

2015 ANNUAL REPORT

Východoslovenská distribučná, a.s.

Main indicators		2015	2014
Distribution area	km ²	15,746	15,746
Electricity distribution	GWh	3,666	3,710
No. of take-off points		627,937	624,385
Distribution revenue	ths. EUR	289,103	303,942
EBIT	ths. EUR	43,608	25,879
Profit after tax	ths. EUR	32,539	17,315
Total assets	ths. EUR	746,756	740,932
Cash flow from operating activities	ths. EUR	73,732	79,849
Investment	ths. EUR	43,582	51,034
Average headcount		1,038	1,004

Contents

Foreword by the Chairman of the Board of Directors

Report of the Supervisory Board

Basic company data

 Formation and founding of the company

 Line of business

 Shareholder structure

 Organizational structure

 Structure of company bodies

Grid sales

Investments and operation

Employees

Environmental policy

Economic situation

 Development of revenues, costs and the profit

 Structure of assets and its liabilities

 Financial situation

Business plan for 2015

Individual financial statements as of 31 December 2015

and a Report of an independent auditor on the individual financial statements for 2015

Foreword by the Chairman of the Board of Directors

Dear customers, business partners, colleagues,

Východoslovenská distribučná, a.s. ("VSD") belongs to key utility operators in the region of Eastern Slovakia. We are aware of our responsibility. In 2015, we again continued in our intensive investment programme and in our responsible approach when operating and maintaining the distribution system.

In the area of investments, important projects of renewal, modernization and extension of the distribution system were finished. The level of implemented investments exceeded the amount of EUR 43.5 million. A significant part of the investment projects was directed into the increase of safety, stability and reliability of electricity distribution, either from the view of assets, voltage levels, or individual parts of the region.

The end of 2015 became the first milestone of the installation of smart metering systems to those offtake points that are defined as "category 1" by the legislation. This concerns those customers whose annual electricity consumption exceeds 15 MWh and their reserved capacity is at least 30 kW. In 2015, VSD carried out the installation of more than 10,500 smart meters, by the means of which it met legal requirements, and since January 2016, it has been providing the metered data to the market participants.

We belong to innovative companies within the utility operators. We are open to new technologies which make our communication with the customers and business partners easier. Here we see even more considerable opportunities, even though the implementation of many of them is subject to a change of the applicable legislation. However, the aim is to provide services of high standard and comfort to our customers. Open and constructive approach towards requirements of our partners in the electricity market, towns and municipalities, and of end consumers, is the decisive indicator of the feedback.

From the point of view of key aspects, which significantly and negatively influence the economy of the company, it is again necessary to mention the deficit system of the support of electricity produced from renewable energy sources and high-efficient combined power and heat generation. The change of the current system is inevitable. In practice this means that distribution companies must bear the expenses related to the payout of an additional payment (bonus) for so called "green electricity". It is necessary to re-evaluate the current system of the support and to implement new rules, which will reflect the present development in the market.

I would like to give thanks to our customers and business partners for their open approach and correct relations whose base is formed by their trust in our company. I would also like to thank to all colleagues who are helping to build this trust by their everyday work on a high level.

Yours sincerely,

Ing. Radoslav Haluška
Chairman of the Board of Directors

Report of the Supervisory Board

In 2015, the Supervisory Board of VSD was, in compliance with the Slovak legislation and the statutes of the company, supervising the performance of the authority of the Board of Directors, business activities, company management, as well as the fulfilment of the company statutes. During 2015, there were four regular meetings of the Supervisory Board and one extraordinary meeting of the Supervisory Board, there was also voting of the Supervisory Board by letter (per rollam).

On 15 July 2015, the election of members of the Supervisory Board elected by the company employees took place, namely on the basis of a decision of the General Manager of the company dated 19 June 2015; the election was organized in cooperation with our union organization, in compliance with Art. 200 of Act No. 513/1991 Coll. - the Commercial Code - as amended. The result of the election was a change in the structure of those members of the Supervisory Board that are elected by the company employees. Ing. Zuzana Kisidayová, Ing. Melánia Kožejová and Mr Martin Palenčar were replaced with effect from 25 August 2015 by the newly elected members of the Supervisory Board from among the company employees - Mr Andrej Macár, Ing. Ladislav Dický and Ing. Slavomír Hlinka.

The regular agenda of the Supervisory Board meetings included information on the economic results of the company, price regulation, the most significant development in the area of asset management, in the area of grid sales and objective regulation, as well as in the area of the distribution system operation. Information about activities of the company in the area of communication, approved resolutions of the Board of Directors, and information about concluded related party agreements were also included in the regular agenda of the Supervisory board meetings. The Supervisory Board was on a regular basis informed about activities in the OHS area, and in the area of crisis management/BCM, physical and object security, including the protection of employees, and in the area of information security.

At its extraordinary meeting, the Supervisory Board discussed and approved the Strategic Plan of the company for 2015-2017.

