

NAY 2016

ANNUAL REPORT
NAY A.S.



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NAY OVERVIEW

NAY a.s. is the largest retailer of consumer electronics with a market share exceeding 20 %. In 2016, NAY celebrated its 25th anniversary.

It belongs to the companies that have been forming the retail market in Slovakia with innovations. It introduced global electronics brands, a franchise model, large-format stores, one of the first loyalty programs and a wide range of complementary services to the market and is nowadays one of the pioneers of the omnichannel retail strategy in Slovakia.

Its goal is to provide positive shopping experience to customers with quality advice, wide portfolio, fair prices, easy-to-navigate web environment, attractive retail stores and, in particular, full service for a customer as a client thanks to the services provided as well as the loyalty club.

NAY GROUP

The NAY group includes

NAY a.s., Electro World s.r.o. and Amico Finance a. s.

ELECTRO WORLD

NAY a.s. owns 100 % share in **Electro World s.r.o.**, which is one of the largest multichannel chains specializing in the sales of consumer electronics, computing and telecommunication technology, domestic electrical appliances including accessories and provision of all related services. The company currently operates 18 stores in the Czech Republic.

In 2016 the company's sales reached EUR 109,458,000 (CZK 2,959,092,000) and the value of the registered capital amounted to EUR 2,176,000 (CZK 60,000,000).

amico

In 2015, NAY a.s. founded **Amico Finance a. s.** in order to perform business activities mainly in the area of financial services and provide consumer loans at NAY sales points. The company currently owns a 69 % share in Amico Finance a. s.

The revenues in 2016 reached EUR 2,431,000 and the value of nominal share capital amounted to EUR 600,000.

NAY VALUES

FAIRNESS

For us, a customer is a long-term client. The long-term relationship is based on fairness. We are fair in pricing, terms, approach, communication as well as in openness. We want to achieve that every customer leaves with the experience that we keep our word.

