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Construction Materials Market in Romania

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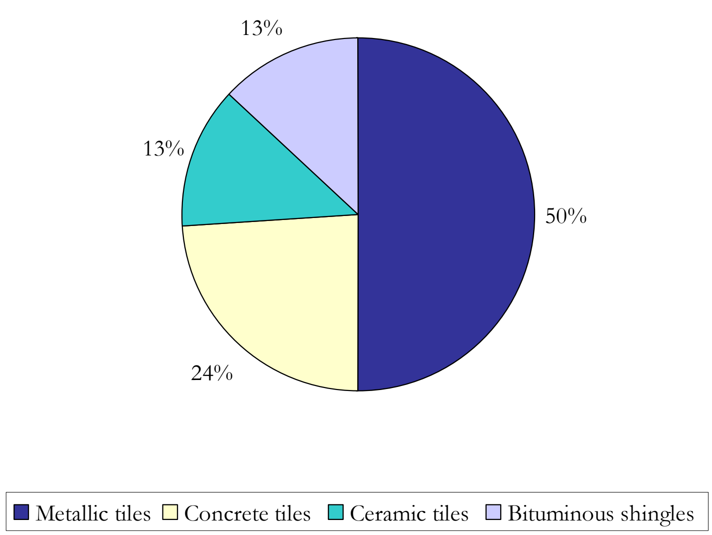
For further details, please contact:
Jackie Bojor, Director of Business Development
FRD Center, Bucharest, Romania –
www.frdcenter.ro
tel: +4021 411 1460; fax: +4021 411 1461
e-mail: europa @ frdcenter.ro

A. The Romanian market of roof covers

According to a study of Neomar Consulting, it is envisaged that the roof covers market in Romania will have registered in 2006 a 32% increase year to year. Among the categories of roof covers, the metallic covers market has registered the biggest ascending trend, covering in 2005 over a third of the total roof covers market. It is envisaged that this category will continue to be the most in demand in the next 2 - 3 years. The recent investments in local production facilities of metallic roof covers are partly responsible for this ascending trend.

According to Neomar Consulting, in 2005, the metallic tiles represented 50% of the roof covers sales in Romania, while the concrete tiles recorded 24%, the ceramic tiles 13% and the bituminous shingles also 13%. The total sales of covers in 2005 reached approx. 10 million sqm with the total value of 88 million Euro.

The roof covers sales in Romania in 2005



Source: Neomar Consulting

According to Neomar Consulting estimations, at the present about 60 suppliers of roof covers are active on the Romanian market. Out of these suppliers, about 40% are small companies, with a local or regional market, which are specialised in the production of prefabricated concrete.

The highest sales of covers are recorded in Bucharest and in the Centre, North-West and South regions of the country. Each type of covers is specific for some regions, depending on the construction type or the environment conditions. Three regions cumulate about 50% of the total cover sales: Centre region (17%), Bucharest (16.5%) and South region (15%). The North-West region cumulates 13% of the total sales of covers.

It was recorded a growing number of clients that requested covers with increased protection (metallic tiles covered with micro ceramics or rock, concrete tiles and bright ceramics), long-term guarantee and covers made of organic materials. Due to these trends, the majority of the companies in the field increased their marketing budget in 2006 compared to 2005 and also the promotion activities especially within the fairs, expositions and written press.

The distribution channels are specialised depending on the cover type. Many local producers sell directly to the beneficiary, especially in case of concrete covers and metallic tiles. The producers well-known at national level use as distribution channel the warehouses of construction materials and the main distributors. The metallic tiles represent a specific type of covers because they request specialised fitters that are also distributors.

The main international players on the Romanian market of metallic tiles are: Rautaruukki (Finland), Lindab (Sweden), Megaprofil (Belgium), Plannja (Sweden), Rova and Kami (Sweden).

