

NAY 2017 ANNUAL REPORT



NAY 2017

ANNUAL REPORT



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NAY, a. s. is the largest retailer of consumer electronics with a market share of 20 %, which has been present in the Slovak market for 26 years.

It belongs among the companies that have been forming the retail market in Slovakia with innovations. It has 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 omni-channel retail strategy in Slovakia.

Its goal is to provide a positive shopping experience to customers with quality advisory, wide portfolio, fair prices, easy-to-navigate on-line environment, attractive retail stores and, in particular, full service for a customer as a client thanks to the services provided and 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 multi-channel 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 2017, the company's sales reached EUR 128,048,000 (CZK 3,370,962,000) and the value of the registered capital amounted to EUR 2,350,000 (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 provision of consumer loans at NAY sales points. The company currently owns a 69 % share in Amico Finance a.s. The revenues in 2017 reached EUR 3,290,000 and the value of nominal share capital amounted to EUR 600,000.

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 each and every our customer leaves with the experience that we keep our word.

SIMPLICITY

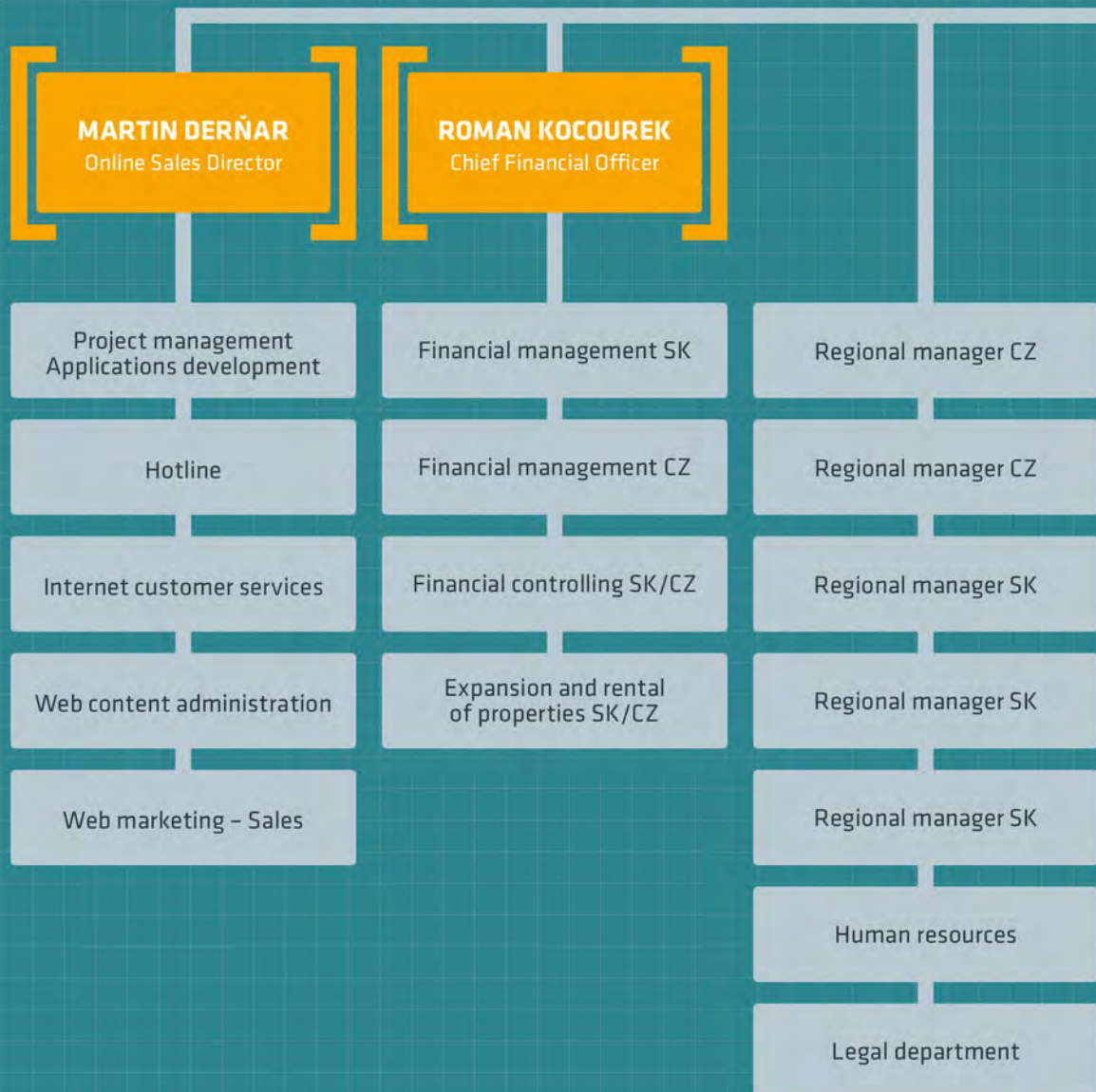
We are inspired by technics. The simpler it is to control, the more useful. It does not matter how complex the underlying process is. It is important that everything is as simple as possible to arrange for the customer. It does not matter whether a customer wants to make a reservation for goods, needs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

