

# BALTIKA GROUP

9m 2005

# 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 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
- Central and East European region

## Highlights from history

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- 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

## Mission statement

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**Our mission** is to offer our customers fashion clothing, which complements their lifestyle. In that way we become the best solution for their self-expression to help them feel good and perform their best. To our employees we want to offer a highly motivated and secure working environment.

**Our goal** is to be the leading specialist fashion retailer in Central and Eastern Europe.

Through these activities, we ensure constant growth and improved shareholders' value with their investment in Baltika.

# Baltika's turnaround

## Strategy 2002-2005

### Specialist fashion retailer

(vertically integrated business model)  
Share of retail sales in 2005 ca 80%

2001

Clothing retailer  
with own production

Share of retail sales 37%

1991

Production  
company

1999

Clothing  
company

2000

Clothing  
company  
with own retail

# 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 <sup>2</sup>	Positioning	% in retail sales 9m05
 <b>monton</b>	29	6,039	Fast fashion (M/F)	54%
 <b>CHR EVERMEN</b>	29	3,867	Value for money (M/F)	27%
<b>BALTMAN</b>	11	943	Business wear (M)	11%
<b>Factory outlets</b>	6	442	Discounted items	3%
<b>Multibrand stores</b>	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%
<b>Total</b>	<b>236.5</b>			



# RETAIL CONCEPTS

## Retail concepts

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**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

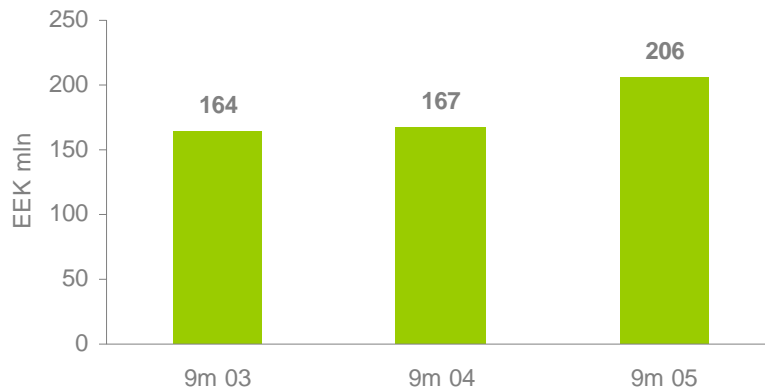


**BALTMAN** – prestigious lifestyle brand for men, offering classic clothing and personal service in a comfortable shopping environment

