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The liberalization of the electricity market in Romania, as well as in its surrounding countries and in Europe in general, creates a very dynamic and complex market with a lot of opportunities and challenges.

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Banking: readily convertible

More than 64% of Romanians last year never used a bank. In 2002, the figure reached 80%. Was all the money tucked under grandma's pillow? No, the catch was that people were squirreling away their savings at CEC, a deposit-taking institution until recently considered a non-banking bank. CEC relied on a loyal customer base in the countryside, often leery of new products. Times have changed and the financial system is now a step ahead of others in terms of competitiveness.

"We are forced to implement many things that other European countries are not so hard-pressed to do," says Radu Ghetea, CEO of Alpha Bank. An EU-accession country, Romania needs to show its best credentials during 2005-2007. An electronic payment system and a database for non-performing loans are in place. With added liquidity expected later in the year as a result of the flat tax rate, a new credit bureau is being set up. And as of January 2006, Romania will implement IFRS, the international financial reporting standards. "We have no other choice," says Ghetea.

"Our agenda includes the privatization of the last two important state-owned banks: the commercial bank (Banca Comerciala Romana, BCR), which has more than 30% of market share, and the savings bank (CEC)," says Prime Minister Calin Popescu-Tariceanu. The state owns only 37% of BCR, but it is considered a parastatal because another 25% belongs to the European Bank



for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). These last two institutions are responsible for a new stress on corporate governance in Romania. Risk management will improve the quality of portfolios in an economy still heavily in transition.

"We have a very precise business plan to upgrade BCR on all fronts over the next three years. Our targets for 2004 have been met. We have consolidated our position as Romania's leading financial institution," says Nicolae Danila, CEO of BCR. The bank increased its asset base by 1.6 billion euros last year. With 6.5 billion euros on its balance sheets and 5 million customers, it is no lightweight. BCR officials expect to double net profits in 2005 by offering asset management and brokerage services. The BCR has divided its market into four segments: multinationals, SMEs, retail and local customers. "We've done a good job and approximately 67% of SMEs are our customers," says Danila.

The expansion will run parallel to the privatization process. For now, there is a tacit agreement with the EBRD and the IFC to find strategic investors. "But it is up to shareholders to decide on a final option," says Danila. However, absorbing excess liquidity will become a major challenge later in the year. Demand for consumer loans will rise. And at the same time, liberalization of capital accounts will attract speculative inflows from foreign portfolio investors. Expect action by the central bank to push interest rates downward.

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Success Story: IT Services

Swiss quality at Romanian prices

Marius Cojanu has not regretted his decision to return to his native Romania after twenty years, leaving behind a comfortable life and an exciting professional career in Switzerland. He started Romsys with a vision twelve years ago and has since guided it to become one of the most successful IT companies that have emerged in the post-Ceausescu era.

Starting from scratch in a small Bucharest apartment with \$1000 as seed capital and a team of five computer engineers, Mr. Cojanu has built his company to become one of the leading providers of corporate IT solutions in the country, employing over 200 high-tech specialists. Many big organizations in all major sectors such as banking, telecommunications, public utilities, and even the government have turned to Romsys for help over the years.

Innovative Business Strategy

Although a relative late entrant into the market, Romsys managed to succeed by choosing an innovative business strategy. While most other players had been selling hardware and software products, Romsys was geared from the beginning as a solution provider, developing and implementing tailor-made solutions to customer needs, which helped its customers increase the efficiency of their activities and make them more competitive.

“Customer satisfaction is our top priority and the key value of the company. Romsys engineers have always strived to implement projects on time, on target, within budget, and without any rebate to quality,” says Cojanu.

Romsys started with two complex projects which involved implementing integrated banking systems for two new Romanian banks. Subsequently, the company successfully implemented over 25 major infrastructure-type projects for large Romanian organizations, both in the public and private sectors.

Through these projects, Romsys acquired a valuable experience in developing and implementing advanced information and communications systems solutions, on a variety of hardware, software and networking platforms.