Among other things, the Supervisory Board:

- appointed PricewaterhouseCoopers Slovensko s.r.o. as an auditor to perform the audit of the company financial statements for 2015 and recommended to the General Meeting of the company to approve the aforesaid company to become an auditor performing the audit of the financial statements for 2015;
- approved a proposal of the Board of Directors for the profit distribution for 2014 and recommended to the General Meeting to adopt the respective resolution according to the proposal of the Board of Directors;
- approved several business decisions of the company (agreements) exceeding the amount of EUR 3 million;
- approved the Plan of Consultancy and Advisory Services for 2016 in relation to the control mechanism;
- approved several organizational changes and in connection with these changes also the Organizational Rules of the company with their effect from 1 April 2015, 1 October 2015 and 1 January 2016;
- approved a proposal for a change in the line of business of the company and a proposal for an amendment to the Articles of Association with effect from 25 June 2015;
- by the means of its voting by letter (per rollam), it approved a proposal for an amendment to the Articles of Association with effect from 1 November 2015 in the wording that reflected changes agreed by the shareholders of the mother company Východoslovenská energetika Holding a.s. for the whole VSE Holding Group in Part B of the Shareholders' Agreement;

- approved the Rules of Procedure of the Supervisory Board with effect from 4 December 2015 in order for them to comply with the Articles of Association effective from 1 November 2015.

In the course of the year, the Supervisory Board was informed by the Board of Directors, in both oral and written form, of the facts concerning:

- financial results;
- development in the area of regulatory framework (price and objective regulation);
- investments and operational expenditures;
- system reliability of the distribution system;
- development in the distributed volume of electricity;
- new customer connections to the distribution system.

The Supervisory Board, inter alia, discussed and took due note of the following:

- information on the development and results of the General Meetings of the company held last year;
- information on the approval of the Business Plan of the company for 2015;
- Annual Report 2014;
- information on major intentions of the company management for 2015 and on estimated trend in assets, finance and revenues;
- Individual Financial Statements of the company for 2014; at the same time, the Supervisory Board recommended to the General Meeting to approve it.

Based on the results of its continuous inspection, the Supervisory Board states that the Board of Directors carried out all the necessary activities to develop business and to maintain good reputation of the company.

The report of an auditor as well as the financial statements consisting of a statement of financial position, income and loss statement, statement of changes in equity, cash flow statement, and notes to the financial statements were discussed by the Supervisory Board members at its meeting held on 21 March 2016.

The Supervisory Board inspected the financial statements drawn up as of 31 December 2015 and recommends to the General Meeting to approve these financial statements.

The Supervisory Board approved a proposal of the Board of Directors for the profit distribution for 2015. It recommends to the General Meeting to adopt a resolution regarding the profit distribution for 2015 in accordance with the proposal of the Board of Directors.

Košice, 21 March 2016

Ing. Juraj Slafkovský
Chairman of the Supervisory Board

Proposal for the profit distribution for 2015:

The Board of Directors proposes to the General Meeting to pay out the total achieved summary profit for 2015 in its full amount of EUR 32,539 thousand as a dividend to the company shareholder.

Shareholder structure

Formation and founding of the company

Východoslovenská distribučná, s.r.o. was founded by the means of the Deed of Foundation dated 14 October 2015 as a subsidiary of Východoslovenská energetika a.s. ("VSE"), its legal form was changed to a joint-stock company on the basis of a decision of the General Meeting dated 30 January 2007.

Východoslovenská distribučná, a.s. began its operation on 1 July 2007. As part of the legal unbundling of vertically integrated undertaking of VSE, and as of the aforesaid date, VSD took over all the assets and liabilities, all the titles and obligations related to distribution activities performed by its mother company VSE up to that date. In compliance with the requirements of energy legislation, a transfer of part of business from the mother company VSE (the company name as of 1 July 2014: Východoslovenská energetika Holding a.s. - "VSE Holding") into VSD was carried out on 1 January 2014, whereas the transferred part of the company was its Grid Operations division which performs all the activities related to the operation, maintenance and construction of the distribution system.

Company name: Východoslovenská distribučná, a.s.
Registered office: Mlynská 31, 042 91 Košice
Company No.: 36 599 361

The company is registered with the Business Register maintained by District Court Košice I, Section: Sa, Insert No.: 1411/V.

Line of business

Východoslovenská distribučná, a.s. is a distribution system operator ("DSO") in a designated area which consists of Košice and Prešov self-governing regions, as well as a part of Banská Bystrica self-governing region, and performs mostly the following activities:

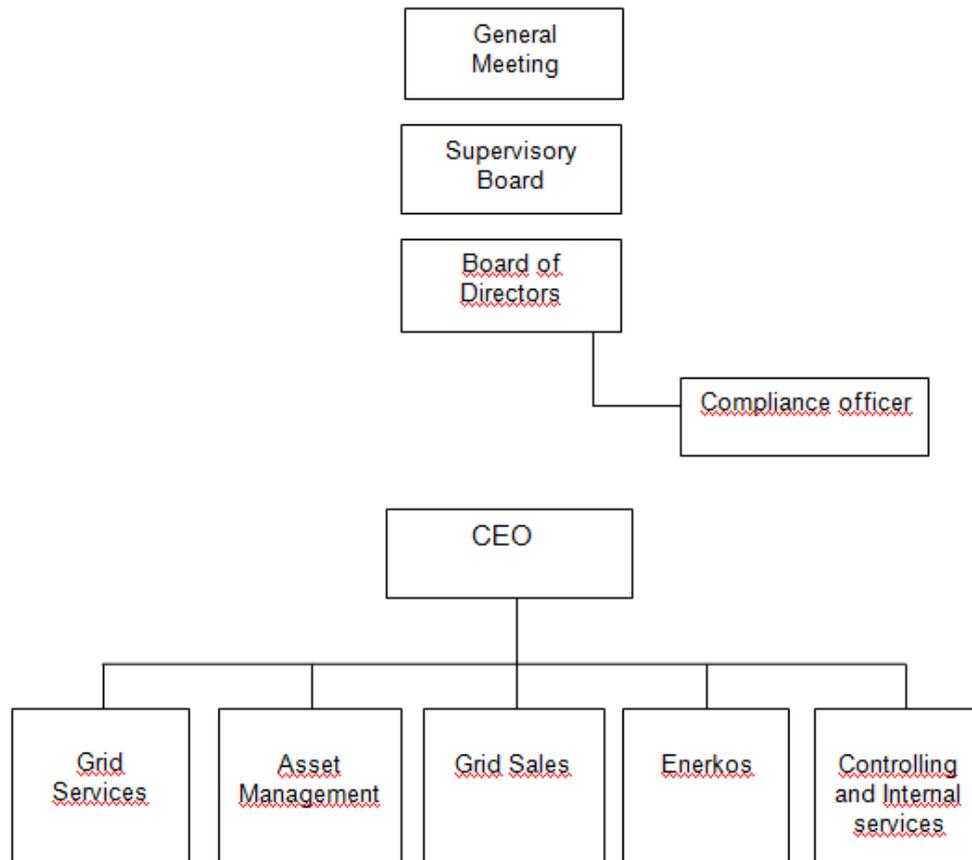
- electricity distribution,
- system development planning,
- distribution system controlling,
- sales of the grid connections capacity,
- supplier switching process for grid customers,
- energy data collection and provision,
- grid assets purchase and leasing,
- designing and constructing electrical equipment,
- provision of services related to the operation of electricity substations without voltage limitation,
- installation of electricity meters,
- production of electrical technical equipment in the following scope: electrical equipment, appliances, switchboards, and objects without blasting hazard.

