

BALTIKA GROUP

October 2005

Table of contents

- I Company overview
- II Retail concepts
- III Financial review
- IV Growth drivers and future outlook

COMPANY OVERVIEW

Emerging regional leader in fashion retail



- Baltika Group (“Baltika”) is a rapidly growing fashion retailer in the Baltics and Eastern Europe
 - Operating four retail concepts
 - 79 stores with 11,702 m² 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
- Central and East European region

Highlights from history

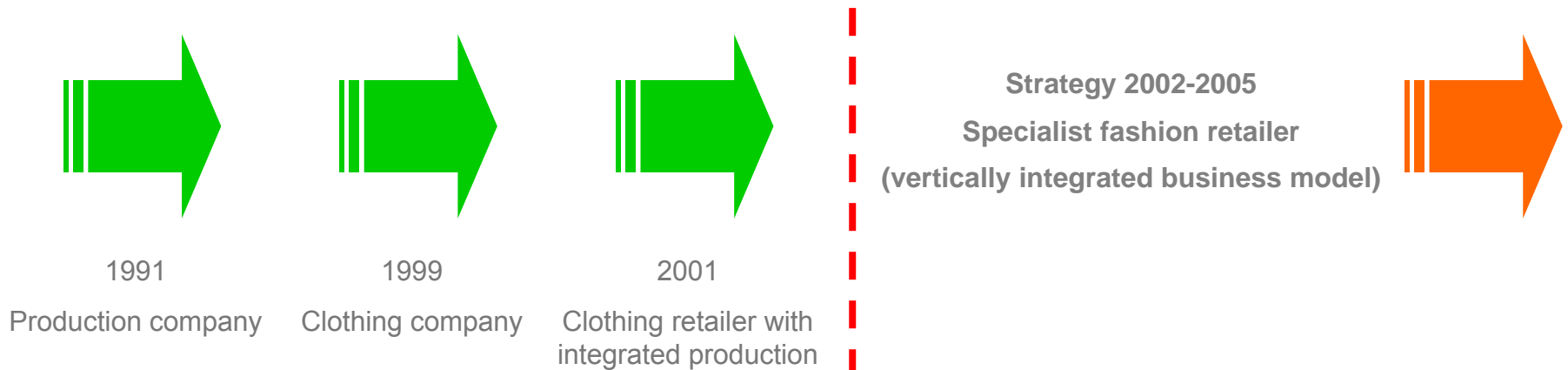
- 1928** “Gentelman” established in Tallinn as producer of raincoats
- 1959** the company restructured and renamed as Baltika producing formal menswear
- 1988** production of ladieswear started
- 1991** Baltika privatised, first menswear collection “Baltman” launched, first own store opened
- 1993** first ladieswear collection “CHR” launched, first shop opened in Lithuania
- 1994** first shop opened in Russia, Jekaterinburg
- 1995** “Evermen” collection launched
- 1996** first shop opened in Latvia
- 1997** Baltika listed on the Tallinn Stock Exchange (OMX Exchanges)
- 1999** sales office established in Poland
- 2000** franchising contracts in Latvia and Russia; Baltika Ukraine established and the first store opened in Ukraine
- 2002** “Monton” brand launched in five markets, subsidiary founded in Latvia
- 2004** 50.1% holding acquired in the Russian retail operations
- 2004** spin-off of Baltika’s production unit into a joint venture

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

- Four successful retail concepts launched in six markets since 1991
- Strong revenue and profit growth witnessed in 9m 2005 (y-o-y growth of revenues of 14% and net profit of almost 9 times)
- Strong margins and return on equity (gross margin at 51% and net margin at 9%, ROE at 39% in 9m 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: 78% of total sales (9m05)

- A balanced portfolio of 4 retail concepts and 4 multibrand stores

	No of stores	Total m ²	Positioning	% in retail sales 9m05
 manton	29	6,039	Fast fashion (M/F)	54%
 CHR EVERMEN	29	3,867	Value for money (M/F)	27%
BALTMAN	11	943	Business wear (M)	11%
Factory outlets	6	442	Discounted items	3%
Multibrand stores	4	411	Multibrand	5%

Wholesale: 20% of total sales (9m05)

- 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



Target markets' data

	Population (mln)	GDP (EUR bln)	GDP/capita (EUR)	GDP growth 2005f
Estonia	1.4	9	6,681	7.5%
Latvia	2.3	11	4,758	9.0%
Lithuania	3.5	18	5,190	6.5%
Ukraine	47.1	55	1,176	5.0%
Russia	144.0	478	3,317	5.6%
Poland	38.2	195	5,109	4.0%
Total	236.5			

...with efficient retail network...

