

# BALTIKA GROUP

February 2006

# COMPANY OVERVIEW

# Emerging regional leader in fashion retail



- Baltika Group is a rapidly growing fashion retailer in the Baltics and Eastern Europe
  - Operating three retail concepts
  - 86 stores with 12,736 m<sup>2</sup> in total
  - Geographical coverage of six countries
  - Vertically integrated product development and manufacturing
- The company aims to be the leading specialist fashion retailer in Central and Eastern Europe
- The Group employs 1,600 people
- Since 1997 listed on OMX Tallinn Stock Exchange

- Countries of operation of Baltika Group
- CEE region

## Highlights from history

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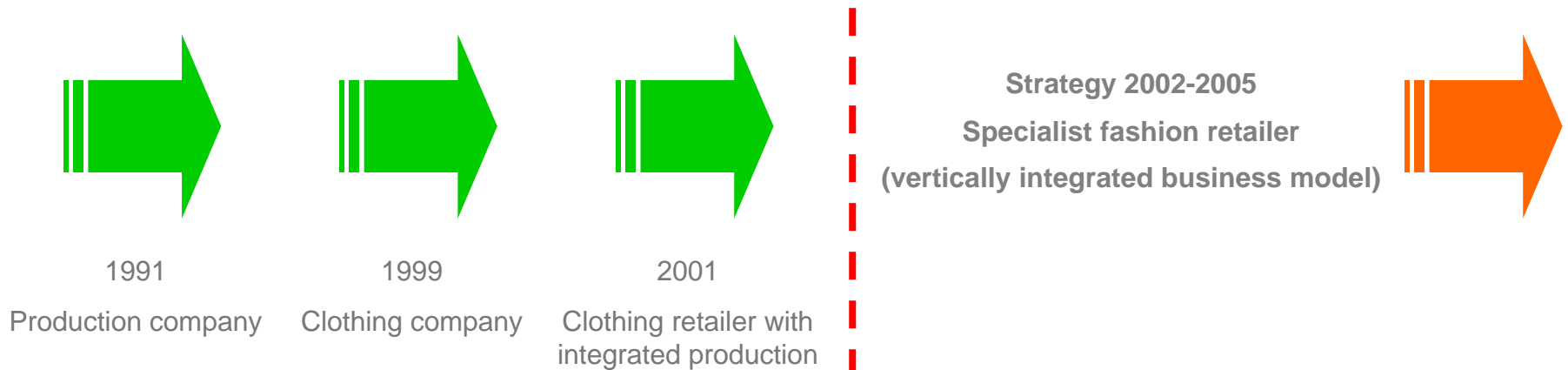
- 1928** Gentelman established in Tallinn as producer of raincoats
- 1959** Company is restructured and renamed Baltika, producing formal menswear
- 1988** Production of ladieswear begins
- 1991** Baltika privatised, first menswear collection, Baltman, launched, first independent shop opened in Estonia
- 1993** First ladieswear collection, Christine Collection (CHR), launched, first shop opened in Lithuania
- 1994** First shop opened in Russia
- 1995** Evermen collection launched
- 1996** First shop opened in Latvia
- 1997** Baltika listed on the Tallinn Stock Exchange (OMX Exchanges)
- 2000** First shop opened in Ukraine and in Poland
- 2002** Strategic turnaround into vertically integrated fashion retailer begins
- 2002** Monton brand launched in five markets
- 2004** 50.1% holding acquired in the Russian retail operations
- 2005** Strategic turnaround completed
- 2006** CHR and Evermen concepts rebranded as Mosaic

# Baltika's turnaround...

Management has successfully turned Baltika around from primarily a production company into a retail enterprise with strong in-house brands by 2005

- Three successful retail concepts launched in six markets since 1991
- Strong revenue and profit growth witnessed in 2005 (y-o-y growth of revenues of 17% and net profit of more than four times)
- Strong margins and return on equity (gross margin at 51.6% and net margin at 10.7%, ROE at 44% in 2005)

## Development of Baltika's business model



## ...into a vertically integrated business model

### Production

- Production at three subsidiaries (Virulane, Elina, Baltika Tailor)
- Specialisation in men's and women's tailored suits, shirts, jackets, coats
- Worldwide outsourcing

