

Romania – an emerging auto hub

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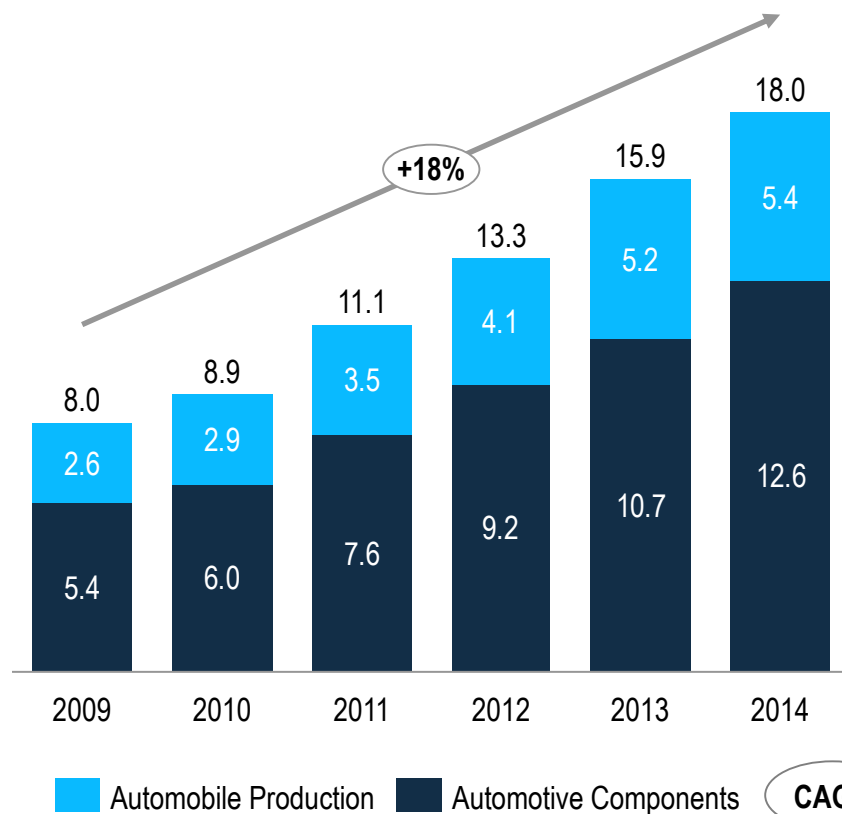
1. Industry overview

1.1 Automobile production

1.2 Automotive components

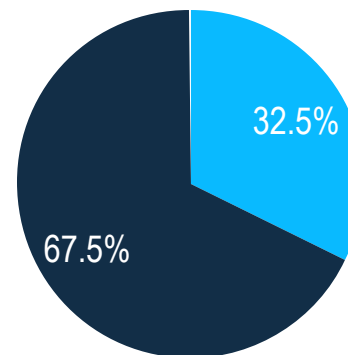
The local automotive industry has risen at an average of 18% per year since 2009, reaching EUR 18 billion in 2014 backed by exports

Market evolution [EUR billion]

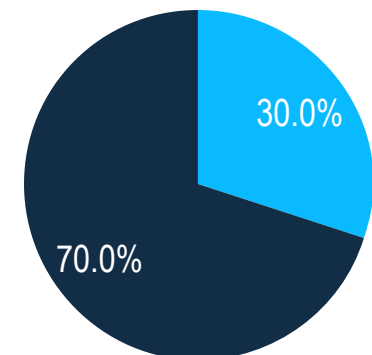


- The industry has grown strongly since 2009, more than doubling since 2009 (125% growth)
- The evolution of the main automobile producers has driven growth of the automotive components sector, although the shares have remained constant

Industry split by products [%]



2009 total: EUR 8 bln

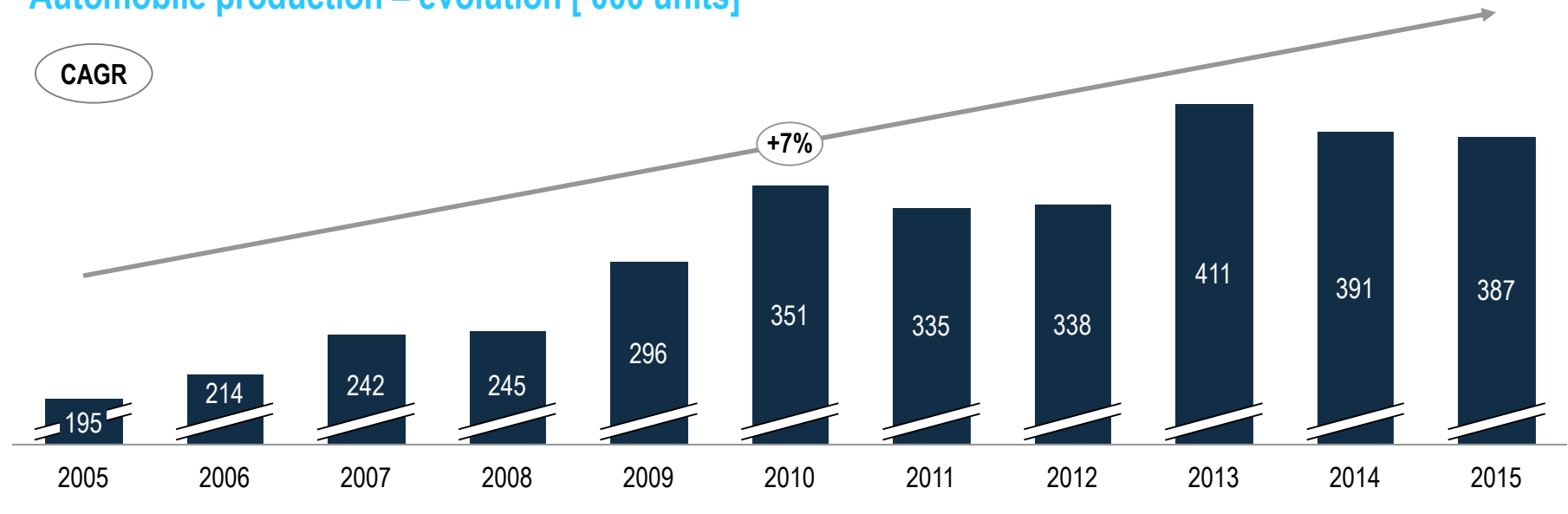


2014 total: EUR 18 bln

Automobiles Components

The number of cars produced in Romania almost doubled in the past 10 years, reaching 387 000 in 2015 through two top producers

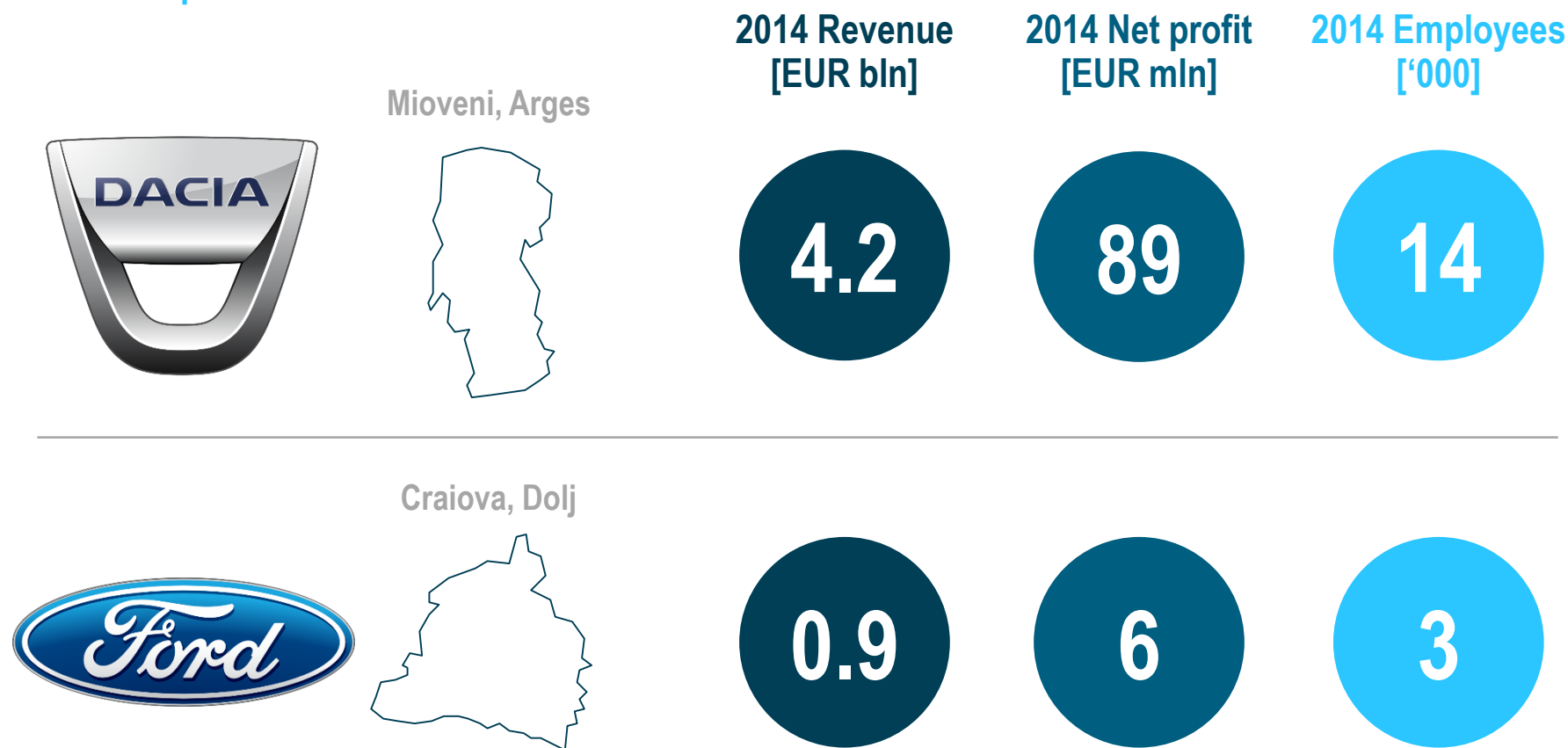
Automobile production – evolution ['000 units]



