



# BALTIKA GROUP

6m 2006

# COMPANY OVERVIEW

## Baltika today



- Baltika Group is a rapidly growing fashion retailer in the Baltics and Eastern Europe
  - three retail concepts
  - 94 stores with sales space of 14,517 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

## Centralised management

- Centralised brand-based management: product design, supply chain, logistics, etc.
- Efficient inventory control and sales information systems: monitoring and analysis on a daily basis



## Sourcing

- Own production base (four factories): specialisation in men's and women's tailored suits, shirts, jackets, coats
- Worldwide purchasing



## Retail: ca 80% of net sales

- A balanced portfolio of three retail concepts (Monton, Mosaic and Baltman)
- Strong retail organisations in target markets

## Wholesale: ca 20% of net sales

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

# 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
- Priority growth markets are currently Russia and Ukraine

Baltika's retail markets

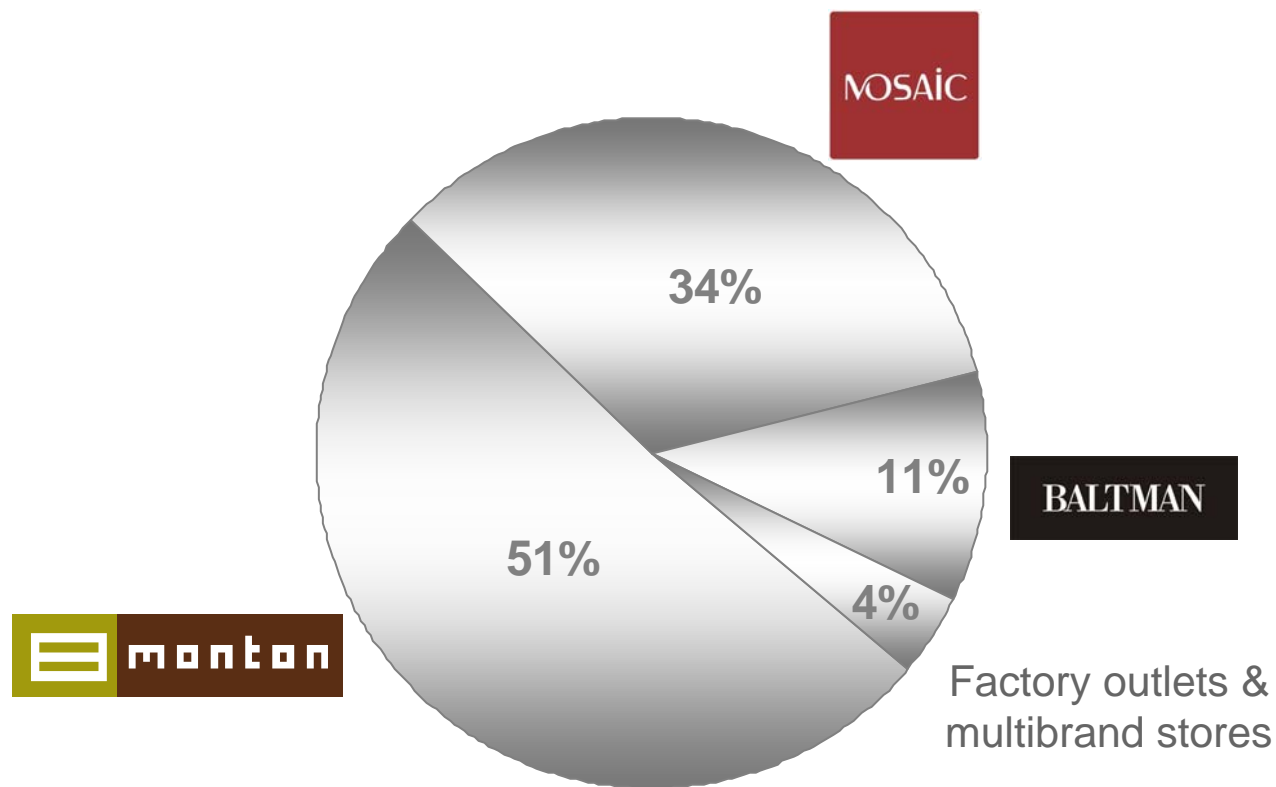


Macroeconomic overview of Baltika's markets, 2005

	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

