

ROMANIA

■ Business
Opportunities
EU 2007 Series



Full steam ahead

Romania's EU Accession promises bright investment future

AFTER SEVEN YEARS of sweeping reform, Romania burst onto the European Union earlier this month, hoping to infuse renewed excitement into the now 27-member bloc as the latter extends its reach eastward to the Black Sea.

With an unemployment rate hovering at just above half of the bloc's average and as the seventh largest EU country, Romania is poised to revitalize the European Union.

"We aim at giving a new impetus to the European project at a time when in the older European countries there is a certain Euro-skepticism," stated Romania's Prime Minister Călin Popescu-Tăriceanu earlier this month. "The EU has gained in Romania a loyal partner, as we intend to bring our contribution to the revitaliza-

tion of the European project."

If the current buzz surrounding the country's real estate market is any indicator, Romania is well on its way to providing unique financial opportunities within its borders and for its partner nations, while making good on its promise to continue the reforms it undertook toward full integration.

"My government is now focused on triggering an optimum absorption of the EU funds that will be available for Romania. In the 2007-2013 budgetary period we have the opportunity to invest European funds worth approximately EUR 32 billion," said Mr. Popescu-Tăriceanu. "We have to direct these investments in the domains that are key to Romania's modernization. This is a

huge business opportunity for private companies, from Romania and abroad, as well as development opportunity for my country."

Indeed, building on a seven-year economic growth Romania has seen an unprecedented surge in the last two years. With forecasts of almost 8 percent sustainable growth and inflation at just 4.85 percent for the 2006 fiscal year the nation's track record surpassed those of the 10 most recent EU members.

As Romania continues the sweeping political and economic changes it undertook prior to EU accession and steps in as a major player on the European political arena, the country's various sectors hold a promising future for investors and nationals alike.

Banking on a New EU Member

THE EU'S DECISION to consider annexing Romania to its bloc in 1999 proved to be fortuitous, as the once Communist nation ranked as the number one business environment reformer in Europe, according to World Bank's annual report "Doing Business in 2006."

"Don't miss the chance to invest in Romania. It is impossible to start a business in our country without getting rewarding results." - Prime Minister

Călin Popescu-Tăriceanu

While direct foreign investments pumped into the country last year were at their highest levels since 2004, increasing 2005 figures by roughly 56 percent to 8 billion Euros, the country sits on a virtual gold mine as it seeks viable projects over the next six years for the more than 30 billion Euros in EU funds it has received.

The consolidation of the rule of Romania's laws and institutions and the continuation of reforms mandatory for EU membership will coalesce the business environment of the country even further, said Prime Minister Călin Popescu-Tăriceanu.

"Romania offers extraordinary opportunities," said Mr. Popescu-Tăriceanu, "and the profit rate of the companies that have invested here is huge."

The benefits of setting up shop in Romania are attractive. A flat tax rate of 16 percent on income and profit; a sustained decrease in social contributions into state coffers; a highly adept work force; a prime

geographical location to facilitate exports throughout Europe and worldwide, and - perhaps more importantly - a territory offering streamlined EU regulations in a domestic market that offers potential of 22 million consumers all lead to a win-win situation for this ninth largest land in the Union that only 18 years ago was in the grasp of a bitter revolution.

"The access to European funds... will increase investments in infrastructure, agriculture and rural development, work force, etc.," said Mr. Călin Popescu-Tăriceanu. "On top of that, the Government has its own programme of investment in four strategic fields: education, health infrastructure, agriculture. For all these reasons, I keep saying to all business people I meet: Don't miss the chance to invest in Romania. It is impossible to start a business in our country without getting rewarding results."

According to national economists, this trend of economic growth will be sustained for years to come based on encouraging productivity data.

"Our assessment is that a critical mass of positive developments were created in the last five years including better management and employment standards and improvement in technology as well as a better perception of Romania from abroad," said National Bank of Romania Governor Mugur Isarescu in a recent interview. "All this has contributed to this critical mass of change. In the last twelve months our productivity growth has remained around 14 percent, this leads me to believe that overall economic growth will remain higher as well."

In weighing the risks of such a rapid economic boom, Mr. Isarescu noted that Bucharest must focus on maintaining high productivity levels nationwide while focusing on balancing imports and exports, as well as taking note of structural issues that exist within the system.

