

# Central & Eastern European Mergers & Acquisition Survey 2005\*

## Romania Report

### Introduction

It is a pleasure to present to you our latest report on the mergers and acquisitions (M&A) market in Romania in 2005, in the light of the recent regional developments. As in our previous report we have a special section dedicated to privatisations.

The survey included 1,848 publicly disclosed private sector transactions and over 300 privatisations in ten countries of the region (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Slovenia and Ukraine).

In 2005 Romania's economic growth and inflation rate followed a moderate pace vis-à-vis 2004. Even though economic growth declined as compared to 2004 level and the inflation target was slightly missed, the foreign direct investment maintained its ascending trend (EURO 5.2 billion - National Bank of Romania, preliminary data for 2005). The growth in FDI may be partly explained by the ongoing privatisation process and also by the changes that Romania underwent: the introduction of the new Fiscal Code aimed at ensuring stability of the tax system and the EU accession process.



In 2005 the Romanian M&A market followed the growing trend of 2004 and reached high values in terms of number and total value of publicly available private transactions. Romania's path towards a stable economic environment and its desired EU membership contributed to fueling foreign investors' interests in the local market. Among the most active industry sectors from the M&A standpoint were manufacturing, services, financial services and food&beverages.

Although a downturn of privatisation process is envisaged, there are still important transactions expected to occur. Some of them have already been initiated as it is the case with Electrica Muntenia Sud – the electricity power distributor and the National Savings Bank (CEC), while others are on the waiting list: the National Gas Company (Romgaz), three power complexes and three power distributors, the Romanian Freight Railway Transport (CFR Marfa), the Romanian Post and the National Radiocommunications Company.

It is expected that the EU accession and the estimated economic growth will be the triggers for an increased M&A activity in the years to come. Moreover, the Romanian M&A market is becoming more mature as also shown by the increase in the total value of transactions.

Emilian Radu  
Partner  
Transaction Services  
Romania

## M&A – Key findings<sup>1</sup>

A number of 117 publicly available private sector deals were completed in 2005, more than double when compared to those reported in 2004 (42 in 2004 and 33 in 2003).

In terms of total value of the transactions, the 2005 M&A market shows significant increases from USD 1.4 billion in 2004 to an estimated USD 5.8 billion the following year. Hence, in terms of total market value, Romania improved its position among the 10 CEE countries surveyed ranking fourth after Russia, Czech Republic and Poland after being on the sixth position for two consecutive years (2003 and 2004). Not only does this represent a 313% increase versus 2004 but it also places Romania among the top three countries in the CEE region<sup>2</sup> enjoying the highest growth rates.

Another important fact is the increase in the average disclosed deal size which grew from USD 18 million in 2003 to USD 41 million in 2004 and to USD 65 million in 2005. Moreover, the total sum of disclosed deal values (worth more than USD 100 million) increased from USD 625 million in 2004 to USD 3,982 million in 2005 thus showing an increased capitalization of companies.

Foreign investors' involvement in the M&A activity in Romania was similar to 2004 level. Foreigners were responsible for 72% of all deals as compared to the CEE average of 40% (in terms of volume), indicating the choice of Romanian companies for strategic foreign partners.

