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5TH INTERNATIONAL SUPPLIERS' FAIR IN MOSCOW,

RUSSIAN FEDERATION

INTERZUM MOSCOW / INTERKOMPLEKT 2010

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1. Economic and political conditions in the Russian Federation

Overall economic outlook

Following last year's severe losses, the Russian economy has gradually regained ground in the current year. The government, as well as international financial organizations, have all raised their growth forecasts for this year markedly. A rise in economic output of at least 4% is now expected. The high prices for raw materials, which are stimulating foreign trade and producing high capital inflows, are making a major contribution here.

Leading economic indicators

Indicator	2009	2010	2011
GDP	-7.9	4.0	3.5
Gross fixed capital formation	-14.0	2.9	8.8
Private consumption	-5.5	4.4	4.5
Visible imports (fob)	-37.3	41.6	15.2
Visible exports (fob)	-35.5	24.3	2.9
Real wage growth	-2.8	3.4	2.4
Inflation rate	8.8	6.0 to 7.0	6.0 to 7.0
Unemployment rate	8.4	7.0	6.5
National debt (in % of GDP)	7.3	9.8	10.4

Real change compared to previous year in %, 2010 and 2011: forecasts

Sources: Federal Statistical Office, Russian Central Bank, Russian Ministry of Economics, European Economic Forecast (Spring 2010), Economic Expert Group

As a result of falling export earnings, declining foreign investments and weak overall consumption and investment, the Russian economy shrank by 7.9% in 2009. But in the fourth quarter of 2009 the bottom had already been found and the first indicators once again pointed to growth. Thanks to the high raw material prices, all economic institutes and government experts predict a rapid upturn. The government expects GDP growth of 3.5 to 4% for the next three years. Industrial production has already grown by 6% in the first quarter of 2010. The chemical and electronics industries in particular were able to make important gains. The vehicle industry stepped up its production again notably too. The contribution made by building was slight. The volume of building work carried out in the first quarter of

2010 was a further 8% below the already extremely weak period a year before. The recovery in residential construction was particularly sluggish.

In financial terms Russia is relatively healthy. Admittedly, a budget deficit of 5.9% of GDP was run up in 2009, but this was met completely by the reserve fund, which had been built up from the high oil revenues of earlier years. In 2010 the Russian Finance Ministry expects a budget deficit of just under 6.8% as a result of falling tax revenues and rising social expenditure, based on an average oil price of 65 US$ a barrel. The deficit is once again to be met with funds from the reserve fund, which will for the most part consequently be practically exhausted in the course of the year.

Due to the high crude oil prices and the fact that the central bank did not need to intervene to support the exchange rate of the rouble, the foreign exchange reserves bounced back from their nadir in May 2009 (384 billion US$) to just under 450 billion US$ at the beginning of April 2010.

The inflation rate fell in tandem. Following a rise in prices of 8.8% in 2009, the government is reckoning with an inflation rate this year of 6 to 7%. This left the central bank some room for manoeuvre in its forward advance rate, which at the end of April 2010 was cut for the thirteenth time in a row to 8%. Base lending rates in Russia have never been so low.

Consumption

The Russian government has succeeded in absorbing the financial consequences of the crisis for wide sections of the population and keeping private consumption steady on the whole by means of increased social expenditure (wage increases in government service, higher pensions, raising unemployment benefits). Real disposable income as a whole rose by 2% in 2009.

On the other hand, the average number of unemployed in 2009 rose by 1.5 million compared to 2008. Real wages dropped by 2.8%. At the same time Russians saved more money and consumed less. Consequently, retail sales declined by 6% in 2009.

The Ministry of Economics forecasts a rise in real wages for 2010 and 2011 of 2 to 3% and growth in retail sales of at least 4%. This projection was only in part confirmed in the first quarter of 2010: real income rose by 2%, private consumption by only 1.3%. The number of unemployed between January and March 2010 fell by 400,000 compared to the first three months of 2009.

