



# BALTIKA GROUP

1Q 2006 Results and Strategy 2006-2008



# COMPANY OVERVIEW

# Emerging regional leader in fashion retail



- Baltika Group is a rapidly growing fashion retailer in the Baltics and Eastern Europe
  - three retail concepts
  - 90 stores with sales space of 13,423 m<sup>2</sup>
  - retail coverage of six countries
  - vertically integrated business model
- The company aims to be the leading specialist fashion retailer in Central and Eastern Europe
- The Group employs 1,700 people
- Since 1997 listed on OMX Tallinn Stock Exchange

- Baltika's retail markets
- CEE region

# Vertically integrated business model

## Production

- Production at three subsidiaries
- 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>NOSAIC</b>	32	Office fashion with casual (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%

## 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 retail 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, Russia, Ukraine and Lithuania are the priority growth markets



**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>			



# 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** – clothing brand for professional men and women offering stylish clothing for office and weekend.



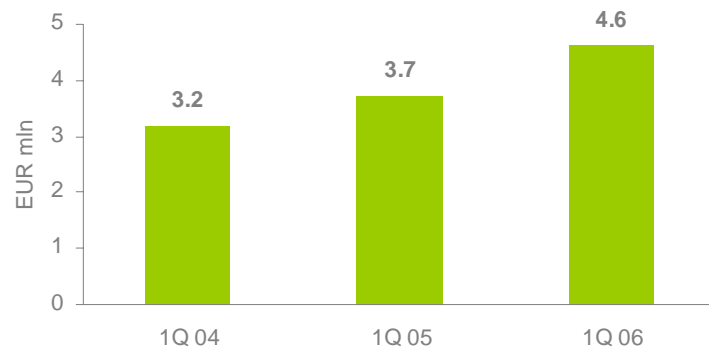
**BALTMAN** – prestigious lifestyle brand for men, offering high-quality contemporary businesswear and personal service in a comfortable shopping environment.





- 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)

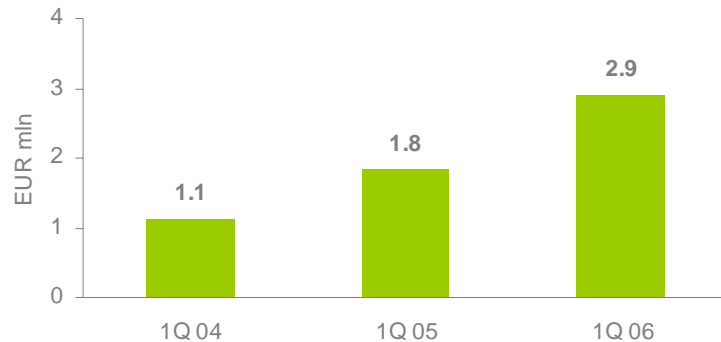
### Sales development



# MOSAIC

- The predecessors of Mosaic - CHR line launched in 1993 and Evermen in 1995
- Rebranded as Mosaic in February 2006
- Office fashion with casual
- 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)

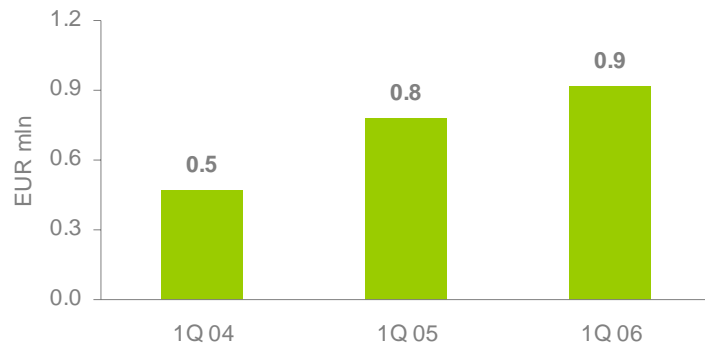
## Sales development



# 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



## Retail network (31-Mar-2006)

	Monton	Mosaic	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	7	6	2			<b>15</b>	2,256
Russia	4	5	1		1	<b>11</b>	1,748
Poland	3	3		1		<b>7</b>	1,418
<b>Total</b>	<b>33</b>	<b>36</b>	<b>14</b>	<b>6</b>	<b>1</b>	<b>90</b>	<b>13,423</b>