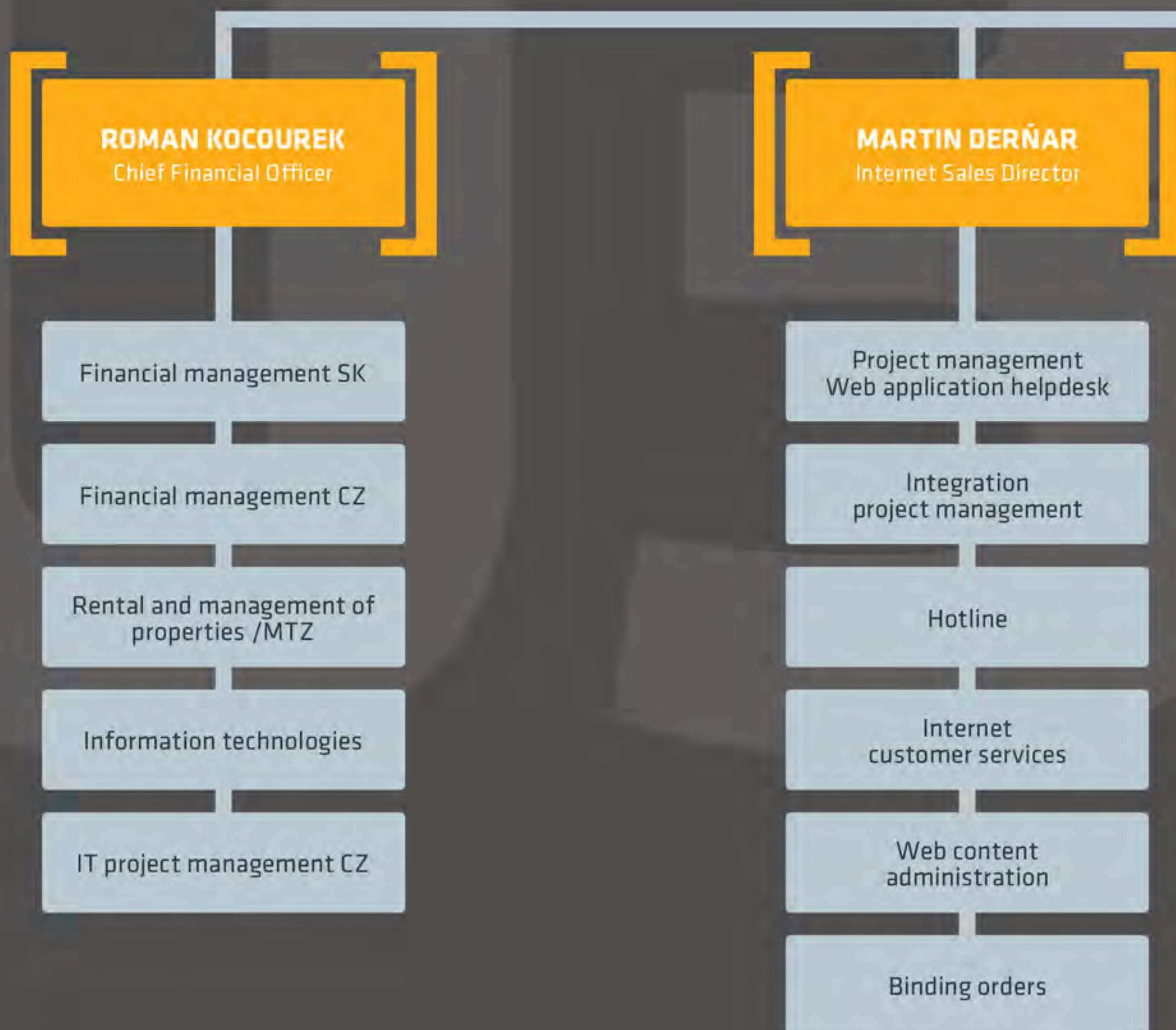
SIMPLICITY

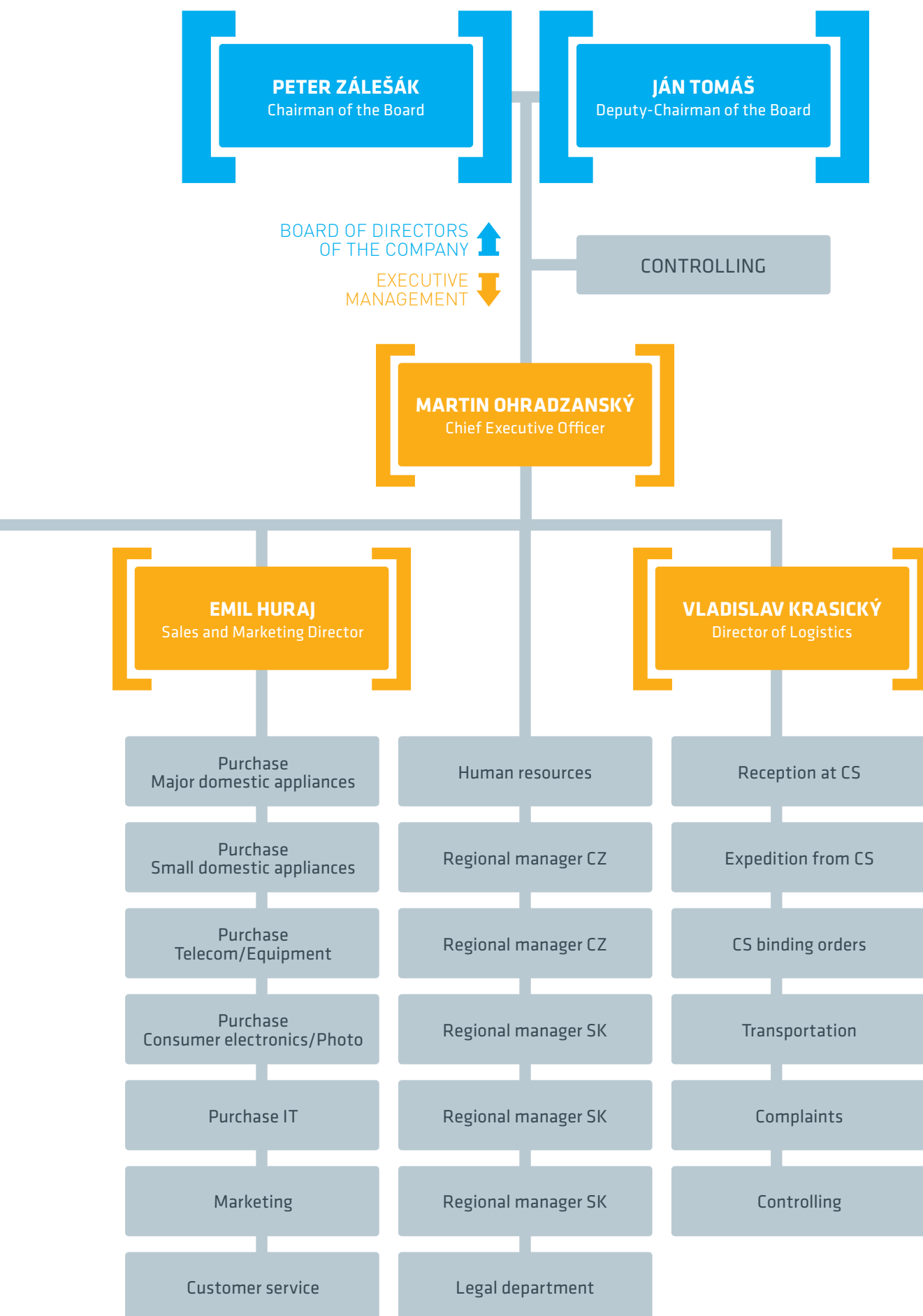
We were inspired by technics. The easier it is to control, the more useful. It does not matter how complex the underlying process is. It is important that everything is as easy as possible to arrange for the customer. It does not matter if a customer wants to make a reservation for goods, needs a financial product or files a complaint. Our goal is to do everything per one click or one action.

PASSION FOR TECHNICS

Technics significantly shifts history forward, transforms the world and surrounds us at every step. Just remember the letterpress machine, refrigerators, the Internet or smartphones. We are constantly following trends, coming up with innovations and studying the details of the latest technology. We believe we will spread our passion to our customers.

ORGANIZATIONAL STRUCTURE





NAY HISTORY

1991

Incorporation of NAY

2005

Accession of Enterprise Investors

The American-Polish private equity company Enterprise Investors invested in the company. Enterprise Investors, which is the largest private equity company in the Central and Eastern Europe, becomes the owner of 48 % of shares. The original founders of the company Peter Zálešák and Ján Tomáš owned a majority share even after the investor's accession.

1999

Establishment of NAY Extra Club

Establishment of one of the first and most successful loyalty clubs in Slovakia. The turnover of its members represents more than 50 % of the company's turnover.

2005 – 2013

Dynamic expansion

The investor's capital and know-how have brought an increased dynamics of the company's expansion. Over a few years the network has expanded from 12 to 31 large-format stores.

2007

Dobrý Anjel

In 2007, the collaboration with Dobrý Anjel began. It is a foundation assisting families in financial distress and with unprovided children, where someone suffers from a malicious disease. NAY has been helping families with appliances from the beginning. Later on, other forms of financial assistance were added.

2008

Central warehouse in Senec

In 2008, the biggest change in the company's logistics system occurred. NAY opened the central warehouse in Senec, which nowadays supplies 54 stores and 2 e-commerce businesses in total. The change has brought significant time and finance savings in logistics and increased the frequency of supplying stores as needed, to a daily frequency.

2013

Exit of Enterprise Investors

The private equity fund managed by the Enterprise Investors group decided to exit own investment in NAY and sold its 48 % share to majority owners.