	Monton	CHR/ Evermen	Baltman	Factory Outlet	Multi- brand	Total	m ²
Estonia	6	9	4	4		23	2,962
Latvia	4	4	2			10	1,414
Lithuania	8	7	3	1		19	2,972
Ukraine	6	5	1			12	1,808
Russia	1	1	1		4	7	847
Poland	4	3		1		8	1,699
Total	29	29	11	6	4	79	11,702

... 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
- More exact price policy - better mark-ups and margins
- Well managed seasonal sales
- Precisely timed launch of collections
- Higher store traffic compared with previous year

Financial performance 9m 2005 vs 9m 2004

EUR '000	9m 2005	9m 2004	+/-
Net sales	31,353	27,410	14%
Gross profit	15,966	12,346	29%
<i>Gross margin</i>	<i>50.9%</i>	<i>45.0%</i>	
Operating profit	2,933	721	307%
<i>Operating margin</i>	<i>9.4%</i>	<i>2.6%</i>	
Profit before tax	2,825	378	648%
Net profit	2,961	343	765%
<i>Net margin</i>	<i>9.4%</i>	<i>1.2%</i>	

Growth 9m 2005 vs 9m 2004

	+/-
Retail system (average m ²)	8%
Efficiency (sales/m ²)	19%
Retail sales	29%
Like-for-Like sales	19%

RETAIL CONCEPTS

Retail concepts



MONTON – fast fashion brand for women and men which offers unique style and good quality



CHR/EVERMEN – good quality clothing for women and men who want fashion at affordable prices

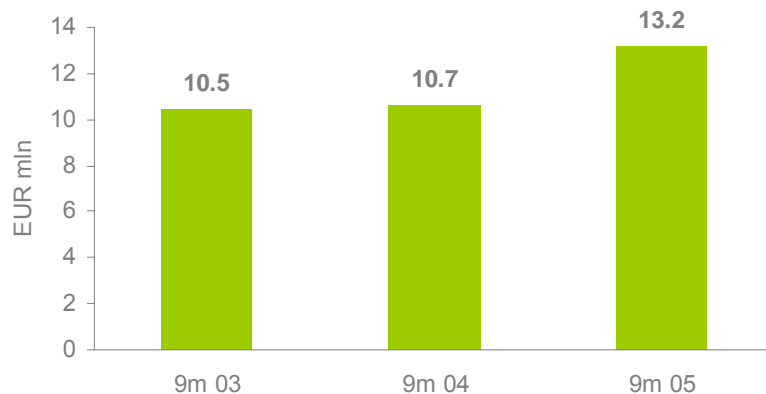


BALTMAN – prestigious lifestyle brand for men, offering classic clothing and personal service in a comfortable shopping environment

monton

- Fast fashion brand launched in 2002 accounting for the majority 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
- In 2004 Monton received the "Choice of the Year" award in the category of womenswear in Ukraine and the "Most Innovative Brand" award in Latvia
- www.montonfashion.com