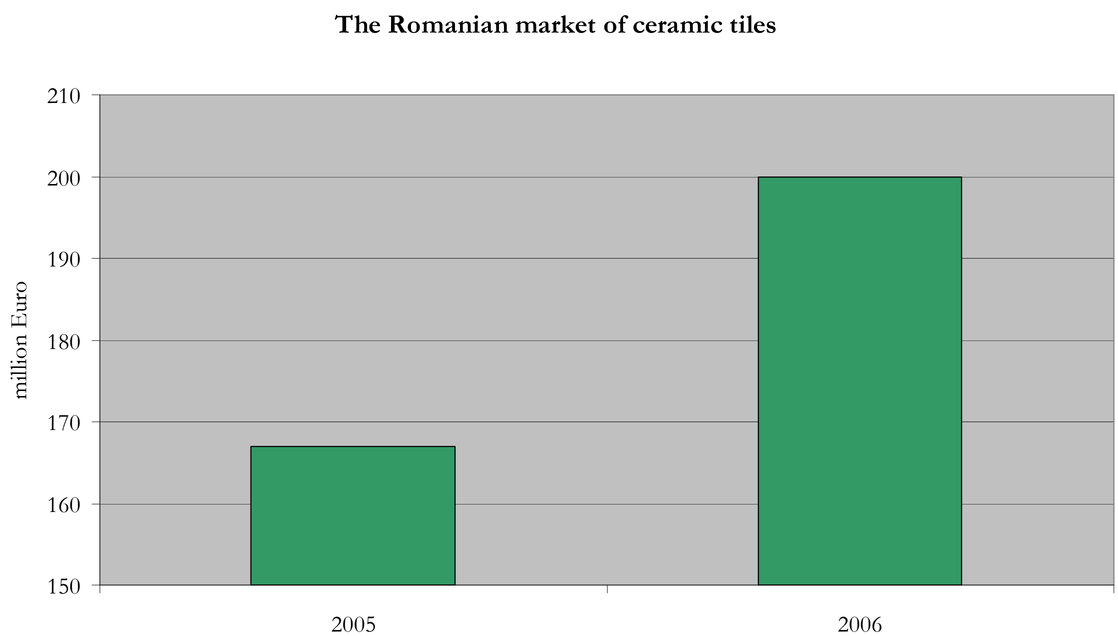
Rautaruukki recently acquired a nine-hectare plot, which borders the Bucharest-Pitesti highway, with the purpose to develop a plant on the land, with an investment of about 35 million Euro. Rautaruukki acquired the land from the Greek company Kassianos Construct. The value of the deal is estimated at about 4 - 7 million Euro. The project will consist of three different segments: an area for the construction of soundproofing boards, which will become operational in the spring of 2008, an area for building metal structures for roofs and an area for building structural cases, with these two areas set to become operational at the end of 2007. The plot will also accommodate a warehouse stocked with Rautaruukki products. The project will be self-funded. The Finnish group has been operating on the local market for six years, but was not manufacturing in Romania, instead selling parts brought from its plants in the Central Europe. The local branch, Ruuki Romania expects turnover to double to 14 - 15 million Euro in 2006.

Lindab Romania, the local branch of the Swedish group, predicts a growth of about 15% of its turnover in 2006, to 34 – 35 million Euro, according to the company's officials. The residential buildings were the main incentive stimulating the growth in 2005, when the company recorded a 30 -million-euro turnover, 30% more than in the previous year. The company registered an 11% rate of profit in 2004. The sheet metal profile division of the group produces metal systems for civil and industrial buildings. According to data provided by the company, 95% of turnover accounts for sales of the profile division of Lindab, with the rest of 5% being accounted for by the ventilation systems division. The company invested about 1 million Euro in 2006 in developing the existing equipment and capacities. The total investments made by the Swedish company in Romania reach 4.5 million Euro and were aimed at the production and warehouse lines and at the development of the buildings in the plant, which were erected as part of a greenfield project.