1991 – 1997

The world's first distributor of electronics brands in Slovakia

In those years NAY was an official distributor of the world's largest brands in Slovakia, including Sony, Panasonic, Grundig, Jamo and Yamaha.

1991 – 1997

Franchising

The first retail business model of the company was a model of franchising stores under the NAY brand in Slovakia and Moravia. The company managed, thanks to exclusive wholesale contracts, to deliver top electronics and it entered into a contract with entrepreneurs who operated 12 stores in city centres under the NAY brand and with NAY goods.

1998

Internetdom

In the same year as the revolutionary concept of Elektrodom, its online version – the Internetdom – was established too. Currently, the most visited 'store' of the company is mainly an online product catalogue.

1998

Establishment of NAY Elektrodom

In 1998, the NAY Elektrodom brand was launched, as a label for the new large format store concept – the first of its kind in Slovakia. The first store under the brand of the new concept was the store at Zlaté piesky in Bratislava.

2014

Acquisition of Electro World

In 2014, NAY concluded an agreement with Dixons Retail plc on the sale of its Electro World stores in the Czech Republic and Slovakia. NAY acquired 4 stores in Slovakia and 22 stores in the Czech Republic. Thanks to this acquisition, NAY has become an undisputed leader among brick-and-mortar retailers of electronics in the Slovak Republic and Czech Republic.

2015

Re-design of www.nay.sk

NAY has completely re-designed its website within its own omnichannel strategy. The page has become responsive and new functionalities, full-service online sale of services and content, were added.

2016

4 new stores

NAY expanded its network with new stores, in particular in Eastern Slovakia. On July 1, the stores were opened in Trebišov, Vranov nad Topľou, Humenné as well as in Rimavská Sobota. The network in Slovakia has therefore expanded to 36 NAY stores.

TOP PARTNERS

acer



ASUS®



Canon



gorenje



Lenovo™



Miele



Panasonic

PHILIPS

SAMSUNG

SONY



AWARDS

MasterCard Business of the Year

MasterCard Business of the Year is an award for the best retail businesses in various categories. It has been awarded since 2013.



**Obchodník
roka 2016**

Obchodník s elektronikou

MasterCard Business of the Year 2013

in the category of Electronics Businesses – winner

MasterCard Business of the Year 2013

in the category of An Absolute Winner – 2. place

MasterCard Business of the Year 2014

in the category of Electronics Businesses 2014 – winner

MasterCard Business of the Year 2014

in the category of Electronics Businesses – e-commerce – winner

MasterCard Business of the Year 2014

in the category of An Absolute Winner – 3. place

MasterCard Business of the Year 2015

in the category of Electronics Businesses – winner

MasterCard Business of the Year 2016

in the category of Electronics Businesses 2016 – winner

Superbrands

Superbrands is the most reputable independent authority in an assessment and honouring the trademarks. Superbrands title is a sign of a special status and acknowledgement of a brand's position on a local market. Only the brands with extraordinary reputation can gain a Superbrands seal – customers always relate essential values with them and have personal relation to such brands. The seal was established in the Great Britain and Superbrands Award annually honours the best of the brands in almost 90 countries within 5 continents.

Superbrands 2013

Superbrands 2014

Superbrands 2015

Superbrands 2016

Superbrands 2017



Entrepreneur of the Year Ernst & Young

Entrepreneur of the Year Ernst & Young is the very first and the only truly global competition of a kind, founded by Ernst & Young in 1986 in the U.S. It awards the entrepreneurs who have managed to develop successful and dynamic businesses.



Entrepreneur of the Year 2008

Ing. Peter Zálešák – winner

NAY KEY FACTS

NAY a.s.

business name

joint stock company

legal form

**Tuhovská 15
Bratislava
830 06**

residency

**+421 2 49 449 449
nay@nay.sk
www.nay.sk**

phone number, e-mail, web

**Registered in
the Commercial
Register
of District Court
Bratislava I,
in sec. Sa,
File No. 1640/B**

registration

17 000 000 €

share capital

36

number of stores

224 242 293 €

net revenues

1 007

number of employees

4 390 916 €

net income

904 140

number of loyalty club members

1991

incorporation of the company

BOARD OF DIRECTORS



Ing. Peter Zálešák

*Chairman of the
Board of Directors*

Peter Zálešák graduated from the Faculty of Electrical Engineering and Information Technology at Slovak University of Technology in Bratislava. He was the CEO since the establishment of NAY. Today, he is a Deputy-President of Slovak Association of Commerce and member of executive council of Dobrý Anjel Foundation. He is an honouree of Ernst & Young Award for the Best Business in Slovakia in 2008.



Ing. Ján Tomáš

*Deputy-Chairman of the
Board of Directors*

Ján Tomáš graduated from the Faculty of Chemical and Food Technology at Slovak University of Technology in Bratislava in 1987. Together with Mr. Peter Zálešák they founded NAY, where he was a Director of Sales Department.



Roadmap of NAY stores

THE YEAR 2016 IN NAY

In 2016, the revenue increased (12.7 %) further, as well as the market share in Slovakia (at the end of the year the market share of around 23 % - source GfK). The increase in sales significantly exceeded the overall growth of retail sales in the Slovak Republic (2.2 % - source SSO). This has strengthened our position as a market leader, despite growing competition mainly in the area of online retailers.

The growth in revenue was, in addition to the annual growth of existing stores, supported by the opening of four new stores in Trebišov, Vranov nad Topľou, Rimavská Sobota and Humenné. The online sales also experienced a double-digit growth, as we managed to create pick-up points in majority of stores for e-commerce orders and thereby introduce express delivery of orders within one hour. We have also expanded our call centre, meeting the demands of a growing group of customers that prefer quick purchase without visiting a store.

Thanks to an increased effectivity and growth in revenue we achieved a record-high EBITDA (EUR 8.2 million), which allows us to invest even more in information systems, working environment of our employees and their professional growth, as well as in their bonuses.

