2008 Romanian Telecommunication Market

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Summary

For the period 2007-2008, IT&C spending in Romania grew at almost 30%. The EU enlargement process has constituted a strong driver for this development pattern of the Romanian IT&C sector since, on the one hand, it increases political participation in the EU technology and communications policy debate and, on the other hand, it requires adopting and implementing EU regulations concerning the IT&C sector.

EU accession may slowly change this situation due to an increase of competition and larger foreign investments. The increase in the state budget for research is included in the current legislation, and Romania intends to achieve the target of 1% of GDP for research in 2008 and 3% by 2010.

Romania is the second largest telecommunications market in Central and Eastern Europe and knows significant growth in the fixed, mobile and Internet sectors in the medium to long term as a competitive market becomes established. In 2007, the telecommunication market registered very dynamic growth, exceeding almost all original projections, and sector revenues are expected to grow by a factor of 4-5 over the coming decades. The main opportunities in 2008 for the telecom market will be the reinforcement and expansion of networks as well as the launching of new services for the existing customers of principal market leaders. Experts also say that Romania can establish itself as a regional hub for Internet traffic and service provision.

Market Demand

With the market crystallizing over the last ten years, the battleground in 2008 will be divided between Orange, Vodafone and Cosmote up against smaller, but aggressive providers, like RCS&RDS and Zapp. These smaller providers are offering multiple services and in the case of RCS&RDS, looking to supply quadruple-play services with the introduction of its 3G services.

Having won a 3G licence towards the end of 2006, RCS&RDS plans to fund its commercial 3G launch by listing on the London Stock Exchange. It hopes to raise as much as US$500mn, which would give the company a total market value of US$3.5bn. This is a defining moment for the operator as it prepares to add to its existing cable TV, fixed-line telephony and high-speed internet business with a new mobile unit, which will be in direct competition with market leaders, Orange and Vodafone, as well as alternative CDMA operator, Telemobil. The operator currently controls about two-thirds of Romania's growing cable broadband market, which currently comprises about 30% of the entire broadband market in Romania.

Romania's mobile market remains in good health. Orange is the market leader with an approximate 44% market share, just ahead of Vodafone with 42%. Both operators have seen their market shares decline in recent quarters, but OTE-unit Cosmote now controls just over 11% of the market, a great effort considering its market share was just 0.4% at the end of 2006. Orange and Vodafone are investing heavily in the 3G market, with both operators now able to offer HSDPA services across about 30 cities in Romania. Orange had about 480,000 3G subscribers at the end of June 2007, which represents an approximate 340% y-o-y increase. Although not giving subscriber figures, Vodafone is fighting back, which we can see from its ARPU performance, which has risen to US$15.7, up by 12% in a single quarter. With over 40% of Romania's broadband users employing mobile technologies, the telecom market expects that 3G mobile telephony services will continue to grow in popularity and that by the end of our forecast period in 2011 there should be 4mn 3G users, which by that time should account for about 15% of all mobile subscribers in Romania.

With Romania's fixed-line market suddenly offering potential for growth, especially in terms of high-speed internet and cable-TV, it is interesting to note that Middle East telecoms holding company, Oger Telecom and its subsidiary Turk Telekom are rumoured to be interested in investing in Romanian and Slovenian fixed-line telephony markets. Whereas in Slovenia this is likely to be via the acquisition of a stake in Telekom Slovenije, in Romania it is just as likely that it will be via one of the country's alternative operators, showing the recent growth in market competition.

Market Data

Telecommunications Market Estimation (USD million):

Year	2006 USD	2007 USD	2008 USD
Total Market Size	4,053.6	4,945.4	7,000
Total Local Production	1,013.4	1,335.3	1,749.7
Total Exports	283.8	346.2	422.3
Total Imports	3,324.0	3,956.3	4,706.0
Imports from the U.S.	365.6	435.2	564.7

Note: The above statistics are unofficial estimates

The telecommunications market is estimated to increase from US$4,053.6 million in 2006 to US$7,000 million in 2008 despite declining tariffs for international telephony, mobile services and Internet access, indicating a substantial increase in consumption. The mobile telephony sector accounted for around 62% of the total market in 2007, fixed telephony accounted for about 34%, while Internet and data transmission services reached 4.8%. The main mobile telephony operators are Orange and Vodafone, and the main fixed telephony operator is Romtelecom. Although faced with strong competition coming mostly from Western European companies, US firms are well represented on the Romanian telecommunications market, especially in wireless, cable, and mobile communications, through UPC, RCS&RDS, Zapp and Atlas Telecom.
The business telecom market is estimated to rise to US$7000 million in 2008, more than a 25% increase over 2007. This will range from classic telephony services to equipment for audio-video conferences.