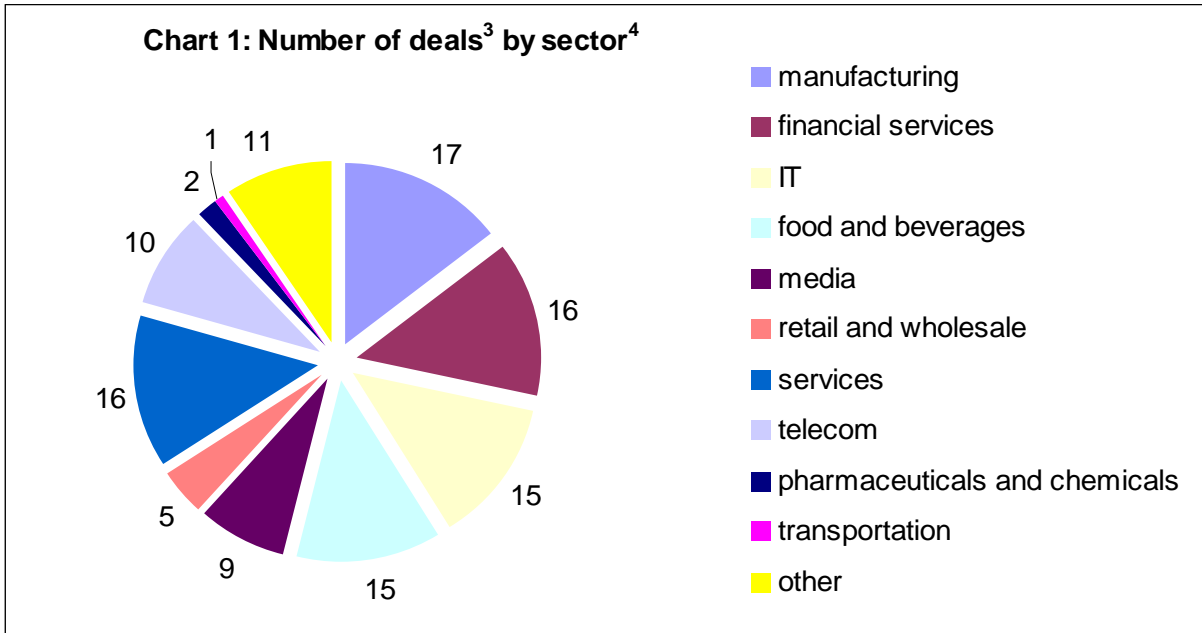
Among top investors, United Kingdom holds the first place in terms of total value of deals with USD 2,582.5 million invested, the major player being Vodafone International Holdings (USD 2,528 million). France ranks second with USD 625.6 million (main investor being France Telecom – USD 523 million) and the United States is third with USD 457.8 million (main investor: Liberty Global – USD 407 million). In terms of number of deals, Austrian investors were the most active with 11 deals, followed by Greek (ten), American (nine) and French (eight).

The most dynamic sectors were manufacturing (17 deals), financial services and services (16 deals), with manufacturing maintaining its leader position from the previous two years (2003 and 2004). The telecommunication sector was replaced from the second position held in 2004 by the financial services sector in 2005. The main driver of financial transactions in 2005 was the insurance sector which had been growing at a fast pace following the changes in legislation from 2000. Among the most notable M&A transactions in the financial sector were the acquisition of Tiriac Bank by HVB and the take over of Omniasig (70.7%) by Wiener Staedtsche Allgemeine Versicherung AG. The telecommunication sector (ten deals) leads in terms of the total value of deals holding 62% of the total Romanian market (Vodafone-United Kingdom acquired MobiFon-Connex for an estimated price of USD 2.5 billion – the second largest transaction in the region).