Despite these record figures, however, we understand that the market is significantly changing and we must face strong competition from online retailers. The share of online electronics sale in the Slovak Republic reached 32 % and Slovakia is the country with the third highest share of online sales (behind the Czech Republic and the Netherlands; the average value is 23.1 %).

This is the reason for large investments in our production and web system, where we are still lagging behind our competitors. In 2016, we started with the implementation of SAP, while we also adjusted processes

and integrated other parts of the IT system into the SAP environment. At the beginning of 2017, the new information system will be fully operational. (The central warehouse is already managed by SAP.) We also launched several projects of improvement of our website and mobile application, which will continue also in the upcoming year (includes nay.sk and Electroworld.cz).

The objective for the upcoming years is to improve services, to catch up on competitors in an online market, i.e. to become a retailer that will offer all benefits of selling online to customers, with an added value of our experts at stores and proximity to a customer thanks to a wide network of our branches. This goal can be achieved only with innovation, i.e. we need to become a technological leader too and transform from a traditional retailer to a real omnichannel company. ■

Ing. Peter Zálešák
Chairman of the Board

OBJECTIVES AND PRIORITIES FOR THE YEAR 2017

Ing. Martin Ohradzanský
CEO NAY a.s.



“To make the retail purchase simple, the company needs to excel in three areas: management of human resources, processes and the use of modern information technology.”

The long-term strategy of NAY is a comprehensive customer care and his/her perfect shopping experience. To experience a purchase where everything works not only as expected, but surpasses expectations, requires a great deal of effort in coordination of employees, processes and modern technologies.

We worked hard in 2016 in many areas to get closer to this strategic objective, which reflected positively in all measurable indicators. We put a lot of effort into setting-up more effective processes and their reliability, configuring and testing the new SAP information system and systems connected to SAP, such as the system for management of deliveries to customers, store reservations, e-commerce or the electronic connection with business partners.

LAUNCH OF THE NEW INFORMATION SYSTEM

We are awaiting the launch of the new SAP information system, new processes and new remuneration system in June 2017. The new informa-

tion system will allow us to perform processes faster and easier and thereby, to improve and accelerate the customer service at all levels.

We therefore plan to:

- create and improve services in the area of delivery of goods to a customer (with an option to select a delivery time window), preparation of reservation and picking up of goods at a store within 60 minutes;
- significantly improve and speed up complaint processes;
- allow customers to see a history of their own purchases and to manage their loyalty account.

At the same time we expect better communication with customers, from hotline, which will know the customer's history, to individualized marketing communication. The customer will be more informed, he/she will be able to adjust the purchase better and we will be faster.

In order to achieve these objectives, we need to have an efficient, reliable and fast administration. This is why we are going to continue in 2017 to engage as many business partners as possible to electronic document exchange (EDI) and our ambition is

also to achieve the highest possible automation level in this area.

We will continue in the successful project from 2016 and establish further specialized workplaces for pick-up of e-commerce orders in store for faster and more effective service for online customers who want to pick up their orders in a store.

Of course, with changing conditions it is also necessary to adjust the remuneration system for vendors, which motivates them to achieve our strategic goal – a simple purchase and exceeding customer's expectations.

We aim at achieving several objectives by developing these areas (human resources management, processes and the use of modern information technologies). We want to strengthen and defend our position among brick-and-mortar stores, where our company has over 25 years of tradition and experience. We want to be a strong competitor in the online sales area. In particular, we aim at exploiting the synergy of both channels and offer the omnichannel to a customer with simple purchase and comprehensive services through any sales channel selected by the customer. ■

MARKET DEVELOPMENTS IN 2016

The Slovak consumer electronics market in 2016 experienced a growth of 8 % when compared to the previous year, which is the second highest increase within Eastern European countries (the highest being in Romania). Compared to Western Europe, where the overall market saw a decline, it is a very positive result.

2015: **25,6 %**



2016: **33 %**

Share of NAY in the
smartphone market

Emil Huraj

Sales and Marketing Director



The Slovak market grew thanks to several macroeconomic factors such as expanding GDP, rising average wage, declining inflation and the lowest unemployment in history. The fastest-growing category in the Slovak market was once again the category of cell phones with 22.5 % growth, followed by consumer electronics rising by 14.1 %, small domestic appliances adding 13.9 %, major domestic appliances growing by 4.5 % and IT rising by 2.2 %. The only category that saw a decline was photo technics, which decreased by 12.4 %.

MARKET SHARE OF NAY

NAY has reinforced its position in all monitored categories except for consumer electronics and photo technics, where it maintained its market share at the level of the year 2015. NAY recorded the largest increase in the telecommunications category, where its market share increased from the original 25.6 % to 33 % representing a growth of 28 %. In small domestic appliances (SDA) it increased by 1 % to reach the share of 28.5 %, in major domestic appliances (MDA) it gained 8.4 % to a market share of 23.8 % and in IT it added 5 % to reach a total share of 14.2 %. The consumer electronic category (CE) recorded a weaker-than-expected performance. Expectations were high due to highly attractive sport events that accelerate sales – Ice Hockey World Championship, European Football Championship and Summer Olympic Games. Unfortunately, none of these sport events managed to increase TV sales to meet expectations of manufacturers and retailers set at almost 20 % annual growth. Customers are still not willing to pay extra for Ultra HD resolution, because they lack content in this resolution. They prefer larger-sized Full HD resolution in the lower price category. The trend of curved scre-

ens, from which the manufacturers expected an increase in average price, did not yield hoped-for results as well. Sales of such televisions are far below expectations. Great expectations and thus a large number of televisions produced caused stockpiles at the end of the year, resulting in an even bigger fall in average selling price.

In SDA, the increase was due to the coffee machine category and personal hygiene category. In coffee machines, customers have been investing in higher-quality fully automated devices and in the personal hygiene category, NAY has considerably expanded its product range. Last but not least, a growth was recorded in the vacuum cleaners category due to a higher proportion of robotic vacuum cleaners with higher average price.

