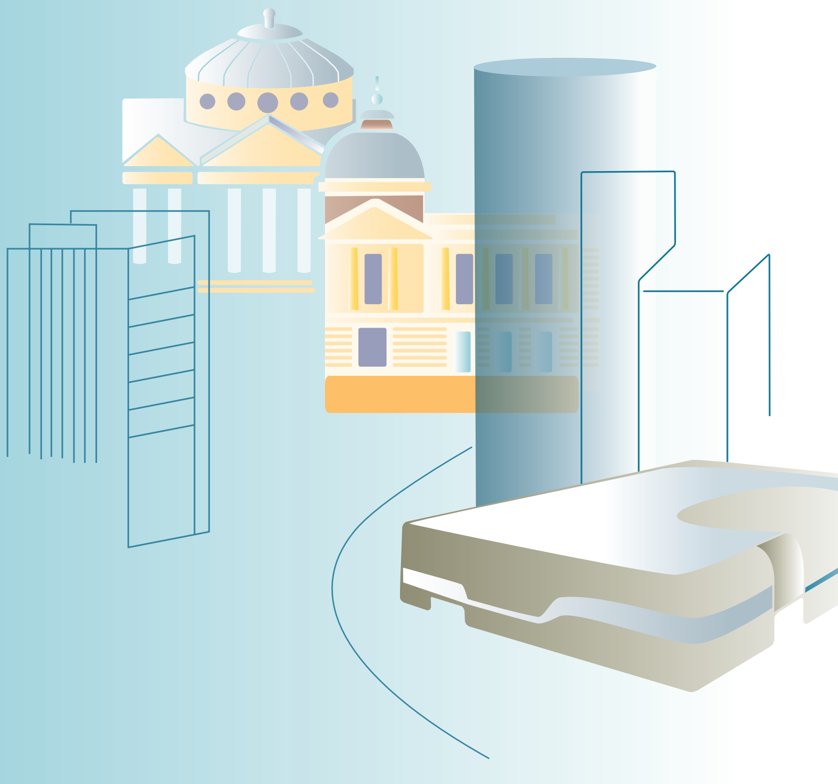
STRATULAT ALBULESCU
ATTORNEYS AT LAW

BUSINESS OPPORTUNITIES IN ROMANIA

MARKET OVERVIEW 2018



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INTRODUCTION

Welcome to our new edition of
Business Opportunities in Romania: Market Overview

Our country has enjoyed considerable growth over the past few years and investors, both at home and abroad, are discovering that Romania is one of Europe's most attractive places to do business. From our thriving and globally important IT sector to the boom in real estate, the opportunities are many for those seeking the best returns.

The risk of writing an annual update about economic conditions in Romania—or in any market for that matter—is that conditions may not vary much from year-to-year, and that might have been the case with Romania. However, this is a case that we will gladly take, for as you will learn reviewing our report, conditions in Romania continue on the track from very good to even better. In 2018, Romania is forecast to have a GDP increase of 3,7%. This means that in the sectors that we discuss below, Romania will remain an attractive investment locale because of its growing domestic market as well as its ability to provide goods and services competitive in the global economy.

Of course, as a law firm dedicated to serving businesses and investors in Romania, these prospects excite us. While all of us are too experienced to buy into any claim of a “sure thing” or “can’t miss” investment, with prudent investment strategies and sound local guidance (that’s where we can help), investors can act with a level of confidence which allows them to sleep soundly at night.

Please give our **Market Overview**, Romania, and our firm a careful look. We believe that our nation and our firm have a lot to offer for those who want to share in our enterprises. Please contact me or my very capable colleagues about any questions you have about investing and operating in Romania. We are here to help, and we look forward to hearing from you.

Silviu Stratulat
Managing Partner
Head of Corporate and M&A

I. INVESTMENT AND BUSINESS OPPORTUNITIES IN ROMANIA

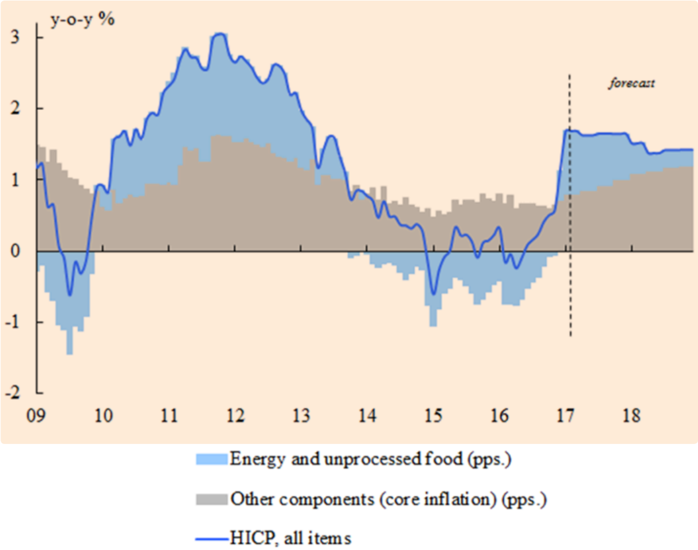
Having proven resilient to global challenges last year, the European economic recovery is expected to continue this year: for the first time in almost a decade, the economies of all EU Member States were expected to grow throughout 2018. Real GDP in the euro area has grown for 15 consecutive quarters, employment is growing at a robust pace and unemployment continues to fall, although it remains above pre-crisis levels. Private consumption is still the engine of the recovery. Investment growth continues but remains subdued.

In its Winter Forecast released in 2017, the European Commission expects euro area GDP growth of 1.8% in 2018. This is slightly revised up from the Autumn Forecast (2018: 1.7%) on the back of better-than-expected performance in the second half of 2016 and a rather robust start into 2017. GDP growth in the EU as a whole should follow a similar pattern and is forecast at 1.8% this year (Autumn Forecast: 2018: 1.8%).

Inflation to pick up

Inflation in the euro area has recently picked up as the past drop of energy prices has recently given way to an increase. Having been very low over the past two years, inflation is now set to reach higher levels this year and next, though still short of the target of "below, but close to 2% over the medium term" defined as price stability. Core inflation, which excludes volatile energy and food prices, is set to rise only gradually. Overall, inflation in the euro area is expected to increase from 0.2% in 2016 to 1.4% in 2018. In the EU, inflation is forecast to rise from 0.3% to 1.7% in 2018.

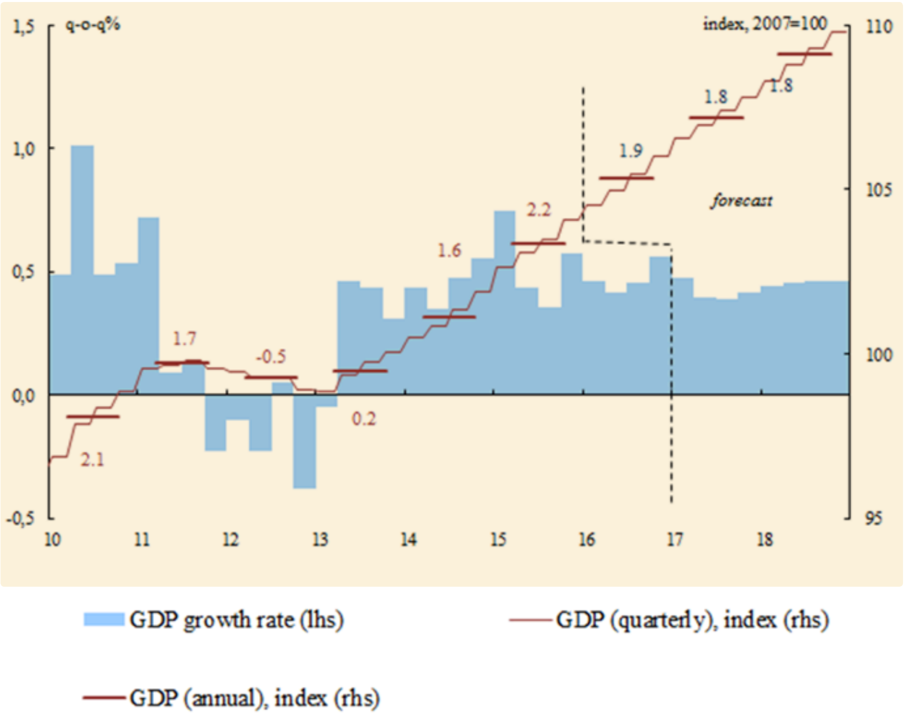
Inflation Breakdown, Euro area
Source: ec.europa.eu/eurostat



Domestic demand to remain the backbone of economic growth

Private consumption is set to remain the main growth driver, supported by sustained improvements in employment and a rise in nominal wage growth. However, with inflation rising and limiting the growth of household purchasing power this year and next, private consumption growth is expected to slow.

Investment is set to continue growing but only moderately, supported by a number of factors such as very low financing costs and strengthening global activity. Projects financed under the Investment Plan for Europe should increasingly support private and public investment as they move from approval to implementation. Overall, investment in the euro area is forecast to grow 3.4% in 2018 (3.1% in the EU), up 8.2% by now since the start of the recovery in early 2013. However, the share of investment in GDP remains below its value at the turn of the century (20% in 2016 compared to 22% in 2000-2005). This persistent weakness in investment casts doubt over the sustainability of the recovery and the economy's potential growth.

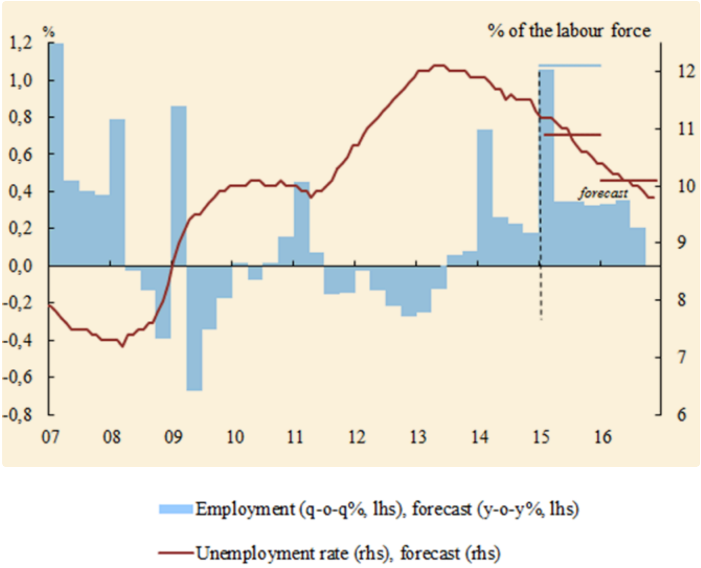


Real GDP, EU

Source: ec.europa.eu/eurostat

Further employment growth helps to lower unemployment
The economic recovery continues to have strong positive effects on labor markets, following extensive structural reforms in several Member States. Employment growth is projected to remain relatively solid, albeit slightly less dynamic in 2018 than last year. The unemployment rate in the euro area is forecast to decline further, from 10.0% in 2016 to 9.1% in 2018. In the EU as a whole, unemployment is expected to fall from 8.5% in 2016 to 7.8% in 2018. These are the lowest unemployment figures since 2009 but remain above pre-crisis levels.