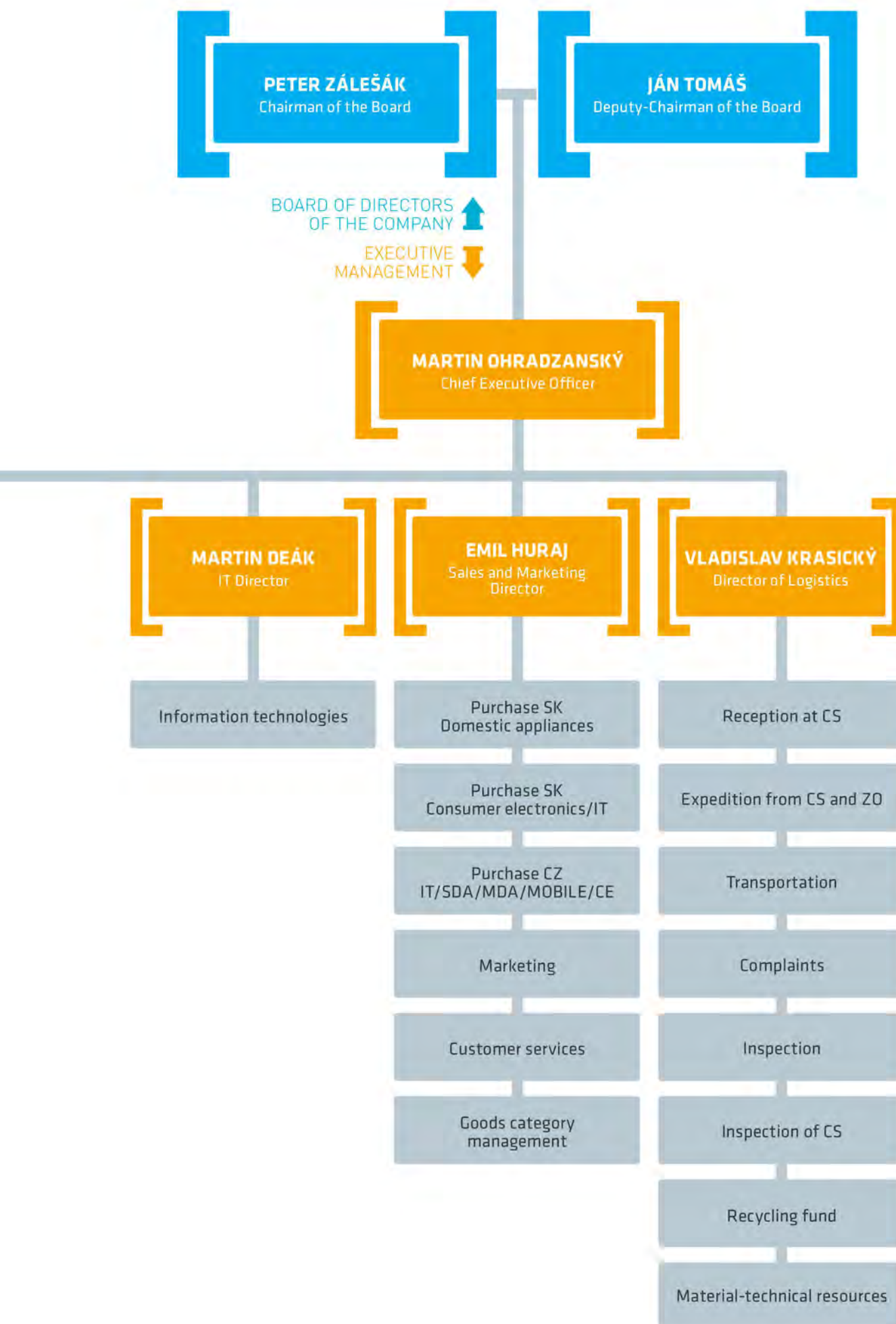
PASSION FOR TECHNICS

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.

03

ORGANIZATIONAL STRUCTURE





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.

1991**Incorporation of NAY****2005 – 2013****Dynamic expansion**

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

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, has become 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.

2008**Central warehouse in Senec**

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

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 in 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 in the Czech Republic.

1991 – 1997

The first distributor of global 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 contracts with entrepreneurs who operated 12 stores in city centres under the NAY brand and with NAY goods.

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.

1998

Internetdom

In the very year as the revolutionary concept of Elektrodom, its on-line version – the Internetdom – was established. What used to be originally an on-line product catalogue is now the most visited 'store' of the company.

1998

Establishment of NAY Elektrodom

In 1998, the NAY Elektrodom brand was launched, as the 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.