In MDA, the category of dryers was again the fastest growing category, as dryers are becoming a common part of households. In premium brands they even equal the washing machines in terms of number of units sold. In the refrigeration category the largest growth of 13 % was recorded by side by side refrigerators with integrated ice makers. For other types of refrigerators, the NoFrost function was dominant.

The cell phone category was dominated, as expected, by smartphones, which in value represents more than 93 % of total mobile phone sales. The curiosity in this category was the Samsung Note 7 cell phone which was in some cases subject to self-ignition and all sold devices had to be withdrawn back from customers.

MARKETING CAMPAIGNS

Probably the biggest surprise in 2016 in terms of marketing campaigns was

Black Friday that was not very well known in Slovakia before. While in 2015 only few retailers in the Slovak market joined Black Friday, in 2016 almost every retailer on the market participated in the sale. Among the standard NAY marketing campaigns, the most successful were again the instalment campaigns with 0 % increment and after-Christmas sale.

COMPETITIVE ENVIRONMENT

In the past year, the share of online sales increased again. Slovakia's share is currently 31.9 %, which is after the Czech Republic and the Netherlands the third highest share of online sales in Europe. That's why we saw an increase in online players on the market (in particular alza.sk, hej.sk and mall.sk).

EXPECTATIONS FOR 2017

- Increase in the cell phone category – launch of flagship products Samsung Galaxy S8 and iPhone 8
- OLED technology market growth – most renowned manufacturers introduce OLED TV to the market
- Increase in the category of robotic vacuum cleaners – the expansion of the robotic vacuum cleaners portfolio by other brands is expected
- Launch of the new Smart Home category – a brand new category utilizing wireless networks and remote access to home management. ■

E-COMMERCE DEVELOPMENT IN 2016

www.nay.sk

14%

mobile visit
rate 2014



33%

mobile visit
rate 2016



Martin Derňar

Director of E-Commerce Department



“We have witnessed an increase in mobile visit rate by one half and especially a substantial rise of conversion rate that has more than doubled.”

OMNICHANNEL NAY

Positive increasing trend of all essential indicators of nay.sk continued in 2016 as well. The visit rate of nay.sk increased annually by 13 % to more than 14.5 M visits, improved conversion rate resulted in the rise of orders and reservations at our stores by one third.

MOBILE FIRST

When we re-designed our website nay.sk in 2015, we were aware of the continuous increase of mobile devices use and thus, we decided for adaptive approach in our web design – Mobile First. We abided by its principles when developing new web functionalities last year. Customer behaviour confirmed that the selected approach was the correct one.

In 2016 we witnessed an increase in mobile visit rate by one half and especially a substantial rise of conversion rate that has more than doubled in the course of the last 2 years. Last year our customers discontinued using mobile devices primarily to get information on products and services and with improving applicability smartphones have become rather full-fledged devices for on-line shopping.

PICK-UP POINTS AND CALL CENTRE

Pleasant experience with our new website nay.sk is still far away from the full satisfaction with shopping. Our customers expect us to be immediately available at our hotline and to pick up the goods with no waiting time. After a triple increase of omnichannel sales over the last two years it was necessary to adjust various processes and to invest in infrastructure and therefore, enhance the quality of sales and after-sales services.

We re-designed the pick-up points at our stores for e-commerce orders to accelerate and improve the services for our customers. We have made substantial investments in order to expand our call centre by opening a new service point in Vranov nad Topľou.

Thanks to increasing capacities we handled the Christmas season for the first time without the necessity to use external call centres and thus, we managed to offer the very same information quality to all callers.

WEBSITE DEVELOPMENT

We have introduced on-line sales of new types of financial services by Amico, our affiliated company. Now, we are the only ones on the market to offer on-line sales of product services such as TV calibration and film

sticking on purchased smartphones. In August 2016 we introduced comfortable shipment to customers' homes, whereby they can choose time window on-line and moreover, we offer connection or installation of delivered devices. Various improvements and simplifications of user interface will be introduced under new SAP information system in the first half of 2017.

CONTENT

Regarding the content strategy we enhanced the role of our NAY Manual video series. The Content Department highly contributed to upcoming introduction of information system and in June 2016 they took over the responsibility for the whole process regarding listing and maintenance of product master data in SAP.

2017 EXPECTATIONS

In the last 3 years smartphones have become an integral part of our customers' lives. Their massive spread progressively enhances the trend of introduction of smart devices into households, the so-called Smart Home. We suppose that the achieved technological progress in machine learning will soon bring brand new products and give a new, amiable image to the traditional ones. We will be ready to get new business opportunities for NAY in the sale of smart household solutions as well as to enhance our leading position in retail innovations on the Slovak market. ■

CHANGES IN LOGISTICS

High-quality logistics is the main factor of modern retail business. Therefore, the optimization in logistics was one of our top priorities in 2016. It is a continuous process where we want to improve constantly in the future and to introduce the latest technologies.



Vladislav Krasický
Director of Logistics Department

“We increased the performance of the logistics centre by 50 % and the occupancy of trucks by 20 %.”

MAIN AREAS OF IMPROVEMENT

We performed many organizational changes, investments and optimization processes in 2016; and these brought us improvements within the whole logistics as well as in related activities.