Foreign trade

Thanks to the renewed raw material boom on world markets, Russia is once again achieving a marked growth in revenues. This is having a positive effect on imports too. The Ministry of Economics is counting on exports rising by 24% to about 375 billion dollars. In the case of imports the ministry even expects a leap of almost 42% to 237 billion.

But even with these big jumps, the losses of 2009 have only in part been made up. Russia’s foreign trade turnover had plummeted by 36% the previous year, with exports and imports dropping in value terms almost equally.

In this regard the countries of the EU maintained their leading position as Russia’s most important trading partner. But in 2009 their share fell by almost two percentage points to 50.3%. Germany’s share in Russian foreign trade shrank from 9.2 to 8.5%. By contrast, the People’s Republic of China was able to consolidate its position from 7.6 to 8.4%.

Some changes also occurred in the goods structure. Fuels still take pride of place in Russian exports with over two-thirds of exports by value. But their share declined slightly in favour of foodstuffs and plant and machinery. Conversely, capital goods fell substantially in the 2009 import balance: compared to 2008 their share in overall imports slid from 56 to 46%. By contrast, the shares of foodstuffs and chemical products increased.

2. THE RUSSIAN FURNITURE MARKET

Unlike the largely saturated furniture markets of Western Europe and North America, the Russian furniture market is distinguished by very pent-up demand. The potential market volume exceeds current furniture sales many times over. One can assume that the steady growth in the real income of the Russian population will gradually lead to the satisfaction of this pent-up demand in coming years. According to official figures, overall furniture consumption in Russia in the pre-crisis year of 2008 was approximately 10 billion dollars. Due to the depressing effects of the economic crisis and devaluation of the rouble at the beginning of 2009, the market volume last year dwindled to approximately seven billion dollars.. A slow market recovery is to be expected in 2010.

In previous years the Russian furniture market developed far more dynamically than other segments of the consumer goods market. In the face of the steady increase in purchasing power of the Russian population in recent years, furniture consumption likewise grew at double digit rates every year up to 2008. Nevertheless, Russian expenditure for furniture remains relatively low by international standards: while in Russia according to official statistics in 2008 about 70 dollars was spent per person, per year for furniture, in Germany annual furniture consumption per head was about 370 dollars. However, since there are great variations in purchasing power in the individual regions, the furniture consumption in some areas of Russia is much higher. Furniture expenditure in Moscow and the oil and gas-rich cities of west Siberia, such as Tyumen, have in the meantime probably clearly exceeded the 100-dollar barrier. The most important furniture sales market remains as ever greater Moscow, which accounts for 40 percent of total Russian furniture sales, 30 percent alone for the city of Moscow. The second most important furniture market is the Urals region, followed by Siberia and the Far East, the Volga region, the south and north-west.

With a market share of 49.4 percent, less than half the furniture sold in Russia is from Russian production. At 2.5 billion dollars the official production figure was 36.8 percent below the previous year. The lion’s share of Russian furniture production (41.3 percent) came from central Russia (including the city of Moscow with 6.5 percent), followed by the Volga region with 24.3 percent, the south with 10.8 percent, the north-west with 10.2 percent (including the city of St Petersburg with 1.4 percent), Siberia with 5.4 percent, the Urals with 5.4 percent and the Russian Far East with 2.1 percent. The low production volumes in the Far East are linked to the growing import pressure from China and the lack of competitiveness of local Russian furniture producers.

The production structure of domestic manufacturers has in recent years changed insofar as the production of upholstered furniture in particular has been expanded. However, the bulk remains the production of tables, chairs and cupboards. Demand in the kitchen furniture segment in particular continues to have to be met by imports.