Megaprofil carried out an investment project worth about 5 million Euro in 2006, aimed at new production lines, storage space and a new office building. The company recorded in 2005 a turnover of about 21 million Euro compared to 9 million Euro in 2004. This development is due to the investments in technology, the favourable market and the financial support and know-how provided by the parent group. The company is part of the Belgian Joris Ide group that entered the Romanian market in January 2002.

B. The Romanian market of ceramic tiles

For 2006, the market of ceramic tiles is estimated at 200 million Euro, this representing an increase of 20% compared to the previous year.



Source: Business Construct

In 2005 the total faience sales was of about 14 million sqm, being recorded an increase of 22% compared to 2004, while the total sales of floor tiles were of about 8 million sqm. This information reflect the fact that the ceramic tiles field is one of the most dynamic sectors of the construction industry, its growth being determined by the increasing demand.

The real estate developers announced in 2006 that they would build around 500,000 - 600,000 sqm during the period 2007 - 2009, which is going to drive up the market of ceramic tiles.

The segment of ceramic tiles has been recording annual growth above the average of the overall construction market. The market growth was driven by imports, considering that the domestic production is at a capacity of around 13 million sqm. The importers, with an estimated 60% share of demand, represent the main growth drivers of the ceramic tiles market. The ceramic tiles imported from Italy and Spain, the world's biggest producers in this field, have gradually and steadily increased, with imports covering more than half of domestic demand starting with 2001. At the same time, imports from the Czech Republic, Slovakia, Poland and Turkey have become more competitive. However, should not the current domestic production expand, the imports will continue to grow, according to the estimates of the players on this market.

The Spanish producers of ceramic tiles, the biggest suppliers on the domestic market, consider that the sales of ceramic tiles in Romania will continue to grow until 2013, due to the real estate projects announced for the next years. In 2006, the imports from Spain decreased by about 10% due to the fact that an increasing number of Spanish producers are now focusing on selling products to the medium-premium class, and not on cheap products, as happened during the previous years. In the first nine month of 2006, the import of ceramic tiles from Spain recorded about 45 million Euro. The "armada" of importers of tiles from Spain dominates the deliveries to Romania, covering 30% of domestic demand.

According to market sources, the imports from Italy increased in 2006 by 5%, reaching about 21 million Euro. One of the main Italian producers present on the domestic market is Marazzi, whose importer and distributor on the Romanian market is the company Pazo. Pazo estimates a turnover of 5 million Euro for 2006 (an increase of 25% compared to 2005), due to the development of the residential and retail projects. About 55% of the sales in 2006 were represented by direct deliveries for residential projects and for big commercial centres, which recorded a significant growth during 2006. The rest of the sales were for the final users. Pazo signed in 2006 distribution contracts in many residential projects in Bucharest and many networks of commercial centres, hotels, restaurants and banks. The value of investments for 2007 in order to open new showrooms is of about 500,000 Euro. The company invested so far on the Romanian market about 2 million Euro. Pazo will start in 2007 its first real estate project, through the construction of a luxury block of flats located in the central area of Bucharest. The project is estimated at 2 million Euro, including also the land value. The flats will be constructed in order to be rented.

On the medium-premium segment, the products such as porcelain tiles and white paste ceramic tiles are mainly sold, at more than 10 - 15 Euro per sqm. Under the circumstances, for the low-price segment, the domestic production has become much more competitive.

The Austrian Group **Lasselsberger** is the only producer of ceramic tiles on the Romanian market. Lasselsberger took over in 2004 the main manufacturers of wall and floor tiles on the domestic market, Sanex Cluj and Cesarom Bucharest, and the ceramic tile unit of Mondial Lugoj. The three factories have an estimated production capacity of 13.2 million sqm, of which Sanex represents 6.6 million sqm, the factory in Bucharest 4.5 million sqm and with 2.1 million sqm in Lugoj. The factory in Bucharest (i.e. Cesarom) recorded in 2005 a turnover of about 36.5 million Euro, this representing an increase of 45% compared to 2004. Also, the company recorded in 2005 a gross profit of 520,000 Euro, four times lower than the gross profit in 2004. The increasing turnover evolution of the factory in Bucharest was not recorded also in case of Sanex Cluj, which registered in 2005 a significant decrease by 66.6% of its turnover, reaching 20.7 million Euro. Moreover, the net profit of the Cluj-based factory decreased in 2005 to 1 million Euro, compared to 2.7 million Euro in 2004.

