



Why Choose Romania?

Business Opportunities 2008

Managing success

EU membership has brought economic growth and competitiveness, but also a number of challenges.

Since late 1999, when Romania began preparing for EU membership in earnest, the country has enjoyed annual economic growth of more than 6%—the result of a far-reaching liberalization program, remittances from overseas workers, and most importantly, foreign direct investment.

But looking back over the last 18 months since this Balkan nation joined the EU in January 2007, Mugur Isarescu, the governor of the National Bank of Romania, the central bank, says that Romania's success has also brought unexpected challenges.

"After successfully managing several crises during the 1990s, Romania now faces the challenges of managing its own success," he says, highlighting the risks of what he sees as a too-rapid increase in wages (25% a year), a rapidly appreciating currency, rising inflation (8.6%), a current account deficit esti-



MUGUR ISARESCU
Governor, National
Bank of Romania



VARUJAN VOSGANIAN
HE Minister of Economy
and Finance

ated at more than 14% of GDP, and a credit-financed boom in consumption fuelled by imports from the rest of the EU.

Mr. Isarescu, who describes himself as a "prudent optimist," says growth this year will reach 6%, notwithstanding the global credit crunch. For the first quarter of 2008, it grew by 8.2%, compared to the previous year's 6%. Mr. Isarescu has called for fiscal restraint from the government—in an election year—which drafted a budget with a deficit of 2.7% of GDP, with pay rises in the public sector.

"In the past two years we attracted more foreign investment than in the past decade," says Varujan Vosganian, the minister of economy and finance. "The increase in FDI has been directly related to our integration into the EU."

Mr. Vosganian says that the days when Romania could depend solely on low wages to attract investors are gone, and that overseas companies coming into the country now are drawn by low taxes, fiscal stability, investor-friendly legislation, and the growth potential of its markets.

And investors have been impressed by Romania's economic performance in the run-up to EU membership. Foreign investment hit a high point of \$13.3 billion in 2006, and came in at \$11 billion in 2007.

The country's banking sector has attracted several key players from central Europe and Greece, and the National Bank of Romania has some 20 applications for banking licenses from banks throughout the EU.

The retail banking sector is expanding fast: more than 1,100 branches were opened last year, with a similar number expected for this year. ●

ATEbank ROMANIA
www.atebank.ro

step by step,
close to you

ATEbank Romania SA
Calea Grivitei, Nr. 24, Sector. 1
010732 Bucuresti, Romania
Tel: (021) 303-0746
Fax: (021) 303-0732
e-mail: atebank@atebank.ro

Energy: Investors' choice

A restructuring of the sector has brought much-needed competition while strengthening the stock market.

The restructuring of the Romanian energy sector since joining the European Union not only enhanced the country's position as a leading player in Europe, it also provided a boost to the Bucharest Stock Exchange (BSE).

When state-owned electricity distributor Transelectrica was listed in 2006, it was almost 6.5 times oversubscribed. Today, the company remains one of the best-performing blue chips on the BSE. Monopoly gas distributor Transgaz's IPO at the end of 2007 also surpassed expectations, and was 17 times oversubscribed, making it the most successful IPO on the BSE.

In June 2008, investors eagerly greeted the government's announcement that it was following up its 10% listing of Transgaz's capital with an announcement to sell up to 5% more of the gas pipeline operator in the autumn.

"We raised about \$90 million from this IPO," says Transgaz director general Ioan Rusu, noting that this was the first time the Bucharest Stock Exchange introduced the allocation rights, "which allowed investors to sell the allocation rights seven days after the closing date of the IPO, and

not two months as is usually the case."

Transgaz's attractiveness to investors is due in part to its involvement in the EU-backed Nabucco project to transport natural gas from Turkey to Austria, passing through Bulgaria, Romania, and Hungary, due to begin construction in 2010.

In July 2008 Hungary, Bulgaria, and Romania agreed to connect their gas supplies to achieve more secure supplies.

Transgas is also highly profitable. In 2007, revenue surpassed \$488 million, an increase of 8.3% over 2006. Turnover estimates for 2008 are \$568 million, with a net profit of \$145 million.

Mircea Vescan, general manager of Armax Gaz, the

country's leading gas equipment producer for the gas industry, says EU membership offers Romania the chance to play a key role in the EU's future energy map.

"Joining the EU has brought a certain normality to the energy sector," he says, adding: "Our Company has been expecting this moment for a long time. We have everything that concerns the European standards. Armax Gaz has invested a lot in research and technology. We invested a great deal of money in order to have the newest product and technologies. For two years we have created a new concept, which contains projecting, producing, commitment, and maintenance for the equipment."