The very high import share of 50.6 percent is characteristic for the Russian furniture market. According to the Russian customs committee, Russia imported furniture worth 1.7 billion dollars in 2009. . The import figure could in recent years be more than tripled from 564 million dollars in 2003 to 1.7 billion dollars in 2009. In 2009 imports from countries outside of the CIS amounted to 1.5 billion dollars.. Belarusian furniture represents a considerable proportion of the CIS imports, which can be imported duty free as part of the customs union with Belarus. The greatest share of furniture imports from the remaining CIS countries comes from the Ukraine. Italy comes first in the rankings of the leading furniture supplying countries, followed by Belarus, Germany, Poland, France and China. As a result of the effects of the economic crisis, there was a clear shift in demand in 2009 to expensive imported furniture. While the share of cheap furniture worth less than 1.8 €/kg in total Russian imports in 2009 fell from 22 percent to 13 percent, the proportion of more expensive furniture rose from 78 percent to 87 percent.

Dynamics of the Russian furniture market in 2003 to 2009

Indicators	Unit	2003	2004	2005	2006	2007	2008	2009
Furniture production	Million $	1101.6	1393.2	1595.7	2181.9	2940.2	4043.5	2533.5
Change	%	+15.1	+26.4	+14.5	+36.7	+34.8	+37.5	-36.8
Export	Million $	119.0	199.7	229.7	285.7	364.8	366.2	270
Import	Million $	564.0	747.3	783.0	1140.8	1761.2	2398.6	1668,3
Imports without CIS	Million $	404.1	539.5	661.9	928.1	1484.9	2046.5	1481.1

Furniture trade sales	Million $	2465.0	3123.7	3672.7	4920.8	7150.5	10038.5	6595.9
including furniture imports without CIS	Million $	820.0	1105.9	1356.9	1884.0	3044.0	4235.9	3065.9
Market share imports	%	48.6	45.0	46.0	44.5	48.1	47.3	50.6
Market share imports without CIS	%	31.0	35.4	36.9	38.3	42.6	42.2	34.3

Sources: AMEDORO, HDH

The furniture trade is covered above all by individual major companies with a number of branches. These trading companies include Grand, Tri Kita and Gramada. IKEA has been operating on the Russian market since 2000 and is represented by three furniture stores in Moscow, two in St Petersburg and one each in Kazan, Adygeja, Jekaterinburg, Nizhny Novgorod, Novosibirsk, Omsk and Rostov on Don. The Swedish company is continuing to expand in the Russian market and intends to open more furniture stores.

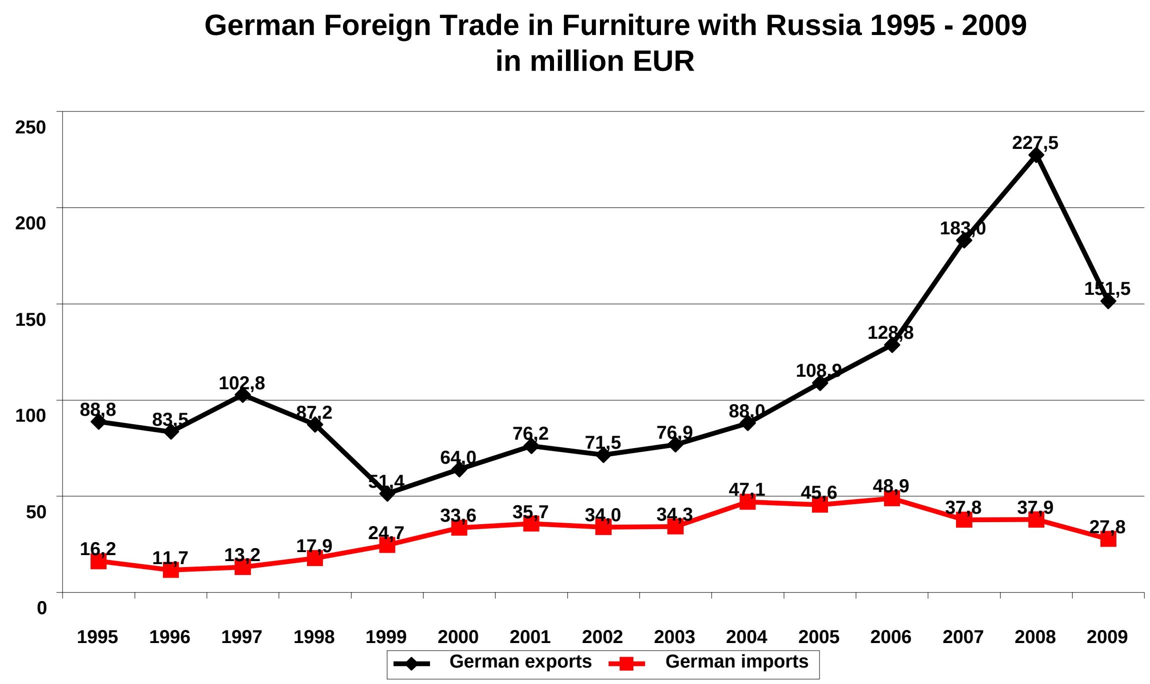
The demand for high quality furniture and installations is growing in big cities in particular. Domestic manufacturers can cope with this only to a limited extent. There continues to be a lack of modern technology and assured supplies of components like metal mounts, adhesives and raw and semi-finished materials from domestic production in Russia for quality improvements in furniture. Therefore these subcontracted components have to be purchased abroad.