# 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](http://www.montonfashion.com)

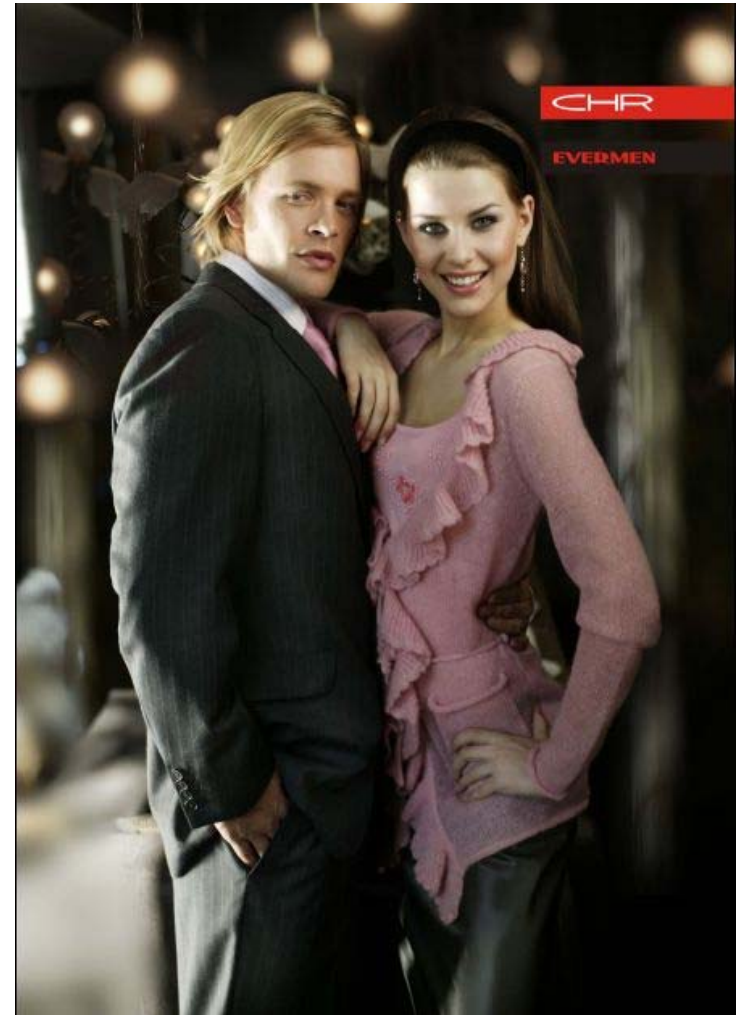
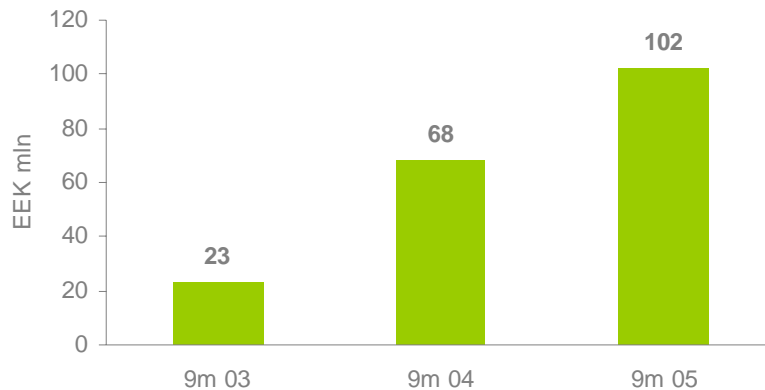
Sales development (9 months)



# 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](http://www.christine-evermen.com)

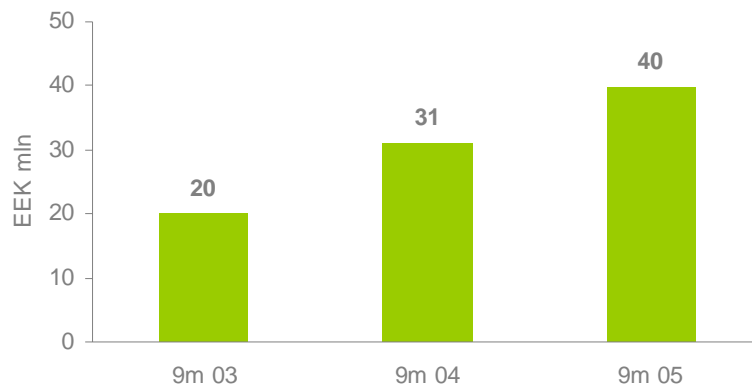
Sales development (9 months)



# 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](http://www.baltman.ee)

Sales development (9 months)



## Retail network

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

# FINANCIAL REVIEW

## Financial highlights – 9m 2005

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- Group sales up 14.4% yoy
- Retail sales growth 28.7% yoy
- Gross margin expansion to 50.9% (45.0% in 9m 2004)
- Operating profit EEK 45.9mln vs EEK 11.3mln last year
- Operating margin at 9.4% (2.6% in 9m 2004)
- Net profit EEK 46.3mln (EEK 5.4mln in 9m 2004)
- Net margin at 9.4% (1.2% in 9m 2004)
- Cash flow from operating activities EEK 37.7mln vs EEK 10.9mln in 9m 2004