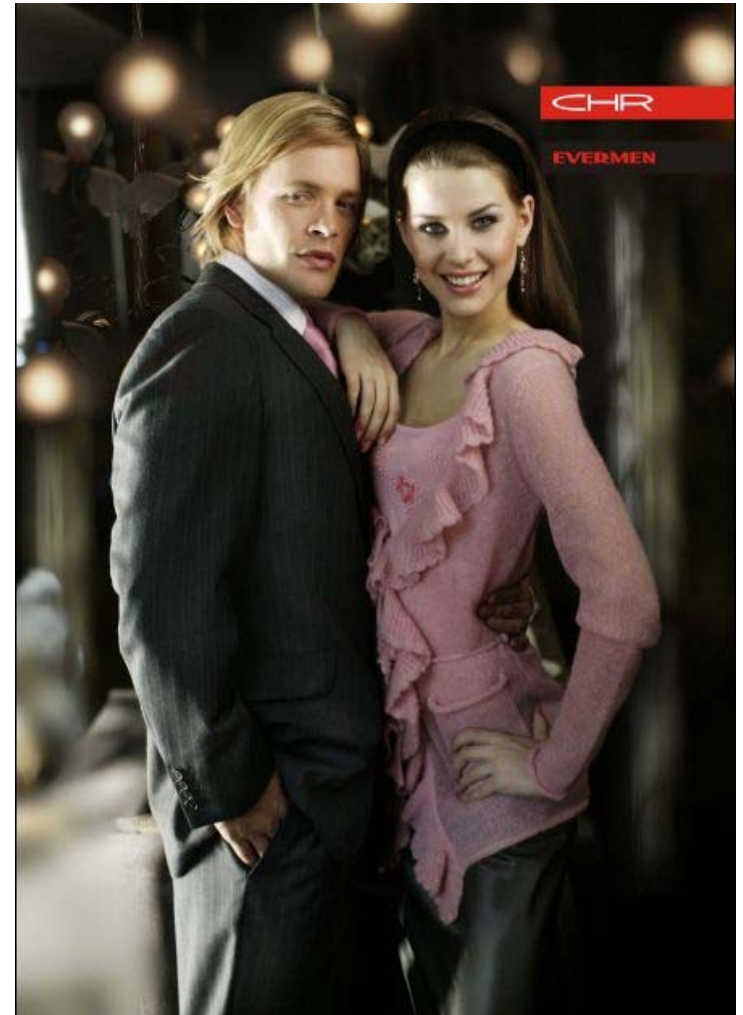
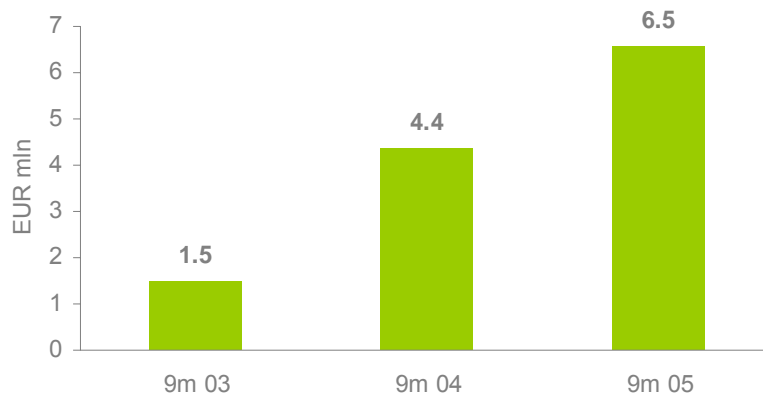
Sales development (9 months)



CHR | EVERMEN

- CHR line launched in 1993 and Evermen in 1995
- A brand for more price sensitive customers - good value for money
- Positioning:
 - M/F
 - 20-45 years
 - Average income
- Shops in Estonia, Latvia, Lithuania, Ukraine, Russia, Poland
- In 2004 CHR designer Evelin Lill received the “Golden Needle” award in Estonia
- www.christine-evermen.com

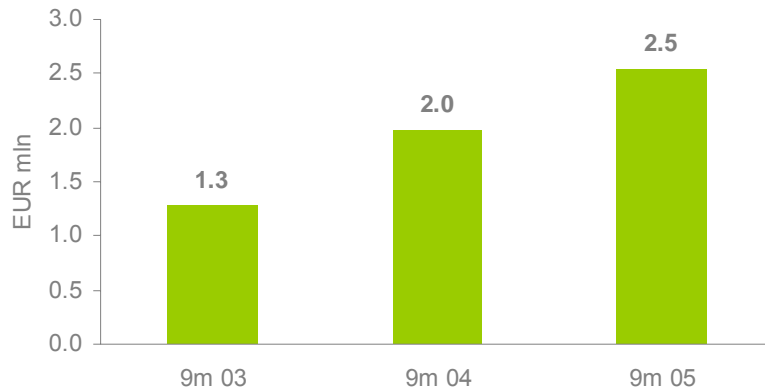
Sales development (9 months)