The National Bank of Romania, the country's central banking system, has adopted a two-pronged strategy to encourage both private and public sector investments in Romania's infrastructure, according to Mr. Isarescu.

NBR aims to ensure Romania's microstability by maintaining its inflation levels competitive to those of its EU counterparts and by inspiring long-term credibility in the country's economy. Secondly, it intends to "secure the financial stability



**Mugur Isarescu,
Governor of the
National Bank**

and to address any risks to the country's financial strategy on a global scale, while working toward a full integration of its banking sector with the European Union,"

"Romania was historically an important part of Europe and should remain pivotal in the future."

- Mugur Isarescu, Governor of the National Bank

according to Mr. Isarescu.

Just as their politicians and economists, Romanians are rejoicing at the opportunity of being an EU member and at the chance of blazing trails in their own financial future.

Europe, likewise, also has a lot to gain by the country's location, size, workforce, natural resources, and the Danube River that feeds Central Europe from the North to the Black Seas.

And, in this land seeking contracts and foreign capitalists alike, so do investors! ■

Exceeding Standards: Competitive Quality in Europe

FOURTEEN YEARS AGO, then 24 year old Dan Ostahie saw the dramatic political changes in Romania as an opportunity to tap into a nation inpatient to catch up with the rest of Europe.

With a loan from his father, he set up shop to sell used television sets imported from Switzerland. Consumers flocked in and by 2001 he was running a \$20 million business. The introduction of consumer credit turned a corner for the Altex Group with a spectacular leap, bringing in \$349 million in sales in 2005. While the market stabilized in 2006, consumer electronics have now become a part of everyday life in Romania and Altex is a household name.

"From the beginning, we have concentrated on bigger surfaces because we can then offer not only products and services but also drive our customers to the whole shopping experience," explains Ostahie, president and CEO of Altex Group.

"In our stores, interaction with the products and personnel is a small, but important, attraction that we have. We do not have a museum. We have a shop. We are starting to assemble computers in order to control the overall quality as well. It is a competitive advantage to be able to control quality and to control medium and long term costs."

That business outlook has enabled the neighborhood shop of second hand televisions to capture a significant share of Romania's electronics and home appliances retail market.

With more than 125 ALTEX Megastores and more than half a dozen Media Galaxy stores, Romanians are experiencing a new retail concept that offers everything in the

field of IT& C and multimedia.

The rags-to-riches story, however, is not just luck. It is based on focused strategy that includes keeping the company on top of market trends, anticipating specific consumer appetites and being flexible - especially as the company enters the market fray as a member of the European Union.

"Romania is catching up quickly and we try to be part of this transition in a smart way, trying to anticipate one minute before where the market is, making sure we are not too early or too late."

Similarly, he says, as competition is likely to increase from other EU outlets, Altex needs to adjust to changes in the market.

"We have to be prepared with an increase of the market for additional resources and when it goes down we have to be prepared to cut costs and adjust," remarks Ostahie.

Hotel InterContinental Bucharest - In The Centre of The City and Above It -

Situated in the very heart of the city, exactly near the National Theatre, Hotel Intercontinental Bucharest offers its guests various facilities in a friendly atmosphere and ensuring the best view over Bucharest.

Recently renovated, offering the best services for its guests - fitness centre, indoor pool, sauna, beauty saloon - the hotel ensures luxurious accommodation.

Travellers choosing InterContinental for their trip will find here 283 rooms (from which 21 apartments), all of them with balcony access and all the necessary amenities to ensure the maximum comfort: air conditioned, High Speed Internet,

Wireless Internet, international telephone with voice mail, TV, minibar 24 hours Laundry and Room Service.

Some of hotels' unique facilities guarantee its position as one of the top five star hotels in Bucharest and we can mention among others the in-door pool situated at the 21st floor, with a great view, sauna, fitness centre and massage or the 2 presidential suites with sauna and Jacuzzi bath tubs.



Three restaurants

and bars offer a varied menu with international and traditional dishes:

- Corso Brasserie - natural light restaurant, with a warm atmosphere and serving local and international dishes;

- Madrigal - The Steak House - the best genuine steak house in town;

- The hotel bar - "Intermezzo" - offers a selection of cocktails and drinks during the entire day, in a relaxing and intimate atmosphere.