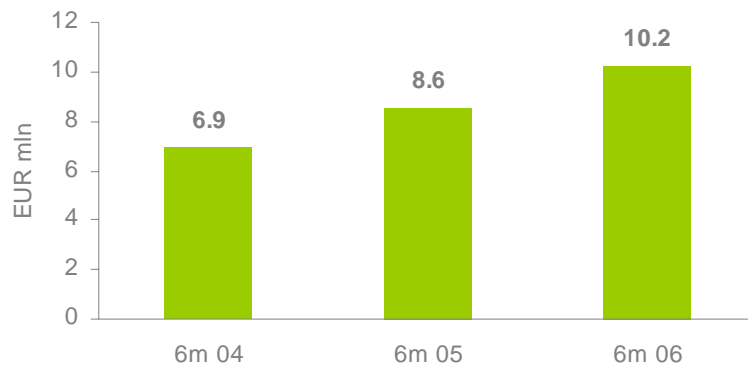
## Sales division between retail concepts (6m 2006)



# monton

- Fast fashion brand for women and men with a unique handwriting and well-focused quality range
- Launched in 2002
- 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

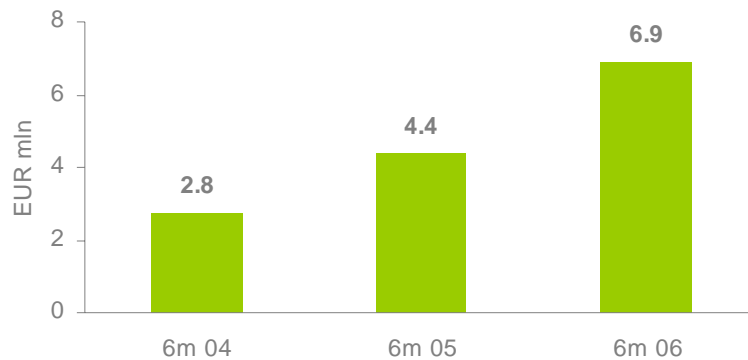




# MOSAIC

- Clothing brand for professional men and women offering stylish clothing for office and weekend
- Positioning:
  - M/F
  - 25-40 years
  - Average income
- Shops in Estonia, Latvia, Lithuania, Ukraine, Russia, Poland
- [www.mosaic-fashion.com](http://www.mosaic-fashion.com)

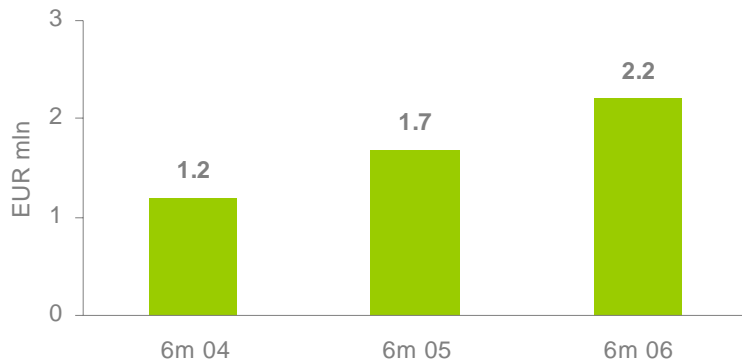
Sales development



# BALTMAN

- Prestigious lifestyle brand for men, offering high-quality contemporary businesswear and personal service in a comfortable shopping environment
- 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



## Retail network

	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	5	2			<b>11</b>	1,626
Lithuania	9	9	4	1		<b>23</b>	3,720
Ukraine	9	6	2			<b>17</b>	2,838
Russia	4	6	1		1	<b>12</b>	1,916
Poland	3	3		1		<b>7</b>	1,418
<b>Total</b>	<b>35</b>	<b>38</b>	<b>14</b>	<b>6</b>	<b>1</b>	<b>94</b>	<b>14,517</b>