2015

Re-design of www.nay.sk

NAY has completely re-designed its website within its own omni-channel strategy. The page has become responsive; and new functionalities, full-service on-line 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.

2017

Implementation of SAP

NAY has migrated its entire business and information system to SAP.

05

TOP PARTNERS

acer



ASUS®



BOSCH

Canon



Electrolux

gorenje



HUAWEI

Lenovo™



LG



Microsoft

Miele



Panasonic

PHILIPS

SAMSUNG

SONY



MasterCard Business of the Year

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



Obchodník
roka 2017

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

MasterCard Business of the Year 2017

in the category of Electronics Businesses 2017 – winner

Superbrands

Superbrands is the most reputable independent global authority in the assessment and honouring the trademarks. Superbrands title is a sign of a special status and acknowledgement of the brand's superior position on the local market. Only the brands with extraordinary reputation can gain the Superbrands seal – customers always relate essential values with them and have personal relation to such brands. The award 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

Superbrands 2018



Entrepreneur of the Year by Ernst & Young

Entrepreneur of the Year by Ernst & Young is the very first and the only truly global competition of its 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

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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

274 933 401 €

net revenues

1 116

number of employees

5 160 600 €

net income

971 062

number of loyalty club members

1991

incorporation of the company

All data are provided as of December 31, 2017.

**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 Entrepreneur of the Year 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 2017 AT NAY

“Thanks to an increased effectivity and growth in revenue we achieved a record-high EBITDA allowing us to invest even more in information systems, working environment of our employees, their professional growth, and, last but not least, in their bonuses.”

In 2017, the revenue increased further (by a total of 22.7 %) and the market share in Slovakia expanded as well (our market share in 2017 was at around 21 % - as reported by GfK). The total sales amounted to EUR 274 million, of which retail sales represented EUR 180 million. This has strengthened our position as a market leader, even though the competition mainly among on-line retailers is growing.

The growth in revenue was, in addition to the annual growth of existing stores, supported by the opening of a new store in Malacky and a new pick-up point in the central warehouse in Senec. On-line sales (defined as orders made via the Internet) experienced a 31 % growth, whereby customers still prefer quick pick-up of orders at stores within an hour (pick-ups at stores represented 62 % of all orders). For this reason, we have invested in the modern pick-up points in stores. Due to an increasing share of online orders and customers picking up their orders at stores, there is no point differentiating customers

between online and store groups anymore. Therefore, our strategy is to focus on the omnichannel model that combines the use and benefits of all sales channels.

Thanks to an increased effectivity and growth in revenue we achieved a record-high EBITDA (EUR 9.6 million) allowing us to invest even more in information systems, working environment of our employees, their professional growth, and, last but not least, in their bonuses.

However, in spite of these record figures, we understand that the market is significantly changing and we must face strong competition from on-line retailers. The share of online electronics sales in the Slovak Republic reached 34 %, while the country has the third highest share of on-line sales in Europe (behind the Czech Republic and the Netherlands). This is the reason behind the large investments in our production and web system, where we are still lagging behind our competitors.

In 2017, we started preparing the Naytrolabs project. It is going to be a new company within the NAY group and its mission is to develop and implement innovations, in particular in the information system and retail automation area. A team of young developers, foreign management experience and a start-up culture, all of these should, within 2 years, bring new approaches and a completely new user interface for customers of our website and mobile application.

The aim for the upcoming years is to improve services, to catch up with competitors in an online market, i.e. to become a retailer offering 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 only be achieved by innovation, i.e. we need to become a technological leader and transform from a traditional retailer to a true „omnichannel“ company. ■

Ing. Peter Zálešák
Chairman of the Board

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OBJECTIVES AND PRIORITIES FOR THE YEAR 2018

Ing. Martin Ohradzanský
CEO NAY a.s.



“Higher demands of customers mean higher demands on underlying technologies.”

A comprehensive customer care and his/her perfect shopping experience is a strategic objective of NAY, regardless of whether a customer visits a brick-and-mortar store or website. To ensure that every contact of a customer with the seller runs easily, smoothly, quickly and to the satisfaction of a customer, an increasingly complex underlying technological and process mechanism managing everything is required. As the demands of customers keep on increasing, so do the demands on underlying technologies. This is one of the reasons, why we at NAY, have decided to implement a new information system.

In 2017, we have successfully migrated to SAP, which will bring us a future advantage of effective and automated processes both within the company and to the outside with regard to customers. This step has a positive impact on all measurable indicators.

If we provide our employees with effective tools for serving customers, we will get closer to the above mentioned objective. Even today we may be satisfied with the significant

progress in process automation, such as automated electronic exchange of orders and invoices with our business partners, system for managing deliveries to customers' households, booking of goods by customers on-line or at the store or the option to select a time range for home deliveries of goods in the e-commerce.

We have also made progress in improving the tools for our employees at brick-and-mortar stores, where they can immediately, by using tablets that they carry along, seek necessary information on a product, service or customer reference.