The Romanian telecom market – especially cable TV and internet – is very fragmented, having almost 2000 operators, most of them being local cable operators (600). The services they offer are bbroadband through xDSL, radio, cable and UTP/FTP connections (neighborhood networks). Cable and neighborhood connections have a market share of 22% and 57% respectively, while xDSL's share is at 17%, continuously increasing since 2007.

Telecom sub-sectors growth evolution

Fixed telephony, CATV, digital and satellite market

Romania is a country where a less developed fixed telephony infrastructure (19% market share, 2007) can boost demand for mobile broadband services (10% market share, 2007).

At the end of 2007, telecommunications operator, **Romtelecom** reported a 20 % market share on the fixed-line broadband segment, with over 360,000 customers. With a growth rate of 280 %, Romtelecom is the leader in the Romanian broadband market. In 2007, its sales of ADSL lines increased fourfold, compared with the first half of that year, and revenues from its Virtual Private Network rose three times from the previous year, 2006.

In 2007, the company's market share increased significantly for the TV and Internet offers, both for private and business customers, and, in fixed-line telephony, for the first time in the past three years, it no longer sees a decrease in customer numbers. Concerning Dolce, the TV satellite service of Romtelecom, growth was constant, and the company reached 400,000 customers, or eight percent of the pay TV market.

The growth rate for Dolce TV is one of the highest in Europe. In the fixed-line segment, Romtelecom continues to hold the main position, with a market share of some 70 %, the number of its clients standing at around three million.

UPC will be overtaken by another operator in 2008-2009 (possibly Orange) due to tight competition in the local CATV market coming from Romtelecom and RCS&RDS. UPC Romania lost in 2007 over 117,000 CATV users. The operator has closed 2007 with 1,337 million clients on CATV, digital cable and satellite and is losing market share by 6% vs.2006. CATV users of UPC Romania (1.18 million) have decreased by 13% while the subscribers' number of digital cable (37,400) has increased by 467% and satellite (115,000) has increased by 128%.

RCS&RDS is one of the largest Romanian and Eastern European telecoms, offering nationwide satellite television, cable television, cable internet, VOIP, and 3G services. The company, which is based in Bucharest, Romania, was formed in April 2005 by the merging of Romania Cable Systems (RCS) and Romania Data Systems (RDS). (The companies were under the same ownership from the very beginning and operating de facto as a single unit long before that.). As of 2007, it has 1.2 million customers for its cable TV service, 250,000 for its landline phone system, and 500,000 for its broadband Internet service. The company has entered the telecom market in 2008 with mobile telephony services.

Mobile telephony market

The Romanian mobile telecommunication market has reached maturity with a penetration rate of 100% of the population (Ministry of Telecommunication and Information Technology, 2008).

The mobile telephony market is dominated by **Orange** Romania with 9.31 million users and **Vodafone** Romania with 8.579 million customers. In the third position is **Cosmote** Romania with 3 million users, 10% of market share in 2007 (12% of subscription users). In last place among top providers is **Telemobil (Zapp)** with little over 500,000 subscribers.

In 2007, according to France Telecom estimates, Orange Romania had a 43.9 % market share, while Vodafone covers 95% of the Romanian population, 40% of market share.

Zapp Mobile is the only CDMA2000 mobile phone operator in Romania, since the country's market leaders use GSM. Zapp has around 500,000 subscribers, giving the CDMA network around 2% of market share. It is also the only EV-DO mobile data operator in Romania, with more than 85,000 customers. Zapp is currently aimed at business people and companies, especially due to its attractive billing plan, that makes possible an easy creation of company networks through shared fees and special volume discounts, and because of fast and cheap mobile Internet access (up to 2.4 Mbit/s speed) in the absence of wireless wi-fi public networks. Signal coverage and quality has improved consistently in past years. At present Zapp reaches over 90% of the urban population, but is still far behind its competitors, which cover between 95 and 97% of the total population of the country. Zapp also has the largest coverage for broadband mobile internet, the CDMA2000 1X EV-DO being available in over 65 cities throughout Romania. In 2006 Zapp was also awarded a 3G 2100 Mhz license.