- The economic crisis in 2009-2012 did not negatively influence automobile production, registering growth after 2008
- Two major passenger car manufacturers - Dacia and Ford - operate in Romania
- After an EUR 2.2 billion investment program as well as an intensive transfer of know-how, Dacia became one of Renault's most outstanding achievements and is one of the top technologically developed companies in Southeastern Europe

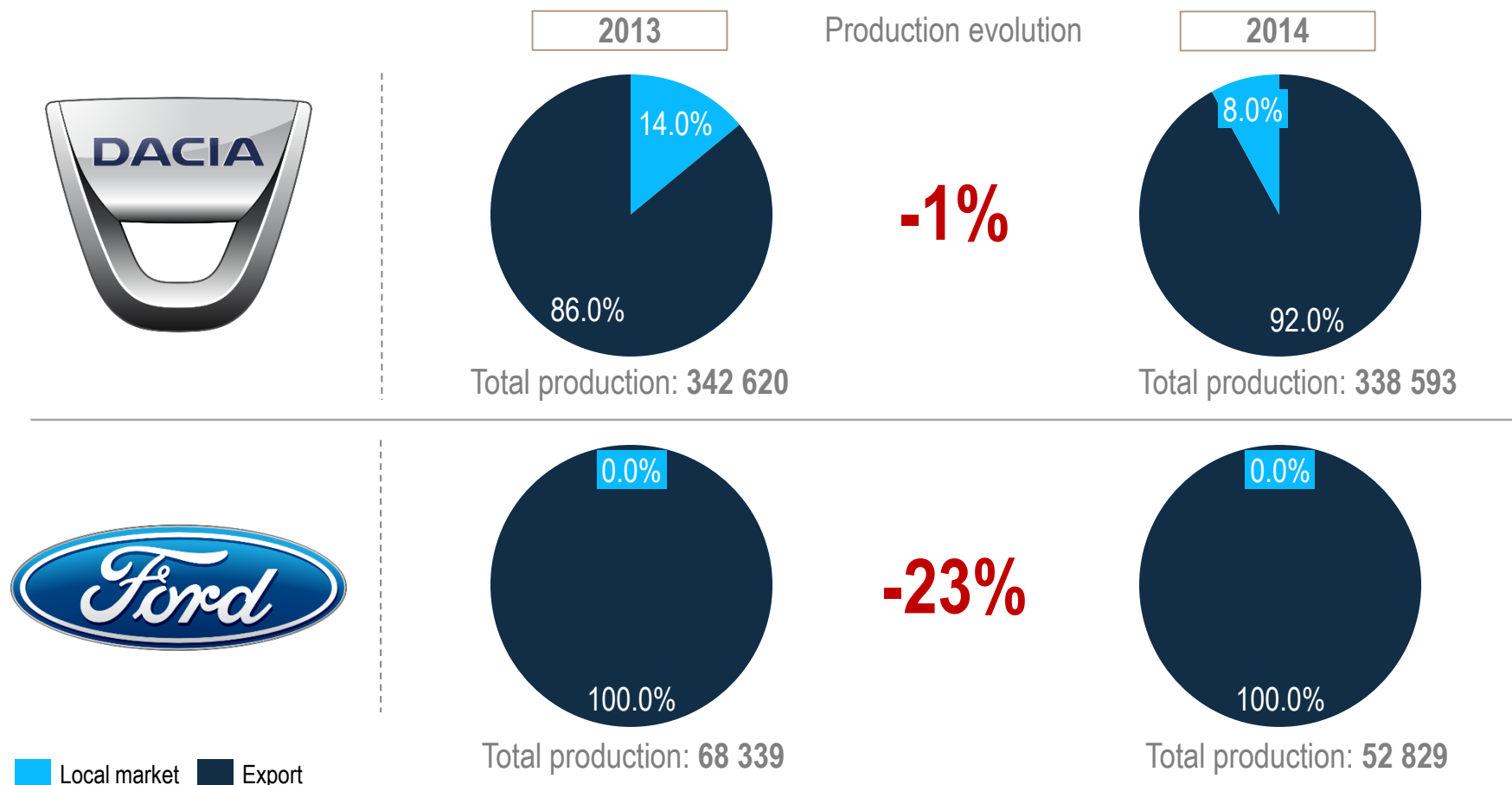
Dacia and Ford are the backbone of the local industry, hiring over 17000 people and accumulating over EUR 5 billion/ y in revenue

Producer profiles



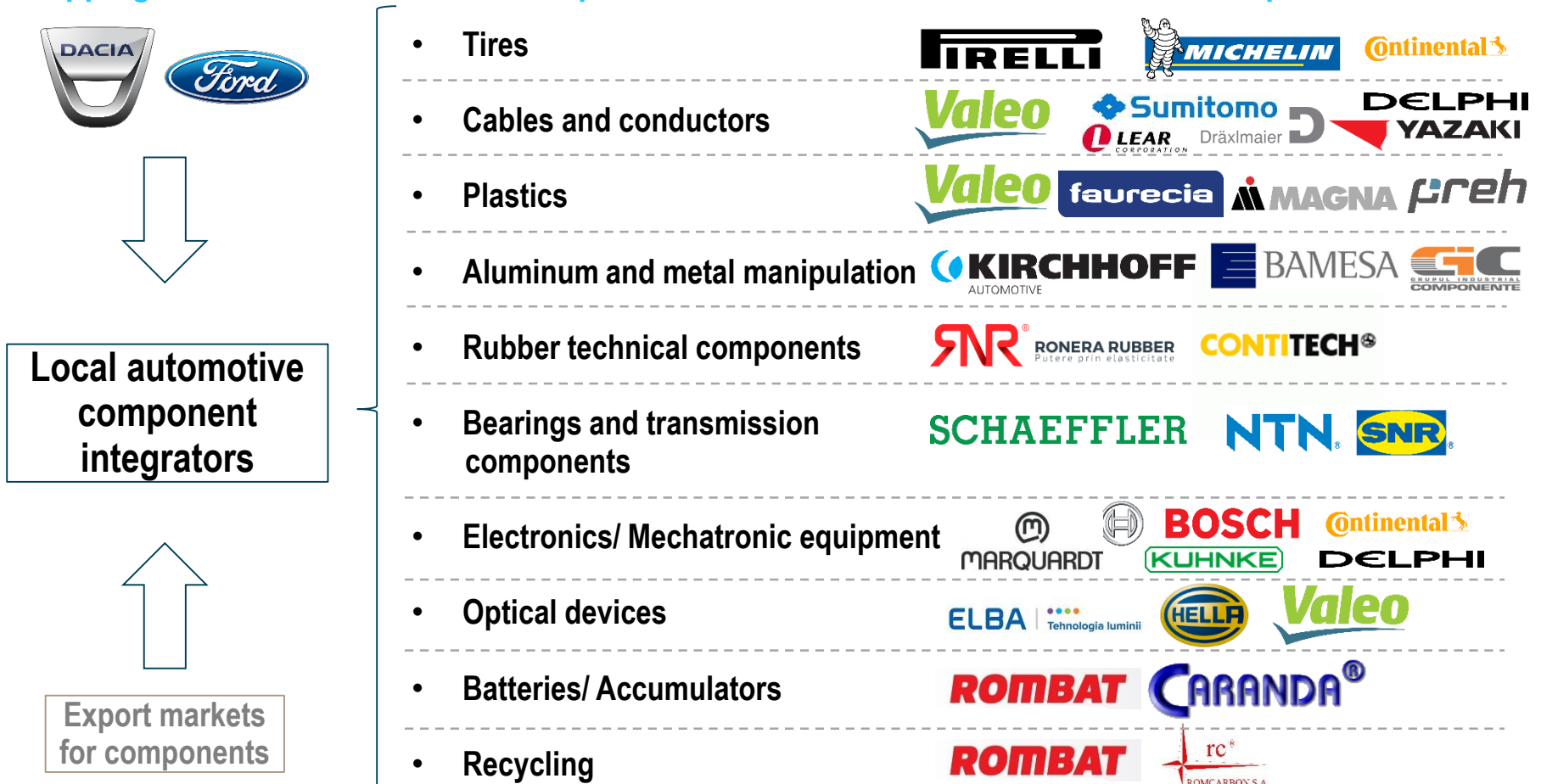
In 2014, 93% of local production of automobiles from the two producers was exported, with Ford selling next to 0% locally