# Store look



# FINANCIAL REVIEW

## Financial highlights – 6m 2006

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- Net sales up 25.7% yoy
- Retail sales growth 25.2% yoy
- Like-for-like sales growth 14%
- Strong wholesale sales (+34.3% yoy)
- Gross margin expansion to 55.9% (51.9% in 6m 2005)
- Operating profit EUR 2.51mln, +47.5% yoy
- Operating margin at 10.1% (8.6% in 6m 2005)
- Net profit EUR 2.32mln, +28.8% yoy
- Net margin at 9.3% in 6m 2006 and 10.8% in 2Q 2006

## Income statement

EUR '000	6m 06	6m 05	+/-
Net sales	24,939	19,844	25.7%
Gross profit	13,937	10,296	35.4%
<i>Gross margin</i>	<i>55.9%</i>	<i>51.9%</i>	
Operating profit	2,514	1,704	47.5%
<i>Operating margin</i>	<i>10.1%</i>	<i>8.6%</i>	
Net financial expenses	-47	-66	-29.6%
Incl. interest expenses	-144	-178	-19.4%
Profit before tax	2,468	1,638	50.6%
Net profit	2,318	1,800	28.8%
<i>Net margin</i>	<i>9.3%</i>	<i>9.1%</i>	

## Sales by segment

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EUR mln	6m 06	6m 05	+/-
Retail sales	20.2	16.1	25.2%
Wholesale	4.3	3.2	34.3%
Subcontracting	0	0.04	-100.0%
Other sales	0.40	0.44	-9.7%
<b>Total</b>	<b>24.9</b>	<b>19.8</b>	<b>25.7%</b>



# Sales development in 6m 2006

## Sales breakdown



## Growth 6m 2006, yoy

Retail space (avg m <sup>2</sup> )	20%
Efficiency (sales/m <sup>2</sup> )	5%
Retail sales	25%
Like-for-Like sales	14%
Wholesale	34%

## Sales by country

EUR mln	6m 06	6m 05	+/-	% sales
Estonia	7.0	5.8	21%	28%
Latvia	3.1	2.4	30%	12%
Lithuania	4.9	3.8	32%	20%
Ukraine	3.5	2.7	27%	14%
Russia	4.7	3.2	45%	19%
Poland	1.2	1.3	-10%	5%
Other	0.5	0.6	-16%	2%
<b>Total</b>	<b>24.9</b>	<b>19.8</b>	<b>26%</b>	<b>100%</b>

## Profitability (gross profit)

- 6m 2006 gross margin at 55.9% vs 51.9% in 6m 2005
- 6m 2006 gross profit at EUR 13.9mln, growth +35.4% yoy
- Better sales efficiency and improved inventory management