Shareholder structure

The sole shareholder of the company is Východoslovenská energetika Holding a.s., which owns 100 % of the share capital of the company.

As of 31 December 2015, the share capital of the company is in the amount of EUR 437,735,515 and consists of 10 registered shares with their nominal value of EUR 3,320 per 1 unit, 1 unit of the registered share with its nominal value of EUR 432,782,315 and 1 unit of the registered share with its nominal value of EUR 4,920,000.

Organizational structure as of 31 December 2015



Structure of company bodies in 2015

Board of Directors

Ing. Radoslav Haluška – Chairman of the Board of Directors

Dr.h.c. prof. Ing. Michal Kolcun, PhD., Vice-Chairman of the Board of Directors

Ing. Jana Palková – Member of the Board of Directors

Ing. Klaus Buhl - Member of the Board of Directors

JUDr. Ing. Eduard Hulík – Member of the Board of Directors

Supervisory Board

Ing. Juraj Slafkovský - Chairman of the Supervisory Board

Thomas Merker - Vice-Chairman of the Supervisory Board

MUDr. Renáta Lenártová - Member of the Supervisory Board

Mgr. Radoslav Rigo - Member of the Supervisory Board

Ing. Artúr Benes - Member of the Supervisory Board

Ing. Richard Tušan - Member of the Supervisory Board

Marián Palenčar* - Member of the Supervisory Board (until 24 August 2015)

Ing. Zuzana Kisidayová* - Member of the Supervisory Board (until 24 August 2015)

Ing. Melánia Kožejová* - Member of the Supervisory Board (until 24 August 2015)

Andrej Macár* – Member of the Supervisory Board (since 25 August 2015)

Ing. Ladislav Dický* – Member of the Supervisory Board (since 25 August 2015)

Ing. Slavomír Hlinka* – Member of the Supervisory Board (since 25 August 2015)

* an employee representative in the Supervisory Board

Grid sales

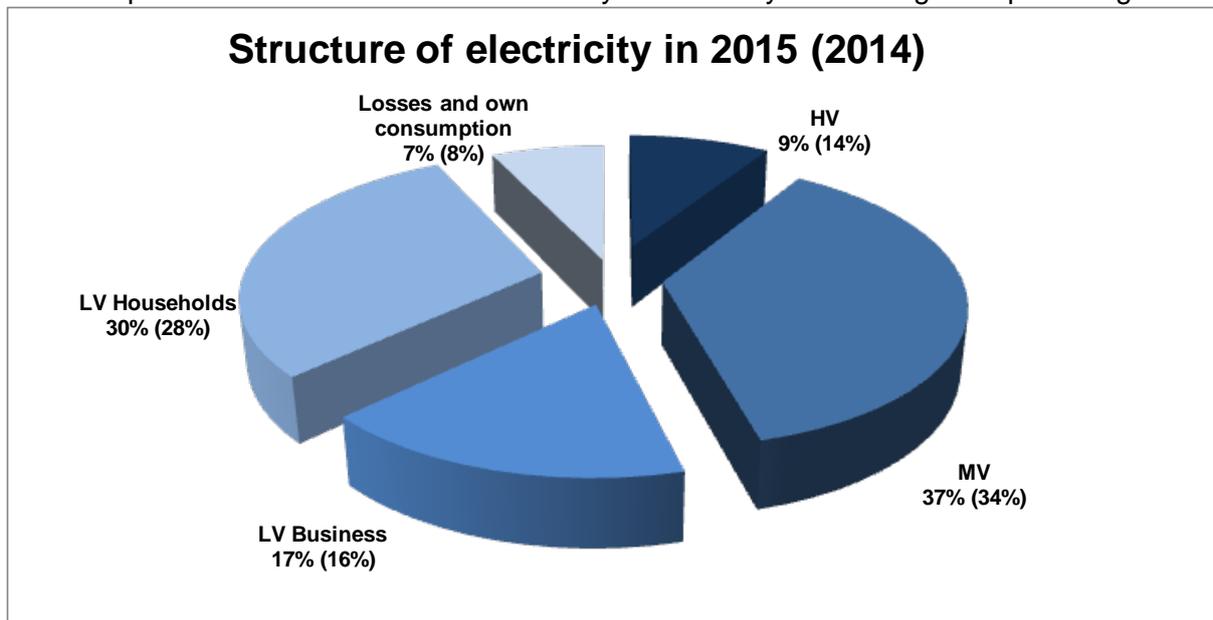
The main mission of the company is the operation of a safe and reliable distribution system, the provision of electricity distribution and access to the system for all its users. The regulated business in the area of electricity distribution has its significant specifics that VSD must deal with. Apart from the commodity that is impossible to store, it is mostly legal norms and restrictions, as well as demanding technical requirements, whose fulfilment is an inevitable condition for the provision of quality and reliable distribution services.