# FINANCIAL REVIEW

## Financial highlights – 1Q 2006

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- Group sales up 23.3% yoy
- Retail sales growth 24.7% yoy
- Like-for-like sales growth 18%
- Strong wholesale sales (+25.4% yoy)
- Gross margin expansion to 53.9% (48.8% in 1Q 2005)
- Operating profit EUR 0.92mln, +75.9% yoy
- Operating margin at 7.8% (5.5% in 1Q 2005)
- Net profit EUR 0.91mln, +36.8% yoy
- Net margin at 7.7% (6.9% in 1Q 2005)

## Income statement

EUR '000	1Q 06	1Q 05	+/-
Net sales	11,836	9,601	23.3%
Gross profit	6,378	4,686	36.1%
<i>Gross margin</i>	<i>53.9%</i>	<i>48.8%</i>	
Operating profit	923	525	75.9%
<i>Operating margin</i>	<i>7.8%</i>	<i>5.5%</i>	
Net financial expenses	-86	-4	2008%
Incl. interest expenses	-64	-95	-33.4%
Profit before tax	837	521	60.8%
Net profit	908	664	36.8%
<i>Net margin</i>	<i>7.7%</i>	<i>6.9%</i>	



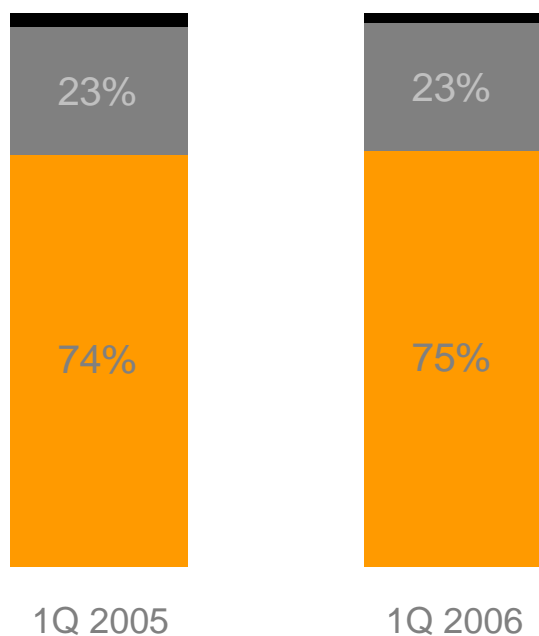
## Sales by segment

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EUR mln	1Q 06	1Q 05	+/-
Retail sales	8.9	7.1	24.7%
Wholesale	2.7	2.2	25.4%
Subcontracting	0	0.04	-100%
Other sales	0.20	0.25	-17.9%
<b>Total</b>	<b>11.8</b>	<b>9.6</b>	<b>23.3%</b>

# Sales development

## Sales breakdown



■ Retail sales ■ Wholesale ■ Other sales

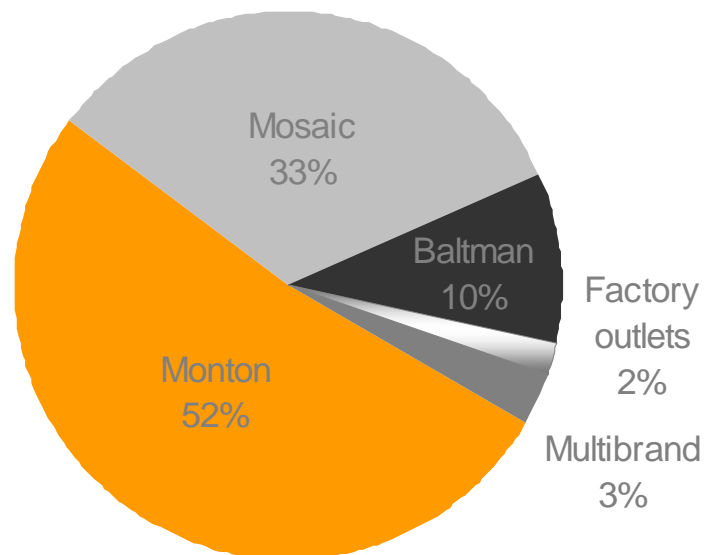
## Growth 1Q 2006, yoy

Retail space (avg m <sup>2</sup> )	13%
Efficiency (sales/m <sup>2</sup> )	11%
Retail sales	25%
Like-for-Like sales	18%