### Retail: 80% of total sales (2005)

- A balanced portfolio of three retail concepts

	No of stores	Positioning	% in retail sales 2005
 <b>manton</b>	31	Fast fashion (M/F)	54%
 <b>CHR   EVERMEN*</b>	32	Value for money (M/F)	28%
<b>BALTMAN</b>	13	Business wear (M)	11%
<b>Factory outlets</b>	6	Discounted items	3%
<b>Multibrand stores</b>	4	Multibrand	4%

\*Rebranded as Mosaic in February 2006

### Wholesale: 18% of total sales (2005)

- Distribution through wholesale to department stores in the Baltics, Finland and Eastern Russia

- Centralised brand-based management with regional organisations in target markets
- Efficient inventory control and sales information systems enabling fast monitoring and analysis on a daily basis

# Operating on rapidly growing markets...

- Currently Baltika operates in six retail markets: Estonia, Latvia, Lithuania, Ukraine, Russia and Poland
- The company has strong presence in the Baltics with room to grow in the huge CEE market
- Currently, Lithuania, Russia and Ukraine are the priority growth markets

Baltika's retail markets 2005



Macroeconomic overview of Baltika's markets, 2005

	Population (mln)	GDP (EUR bln)	GDP/capita (EUR)	GDP growth
Estonia	1.3	11	7,842	9.8%
Latvia	2.3	13	5,523	10.2%
Lithuania	3.4	21	6,042	7.5%
Poland	38.6	241	6,227	3.2%
Ukraine	47.0	66	1,400	2.4%
Russia	143.5	616	4,292	6.4%
<b>Total</b>	<b>236.1</b>			

## ...with efficient retail network...

	Monton	CHR/ Evermen*	Baltman	Factory Outlet	Multi- brand	<b>Total</b>	m <sup>2</sup>
Estonia	6	9	5	4		<b>24</b>	2,999
Latvia	4	4	2			<b>10</b>	1,414
Lithuania	9	9	4	1		<b>23</b>	3,588
Ukraine	6	5	1			<b>12</b>	1,808
Russia	2	2	1		4	<b>9</b>	1,228
Poland	4	3		1		<b>8</b>	1,699
<b>Total</b>	<b>31</b>	<b>32</b>	<b>13</b>	<b>6</b>	<b>4</b>	<b>86</b>	<b>12,736</b>

\*Mosaic as of February 2006



## ... and strong financial performance

Recent turnaround success is illustrated by considerably improved financial performance of the company in 2005 vs 2004

- Fast growth in retail sales
- Improved sales efficiency and inventory management
- Better intake margins, accurate product pricing
- Well managed sales of discount periods
- Precisely timed launch of collections
- Higher store traffic compared with previous year

### Financial performance 2005 vs 2004

EUR '000	2005	2004	+/-
Net sales	43,518	37,189	17%
Gross profit	22,438	17,793	26%
<i>Gross margin</i>	<i>51.6%</i>	<i>47.8%</i>	
Operating profit	4,788	1,200	299%
<i>Operating margin</i>	<i>11.0%</i>	<i>3.2%</i>	
Profit before tax	4,536	895	406%
Net profit	4,644	1,067	335%
<i>Net margin</i>	<i>10.7%</i>	<i>2.9%</i>	

### Growth 2005 vs 2004

	+/-
Retail system (average m <sup>2</sup> )	8%
Efficiency (sales/m <sup>2</sup> )	21%
Retail sales	30%
Like-for-like sales	23%

# RETAIL CONCEPTS

## CHR/EVERMEN becomes MOSAIC

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- In February 2006, the name CHR/Evermen was changed to Mosaic
- Goal - to simplify the brand's name and enhance the concept's international competitiveness
- Timing - before major expansion
- In 2006, further development of Mosaic shop concept is carried out
- 35 stores at the time of the name change - will be changed to Mosaic in 1H 2006
- Feedback to name change - positive

## Retail concepts

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**MONTON** – fast fashion brand for women and men with a unique handwriting and well-focused quality range