In addition, we also do not forget on our on-line customers, who can pick up goods booked on-line within 60 minutes at our store, for customers with a loyalty card to manage their own loyalty account, we offer the option to check history of their purchases and the bonus – if a customer is a loyalty club member, he/she does not have to keep purchase receipts, as we record them for him/her automatically on his/her loyalty account.

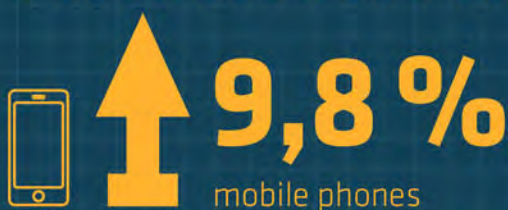
Our further effort will be focused on simplification and automation of processes in brick-and-mortar stores and on-line sales. In 2018, we will continue in this effort and we are planning to establish further specialized places for picking up e-commerce orders in stores for faster and more effective service to on-line customers who prefer to pick up their orders at a store. We invest in further development of information technologies for customers (a mobile application for a customer, an option to order a convenient transport and services during weekends, etc.), as well as to increase convenience of employees' work.

We would like 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 on-line sales area. In particular, our intention is to exploit the synergy of both channels and offer the omni-channel to a customer with simple purchase and comprehensive services through any sales channel selected by the customer. ■

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MARKET DEVELOPMENTS IN 2017

TOP 5
categories
with the
highest
annual
growth in
Slovakia
in 2017



Emil Huraj
Sales and Marketing Director

“In 2017 the share of on-line sales increased again in all evaluated categories. Slovakia has currently a 34 % share.”

The Slovak consumer electronics market expanded again in 2017 compared with the preceding year by more than 6 %. It grew thanks to several macro-economic 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 after a long time the category of small domestic appliances recording a 12.1 % growth, followed by mobile phones rising by 9.8 %, consumer electronics adding 8.6 %, major domestic appliances growing by 4.7 %, IT rising by 2.5 % and photo technics up by 2.2 %.

The year 2017 at NAY was a year of systemic changes that have affected revenues and subsequently also the market share. In the first half of the year the warehouses for the Czech Republic and Slovak Republic were centralized, which brought a new system for purchasing goods from both local and foreign suppliers. From the long-term perspective the joint warehouse represents a great competitive advantage, in particular in terms of the product range size available for both countries.

When joining the warehouses in June, we implemented the new ERP system SAP, which, of course, had an impact on the overall operation of the company from ordering goods to delivering goods to stores. However, the overall SAP implementation resulted in a short-term drop in revenues of 20 % during summer months. The last major systemic change was the reallocation of the Central warehouse, which also caused a partial decline in sales, in particular in major domestic appliances.

Despite these challenging changes we managed in the last quarter, mainly

thanks to the Black Friday action, to expand the product range available in the Central warehouse by more than 50 % and to the Christmas period sales in order to achieve the same market share as in the last quarter of 2016, i.e. 22.8 %.

NAY managed, in spite of these changes, to improve the market share in the consumer electronics and major domestic appliances categories. On the contrary, we did not grow as fast as the market in the following categories: IT, smartphones and small domestic appliances.

The consumer electronics category was dominated by televisions with 55+ inch screens with 4 K technology, where the price for the end customer decreased below EUR 1,000 in the last quarter. The categories of headphones, portable blue-tooth speakers and gaming also performed well.

In the IT category we experienced a decline in notebook sales in the last quarter, in spite of many supporting actions, such as instalments with 0 % interest. Tablet sales also continually decline in two-digit figures. The only category within IT which increased were mobile phones, mainly due to the introduction of new model high-end series by Apple and Samsung.

In the SDA (small domestic appliances) category, the last quarter was mainly about fully automated espresso coffee machines, where the average price has decreased by more than 20 %. A large increase was observed in the category of stick vacuum cleaners, in which NAY expanded its product range to more than 60 models.

In MDA (major domestic appliances), the traditionally fastest growing category were dryers with over 30 % annual growth. Thanks to the new warehouse allowing greater storage capacity, we managed in the last quarter to increase sales of built-in domestic appliances. A customer has goods readily available and does not have to wait several weeks as with the most competitors. .

COMPETITIVE ENVIRONMENT

In the past year, the share of on-line sales increased again in all evaluated categories. Slovakia's share is currently 34 %, which is, after the Czech Republic (43.6 %) and the Netherlands (35.3 %), the third highest share of on-line sales in Europe. The highest on-line share is in the IT category, while the lowest share in consumer electronics and major domestic appliances.

EXPECTATIONS FOR 2018

- a significant increase in sales of televisions with larger diagonal thanks to three important TV sport events: winter Olympics, hockey world championship and FIFA World Cup.
- increase in the 4K and 65+ inch TVs market
- continuous growth in laundry dryers
- growth in personal audio devices, in particular headphones and portable blue-tooth speakers categories ■

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E-COMMERCE DEVELOPMENTS

All key indicators of nay.sk improved in 2017 again. The visit rate of nay.sk increased annually by 9 % to more than 16.7 million visits. The conversion ratio improved as well, resulting in over 30 % growth in orders and bookings at stores.