Employment Growth and Unemployment Rate, EA
Source: ec.europa.eu/eurostat

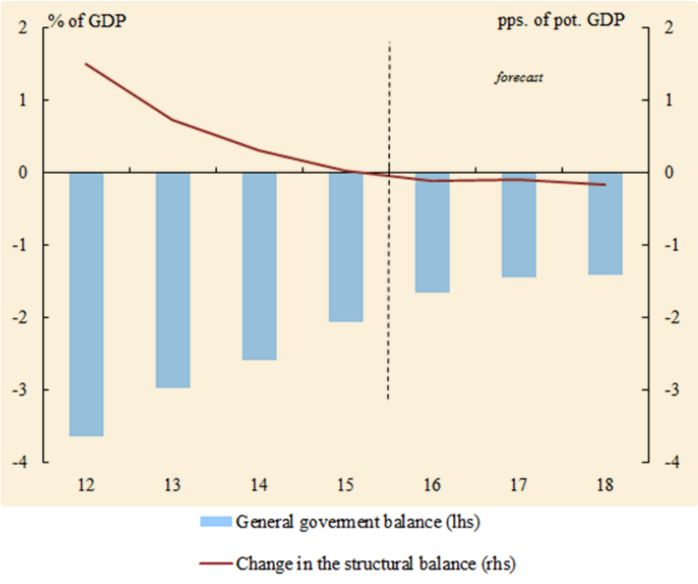


Sovereign debt and public deficits decline

The aggregate euro area public deficit and the government debt-to-GDP ratio are expected to fall further in 2018. The public deficit for the euro area is expected to decline from 1.7% of GDP last year to 1.4% in 2018. This decline reflects lower interest spending due to exceptionally low interest rates. It also reflects further improvements in the labour market: more people are paying taxes and contributions, and fewer are receiving social transfers. The debt-to-GDP ratio is expected to diminish gradually from 91.5% in 2016 to 89.2% in 2018.

Budgetary Developments, Euro Area

Source: ec.europa.eu/eurostat



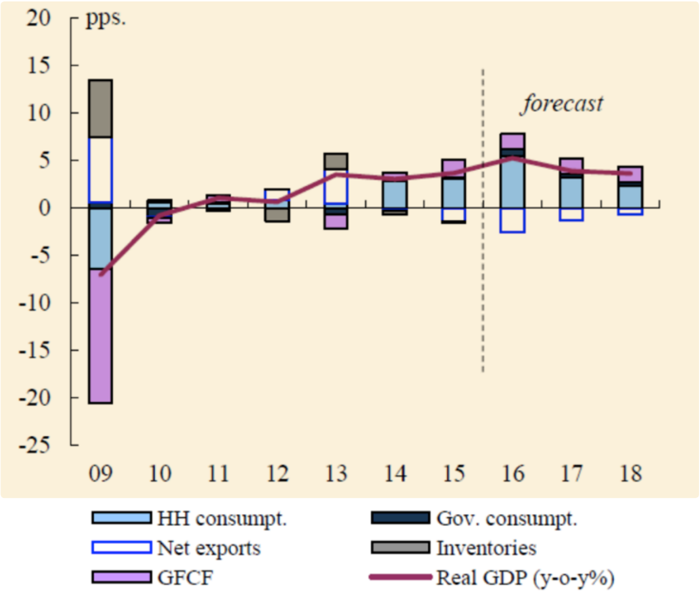
All Member States' economies expand

For the first time since 2008, the Commission's forecast points to economic growth across all EU Member States for the entire forecasting period (2016, 2017, 2018). Even those Member States most hit during the recession are also expected to have returned to growth last year. The impact of the US dollar's appreciation and higher long-term interest rates could, however, increase the differences in growth rates among Member States.

Real GDP in Romania was estimated to have grown by 4.9% in 2016, a new post-crisis high. Growth was driven by fiscal stimulus and supported by successive increases of the minimum wage and public-sector wages, which pushed up private consumption growth to 9%. Investment grew by an estimated 5.5%, mostly on the back of private investment, while public investment recorded its weakest year since Romania joined the EU due to the drop-in investment financing from the EU linked to the cycle of EU funding programmes. Net exports subtracted 2.6 percentage points from growth, as robust domestic demand stimulated imports and export growth abated, widening the current-account deficit to 2.2% of GDP in 2016.

Romania's output gap is estimated to have closed in 2016. A new round of fiscal stimuli amounting to about 1% of GDP has been adopted for 2017. With the positive output gap and the

Romania – Real GDP growth and contributions
Source: ec.europa.eu/eurostat



fading impact of previous indirect tax cuts, despite a reduction in the standard VAT rate by one percentage point from January 2017, consumer prices are expected to increase in 2018. Private consumption is expected to grow slightly in 2018 as consumer prices pick up. After a deceleration in 2016, investment growth is projected to speed up over the forecast horizon, with public investment gradually recovering as the implementation of projects financed by EU funds in the 2014–2020 financing period catches up. Real GDP is thus forecast to grow by 3.7% in 2018.

Export growth is projected to gradually accelerate over the forecast horizon as external demand strengthens. However, with strong import growth driven by robust domestic demand, the current-account deficit is forecast to widen to 3.1% of GDP in 2018. Risks to the macroeconomic outlook are broadly balanced.

HICP inflation remained negative in 2016 (-1.1% over the year on average) mainly due to the reduction of the standard VAT rate from January 2016, combined with low imported inflation.
Robust domestic demand, boosted by the additional 16% increase of the minimum wage in February 2017 should result in a positive output gap and inflation picking up. Annual average inflation is therefore forecast to increase further to 2.9% in 2018. Risks to the inflation outlook are tilted to the upside by the combination of strong domestic demand with a positive output gap, growing wages and increasing international oil prices.
Unemployment is approaching pre-crisis low. The labour market continued to improve on the back of strong economic growth. The unemployment rate fell to an eight-year low in 2016. Low unemployment, combined with a shrinking labour force and persistent skills shortages, led to a tighter labour market and economy-wide wage increases. Total employment decreased slightly in 2016 as the decline in self-employment more than offset the increasing number of employees. In 2018, total employment is forecast to grow driven by strong eco-

nomic growth, while the unemployment rate is projected to continue declining. With the hikes in the minimum wage and public wages adopted in 2017, unit labor costs are expected to increase over the forecast horizon.

The general government deficit is widening

In 2017, the budget adopted by the new government contained a number of other tax cuts (in particular, tax exemptions for pension income) as well as expenditure increases such as a significant increase in old-age pensions and public wages. The general government headline deficit is projected to further widen to 3.9% of GDP in 2018, due to the full-year effect of the significant increase in old-age pensions scheduled for July 2017. As a consequence of the fiscal easing, Romania's structural deficit is forecast to increase around 4% in 2018. Despite strong GDP growth, Romania's debt-to-GDP ratio is thus projected to rise to 42.3% in 2018 as a result of the loosening in the fiscal position.

Macroeconomic developments and risks

Driven by strong domestic demand, Romania was one of the best performing economies in the EU in 2016, growing by 4.8 per cent. This strong performance has continued in 2017, with growth of 7 per cent in the first three quarters. Private consumption has been the main driver of growth, supported by a pro-cyclical fiscal policy including cuts in VAT and other consumer taxes. Alongside fiscal policies, strong wage growth and low unemployment, at a seasonally adjusted 5.1 per cent in August 2017, also influenced consumption growth. Investment has also started to pick up in the third quarter, following sluggish growth earlier in the year. Despite growing demand from key export markets such as Germany, net exports constituted a drag on growth in 2017 as rising domestic demand drove up imports.

Overheating risks are becoming evident as inflation surges, raising the prospects of monetary tightening in 2018. Tightening labour market and rising household demand drove inflation to 3.2 per cent in November, the highest figure since August 2013 and just short of the Central Bank's upper target of 3.5 per cent. The bank has started to take steps towards tightening its monetary policy since October, tightening the interest rate corridor around its historically low policy rate of 1.75 per cent, and is expected to pursue a policy rate hike in early 2018. Liquidity is already tightening as interbank rates reached a three year high of 2.2 per cent in December.

External vulnerabilities are rising but remain modest, while the government's policies will have an adverse impact on the fiscal position. Driven by rising imports, the current account deficit is expected to exceed 3 per cent in 2017, and recent declines in FDI mean that the deficit is no longer covered by FDI inflows, as had typically been the case in the past. The budget deficit is likely to exceed 3 per cent of GDP in 2017 on the back of continued loose fiscal policies, potentially giving rise to an Excess Deficit Procedure (EDP). On the positive side, general government debt is low by regional standards, at 39.2 per cent of GDP.

GDP is expected to be around 4.2 per cent in 2018. Continued strong domestic demand will be supported by the increases in minimum and public-sector wages, and investment should be boosted as absorption of EU funds increases. Growth will slow in 2018 due to weakening of policy stimulus. Downside risks, including prolonged weakness in the Eurozone, changes in global investor sentiment and domestic political and reform uncertainty may hamper growth prospects in the near term. In the longer term, the diversified economy, large market size and scope for convergence within the EU (GDP per capita PPS is only 59 per cent of the EU average) should allow growth rates of around 4 per cent to be sustained, provided structural reforms are undertaken in the areas of privatization, infrastructure, and local capital market deepening.

Structural reforms and priorities

Romania continues to make moderate progress under the Cooperation and Verification Mechanism (CVM). The government adopted an anti-corruption strategy for 2016-2020 and approved a Code of Conduct for government members, while limited progress was made in amending the Criminal Code to align with Constitutional Court rulings. The European

Commission in July 2017 praised Romania's progress in judicial reform and its fight against corruption, though highlighted the need for further reforms.

The investment environment has improved, although challenges remain. Romania ranks better than the regional average (Europe and Central Asia), but lower than most of the EU comparator economies as regards ease of doing business. In the World Bank Doing Business 2018 report, Romania ranks 45th out of 190 countries. According to the EC, public service delivery is hampered by low efficiency of public administration, complexity of procedures and corruption, while red tape, legal uncertainty and judicial inefficiency remain challenging for companies.

State owned enterprises (SOEs) remain dominant in some sectors, with privatisation not being a priority, and this may be impacted by the prospect of a new SWF. SOEs remain dominant players in the energy and transportation sectors, weighing on public finances. Plans for the partial privatisations and initial public offerings (IPOs) for major SOEs such as the Bucharest Airport and Hidroelectrica, the country's biggest electricity producer, have been under discussion for some time and are stalled. The prospective establishment of the Sovereign Wealth Fund for Development and Investment (FSDI), into which it is proposed that the State's participation in profitable SOEs will be transferred, and which would invest in projects in various priority areas, may have a further adverse impact on privatisation plans. At this stage, the structure and objectives of the

FSDI – aside from funding public investment – have not yet been clearly determined.