**MOSAIC** – good quality clothing for women and men who want fashion at affordable prices

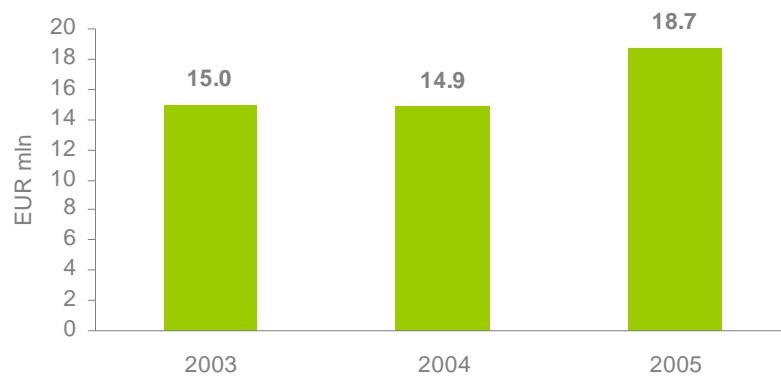


**BALTMAN** – prestigious lifestyle brand for men, offering high-quality contemporary businesswear and personal service in a comfortable shopping environment



- Fast fashion brand launched in 2002 accounting for around 50% of the company's sales
- New collection launched every month
- Positioning:
  - M/F
  - 25-35 years, fashion minded
  - Average income
- Shops in Estonia, Latvia, Lithuania, Ukraine, Russia, Poland
- [www.montonfashion.com](http://www.montonfashion.com)

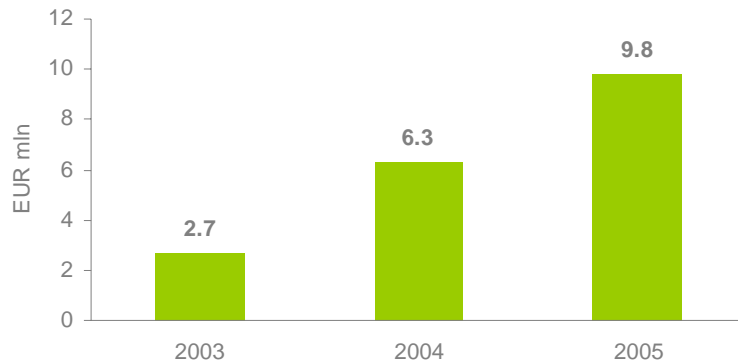
### Sales development



# MOSAIC

- The predecessors of Mosaic - CHR line launched in 1993 and Evermen in 1995
- Rebranded as Mosaic in February 2006
- Good value for money brand
- Positioning:
  - M/F
  - 20-45 years
  - Average income
- Shops in Estonia, Latvia, Lithuania, Ukraine, Russia, Poland
- [www.mosaic-fashion.com](http://www.mosaic-fashion.com)

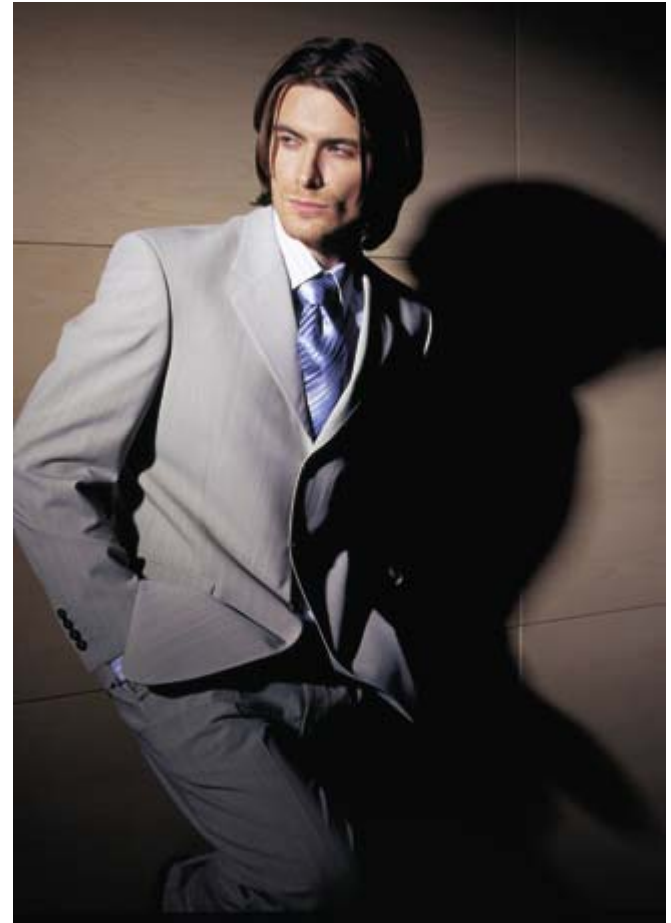
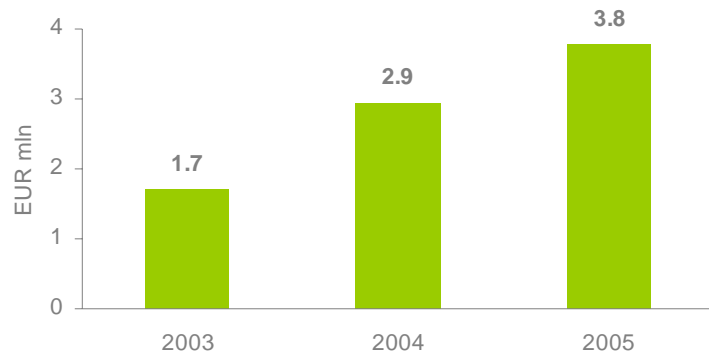
## Sales development