National production and export [# units]



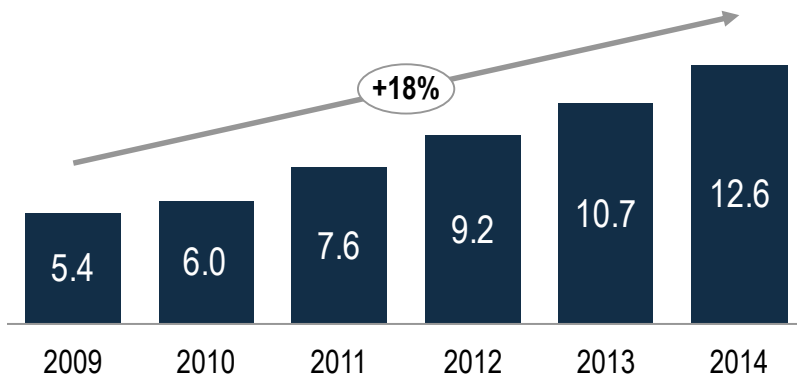
Local industry has catalyzed the development of horizontal sectors, ranging from production of tires to electronics and optical devices

Mapping of horizontal sectors developed as a result of the evolution of automobile production

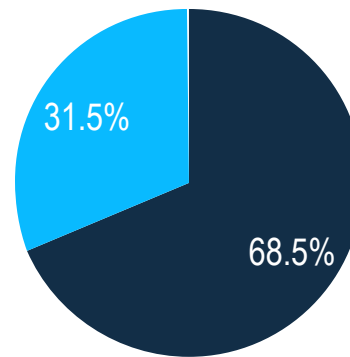


There are approx. 600 OEMs producing automotive components in Romania, directed at the local producers as well as to export

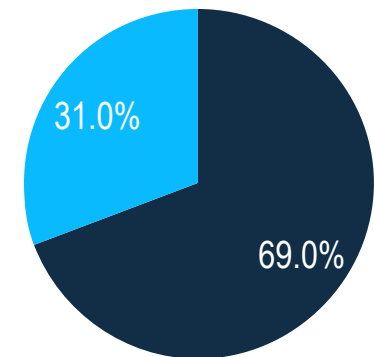
Automotive components production [EUR bln]



Share of exports out of total production [%]



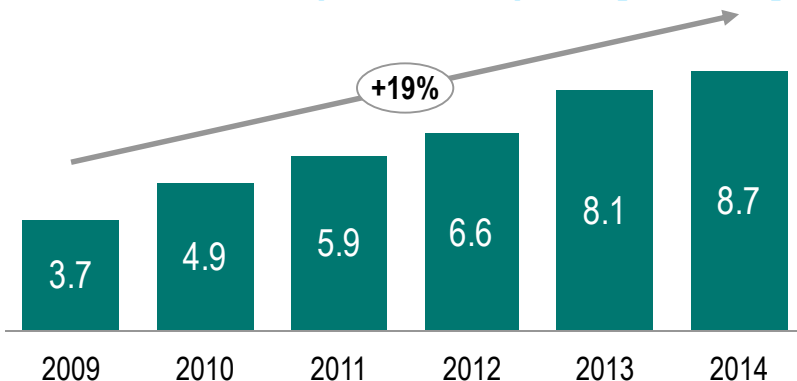
2009 total: EUR 5.4 bln



2014 total: EUR 12.6 bln

Export Local market

Automotive components exports [EUR bln]



- Exports have grown at a faster pace than the industry itself, signaling an increasing demand both from the two local producers as well as from the export markets
- This is owed to the Romanian quality of work and diminished cost base with energy and specialized labor



2. Romania's promise as an automotive hub

2.1 Human capital

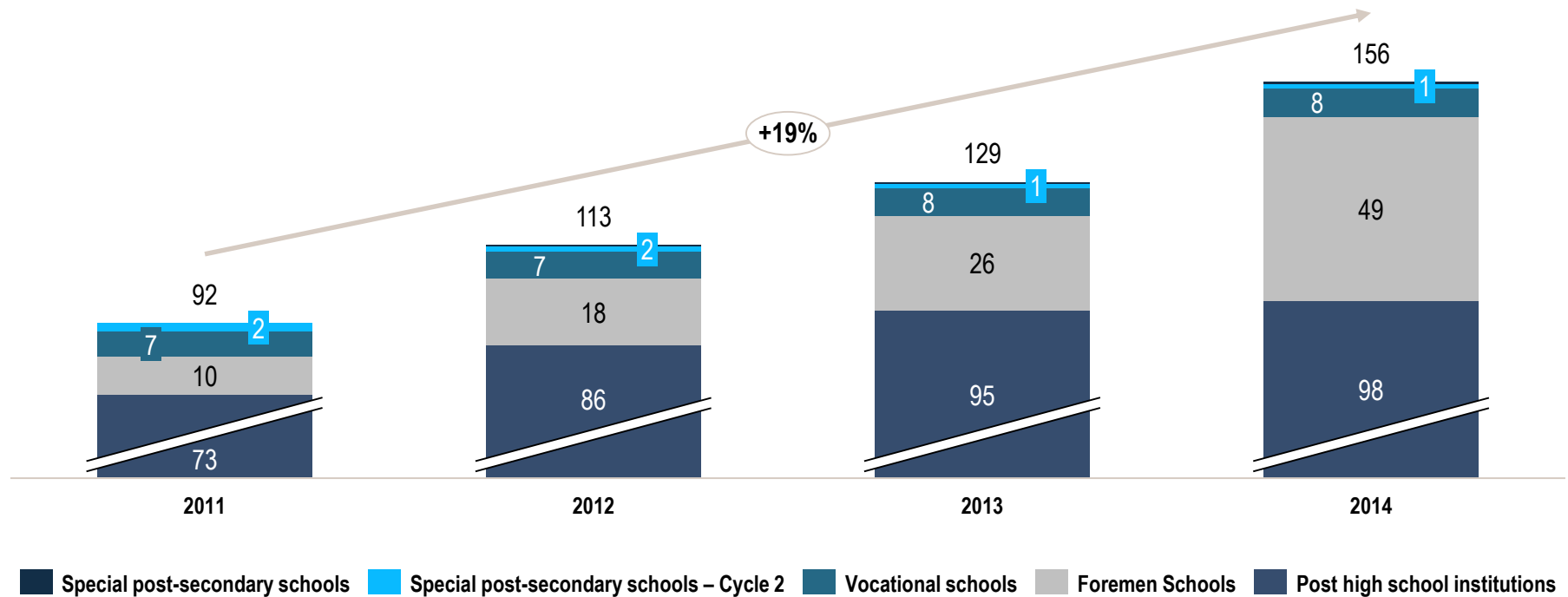
2.2 Labor costs & taxes

2.3 Energy prices

2.4 Government support

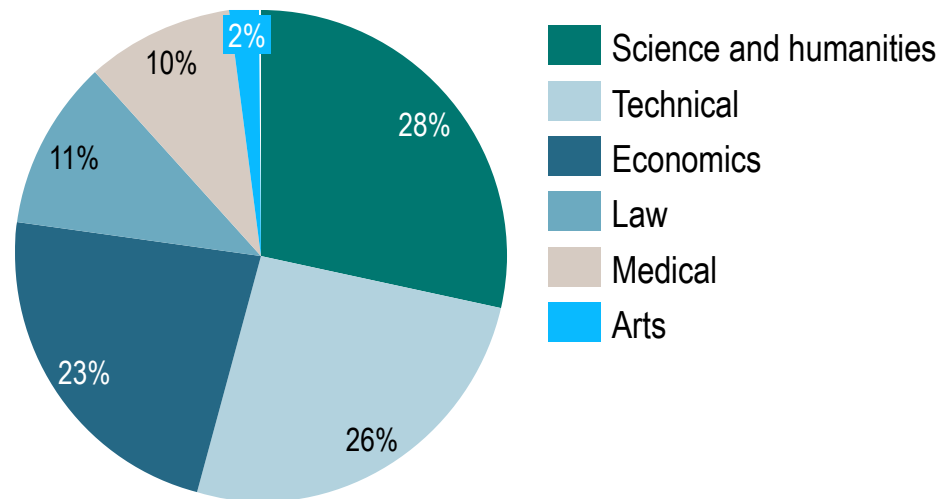
Enrolment in professional education has risen constantly, which translates to a shorter transit from the classroom to the workplace

Students enrolled in professional schools in Romania ['000]