Quarterly sales and gross margin



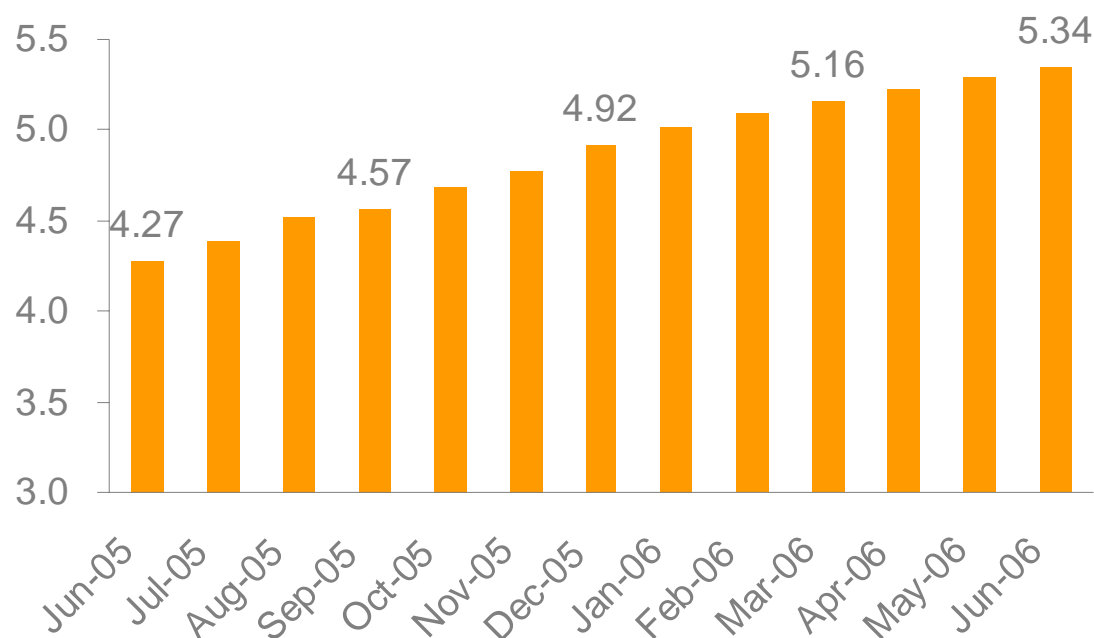
## Balance sheet highlights

EUR '000	30.06.06	30.06.05	+/-	31.12.05
Trade receivables	3,840	1,952	96.7%	2,529
Inventories	10,942	9,369	16.8%	9,233
Property, plant and equipment	8,341	4,620	80.5%	5,630
Total assets	30,738	20,329	51.2%	24,102
Accounts payable	3,931	2,035	93.2%	2,862
Borrowings	8,956	5,887	52.1%	5,933
Total liabilities	14,999	9,730	54.1%	10,811
Total equity	15,739	10,600	48.5%	13,291
Inventory turnover	5.34	4.27	25.1%	4.92
ROE	39.7%	32.5%		44.1%
ROA	21.4%	13.5%		22.2%

# Inventory management

- Improving inventory management via established IT information system and growing experience
- Better management of sales in discount periods
- Better sourcing

Inventory turnover ratio\*

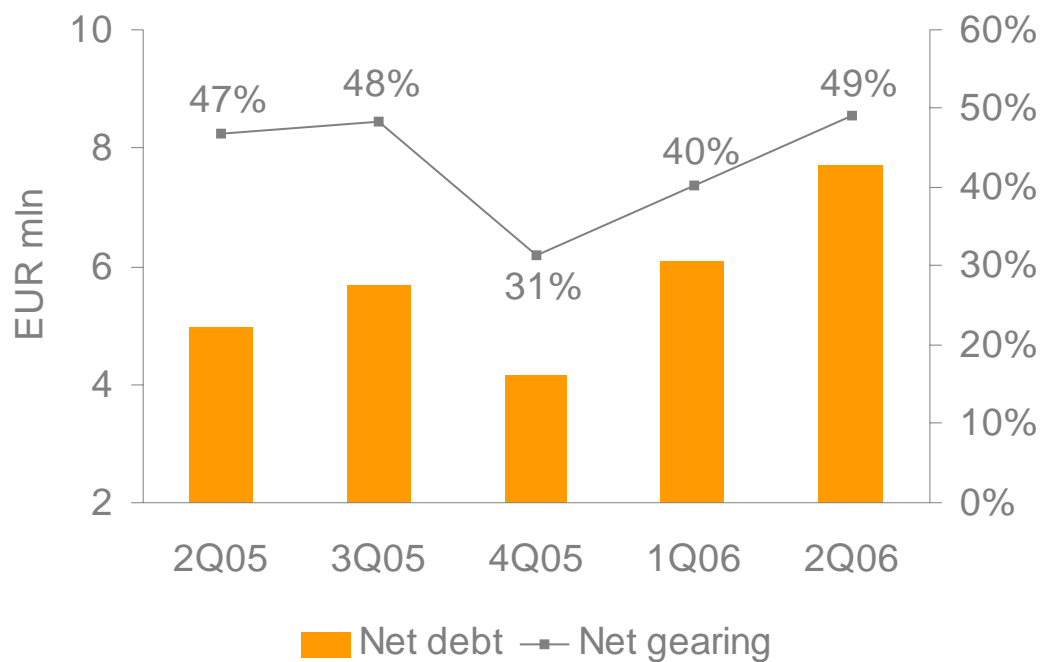


\*Net sales/Average inventories (12-month trailing figures)