# Sales by concept

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Retail sales breakdown, 1Q 2006



## Sales by country

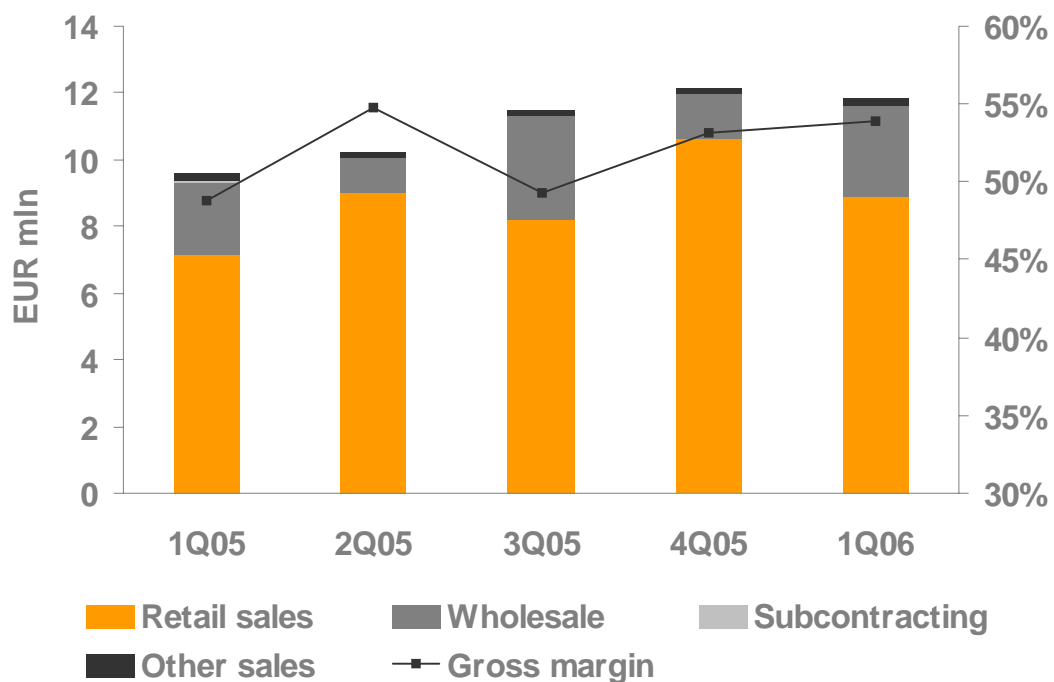
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EUR mln	1Q 06	1Q 05	+/-	% sales
Estonia	3.1	2.6	21%	26%
Latvia	1.4	1.1	27%	11%
Lithuania	2.2	1.7	31%	19%
Ukraine	1.6	1.2	35%	14%
Russia	2.5	2.0	26%	21%
Poland	0.5	0.6	-12%	5%
Other	0.5	0.4	4%	4%
<b>Total</b>	<b>11.8</b>	<b>9.6</b>	<b>23%</b>	<b>100%</b>

# Profitability (gross profit)

- 1Q 2006 gross margin at 53.9% vs 48.8% in 1Q 2005
- 1Q 2006 gross profit at EUR 6.4mIn, growth +36.1% yoy
- Better sales efficiency and improved inventory management
- Well managed end-of-season clearance sales and the beginning of the new season