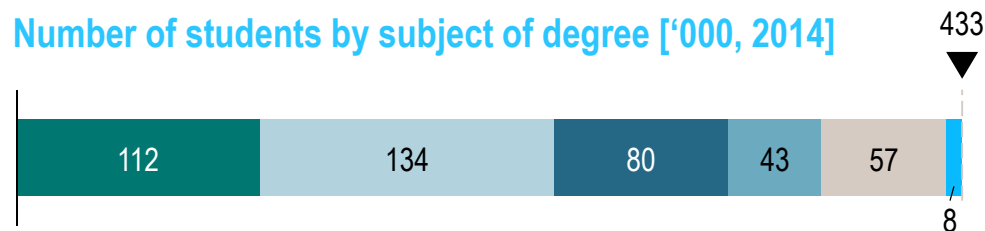


Over a 25% of graduating students will have a technical degree, followed by approx. another quarter in business and economics

University grads by subject of degree in 2014 [%]



Number of students by subject of degree ['000, 2014]



- The quality of education in Romania is recognized internationally, local students consistently ranking in the top 10 in International Olympiad competitions in math and informatics, better than any other country in the EU
- The focus on technical subjects is significant, with the number of engineers/capita – higher than the US, India, China or Russia
- With 5 polytechnic universities, 59 domain specific universities and 174 private colleges, the most successful students tend to pick high tech industries, such as IT – the local education system supplies over 7,000 IT&C engineers every year
- 99% of Romanian students learn two or more languages in upper secondary education

* Includes: mathematics, physics, biology, chemistry, geography, journalism, history, political and administrative science, philosophy

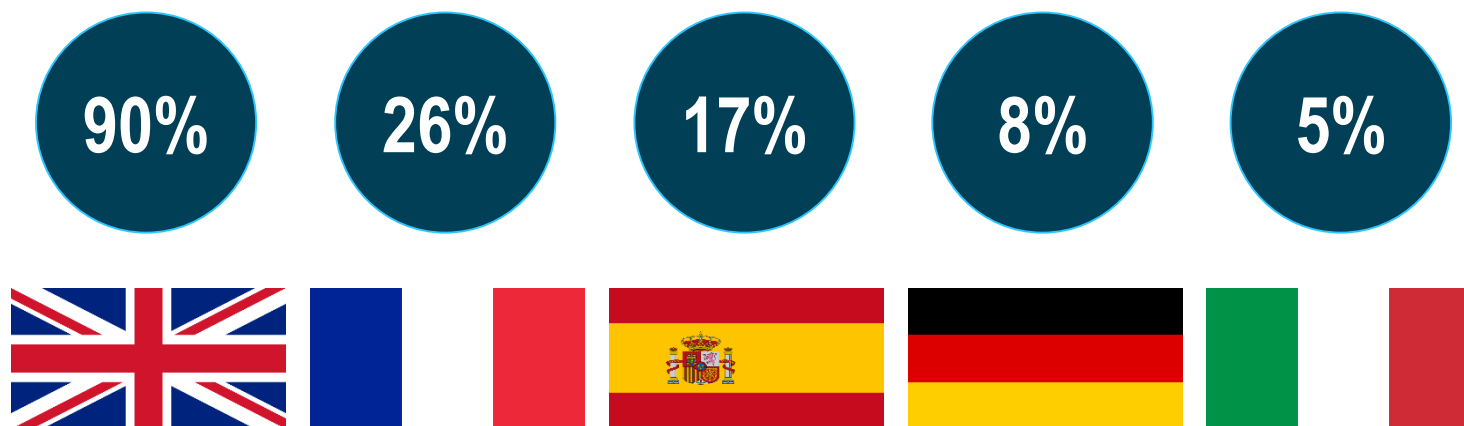
9 out of 10 university students are proficient in English, as a result of the fact that almost all students study 2 languages in high school

Language studied by Romanian high school students (2014 data)

97%

- 97% of Romanian high school students study 2 or more foreign languages while in secondary education
- The predominant languages are English, French, German and Spanish, yet initiatives for teaching Japanese, Nordic languages or the entire Latin language family (Spanish, Italian, French) exist

University students in Romania are proficient in [% of total]:



The top university centers in Romania are Bucharest, Cluj – Napoca and Iasi, followed by Timisoara, Sibiu, Brasov and Constanta



- = City >100,000 inhabitants
- = City 50,000 – 100,000 inhabitants

Top 3 University Centers

Bucharest - 33 Universities
Cluj - 10 Universities
Iasi - 10 Universities

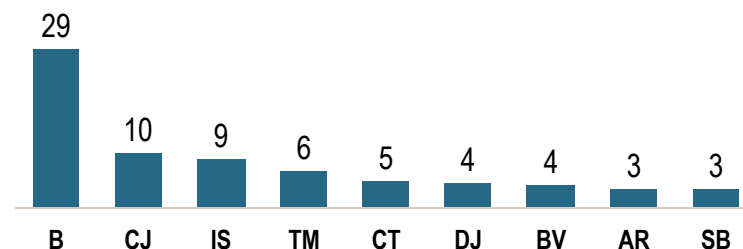
Human Capital Index

Human Capital Index 2015 - Rank 39
Upper-middle income Country - Rank 3

Age group rankings

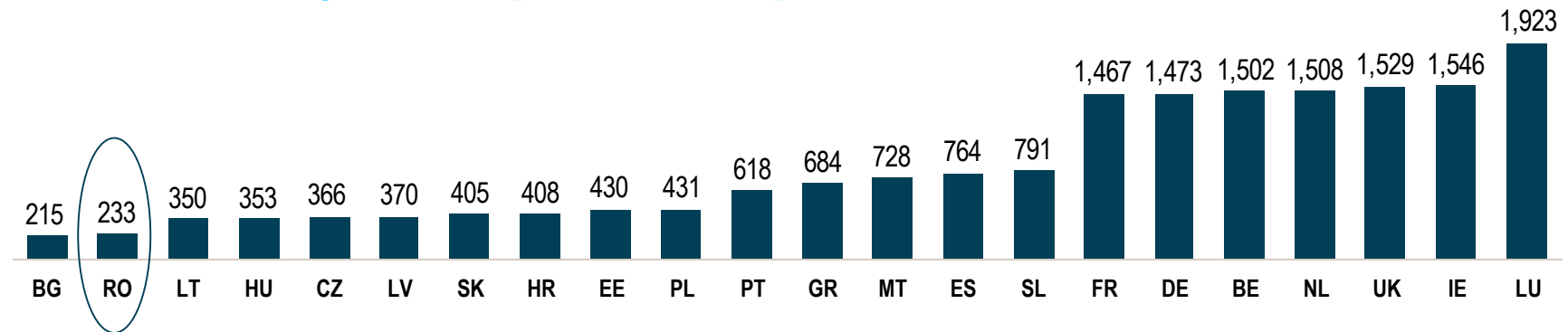
15 – 24 Rank 45	25 – 54 Rank 36	55 – 64 Rank 29
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Number of graduates by University Center ['000]

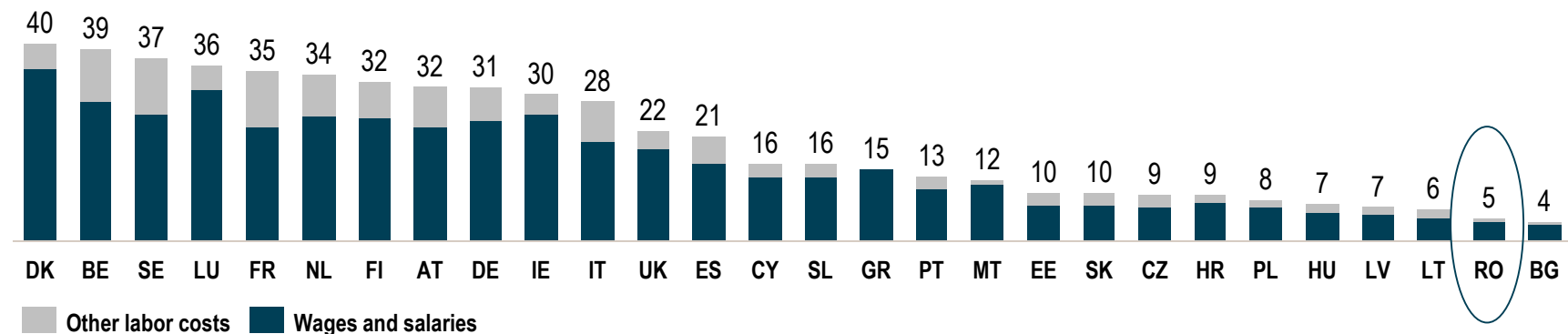


Romanian labor costs are some of the lowest in the EU, maintaining a competitive position relative to member states