## Quarterly highlights

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- Fast growth in retail sales (+19.5% yoy)
- Strong wholesale sales (+17.0% yoy)
- Improved sales efficiency and inventory management
- More exact price policy - better mark-ups and margins
- Well managed end of season sales in July and August
- Precisely timed launch of new collections
- Higher store traffic compared with previous year
- Strengthening brand awareness

## Income statement

EEK '000	3Q 05	3Q 04	+/-	9m 05	9m 04	+/-
Net sales	180,083	159,531	12.9%	490,571	428,881	14.4%
Gross profit	88,714	68,626	29.3%	249,812	193,169	29.3%
<i>Gross margin</i>	<i>49.3%</i>	<i>43.0%</i>		<i>50.9%</i>	<i>45.0%</i>	
Operating profit	19,228	6,280	206%	45,894	11,286	307%
<i>Operating margin</i>	<i>10.7%</i>	<i>3.9%</i>		<i>9.4%</i>	<i>2.6%</i>	
Net financial exp.	-665	-2,090	-68.2%	-1,699	-5,375	-68.4%
Incl. interest exp.	-1,249	-1,616	-22.7%	-4,039	-5,087	-20.6%
Profit before tax	18,563	4,190	343%	44,195	5,911	648%
Net profit	18,170	3,635	400%	46,330	5,359	765%
<i>Net margin</i>	<i>10.1%</i>	<i>2.3%</i>		<i>9.4%</i>	<i>1.2%</i>	

## Sales by segment

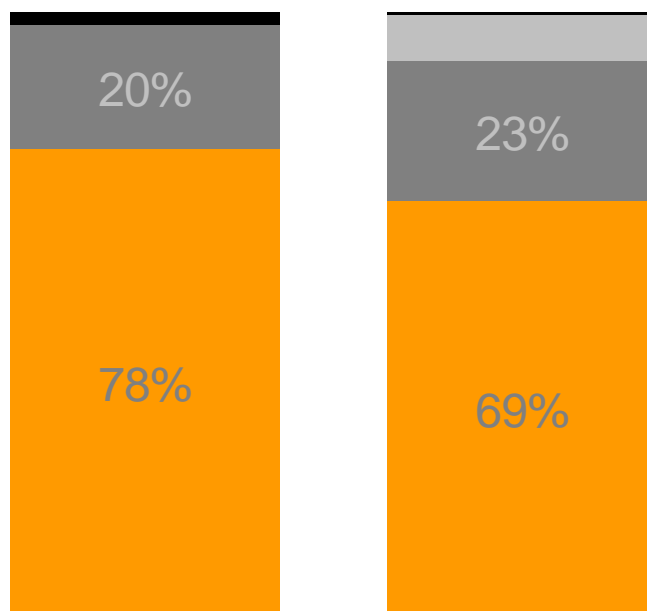
EEK mln	3Q 05	3Q 04	+/-	9m 05	9m 04	+/-
Retail sales	128.3	107.4	19.5%	380.6	295.7	28.7%
Wholesale	48.8	41.7	17.0%	99.6	98.9	0.6%
Subcontracting	0.02	10.0	-99.8%	0.6	33.2	-98.3%
Other sales	3.0	0.4	573%	9.8	1.1	838%
<b>Total</b>	<b>180.1</b>	<b>159.5</b>	<b>12.9%</b>	<b>490.6</b>	<b>428.9</b>	<b>14.4%</b>

Due to the establishment of a joint venture, Baltika Tailor OÜ, on the basis of Baltika's production unit in November 2004, the consolidated sales results do not include subcontracting figures starting from December 2004.

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.