# BALTMAN

- Prestigious lifestyle brand for men dating back to 1991
- Stylish and high quality contemporary businesswear
- New collections launched twice a year
- Positioning
  - Male
  - Wide age group
  - Average and higher than average income
- Shops in Estonia, Latvia, Lithuania, Ukraine, Russia
- [www.baltman.eu](http://www.baltman.eu)

## Sales development



# Store look



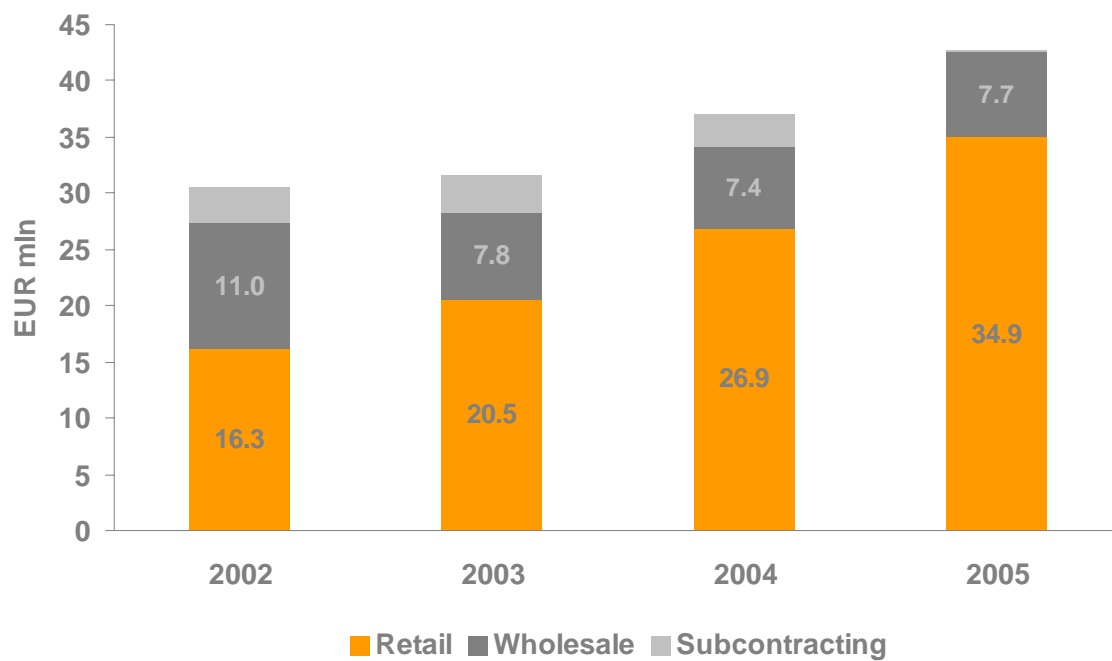


# FINANCIAL REVIEW

# Revenue structure

- Increasing share of retail sales (80% in 2005 vs 72% in 2004)
- Discontinued subcontracting sales starting from December 2004
- In 2005 retail sales grew 30% y-o-y while retail system (m<sup>2</sup>) grew 8% y-o-y
- 2005 like-for-like sales growth +23% y-o-y