3. German-Russian Foreign Trade in Furniture and Furniture Components

The development of German furniture exports to Russia reflects the economic development of the country. After the serious financial crisis of 1998, which resulted in a slump in the exchange rate of the rouble and a clear collapse in imports, German furniture exports to Russia increased steadily until 2008. In 2008, Germany exported furniture and furniture components to Russia to a value of 228 m Euros. This represented a year-on-year increase of 24 percent. The negative effects of the financial and economic crisis and the devaluation of the rouble in 2009 resulted in German furniture exports to Russia declining by a third to 152 m Euros in the past year. Regardless of the negative development in 2009 (which also affected the other export markets) the Russian Federation represents the third most important export market for the German furniture industry outside of the EU after Switzerland and the US. According to estimates by HDH, the growth rate of German furniture exports to Russia during 2010 will again accelerate due to the burgeoning recovery of the economy, the appreciation of the rouble and rising energy prices.

At 25 percent, seating furniture currently has the largest share of German furniture exports to Russia, followed by lounge, dining and bedroom furniture at 14 percent, kitchen furniture at 13 percent, metal furniture at 11 percent, office furniture at 8 percent and mattresses at less than one percent. The ratio of furniture components to the total export value dropped to 29 percent in the same period.

German furniture imports from Russia recorded at 28 m Euros in 2009 – a drop of 27 percent compared to the previous year. Imports from Russia comprise mainly products in the lower price segment. Seating furniture is primarily delivered to Germany with a share of 38 percent in total imports and lounge, dining and bedroom furniture with a share of 13 percent. In both segments the solid wood component is significant. The remainder of the imports comprises furniture components which are increasingly purchased by German furniture manufacturers in Russia. German imports from Russia will tend to increase in the long term as productivity in the Russian furniture industry is again slowly rising aided by the use of German technology and supplier components from German manufacturers.



In the course of the revival in the economy, German furniture imports from Russia increased by 9 percent to 10 m Euros in the first four months of 2010. HDH estimates that the import value for 2010 overall will amount to approx. 30 m Euros. Against a background of declining exports, the faster increase in imports contributes to a reduction in the German trade surplus Based on the development in the first four months of 2010, the German surplus in foreign trade in furniture with Russia will reduce to approx. 120 m Euros for 2010 overall.

4. INTERZUM MOSCOW / INTERKOMPLEKT 2010

interzum moscow / Interkomplekt trade fair was held in May 2010 for the fifth time. The event is cooperation between Koelnmesse and the Russian International Exhibition Company MVK and is now in its second cycle since 2006. Since May 2005, the trade fair has been held at the Crocus Expo exhibition site, opened in 2004, concurrently with the leading Russian spring furniture trade fair, Euro Expo Furniture (EEM). In 2010, both trade fairs occupied a total of four halls in Pavilion 3 at the hypermodern Russian exhibition site.