The main importers on the Romanian market of ceramic tiles are Delta Distribution, Romstal Ceramic, Bengoss Cominpex and SSAB Impex.

Delta Distribution currently holds 15% of the overall Romanian market of ceramic tiles and about 30% of the market of imports, according to its own estimates. The company distributes ceramic tiles produced by Austria's Lasselsberger firm and operates imports from Spain, Italy, Poland, Turkey or the Czech Republic. The ceramic tiles together with the adhesives and putty necessary for fitting, weigh 80% in the turnover recorded by the company, which also imports sanitary ware, bathroom furniture or pool systems. During 2007, the company will begin a development plan related to the outlet network in Iasi, Bucharest and other cities, with an investment of more than 6 million Euro, and estimates a turnover growth by over 40%. Delta Distribution representatives forecast that the turnover in 2006 will record 30 million Euro, this representing an increase of 30% compared to 2005. In the first nine months of 2006, the company recorded a turnover worth 22.4 million Euros, 30% higher than the turnover posted in the same period of 2005. In 2006, the company sold 45% of its shares to Weston Holdings BV, an investment vehicle controlled by a group of Polish investors. The deal was worth several million Euro, but below the 5 million-euro mark, according to the latest data available. During 2006, Delta Distribution started the building of a two-storey showroom of around 3,000 sqm in Bucharest and this will be finalised in July 2007. The total investments are worth 3 million Euro. Moreover, the company acquired land in Iasi, where it will start building a store of around 1,500 sqm, probably in March 2007, after getting the necessary licences. In 2007, the company will build another 2 stores similar to the one in Iasi.

Romstal Ceramic imports ceramic tiles mainly from Spain and Italy. In 2005 the company imported 700,000 sqm of ceramic tiles with the total value of 3.5 million Euro. Romstal Ceramic is a division within Romstal Imex. 51% of the Romstal Imex shares are controlled by the Italian businessman, Mr. Enrico Perini.

Bengoss Comimpex supply on the Romanian market ceramic tiles, but also sanitary ware and dry mortars. The company recorded in 2005 a turnover of about 17.5 million Euro, level similar to the one registered in 2004. The sales of ceramic tiles represented about 75% in the company's turnover. The ceramic tiles are imported from Spain (Navarti, Undefa, Ikono and Alcor brands) and Italy. Bengoss also sells ceramic tiles produced in Romania by Lasselsberger group. 12% of the sales were represented by sanitary ware (Mondial Villeroy-Bosch and Martplast brands) and 11% by the sales of dry mortars. The company owns, starting with year 2000, a production unit of dry mortars located in Cluj county. In 2006, the company invested about 4 million Euro in a new technology line for the plant, the annual production capacity being increased from 30,000 tonnes to about 200,000 tonnes. According to the company's estimations, Bengoss has a market share of 6% for the dry mortars and of 7% for the ceramic tiles. The company has a national network of over 500 distributors.

SSAB Impex is a Bacau-based company that imports ceramic tiles and sanitary ware. The Romanians' increasing interest in premium products for use in decorating their homes has driven up the sales of SSAB. SSAB imports the products of some prestigious suppliers in the ceramic tiles field, Porcelanosa Rex (producer of art ceramics) and Viva (producer of ceramic tiles with exclusive design). The company recorded in 2005 a turnover of about 6.5 million Euro, this representing an increase of 20% compared to 2004. According to the company's representatives, the demand for luxury products is going up by 10 - 20% a year. The price of such premium products is of about 100 - 150 Euro per sqm, according to the data provided by the company. The company intends to continue to promote exclusive products, made in limited series and will also present the new Valentino collections and ceramic tiles with Swarovski crystals. The ceramic tiles can be personalised either by stamping or by laser cutting to any shape.