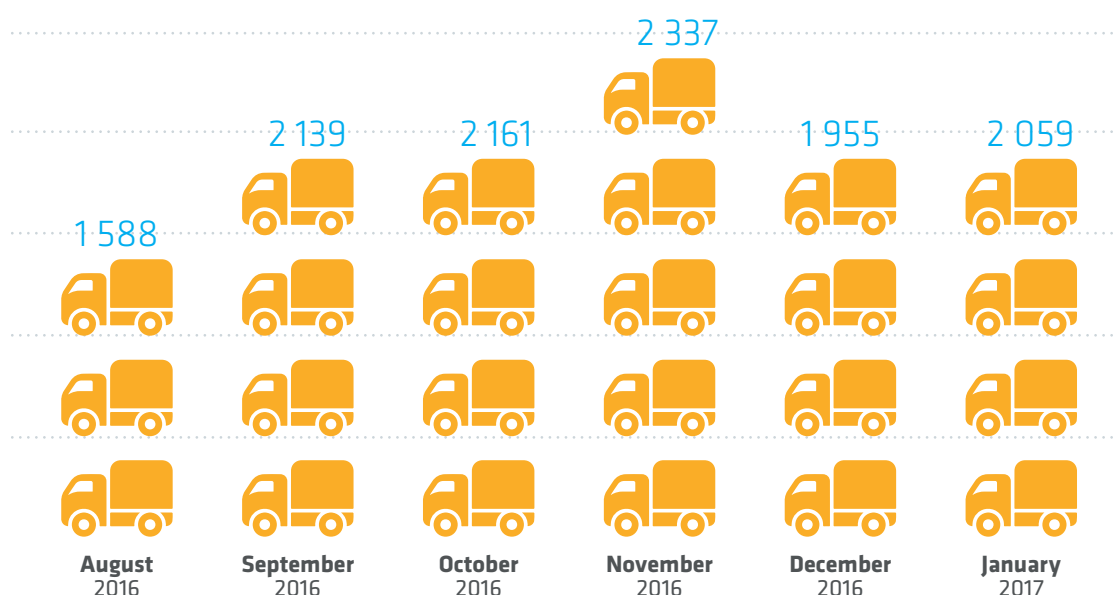
- Planning of transportations is substantially more effective in comparison to 2015.
- Transits in goods complementation are shorter.
- The performance of logistic centre has increased by 50 %.
- The preparation time of goods for customers has been reduced.
- We have implemented shift requirements in the SAP information system.
- The intensity of input and output checks has increased.
- The occupancy of trucks has increased by 20 %, which resulted in reduction of logistic costs.
- We have made investments in manipulation technology in the total amount of EUR 440,000.
- We have also introduced the new service Comfortable Shipment to Your Home offering complex shipment service to customers including shipment on the particular selected date and time, carrying up, disposal of an old device and packaging, as well as installation.
- The security of stores has improved, whereby the number of attempts to enter a store is lower by 70 % in comparison to 2015. The total amount of shortfalls has decreased in stores as well as in the central warehouse.

sufficient anymore. In the new distribution centre we can use the area of 26,000 m². We are going to move our claims and logistic centre (HUB) to the new distribution centre too, which will enable the customers to shorten the time necessary for the settlement of their complaints. We are also going to open a pick-up point in the distribution centre where customers will be able to pick up the goods within 3 hours after making an order.

We plan further changes in the organizational structure to achieve more simple and efficient management of our distribution centre. Last, but not least, we would like to get closer to our customers, so throughout the upcoming year, we will make shipment services prepared in 2016 available for them. This specifically includes carrying up smaller shipments to the customer's door and weekend deliveries, particularly on Saturdays. Both services are planned for the first half of 2017. ■

2017 PLAN

In 2017 we are about to move to a larger distribution centre, because current capacity of 19,000 m² is not



Orders of Comfort Shipment

SERVICES IN 2016

When creating a new service, we always ask ourselves what kind of customer service will be truly appreciated and utilized by customers. How can we facilitate the selection of goods, its use, maintenance or repair? Although we all are also consumers, we do not follow our subjective perspective. We are looking for answers directly at customers using quantitative and qualitative surveys, the results of which help us to create relevant services.

We address claims under EUR 30 immediately.

5774 in 12 months of operation 4/2016 – 3/2017

We store all cashbox receipts for the customers.

724 032 receipts in 2016



Michal Halás
Customer Service Department Coordinator

“A loyal customer should always have more benefits and better conditions with us than a new customer.”

At the same time we try to focus mainly on our loyal customers and look for benefits and services that would represent added value for their loyalty. We follow a simple rule: A loyal customer should always have more benefits and better conditions with us than a new customer and not vice versa. We see our loyal customer rather as a client, whom we take care of and who can rely on us not only with the purchase, but also afterwards.

In 2016, we introduced 2 new services that were mostly appreciated in customer surveys and that are at the same time synergistic with our loyalty club and a philosophy of approach to loyal customers.

Thanks to these two services, our customers have it once again a little bit easier with us compared to our competitors.

WE ARCHIVE RECEIPTS FROM PURCHASES IN STORES

In the e-commerce purchase nowadays, we consider to some extent

to be a matter of course that our purchases are archived and we can check them back later. Such service is, however, not usual in brick-and-mortar stores and years after the purchase it is often not easy to find and read the original cashbox receipt. We have been archiving receipts from all purchases for six years for all our NAY Extra Club members. Consequently, they do not need to store and search for receipts if they need them to settle a warranty claim, exercise the extended warranty or get goods exchanged. They just need to use their NAY Extra Club card when making a purchase. If they forget to submit it, they can request an additional assignment of the receipt to the Club card within 3 months after the purchase.