In 2015, VSD ensured electricity distribution to more than 627 thousand offtake points in households, companies and organizations, but also to more than 878 connected facilities for electricity production, and to 36 local distribution system operators.

The number of end consumption offtake points with a valid agreement:

Voltage level	As of December 31, 2015	As of December 31, 2014
LV Households	555,389	549,256
LV Business	69,581	72,196
MV	2,941	2,908
HV	26,000	25,000
Total	627,937	624,385

The total electricity distribution volume to end consumers (including local distribution system operators) reached 3,666 GWh (2014: 3,710 GWh). The year-on-year decrease in the distribution volume was caused mainly because of a decrease in the area of distribution to large industrial enterprises, since energy outputs for such companies account for a significant expenditure item, and with regard to the market environment and competition, such companies are motivated to find their way to efficiency and savings in input energies.



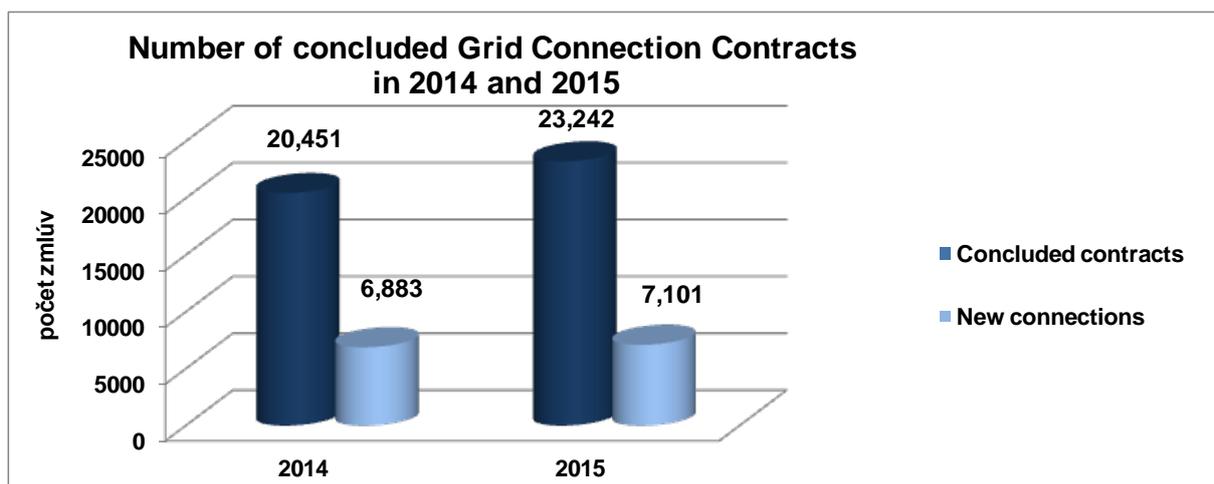
We realize the importance of electricity distribution at any time. That is why we are working to increase the quality and standard of provided services continuously. As well as previous years, 2015 was for VSD a dynamic one and brought in several changes.

In relation to the application of further unbundling principles, there were several organizational changes that took place within the Grid Sales division on 1 January 2015, namely the formation of the Distribution Customer Services section. The section covers the provision of comprehensive distribution services to distribution system users, from providing