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.ee

Sales development (9 months)



Store look



FINANCIAL REVIEW

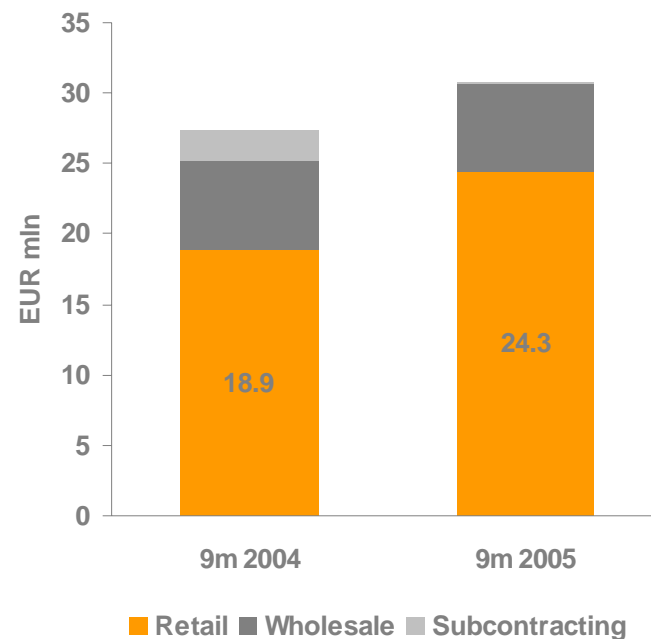
Revenue structure

- Increasing share of retail sales (78% in 9m 2005 vs 69% in 9m 2004)
- Discontinued subcontracting sales starting from December 2004
- In 9m 2005 retail sales grew 29% y-o-y while retail system (m²) grew 8% y-o-y
- 9m 2005 like-for-like sales +19% y-o-y