Swiss Quality at Romanian Prices

The Romsys name has stood for quality in IT solutions and services for twelve years. In June 1996, Romsys became the first ISO 9000 certified IT company in Romania. The quality audit performed by SGS Switzerland confirmed Romsys’ special commitment: Swiss quality at Romanian prices. “Romsys is praised for



Marius Cojanu, President & CEO Romsys

the quality of solutions and services offered to our customers, including design and development, implementation assistance and users training, project management, as well as comprehensive post-sales technical support and maintenance services,” Cojanu points out.

For the number and complexity of the projects implemented so far, Romsys won in 2002 the “Best IT System Integrator in Romania” award, in a public contest organized under the high patronage of the President of Romania.

International Recognition

A major milestone in the company’s history was the Lockheed Martin Star Supplier

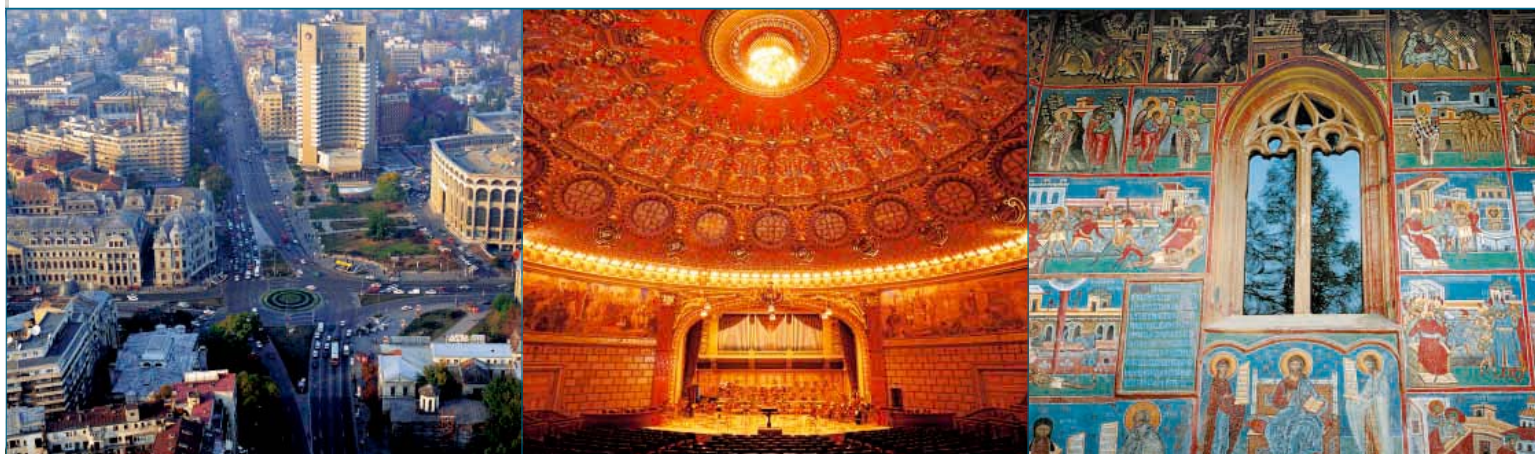
award in 2003, giving Romsys a special international status and recognition.

“The Star Award is a significant accomplishment and is only given to the very few elite companies which Lockheed has determined to be their best subcontractors. The fact that Romsys was selected is a true testimony of the quality of the workmanship by Romsys, and it can be summarized as the dedication to mission to success, commitment to service, customer satisfaction, and execution of an effective quality system. What is especially noteworthy is that Romsys is the first company from Central and Eastern Europe to receive this award,” said Richard Martin, VicePresident of Lockheed Martin during the award ceremony.

“We feel very proud of this recognition by one of the most prestigious American defense contractors. When a corporation like Lockheed Martin recognizes our value, we can stand up in front of any other business partner,” added Mr. Cojanu.

In spite of its relative youth, Romsys has solid experience earned under difficult conditions. Its employees’ breadth and depth of technical expertise is a vast reserve of intellectual capital, which makes it well prepared for the highly competitive international market. A powerful can-do spirit combined with a young team of ambitious local engineers gives Romsys a competitive edge. Its motto, Swiss quality at Romanian prices, should certainly attract some attention abroad in the future.