National minimum wages in the EU [EUR/ month, 2016]*



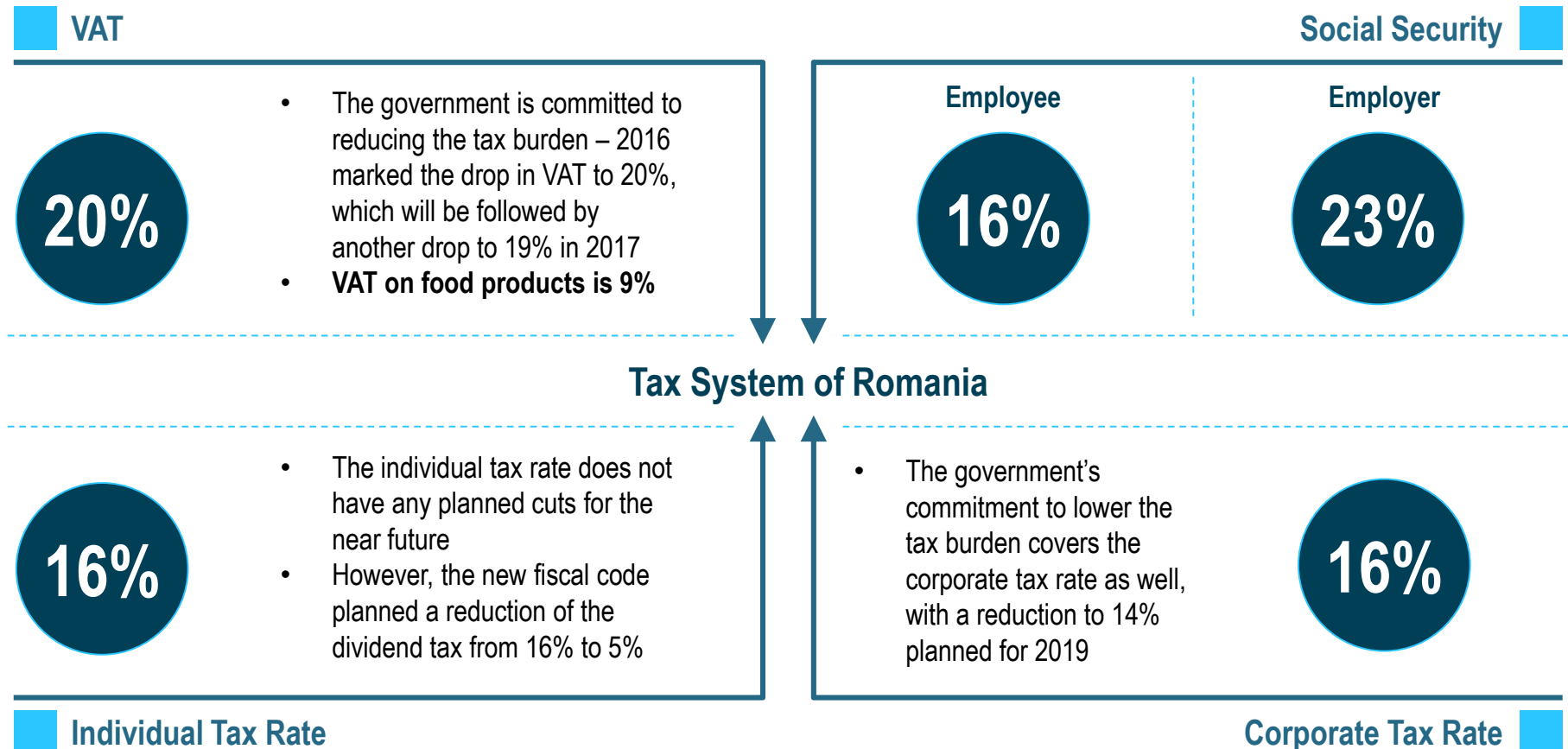
Estimated average hourly labor costs [EUR/ h, 2014]**



* Denmark, Italy, Cyprus, Austria and Finland have not implemented a national minimum wage; ** Enterprises with 10 or more employees

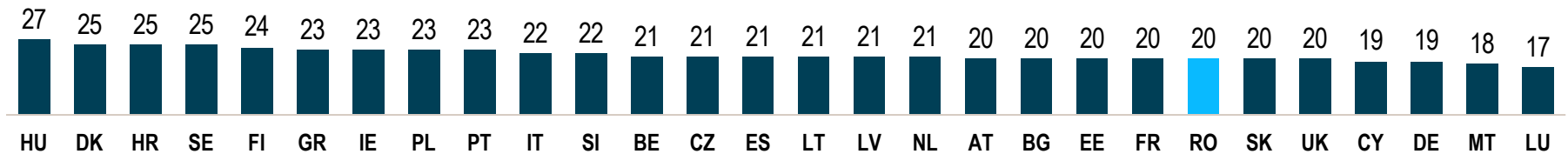
With the local taxes already low compared to European peers, the government plans future tax cuts through the new fiscal code

Overview of the Romanian tax system

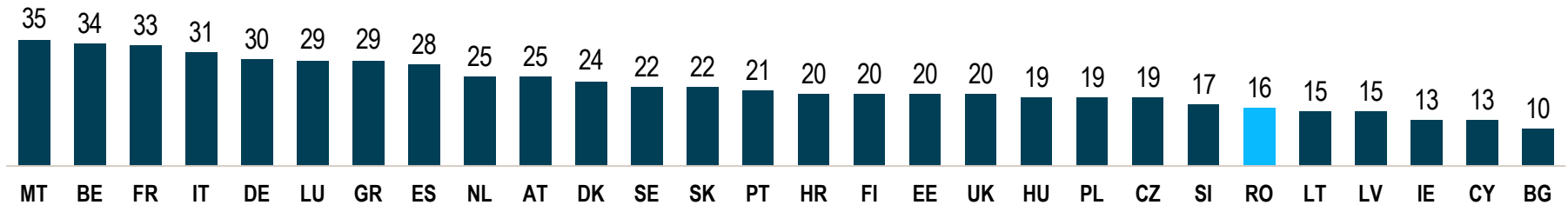


The taxes are some of the lowest in the EU, with planned policies aiming to reduce them even further in the favor of businesses (1)

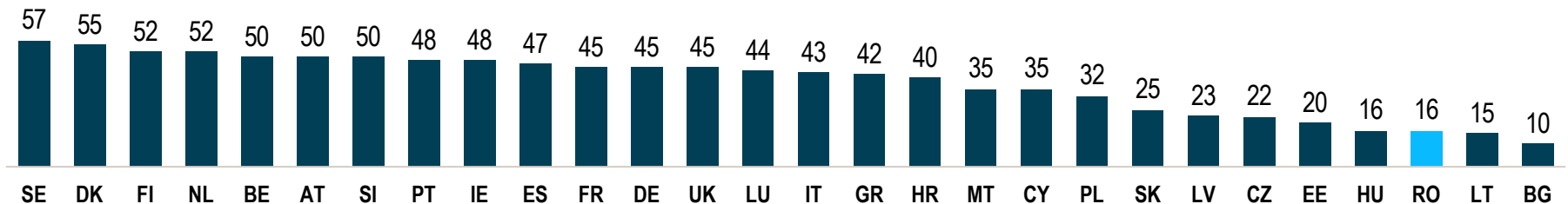
VAT in the EU [2015, %]



Corporate tax rate in the EU [2015, %]

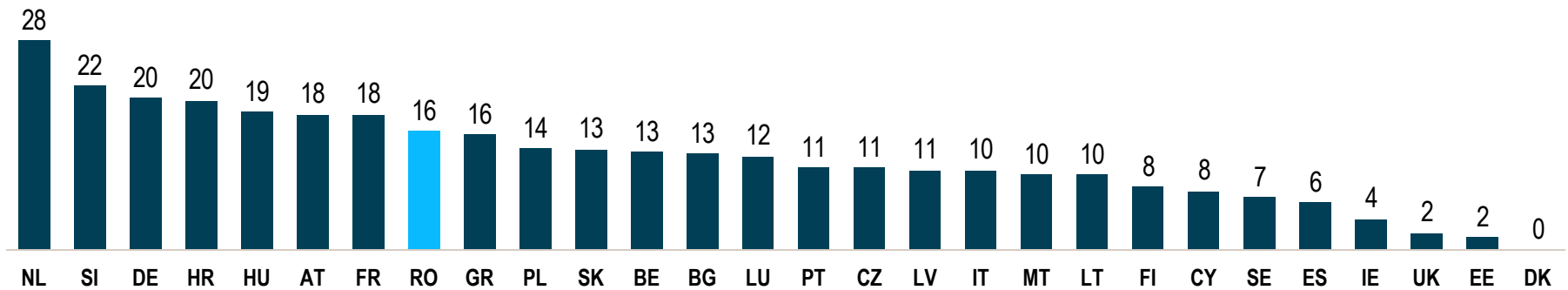


Individual tax rate in the EU [2015, %]