---

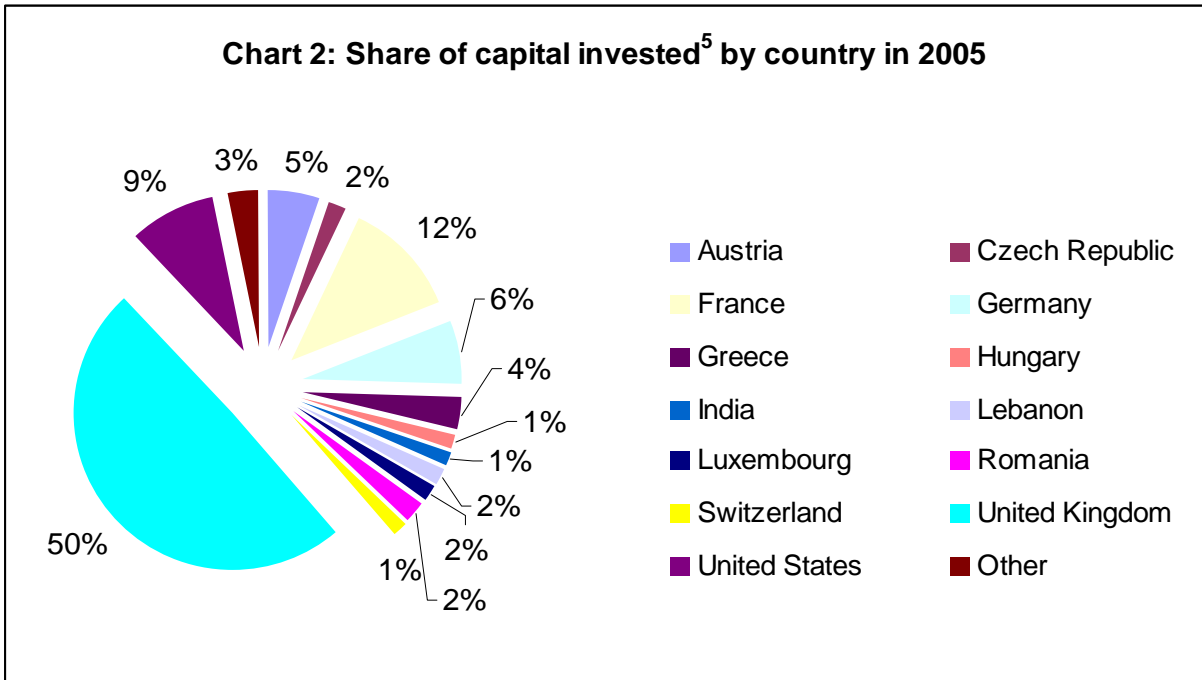
<sup>1</sup> Privatisations are not included in this section. Please see the next section of this report.

<sup>2</sup> CEE region refers to the ten countries analyzed in this report.



<sup>3</sup> Total number of deals = 117

<sup>4</sup> Utility and construction sectors had 0 deals



<sup>5</sup> Total estimated value of transactions = USD 5.8 billion

Other = Bulgaria, Cyprus, Denmark, Israel, Italy, Netherlands, Norway, Poland and Spain

## Privatisations – Key findings

2005 was the year when the total value of the publicly disclosed transactions in the public sector reached a record figure for Romania of USD 4.9 billion (estimated market value).

The driver behind this high amount was the privatisation of the state-owned bank – the Romanian Commercial Bank. The other important privatisations consisted of foreign capital of USD 326 million invested in acquiring majority ownership in two major electricity distribution companies. Electrica Oltenia and Electrica Moldova were sold to Ceske Energeticke Zavody (CEZ), and E.ON AG. Other three electricity distributors and three power complexes are to be put for sale in 2006 together with the potential listing of gas generation, gas and electricity transmission companies.

The major trend in privatisation for 2005 followed a similar path to that undertaken during the past year. Several high profile privatisations have occurred during 2004-2005: privatisation of gas distribution and the sale of four electricity distribution companies.

In 2005, the financial sector was also active in terms of privatisations with the launching of privatisation processes for the Romanian Commercial Bank (BCR) and the National Savings Bank (CEC), the former being almost completed. BCR represents the largest Romanian bank, with approximately 25 percent market

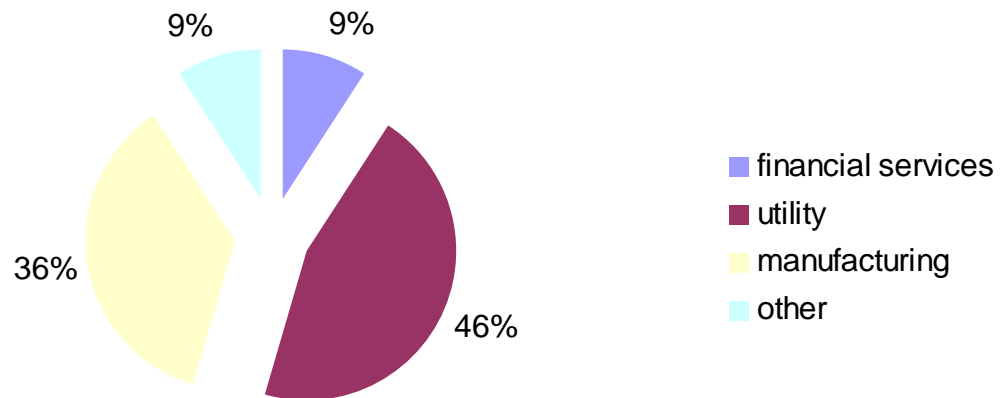
share. Its privatisation is viewed as the most important privatisation deal in Romania together with the privatisation of Petrom, the Romanian national integrated oil company. The new owner of BCR is Erste Bank which acquired 61.88% stake for USD 4.5 billion. Among other bidders were important foreign banks such as Millenium PCB, Deutsche Bank, Dexia, BNP Paribas, and the National Bank of Greece.