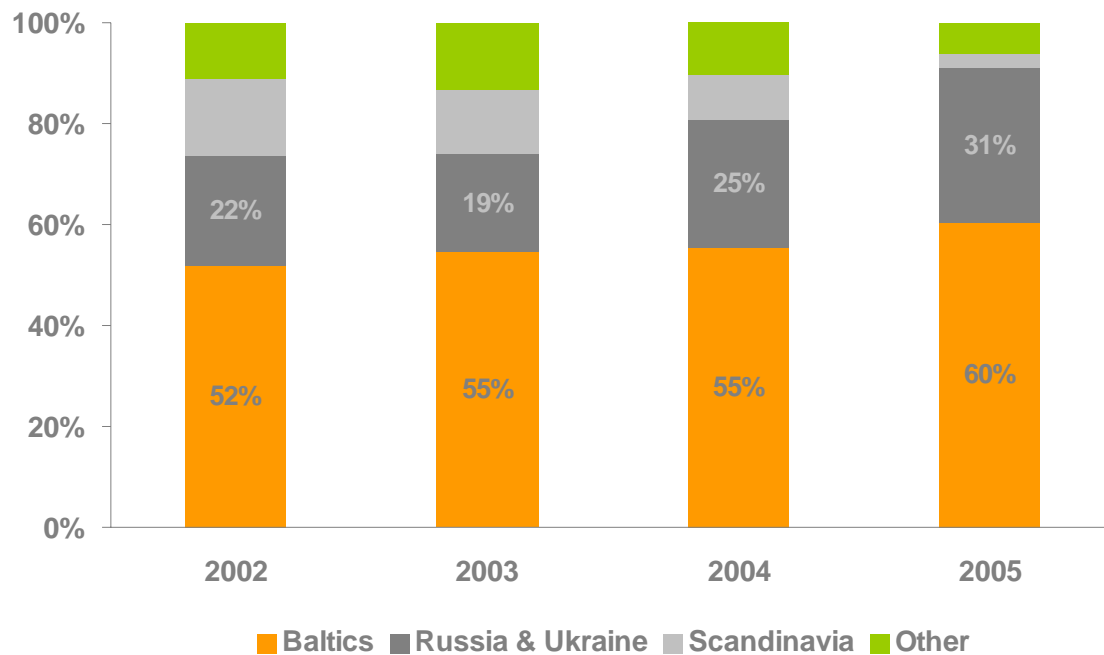
## Changing revenue structure



# Geographic sales division

- Increasing share of the Baltics, Russia and Ukraine as a result of growing retail sales
- Decreasing share of Scandinavia due to discontinued subcontracting sales
- Due to the acquisition of a 50.1% holding in the Russian retail partner in April 2004, part of Russian wholesale is recorded as retail sales starting from May 2004