# Sales development

## Sales breakdown



9m 2005

9m 2004

■ Retail sales  
■ Subcontracting

■ Wholesale  
■ Other sales

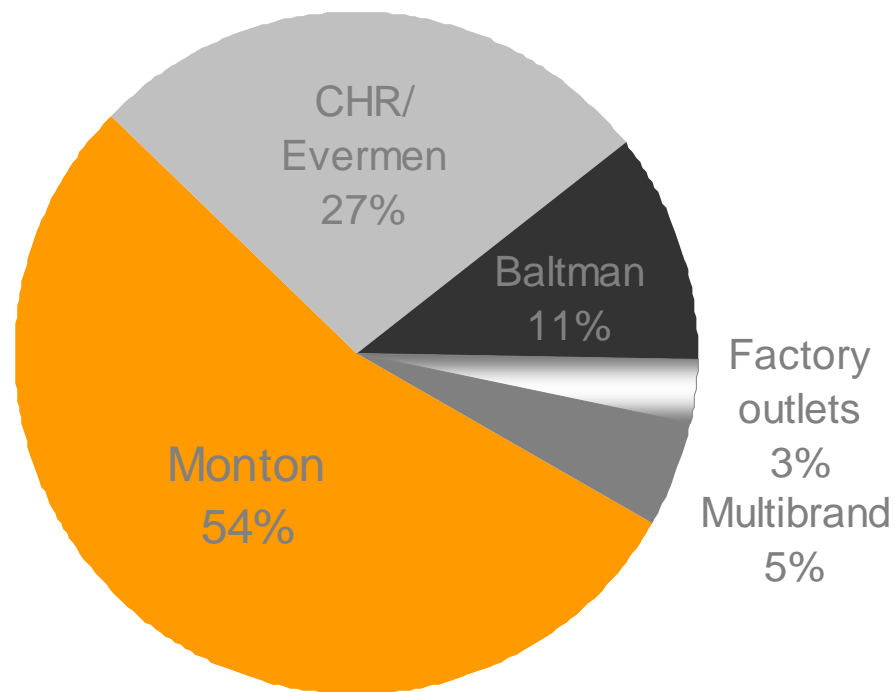
## Growth 9m 2005, yoy

Retail space (avg m <sup>2</sup> )	8%
Efficiency (sales/m <sup>2</sup> )	19%
Retail sales	29%
Like-for-Like sales	19%

## Sales by concept

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Retail sales breakdown, 9m 2005



## Sales by country

EEK mln	9m 05	9m 04	+/-	% sales
Estonia	139.2	106.3	31%	28%
Latvia	57.2	46.7	23%	12%
Lithuania	90.2	76.7	18%	18%
Ukraine	68.2	51.6	32%	14%
Russia	89.0	59.7	49%	18%
Poland	28.8	28.9	0%	6%
Finland	17.0	28.4	-40%	3%
Other	1.0	30.5	-97%	0%
<b>Total</b>	<b>490.6</b>	<b>428.9</b>	<b>14%</b>	<b>100%</b>