Challenges in infrastructure remain. According to the Global Competitiveness Report 2017–2018, Romania ranks 102nd (out of 137) in the quality of transport infrastructure, which constitutes one of the weakest areas of its business environment. Similarly, the country has the lowest ranking in the EU in the World Bank's Logistics Performance Index. During 2016, secondary regulations regarding the newly updated public procurement laws were introduced, with a goal to transpose EU directives into national legislation. The new PPP law was approved in December 2016, is currently under revision and a new draft law (including secondary legislation) is expected to be adopted later in the year. Generally speaking, a lack of coordination and strategic planning hampers public investments in infrastructure, while perceptions of corruption and fraud in procurement limit private investments.

The corporate segment of the energy market is fully liberalised, but liberalisation in household segment is slow. The electricity and gas market for corporates is competitive, as liberalisation for this segment was completed in 2014 and 2015. However, liberalisation for the household segment is not set for completion until 2018 for the electricity market and 2021 for the gas market. The sector requires significant investment to diversify its energy sources and enhance cross-border interconnections. The sector also suffers from the dominance of

SOEs and delays in aligning national energy efficiency legislation with EU legislations.

Romania is close to reaching Emerging Market status, which will have a positive effect on investment.
Romania meets most of the criteria required for being upgraded from frontier to emerging market status. Low liquidity is the main limiting factor, which highlights one of the potential benefits to be gained from privatising SOEs through IPOs. An upgrade to emerging market status would result in a significant increase in inflows to Romanian capital markets.
NPLs continue to decline, but remain above the EU average. Banks continue to clean their balance sheets, with NPL sales reaching around 4 billion euros since the adoption of loans resolution measures in late 2014. The NPL ratio declined to 8 per cent in August 2017 (EBA definition), from a peak of 22 per cent at end-2013. NPLs are expected to further decline over the coming year, though remaining above the EU average of 5 per cent. Meanwhile, banks continue to make efforts to restructure their loan portfolios.
Authorities have taken steps to improve confidence in the banking sector. Following the recommendation of the European Systemic Risk Board, Romania set up a National Committee for Macro-Prudential Supervision, which will work to ensure financial stability. The risks posed by the newly adopted debt discharge law for mortgage backed loans, which allows debtors to discharge

their debt obligations by transferring the collateral to creditors, were limited by a Constitutional Court decision to restrict its applicability. Meanwhile, authorities pledged to perform asset quality review and stress test for the banking sector in 2018.

	2012	2013	2014	2015	2016	2017E	2018F
GDP growth (%)	0.6	3.5	3.1	4.0	4.8	7.2	5.2
GDP per capita (EUR)	6,700	7,200	7,500	8,100	8,600	9,500	10,300
Private consumption (%)	2.1	0.7	4.7	5.9	7.4	9.1	6.6
Industrial output (%)	0.1	3.6	7.4	7.0	-3.2	8.0	7.1
Unemployment rate (%, year end)	6.8	7.0	6.6	6.6	5.5	4.6	4.3
Current account balance (%/GDP)	-4.8	-1.1	-0.7	-1.2	-2.1	-3.4	-4.0
Net FDI (%/GDP)	1.6	1.9	1.6	2.2	2.7	2.9	3.2
Budget balance (%/GDP)	-3.7	-2.1	-1.4	-0.8	-3.0	-3.0	-3.0
Inflation rate (%, year end)	5.0	1.6	0.8	-0.9	-0.5	3.3	3.6
ROBOR 3M (%, year end)	6.1	2.4	1.7	1.0	0.9	2.1	2.8
EUR/RON (average)	4.46	4.42	4.44	4.45	4.49	4.57	4.65

Data Source: INSSE, Eurostat, Colliers International

Romania: Main macroeconomic indicators

Chapter II provides an overview of EU funding as a financing source, generating business opportunities primarily in transport infrastructure, agriculture, research and technological developments and regional growth through education and social inclusion projects.

An outline of the markets and the opportunities available is presented in **Chapter III**.

Section 1 emphasises industry opportunities with the automotive sector in the spotlight and takes a look at the aeronautic and textile sectors.

The Romanian automotive sector is very dynamic and attractive for foreign investors, representing 20% of total Romanian exports. Important international manufacturers have opened factories in Romania, with car manufacturing in the lead, alongside the construction of components and equipment. The aeronautic industry and the textile and apparel industries are also seeing significant investment.

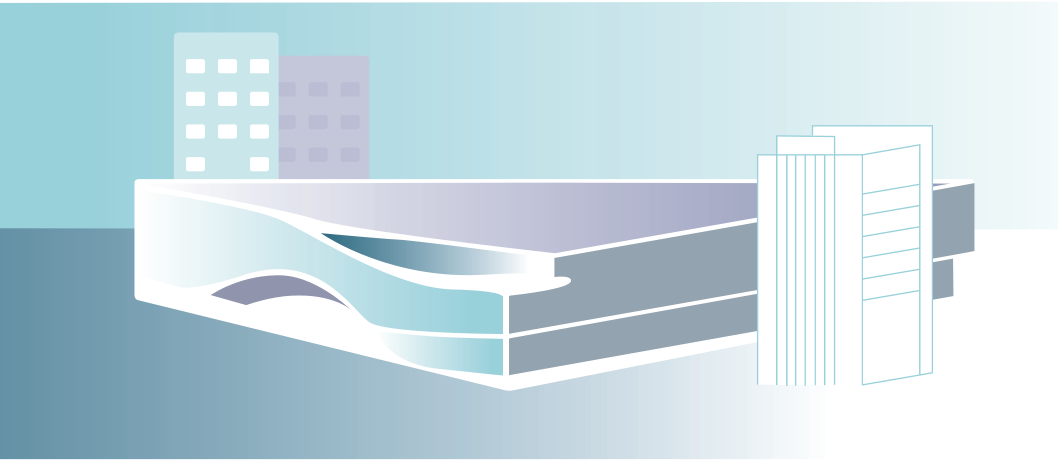
Section 2 introduces the real estate market, detailing the office, retail, residential, and flourishing hotel sectors. Steady and sustained growth can be seen with the regular completion of various projects and opportunities ranging across the different sub-markets. In addition to a growing demand for small scale residential housing in secondary areas, the office market has also seen a record take-up volume and a considerable increase is expected in Bucharest, with new retail schemes emerging. In addition, given the expanding tourism industry, the hotel market keeps on providing dynamic business opportunities. The potential of infrastructure projects, with a focus on the rail sector, is presented in Section 3.

Section 3. An infrastructure-based development policy is combined with major objectives for the transport system and EU funding opportunities.

Section 4 presents an overview of the renewable energy industry and the major legislative changes that will make the Romanian market more attractive to the investors.

Section 5 examines the agriculture sector, which has been the focus of many foreign investors in Romania. With EU funding available, low prices for land, some of the most fertile soils in Europe, and the availability of specialised personnel, the advantages of investing in Romanian agriculture have become undeniable.

Section 6 concentrates on the technology and IT sector, where highly skilled Romanian specialists have proved to be an attractive asset for investors, with an increased cost-effectiveness compared to other European countries. Romania is expected to become a target market for research and development centres focused on high-end solutions and technologies.



II. E.U.FUNDING

Romania gained access to EU funds for business activities when it joined the EU in 2007. Since 2014, Romania has been able to significantly improve its fund absorption rate following considerable efforts on behalf of Romanian authorities aimed to improve institutional configuration and ensure sufficient administrative capacity, expertise, and accountability for EU funds projects.

Overall, results in 2016 have been under expectations. Nonetheless, starting with December 2016 and during the first trimester of 2017, a significant number of projects have been initiated, thereby increasing the expectation regarding absorption rate.

Significant funds have been made available for 2014-2020, with six operational programs accessible for structural funds: competitiveness, human capital, large infrastructure, and regional operational programs. Two funds are available for agricultural and regional development.

The programs support:

- Research, innovation, technological, and sustainable energy development.
- Development of human capital and training.
- Transportation, environmental, and energy projects.
- Development for regions across Romania.
- Development of agriculture (production and processing of agricultural products, investment in storage, packaging, man-

ufacturing of agricultural related products, including vegetables, fruit and animal husbandry), fisheries, and rural areas.
The approved priorities are transport infrastructure, business environment, climate change, education, and social inclusion projects.

Major infrastructure projects are allocated the largest percentage under the new scheme, and agriculture has also been assigned a significant amount.
For the major infrastructure program, Romania is expecting to receive EUR 9.4 billion in order to develop a sustainable and eco-friendly transportation system, as the country still requires a significant amount of investment in this area. This project will significantly improve the railways and road connections, cutting transportation costs and reducing travel times, thus bringing Romania closer to other member states in terms of infrastructure development, while also creating new business opportunities.

Overall, the infrastructure programme targets the following areas:
- Development of the Trans-European Transport Network (TEN-T) by improving road, railway, navigation and subway transportation systems.
- Development of multimodal, high-quality, durable and efficient transportation systems.

· Development of environment infrastructure through efficient resources management, based on waste water collection systems and recycling technology.
· Environmental protection and the rebuilding of degraded ecosystems, by preserving biodiversity, monitoring air quality and decontaminating polluted sites.
· Promotion of climate change adaptation measures, risk management and prevention.
· Promotion of clean energy and energy efficiency to lower carbon emissions.
· Energy efficiency of centralised heating systems and thermic energy distribution systems.
· Intelligent transportation systems for electricity and gas, expansion of energy capacities produced from renewable sources and interconnectivity with networks from other member states.

Agriculture has been assigned EUR 8 billion from the European Agricultural Fund for Rural Development for 2014 – 2020, aimed at three long-term strategic objectives in accordance with EU rural development policy:
(i) improvement of competitiveness in the agricultural and forestry sector;
(ii) sustainable management of natural resources and climate action; and
(iii) enhancing quality of life in rural areas and diversification of the rural economy through balanced territorial development.

The EU agriculture-related funds are to be assigned for:
- improving agricultural exploitation, product processing and market opening;
- supporting the new generation of farmers;
- developing rural infrastructure to attract investments and create new jobs in rural areas;
- encouraging the diversity of the rural economy by promoting SMEs in the non-agricultural sectors of rural areas;
- promoting the forestry sector through dedicated programmes;
- aiding local development by encouraging competition, improving the quality of life and promoting diversity in the rural economy.

Eu funds represent an important financing tool and a significant number of foreign investors have shown interest in similar projects, proven to be highly beneficial for both established investors and local communities. Furthermore, continued development using these funds will continue to push the economy towards a more sustained growth, while also improving the business environment and human capital.