In 2008 the Romanian market is valued at 300 million in terms of 3G services (high-speed transmission, global roaming and advanced multimedia access). RCS&RDS has selected Nokia as its WCDMA 3G core and radio network supplier. With Nokia's support the operator has entered the Romanian 3G mobile market and offers a wide range of services under the brand name Digi.Tel. RCS&RDS has recently launched its 3G service.

Vodafone was the first to enter the Romanian 3G market in April 2005, and currently has some 400,000 users of this service.

In order to develop its 3G network, Orange invested   22 million in the first phase, in June 2006. Three days after launching the service, the operator announced 25,767 clients, reaching 400,000 3G and EDGE users.

Internet market

Neighborhood Internet service providers in 2007 drew approximately   28.8 million in subscription fees from about 300,000 users, who pay an average monthly subscription of   8.The personal computer market in Romania saw strong growth in the last quarter of 2007, on both number of units and value. The number of units sold recorded a 70% growth and market value doubled, compared to 2006. The most important growth came in the notebook area, where the number of sold units increased 160%, compared to 2006 and 133%, compared to 2007.

Czone, the largest neighborhood provider of Internet services, was bought by RCS &RDS in 2006.

Besides the neighborhood providers, the largest telecom operators attracted a large number of subscribers too. During 2007, RCS & RDS had 500,000 residential subscribers, Romtelecom had 360,000, and UPC Romania had 181,000 subscribers, according to company statistics. ClickNet, Romtelecom's innovative youth-oriented brand, has a positive track record in the market, becoming the favorite option for new broadband subscribers and currently reaching more than 300,000 clients in 2007. Romtelecom holds one of the most advanced networks in Central and Eastern Europe, which went through a complex modernization and upgrading period. The total numbers of installed ports was approximately 230,000 at the beginning of 2007 and have reached over 600,000 at the beginning of 2008.

Overall, some 930,000 computers were sold in 2007, 66% desktop systems, 33% notebooks and 1% servers. In the last quarter of the year, dealers sold 370,000 units, with the notebooks reaching 40% of the sales, above any previous estimations.

Best Prospects

Best prospects for US exports include wireless communication equipment, cable communication services, 3G mobile communications (CDMA) equipment and services, and Internet services (VoIP). The current climate of the telecommunication market and trends indicate that the sector's major procurement is related to the following projects:

- Launch of wired telephony networks due to market deregulation
- Development of 4 UMTS/3G networks
- Expansion of the CDMA 450 MHz network
- Expansion of the SDH network of the National Radio Communications Company (SNR)
- Development of SNR`s wireless multipoint network in the 26 GHz band
- Modernization of SNR`s long, medium, and short wave transmitters network
- Upgrade of infrastructure for national TV channels
- Upgrade of the cable communications network to allow the supply of broadband Internet, VoIP, and digital TV
- Modernization of the infrastructure used by major ISP`s
- Expansion of pilot projects related to the development of e-government (e-procurement, e-tax, e-invoice, e-referendum, e-post, info-kiosk, etc.)
- Implementation of IT projects in public administration and education

The main opportunities in 2008 for the telecom market will be the reinforcement and expansion of networks as well as the launching of new services for the existing customers of principal market leaders.

- Romania's General Inspectorate for Communication and Information Technology (IGCTI) is preparing to launch more tenders for further licenses to allow new wireless technologies to tackle the Romanian market. These auctions will be for WiMAX, which aims to make broadband network access widely available without the use of wires.

- Richard Moat, CEO of Orange Romania, declared in 2007 that in 2008 Orange will launch *quad play* services (such as cable television, fixed telephony and mobile).
- The telecommunications business equipment market (including fixed telephony and audio-video conference solutions) will reach 70 million in 2008, increasing by 20% against 2007 figures.
- UPC Romania will rely on the increase of Internet services demand for 2008. On the TV digital cable and satellite market, the specialists noted that spectacular increases are not expected.
- Another opportunity in 2008 is fixed telephony market services (integrated packages coming from different suppliers) because of the new entrances of Orange and Vodafone.
- The investment of new mobile phone operations is not recommended because the market maturity of the three very competitive leaders combined with the lowest tariffs of Europe will dampen down investments.