In December 2017 we reached an interesting milestone – for the first time the visits from mobile devices exceeded accesses from desktop devices. A more than 40 % increase in mobile visits yielded a sales growth by two-thirds thanks to an improved conversion ratio.



Martin Derňar
Director of Online Sales



“In December 2017 the number of visits to nay.sk from mobile phones exceeded for the first time the number of accesses from desktop devices.”

NEW SAP IS

The key moment of the year was the implementation and fine-tuning of the new information system based on SAP from June to August 2017. The unification of processes of listing and administration of product range, pricing and purchasing has simplified sales administration, resulting in an improved customer service. As a result, we at NAY are technically ready for further challenges, such as implementation of robotization and automation in warehouse logistics processes, customer payments by means of a self-service kiosk and mobile application.

The main weakness of the old information system was fragmentation and inconsistency of customer data in several separate systems. A significant advantage of the new system was the creation of technical conditions for a single customer database, which is a necessary condition for the fulfilment of obligations under the upcoming GDPR directive on personal data protection. Synchronizing our internal procedures and processes will primarily respect the rights of customers to accessibility and transfer of their personal data, restriction of processing and deletion of personal data according to specific demands.

TAILORED COMMUNICATION

A new, consistent and better protected customer database allows us to create products and services tailored to specific loyalty customers in real time. The results of pilot initiatives are encouraging, while open-rate and click-rate of a targeted campaign are almost 3-times higher than for a standard non-targeted campaign. The main challenge for the upcoming year is to make use of customization and real-time marketing communication. The level of technology is nowadays more than sufficient, but the question remains, to what extent technologies will be restricted by the upcoming regulation of the „e-privacy“ directive. Although its effectiveness is scheduled as of 25 May 2018, the same date as for GDPR, its final version, however, was still not released even at the end of March 2018.

NAY SMARTAPP AND SMART CATEGORIES

The ever improving smartphones are becoming the main means of customer interaction. Customers use them to check availability of products in real time, book selected goods and locate our stores. We keep this in mind when developing the responsive omni-channel website nay.sk performed strictly following the „mobile first“ methodology. In the upcoming application we focus on improving convenience of shopping at stores, e.g. by comparing properties of exhibited products by simply „taking a photo“ of price tags, finding suitable accessories or paying for the purchase directly in a mobile application.

However, modern smartphones can do even more. They can become a universal „remote control“ to your household thanks to the connection with smart domestic appliances. We will be ready, so that it brings to NAY not only new market opportunities in the sales of smart solutions for households, but also enhances our position as a leader in retail innovations on the Slovak market. ■

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CHANGES IN LOGISTICS



Vladislav Krasický
Director of Logistics Department

In 2017, the most significant change was the relocation of the Central warehouse. Even though we remained in the same logistics park and the Central warehouse has been moved only by a few hundred meters, the hall area expanded from 19,000 m² to 26,000 m². Therefore, the capacity has been increased by 25 %, making a space for 8,000 new items. The stock (or number of items in the warehouse) has therefore increased, resulting in shorter time from ordering to delivery, in some instances even by 48 hours.

In the new warehouse, a pick up point for customers was established, allowing the customers to buy and within an hour pick up the goods that we have in stock in the Central warehouse. The experience has shown that we are able to process the most orders in this pick up point within 15 to 34 minutes.

We have established a new control department solely responsible for the Central warehouse. Thanks to that, we have succeeded to significantly improve inventory results. The share of inspected pallets dispatched from the Central warehouse has increased from the original 3 % to (in some cases) 18 %. This has shortened the process of receiving goods in stores without the need to complain of inconsistencies. We also achieved a reduction of error rate in the completion of the goods from the original 3 % to 0.06 %.

We also managed to establish a centralized complaint hub for Western Slovakia in the distribution warehouse in Senec. Again, this has accelerated the entire complaint process, both for customers and suppliers.

The major project was launching the Home delivery service (HDS) in the

Czech Republic and the related Convenient transport (Komfortná doprava) service. Thanks to that, now we are able to provide the Czech customers with the full-service transport from delivery, through carrying up, installation to disposal of old appliance and packaging materials. The only difference is that while the Convenient transport in Slovakia is provided by internal capacity, in the Czech Republic the service is ensured by external contractual carriers.

A positive effect was also observed as a result of changes and additional adjustments of our operating system implemented in 2016, reflected in an increase of performance by 48 %. ■



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SERVICES IN 2017

The year 2017 was characterized by support and expansion of well-tested services, in the form of enhanced communication or motivating and training of employees as well as fine-tuning and simplification of processes. As a result, the revenue from services increased more than in the previous years.