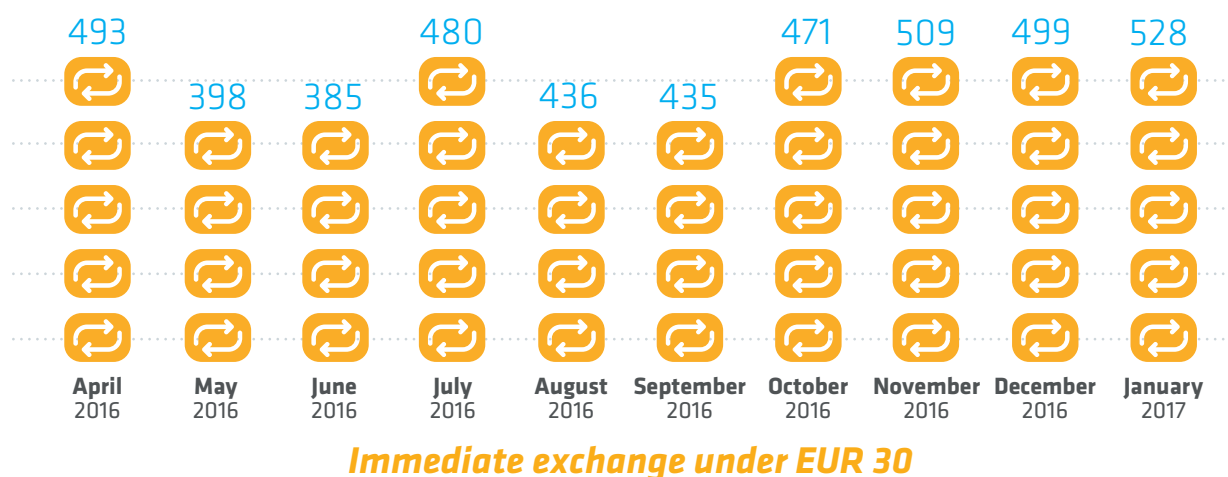
CUSTOMER DOES NOT HAVE TO WAIT FOR REPAIR OF GOODS UNDER EUR 30

In warranty repair the customer is entitled by law to have goods repaired within 30 days. We give our custo-

mers the option to immediately exchange the claimed goods of less than EUR 30 for a completely new one.

A customer therefore does not need to wait up to a month until the goods is repaired in the service. This is particularly useful for cheaper products that we use every day. It is uncomfortable to be without a kettle for 30 days and buying a new one for a few weeks is money wasting. A customer will bring an old broken kettle that is still in warranty to us and immediately leaves with a new one.

We will exchange such goods anytime within the two-year warranty period. The claimed goods can be just brought to our store with a receipt or with NAY Extra Club card. The exchange applies to all malfunctions that meet the warranty claim terms. ■



NEW MARKETING COMMUNICATION

Each consumer electronics network sells identical products, but with different prices; but only seemingly. The real product means additional services, professional personnel, stores and their location. The NAY brand communication in 2016 focused on these products.

František Vámoši
Marketing Director



25 YEARS AND NEW LOGO

In 2016, we modified NAY logo to better reflect the current strategy of the company. Elektrodom which linked NAY closely to brick-and-mortar sales was replaced by the Internet address www.nay.sk becoming the part of the logo. This change represents the omni-channel strategy of the company employed for several years, where the website has become the main entry point also to the brick-and-mortar store.

At the same time, NAY celebrated its 25th anniversary last year and the communication tagline was naturally extended from 'We live technics' to 'We have been living technics for 25 years'.

NEW COMMUNICATION STRATEGY

However, it was not only about changing the logo. In April 2016, we launched a new communication concept focused on our own

brand products, which differentiate it and are unique. The tactical campaigns and communication of special-offer products did not disappear, but the main communication space was given mainly to services, retailers and the loyalty club. This is what makes NAY better and unique when compared to others.

With regard to communication, the following took place (in order):

- exchange of products of up to EUR 30 immediately and free of charge in the warranty complaint (for NAY Extra Club members),
- archiving the receipts not only from the e-commerce, but also from brick-and-mortar stores (for NAY Extra Club members),
- free shipping with delivery to door (for all customers).

NEW COMMUNICATION CONCEPT

The new message also required a creative concept change. A creative

solution attempts to look at the services from the customer's perspective and to demonstrate their usefulness through a story. We presented stories of customers who do not use the service to show how much more difficult is the electronics purchase without it. The stories are completed by NAY sellers, who also appear in prints.

The creative solution required also a change in mediamix. A larger space was provided mainly to formats that allow telling a story. Compared to 2015, we therefore invested much more in television commercials, online videos and radio advertisements. The communication concept has a very good feedback, both from customers and professional the public. However, the most important is a stable growth of new services introduced to the market using this concept. ■



FINANCIAL REVIEW OF THE YEAR 2016

The year 2016 can be described
in one word – successful.

Roman Kocourek
Chief Financial Officer



“NAY achieved the best net income since the financial crisis in 2008.”

REVENUES

In terms of retail sales, we reached an annual growth of 7.6 % in LFL. Increase was recorded in all regions of Slovakia. The overall growth of retail revenues of 9.7 % was achieved by opening stores in Eastern Slovakia in the second half of 2016 after the termination of operation of the company expert SK, k.s. on the Slovak market and acquisition of their stores by NAY.

With regard to wholesale revenues we managed to almost double the turnover, in particular thanks to expanding the wholesale team, active sale and searching for customers.

Online sales recorded a growth of 19 % on an annual basis and slightly exceeded market growth.

GROSS MARGIN

The total gross margin increased by around EUR 4 million due to a purchase and sales volume, while the total percentage margin recorded a slight increase.

SERVICES

In the area of services sales we recorded the first decline in commissions

for repayments caused mainly by legislative changes extending the obligation to verify a client in the bank register, as well as by stricter evaluation of consumer creditworthiness criteria. Nevertheless, we succeeded in replacing the deficit with products of an extended warranty and insurance against accidental damage, in particular by creating an attractive service package (when selecting the extended warranty there is an option to get repayments with zero increment), changing the partner in the 2nd quarter of 2016 and adjusted pricing. Products of TV calibration and film sticking, as well as Moneygram launched in the second quarter of 2015 have accommodated in our offer and were increasing their share on the service turnover throughout the year 2016.

PERSONNEL COSTS

The increase in personnel costs was mainly due to growth in retail in relation to the operation of new stores.

NET INCOME

We achieved an annual increase in the EBITDA indicator by nearly EUR 2 million. In terms of net income, NAY achieved the best net income since the financial crisis in 2008.