# Sales and gross margin

## Quarterly sales and gross margin



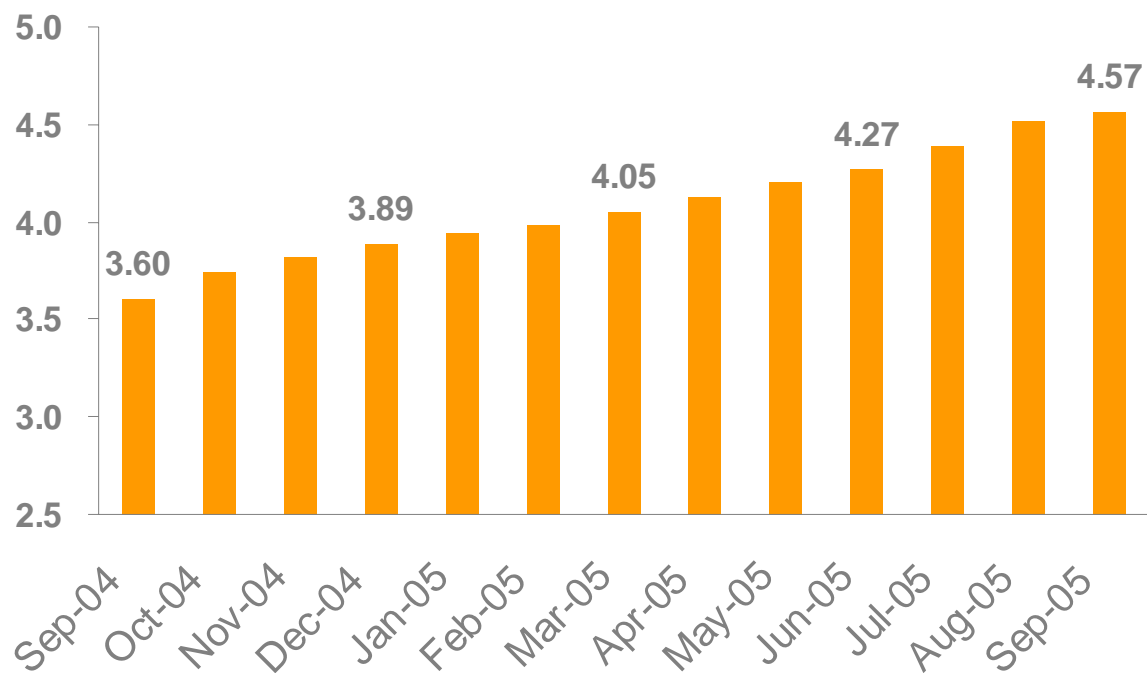
## Balance sheet highlights

EEK '000	30.09.05	30.09.04	+/-	31.12.04
Customer receivables	51,887	38,707	34.1%	27,501
Inventories	132,466	146,669	-9.7%	145,460
Tangible fixed assets	79,627	80,031	-0.5%	77,325
Total assets	337,380	324,236	4.1%	317,180
Accounts payable	26,052	37,197	-30.0%	31,154
Total liabilities	153,630	197,118	-22.1%	175,710
Total equity	183,750	127,118	44.6%	141,470
Inventory turnover	4.57	3.60	26.9%	3.89
ROE	39.2%	-23.3%		14.6%
ROA	18.1%	-8.1%		5.1%