# Financial position

- Total borrowings as of the end of 6m 2006 at EUR 9.0mln
- Yoy increase in debt level as a result of major expansion
- Stable debt to equity ratio on yoy comparison

Quarterly net debt and net gearing



## Outlook and goals for 2006

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- To increase the Group's net sales by at least 26%;
- To maintain gross profitability at least at the 2005 level (51.6%);
- 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 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

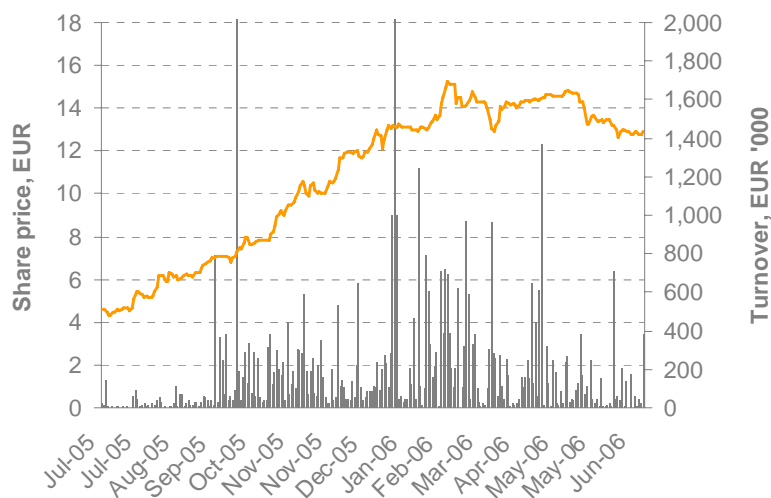
EUR '000	2001	2002	2003	2004	2005	6m 05	6m 06
Sales	26,487	31,025	31,767	37,189	43,518	19,844	24,939
Gross profit*	n/a	n/a	n/a	17,796	22,438	10,296	13,937
<i>Gross margin*</i>	n/a	n/a	n/a	47.9%	51.6%	51.9%	55.9%
Operating profit	1,478	892	-3,673	1,201	4,787	1,704	2,514
<i>Operating margin</i>	5.6%	2.9%	-11.6%	3.2%	11.0%	8.6%	10.1%
<b>Net profit</b>	<b>1,004</b>	<b>434</b>	<b>-4,311</b>	<b>1,067</b>	<b>4,644</b>	<b>1,800</b>	<b>2,318</b>
<i>Net margin</i>	3.8%	1.4%	-13.6%	2.9%	10.7%	9.1%	9.3%
Total current assets	13,502	16,200	14,264	12,532	14,494	12,772	17,973
Incl. cash	807	640	820	800	1,659	855	1,118
Total non-current assets	5,507	7,635	6,787	7,739	9,607	7,558	12,764
<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>20,329</b>	<b>30,737</b>
Trade and other payables	3,350	3,185	4,818	3,533	4,878	3,843	6,042
Total borrowings	6,292	9,339	8,872	7,697	5,933	5,887	8,956
Total equity	9,367	11,311	7,360	9,042	13,290	10,599	15,738
Incl. minority interest	424	451	455	449	40	221	465
<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>20,329</b>	<b>30,737</b>

\*Comparable gross profit figures available after the change in the income statement format (introduced in 2005).



# Share data (30-Jun-2006)

## Share price history



EUR	2002	2003	2004	2005	6m 06
Shares ('000)	5,444	5,499	5,634	5,823	6,015
Share price	2.35	2.10	1.86	13.00	12.90
DPS	0	0	0.05	0.13	n/a
EPS	0.09	-0.79	0.19	0.81	0.39
BVPS	2.08	1.34	1.60	2.28	2.62
P/E	27.1	neg	9.7	16.1	14.7
P/BV	1.1	1.6	1.2	5.7	4.9

## Shareholders' structure

BMIG OÜ	21.5%
SEB Ab Clients	9.5%
AS Suprema Client Account	4.7%
Other	64.3%
Total	100.0%

No of shares outstanding	6,014,950
No of shares fully diluted	6,214,950
Market cap, EUR mln	78
OMX code	BLT1T
Bloomberg code	BLT1T ET
Next interim results	24-Oct-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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