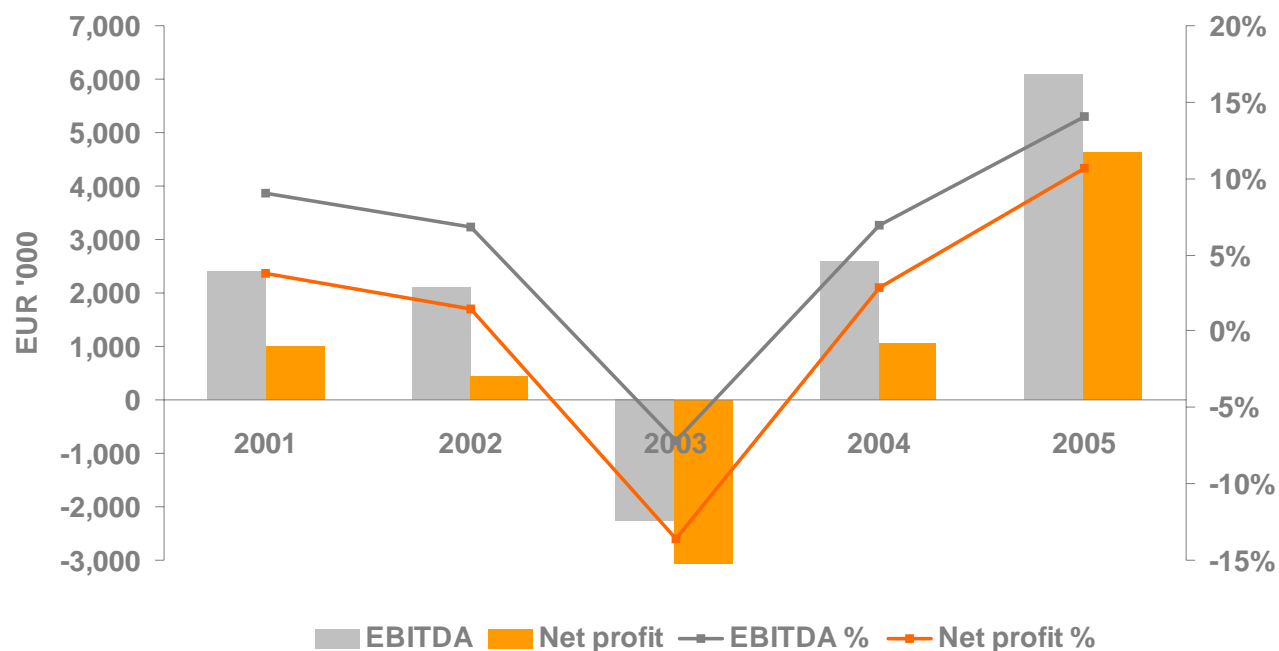
Geographic sales division



# Profitability (EBITDA and net profit)

- Positive impact from growing share of retail sales in total revenues
- Increased sales efficiency via better intake margins and more accurate pricing and improved inventory management
- Control of operating expenses
- Favourable macroeconomic environment

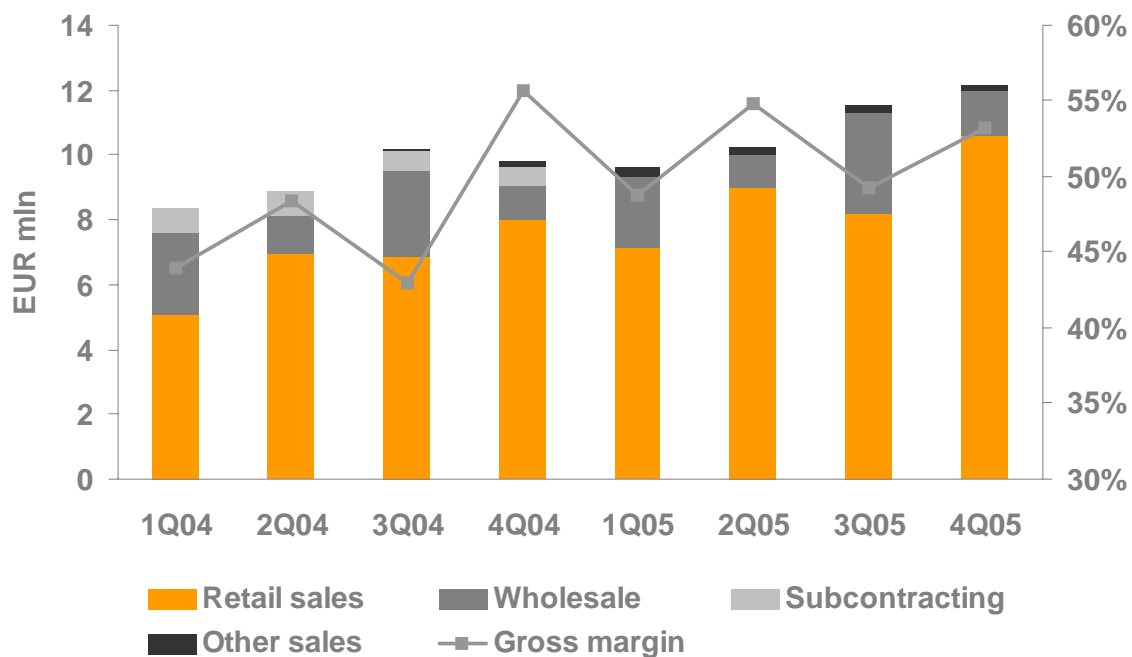
EBITDA and net profit



# Profitability (gross profit)

- 2005 gross margin at 51.6% vs 47.8% in 2004
- 2005 gross profit at EUR 22.4mIn, growth +26.1% y-o-y
- Better intake margins and more accurate pricing - higher first price margins
- Well managed end-of-season clearance sales