Member States' total trade (intra-EU + extra-EU) **bn €**

	Total exports						Total imports						Trade balance					
	Total		Intra-EU		Extra-EU		Total		Intra-EU		Extra-EU		Total		Intra-EU		Extra-EU	
	Jan-Nov 17	Growth / Jan-Nov 16	Jan-Nov 17	Growth / Jan-Nov 16	Jan-Nov 17	Growth / Jan-Nov 16	Jan-Nov 17	Growth / Jan-Nov 16	Jan-Nov 17	Growth / Jan-Nov 16	Jan-Nov 17	Growth / Jan-Nov 16	Jan-Nov 17	Jan-Nov 16	Jan-Nov 17	Jan-Nov 16	Jan-Nov 17	Jan-Nov 16
Belgium	348.3	5%	251.2	5%	97.1	7%	325.7	5%	209.0	7%	116.7	3%	22.6	20.9	42.2	43.8	-19.6	-22.9
Bulgaria	24.5	12%	16.3	11%	8.1	12%	27.4	15%	17.6	11%	9.8	23%	-2.9	-1.9	-1.2	-1.1	-1.7	-0.7
Czech Republic	147.3	9%	123.5	9%	23.8	9%	131.9	11%	103.4	10%	28.5	16%	15.4	17.0	20.1	19.6	-4.7	-2.5
Denmark	84.0	6%	52.1	7%	31.9	5%	75.6	7%	52.7	5%	22.9	12%	8.4	8.3	-0.7	-1.8	9.0	10.0
Germany	1 181.4	7%	692.1	6%	489.3	7%	950.6	9%	627.6	8%	323.0	10%	230.9	233.3	64.5	71.3	166.3	162.0
Estonia	11.8	8%	8.5	5%	3.3	17%	13.5	10%	10.9	8%	2.6	17%	-1.7	-1.4	-2.5	-2.1	0.7	0.6
Ireland	109.4	0%	55.8	2%	53.6	-2%	67.7	1%	45.1	4%	22.6	-4%	41.7	42.0	10.7	11.2	31.0	30.8
Greece	26.2	13%	14.1	8%	12.1	21%	46.1	15%	23.9	9%	22.2	22%	-19.9	-17.1	-9.7	-8.8	-10.1	-8.3
Spain	260.5	9%	172.6	8%	87.9	11%	284.8	11%	168.5	7%	116.3	19%	-24.3	-15.9	4.1	2.7	-28.4	-18.6
France	432.8	5%	257.1	4%	175.8	7%	509.1	8%	355.1	9%	154.0	6%	-76.2	-60.5	-98.0	-78.8	21.7	18.3
Croatia	13.0	15%	8.3	11%	4.7	22%	20.2	12%	15.7	12%	4.5	13%	-7.2	-6.7	-7.4	-6.5	0.2	-0.2
Italy	411.3	8%	230.5	7%	180.8	9%	369.1	9%	221.2	8%	147.9	12%	42.2	44.0	9.2	10.1	32.9	33.9
Cyprus	2.6	5%	1.0	-20%	1.6	29%	7.3	13%	4.3	0%	3.0	40%	-4.6	-3.9	-3.3	-3.1	-1.3	-0.9
Latvia	11.2	12%	7.5	7%	3.7	23%	13.6	16%	10.7	13%	2.9	30%	-2.4	-1.7	-3.2	-2.4	0.8	0.8
Lithuania	24.1	17%	14.1	12%	10.0	24%	26.4	17%	18.4	15%	7.9	23%	-2.3	-1.9	-4.3	-3.4	2.0	1.6
Luxembourg	13.0	-2%	10.9	0%	2.0	-10%	18.3	1%	15.2	10%	3.1	-26%	-5.4	-4.9	-4.3	-2.9	-1.1	-2.0
Hungary	92.8	9%	75.4	9%	17.4	13%	87.5	12%	66.5	10%	21.0	22%	5.3	6.9	8.9	8.8	-3.6	-1.9
Malta	2.0	-25%	1.1	-3%	0.9	-41%	4.7	-13%	2.9	-2%	1.8	-26%	-2.8	-2.8	-1.8	-1.9	-0.9	-0.9
Netherlands	:	:	397.1	11%	:	:	:	:	214.3	9%	:	:	:	53.5	182.8	161.2	:	-107.7
Austria	136.9	8%	97.6	9%	39.4	7%	142.8	9%	110.3	8%	32.5	14%	-5.9	-4.4	-12.7	-12.6	6.8	8.2
Poland	188.4	12%	150.1	12%	38.3	12%	186.6	14%	133.0	12%	53.6	18%	1.8	4.6	17.2	15.8	-15.3	-11.2
Portugal	51.0	11%	37.9	9%	13.2	17%	63.4	14%	48.3	11%	15.1	24%	-12.4	-9.8	-10.4	-8.8	-2.0	-1.0
Romania	58.1	9%	44.2	10%	14.0	7%	69.4	12%	52.7	10%	16.7	19%	-11.3	-8.8	-8.6	-7.8	-2.8	-1.0
Slovenia	31.3	15%	23.8	15%	7.5	13%	29.2	15%	20.3	13%	8.9	21%	2.1	2.0	3.5	2.7	-1.4	-0.7
Slovakia	69.3	7%	59.4	7%	10.0	7%	67.8	8%	54.1	8%	13.7	11%	1.5	2.1	5.3	5.1	-3.8	-3.0
Finland	55.2	16%	33.0	17%	22.2	15%	56.8	14%	40.6	11%	16.2	22%	-1.6	-2.4	-7.6	-8.4	6.0	6.0
Sweden	124.2	8%	73.4	8%	50.8	9%	124.8	8%	88.6	7%	36.3	9%	-0.7	-1.1	-15.2	-14.4	14.5	13.3
United Kingdom	360.8	8%	173.8	8%	187.0	9%	524.8	-1%	271.8	2%	253.0	-4%	-164.0	-196.8	-98.0	-105.9	-66.0	-90.9

1. INDUSTRY

In this sector, other European states are Romania's main trade partners (more than 85% of the total imports and exports of Romania) with the country registering a significant growth in international trade in 2017.

The total exports of Romania were focused on products of the machinery industry, including the electro-technical industry to over 40%, textiles and chemicals.
The most dynamic sectors in this industry are **the automotive sector and the real estate sector** which have proved to be very attractive for foreign investors.

1.1 AUTOMOTIVE SECTOR

Nowadays, many investors are establishing and developing more complex operations in Romania, thus shifting the focus of their employment policies from 'cheap labour', towards a highly skilled, diverse and globally competitive workforce. Renault and Ford are the biggest players on the market, but there are more. There is Porsche with its R&D centre for the region, Suzuki, Opel and others.

Opel Romania is the oldest investor in the country, having been active in Romania since 1998. It has grown its presence in the country, and is one of the most popular car brands internally.
"Romanian customers like our philosophy," explains Cristian Milea, country director at Opel Romania and a board member of the Association of the Automotive Manufacturers and Importers in Romania (APIA). "We make the innovations of premium vehicle classes available to a wider customer base. Democratisation of high-tech technologies and high quality features are very much appreciated by the Opel fans here. In 2014, the market in Romania started to recover from the global economic crisis and we are once again on an ascending trend. We started 2017 with excellent results, increasing our sales in the first four months by 37.8 per cent compared to the same period last year," he adds.
Generally speaking 4,9 million cars were in circulation last year, even if three quarters of the vehicles sold in Romania were second-hand.

Ford started production in Romania, in 2009, after the company bought the majority of shares from Automobile Craiova, becoming the owner of the facility.
"After nine years in Romania, we are happy to see that the plant is preparing for the start of the production of the new EcoSport, a project where an important transformation has been made and an additional workforce has been hired.

Progress is visible, both in terms of technology band in regards to the people, as Ford has one of the most modern production facilities in Europe, and certainly in Romania," Ford's general manager, John Oldham.

"Obviously the market has changed and one of the most important aspects is that customers are deeply concerned about safety features, fuel efficiency and new technologies," notices Suzuki's Mr Radu.

Invest Romania's Mr Laufer confirms this trend. "An important factor that is shaping the automotive, aerospace, chemicals, agriculture and many other sectors in Romania, is the development of the IT sector. Over the last few years, IT has become one of the most dynamic economic drivers, making massive development, both in volume and complexity. These transformations, as well as our consistent efforts to build and strengthen the partnership between universities and the business community, are placing Romanian companies in a position where they can fully benefit from the Industry 4.0 revolution," he says.

Other car manufacturers, including BMW, are also looking at the Romanian market, which is why the government has offered to support BMW to find Romanian IT companies that could be involved in developing software for the German group. Although the process is still ongoing, more than a dozen companies have been selected to participate in the BMW's newest project in Romania.

1.2 AIRCRAFT INDUSTRY

In 2018, the New Air Code, which is to be adopted, will bring about some main changes to the aircraft industry that are meant to help the aviation industry build a more complex structure. The changes include the applicability of the Air Code to military air activities and articulating provisions concerning the competence of the airdrome administrator to set the airport fees as well developing the principles for imposing such fees, namely transparency and non-discrimination. The new regulation withdraws the competence of the Ministry of Transportation to grant exemption from payment of airport fees and grants such power to the airdrome administrator. Other provisions concern the right of the civil airdrome administrator's air navigation service provider to retain to ground aircraft whose operator failed to pay fees entitling him/her to use the airdrome infrastructure or the fees for air navigation services, as well as the modality that such retention right operates.

On the other hand, at the moment, there are several regulatory initiatives on drone operation, including the new Air Code, which sets out different drone categories and specific operation rules in relation to these categories.

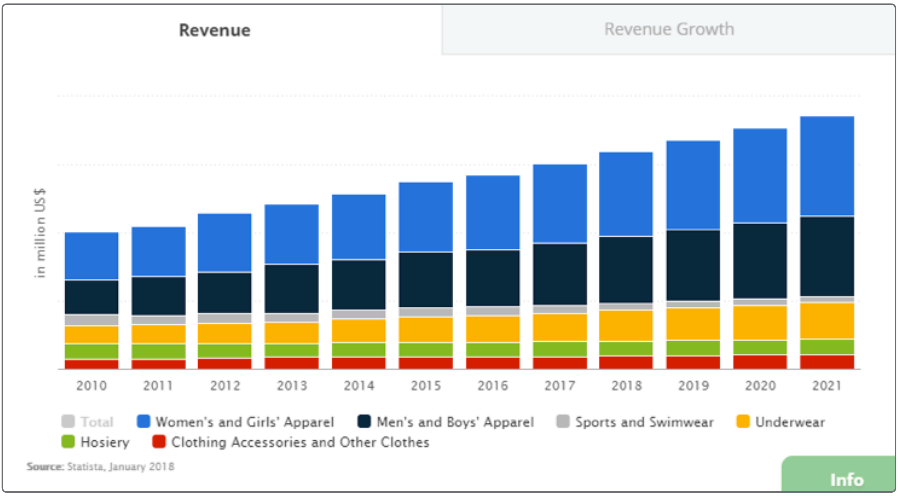
1.3 TEXTILE AND APPAREL INDUSTRY

The revenue in the apparel market amounts to US$ 3,191m in 2018. The market is expected to grow annually by 5.3 % (CAGR 2018–2021).