Michal Halás
Customer Service Department Coordinator

QUALIFIED SIGNATURE OF AN INSTALMENT AGREEMENT

In instalment sales we have focused on the option to sign the agreement by electronic means, the so-called e-sign. In such case a customer signs an agreement using a tablet. The advantage for a customer is that he/she does not need to archive an agreement in a paper form somewhere in a folder, but it is stored electronically instead. We will send it to his/her e-mail address. It brings benefits to us as well, such as a reduction of costs on printing and paper. At the same time we simplified the process of archiving and inspection of documents, which saves time for employees at a store. The customer success of e-sign is also demonstrated by the fact that in 2017 we reached a 75 % share of electronically signed instalment agreements.

0 % INTEREST ON INSTALMENTS WHEN PURCHASING SERVICES

Customers could, during the entire year, get interest-free instalments on goods, which they had insured or prolonged a warranty period on. In this way, a customer had an option of financing without overpaying and at the same time he/she could afford more. On the other hand, we have significantly supported the sales of insurance of goods and extended warranty.

GUARANTEED FLAT RATE (PAUŠÁL NA ISTOTU) FOR MOBILE PHONES INCL. GLASS

Customers who had purchased a mobile phone with guaranteed flat rate were „given“ a free glass. In addition to the flat rate advantages, such as insurance in case of damage or provision of a replacement mobile phone during repair, they have a free glass and in the event of a claim they do not have to pay any deductible.

NEW CALIBRATION PROBES

We improved the long-term successful service of television calibration with new calibration probes that are adapted also to new television models, as the older ones were in some cases not suitable anymore.

INSTANT REPAIR OF MOBILE PHONES

In addition to a standard warranty and post-warranty service, we launched in the middle of the year the pilot operation of instant mobile phone repair service at our branch in Aupark, Bratislava. During the half of the year we have repaired nearly 1,000 mobile phones. As customers have increased interest in such service, in the following year we plan to extend this service to more branches.

INSTALLATION OF GAS APPLIANCES

In the second half of the year we have also expanded installations. We have started to connect gas and electric appliances, so far for Bratislava and surrounding areas only. Our plan is to gradually expand the service throughout Slovakia.

PROCESS IMPROVEMENTS

Among the most important simplifications or improvements of processes is the cooperation with a single service partner for ensuring mobile phone repairs, which resulted in accelerated processing of insurance repairs. Furthermore, we have introduced instant re-issuance of loyalty cards at stores and by adding bar codes on cards also the option of storing a loyalty card in a smartphone.

THE YEAR 2018

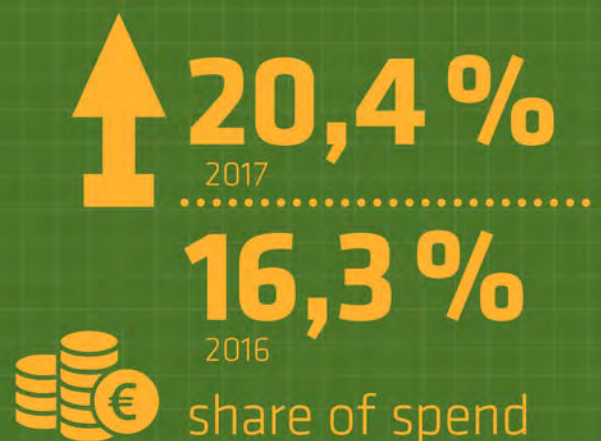
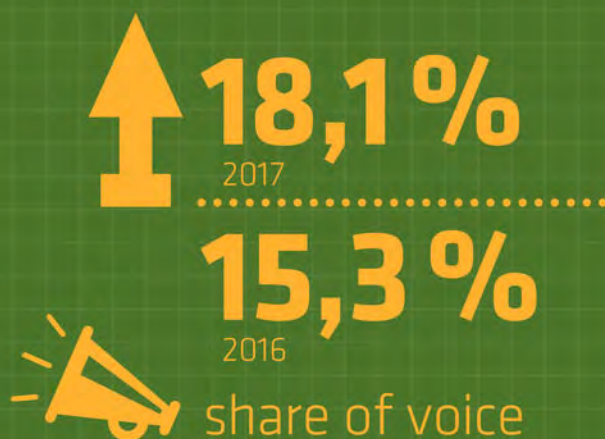
In 2018, we plan again to expand the services already in place, e.g. expanding the Convenient transport of goods by the possibility of weekend or evening delivery. We want to expand sticking foils by the option of cutting a foil also to the latest smartphone models or specific displays, for which we cannot ensure a corresponding protection foil directly from the supplier. We are also preparing a new service of purchasing old functional mobile phones for interesting amounts, which customers will be able to deduct from any purchase of new goods. ■



0% INTEREST
FOR 9 MONTHS ON INSTALMENT PURCHASES

14 NEW MARKETING COMMUNICATION 2017

The new marketing strategy created in 2016 received positive feedback from customers and employees. The year 2017 was therefore characterized by media plan optimization and strengthening of communication.