Quarterly sales and gross margin



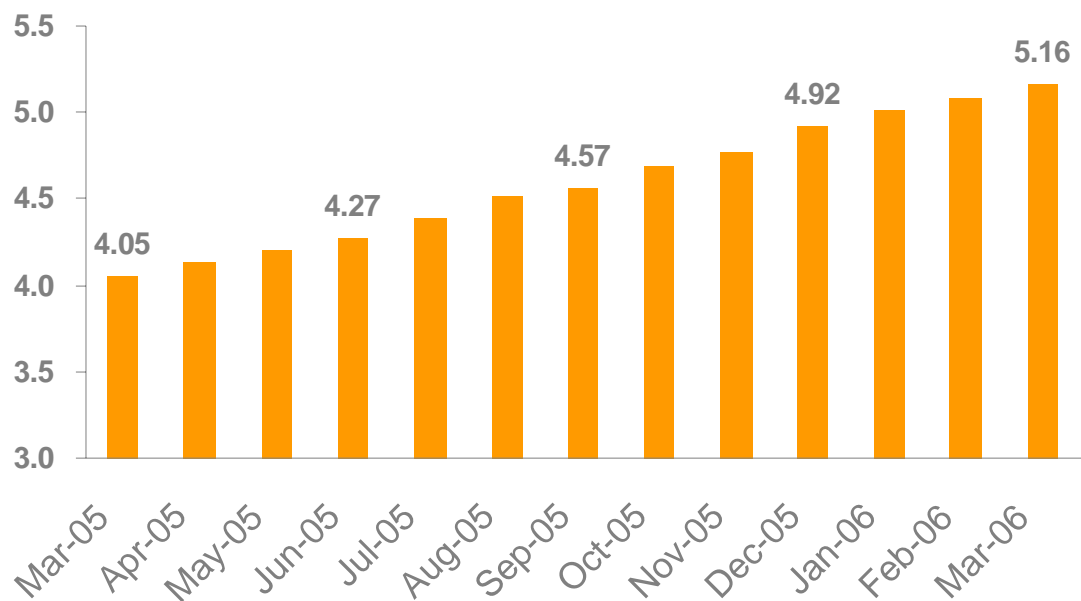
## Balance sheet highlights

EUR '000	31.03.06	31.03.05	+/-	31.12.05
Trade receivables	4,543	2,636	72.4%	2,529
Inventories	9,577	9,110	5.1%	9,233
Property, plant and equipment	6,483	4,782	35.6%	5,630
Total assets	26,251	20,559	27.7%	24,102
Accounts payable	2,771	1,728	60.4%	2,862
Borrowings	6,654	7,840	-15.1%	5,933
Total liabilities	11,107	11,084	0.2%	10,811
Total equity	15,144	9,475	59.8%	13,291
Inventory turnover	5.16	4.05	27.4%	4.92
ROE	41.6%	21.7%		44.1%
ROA	22.1%	8.2%		22.2%