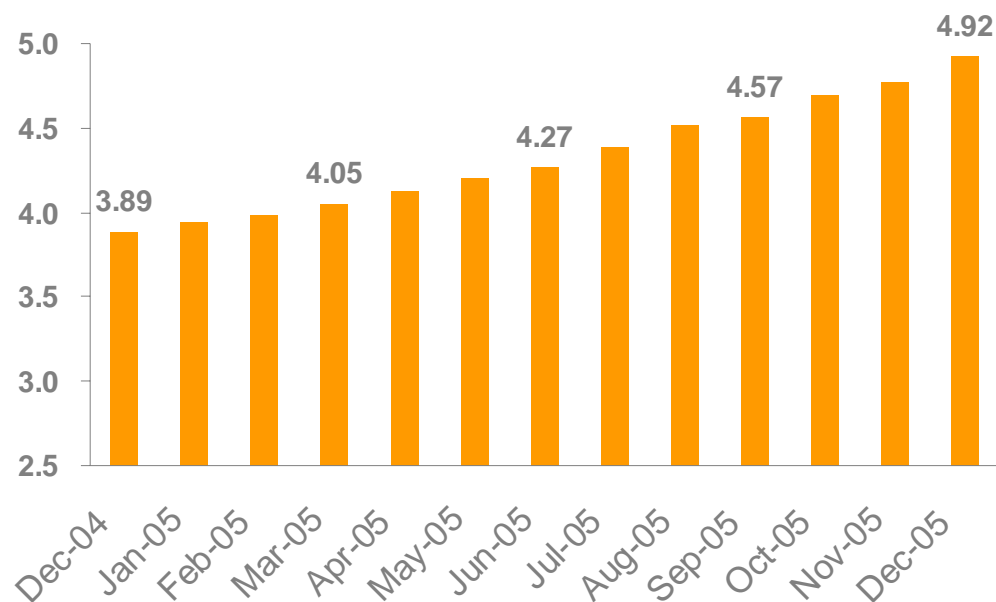
Quarterly sales and gross margin



# Inventory management

- Improving inventory management via established IT information system and growing experience
- Better management of end-of-season clearance sales
- Better sourcing

Inventory turnover ratio\*

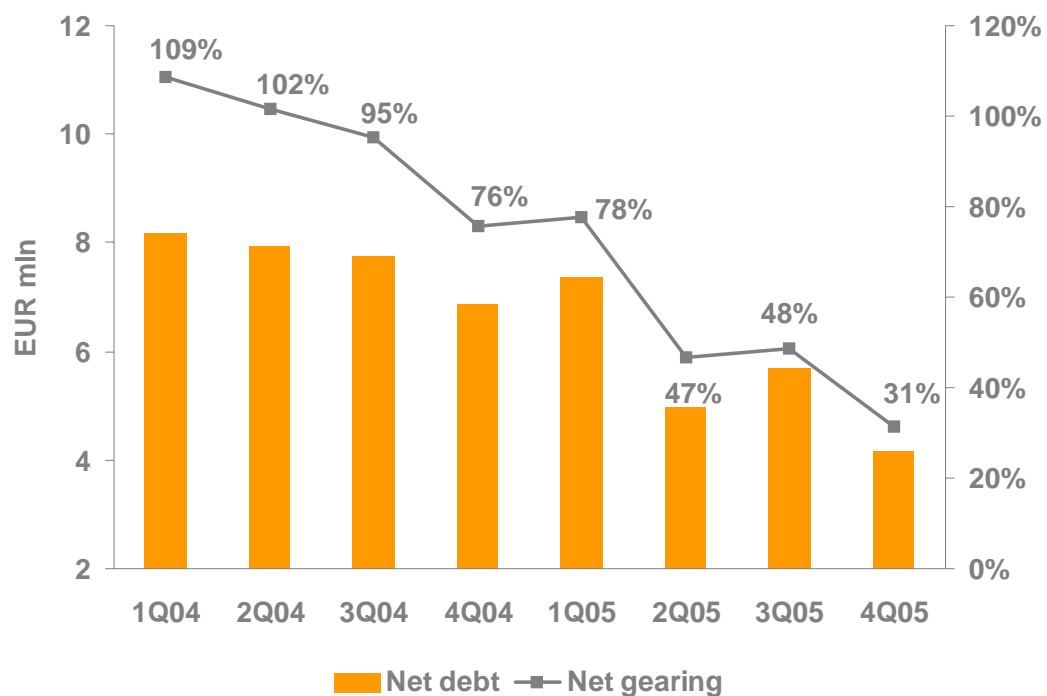


\*Net sales/Average inventories (12-month trailing figures)

# Financial position

- Total interest bearing debt as of the end of 2005 at EUR 5.9mln
- Longer maturity dates (2009-2012) and lower interest rates as a result of refinancing of debt
- Net debt to equity ratio considerably lower compared with the end of 2004