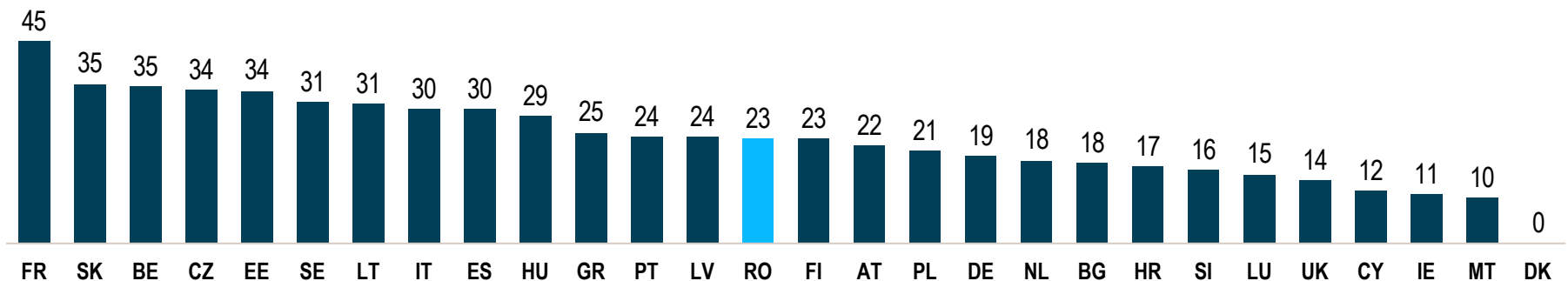


The taxes are some of the lowest in the EU, with planned policies aiming to reduce them even further in the favor of businesses (2)

Employee social security in the EU [2015, %]

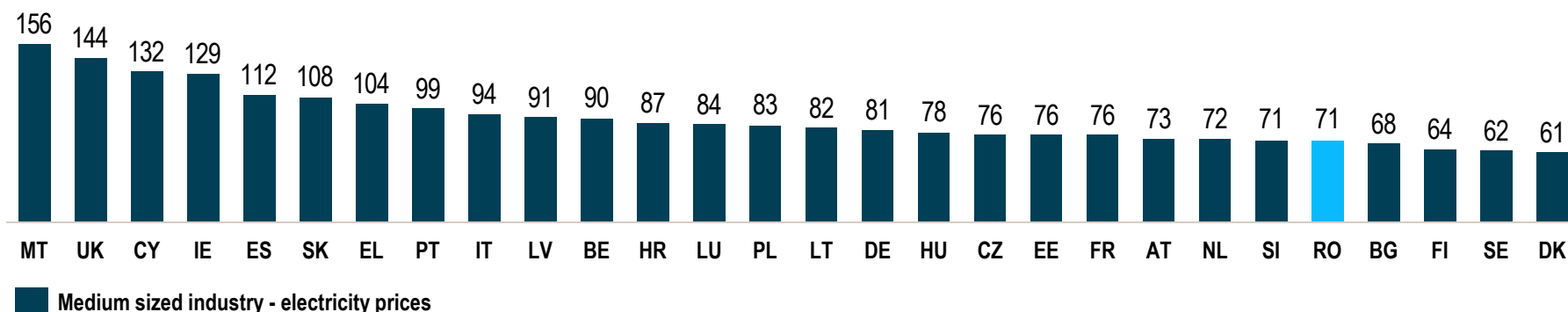


Employer social security in the EU [2015, %]

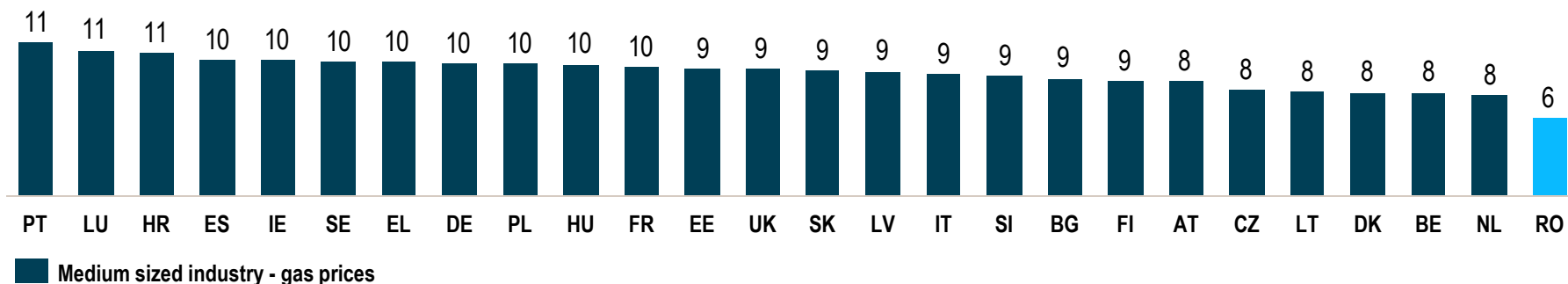


Romania has some of the lowest energy prices in the EU, marginally diminishing the cost base for energy intensive manufacturers

Electricity prices in the EU [EUR / 1000 kWh, 2015]

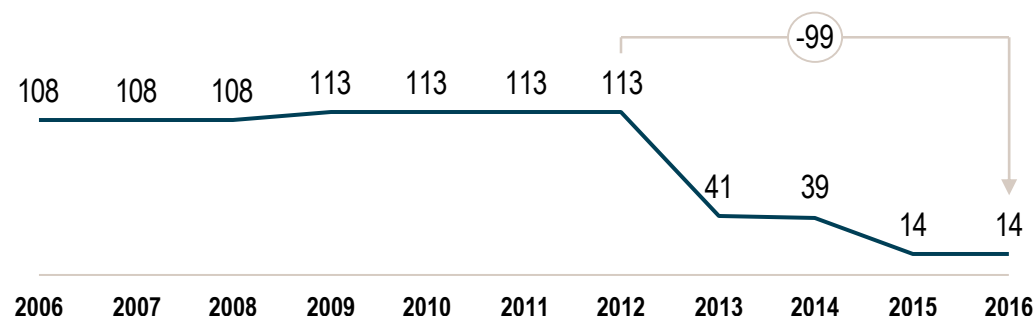


Gas prices in the EU [EUR / gigajoule, 2015]



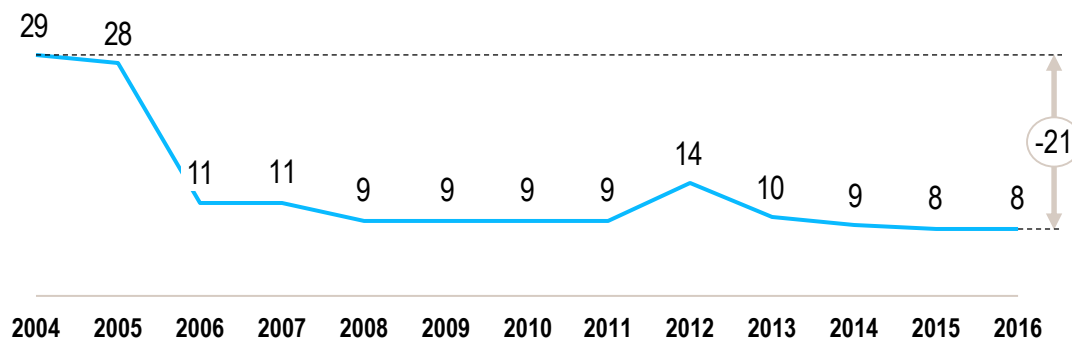
The government is showing more and more support to the private sector, implementing pro-growth policies to support entrepreneurs (1)

Number of payments required to cover tax costs per year



- From a tax perspective, the number of payments/ year required to fulfil fiscal obligations has dropped dramatically, from 113 in 2012 (historic maximum) to just 14 in 2016
- Coupled with a tax system that is one of the most friendly in the EU, a more accessible tax system is the next step for growth

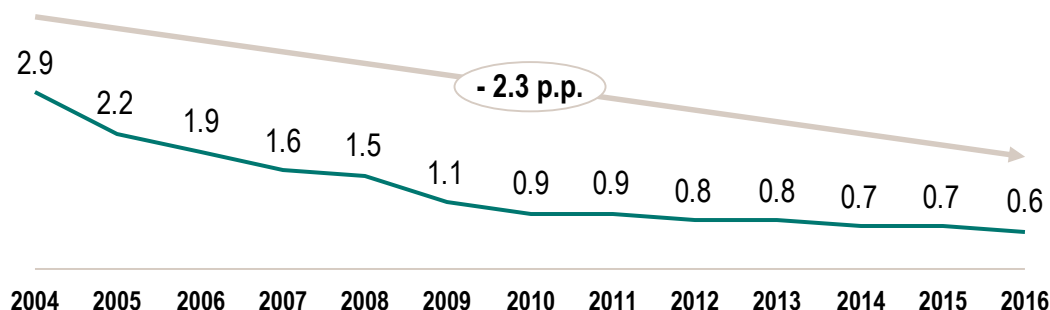
Number of days required to start a business in Romania



- In order to support entrepreneurs, the Romanian government has also simplified the process of opening up a business, reducing the necessary time from 29 days in 2004 to a little over a week in 2016
- For the short, medium and long term, the government is committed to aiding emerging entrepreneurs