In terms of the total value of publicly disclosed privatisations, Romania shares the first position with Ukraine among the 10 CEE countries analyzed with USD 4.9 billion invested in 2005 followed by the Czech Republic (USD 4.3 billion) and Hungary (USD 2.7 billion).

Another notable aspect is the evolution of the average disclosed deal size which increased from USD 62 million in 2004 to USD 442 million in 2005, Romania ranking third after Ukraine and Slovakia. This may be explained by the shift towards fewer but larger deals, with 99% of the privatisation spending coming from foreign investors.

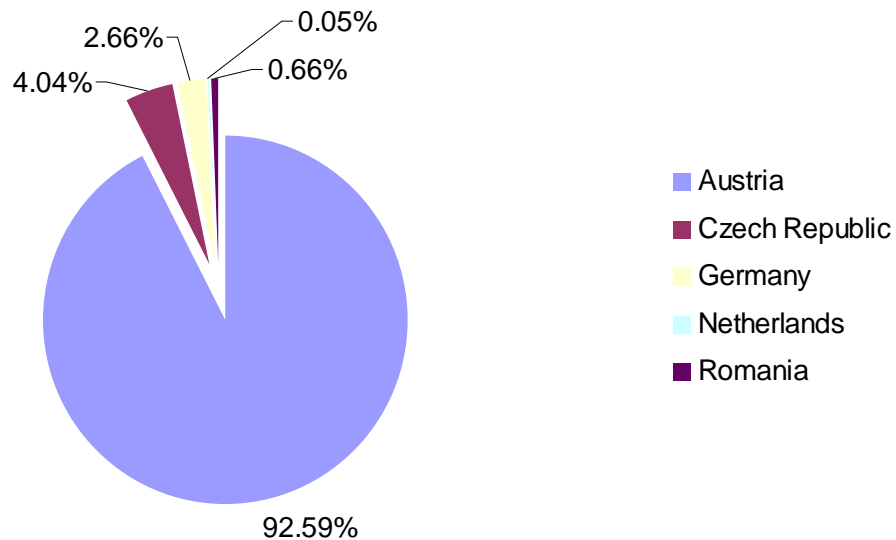
Compared to previous years, the manufacturing sector was replaced by the utility sector in terms of number of transactions occurring. On the other hand, the financial sector total deal value ranks first followed by investments in utilities.

**Chart 3: Number of privatisations<sup>6</sup> (%) by sector**



<sup>6</sup> Number of publicly disclosed privatisations = 11

**Chart 4: Share of capital invested<sup>7</sup> by country in 2005**



<sup>7</sup> Estimated total value of privatisations = USD 4.9 billion

## Note

This publication includes information obtained or derived from a variety of publicly available sources. PricewaterhouseCoopers has not sought to establish the reliability of these sources or verified such information. PricewaterhouseCoopers does not give any representation or warranty of any kind (whether express or implied) as to the accuracy or completeness of this publication.

PricewaterhouseCoopers ([www.pwc.com/ro](http://www.pwc.com/ro)) provides industry-focused assurance, tax and advisory services for public and private clients. More than 130,000 people in 148 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

© 2006 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

\*connectedthinking is a trademark of PricewaterhouseCoopers.