C. The Romanian market of thermo-insulating materials

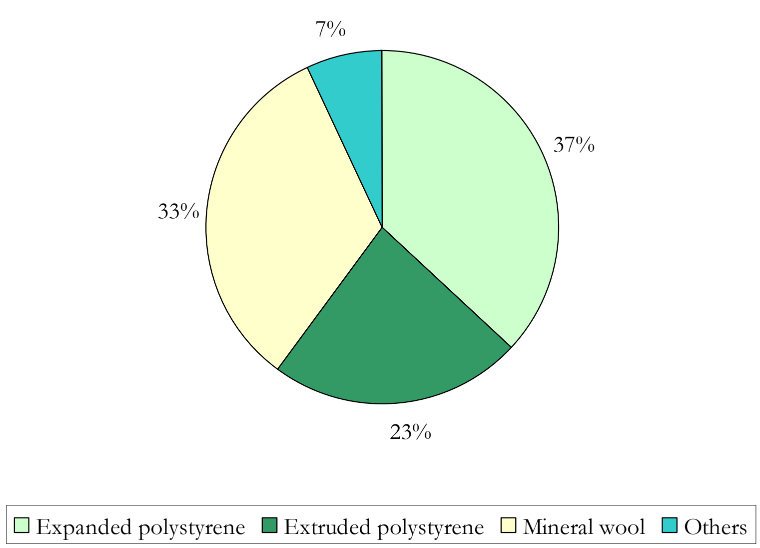
According to a study by Neomar Consulting, it is envisaged that the expanded polystyrene market in Romania will have registered in 2006 a 40% increase year to year.

Also, it is envisaged that the mineral wool market in Romania will have registered in 2006 a 25% increase year to year.

Based on the increase of the energy price, the EU regulations regarding the energy conservation, it is forecasted that the expanded polystyrene market in Romania will record an important increase by about 30% in 2007 compared to 2006. Also, it is forecasted that the mineral wool market in Romania will record an increase in 2007, but not as high as the one in case of expanded polystyrene market.

The expanded polystyrene is the most used material with 37% of the total value of the thermo-insulating materials market, while the extruded polystyrene has a market share of about 23%. The mineral wool (fibre glass and basaltic) has a market share of 33%, the basaltic one being especially used.

The Romanian market of thermo-insulating materials



Source: Neomar Consulting

In 2005, the average number of the works performed by a company specialised in thermo-insulations was of about 16 per year. For 2006 it was forecasted an increase by 30% of the number of performed thermo-insulation works, reaching about 20 works per year.

The most used thermo-insulating materials, both in case of polystyrene and the mineral wool, are the ones with low and medium density. About 46% of the polystyrene used in Romania is expanded polystyrene with density under 20 kg/m^3, the most used being the expanded polystyrene with density of 15 - 19 kg/m^3, followed by the one with density of 10 - 14 kg/m^3. The most used extruded polystyrene is the one with the density of 31 - 40 kg/m^3. In case of mineral wool, the most used type is the basaltic one with the density of 34 - 45 kg/m^3, followed by the mineral wool of fibre glass with density of 10 - 15 kg/m^3.

The garrets and the attics represent the most used types of locations for insulation works. With many of the old houses being currently consolidated and attics being built in order to increase living space, this is an expanding market.