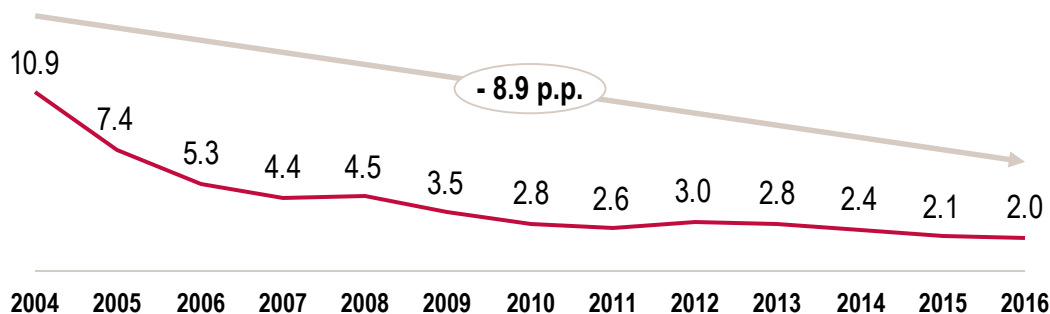
The government is showing more and more support to the private sector, implementing pro-growth policies to support entrepreneurs (2)

Paid-in minimum capital [% of income per capita]



- The pro-growth policy has further implications in the Romanian business environment, with the necessary paid-in minimum capital decreasing by 2.3 percentage points since 2004, reaching a minimum historical value of 0.6% of income per capita

Cost to start a business [% of income per capita]



- Overall, the cost to start a business in Romania has decreased by about 9 percentage points every year since 2004, reaching 2% in 2016, the lowest recorded value
- The pro-growth policy is still being implemented, with further tax cuts and aids being developed by the government

Fiscal incentives are aimed at leveraging the local technology and R&D capabilities by incentivizing investors and employers (1/2)

Fiscal incentive

Exemption from profit tax

Short description

- 16% profit tax exemption for the reinvested profit in new technological equipment used for business purposes

Income tax exemption for IT&C employees

- An exemption on the 16% income tax is available in Romania for employees activating in IT, under conditions including:
 - Bachelor's degree in one of the 14 technical specializations available
 - Employee is hired on a software engineer/ programmer/ software analyst position
 - Annual revenue per exempted employee must be over USD 10 000

Deduction of R&D eligible expenses

- Eligible R&D expenses include: depreciation of R&D equipment, salaries for R&D personnel
- 50% of these expenses can be deducted from the taxable income

Accelerated depreciation of machinery, equipment and real estate used for R&D purposes

- A deduction of 50% from the fiscal value of the assets during the first year of use, while the remaining value may be depreciated linearly along the expected remaining lifespan
- Accelerated depreciation can be used also for equipment and/ or for research and development activities
- If a company benefits from exemption of the income tax for reinvestment it will not benefit from accelerated depreciation

Fiscal incentives are aimed at leveraging the local technology and R&D capabilities by incentivizing investors and employers (2/2)

Fiscal incentive

Foreign tax credit

Short description

- International income derived by Romanian residents is tax exempted under the following conditions:
 - There is a valid tax treaty between Romania and the relevant jurisdiction (from where the income is derived by the Romanian resident)
 - The interested party (taxpayer) can demonstrate that income tax was paid abroad on the respective income
 - The tax credit cannot exceed the Romanian tax applicable for the respective income

Industrial parks incentives

- Investors that set up manufacturing locations or offices in an industrial, scientific or technological park benefit from
 - Exemption on land, building and urban planning tax
 - Taxes charged for changing land destination


Facilities for people with serious disabilities

- Income received by people with serious disabilities can benefit from income tax exemption (e.g., for salary income, income from freelancing activities)


In a competitive market employment incentives are designed to maximize productivity of the available human resource

Employment incentives

Hiring young graduates for undetermined periods.
The incentives are granted to the employer on a monthly basis for a period of one year.



Hiring unemployed individuals with the age over 45 (for an undetermined period).
The incentives are granted to the employer on a monthly basis for a period of one year.



For both types of incentives the employers will have to take into consideration that they have to maintain working relations for 18 months.

In case of termination the employment contract before this period, the employer will return the incentive if the contract was terminated in the following conditions:

- Termination of the employment contract due to cancellation of the employees position in the company for reasons which are not related to the employee;
- In case the employee does not correspond professionally to the job he has been assigned;
- Nullity of the employment contract observed by the parties agreement or by a court decision; In case that job is occupied again by a person that was illegally fired.

State aid in Romania can be executed through 4 main methods, each being employed by various state aid schemes

- **State Resources transfer**

- Grants
- Fiscal benefits
- Guarantees

- **Selectivity**

- Oil reserves (with 600 million barrels)
- Export growth rate of R&D services
- Energy independence

State Aid policy in Romania has been developed according to EU Law in order to facilitate and stimulate foreign investment in the country

- **Economic Advantage**

- Renting or buying property from the state under the market price
- Subsidies for salary costs
- Access to infrastructure tax-free

- **Effect upon market competitiveness and trade**

- If EU law is obeyed, the skewing effect is drastically reduced, according to the Competition Council

With a budget of EURm 600 for the next 6 years, the two schemes for regional state aid aim to support value adding investments

	GD 2014/ 807	GD 2014/ 332
Aim	<ul style="list-style-type: none"> To support minimum investments valued at EUR 10 million 	<ul style="list-style-type: none"> The creation of at least 10 jobs per location, out of which 3 jobs are for unfavored workers
Eligible Costs	<ul style="list-style-type: none"> Construction of new buildings Renting costs for existing buildings CAPEX aimed at technical installations and tools Acquisition of intellectual property 	<ul style="list-style-type: none"> Salary costs registered for a 2 consecutive year period resulted as a direct consequence of the investment Salary costs are comprised of gross annual salary plus benefits
Budget	<ul style="list-style-type: none"> Total budget for the two schemes is EUR 600 million, with annual investments projected at EUR 100 million 	
Payout	<ul style="list-style-type: none"> 2015 – 2023 	<ul style="list-style-type: none"> 2015 – 2025

- The two schemes offer state aid in the form of non reimbursable grants from the state budget, capped by the limit of maximum intensity approved according to the regional map

Eligibility criteria for companies concern their financial health and their capacity to see the investment project through

Eligibility Criteria for Companies (common)

Eligibility Criteria for Companies (separate)

GD 2014/ 807

- Are registered according to company law no. 1990/31
- Execute an investment in one of the eligible sectors
- Do not have outstanding debt from the general consolidated budget
- Are not registered as enterprises in difficulty or are not debtors in an enforcement or insolvency proceeding, nor are they suspended from activity
- Are not part in a state aid recovery proceeding
- Have not benefited from regional state aid for eligible costs in the same investment project
- Have not closed a similar or even identical enterprise in the European economic area in the past two years and do not plan to do so for the next 2 years after the execution of the initial investment

- Net profitability for existing companies: > 0%
- Equity for new companies: >= RON 100,000

GD 2014/ 332

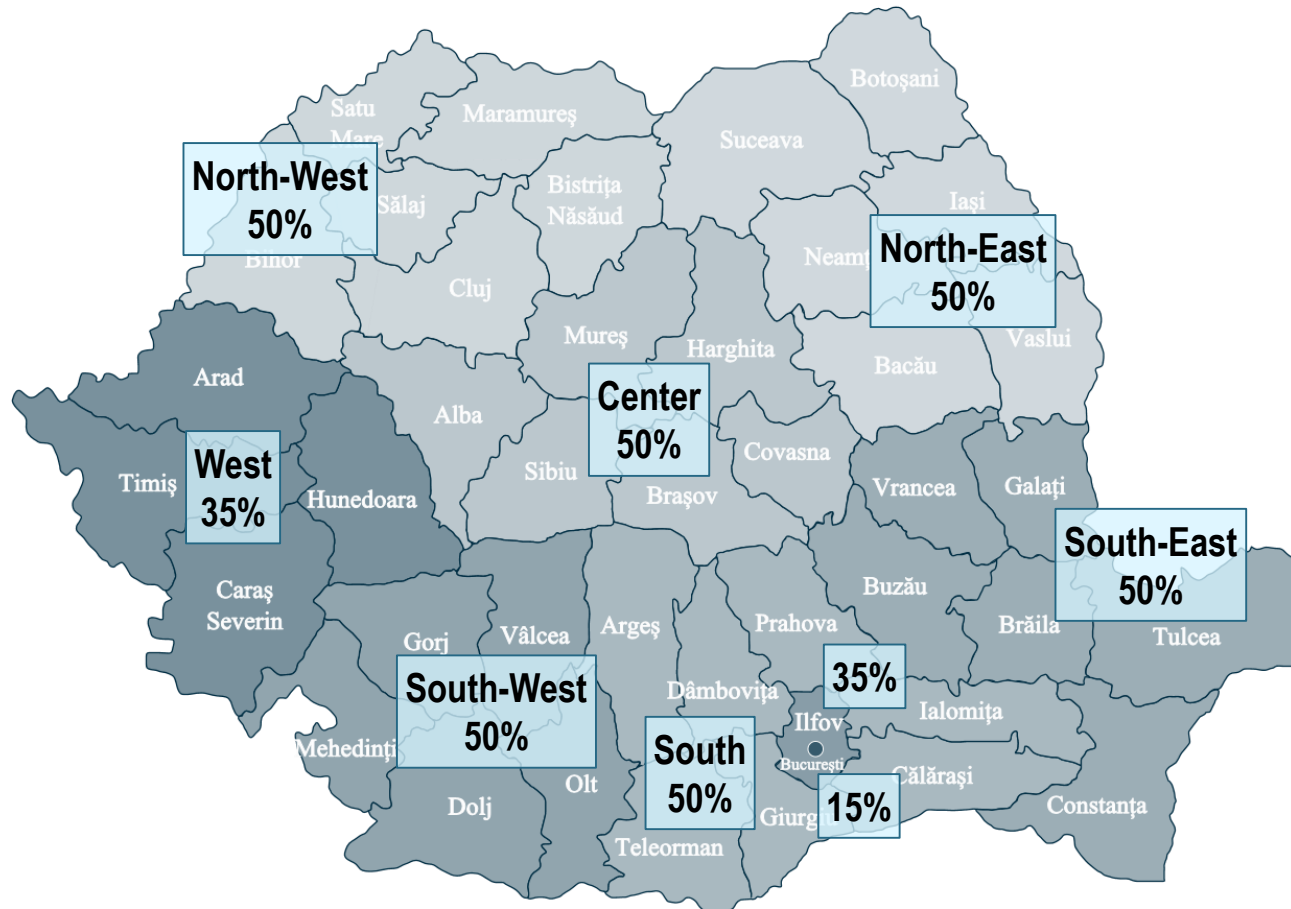
- Net profitability for existing companies: >1%
- Equity for new companies: >= RON 30,000