Besides the impeccable accommodation services, Hotel InterContinental Bucharest dispose of meetings & events facilities, being able to host 500 persons - Ronda Ball Room (300 persons), Florentina Meeting Room, Intim and Hora Meeting Room. ■

ALTEX

THE LOWEST PRICE IN ROMANIA

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The Information Highway in Romania: On the Right Track

Omnilogic paves the way to **success** as a strong competitor

IT ISN'T ALWAYS OBVIOUS, but Omnilogic is likely touching the lives of anyone who uses a computer, makes mobile phone calls or somehow does business in Romania.

But it is exactly that background work that has quietly earned the information technology and communication company a privileged position in the country's burgeoning IT sector, which has already become a magnet for foreign firms looking to take advantage of the country's strategic position as a new member of the European Union.

Fourteen years after it started with a few thousand dollars and a handful of employees, Omnilogic holds an estimated 30 percent market share of the Romanian IT&C industry. With around 300 million USD revenue forecasted for 2007, the company has established itself as one of the most important suppliers of IT and Telco specific hardware and software for the financial sector, telecoms operators or small and medium businesses.

That's a pivotal place to be at a time when multinationals such as Oracle Corp., Hewlett-Packard or IBM are opening centers in the nation's capital, Bucharest.

"We are infrastructure builders and we partner ourselves exclusively with the number one and two market leaders in different sectors," explains the company's founder and managing director, Gabriel Marin, 47, who holds a PhD in economics and computer science from the Romanian Academy of Economics. His background has enabled Marin to lead Omnilogic to new growth levels, restructuring the company on-the-run, without slow-downs or delays.

"To run a fast growing company, considering the different challenges at each different level of growth is definitely not an easy job. It requires not only the vision and the permanent effort in execution, but also a positive mental attitude for managing the constant change which characterizes our industry.

Additionally and I might say fortunately for us, most of our domestic competitors have run their business primarily as a technical challenge, while we've been running things from a very pragmatic point of view, meaning the

continuous increase in revenues and profits."

Keeping the company competitive and controlling costs are the driving forces behind Marin's approach of doing business, including using a twist on the outsourcing theme -- which in most peoples' minds brings up images of funneling work to lower-wage locales such as India or China. Marin looks within his own country.

"We outsource roughly two hundred employees from other companies whom we work with on a contract basis," he adds.

Partnered with worldwide IT&C leaders such as Cisco Systems, Nortel Networks, Ericsson, IBM, HP, SUN, Dell or Oracle, Omnilogic has managed to make itself visible both to the Romania's financial and telecoms sectors, as well as succeeding to become the preferred technology supplier for the small and medium businesses sector.

Even amid the country's profound changes since the 1990s, Omnilogic managed to grow with its recognized technological capabilities, solid corporate culture and a clear vision, keeping costs low and productivity high in pursuit of becoming a national champion and a regional force in the Balkans and beyond.

Marin has done that with 60 employees, far more than the eight he started



Gabriel Marin,
Managing Director
of Omnilogic

with, but still lean for a company of Omnilogic's size and scope. Marin encourages a tight-ship model.

"Our business model of not having a large payroll makes us flexible, makes us profitable and is not a burden to our corporate profit and loss," Marin says.

"We can maintain a competitive advantage against similar companies in places like Germany, France

and the United Kingdom because of these cost issues. Our products and services are the same quality or better at a fraction of the cost. A good engineer in Western Europe must make five or six thousand euros plus benefits. Here in Romania you can have the best of the best for about two thousand euros, and that is one of our competitive benefits."

With its eye on reaching \$500 million in revenue in 2008 and around \$1 billion by 2010-2012, Omnilogic has set a goal to not only take advantage of Romania's EU membership but to also position itself in order to become a global player.

Yet, Marin says that even if the company reaches that level -- and sets the stage for a possible IPO -- it will never lose sight of its core business and its position in the market.

"We don't want to diversify beyond our proven core competences within the IT&C industry. Also, we will never develop along the conglomerated model of a holding of different companies, at least for avoiding the risk of losing our identity or focus.

We will always be just Omnilogic the way we've built it from the very beginning, a solid company with a straight and transparent business model based on a clear vision and excellence in execution.

I do believe that these things make the difference between us and our competition, and create the value-add which any company should bring to the market." ■



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