In Romania, the market's largest segment is the segment "Women's and Girls' Apparel" with a market volume of US$ 1,242 m in 2018.

From an international perspective it is shown that most revenue is generated in the United States (US$326,110m in 2018).

In relation to total population figures, per person revenues of US$164.95 are estimated to be generated in 2018.



1.4. PHARMACEUTICAL MARKET

The Romanian pharmaceutical market increased by 10.6% last year, to RON 12.9 billion (EUR 2.8 billion), according to data provided by market research company Cegedim.

In the last quarter of the year, drug sales recorded an annual growth of 20%.

With the exception of 2015, when the market recorded a negative result, the local pharma market has recorded constant growth in the last 12 years, according to Cegedim data. The market saw two-digit growth rates between 2006 and 2011, as well as last year.

The main three distributors of drugs in Romania are: Mediplus Exim, Farmexpert and Farmexim. In 2016, they have recorded a cumulated net profit of almost 2 billion EUR, according to Ziarul Financiar.

Three of the main pharmacies networks in Romania are: Catena, Sensiblu, and Dona. According to Ziarul Financiar.

Cegedim estimates that between July 2016 – June 2017, the volume of the released medicines to the patients in Romania was of 561 million units, with 5,4% grow as opposed to July 2015 – June 2016. Also, according to Pharma & Hospital Report the total value of the medicines sold was 13,13 billion lei (wholesale prices), 10% more than the value of the medicines sold in the same period.

The main three companies on Romanian market 2017 were: Abbvie with 899,6 million lei, Sanofi (including Zentiva) with

878,7 million lei, and Novartis (including Sandoz) with 619,8 million lei.

However, political instability, healthcare financing issues and aggressive pricing policies will pose significant challenges to drug manufacturers in Romania. While medicine sales growth is forecast to remain robust over the coming years, these growing challenges indicate that the market is becoming less attractive to investment. We note that the growth of the private health-care sector may attenuate some of these headwinds.

Headline Pharmaceuticals & Healthcare Forecasts (Romania 2015-2021)

	2015	*2016*	*2017f*	*2018f*	*2019f*	*2020f*	*2021f*
Pharmaceutical sales, USDbn	3.731	3.916	4.219	4.449	5.056	5.770	6.382
Pharmaceutical sales, % of GDP	2.10	2.09	2.10	2.12	2.13	2.15	2.18
Pharmaceutical sales, % of health expenditure	38.5	38.9	39.4	40.0	40.5	41.0	41.4
Health spending, USDbn	9.695	10.059	10.697	11.130	12.484	14.082	15.419

f = BMI forecast. Source: World Health Organization (WHO), National Health Insurance Fund (CNAS), AESGP, Cegedim, BMI

Romania's pharmaceutical market represents a significant growth opportunity for innovative pharmaceutical firms, reflected in its score of 61.1 out of 100 in BMI's Innovative Pharmaceuticals Risk/Reward Index, ranking third in the region. The large and ageing population, coupled with strong economic growth, will result in increasing demand for high-value medicines. However, opportunities will be limited due to low levels of urbanization and the current pricing policy.

2. REAL ESTATE

The real estate market in Romania is enjoying sustainable growth, with a high level of transactions in the retail, office space and residential sectors. It can now be characterised as diverse and mature, with a focus on office spaces (including in downtown areas) and shopping mall-type concepts.

Given the higher wages and elevated intentions to purchase homes, residential projects are still likely to remain the key drivers for land, though at the time of writing, it is still too early to judge the impact of the start of a new monetary policy tightening cycle. As we have seen in the past, new office projects will likely draw demand for residential projects in neighbouring areas. Since 2018 is likely to see a large number of housing units hit the market, players might turn more cautious and new developments could deliver smaller projects, albeit in prime locations when possible.

Deliveries look set to accelerate quite a bit in 2018 after disappointing in 2017. Amid an expected slight slowdown in terms of employment growth, vacancy is likely to move slightly higher. The new hotspots (Center West, Piata Presei/Expozitiei) can likely be digested organically largely, though developers are becoming much more cautious, with the pipeline for 2018 already one third lower than we would have thought 2-3 quarters ago.

In the first three quarters of 2017, the investment volume reached EUR 585 million, according to data from Knight Frank. The market could grow to EUR 1 billion by the end of this year, driven by the retail and office sectors, and backed by a significant volume of transactions in the industrial and logistics sectors. The consultancy points out that foreign funds accounted for more than 99 percent of the total investment activity on the local market.

In 2017, prime yields in Romania stood at 7.5 percent for office, 7.25 percent for retail and 8.5 percent for industrial, according to data provided by Knight Frank.

Real estate experts largely agree that Romania is in a good position to attract fresh investors on the market next year, but the stability in the political arena also plays an important role.

"The year to date shows an increase in the number and variety of investors from Belgium to Israel and beyond, particularly for value-add and speculative real estate. Given the parties presently in due diligence, we should expect several further new entrants. Enquiries from the Middle East and South African funds have been gaining pace over 2017 and we might expect further action from those quarters. Additionally, there are a number of Western European funds whose CEE focus is shifting further eastwards as supply tightens in more core markets," said Paulson of CBRE.

"In order for the market to steadily grow, we need to see new investors, the feeling of loneliness being still present among the 'usual suspects'," concluded Codrin Matei, managing partner, head of the office agency, capital markets and business development at Crosspoint, the real estate consultancy.

2.1 HOTEL MARKET

Market Overview

In tune with the macro trends, the hotel market in Bucharest continued to improve in 2017. It is still mostly geared towards business, with the leisure and MICE (meetings, incentives, conferences and events) still quite subdued.

All segments are likely expanding, with a robust outlook as well, including for the leisure segment. It is noteworthy that Bucharest made its way into Booking.com's top 10 up-and-coming destinations tourists should visit in 2018, calling it a „new to the alternative city break scene and a great option because of its museums, parks, trendy cafés and mix of art nouveau and modern architecture."

The number of foreign visitor arrivals in Romania's hotels and other accommodation options grew by over 10% last year, towards 2.8 million persons, with almost half of these in Bucharest. This remains well lower than CEE peers (who receive at least 2-3 times more foreign tourists per year).

Romania is host to nearly 1,600 hotels, with the number increasing slightly from year to year. The average occupancy rate throughout the year improved marginally, to 37.4% from 37% in 2016, which is one of the best levels in the post-crisis period. Besides the steady rise in foreign visitors, we note that the robust increase in disposable income for Romanians has led to an increased spending appetite, with the transition towards services only natural.

Highlighting the favourable outlook, we note that quite a lot of airports in Romania reported very positive results. In the EU, among the ones in the 10-25 million passengers per year category, Bucharest's Henri Coanda airport was 5th in terms of growth last year, expanding by 16.7%, to 12.7 million passengers. Meanwhile, Cluj-Napoca's number of passengers grew by close to 50%, to 1.9 million. The constant increase in new destinations (both national and international) remains a key aspect to look out for.
The duration of stay in Romania remains fairly low, at 2 nights on average for foreign visitors, highlighting the fact that the country benefits mostly from business trips (likely over 70% of total hotel business for Bucharest) and, to a lesser extent, city break status. The capital city also became a more sought-after leisure destination, which materialized in a higher share of the demand generated by the leisure segment, moving towards 20%. The average expenditure per trip stands at around 470 euro per person per trip, with the bulk – little over half – represented by accommodation expenses.

Supply

Romania seems to be one of the attractive emerging markets for new players in the hospitality industry: Bucharest has little over 8 room beds in hotels per 1,000 inhabitants compared to over 14 for Budapest and nearly 27 for Prague. Also, close to 45% of the hotels in the capital city are branded, compared to an average of around 60% for the major CEE cities like Budapest, Warsaw or Prague.

The Bucharest hotel market remains the most competitive in the country, with several international chains consisting the biggest players: Radisson Blu Hotel (over 760 rooms with 3 brands), Hilton (around 560 rooms with three brands), JW Marriott (just over 400 rooms), followed by Sheraton and InterContinental Bucharest (both with under 300 rooms). Overall, there are close to 150 hotels with more than 12,800 rooms, with the premium segment (4 and 5 stars) accounting for close to half.

The Garden Inn by Hilton in Bucharest's old town, with 201 rooms, was last year's notable addition, though a Courtyard hotel (Marriott brand) has been announced in the north. The French company Accor has also secured a development land and might announce a new project fairly soon, while it likely retains additional interest. In this respect, it is important to note that Accor-owned Orbis Hotel Group announced previously that it plans to become the largest player in Romania.

Demand

Businesses travellers continue to be the prime clients of high-tier establishments (4 and 5 stars), while the leisure tourism usually heads for hotels lower down the cost range.

The average daily rate (ADR) increased in 2017 by close to 10% in local currency terms for 5-star hotels, to reach 96 euro in the second part of the year. This remains 10% to 40% lower than that of the major regional capital cities.

Highlighting the preference for higher-tier establishments,

the ADR for 4-star hotels saw a growth rate around half that seen by the 5-star ones, reaching around 66 €.
The average occupancy for the 12 months ending September 2017 stood at around 75-76% for both 4-star and 5-star establishments, an improvement of some 2-3 percentage points over the previous year. As such, thanks to both the higher ADR and improved occupancy, the average revenue per room saw in excess of 15% growth in the second part of the year, even in months that were not marked by exceptional events like the Enescu Festival.

Forecast

As the outlook for the market remains quite optimistic, companies are seeking solutions to expand their network.
While the traditional and potentially cumbersome management contract is not viewed as an attractive solution currently, new solutions are emerging. Some higher-tier brands might be seeking to buy or invest alongside developers, offering the latter an exit option if need-be. Another solution that could help the domestic market growth might be a “rental contract”, with a hotel built by a local company then handed over to a hotel brand for a fixed instalment.
With Bucharest’s office stock expanding constantly over the last decade and foreign investments continue to pour in, we continue to see room for the hotel market to grow on the business segment. Underpinning this aspect is the renewed

investor interest for this segment, with last year seeing a couple of smaller hotel deals and the largest transaction on this segment so far in Romania: Radisson Blu, bought for EUR 169m by a Revetas / Cerberus partnership.

The leisure segment retains a bright outlook as well, as highlighted by Bucharest's growing appeal on specialty websites like Booking.com. Still, Bucharest cannot fully develop on this segment without adequate multi-purpose venue centres, which it currently lacks.