Key Suppliers

Major domestic and foreign suppliers in the market and their market shares are presented in Market Data chapter. American companies became key players within a series of strategic Romanian industries such as telecommunication. In 2007 the Romanian IT&C market witnessed two important transactions, the most important being the acquisition of a minor shares package of Neogen company for 6 million by Tiger Global Management and Wouwer. The second transaction was the sale of less than 7% of BitDefender shares for 4.8 million to a group of American investors. Another American transaction was the taking over of 11.7 % of Gecad Technologies by Cisco for 2 million.

Prospective Buyers

In 2007, the telecommunication market registered very dynamic growth, exceeding almost all original projections. Orange estimated a number of 8.6 million customers in December 2006, the end of the third quarter of 2007 had over 9.3 million customers already. In the same year, Orange customers benefited from high-speed Internet mobile access with the launching for the first time of technologies like HSDPA 7.2 Mbps and HSPUA in Bucharest and in several cities around the country. By means of those technologies and the complementary technologies HSDPA 3.6 Mbps and EDGE, customers can access the Internet, the company's intranet, download large files and upload mobile data. In 2008, the mobile broadband network covers 277 localities, and expansion plans are continuing. Launching new mobile broadband offers and more integrated communication services remain among Orange's key goals on the Romanian market in 2008.

In 2007, Vodafone experienced strong growth: 23.1 % in service revenues, compared to a year earlier, a steadfast increase in customer base, up to 8.579 million customers at the end of September 2007, and the highest ARPU value on the Romanian GSM communication market, US$15.71 (11.54) in the quarter ending September 30, 2007.

Key services such as mobile broadband (3G broadband), with speeds of up to 3.6 Mbps, were available to nearly 40 % of Romanians by the end of 2007.

The launch of fixed voice services via Vodafone Acasa, for private individuals, and for the business segment, through Office Zone, was another first in 2007 and a significant step in Vodafone strategy. In 2008, Vodafone has stepped up the adoption of mobile broadband services. The strategy is to concentrate on expanding the HSDPA network to an increasing number of cities in order to allow customers to use the 3G broadband service in many areas of the country.

Another prospect for 2008 is 3G broadband with speeds of up to 7.2 Mbps and HSUPA, which is a natural extension of the technological development plan towards LTE (Long Term Evolution).

2007 was a turning point for the evolution of Romtelecom, The number of new connections increased by more than 110 % and the number of disconnections went down by approximately 50 %. For voice services, Romtelecom introduced the subscription Confort Nelimitat, which insures unlimited minutes in the network, independent of time slot. The broadband Internet clients of Romtelecom also benefited from the Customer 1st project: prices were discounted by 50 % and speeds were increased up to two times. In addition, in 2007 Romtelecom launched with great success, for the first time on the Romanian market, the bundle laptop/PC and broadband connection. The result: ADSL installations went up by 119 %. In 2007, Romtelecom positioned itself as the leader in terms of growth for Dolce – the satellite television, and ClickNet – broadband Internet and VPN as data service. Romtelecom is continuously growing on the DHT market, having 400,000 Dolce customers at the end of 2007, which is one of the biggest growth rates in Europe, and 20% market share. The main prospects for 2008 are to stabilize, and even increase, the client database for fixed telephony and to strive to almost double the number of broadband and TV customers. Romtelecom will also focus on stabilizing the partnership with Cosmote in order to provide mobile telephony services.

Market Entry

Distribution and Sales Channels

An encouraging sign has been the steady growth of the private sector. Although generally, small and medium-sized private companies represent a good nucleus for US firms seeking distribution channels. At the same time, private firms are typically limited-liability companies with few partners and low capitalization. Shortage of capital and limited collateral channel entrepreneurs towards activities where initial investment is low, and returns can be made rapidly, like services and trade. Companies engaged in foreign trade tend to focus on consumer goods. Import has been in many cases the first and only activity of new private businesses. State-owned companies, too, are now free to make their own business decisions and engage in foreign trade directly, with no need for intermediaries.