- In the case of GD 2014/ 807, payout occurs after all or part of the eligible expenses have been covered
- In the case of GD 2014/ 332, payout occurs on a quarterly basis, after all or part of eligible expenses have been covered

There are also eligibility criteria pertaining to the project itself, such as its value and viability over the short, medium and long term

	GD 2014/ 807	GD 2014/ 332
Eligibility Criteria for Investments (common)	<ul style="list-style-type: none"> To be considered initial investments In the case of large companies in the Bucharest region, investments must also develop new economic activities within the local ecosystem 	
Eligibility Criteria for Investments (separate)	<ul style="list-style-type: none"> Minimum value: EUR 10 million To be viable and determine the operational efficiency of the company To prove the stimulating effect of state aid To generate contributions to regional development To facilitate extra investment in the region 	<ul style="list-style-type: none"> To lead to the creation of 10 new jobs per investment location, out of which 3 positions to be covered by unfavored workers To be viable and determine the operational efficiency of the company

The intensity of state aid varies according to the region, varying from 15% (in Bucharest) to 50% in most of the country



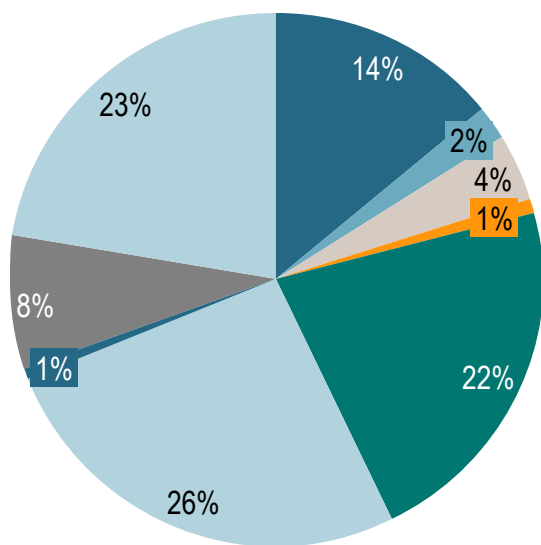
State aid intensity, according to development region:

- North West – 50%
- North East – 50%
- South East – 50%
- South – 50%
- South West – 50%
- West – 35%
- Ilfov County – 35%
- Bucharest – 15%

- State aid intensity is established as per EU and national regulations and is subject to change according to EU law on the matter
- Development regions of Romania represent a split of counties into larger regions in order to technically better target development programs and policies

European Structural and Investment Funds (ESIF) offer support for risk averse investors targeting low volatility sectors

Budget distribution on programs [%]



In total more than €30 billion in funding will be provided during the 2014-2020 Partnership Agreement

- ESIF will be provided through 5 programs
 - European Agricultural Fund for Rural Development (EAFRD)
 - European Maritime and Fisheries Fund (EMFF)¹⁵
 - European Regional Development Fund (ERDF)
 - European Social Fund (ESF)
 - Cohesion Fund (CF)
- More than €1 billion allocated to R&D and innovation (TO1), supporting the national target of 2% of GDP invested in R&D (against 0.49% in 2012)
- €3.9 billion to be invested to support the shift to low carbon economy
- €22.4 billion for Cohesion Policy (ERDF, ESF, Cohesion Fund)
- Cohesion policy will be delivered by 8 operational programs

ERDF CF ESF+YEI ESF ERDF Comp ERDF TA ERDF REG EARDF EMFF

The Investment Plan for Europe (Juncker Plan) can be a very effective financing tool for riskier projects through the EFSI*

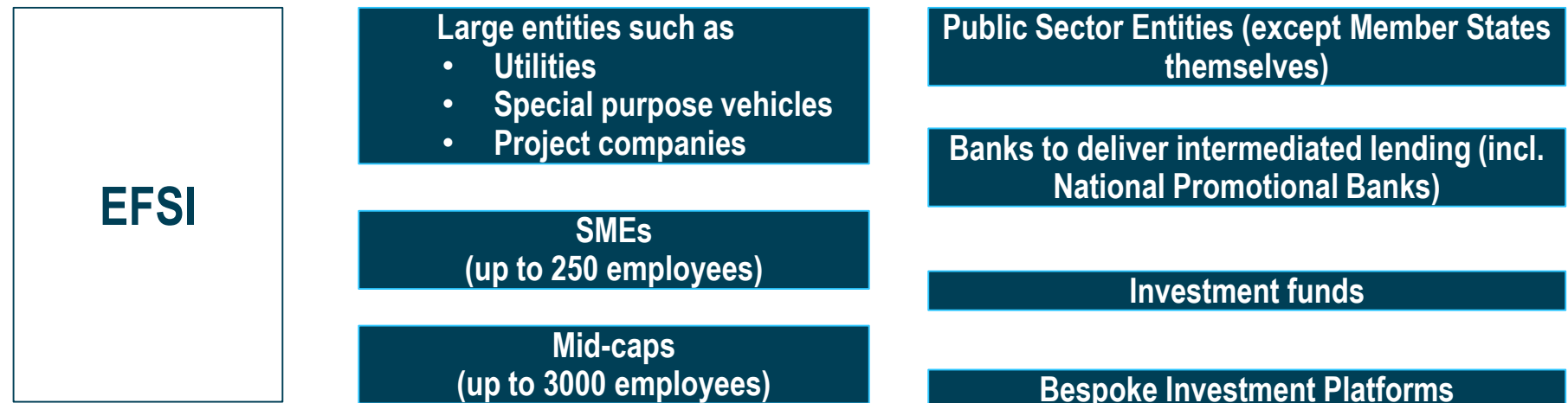
EFSI investment thesis outline

SECTORS	COMPANIES	POLICY
<ul style="list-style-type: none"> • The EFSI will target specific sectors, including: <ul style="list-style-type: none"> – Infrastructure – Education – Research – Innovation – Renewable energy – Energy efficiency 	<ul style="list-style-type: none"> • The companies targeted by the EFSI for investment must fall into one of the following two categories: <ul style="list-style-type: none"> – Small and medium enterprises (250 employees maximum) – Mid-caps (250 to 3000 employees) 	<ul style="list-style-type: none"> • Companies will also have to facilitate the following objectives: <ul style="list-style-type: none"> – Promote job creation – Long term growth – Competitiveness
<ul style="list-style-type: none"> • Besides the three filters, the criteria on which investment decisions are based include: <ul style="list-style-type: none"> – Economic viability with the support of the initiative – Sufficiently mature character in order for the business to be appraised on a global or local basis – Consistency with EU policy priorities and value adding character at European level – Maximization of private sector financing • Projects do not have to be cross border 		

* EFSI = European Fund for Strategic Investment is a EUR 21 billion guarantee fund and core of the Investment Plan for Europe dedicated to facilitating private investment across the EU

However, it is not only companies that can apply for EFSI financing; investment funds, public sector entities or banks are also welcome

Entities that can apply for EFSI financing



- There are two main ways to apply for EFSI financing:
 - Through direct contact of the EIB with the proposal, following the usual application on the EIB website for the strategic investment window – the government is not a gatekeeper in this process
 - Through the EIF financial intermediaries (dedicated to SMEs and mid-caps)