The office hotspots (like the northern or central-western parts of Bucharest) hold potential for fresh hotel developments. So does the Old Town, which is likely to see some new brands (no necessarily new companies) opening hotels via refurbishments of old/historic buildings; this area has a potential for some 500 new rooms to come to market in the upcoming years. Another event expected on the Bucharest market is the refurbishment of Lido Hotel, expected to be finalized sometime in 2018. As far as trends go, the hospitality segment is starting to diversify: we are noting an increase in interest for brands geared towards leisure tourism, as well as mixed concepts (like flexible rooms, with rental of beds rather than rooms).

We might also start seeing projects geared at certain niches, like students or blue-collar workers. Passengers on board, arrivals to Bucharest airport (million, 2016)

*Soft landing path ahead - Colliers International Romania; Research & Forecast Report 2018,

http://www.colliers.com/-/media/files/emea/romania/research/romania/27-02-2018-research-and-forecast-report-2018.pdf?la=en-gb.

2.2 OFFICE MARKET

Experts forecast an expansion of the office segment throughout 2018, which also translates into bigger surfaces delivered for each project.

Mihai Patrulescu, senior associate, investment services at Colliers International, says that typical office projects had a surface of more than 70,000 sqm in recent years, compared to an average of 20,000 sqm after 2009.
"Additionally, we believe there is increasing scope for liquidity from assets that are being traded for the second time. Overall, we expect liquidity on the office investment market to increase from approximately EUR 250 million in 2017 to more than EUR 500 million in 2018," Patrulescu declared for the publication *Business Review*.
Furthermore, the market is set to record large transactions due to the recent consolidation of portfolios, with the growth rate hovering at around 10-15 percent, adds Codrin Matei, managing partner, head of the office agency, capital markets and business development at Crosspoint, the real estate consultancy.
In the Bucharest office market, the area comprising Politehnica/Grozavesti will be targeted primarily by tenants in the IT and BPO sectors, say experts.
Simona Urse, associate director of the office agency at Crosspoint, suggested that the vacancy rate in the office seg-

ment will hover at around 8 percent, as the new deliveries that will follow in 2018-2019 will balance the demand.

“In their need for expansion, large companies will likely shift their focus towards regional cities like Timisoara and Cluj-Napoca, cities where currently, even with new projects announced, supply and demand are roughly at the same levels,” Urse told *Business Review*.

She added that there is a growing interest from companies in green and plaza type buildings (mixed function projects with access to food courts and retail areas).

Demand for office space will reach 412,000 sqm this year. In the retail market the increasing demand is fuelled by the growth of domestic consumption, says Robert Paulson, head of investment properties at CBRE, the real estate consultancy. He says the strong economic growth will also have a positive impact in the industrial and logistics segments.

The Knight Frank representatives say that relocations and new demand on the market are expected to be the main drivers of office take-up, as tenants will be looking to move their headquarters/back offices or consolidate their operations into new premises and new players will be coming onto the market.

Most of the office deals in the first nine months were for spaces of over 5,000 sqm, holding a 46 percent share of the take-up.

“Headline rents are expected to remain stable over the next year,” said Florescu and Lupu of Knight Frank.

The significant increase in interest from international investors looking for the best formats of cooperation with local developers sends a powerful message to the market in Romania's capital city. Importantly, the abovementioned interest applies not only to the office sector, but also to the retail and logistics ones. The first half of the year saw a considerable drop in the office vacancy rate from approx. 13% at the end of 2016 to approx. 9% at the end of the first half of 2017, which was the result of steadily rising demand.

"The Bucharest office market shows enormous potential and current high level of take-up is confirming it. The first half of the year ended with a record volume of leases signed, i.e. 157,000 sqm, which was approx. 7,000 sqm more than recorded for the corresponding period last year. Occupiers have a large appetite for brand new Class A office buildings. This year, many new office schemes will be fully leased before completion", commented Louis-Maxime Juhel, Office Agency Director at BNP Real Estate Romania.

Despite delivery of new Class A office buildings, it is estimated that over the coming quarters the high level of demand for prime schemes may lead to a drop in office vacancy rate to below 7-8%. The office market will then slowly transform itself into a distinct landlord market.

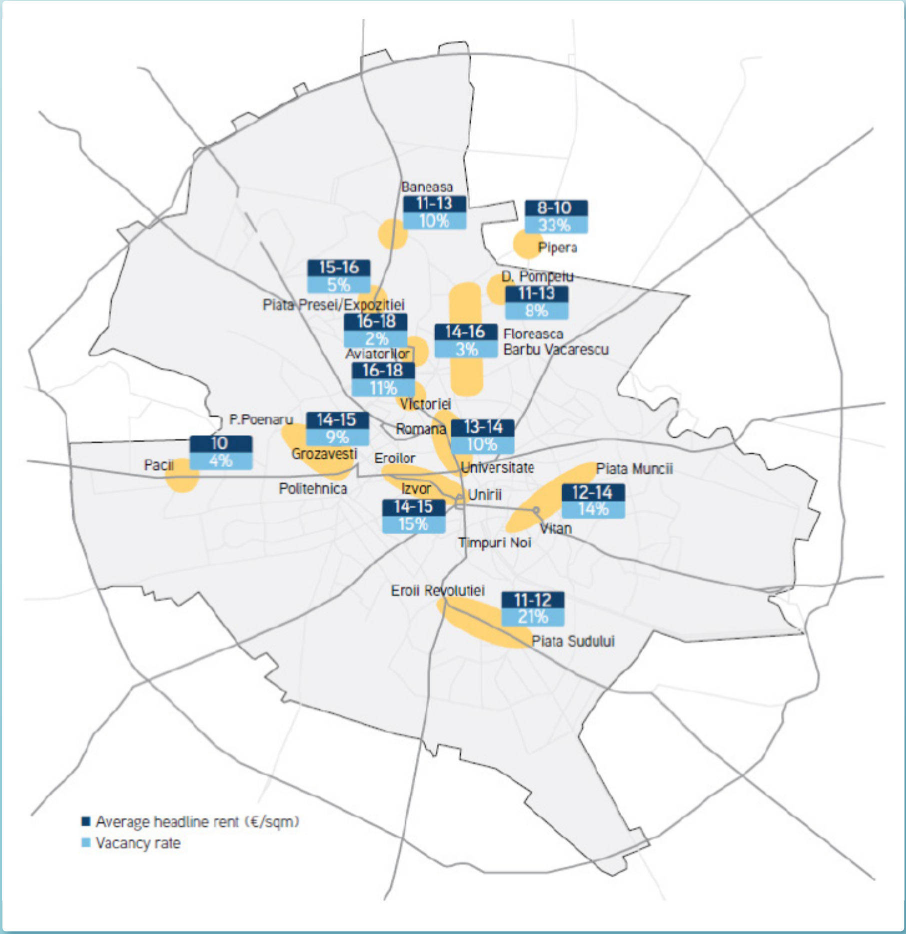
Year planned	Building	GLA (sqm)	Subzone	Developer
2017	The Bridge	37 000	Central West	Forte Partners
2018	AFI Tech	52 000	Central West	AFI Europe
2018	Orhideea Towers	37 000	Central West	Immofinanz
2018	The Mark	20 000	Central	S Immo
2018	Unirii View	24 000	Central	C&I Building

Office buildings to be completed in H2 2017–2018

Source: BNP Paribas Real Estate, Property Forum

Key drivers of this demand are not strictly related to location and rent anymore. Value added factors offered by particular schemes, such as architecture, technology applied, environmentally friendly solutions and additional facilities in the form of staff canteens, shops, laundrettes, gyms and green terraces, are becoming more important. Furthermore, amenities designed with cyclists in mind, i.e. parking spaces, changing rooms with showers and wide and safe cycling paths in the underground car parks, are also features that attract attention. The above mentioned situation on the market resulted in a slight contraction of the gap between headline rents and effective rents in the first six months of 2017. Office rents are not likely to increase, however, due to high demand and limited supply we can expect that the level of incentives offered to tenants will decrease over the coming quarters. It is estimated that at the moment incentive packages represent 15–20% of headline rent, while in the case of long term leases (more than 5 years) this value can go up to 25%. When analysing the capital city's office market, it becomes noticeable that the obvious workhorses here are the areas located in the north of Bucharest. Barbu Vacarescu–Aurel Vlaicu and Dimitrie Pompei attracted the majority of tenants as they offer a good balance between the standard of the space available and total occupation costs.

Analysts estimate that the pattern of market development will change over the next 2-3 years due to the 200,000 sqm to be delivered in the central west part of the city (Grozavesti – Politehnica).



Bucharest Rents & Vacancy Rates

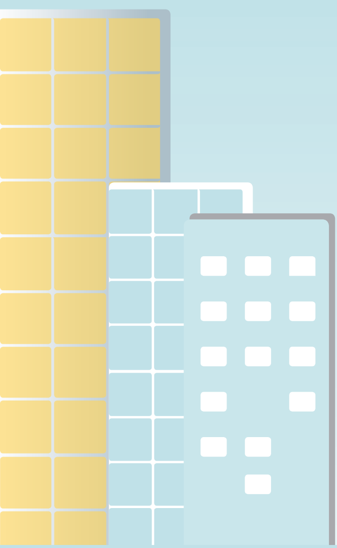
CASE STUDY

In the largest real estate transaction ever concluded in 2017 in Bucharest, Israeli Elbit Imaging has signed a definitive sale and purchase agreement for the sale of its entire shareholding – 98.2 percent of the outstanding share capital – in Bucuresti Turism, the company which owns the 5-star Radisson Hotel, according to a press release sent to the US NASDAQ stock exchange.

The property value was set at EUR 169.2 million and is considered the biggest transaction of the year in real estate.

The agreement has been signed with an acquisition vehicle jointly owned by two international investment funds. ”The estimated net proceeds to be derived from the transaction is expected to be approximately EUR 81 million. Part of the net proceeds equal to EUR 8 million will be used to finance a vendor loan which has been granted for a period of 3 years, bearing interest at the rate of 5 percent per annum,” the release reads.

Elbit Imaging announced earlier this year that it has put on sale the most important asset it holds on the local market. Opened in 2008, following an investment of EUR 70 million, the former Bucharest Hotel, is operated under the Rezidor Hotel Group – Radisson Blu.

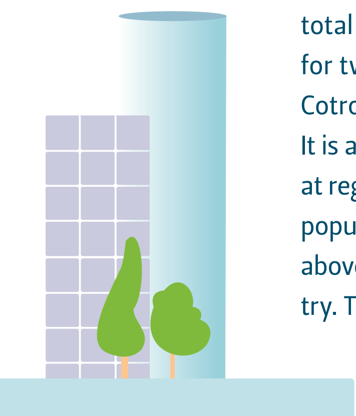


2.3 RETAIL MARKET

Posting the biggest result in the European Union, the Romanian economy expanded by 7 percent in the first nine months of this year, with economists saying the expansion was driven mainly by the increase of domestic consumption. This also generated more business for players in the industrial and logistics segments.