# 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\*

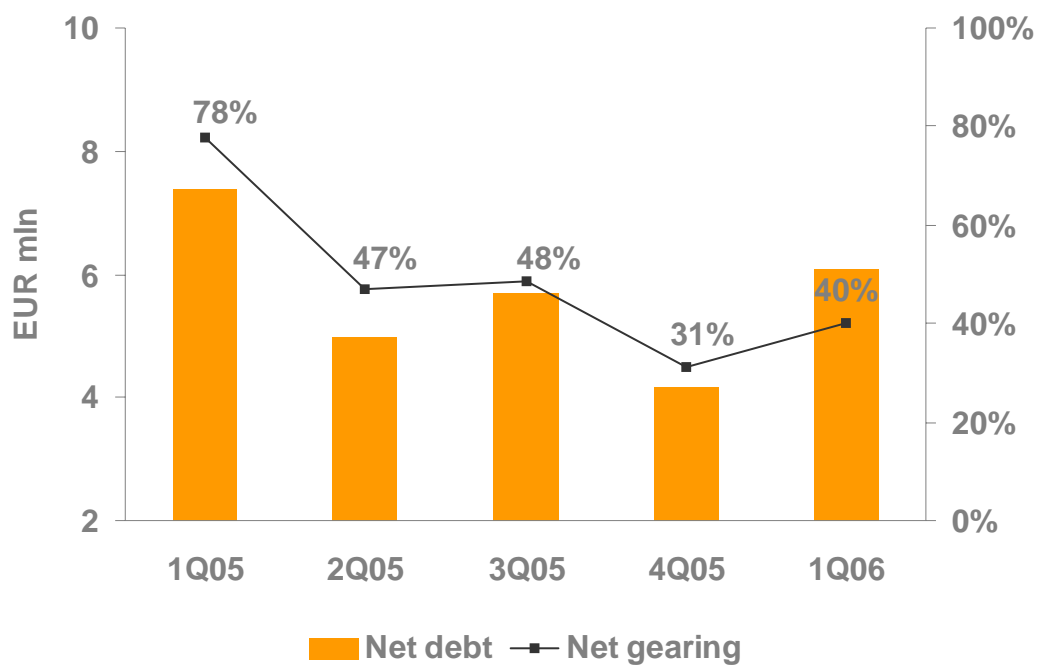


\*Net sales/Average inventories (12-month trailing figures)

# Financial position

- Total borrowings as of the end of 1Q 2006 at EUR 6.7mln
- Substantial decrease in total debt level on yoy comparison (–EUR 1.2mln)
- Lower net debt to equity ratio

Quarterly net debt and net gearing





## Outlook and goals for 2006

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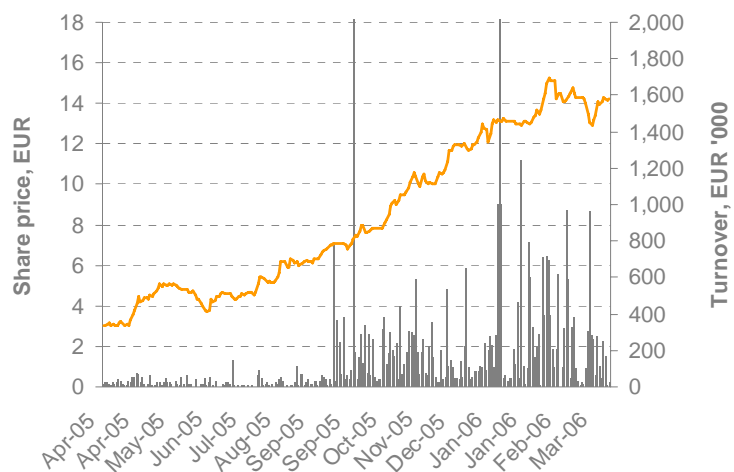
- To increase the Group's retail sales by at least 25%;
- The number of shops anticipated to be opened is 31-35, which will increase the Group's retail system to 114-118 shops with total sales area of 20,000-21,000 square metres by the end of the year;
- By country, the largest expansion of the retail chain is planned in Russia, Ukraine 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).

## Financial summary

EUR '000	2001	2002	2003	2004	2005	1Q 2005	1Q 2006
Sales	26,487	31,025	31,767	37,189	43,518	9,601	11,836
Gross profit	n/a	n/a	n/a	17,796	22,438	4,686	6,378
<i>Gross margin</i>	n/a	n/a	n/a	47.9%	51.6%	48.8%	53.9%
Operating profit	1,478	892	-3,673	1,201	4,787	525	923
<i>Operating margin</i>	5.6%	2.9%	-11.6%	3.2%	11.0%	5.5%	7.8%
<b>Net profit</b>	<b>1,004</b>	<b>434</b>	<b>-4,311</b>	<b>1,067</b>	<b>4,644</b>	<b>664</b>	<b>908</b>
<i>Net margin</i>	3.8%	1.4%	-13.6%	2.9%	10.7%	6.9%	7.7%
Total current assets	13,502	16,200	14,264	12,532	14,494	12,935	15,719
Incl. cash	807	640	820	800	1,659	406	462
Total non-current assets	5,507	7,635	6,787	7,739	9,607	7,623	10,531
<b>Total assets</b>	<b>19,009</b>	<b>23,835</b>	<b>21,051</b>	<b>20,271</b>	<b>24,101</b>	<b>20,559</b>	<b>26,250</b>
Trade and other payables	3,350	3,185	4,818	3,533	4,878	3,244	4,453
Total borrowings	6,292	9,339	8,872	7,697	5,933	7,841	6,654
Total equity	9,367	11,311	7,360	9,042	13,290	9,474	15,143
Incl. minority interest	424	451	455	449	40	277	527
<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>	<b>20,559</b>	<b>26,250</b>