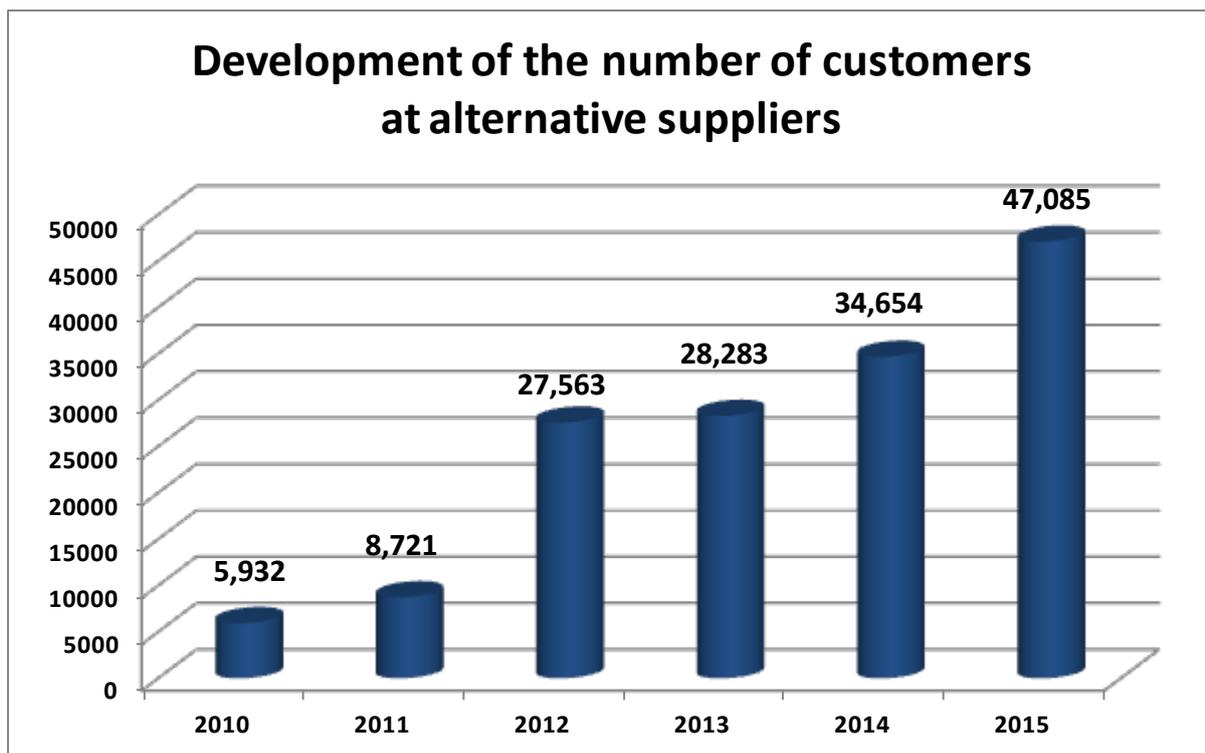
advisory and basic information regarding business and technical conditions of the connection process into the distribution system, the connection as such including the conclusion of distribution contractual relationships, through data communication between relevant organizations, supplier switch, all the way to dealing with customer incentives. With regard to the turnout of our client centres and in relation to the increasing scope of provided services, we increased the number of employees in the centres, which contributed to faster service of our customers. We did not forget about those customers who prefer communication via web interface and on 1 June 2015 we launched the eDSO portal.

As we are aware that VSD also has its corporate social responsibility and is a major contributor to the regional development, we continuously communicate with self-governments, organizations and together look for opportunities how to contribute to the development of our region. The result of successful negotiations with self-governments is, for instance, the conclusion of "Memorandum of Understanding" whose main aim is to speed up the investment preparation of construction and renewal of utilities with a significant reduction of administrative load when permitting such constructions, property settlement, speeding up such constructions execution, and last but not least, introducing products and services offered by VSD. In 2015, we concluded Memorandum of Understanding with, for example, Krompachy, Giraltovce, and Prešov. The electricity suppliers who operate in our designated area were not excluded either as last year we organized the 1st professional conference for electricity suppliers for them. The aim of the conference was to increase awareness of electricity suppliers of the processes of our company and to set up a platform for improvement and increase in efficiency of mutual cooperation.

With respect to slowly developing economy of our designated area, we keep records of only a slight increase in new concluded connection agreements in 2015, amounting to the total number of 23,242 concluded connection agreements. According to voltage levels, this represents a requirement for output capacity of almost 115 MW on the low voltage level (households ca. 90 MW and entrepreneurs ca. 25 MW) and almost 21 MW of the capacity on the medium voltage level.



Apart from the traditional electricity supplier, Východoslovenská energetika a.s., new, as well as yet established, electricity suppliers operate their business within the designated area of VSD. Their share in the distribution volume has an increasing tendency which was also proved by the development in 2015. The fact also proves the existence of yet developed liberalized electricity market in the Slovak Republic.



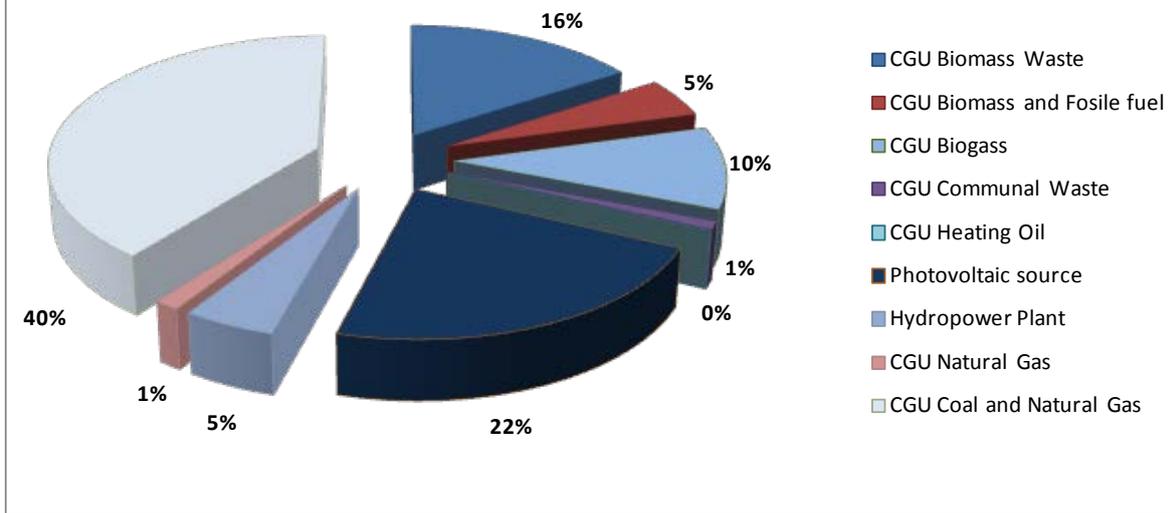
In 2015, VSD kept records of 29 electricity suppliers with whom the company had valid general distribution agreements. In comparison to the previous year, there were two new electricity suppliers with whom new general distribution agreements were concluded, and at the same time, one general distribution agreement with one of the suppliers was terminated by the means of the expiration of its validity term. Unlike previous years, no electricity supplier applied the institute of the supplier of the last resort in 2015. A possible insolvency of electricity suppliers is, however, still a topical risk factor, and that is why it will be necessary in the future to find ways to increase the security of receivables for electricity distribution within the scope of legal options.