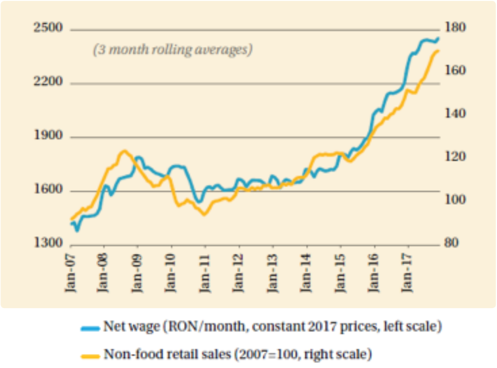
Bucharest has been seeing a period of relative equilibrium between supply and demand, a favourable moment for the large schemes delivered in 2016 to gain traction and settle in the domestic retail scene. With the exception of the larger shopping centre in Ramnicu Valcea Mall (28,000 sqm) and a significant extension of Shopping City Galati (21,000 sqm in new GLA) – both owned by NEPI Rockcastle, last year saw mostly the delivery of smaller schemes and retail parks (Prima Shops Oradea – developed by Oasis Development, Pascani Commercial Centre and B1 Retail Park in Bistrita – Mitiska REIM, each with a total GLA of 10,000 sqm or a little below this level). Extensions for two of the Bucharest's most representative schemes – AFI Cotroceni and Sun Plaza – were completed in 2017.

It is also notable that developers have been increasingly looking at regional cities and even smaller towns, including those with a population below 100,000 (like Bistrita or Pascani, as mentioned above) amid elevated spending appetite in all parts of the country. This is a trend we see extending over the medium term.



The cocktail of loose fiscal policy, simulative monetary policy (for most of 2017) and various state measures aimed at boosting wages have led to very robust private consumption, pushing GDP growth in excess of 7% in 2017. In fact, consumer sentiment (as measured by European Commission surveys) reached an all-time high early 2017, while purchase intentions for bigger ticket items also moved north by quite a significant margin. In fact, looking at consumer price adjusted wages, we found out that the average net wage from a decade ago would purchase just around 1,400 RON of goods and services versus 2,500 RON presently; in effect, this means a growth of over three quarters of actual purchasing power, highlighting a much more sustainable consumption than before the crisis, as lending also plays a greatly diminished role.

"Having in mind the strong GDP growth in Romania, which is primarily based on two factors: industrial production and



retail consumption, demand for industrial properties such as logistics and production will continue to rise. We expect leasing activity to remain strong in the short and medium term," Paulson told Business Review.

With high consumption, the retail segment is set to continue to attract investments going forward. In 2016 alone, the Bucharest market recorded deliveries of more than 100,000 sqm of gross leasable area. Cosmin Grecu, head of valuation and research at Crosspoint, suggested that developers will focus on retail investments in secondary locations, while the expansion of e-commerce will further decrease the need for retail space.

"Demand will come mainly from new players entering the market. Retailers will have to merge their online and offline presence in order to keep up with the changes in the consumer's needs. The more and more dynamic lifestyle of the consumer will create the demand for all-in-one spaces, where work, shopping and entertainment combine," Grecu told Business Review.

The fashion segment was a great beneficiary of the solid demand. Since the supply consisted to a wide degree of retail parks in smaller towns, we noticed that the most active tenants were still those from the budget to medium range (Pepco, Deichmann, CCC, Jysk, TXM). It is noteworthy that H&M, one of the strongest fashion anchors on the domestic market, has taken its first steps into smaller retail schemes outside

Bucharest; other brands normally seen in malls are moving to retail parks as well. Higher-end tenants remained focused mostly on Bucharest with a limited presence in the large regional cities, at most. Otherwise, vacancy is likely at cyclical lows (virtually nonexistent for a lot of the successful shopping centres). An important aspect to note is that shopping centres are still delivering solid results for brick and mortar stores as Romanians have a higher predisposition than regional peers to actually look at a certain product before purchasing it. Still, in order to improve footfall, malls will need to cement their status as actual destinations to spend one's free time. This means more space for the food court and other entertainment services like cinemas or children's playgrounds. Aiming to allocate close to a quarter of the total GLA could be important to improve catchment. We also expect this trend to help out malls in their battle against online retail, though given the current state of the Romanian market, we expect both segments (online and offline sales) to thrive alongside over the medium term.

In this respect, the food and beverage segment is benefitting quite a lot from the strong consumer appetite, with turnover up by close to 14% in the first 10 months of 2017 after increasing by 15% in 2016. McDonald's remains the largest player on the restaurant market, though the other players (KFC, Pizza Hut, Starbucks, Subway, Spartan, Mesopotamia) have been quite active. Companies are also exploring new formats – like Starbucks opening its first drive-through unit in Romania; another trend worth underscoring on the F&B segment is an increased appetite for larger surfaces (500 sqm or even larger). Food anchors have also had a terrific 2017, with doubledigit growth in revenues for some in a like-for-like basis, something quite rare for them.

New entries in 2017 were from a fairly wide variety, as well as different price ranges. From fashion (Armani Exchange, Superdry, Ninewest, INCI, Funky Buddha, AC & CO) to sportswear (Sport Loft, Under Armour) to F&B (Pizza Sbarro, Taco Bell). It is worth pointing out that Taco Bell made its first step in the CEE region in Romania.

2.4 RESIDENTIAL MARKET

Given the higher wages and elevated intentions to purchase homes, residential projects are still likely to remain the key drivers for land, though at the time of writing, it is still too early to judge the impact of the start of a new monetary policy tightening cycle. New office projects will likely draw demand for residential projects in neighbouring areas. Since 2018 is likely to see a large number of housing units hit the market, players might become more cautious and new developments could deliver smaller projects, albeit in prime locations when possible.

3. INFRASTRUCTURE

After 2017 saw the delivery of 24km of highways nationwide, nearly four times below the year-start estimate from the government, pundits are warning 2018 could be similar. For this year, the minister is promising at least 156 km. Given the limited fiscal room in the state budget and poor track record of EU funds absorption, we do not expect to see a material acceleration in infrastructure developments. That said, any positive surprises could bring a flurry of deals/interest.

In brief, the main indicators of the GTMP are as follows:

SECTOR	INVESTMENT (EUR)	DETAILS
Roads	13,739.17 billion	Highways: 1300 km
Rail	10.740 billion 1.122 billion 1.436 billion	Rehabilitation of railway line: 2883 km Electrification: 489 km Freight railway line: 439km
Naval	3.395 billion	
Multimodal Centers	281.45 million	10 multimodal centers

In the rail sector, the focus is on maintenance and upgrading existing mainlines to EU standards (for a total amount of around EUR 14.4 billion over the period 2014-2030). The upgrade is expected to absorb most of the available funds due to the poor condition of rail networks.

Furthermore, the European Commission stressed the fact that almost 50% of all infrastructure funds allocations in Romania would go into the railway transport system.

This approach brings significant opportunities and projects for construction and equipment companies acting in the rail sector in the future.

Regarding road infrastructure, the Romanian state has started to look towards developing major infrastructure projects through partnerships between the public and private sectors after a previous approach only concentrated on public procurement works.

This approach is likely to create interesting new opportunities for private contractors looking to invest in large scale infrastructure projects in Romania.

The form of partnership used by the Romanian authorities is a concession arrangement for public works. The first of these is the construction and operation of the Comarnic-Brașov highway, awarded by the Romanian state in 2010 to a French and Greek consortium, Vinci-Aktor.

The success of the Comarnic-Brașov highway project may prove to be the catalyst for the development of similar infrastructure projects by the Romanian state. It is likely to apply this model as often as possible to address the urgent need for infrastructure development in Romania. Also, new roads construction and upgrade projects are expected to open by using public procurement works.

According to the state entity under the Ministry of Transport in charged with the development of infrastructure projects, the Romanian National Company of Motorways and National Roads (CNADNR) statements: the private sector has a key role to play in the on-going improvement of Romania's road infrastructure. He welcomes foreign investors and says that he believes in competition among private companies seeking to carry out infrastructure projects in Romania and that Romania needs the expertise of private investors and companies to complete infrastructure projects satisfactorily. Priority is being given to projects which are part of the Trans-European Transport Network (TEN) initiative. For foreign investors, CNADNR's projects have outstanding potential.

Romania's Infrastructure

Nr. Crt	Project Name	Estimated Value (mil. EUR)	Length (Km)	EIRR Score (%)	Ten-T	Score	Cumulated Cost (mil EUR)
1	**Bacău–Pașcani** (Includes V.O. Bacău, Roman)	485.52	81.20	13.20	Core	82.85	485.52
2	**Sibiu–Pitești** (include V.O. Curtea de Argeș)	1673.57	116.60	15.30	Core	82.22	2159.09
3	**Comarnic–Brașov** (includes V.O. Comarnic- Sinaia-Bușteni-Azuga-Râșnov)	997.75	58	9.60	Comprehensive	77.80	3156.84
4	**Tg. Neamt–Iași–Ungheni** (includes V.O. Tg. Neamt, Pașcani, Tg. Frumos, Iași)	1129.70	135.00	0.80	Core	72.15	4286.54
5	**Brașov–Bacău** (includes V.O. Tg. Secuiesc, Onești)	1845.46	160.00	7.80	Comprehensive	69.78	6438.77
6	**Sibiu–Brasov** (includes V.O. Sibiu, Brașov, Făgăraș)	816.44	120.00	15.70	Comprehensive	69.00	7255.21
7	**Suplacu de Barcău–Borș** (+Oradea)*(includes V.O Oradea, Zalău)	304.43	74.50	15.70	Comprehensive	69.00	7559.64
8	**Craiova–Pitesti** (includes V.O. Slatina, Balș)	899.41	124.30	12.00	Comprehensive	58.50	8459.05
9	**Inel Bucuresti** (AD)	1335.00	102.00	5.70	Core	55.41	9794.05
10	**Tg. Mureș–Tg. Neamț**	2942.57	183.80	8.80	Core	49.24	12736.62
11	**Ploiești–Comarnic**	306.77	51.30	12.50	Comprehensive	40.73	4593.31
12	**Nădătelu–Suplacu**	1002.55	93.30	7.80	Comprehensive	39.78	13739.17
	Total Highways	**13739.17**	**1300.00**				

4. ENERGY

The international energy markets undergo a complex transition period implying technological, climate, geopolitical and economic changes. All of these have direct consequences on the dynamics of the European and national energy markets. Romania has to adapt to the various tendencies occurring in the international markets as well as to the geo-political developments influencing well established strategic partnerships as far as energy security, investments, commerce and technology are concerned.

Currently, the EU imports around 53% of the energy consumed. The dependence on energy imports refers to crude oil (90%), natural gas (66%), coal and related solid fuels (42%) and nuclear fuels (40%). The EU is the biggest energy importer in the world, at an annual cost of approximately 400 billion EUR, its biggest vulnerability being the complete dependence of six EU members on Russian gas, while three other EU members use gas from Russia in order to cover more than a third of their total energy consumption.