Revenue structure 2002-2004



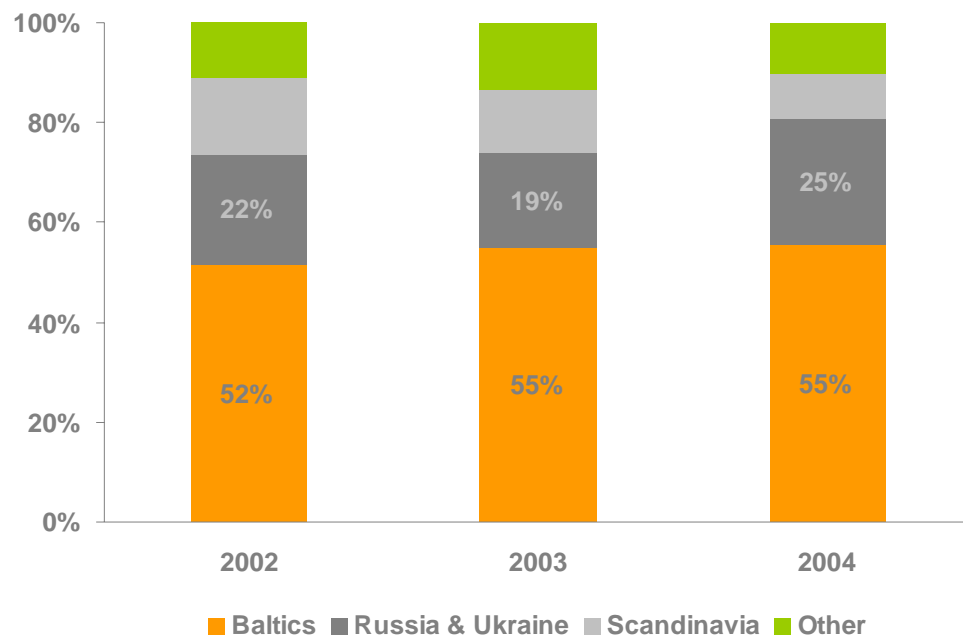
Revenue structure 9m04-9m05



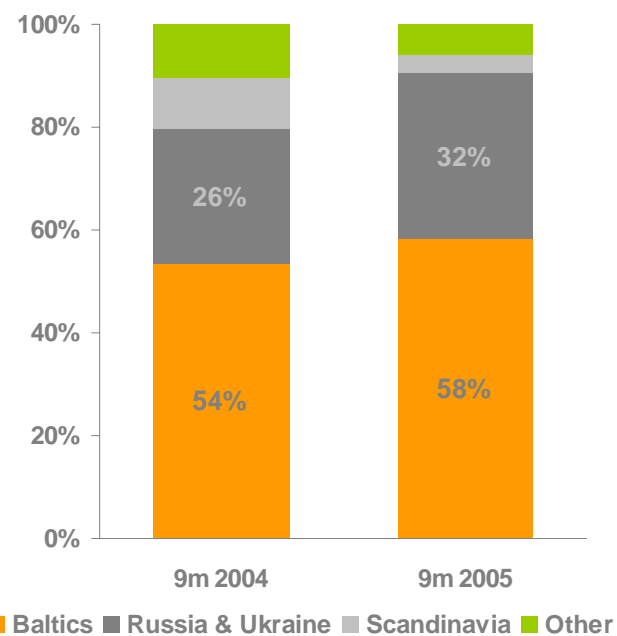
Geographic sales division

- 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 2002-2004



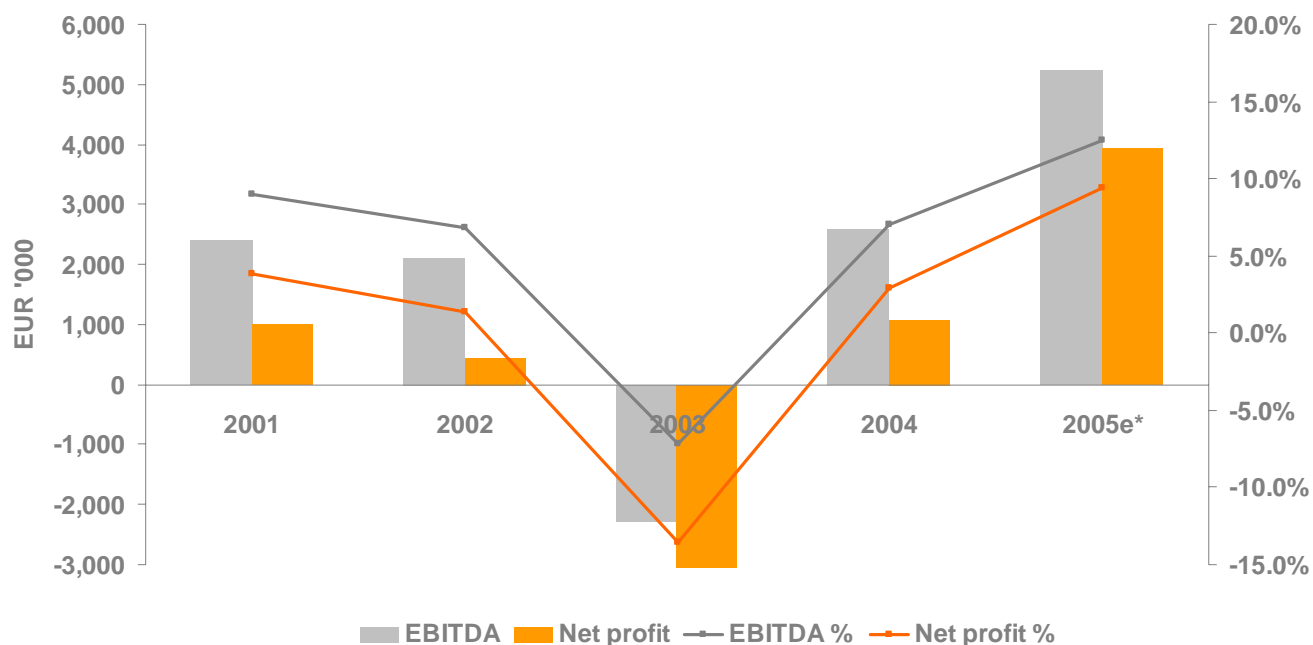
Geographic sales division 9m04-9m05



Profitability (EBITDA and net profit)

- Positive impact from growing share of retail revenues in total revenues
- Increased sales efficiency via improved mark-up policy, higher first price margins and inventory management
- Control of operating expenses
- Supporting macroeconomic environment

EBITDA and net profit



*2005 – estimates based on annualised interim results

Profitability (gross profit)

- 9m 2005 gross margin at 50.9% vs 45.0% in 9m 2004
- 9m 2005 gross profit at EUR 16.0mln, growth +29.3% y-o-y
- More exact price policy - better mark-ups and higher first price margins
- Well managed end-of-season clearance sales

