding 5% rate.

Investors - legal entities - are required to report gains/losses on a quarterly basis and pay the capital gain tax by the 25th day of the month following the end of the quarter.

Investors - private individuals - are required to report gains/losses annually and pay the capital gain tax by the end of May 25th of the following year when the transactions were made. Intermediaries have the obligation to fiscally register them.

The capital gain obtained by non-residents from the sale of shares in Romanian companies is determined as the difference between selling price and the acquisition cost of shares including any commissions, taxes or other fees paid in relation to the acquisition of shares

Fiscal Registration

Under review.

According to the legal framework in force, fiscal registration in Romania is required when a natural person or a legal entity is conducting trades on Romanian territory which are subject to taxation, not being a prerequisite of opening a trading account.

I. Non-residents - legal entities - without fiscal domicile in Romania, have the obligation to register for tax purposes in Romania:

- a) if - is resident in a member state of the European Union;
- is resident in a country that is part of an international legal instrument signed with Romania which contains provisions on administrative cooperation in the field of taxation and recovery of tax claims and who is required to submit declarations to the fiscal authority,

the fiscal registration in Romania can be required:

- Directly
- Through a fiscal representative, with fiscal domicile in Romania, according to the law.

b)if those mentioned at point a) do not apply,
the fiscal registration in Romania can be required:
-Through a fiscal representative, with fiscal domicile in Romania, according to the law.

1.The request for fiscal registration is performed by submitting the following documents:

Legal entity:

- Return 015 " Return on Tax Registration " in two copies, with an address and e-mail provided
- Original or certified copy of the registration certificate issued by the tax authority of the country in which the taxpayer is resident
- An affidavit mentioning the intended activity in Romania, namely investment/trading activity at the Bucharest Stock Exchange.

The copy of the registration certificate shall be translated into Romanian by certified translators. The affidavit should be in Romanian.

Returns 015 and 030 must be submitted in Romanian. Please request an English translation at ir@bvb.ro. The documents are available only in Romanian language and can be downloaded from the following [link](#).

The documents may be submitted:

- directly at the tax authority office,
- by post, with letter with confirmation receipt (an e-mail address to be provided for communication purposes)

2.According to the art. 76 of the Fiscal Procedural Code, the tax authority issues the Fiscal Registration Certificate in Romania in 10 days.

The Fiscal Registration Certificate can be picked up anytime from the office of the fiscal authority in person by the investor or his representative (including custodian), by presenting a power of attorney. The fiscal registration number will be communicated by e-mail; an e-mail address will be provided when sending documents by post

3.The competent tax authority is:

- Tax authority where the fiscal representative is registered, when fiscal registration is required through a fiscal representative
 - Tax authority where Bucharest Stock Exchange is registered – District 2.
- II.Non-residents - private individuals without fiscal domicile in Romania - intermediaries have the obligation to fiscally register them.

Compliance Obligations

Registered taxpayers, legal entities, should compute and pay corporate income tax (if case) and file the related corporate income tax return with the Romanian Tax Authority by the 25th day of the month following the quarter in which trading took place.

Tax returns are submitted directly to the Romanian Tax Authority or by post, by letter with confirmation receipt. The date to submit the fiscal returns is the date of registration to the tax authority or date filled at the post, as the case may be.

For legal entities, the capital gains tax should be declared on a quarterly basis via Return 100 “Tax return on liabilities due to the state budget” by the 25th day of the month following the quarter in which trading took place and on an yearly basis via Return 101 “Tax return on annual profit tax”, by March 25th of the following year in which the trading took place.

For natural persons, the capital gain tax should be declared annually via Return 200 “Tax return on revenues in Romania” by May 25th of the following year in which the trading took place. Tax returns are submitted directly to the Romanian Tax Authority or by post, by letter with confirmation receipt. The date to submit the fiscal returns is the date of registration to the tax authority or date filled at the post, as the case may be.

Returns may be submitted also electronically, via the [e-guvernare](#) portal, by taxpayers who own a qualified digital signature certificate, issued by an authorized provider in Romania, according to the Law no. 455/2001.



The date of submitting the electronic returns on [e-guvernare](#) portal is the date of the fiscal returns' registration on the portal, as communicated electronically by the information system, given the validation of the return. If the return is not validated, the date of the return is the date of validation, as communicated electronically by the information system.

In case the return is submitted in due time, but it is not validated by the system due to errors detected, the date of submitting the return is the initial date, given that the taxpayer submits a valid return by the end of the month.

Payment Obligations

Subject to current change, allowing an International certified signature

Non-residents make the payment of capital gains tax to the Public Treasury and Public Accounting of Bucharest in cash or through bank transfer. Payments of tax obligations are made in RON, by the date at which taxpayers have the obligation to submit the fiscal declarations, as follows:

for legal entities – by the 25th of the month following the quarter in which trading took place.

for natural persons – by May 25th of the following year in which the trading took place.

The payment through bank transfer can be done as follows:

- from an account opened at a credit institution participating in the electronic payment system in Romania;

-from accounts opened at a credit institution abroad. If this is the case, the payment will be made through a correspondent credit institution in Romania in which the account is opened and from which the payment will be made. This method can be applied only when the correspondent bank agrees to this type of transaction.

Cost of trading

For regular trades on the equity market, BVB currently charges 10 bps on the sell side and 4 bps on the buy side. The FSA charges another 6 bps fee for the buy side of each trade. Fees for clearing and settlement of 0.85 bps for each side of the trade (applied on a net basis) are charged by the Central Securities Depository (CSD) .

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More on **Top Brokers**.

Contact us

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