Mr. Vescan is optimistic about the energy potential of the country. "I think that if this sector is correctly exploited it can bring positive economic benefits to Romania," he says. ●



STERE FARMACHE,
General Manager &
CEO, Bucharest
Stock Exchange



IOAN RUSU
General Director,
Transgaz

TRANSGAZ S.A.
GAS TRANSMISSION COMPANY

Medias, 551130, No. 1 C.I. Motas Square, Romania
Phone: +40 269 803333
Fax: +40 269 839029
Web: www.transgaz.ro

Energy highway of the future

Leaders & Visionaries:

A generation of entrepreneurs has played a key role in creating the modern Romania.

One of the first to see the potential of Romania's technology sector, Gabriel Marin started Omnilogic with \$500 in late 1992. From the beginning, his goal was to become the dominant player in Romania's IT&C market.

Sixteen years later, Omnilogic controls 30% of that market, and turnover amounted to around \$300 million in 2007.

"I think that adaptability is critical. The advantage of Omnilogic compared to most of our colleagues and competitors in the domestic market right now is our vision, differentiation, and adaptability," says Mr. Marin.

As a sales-oriented company, Mr. Marin says Omnilogic's focus is always the customer: "We are not paid by our suppliers; we are paid by our customers. That is why we never advertise that we are partners with IBM, Hewlett-Packard, Cisco, SUN, Dell or whatever, because again, we are paid only by the customers."

He also attributes Omnilogic's success to a long-term business model: "We are not looking for a quick success story followed by a fast exit, either through direct selling, or stock-exchange listing or even join a mid-term exit strategy together with an investment fund."

The company has now set itself a



**Clockwise: GABRIEL MARIN, President, Omnilogic
ANCA VLAD, President, Fildas
DAN OSTAHIE, President, Altex**

turnover target of \$1 billion by the end of 2012.

"At \$3 million revenue per employee, I think we are exceptionally positioned for that desired growth."

Anca Vlad set up Fildas Group in 1991. Since then it has become one of the leading pharmaceutical distributors and health and beauty companies in Romania.

One of the country's wealthiest people, Anca Vlad's is a text-book success story.

Before focusing on pharmaceuticals, she had first studied eco-

nomics, applying her knowledge to furniture exports, and also been country manager for British pharmaceutical giant Beecham.

An early entrant to the pharmaceutical distribution sector, Mrs. Vlad put her local knowledge to good use.

Soon the company was employing 1,600 people, and had established a drug wholesale distribution division, a chain of pharmacies, natural cosmetics, and even organic baby food.

Mrs. Vlad says that among the benefits she hopes EU membership will bring is less red tape, which she says strangles entrepreneurship.

"Romania is still bureaucratic. We have access to European funds, and it would be very sad if young entrepreneurs do not benefit from these possibilities due to bureaucracy."



Str. I.Gh. Duca nr. 36, Otopeni,
judetul Ilfov, 075100
tel: +40 21 3033100
fax: +40 21 3033152
email: mailbox@omnilogic.ro



Business schools in search of a case study of the growth of Romania's retail electronics market need only talk to Altex founder Dan Ostahie for the full story.

In just 15 years, the 39-year-old entrepreneur has gone from owning a single shop selling used television sets to the CEO of the largest retail company in the IT&C, electronics and house appliances market in Romania with more than 70 Altex stores and 15 Media Galaxy stores nationwide.

Over that time, Mr. Ostahie has continually broken new ground, notably through the use of mega stores, squeezing the competition by going for high volume sales, taking advantage of the consumer credit boom that began in 2003.

Now the company is planning to expand into Bulgaria. Altex has looked to expand south of the Danube since 2005, but has shelved

plans to consolidate its market share domestically. Although at one point the retailer had considered the acquisition of a Bulgarian peer, it would now focus on organic growth, according to Mr. Ostahie.

"This is an important part of

"Romania is still bureaucratic. We have access to European funds, and it would be very sad if young entrepreneurs do not benefit from these possibilities due to bureaucracy."

our strategy, but the timing is also very important," he says, adding: "To be successful, we have to protect our domestic market first of all. We don't want to expand abroad just for the sake of it. We want consistent profit growth in profit, and control over our operations. There is a well-known slogan that says 'power without control is nothing.' We want to ex-

pand in a controlled way and we want our expansion to bring additional value, including profitability, to the whole Company."

Bulgaria's household and IT&C goods market is expected to grow by 50% over the next three years,

reaching \$2.2 billion in 2010.

His philosophy: keep the customer satisfied. "They are paying for the products and services that they receive in our stores, and if they're happy, they'll come back."

With turnover of more than €317 million in 2007, up 50% on 2006, customers are clearly returning: Mr. Ostahie estimates turnover of more than €430 million in 2008. ●

Transport & Infrastructure:

A nationwide road-building program is underway.