# Share data (31-Mar-2006)

## Share price history

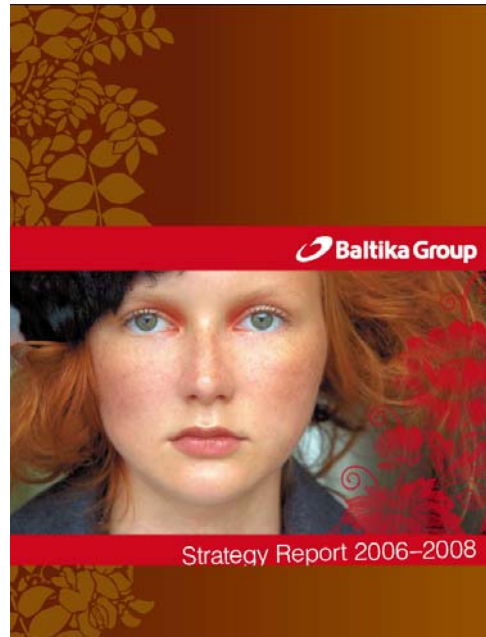


EUR	2002	2003	2004	2005	1Q 06
Shares ('000)	5,444	5,499	5,634	5,823	6,015
Share price	2.35	2.10	1.86	13.00	14.20
DPS	0	0	0.05	0.13	n/a
EPS	0.09	-0.79	0.19	0.81	0.15
BVPS	2.08	1.34	1.60	2.28	2.52
P/E	27.1	neg	9.7	16.1	16.8
P/BV	1.1	1.6	1.2	5.7	5.6

## Shareholders' structure

BMIG OÜ	22.1%
SEB Ab Clients	10.0%
AS Suprema Client Account	5.5%
Other	62.4%
Total	100.0%

No of shares outstanding	6,014,950
No of shares fully diluted	6,214,950
Market cap, EUR mln	85
OMX code	BLT1T
Bloomberg code	BLT1T ET
Next interim results	25-Jul-2006



# STRATEGY 2006-2008

# Mission, goal, key strategic strengths

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**Baltika creates quality fashion that enables people to express themselves and feel good.**

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

## **Key strategic strengths**

- Learning organisation with high targets
- Flexible vertical integration and buying models
- Centralised management with a tailor-made approach to target markets
- Brand portfolio covering a broad customer base

## Brands and the strategy

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- new colour worlds
- new product groups
- wider range of accessories
- larger store format (200-300 m<sup>2</sup>...400-500 m<sup>2</sup>)



- new name
- new store concept
- more collections per season
- wider selection of casual clothing
- larger store format (100-130 m<sup>2</sup>...180-300 m<sup>2</sup>)

**BALTMAN**

- new services and product groups
- wider range of accessories
- business clothing advisor
- larger store format (80-100 m<sup>2</sup>...120-130 m<sup>2</sup>)

# Markets and the strategy

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## The Baltic states – home market

- end 2005: 57 stores
- 2006-2008: 20-22 new shops
- end 2008: ca 40% of Baltika's store portfolio

## Ukraine and Russia – big expansion potential

- end 2005: 21 stores
- 2006-2008: 60-75 new shops
- end 2008: Ukraine 20-25% of Baltika's store portfolio
- end 2008: Russia ca 25% of Baltika's store portfolio

## Poland – improving efficiency

- end 2005: 8 stores
- end 2008: 6-9 stores, ca 5% of Baltika's store portfolio

## Summary of strategy: profitable expansion

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- End 2005: 86 stores
- 2006-2008: 80-100 new shops
- End 2008: 160-180 stores
- Enter one or two new markets
- Possible extension of the brand portfolio



## Financial objectives 2006-2008

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- To increase net sales at least two times in comparison with 2005
- Number of stores at the end of period 160-180
- Gross margin at least 52%
- Return on equity at least 30%



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