Zapp

The takeover of Romanian company, Telemobil (operator of the Zapp network) by the group owned by the family of former Lebanese Prime Minister Rafic Hariri – one of the richest families in the world – could result in the Romanian company securing necessary investment funds, after it experienced a difficult period in which the company severely limited its promotion budget, and lacked the necessary money to expand its network amid tough competition on the local telecom market. The Saudi Oger group (based in Saudi Arabia) purchased a 50% stake in Inquam Romania, the main shareholder of the mobile telephony operator, Telemobil (Zapp) from the American company, Qualcomm. The transaction was announced by Telecom officials, but was not released on the websites of Qualcomm and Saudi Oger. The negotiations to take over Telemobil (Zapp) started as early as last year, 2007. "

Turk Telecom

Fixed telephony operator, Turk Telekom is considering the possibility of acquiring mobile and fixed telephony operators in Eastern Europe, in countries such as Romania or Bulgaria, Reuters reports. Officials of the Turkish operator specified that the purpose of these acquisitions is to raise market value before the company's floatation, which is to take place the middle of this year. Oger Telecom last year bought a 55% stake in Turk Telecom for US$6.55 billion - an acquisition that represents the biggest privatization in Turkey.

Market Issues & Obstacles

Government procurement

With regard to the education system and its computerization, in 2008 a program will continue as a part of the IT Education System. It will provide – with the necessary technology – 6,500 units under the administration of the Ministry of Education, in addition to the 5,000 already existing. The SEI (IES) project is worth approximately 480 million RON, around   120 million.

Another project for 2008 is OLPC, *One Laptop Per Child*. Potential private investors were invited to participate (3G providers and future WiMax providers). As an incentive, providers would get 500,000 new 2-year subscriptions, which is about a quarter of the domestic market. Each laptop would cost around 500.

The Ministry of Education proposed that Romania be the supplier for Central Eastern Europe and South Eastern Europe with an e-Learning center.

ANRCTI objectives

With respect to ANRCTI's objectives and activities in 2008, the telecoms regulator plans to issue two new mobile provider licenses (one in the 415- 430 MHz bandwidth). In addition, it plans to issue WiMax licenses. ANRCTI also has scheduled changes in the number system, one effect being that Romtelecom subscribers will have 10 digit numbers, including the area code. There will also be an inspection of 3G compliance at Zapp (which, according to the contract, has to cover 19 cities) and RCS&RDS (which has to cover 50 cities, around 55% of the population).

Trade Events

May 8, 2008: "Communications Day", 12th edition, Bucharest (www.zcom.ro)
Communications Day 2008 (12th edition) is a traditional event, marking important dynamics in the Romanian IT&C industry, with the participation of high profile players such as: Cisco, Alcatel-Lucent, Oracle, Microsoft, Motorola, Romtelecom, Orange, Nokia Siemens Systems, Ines, Ericsson, Netcity, Vodafone, UTI, etc. The audience consists of existing and prospective customers, end-users who will find and sustain their demands for telecommunication services, etc. Topics are discussed within interactive panels, keynote addresses and case studies, with the participation of IT&C significant players: operators, technology, equipment and service providers, software companies, professional associations, international institutions, government sector and national regulatory authorities.

May 7-11, 2008 CERF Romania, 17th edition, Bucharest (www.cerf.ro**)**
CERF is the biggest IT&C forum in Romania. The 17th annual edition of the International Expo & Conference on IT & Communications, took place at Romexpo Exhibition Center, in Bucharest. Themes included: IT digital solutions, Communications solutions for companies and individual users, IT distribution of systems, equipment and software; consulting; IT service and maintenance; and business press. The audience consists of: producers and providers of IT&C solutions and products; entrepreneurs, managers and specialists from all economic fields; representatives of educational and research institutions and of cultural centers; Government and public institutions representatives; people interested in technology; and press.

Resources and Key Contacts

- Ministry of IT&C (Public Relations Department): www.mcti.ro, www.media@mcti.ro
- National Authority for Communications Policies: www.anrc.ro
- General Inspectorate for IT&C: www.igtci.ro
- Romanian Engineers Association of Telecommunication: www.aitr.ro
- National Government Agency of Small and Medium Enterprises: www.mimmc.ro
- Romanian Telecommunication Company: www.romtelecom.ro
- Telecommunication Company: www.vodafone.ro
- Mobistar www.mobistar.com
- Orange Romania www.orange.ro
- Romanian Cable System Company: www.rcs.ro
- Ziua Comunicatiilor (Romexpo): www.zcom.ro
- Smart Financial Info website: www.smartfinancial.ro
- Keep Partners Money Growing (Taxes & Audit Company): www.kpmg.com
- Business News Portal: www.bizwords.ro
- IT&C on line magazine: www.computerworld.ro
- Railway Romania Company: www.cfr.ro

- Business News Portal: www.kapp.ro
- On line marketing research worldwide: www.marketingresearch.com

For More Information

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