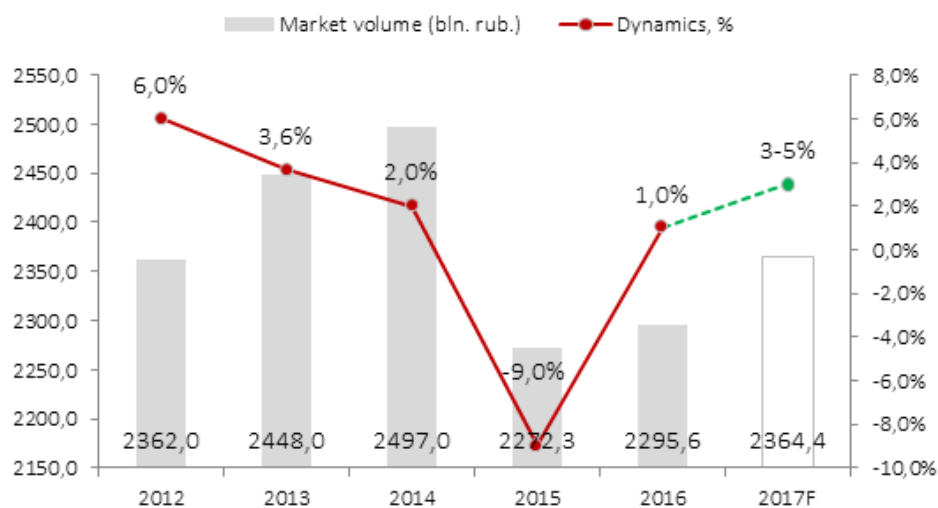


Russian fashion market (apparel, footwear, accessories) may grow by 3-5% in rubles in 2017. Market volume (in rubles) comparable with 2011-2012.

According to Fashion Consulting Group market research, clothes consumption and market growth will not exceed the corridor of 3-5% in rubles. The main reasons for that are as follows:

- international political situation (confrontation) and prolongation of sanctions, slow decline of ruble/euro rate, insignificant increase of oil prices
- slow pace of the economy's turn towards strengthening of domestic production
- reduction of households disposable income
- "climate failure" that occurred in the spring-summer period.

**Russian fashion market volume and dynamics
2012-2017F, in rubles.**



Russian fashion market 2018F. Preliminary forecast.

Fashion Consulting Group's forecast for the fashion market development in 2018 features three possible scenarios:

Pessimistic scenario (2018FP): 0-1% in rubles. This scenario is possible in case of keeping the existing economic development rates, low level of oil prices within \$50 per barrel, and prolongation of economic sanctions.

The most probable scenario (2018F): an increase by 2-3% in rubles. This scenario is possible in the event of oil price stabilization (about \$50 per barrel), ruble strengthening (no higher than 59 rubles per dollar) and the more active growth of domestic production in various sectors.

Optimistic scenario (2018FO) – market growth by 4-5% in rubles. This scenario is possible in case of oil price growth (above \$50 per barrel) and ruble rate growth (below 58 rubles per dollar), macroeconomic indicators improvement, including active growth of domestic production and GDP above 2.3%, and favorable international political climate.

Luxury is the most stable of all segments.

The ruble crisis led to an inevitable rise in prices, inflation and, accordingly, disposable income reduction. Fashion market is in the top list of commodity groups, which consumers save money on in the first place, in a situation of necessity. Thus, consumers not only do reduce the number of purchases, wearing old clothes, but also they switch to more economical purchase alternatives, moving to cheap brands or waiting for the discount season.

The lower price segment rose from 51 to 65% during the period 2014 – 2016: consumers flew from the middle segment into the lower one. In 2017 this parity will continue. At the end of 2016 many lower segment players demonstrated double-digit revenue growth: Familia + 41%, Gloria Jeans + 40%, H&M + 39%, Tvoe + 20%, O'stin + 19%. Although in the first half of 2017 this growth was not kept, those companies retained their market share.

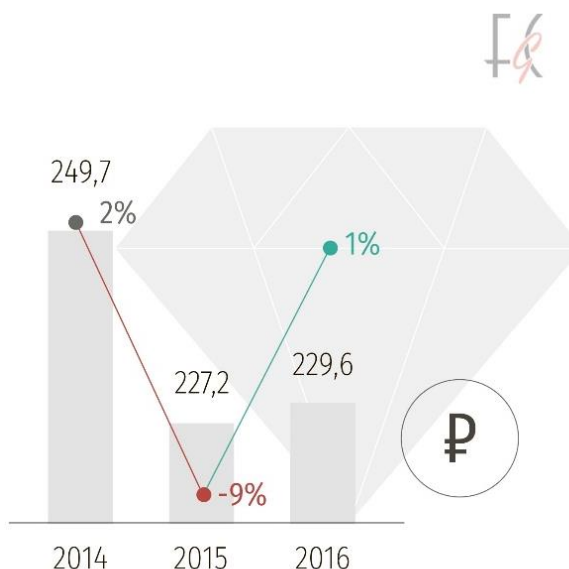
An interesting phenomenon could be noticed in 2017 – a so called "enrichment of the rich" meaning top luxury players claiming first sales growth on the Russian market since 2015: Burberry + 200%, Tiffany & Co + 30%, Prada + 15%, Bogner +12 %, Chanel + 9%, Dior + 8%. In general, luxury market has reached a stable level. While in 2015 there was negative dynamics of -9% in rubles, at the end of 2016 the market has stabilized and reached + 1% in rubles. It happened mostly due to the economic stabilization and consumer confidence growth. Luxury market growth will continue in 2017 on the strict condition of ruble rate stabilization, positive GDP dynamics and low inflation. Other factors:

- The incurrence of "deferred demand" and the return of well-paid professionals, a consumer category that failed to buy luxury goods during the crisis.
- Reduction of shopping tourism abroad.
- Stabilization and "normalization" of prices in Russia – luxury goods price leveling in many countries due to "online landmarks".
- Growth of shopping tourists traffic in Russia, especially from China, and development of services aimed specifically at this target audience. According to Fashion Consulting Group, the share of sales to foreign tourists increased two-fold in 2015-2016 in the whole luxury segment.

Luxury fashion market, 2014-2016, bln. rub.

The average annual rate	Market volume, bln. rub.	
	\$	€
2014	37,97	50,46
2015	60,66	67,43
2016	66,9	74,06

Source: compiled according to the Central Bank of the Russian Federation



Despite the real estate market stagnation, new international brands are coming to Russia.

In the first half of 2017 28 brands opened their first stores in Russia (compared to 22 and 13 in the same period of 2016 and 2015 respectively). About half of new retailers of the current year belong to the fashion segment: Aquazzura, L.K.Bennett, Mandarina Duck, Mauboussin, Zanellato, Zlocchi, Ahimsa, High

by Claire Campbell, MC2 Saint Barth, Peter Kaiser, Koton Jeans, Mirdada. Most of them are related to the upper-middle and premium segments and are of Italian origin.

It should be noticed that not a single global mass-market chain has entered the Russian market in 2017 as well as in previous years. 7 brands left the market in the first half of the year, such as:

- Takko Fashion closed own stores in Russia. There were over 60 of them since they entered the Russian market in 2013.
- The only Vera Wang monobrand shop was closed at the beginning of the year due to the expiration of the contract with the Russian partner. Now the brand will be represented by the Mercury group in a department store corner format.
- Debenhams will leave the Russian market for the second time in ten years. Reviva Holdings, developing the brand on the local market decided to abandon further work with Debenhams in favor of the Finnish Stockmann.
- Mexx has closed all their stores in Russia.