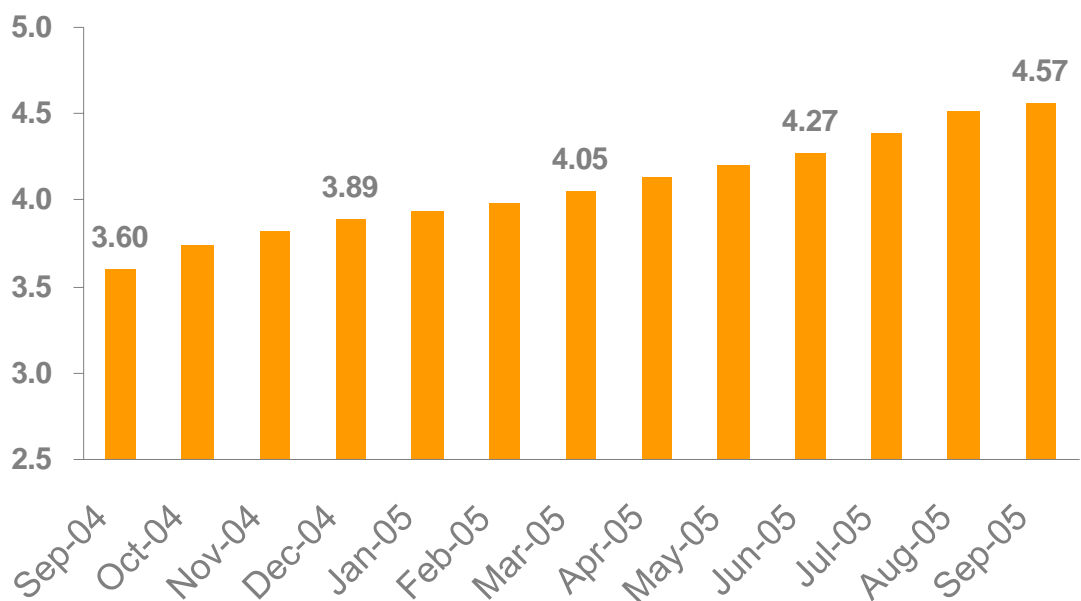
Quarterly sales and gross margin



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*

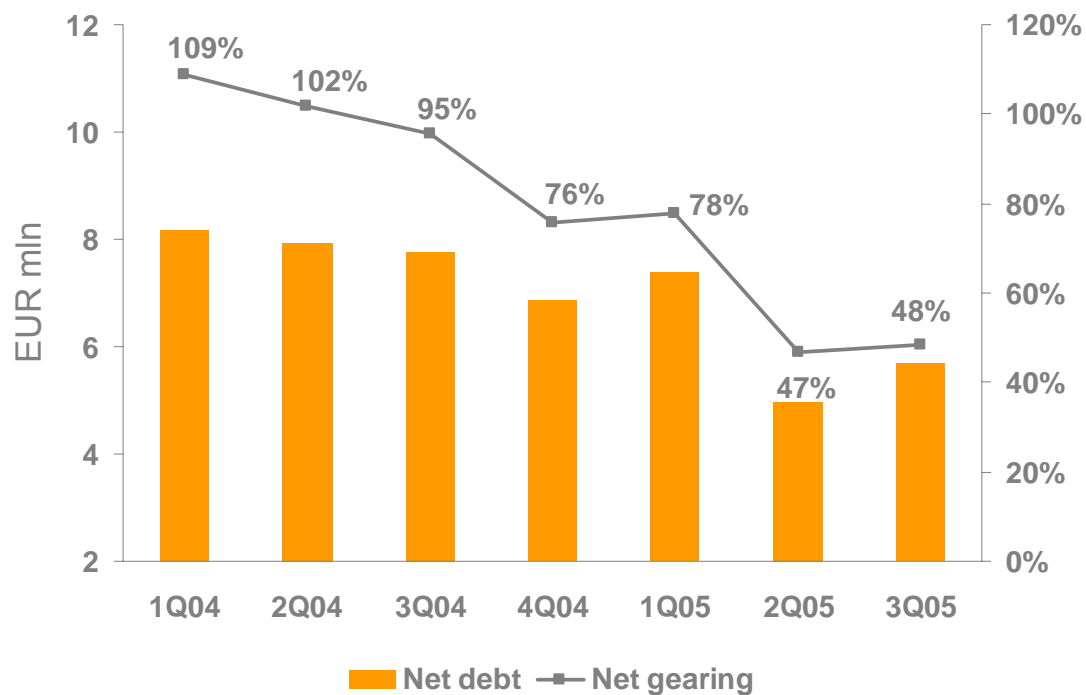


*Net sales/Average inventories (12-month trailing figures)

Financial position

- Total interest bearing debt as of the end of 9m 2005 at EUR 6.6mIn
- 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	2000	2001	2002	2003	2004	9m 2004	9m 2005
Sales	21,778	26,487	31,025	31,767	37,189	27,410	31,353
Gross profit	n/a	n/a	n/a	n/a	17,796	12,346	15,966
<i>Gross margin</i>	n/a	n/a	n/a	n/a	47.9%	45.0%	50.9%
Operating profit	1,231	1,478	892	-3,673	1,201	721	2,933
<i>Operating margin</i>	5.7%	5.6%	2.9%	-11.6%	3.2%	2.6%	9.4%
Net profit	911	1,004	434	-4,311	1,067	343	2,961
<i>Net margin</i>	4.2%	3.8%	1.4%	-13.6%	2.9%	1.2%	9.4%
Total current assets	11,235	13,502	16,200	14,264	12,532	13,294	13,241
Incl. cash	978	807	640	820	800	505	741
Total non-current assets	3,672	5,507	7,635	6,787	7,739	7,429	8,322
Total assets	14,906	19,009	23,835	21,051	20,271	20,722	21,563
Trade and other payables	2,765	3,350	3,185	4,818	3,533	4,301	3,260
Total borrowings	3,386	6,292	9,339	8,872	7,697	8,297	6,558
Total equity	8,756	9,367	11,311	7,360	9,042	8,124	11,744
Incl. minority interest	586	424	451	455	449	574	208
Total liabilities & equity	14,906	19,009	23,835	21,051	20,271	20,722	21,563