František Vámoši
Marketing Director



***“For the first time in history
we are investing more in on-line formats
than in leaflets.”***

INCREASE IN SHARE OF VOICE

NAY's Share of voice has increased annually within the monitored 8 key players in the consumer electronics market from 15.3 % to 18.1 %. In absolute terms, TV GRPs of these eight subjects jointly increased annually by 26.9 %, while the growth of NAY achieved as much as 50.2 %.

The media costs of the monitored subjects have added 17.9 % on an annual basis, mainly due to a combination of greater media space and growth of key media prices, in particular for television. NAY's growth reached 47.9 %, which is the dynamics nearly twice as high compared to the market. A quarter of TV budget in 2017 consisted of sponsor spots, i.e. a communication, which did not include price offers, but instead was focused mainly on introduction of services. This shift has also reinforced a clear orientation of communication on unique benefits of NAY.

INCREASE IN SHARE OF SPEND

Share of spend of monitored brands increased annually by 17.9 %, caused by a combination of greater media space and growth of key media prices, in particular for television. NAY's share of spend growth reached 47.9 %, which is the dynamics nearly twice as high compared to the market.

Consequently, last year NAY achieved a 20.4 % share of SOS compared to a 16.3 % share in 2016.

Nevertheless, all these statistics do not consider the costs on below-the-line marketing activities, such as leaflets, which NAY distributes in large quantities and which represent one of the largest parts. After taking into account these additional media channels that are traditionally strongpoints of originally brick-and-mortar store networks, the NAY's share would have been even higher.

THE INTERNET IN THE FIRST PLACE

Leaflets are associated with an important milestone achieved in 2017, although NAY had been heading for it for a long time. In the last year the share of the Internet on communication costs for the first time surpassed leaflets that had been leading the ranking probably since the establishment of NAY.

It needs to be added that although the Internet communication is perhaps the least visible one – since the better targeted, the more discrete it is – it has undergone the most significant changes, even if „under the surface“. In 2017, the pilot project in cooperation with Exponea took place, allowing a complex 1:1 communication with a customer thanks to combining on-line and off-line data about them and their behaviour. As a result, we are able to set much more relevant messages in communication with individual customers. If the GDPR, which is the main communication challenge in 2018 for all, does not foil the personalized communication, the next year at NAY will be distinguished by a 1:1 communication and development of new services. ■

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FINANCIAL REVIEW OF THE YEAR 2017

If we described the year 2016 as successful,
then the year 2017 exceeded our expectations.

Roman Kocourek
Chief Financial Officer



For NAY, the year 2017 was demanding with regard to the change of the information system, which it had been preparing for during the last year, as well as to the relocation of our own logistics to the new central warehouse. However, at the same time it was very successful in terms of the net income achieved.

REVENUES

In retail sales the company experienced an increase, not only thanks to the growth of revenues in existing NAY stores, but also due to the year-round operated stores acquired at the end of 2016 from the K+B company. The turnover from retail sales therefore, gained more than 4 % and the overall growth of NAY revenues reached +23 %, where, however, a significant part of growth was caused by the change of goods distribution for the subsidiary Electro World in the Czech Republic.

In the reported period we have reconstructed stores in Vranov nad Topľou, Trebišov and Humenné and we opened new store in Malacky, where we have relocated from the original, outdated store.

OVERALL MARGIN

The trade margin increased by more than EUR 3 million in absolute terms, also thanks to higher purchases.

SERVICES

In the area of services sales we have focused on offering a more attractive package of extended warranty and insurance with instalments, which we were able to provide to customers throughout the year, in contrast to 2016, when this offer was available only in the 4th quarter. We have also created the Convenient transport product that enjoys great popularity.

PERSONNEL COSTS

In terms of personnel costs, the annual increase was caused by three basic factors:

- year-round operation of stores acquired from K+B;
- year-round operation of our own call centre in Vranov nad Topľou and its further expansion;
- increase in wages of employees in April made at a double-digit rate and perceived very positively by the company's employees

LOGISTICS

In terms of logistics the NAY's central warehouse has relocated to new, larger premises in August 2017 and concurrently with the implementation of the new SAP system from June 2017 NAY acts as a distributor for Electro World and distributes more than half of their purchases.

ACQUISITIONS

With regard to post-acquisition steps there was a final settlement with the company Dixons.

NAY holds a 69 % share in the company Amico.

In terms of financing, NAY maintains a long-term cooperation with Tatra banka, where it has a credit line of EUR 20 million, which is not drawn at the end of the year regularly.

EARNINGS

The overall impact of the above step contributed to a significant increase in the company's earnings compared to the previous year and earnings after tax amounted to nearly EUR 5.2 million.