# Inventory management

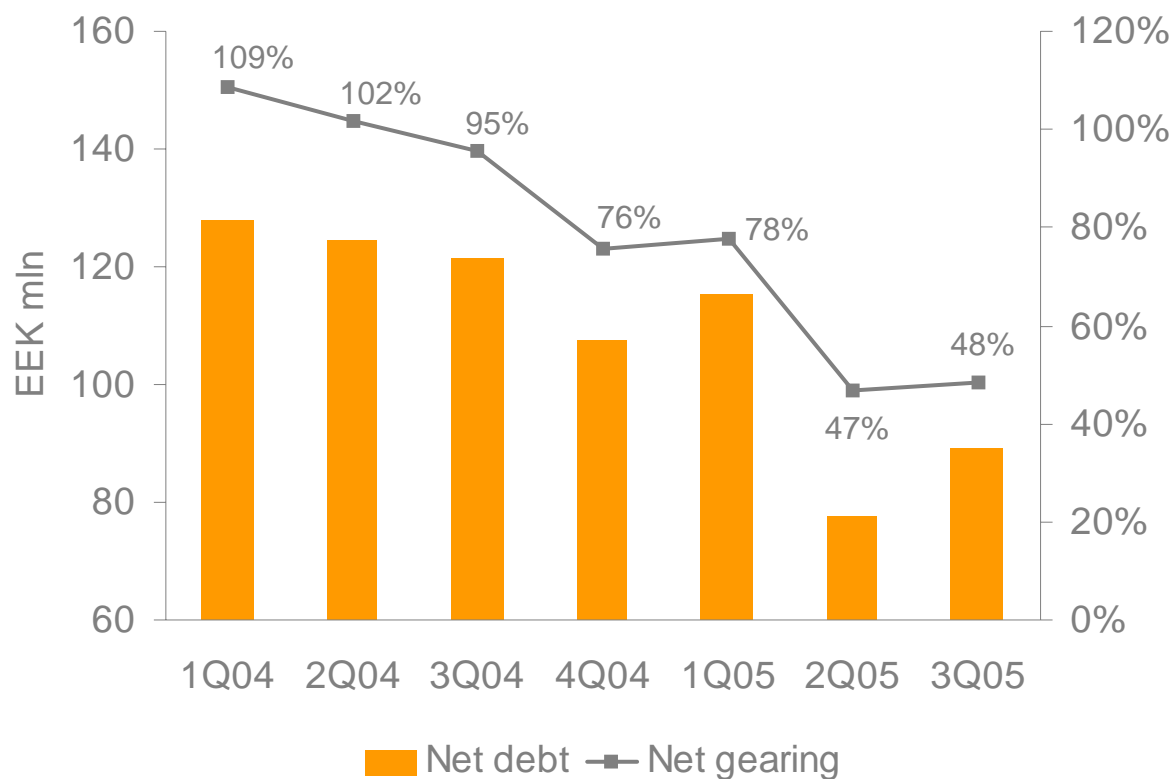
## Inventory turnover ratio\*



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

# Financial position

## Net debt and gearing ratio



## Outlook for 4Q 2005

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- Many new store openings (10-11 new stores)
- 4Q - seasonally lower wholesale quarter
- Higher gross profitability compared with 3Q
- Strong start of 4Q retail sales - sales up by 21% yoy in October

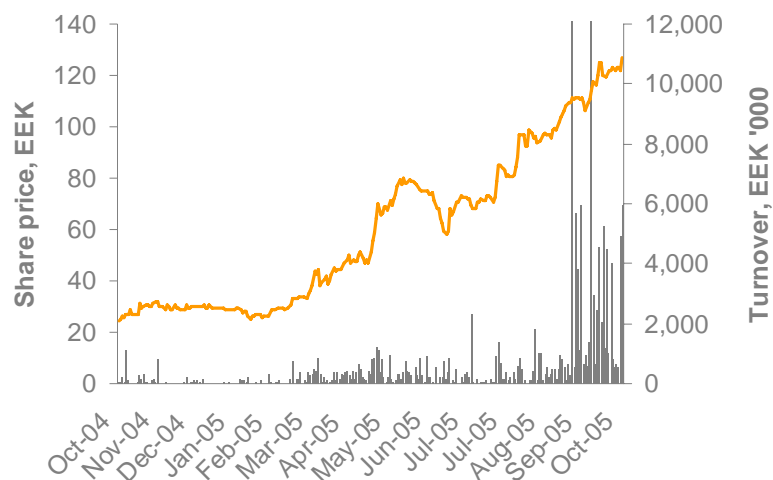
## Outlook and goals for 2005

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- Net sales of the group min EEK 640mln (EUR 41mln)
- Growth of retail sales min 20%
- Increase of retail efficiency (sales/m<sup>2</sup>) 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 m<sup>2</sup> (10-12 new shops) implying investments into the system of EEK 15mln (EUR 1mln)
- Investments for developing IT-systems and production in the amount of ca EEK 4mln (EUR 0.3mln)

# Share data

Share price history



Shareholders' structure

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

EEK	2001	2002	2003	2004	9m 05
Shares ('000)	4,800	5,444	5,499	5,634	5,823
Share price	31.50	36.77	32.86	29.10	117.35
DPS	0	0	0	0.75	n/a
EPS	3.27	1.36	-12.30	3.01	8.09
BVPS	30.54	32.51	20.94	25.11	31.56
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, EEK mln	683
OMX code	BLT1T
Bloomberg code	BLT1T ET

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