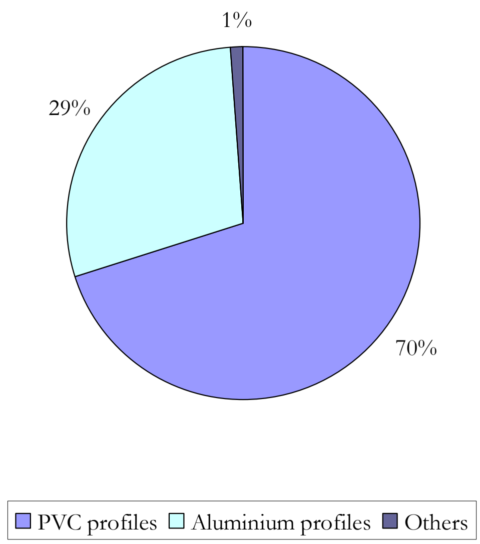
A part of the problems faced by the dealers of thermo-insulating materials is caused by the suppliers (transport / distribution problems, insufficient stocks and high prices, low quality, inadequate package and the non-advantageous payments means).

The producers estimates that the Romanian market of thermo-insulating carpentry and implicitly the acquisitions of PVC and aluminium profiles will record an average increase of 27.4% during the period April 2006 – April 2007. The dynamic of this sector is higher compared to the dynamic of other economic fields, about 10% of the companies that are active on the thermo-insulating carpentry market forecasting increases of their turnover of over 50% in 2006 compared to 2005.

On the Romanian market there are over 40 brands of PVC profiles (out of which 7 brands represent 2/3 of the market) and more than 20 brands of aluminium profiles (out of which 5 brands have together a market share of over 75%).

Due to preponderant use of the PVC carpentry in the residential construction, in 2005 about 70% of the market of profiles for thermo-insulating carpentry was represented by the PVC profiles, followed by the aluminium profiles with 29%. The rest of the materials (wood, steel) recorded very low market shares.

The Romanian market of profiles for thermo-insulating carpentry



Source: Neomar Consulting

In 2005 compared to 2004, the percentage of PVC profiles and carpentry increased by about 4%, while the percentage of the aluminium profiles and in carpentry decreased by 3%. This fact was due to the higher price of the aluminium carpentry compared to the one of PVC carpentry and the increase of the aluminium quotation on the international market.

In 2005 and 2004 the market was dominated by small carpentry producers, with the monthly production of up to 250 sqm. About 20% of the total carpentry producers have a monthly production capacity of 250 - 500 sqm, about 5.5% of 500 - 750 sqm and only 21% have a capacity higher than 750 sqm. About 45% of the carpentry producers have less than 10 full-time employees and about 44% have 10 - 50 full-time employees. Only 11% of the carpentry producers have a number of over 50 full-time employees.

D. The Romanian market of autoclaved cellular concrete

It is envisaged that the ACC (autoclaved cellular concrete) market in Romania will have registered in 2006 an about 15% increase year to year, according to estimates by players in the field.

The ACC producers' profit rates stand at 30 - 40%, making it one of the most attractive businesses at the moment.

The ACC production reached about 1.9 million cubic metres in 2006, up 10% against the previous year, to which a 4.5% price increase was added, according to Prefabricate Vest representatives.

The imports, mainly developed by German producer Xella, account for some 7% of the ACC market. The German group has extensively explored the local ACC market over recent years, looking for an acquisition, but also considering imports and greenfield projects as an alternative.

The average price of ACC per cubic metre may reach about 71 euros including VAT.

To a great extent, the price of ACC depends on cement and lime production costs, which are used to produce the autoclaved cellular concrete, according to Prefabricate Vest representatives.

The total volume of ACC sold in 2005 amounted to some 1.7 million cubic metres.

Celco Constanta, one of the major players on the market, posted in the first nine months of 2006 a turnover worth 18 million euros, up 11% from the corresponding period of 2005. Moreover, Celco operates at a constant profit margin of some 35% beyond the market average. Celco Constanta is one of the most profitable companies on the construction market. The ACC producer launched a greenfield investment worth 10 million Euro in 2005, which will include a lime plant, incorporating the production process into the company's business. Celco was set up in 1971, subsequently passing into private ownership in 1997.

For further details, please contact:
Jackie Bojor, Director of Business Development, FRD Center, www.frdcenter.ro
tel: +4021 411 1460; fax: +4021 411 1461; e-mail: europa @ frdcenter.ro