The focus of the offering at interzum moscow / Interkomplekt is supplier components for the timber and furniture industry. This includes derived timber products and other materials such as plastic, metal and synthetic leather which are used in the construction of furniture. It offers fittings and hinges, machines and tools, screws and studs. Designs and adhesives also form part of the offer. interzum moscow / Interkomplekt also offers a comprehensive product range in the bedding segment. The core target group for interzum moscow / Interkomplekt is thus purchasers in the furniture industry. As the largest Russian spring furniture trade fair, EEM, is held concurrently with interzum moscow / Interkomplekt, the trade visitor has a double advantage: Finding all the components of furniture construction and a presentation of the latest trends in Russian, and partly international, style elements in furniture.

The Exhibitors

In 2010, a total of 752 companies exhibited at both the EEM and interzum moscow / Interkomplekt trade fairs on an area of more than 62,000 m². 276 exhibitors came to interzum moscow / Interkomplekt 2010 of which 171 comprised Russian companies and 105 foreign. The trade fair occupied an area of 13,795 m². The exhibitors at interzum moscow / Interkomplekt were situated in Hall 15 which was reserved solely for furniture suppliers; the remaining exhibitors were housed in Halls 12, 13 and 14 of Pavilion 3.

The exhibitors of this year's interzum moscow / Interkomplekt represented 14 countries. The countries exhibiting at the trade fair were:

- Belarus
- China
- Germany
- Great Britain
- Italy
- Poland
- Portugal
- Russia
- Spain
- Syria
- Taiwan
- Turkey
- Ukraine
- USA

The Visitors

More than 45,000 visitors were counted at both trade fairs during the four days of the fair according to information received from the organiser. The flow of visitors reached its peak on the second and third days of the fair in particular. Visitors came mostly from Russia and the CIS states according to information given by the exhibitors.

Hours of Opening

interzum moscow / Interkomplekt 2010 opened its doors to visitors daily from the 12th to the 14th of May from 10h00 to 18h00 and on the 15th of May, the last day of the trade fair, from 10h00 to 17h00. Exhibitors were permitted to enter from 08h30.

PR

The press conferences held in the context of the trade fair on the development of the Russian furniture market, technical innovations and new ideas in design were well attended by Russian and international media representatives. In addition, the organisers issued regular press releases in English and Russian at interzum moscow / Interkomplekt 2010.

The internet addresses mentioned on the joint German exhibition booth (german-Pavillion.de, furniture-export.de, auma-messen.de, wohninformation.de, koelnmesse.de) attracted great interest.

Trade Fair Participation by the Federal Republic of Germany

The German participation comprised 17 companies. The following companies were represented:

Beckmann Automation GmbH
BURG F. W. Lüling KG
Döllken-Kunststoffverarbeitung GmbH
Fecken-Kirfel GmbH & Co. KG
FillMatic GmbH
GRAUFF GmbH & Co. KG
Ferdinand Holzmann Verlag GmbH
Koelnmesse GmbH

MKT Moderne Kunststoff-Technik Gebr. Eschbach GmbH
OKE Kunststofftechnik GmbH & Co. KG
Pöttker GmbH
RENOLIT AG
Salmo Leather GmbH
Vauth-Sagel Systemtechnik GmbH & Co. KG
VOWALON Beschichtung GmbH
Zellstoff und Papier HGmbH
Ziehl mewa Rohrgestellbau und Beschlägefabrik GmbH

The Joint German Exhibition Booth - Technology, Design

Spanning 423 m², the joint German exhibition booth was situated directly at the crossing between the middle aisle of Hall 15 and the connecting aisle between Halls 12 to 15. The joint booth was divided into several blocks which were separated from each other by aisles. The information booth, as the peninsula booth, was placed directly at the crossing of both aisles and could therefore be well-viewed from all sides. The counter displaying the information publications from the Federal Republic of Germany and our industry could be visited from two sides. An online PC was available to exhibitors on the counter. In addition to the information stand, the hospitality area was furnished with some tables and corresponding seating. The kitchen was situated behind this area. A separate meeting room within the information booth was well utilised for discussions.