Distribution losses

Distribution losses are an inherent physical phenomenon and are caused by the operation of distribution system electrical equipment and in the chain of activities related to metering, evaluation, electricity distribution as such, and to business losses.

In order to cover electricity for losses, we are legally obliged to provide for by a priority purchase of electricity produced from renewable energy sources and combined heat and power generation facilities ("RES and CHP"). Last year, we purchased a quantity twice as high as the quantity necessary for covering the losses. The surplus of electricity from the priority purchase from the RES and CHP sources was still significant despite the fact that 394 of such producers could not claim their support in 2015. The reason was the fact that in 2014 the producers did not meet their obligation in terms of Art. 4 of Promotion Act No. 309/2009 with regard to VSD or URSO (Regulatory Office for Network Industries).

The share of electricity supply sources to cover losses by type in 2015



A national project called Green to Households that was put into practice at the turn of 2015 is coming to the legal environment at the time when the problems of settlement of surplus electricity supply into the system are not sufficiently and reliably solved. The national project will increase the dynamics of the increase of connected sources into the system in 2016.

And that is why a new process-business model for tasks related to the conclusion of connection agreements for the sources to be connected into the system was put into practice in 2015. One of the intentions of the new model was to manage the strain of applicants for the connection of such source. The conclusion of connection agreements on the basis of a decision regarding available capacity without a need to reserve the capacity in the system for a longer period of time will make the environment of the applicants for the connection more clear.

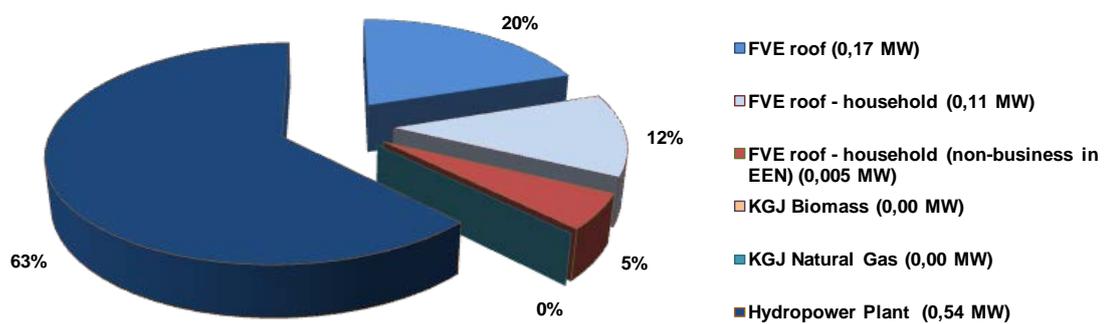
In relation the national project Green to Households, we can suppose that future periods will be marked with a decrease of distributed electricity volumes to households. The change in distributed volumes can be transformed into a future need to adjust the structure of the price for the services of the distribution system.

In the current promotion system, a mass construction of the RES sources with a right to support in the past, their putting into operation and electricity production within such sources will keep generating surplus electricity to cover decreasing losses in the system in a significant extent. The liquidity of the surplus electricity in the market is still on a low level.

In May 2015, producers with installed capacity exceeding 30 kW started to make use of advantages that are offered by the "eDSO" platform, as a future pillar for electronic communication with customers and business partners.

Amended legislation had an impact on behaviour of investors when constructing new power generation facilities. In general, it could be stated that there is a prevailing trend when power generation facilities produce primarily electricity to cover the own consumption of their producers without using the distribution system.

Installed capacity of power plants in 2015



Investments and operation

In order to ensure the primary purpose of VSD to provide a reliable and safe electricity distribution to its customers, the existence of a quality and stable distribution system is inevitable. VSD operates its distribution system in the area of more than 16 thousand square kilometres and the system consists of more than 21 thousand kilometres of lines interconnected on the HV, MV and LV levels. The HV distribution system is supplied from four superior electrical substations of the transmission system with the voltage levels of 400 kV and 220 kV. On the HV and MV levels, VSD operates 57 electrical transformer substations and switching stations, out of which:

- 4 x 110 kV switching stations in substations with the transformation of transmission/distribution system¹
- 31x 110/22 kV transformer substations,
- 1 x 110/110 kV switching stations,
- 4 x 22/10 kV transformer substations,
- 17 x 22/22 kV switching stations.

A reliable and safe electricity distribution to all customers of our company regardless the point of their connection is provided for by VSD via the setting of all internal processes such as grid renewal and development plan, stipulation and supervision of technical standards, and increase in the overall efficiency of electricity distribution.

Reliability of electricity distribution

Even in 2015, we managed to keep the distribution system reliability index on a favourable level of 99.96 % ASAI (Average Service Availability Index) in the DS, taking into consideration such factors as weather conditions and interruptions caused by third parties. A programme of regular renewal and upgrade of grids in the area of Eastern Slovakia contributed to this result and helped our company provide quality electricity distribution to new investors and growing economy.

Main investment projects and activities of 2015

- ES Prešov I – renewal of switching station

Extension of performance and compensation capacities of the most important substation of the third biggest Slovak city and its immediate surroundings with regard to the provision of a backup connection of ES Prešov II and industry facilities located in the south of the city.

- ES 110/35/22kV Sobrance construction R110kV

Extension of the electrical substation in Sobrance by the HV level including the transformation of HV/LV provides variability in the operation of consumptions and sources in the area.