Along with Poland and Bulgaria, Romania has the lowest number of motorways in the EU: 298 kilometers, compared to France's 8,000 and the United Kingdom's 3,000 km. Despite the efforts of successive governments since the end of communism, this lack of road infrastructure has held back the country's post-communist development, and has been cited by foreign investors as the single biggest obstacle to setting up in the country.

But a government master plan unveiled in 2007 will see 1,800 km of motorway constructed nationwide by the end of 2013, along with the upgrading of 5,900 km of national roads that form part of European Union transport corridors.

Under the supervision of the Romanian National Motorway and National Road Corporation (CNADNR), which is responsible for the construction, reconstruction or rehabilitation of the country's road network, some 50 by-pass roads and ring roads will also be completed by 2013.

Among the reasons for the holdup in expanding Romania's road network so far has been the long delays involved in expropriating land. To help the government speed up construction work, parliament has adopted a law to cut through red tape.

An underdeveloped market for construction materials and the lack of available workers has also contributed to slowing down road



DORIN DEBUCEAN,
General Director of CNADNR

building, sending construction costs skyrocketing. At present, more road building is underway in Romania than in neighboring countries.

In response, some companies have begun sourcing their own materials, building factories to supply materials and recruiting staff itself.

At present the CNADNR is also accountable for maintenance, but

the government intends to create a distinct institution for management of motorways. The future state institution will be responsible for applying new layers of asphalt, painting the trunks of the trees along the roads and cleaning up after heavy rain or snow.

Romania hopes to fund the \$19.4 billion needed for the 1,800 km of motorway to be built by 2013 with \$2.2 billion from the European Union, \$900 million from international financial institutions such as the World Bank, \$9.8 billion from the state budget, and \$6.3 billion from Public Private Partnerships (PPP) in the form of motorway concession contracts to private companies who build and then operate the road, recouping their investment through tolls. Presently there are no

tolls on Romanian motorways.

"This is a sector we very much want to develop," says Dorin Debucean, general manager of CNADNR. "Over the coming decade, the role of PPPs finance projects will increase. The advantage of PPPs is that the state begins the payment only after the project delivery," he adds.

Mr. Debucean says that the CNADNR's goal is to close the motorway gap on the EU over the next decade.

"I am sure that we will get support to carry out the works according to the schedule. For example, in 2002, our whole budget for motorways was \$30 million. This year we have increased that number to \$1.5 billion.

"It will be a lot of work during the next 20-30 years, as shown by

the experience of other states integrated into the EU, such as Portugal, Spain, and Greece. The fact that Romania is an EU and NATO member offers safety for businesses, and a transparent and fair environment," he says.

Mr. Debucean adds that improved road infrastructure will consolidate the country's economic progress.

"The improvement and expansion of road infrastructure has many social and economical benefits, among them the creation of jobs, trade and tourism development, services development, and foreign investments. I am sure, if we develop our projects and try to finalize road infrastructure, many Romanians working abroad will want to be involved and will come back to the country," he says. ●

INOCSA

Back in the late 1990s, most Spanish construction companies were still focused on the opportunities in Latin America. But INOCSA saw the potential of Romania, and in 1999 began working with the public sector there across a range of civil engineering projects.

Set up in 1976, this Spanish-based company handles all phases of the project cycle: identification and feasibility studies, detailed design, works supervision and quality control, and monitoring. In the last years it has implemented several outstanding institutional strengthening programs for multilateral agencies.

With nearly a decade's in-country experience, and more than 100 professionals in seven offices throughout the country, INOCSA also helps foreign companies settle in Romania and develop private projects, assisting them as project manager.

With something like 50% of its international operations there, the company considers Romania one of the best countries in the world to run a business in, pointing to the billions of euros that the EU and other multilateral lending bodies are pumping into infrastructure.

Inocsa has so far carried out more than 14 infrastructure projects countrywide, among them road rehabilitation, the development of ski resorts, industrial parks, wastewater plants, and water supply systems.



CARLOS GALVEZ LEON, Branch Manager, Inocsa

Fears of lack of transparency after EU accession, with tenders no longer overseen by European Commission (EC) rules and regulations, have proved unfounded, says the company.

Considered one of the main infrastructure consultants in Spain, the company has actively participated in the planning, design and supervision of infrastructure works there such as motorways, highways, high speed trains, and hydraulic works. In recent years the company has obtained the greatest volume of contracts from the Ministry of Development and the Environment in Spain.

INOCSA has specialised in earth sciences and civil engineering, especially in the following fields: agricultural industry, geology and geo-technology, hydrology and hydraulic resources, environment, transport and urban development, roads and railways, bridges and dams, as well as institutional consulting.

Aside from its activities in Romania, INOCSA has offices throughout Spain and branches in 10 countries in the world, with active delegations in Bosnia and Herzegovina, China, Argentina, Peru, Nicaragua, Honduras and Dominican Republic, and representative offices in Bolivia, Venezuela, and Mexico. ●