The coordinator for German exhibitors at interzum moscow / Interkomplekt 2010 was Koelnmesse International GmbH. The appointed architect aligned himself to the booth concept of the German joint exhibitions from the timber and furniture industry. The system stands provided were all furnished with the same print “Made in Germany” and standard lettering. The German information booth was constructed in the well-known corporate design. Cost aspects were not least again taken into account in the architectural planning.

The Federal information brochures were received with great interest by the public. The fabric bags and pens were also extremely popular.

Feedback from the German Exhibitors

interzum moscow / Interkomplekt 2010 is a good and, as always, promising trade fair for German suppliers. In its fifth year, it is firmly integrated in the export programme of countless manufacturers. interzum moscow / Interkomplekt has established itself as the most important furniture supplier trade fair in Russia by the opportunities that the modern Crocus Expo exhibition site opens up for exhibitors and visitors, the superlative service and the competence of the fair organisers, as well as by connecting the fair to the most important Russian spring furniture trade fair, the EEM. The Metro station, which opened directly at the exhibition site in December 2009, has brought about the connection, long awaited by both exhibitors as well as visitors, of the exhibition site to the Moscow underground train network. The excellent atmosphere in Moscow reflects the positive business outlook of German companies in Russia. Orders could also be placed at the trade fair. For this reason, HDH will also again promote the trade fair as worthy of support for the AMP 2012.

The positive feedback from the German exhibitors is also reflected in the exhibitor surveys attached as an Annex. The attached questionnaires were completed by the respondent partly together with the German exhibitors. The majority of them achieved their original objectives either in whole or in part. The trade visitor structure was evaluated as satisfactory to positive. The number and quality of the trade visitors were on the whole evaluated as “good” to “average”.

Most trade visitors came from the regions of the Russian Federation. The majority of trade visitors travelled from the metropolitan area of the Moscow exhibition centre and from Russian regions such as the South, Northwest, the Urals, Siberia and even from the Russian Far East. Visitors from other countries came mainly from the CIS countries. These included above all the Ukraine, Belarus and Kazakhstan. Some visitors also came from Italy, France, Turkey and Poland.

Future Outlook

The feedback received from the German exhibitors at the end of the trade fair was positive. The post-fair business was also reported as good, on average. Fuelled by the success of the trade fair and the positive business outlook, many of this year’s German exhibitors would like to take part in this trade fair on an ongoing basis. Most German companies are expecting long term relationships with Russian partners. After having overcome the financial crisis, the economic outlook for Russia is positive and the political situation is also characterised by relative stability. The goals declared by the Russian government – continued economic growth, the integration of Russia into the worldwide division of labour and stimulation of private consumption – create the ideal framework conditions for the long term involvement of German companies in Russia.

Moscow as a city is an ideal location for the largest Russian supplier trade fair. Traditionally, Moscow has represented the political and economic hub of Russia. Moscow was able to assert its position as the most important location for trade fairs in recent years with respect to the other countries of Eastern Europe and the CIS. At the same, the metropolitan area of Moscow is responsible for approximately one third of Russian furniture production. Another positive aspect is also that interzum moscow / Interkomplekt is held concurrently with the EEM. This produces synergy effects and attracts additional visitors even from the most far-flung regions of Russia. The fact that Koelnmesse GmbH was a co-organiser of the trade fair had a positive effect on the selection of halls and booths, on the support of German exhibitors during preparations for the fair as well as on the image overall. All in all, interzum moscow / Interkomplekt is a highly successful foreign trade fair with a positive future outlook.

interzum moscow / Interkomplekt 2012

The next interzum moscow / Interkomplekt is planned for May 2012 at the same exhibition site.