- 110 kV line Michalovce - Sobrance

Construction of the V6801 line from Michalovce to ES Sobrance allows for the connection of ES Sobrance to HV in VSD.

¹ ES Lemešany includes also the transformation of 11/22 kV,

- Renewal of Beniakovce - ES Košice Západ line

By the means of the renewal of the V6307/V6795 line supplying an electrical substation with the highest number of offtake points in the distribution system of VSD, potential risks of distribution reliability into the important point in the distribution system of VSD are eliminated.

- Implementation of intelligent metering systems (smart metering) in the distribution system of VSD

In compliance with legal requirements of Ordinance No. 358/2013 which stipulates the procedure and conditions in the area of implementing and operating intelligent metering systems in the energetics, VSD met its legal obligation when, by 31 December 2015, it installed intelligent metering systems to at least 80 % of end consumer offtake points of so called category 1 - i.e. consumers with annual electricity consumption at least 15 MWh and maximum reserved capacity at least 30 kW or at least 45 A per their offtake point.

- ES Trebišov – change of transformer T101

The change of the T101 transformer because of its unsatisfactory technical condition and because of optimization of technical losses of transformation of HV/MV in this distribution node.

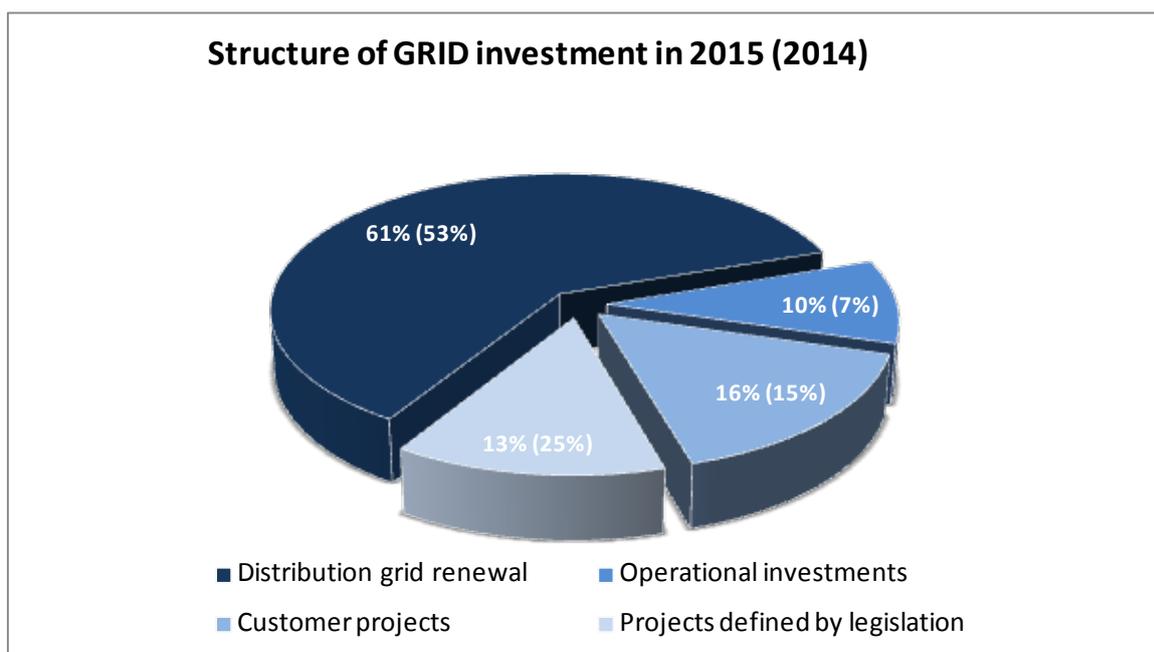
- Regular renewal of the MV and LV distribution system

Increase in operating safety and quality of distributed electricity within the DS. Reduction of grid losses.

- Customer-oriented grid expansion

New grid connections based on customer requirements

In 2015, VSD invested EUR 43,582 thousand into its distribution system (2014: EUR 51,034 thousand*), while the biggest volume of invested funds was, as usually, directed to the grid renewal with the aim of further improvement of customer services. In the upcoming years, the company intends to carry on in the investment programme, where investments into renewal of the distribution system and support of modern technologies prevail.



* Including connection fee in the amount of more than EUR 5 million paid to SEPS (Slovak Electricity Transmission System) in relation to the renewal of Vofa electric substation.

Innovations in Internet-based communication

New technologies and innovations found their spot even in the energy industry. VSD is monitoring development in the area of technologies and is putting them into practice in a suitable, economically acceptable way.

Intelligent metering systems (IMS) so called Smart metering

Is one of the popular topics of European Union energy politics, which is becoming evident also in Slovakia.

During 2014 and 2015, VSD prepared foundations for the implementation of ISM by creating a data and communication centre which will provide for a two-way communication with IMS meters, and in 2015, the company installed more than 10,500 pieces of IMS electricity meters. We will continue in this trend intensively also in 2016 to 2018. Within the innovations in the IMS area, we are planning to develop and offer smart phone applications to our customers. In 2016, we will test the first application, namely the access to an IMS electricity meter via the smart phone application and the display of one's historical and current consumption - so called electricity meter in a mobile phone.

eDSO project

The company started to implement innovations in the Internet communication at the beginning of 2014 with the aim to introduce an electronic communication channel with partners of VSD. In 2015, the company successfully put into operation the eDSO portal which will represent the main pillar of customer communication in the area of information provision, while it will serve as an input channel when accepting requirements. It will contribute to monitoring and process automation within the company. From the system point of view, the aim of the portal is to create web foundations with a possibility to extend the solution because of growing requirements for electronic communication. One of the first practical uses of the eDSO portal is the communication of planned interruptions, provision of an overview of a customer consumption who were installed smart metering systems, statements regarding the existence of grids, communication with suppliers of goods and services, etc. The operating principle of the portal is depicted in the picture.