Quarterly net debt and net gearing



## Financial summary

EUR '000	2001	2002	2003	2004	2005
Sales	26,487	31,025	31,767	37,189	43,518
Gross profit	n/a	n/a	n/a	17,796	22,438
<i>Gross margin</i>	n/a	n/a	n/a	47.9%	51.6%
Operating profit	1,478	892	-3,673	1,201	4,787
<i>Operating margin</i>	5.6%	2.9%	-11.6%	3.2%	11.0%
<b>Net profit</b>	<b>1,004</b>	<b>434</b>	<b>-4,311</b>	<b>1,067</b>	<b>4,644</b>
<i>Net margin</i>	3.8%	1.4%	-13.6%	2.9%	10.7%
Total current assets	13,502	16,200	14,264	12,532	14,494
Incl. cash	807	640	820	800	1,659
Total non-current assets	5,507	7,635	6,787	7,739	9,607
<b>Total assets</b>	<b>19,009</b>	<b>23,835</b>	<b>21,051</b>	<b>20,271</b>	<b>24,101</b>
Trade and other payables	3,350	3,185	4,818	3,533	4,878
Total borrowings	6,292	9,339	8,872	7,697	5,933
Total equity	9,367	11,311	7,360	9,042	13,290
Incl. minority interest	424	451	455	449	40
<b>Total liabilities &amp; equity</b>	<b>19,009</b>	<b>23,835</b>	<b>21,051</b>	<b>20,271</b>	<b>24,101</b>



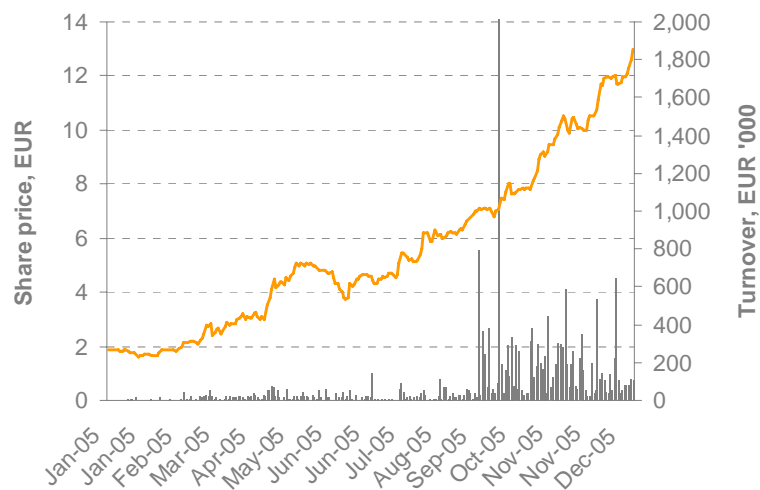
## Outlook and goals for 2006

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- To increase the Group's retail sales by at least 25%;
- The number of shops anticipated to be opened is 23-30, which will increase the Group's retail system to 105-115 shops with total sales area of 17,000-18,000 square metres by the end of the year;
- By country, the largest expansion of the retail chain is planned in Ukraine, Russia and Lithuania and by concept, in Monton and Mosaic;
- The name change of CHR/Evermen to Mosaic and the further development of the Mosaic shop concept;
- To increase the Group's net sales at least 20%;
- To maintain gross profitability at least at the 2005 level (51.6%);
- To continue the improvement of inventory management (the completion of a new logistics centre and the commencement of the introduction of a new IT system).

# Share data (31-Dec-2005)

## Share price history



EUR	2001	2002	2003	2004	2005
Shares ('000)	4,800	5,444	5,499	5,634	5,823
Share price	2.01	2.35	2.10	1.86	13.00
DPS	0	0	0	0.05	0.13*
EPS	0.21	0.09	-0.79	0.19	0.81
BVPS	1.95	2.08	1.34	1.60	2.28
P/E	9.6	27.1	neg	9.7	16.1
P/BV	1.0	1.1	1.6	1.2	5.7

\*Proposal to AGM

## Shareholders' structure

BMIG OÜ	22.1%
SEB Clients	7.8%
LHV Arbitrage	5.8%
Other	64.3%
Total	100.0%

No of shares outstanding	5,822,950
No of shares fully diluted	6,214,950
Market cap, EUR mln	75.7
OMX code	BLT1T
Bloomberg code	BLT1T ET
Next interim results	25-Apr-2006

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