Romania has an energetic security risk lower than the OECD average and significantly lower than its neighbours. However, the current international context of the energy markets is extremely volatile and uncertain and the evolution of technologies may have disruptive effects on the energy market. The climate and environment policies focused on reducing greenhouse gas emissions and targeting "clean energies" influence

the consumption patterns and the investment policies. The abrupt decrease of the oil price influenced severely the electricity and natural gas prices, eroding the capacity of energy producers to invest in projects of strategic importance. This also affected the profitability of RES investments.
On the other hand, since the beginning of 2017, the energy market in Romania is theoretically fully liberalized since the tariffs that household consumers paid until December 31, 2017 were eliminated.
Consumers of energy (gas and electricity) in Romania now can choose between competitive regime and universal service market, with the option to return to the universal service market at any time.

Electricity
Romania has a diversified mix of electricity out which around 43% is represented by renewable sources (~29% hydro, 10% wind, 2.6 %solar, 0.7% biomass) and around 57% by conventional sources (out of which coal ~24.5%, nuclear 17.5%, gases 15%).
The main strategic investment area is represented by the need to renew the electricity capacity production park, the most of it being older than 30 years. Most of the existing production facilities reach their normal life span and most of them are inefficient and/or ecologically inadequate, requiring investments up to 7-14 billion EUR until 2030. Although the

gas-powered power plants will be targeted, coal-based power plants also have the role to insure the stability of the national Energetic System and they will have to be replaced after 2015. The new lignite capacities will need to have a high efficiency and reduced GGE.

Hydro-energy is essential for balancing the system therefore re-technologizing and maintaining the current hydro-power units together with small pumping units will be required until 2030 when the investment in a big reverse pumping station will become of actual interest.

As far as renewables are concerned, the support scheme for green certificates ended at 31 December 2016. Any new RES capacities will continue to be developed without support schemes. As such, the determining factor for the profitability of such projects will be the access to low cost capital financing. Provided that they will benefit of adequate support, the use of biogas and waste will increase and will be used in CHP units. Over the last five years approximately 3000 MW of wind capacities have been installed, which is considered to be the maximum bearable capacity for the safe functioning of the national energetic system in its current configuration. Being extremely volatile, the wind capacity requires a re-dimensioning of the balancing market with investments in peak units. The approximately 1300 MW of installed photovoltaic are less burdening for the balancing market that the wind units.

Nuclear energy is a strategic option for Romania. The units

3 and 4 at Cernavoda represent by far the biggest potential energy project in the coming years, being able to reduce the needed capacity in the region with 3000 MW. It is planned in the Energy Strategy to grant state aid for this project (similar with the one approved by the EC for Great Britain). This project also requires the strengthening of the transportation network. Transelectrica, the national transmission and balancing company aims to attract investments for the development of the network in the north-east of the country and for increasing the cross-border interconnection capacity. Given the developments in the RES market, the balancing market became essential, the most active producers able to respond to balancing requests being the hydroelectrical units and the gas fired units. The balancing on a regional market requires enough interconnection capacity.

Along the development of intelligent networks, the spot price will influence the consumption patterns, by a better administration of consumption (with the support of automatization systems and efficient public lighting). Starting with 2014 the day ahead market in Romania is coupled with the similar markets in the Czech Republic, Hungary, Slovakia, setting as such a regional electricity price. Although Romania is an electricity exporter, in order to have competitive prices in the long run the domestic production of electricity should not be burdened by various taxes and levies (such as the tariff for the injection of the electricity in the network, the tax on the water machined in hydropower units or used for cooling the coal-based units, that only exist in Romania and not in the neighbouring countries). The market of dispatchable electricity production and the balancing market is extremely concentrated, while the day ahead and the bilateral contracts market are not concentrated. Although at the time being, Romania has one of the lowest prices in Europe for electricity, it is expected that it will raise in the following years up to an average of 65-85 EUR/MWh depending on the capital costs necessary for re-technologizing the production units, price of fuels, modernisation of the transport and distribution infrastructure, costs of certificates for GGE.

New areas of development in the electricity sector
Regional hub for production of spare parts for electric cars and for RES technologies
It is envisaged to produce in Romania batteries for storing electricity, heat pumps, materials for increasing the energy efficiency of buildings, technologies for managing intelligent networks and the energy consumption, which implies that Romania should also become the main regional user of such technologies.
The development of intelligent distribution and transportation networks
The intelligent networks allow the control in real time and the communication in both ways with the customers, by instantly

optimizing the energy production and consumption. The interaction between electricity networks, the internet and the communication networks will intensify, leading to efficiency and flexibility gains. The new technologies will have to insure the protection of personal data and an increased degree of security against potential cyber-attacks.

Promoting electric and hybrid vehicles

The Romanian State undertook to support the development of charging infrastructure and the electro-mobility and energy efficiency markets as such at least in incipient stages, Romania being well positioned for the production of electric vehicles, charging units, batteries and components. The various energy efficiency projects for new and existing buildings also represent a strategic aim.

As an example, until 2020, it is planned to install 222 charging stations with 50kW and 30 with up to 350 kW on the main European corridors and Trans-European transportation corridors.

The plug-in hybrid and electric vehicles market in Romania is in incipient stage but rapidly developing. BMW doubled its sales of BMW i3 in 2017 in comparison to 2016.

Gas

As far as natural gas is concerned, the interconnections with neighbouring countries diminishes the supply security risks.

However, the main problem is the lack of investments in transportation networks and the low pressure in the over dimensioned pipelines, which prevents Romania from being in line with EU standards, placing it in a technical, economic, financial and technological "potential hole", circumvented by the energy flows. As such in the medium and long term the implementation of bidirectional (reverse) flow interconnectors and of regional LNG terminals will bring alternative sources of gas for Romania.

It is expected that in the predictable future the use of traditional fuels (crude oil, gas, coal and nuclear energy) will remain in focus in the energetic mix of the coming years in Romania. Hydro energy will remain the backbone of the national energetic system with some limited contribution allocated to renewables. The on shore and Black Sea off-shore gas resources will be able to insure the internal demand, while coal on the medium and long run will be under the pressure of the cost of greenhouse gas emissions. Biomass will become central for the heating of dwellings in the country side and cogeneration will continue to play an important role by investments planned in the modernisation and re-dimensioning of centralised heat supply systems, new power plants, energy efficiency projects aso.

5. AGRICULTURE

Romania's economic growth is mainly supported by agriculture. A strong proof to this statement is that in the Romania's economic growth in the third quarter of 2017, which amounted to 8.8% – the highest in the EU, was mainly driven by agriculture, trade and services.

The Austrian bank estimated an annual advance of 6.5%, while analysts predicted an even lower increase of 5.8%.

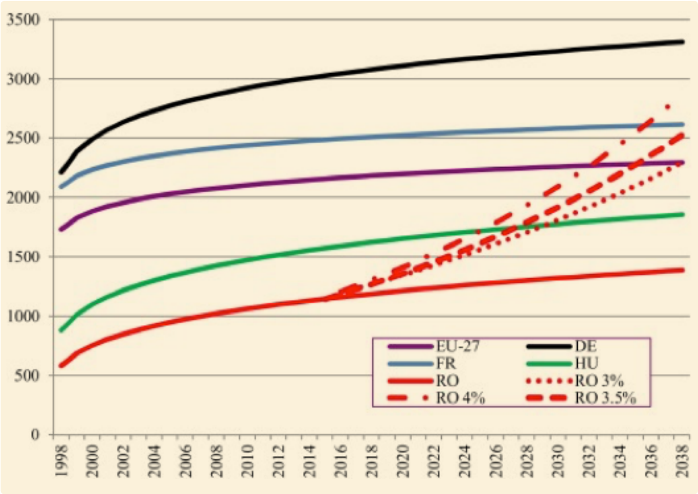
The increased contribution of the agricultural sector accounts for the big difference between the economists' estimates and the provisional figures published by the National Statistics Institute, according to Erste.

"Performance in agriculture has been underestimated, but it appears to have surpassed even the most optimistic scenarios," according to the Austrian bank.

Agriculture had a share of 8% in the nominal GDP in the third quarter of this year, double compared to the first nine months of this year. Trade and services also contributed to the economic growth between July and September, as the households' income increased due to the fiscal and wage policy relaxation.

Forecast of agricultural production value per hectare of utilized agricultural area

To exceed the average level for the EU-27 and to reach France's performance level by the end of the 2038 the following scenario is used with the help of regression functions for the state to draw comparisons (thus maintaining historical evolution trends) by applying different annual growth rates as of 2016 for Romania:



6. TECHNOLOGY

Highly skilled Romanian IT specialists play an important role in the country's economic development, attracting important IT groups, IT operations of large non-IT multinationals, thousands of local entrepreneurs as well as local and foreign financial investors.

Due to the lower salary costs compared to other EU countries, Romania is expected to become a target for higher added-value services, Research & Development centres and significant domestic market projects that would include high-end solutions and technologies.

Highly educated professionals and cost effective human resources have transformed Romania into a European leader regarding the number of employees per capita in the technology sector, holding an impressive sixth place worldwide.

Romania's IT&C sector will increase to 12% of the GDP in 2025, from a current value of 6% of the GDP, reports the head of one of the most important IT&C companies in Romania. Romania will become Silicon Country in the coming years and has all the conditions to turn the IT sector into the economy's iron pillar.

At the moment, Romania has about 150,000 employees in the IT sector, who produce 6% of the GDP. This means EUR 10 billion of a total of EUR 170 billion.

The IT&C sector has reached the same share in GDP as agriculture, with ten times less people working in the sector. If the sector continues to go up, it could reach between 230,000 and 250,000 employees by 2025.

Romania is expected to become a force in the IT sector, considering that it is ranked top five worldwide regarding internet speed with service costs lower than in the western countries and, more importantly, the qualification level of Romanian IT specialists being a main strategic advantage.

IV. SUMMARY

In the context of growing European and international political instability, Romania stands out through its relatively stable macroeconomic situation. Growth has continued in 2016 and 2017, while the commitment to legal reform and an anticorruption campaign are increasing the interest of new investors from both Europe and abroad.

The legal environment has reached maturity with laws and regulations becoming more attuned to the EU context and the demands of the economy. Managing a business has been notably simplified, and the information is largely available online, greatly facilitating all procedures connected to business formation and development.

Romania enjoys an extremely advantageous position due to its geographical location and richness in natural resources. Being part of the EU has been of great benefit for many businesses and the economy has seen a consistent growth in recent years. Low inflation, a careful monetary policy, and a highly qualified workforce provide an excellent platform for further growth.

The substantial structural reforms, which are expected to continue, provide a unique attraction for overseas investors from various locations such as North America, Europe, the Middle East and Asia.

CONTACTS

Stratulat Albulescu Attorneys at Law offers you complete legal services. From contracts to disputes we can help you to start, grow, manage and protect your business, providing leading expertise in every area where it is required.
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