

Year one after EU accession



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Business as usual

The champagne stream which barely managed to stop after January 1 2007 – the first day of Romania's membership of the EU – might have been an indication in the eyes of optimists that nothing could hold up, at that moment, a flow of successful mergers and acquisitions in a country that just ended its fifth consecutive year of economic growth. However, most experts of the Romanian M&A market remained rather sober and realistic, carefully pondering all existing factors and looking at the developments from all possible angles.

While still being mixed up in uncompromising political unrest which surprisingly left the economy almost untouched, Romania continued to offer during 2007 the same eye-catching opportunities for foreign investors. Although business expansion went on persistently, improvement in the market seemed to be rather meager. According to a PricewaterhouseCoopers survey, Romania is still behind other countries in Central and Eastern Europe in terms of aggregate deal volume on the M&A market (both public and private). Therefore, the deals that made the headlines were far from breathtaking.

Few highlights

However, some significant transactions that have either started or been finalized during 2007 are worth mentioning. In a distinctive manner, power, oil and gas seemed actually to have been the basic pillars of the M&A market in Romania, in the past years.

Italian utilities player Enel executed the privatization agreement of Electrica Muntenia Sud, one of the most important electricity distribution companies in Romania. A stake of 67.5% of the company's share capital has been acquired in exchange of 820 million Euros. Based on the agreement, Enel actually bought a 51% stock, while the remainder will be the result of a share capital increase. Further transactions in this field are those concluded by CEZ and EON, following which the majority stocks in the electricity distributors Electrica Oltenia and Electrica Moldova have been purchased, for a total amount of \$326 million. It is almost the end of a success story that has started, four years ago in the gas sector, with the takeover of Distrigaz Nord and Distrigaz Sud, by EON Gas and Gas de France.

An indeed spectacular transaction occurred in the energy field, where the Romanian oil company Rompetrol put 75% of its stock at stake for no less than \$2.7 billion paid by the Kazakhstan state oil giant KazMunaiGaz. It was the second largest takeover of a Romanian company, after Erste Bank bought Banca Comerciala in 2005, paying 3.75 billion Euros.

Speaking of Banca Comerciala Romana, Erste Bank had started the listing process last year of the bank's shares on the Bucharest Stock Exchange, after it acquired an additional quota of 7.2% of the share capital from the bank's employees, for a total amount of 543 million Euros.

Automobile Craiova, one of Romania's leading car producers, formerly privatized to Daewoo and then re-nationalized after an undeniable failure, finally managed to be sold by the National Assets Authority. The winning bid submitted by Ford amounted to 57 million Euros for 72.4% of the company's stock. The low price just mirrored the fierce competition for the deal, considering General Motors, although initially interested in the privatization, later decided not to place a bid. According to the shares sale and purchase agreement, Ford is committed to invest over 675 million Euros in

Automobile Craiova and to double the existing number of employees up to 7,000 – 9,000, while the integration degree should reach 60%. A main target is to increase production so that, until 2011, 300,000 cars per year should pass the company's gates. The deal was nevertheless shadowed by sensitive competition law aspects, which led the EC to investigate the transaction and the possibility that potential state aid was illegitimately granted by the Romanian authorities.

One of the most active investment funds in Romania was PPF Investments, which acquired majority participation in companies in various industries: oil & gas – Gaz Sud, hotels – Continental, insurance – Ardaf and others, the total amount of the investments being in excess of 200 million Euros.

Still room for high expectations

It is our unbiased belief that the M&A market in Romania retains all the capabilities to improve itself in the coming years. While legislation may well become more stable, predictable and friendly towards foreign investors, the country's potential and resources can hardly be overlooked by those intending to expand their business in this region. Having a stock market – the Bucharest Stock Exchange – which suddenly became a target itself for similar overseas institutions, and opening its borders based on the principle of free flow of products, services and work force, Romania stands in front of a period in which the greatest achievements regarding economic growth and business expansion are yet to come. Unforeseen events on international markets and particular political or military developments in certain geographic areas might, of course, have an obvious impact on any desirable positive trend in Romanian mergers and acquisitions.

Nevertheless, the good news is that, at this very moment, major Romanian M&A law firms are at the peak of their expertise and are flourishing, after a period of more than ten years in handling complex transactions, involving both private and public takeovers. Without getting overexcited, one is entitled to say that the professional skills distinctively put at work by Romanian lawyers had a huge contribution in the overall successful M&A operations that took place in, the banking, energy, oil and gas industries. The ever-expanding legal knowledge, the ability to override risks, as well as the refinement to design tailored solutions and options for investors, together with a feeling for political impact are all traits that made our lawyers gain respect and influence within the select group of international corporations. As long as the country maintains its sometimes uncomfortable features in respect of legislation, politics and mentality, Romanian M&A lawyers will prove to be reliable and irreplaceable allies in success oriented transactions.