Financial targets 2002-2005

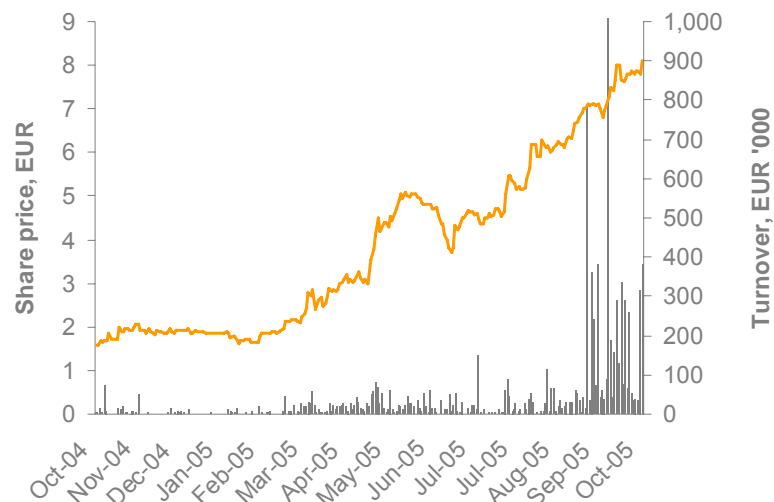
	Target	9m 2005	2005e
Doubling of net sales	EEK 828mln/EUR 53mln	EEK 491mln/EUR 31mln	EEK 640mln/EUR 41mln
Tripling of net profit	EEK 45mln/EUR 2.9mln	EEK 46.3mln/EUR 3.0mln	
ROE	≥15%	39.2%	

Outlook and goals for 2005

- Net sales of the group min EEK 640mln (EUR 41mln)
- Growth of retail sales min 20%
- Increase of retail efficiency (sales/m²) more than 10%
- Better sourcing: improvement of the first price margin
- Improved stock management: stock turnover ratio over 4 times
- Preparation of the group's strategy for 2006-2008
- Expand the retail area by ca 1,700 m² (10-12 new shops) implying investments into the system of EEK 17mln (EUR 1.1mln)

Share data

Share price history



Shareholders' structure

BMIG OÜ	22.8%
SEB Clients	8.8%
Other	68.4%
Total	100.0%

EUR	2001	2002	2003	2004	9m 05
Shares ('000)	4,800	5,444	5,499	5,634	5,823
Share price	2.01	2.35	2.10	1.86	7.50
DPS	0	0	0	0.05	n/a
EPS	0.21	0.09	-0.79	0.19	0.52
BVPS	1.95	2.08	1.34	1.60	2.02
P/E	9.6	27.1	neg	9.7	10.9
P/BV	1.0	1.1	1.6	1.2	3.7

No of shares outstanding	5,822,950
No of shares fully diluted	6,214,950
Market cap, EUR mln	43.7
OMX code	BLT1T
Bloomberg code	BLT1T ET

STRATEGY

Major growth drivers

Growing target markets

- Booming retail markets in Eastern Europe allow Baltika to capitalise on existing strong brand portfolio and market position
- Encouraging economic growth in the Baltics, Russia and Ukraine, driven by growing consumption ensures positive outlook for Baltika's retail concepts
- In the Baltics, Lithuanian market is the largest and also the fastest-growing
- Out of the existing markets, Russia is expected to become one of the top five consumer markets in the world in 10-15 years while the latest developments on the Ukrainian market indicate massive expansion in consumer spending as well

Strong brands and improving efficiency

- Brand loyalty in Russia and Ukraine is even stronger than in the Baltic states, indicating a solid position in the intensified competitive environment
- Improving brand awareness in all target markets and continuing extension of the retail network provides for further revenue growth
- The company has set improvement in sales/m² as one of the key targets, to further improve profitability on the existing sales space

Geographical expansion

- Potential to expand the retail network to the other CEE countries (Bulgaria, Romania, Slovakia, Hungary)

Future outlook and opportunities

Strategy

- Management of the company is currently working on the strategy for the 2006-2008 period
- Strategy is concentrated on further development of retail space in the selected markets
 - Doubling of the retail space by 2008 is envisaged
- Success of the current management in implementing turnaround and shift from production to retail assures success of the future expansion plan as well

Investments

- Investments are planned for opening of new retail space and improvement of the management information systems
- Relocation of warehouse is scheduled for 2006, to be followed by new production facilities in 2007 for Baltika Tailor
- Capacity of the production facilities will not be expanded and growth will be fuelled by outsourced goods

Efficiency

- Improvement in inventory management through growing experience
- Opportunity for further improvement in profitability from shortening of the design cycle and higher volume of outsourcing

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