INVESTMENTS

We made investments of over EUR 3 million in total, mainly in upgrading stores, preparation of former Electro World SK stores to open under the NAY brand name, transition of the company to SAP, purchase of handling equipment to the central warehouse. NAY as a sole owner of Electro World decided in 2016 to provide a premium to the registered capital in the amount of CZK 189,800,000 and subsequently in February 2017 another premium in the amount of CZK 101,300,000 (in total around EUR 11 million). This step reinforced the financial stability of the subsidiary company on the Czech market and facilitated its further development.

At the beginning of 2016, based on a decision of the General Assembly, the company reduced its registered capital by EUR 2.16 million and the value of the paid up registered capital therefore reaches EUR 17 million. During the year 2016 there was a dividend payment in the total amount of EUR 1.5 million.

In funding, NAY adheres to the long-term cooperation with Tatra banka, it has an overdraft line of EUR 12 million shared with the subsidiary company Electro World, while NAY regularly does not draw this line at the end of the year. ■

FINANCIAL PERFORMANCE

SHARE CAPITAL

The share capital of the company in 2016 reached EUR 17 million (consisting of 1,700 shares in the nominal value of EUR 10,000 per share). The net income in 2016 amounted to EUR 4,391,000. The General Assembly of the company decided to settle the net income for the accounting period 2016 in the amount of EUR 4,391,000 by transferring the part of net income in the amount of EUR 439,000 to increase the company's reserve fund and the remaining part of net income in the amount of EUR 3,952,000 was transferred to the retained earnings account.

TOTAL ASSETS

Total assets of the company at the end of the year reached EUR 84,875,000. The highest share of it is represented by inventories with a net value of EUR 38,447,000. Increase in utility value of inventories was addressed by reversal of provisions in the amount of EUR 5,000. The second largest asset item are current receivables in gross amount of EUR 17,424,000 consisting of trade receivables in the amount of EUR 15,383,000. Even though our predominant activity is retail sales, the above receivables arise towards subsidiary companies, repayment companies when purchasing on repayments and towards banks in case of payment with payment cards. A provision was made in full amount in the previous years for all difficult-to-recover receivables.

FINANCIAL ACCOUNTS

Financial accounts as of December 31, 2016 amounted to EUR 11,666,000. The company has concluded credit contracts for an overdraft loan in the amount of up to EUR 12,000,000. At the end of the year, the company did not draw any credit.

INVESTMENTS

Investments of the company, the accounting value (gross) of which is EUR 3,082,000, were used for the technical and interior equipment of stores and software. Of the above amount, EUR 1,134,000 was invested in software equipment and EUR 1,948,000 was invested in tangible assets.

RESEARCH AND DEVELOPMENT

Since the company's main activity is retail sales, it did not spend anything on research and development in 2016.

OTHER

The company does not have any organizational entity abroad.

The company did not acquire any own shares during 2016.

The company's activities have no negative impact on the environment.

EVENTS AFTER THE REPORTING PERIOD

On February 28, 2017 the Board of Directors of NAY, as a sole owner of Electro World s.r.o., decided to increase the equity of the subsidiary Electro World s.r.o., excluding the registered capital, in the amount of CZK 101,328,000.

FINANCIAL RISKS

The management used all information available in preparation for assessment of the value reduction of individual asset items. The company's management is not able to predict future developments on financial markets that could impact wider economy and to determine what effect, if any, these developments could have on the future financial situation of the company. However, the management believes it took all necessary measures to support sustainability and growth of the company's activities under current conditions. No assets showed any signs of impairment that would need to be considered in the financial statements. ■

FINANCIAL STATEMENTS

**Profit and loss statement
as at December 31, 2016 in EUR**

2016
SAS audited

2015
SAS audited

Revenues	223 568 322	198 312 327
Cost of goods sold	174 437 857	154 351 543
Gross margin	49 130 465	43 960 784
Production consumption [consumption of materials, energy, services]	21 071 919	20 349 848
Personnel costs	18 644 913	17 097 816
Other operating costs/revenues - net	1 181 257	838 202
EBITDA	8 232 376	5 674 918
Depreciation and amortization	2 222 388	2 336 792
EBIT	6 009 988	3 338 126
Revenues from financial activities	101 354	175 109
Financial costs	176 025	327 117
Profit/loss before tax	5 935 317	3 186 118
Tax	1 544 401	841 703
Profit/loss for the accounting period after tax (net income)	4 390 916	2 344 415

Balance sheet
as at December 31, 2016 in EUR

2016
SAS audited

2015
SAS audited

Total assets	84 874 889	79 197 004
Non-current assets	16 266 135	7 263 095
Non-current intangible assets	2 736 713	2 473 398
Non-current tangible assets	4 750 548	4 156 803
Non-current financial assets	8 778 874	632 894
Current assets	67 850 601	71 304 923
Inventory	38 446 885	35 630 008
Non-current receivables	602 603	1 191 100
Current receivables	17 134 786	24 569 660
Financial accounts	11 666 327	9 914 155
Other assets	758 153	628 986
Total equity and liabilities	84 874 889	79 197 004
Equity	23 353 572	22 678 081
Net income	4 390 916	2 344 415
Liabilities	61 239 623	56 277 830
Provisions	2 102 949	1 682 527
Long-term liabilities	80 007	189 759
Short-term liabilities	59 056 667	54 405 544
Trade liabilities	51 584 044	49 678 079
Other liabilities	281 694	241 093



Independent Auditor's Report

To the Shareholders, Supervisory Board, and Board of Directors of NAY a.s.:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NAY a.s. (the "Company") as at 31 December 2016, and its financial performance for the year then ended in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act").

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2016;
- the income statement for the year then ended;
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the section *Auditor's responsibilities for the audit of the financial statements* of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Accounting Act. The annual report comprises (a) the financial statements and (b) other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.



With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the year ended 31 December 2016 is consistent with the financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report. We have nothing to report in this respect.

Management's responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or



conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Ing. Peter Mrnka, FCCA
UDVA licence No. 975

Bratislava, 29 June 2017, except for Reporting on other information in the annual report, for which the date of our report is 19 October 2017.



Our report has been prepared in Slovak and in English. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