In 2017 NAY paid out dividends totalling EUR 1 million. ■

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FINANCIAL PERFORMANCE

SHARE CAPITAL

The share capital of the company in 2017 reached EUR 17 million (consisting of 1,700 shares in the nominal value of EUR 10,000 per share). **The net income in 2017 amounted to EUR 5,161,000.** The General Assembly of the company decided to settle the net income for the accounting period of 2017 in the amount of EUR 5,161,000 as follows: part of the net income in the amount of EUR 516,000 was used to supplement the statutory reserve fund of the company and the remaining part of the net income in the total amount of EUR 4,645,000 was transferred to the retained earnings account.

TOTAL ASSETS

Total assets of the company at the end of the year reached EUR 107,968,000. The highest share of it is represented by inventories with a net value of EUR 47,889,000. Decrease in utility value of inventories was addressed by the creation of an adjustment in the amount of EUR 222,000, making the adjustment amount to EUR 1,080,000 at the end of 2017.

The second largest asset item are current receivables in gross amount of EUR 22,042,000 consisting of trade receivables in the amount of EUR 19,695,000. Even though our predominant activity is retail sales, the above receivables arise towards subsidiary companies, repayment companies when purchasing on repayments (instalments) 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, 2017 amounted to EUR 15,402,000. The company has concluded credit

contracts for an overdraft loan in the amount of up to EUR 20,000,000. 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 2,549,000, were used mainly for the technical and interior equipment of stores and software. Of the above amount, EUR 1,438,000 was invested in software equipment and EUR 1,109,000 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 2017.

OTHER

The company does not have any organizational entity abroad.

The company did not acquire any own shares during 2017.

The company's activities do not negatively affect environment.

EVENTS THAT OCCURRED AFTER THE DATE OF FINANCIAL STATEMENTS

The General Assembly of the company decided on 4 December 2017 for the purpose of business expansion in the area of software application development and software services to establish the company NAYTROLABS, s. r. o.

as of 8 January 2018. NAY owns a 86 % share in NAYTROLABS, s. r. o.

The General Assembly of the company decided on 5 February 2018 to amend the company's Articles of Association in order to change the accounting period from calendar year to economic year. The economic year starts on 1 April of the calendar year and ends on 31 March the following year. For this reason, the period from 1 January 2018 to 31 March 2018 is a shortened accounting period, for which the financial statements were prepared.

On 13 July 2018, the Company concluded a preliminary contract with the third party concerning the sale of a 69% stake in Amico Finance, a.s.. The sale is subject to the approval of the national financial market regulation authority; the sale has not been executed as of the date of Annual Report's release.

FINANCIAL RISKS

Management used all available information in the assessment of reductions in value of individual property items. The company's management is unable to predict developments in financial markets that could have impact on wider economy and subsequently to determine what effect, if any, such developments would have on the future financial situation of the company. However, the management believes that it has adopted all necessary measures to promote sustainability and growth of the company's activities in current conditions, while no asset items show signs of impairment that would need to be considered in the financial statements. ■

FINANCIAL STATEMENTS

Profit and Loss Statement as of 31 December 2017 in EUR

2017
Audited SAS

2016
Audited SAS

Revenues	274 376 990	223 568 322
Costs of goods sold	220 140 664	174 437 857
Gross margin	54 236 326	49 130 465
Production costs (consumption of material, energy, services)	22 239 157	21 071 919
Personnel costs	21 547 638	18 644 913
Other operating costs/revenues - net	889 427	1 126 265
EBITDA	9 560 104	8 287 368
Depreciation/amortization	2 362 738	2 277 380
EBIT	7 197 366	6 009 988
Financial revenues	595 785	101 354
Financial costs	1 067 192	176 025
Profit before tax	6 725 959	5 935 317
Tax	1 565 359	1 544 401
Net profit for the accounting period	5 160 600	4 390 916

Balance Sheet as of 31 December 2017 in EUR	2017 Audited SAS	2016 Audited SAS
Assets total	107 968 086	84 874 889
Non-current assets	21 780 265	16 266 135
Non-current intangible assets	3 075 319	2 736 713
Non-current tangible assets	4 624 177	4 750 548
Non-current financial assets	14 080 769	8 778 874
Current assets	85 857 330	67 850 601
Inventories	47 889 045	38 446 885
Long-term receivables	697 210	602 603
Short-term receivables	21 869 406	17 134 786
Financial accounts	15 401 669	11 666 327
Other assets	330 491	758 153
Equity and liabilities – total	107 968 086	84 874 889
Equity	27 494 168	23 353 572
Net income	5 160 600	4 390 916
Liabilities	79 838 855	61 239 623
Provisions	2 521 441	2 102 949
Long-term liabilities	73 824	80 007
Short-term liabilities	77 243 590	59 056 667
Trade liabilities	73 182 579	51 584 044
Other liabilities	635 063	281 694

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 2017, 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 2017;
- 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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2017 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 2018, except for Reporting on other information in the annual report, for which the date of our report is 22 October 2018.