PHOTOS: MINISTRY OF TOURISM

Romania: fluid dynamics

IF THE COUNTRY IS TO ENTER THE EU BY 2007, THE CENTER-RIGHT COALITION NEEDS POLITICAL FLUX TO PASS SUBSTANTIVE REFORMS.

It was a stormy summer. A decision handed down in June by the Constitutional Court set off political turbulence. A month later, flash floods further dampened the reform climate. For the center-right coalition of President Traian Basescu, the gridlock could delay EU accession. But it also offered a perfect time window. And so, amid cabinet resignations and a call for early elections, Romania put an end to its 14-year transition.

In the post-Communist period, politicians were largely drawn from the former elite and change came grudgingly. The National Liberal Party (PLN) came to power last December on a can-do, reformist platform. The President promised to create a Bucharest-London-Washington axis to reinforce security. At the same time, he would use Romania's EU bid to force economic convergence.

"Our political program is fresh," says Prime Minister Calin Popescu-Tariceanu. It involves a package of 17 laws that will reform the judicial system and bring it in line with the EU. Fiscal reforms, in particular the 16% flat tax, will ensure growth. Tariceanu looks at Slovakia, where lower taxes restored economic health and recapitalized the private sector. "We want to give incentives now to those with imagination and energy to work. In two years it will be too late," he says.

Lately, change has included EU guidelines to restructure industry and agriculture. Liberalization of utilities, with higher prices for end-customers, is also in store. Job creation will prevent an ebbing of popular support.

"Our economy used to be structured around a few industrial giants with 50,000 employees. All activities were integrated in

these state-owned companies. That's why we have to restructure everything from its very fundamentals," says Tariceanu.

"There is an immense reservoir of unmet needs here and the energy to make it happen," adds Roberto Musneci of the American Chamber of Commerce. Services are expanding rapidly in this market of 22 million. As of 2005, income per head is still low at \$4,084 but foreign investment netted \$5.1 billion last year, linked to the privatization of oil operator Petrom and two utility companies. Meanwhile, the National Bank has squeezed inflation into single digits.

"All the easy privatizations were finalized in 2000-2001. Now there are only a few cherries left," says Gilbert Wood, president of the Foreign Investors Council. Privatization of energy is a strict government priority. Romania can create value for the economy by taking advantage of crossborder swaps. "Since 1998, there has been a large-scale restructuring of the electricity and energy sectors," says Enrique Ferrer, CEO of the Energy Holding (EH). Four independent joint-stock companies emerged out of the sector overhaul. "Right now, 55% of the market is open and any consumer with needs above 20G watts can choose its supplier. The deregulated market will increase to 80% in 2006," says Ferrer.

The largest private electricity supplier, EH imports megawatts from Bulgaria and re-exports them to Hungary. Turnover in 2004 was \$250 million. The private operator is helping to rehabilitate Romania's hydroelectric plants. It is the only Romanian company in the World Business Council for Sustainable Development. EH is thus able to sell electricity via the European network, known as the UCTE. "It is a dynamic exchange for which one has to be well equipped," says Ferrer. By joining the Balkan Power Exchange, he hopes to optimize the company's regional standing. The new mercantile exchange will allow traders to work with futures contracts, just like in the oil market. "For Romania, it will change the game completely," says Ferrer.

INDUSTRY

Timisoara: industrial interface by Paul de Zardain

After Bucharest, the region of Timisoara is the main target of investment. It is a railroad hub in western Romania with a technical university tradition. "A qualified workforce is one of the most important criteria for foreign companies when they decide where to locate their operations," says Romanian Prime Minister Calin Popescu-

Tariceanu. The new industrial park, known as PITT, takes advantage of the region's links and of the local airport. Infrastructure came up in 2004, financed in part by the EU. The local economic development council, Adetim, is PITT's interface between the public and private sector. It offers consultancy and assistance to new companies

interested in greenfield sites. So far, their work has paid off and they are targeting 100% occupancy rates within 3 years. "Our concept is quite evolved. We define the lots in our park according to industrial clusters. This creates internal cooperation and synergy effects," says Adetim's managing director, Sergiu Balasa.