From 2016 to 2018 we are planning to extend the eDSO portal by new functions as an e-shop with distribution services, to automatize the connection process completely, to implement monitoring of processes in the internal environment that influence the quality standards, and many other functions.



OHS and quality management

Occupational health and safety of our employees together with the quality management is one of the key priorities of the company as it operates in the sector with higher risks. In 2015, the attention was mostly paid to the following areas:

- **ISO re-certification audit** – the re-certification audit of an integrated quality management system took place successfully in autumn, the audit is a confirmation of the compliance of processes of VSD with high international standards. The certification is repeatedly valid for all organizational units as follows:
 - ✓ **ISO 9001** – quality
 - ✓ **ISO 14001** – environment
 - ✓ **OHSAS 18001** – OHS
- **PPE standardization** – the aim of the project was the setting up a new standard for the personal protective equipment of individual job positions, which takes into consideration current safety risks as well as the latest offer of PPE. A part of the project was also re-evaluation of the process of assigning, returning, keeping records, maintenance, and cleaning of PPE with the aim of its efficient use.
- **Fluid intake** – the basis of the new concept of ensuring the fluid intake, beyond our legal obligations, is the exchange of regularly purchased plastic bottles with mineral water for drinking tap water and the assignment of quality thermos bottles. The main motive for the change is environmental protection as well as healthy and ideal way of the daily fluid intake which respects modern trends in the area of healthy living.
- **Works at height** – also on the basis of an incentive of VSD, Ordinance of the Ministry of Labour, Social Affairs and Family of the SR No. 147/2013 which stipulates details of ensuring occupational health and safety during construction works was changed with effect as of June 2015. The most significant changes, related to the anchorage point when working at height and its resilience against static force, were initiators of an extensive project, whose results are static calculations on constructions such as lattice towers, brackets, support points. A part of the project is also a revision of all safety and technological work processes in compliance with the results of static calculations.
- **Inspections by the state supervision:** Throughout 2015, state supervision bodies (National Labour Inspectorate, Fire and Rescue Brigade, Regional Public Health Authority) carried out several inspections in VSD without any findings.

All the stated activities were performed with their primary aim: to increase safety of our employees and the whole distribution system.

Employees

VSD has long been considered a stable employer operating in Eastern Slovakia, while programmes supporting a balance of personal and working life, care about the health of our employees, programmes in the area of diversity, and programmes supporting the recruitment of graduates are standards that are used by the company when taking care of its employees.

The beginning of 2015 was marked with the finish of organizational changes related to legal obligations concerning a demerger of activities of a distribution system operator from an electricity supplier, mostly in the area of customer services. In 2015, the New Way of Working ("NWoW") project was commenced and was focused on the increase of customer, but also employee, satisfaction, further optimizing of processes, and on making the performance of the company more efficient via those activities. One of the main pillars of the project is the L&D area (leadership & direction), i.e. in the field of management, several areas for improvement were identified and will help increase employee satisfaction and will lead to a better performance of the company.

In November, we carried out a concern staff survey and an engagement survey in relation to the NWoW project. The concern survey included satisfaction and engagement indices. The first indications of its outcomes showed maintaining, even improvement, of all measured indices. Detailed results and work to maintain the motivation of our employees will be priorities of the following year.

1,048 employees were working for VSD, a.s. as of 31 December 2015, which means an increase of almost 4 % in comparison to 2014. The slight increase in the number of job positions was caused by already mentioned transfer of activities related to customer services from the mother company, VSE Holding.

The voluntary employee turnover remained low (0.8%), which is a standard turnover rate in network industries. The average age of our employees was 44 and the average number of years in service for the company reached 18.

Overview of basic data:

Headcount structure	Unit of measure:	2015	2014
<i>Men as of 31 Dec</i>	<i>Number</i>	<i>918</i>	<i>907</i>
<i>Women as of 31 Dec</i>	<i>Number</i>	<i>130</i>	<i>100</i>
Status as of 31 Dec	Number	1,048	1,007
Average headcount	Number	1,038	1,004
Part-time employees	Number	7	4
New recruits	Number	41	42
Voluntary labour turnover	%	0.8	0.9
Total labour turnover	%	5.2	5.0

Environmental strategy

An active approach to environmental protection characterized the conduct of VSD also in 2015. VSD supported and co-organized several projects focused on environmental protection. In 2015, work on a project called "Energy in the country - power lines and protection of priority bird kinds in the areas of Natura 2000" began. The project is supported by the European Commission within the LIFE13 programme and will last till 2019. In 2015, together with other partners, we submitted a proposal of another project within the LIFE15 programme to the European Commission. The focus on environmental protection is a part of all work activities related to the operation, maintenance, and renewal of electricity distribution equipment. Environmental aspects of all activities pertaining to electricity distribution, including related legal requirements, are regularly analyzed and evaluated. Also in 2015, several environmental targets were set and several environmental projects and measures were carried out with the aim of eliminating emissions of polluting substances into the environment, minimizing environmental damage resulting from potential serious emissions of pollutants into the environment, and reducing the risk which poses electricity lines to birds. Internal and external audits performed in 2015 confirmed the long-lasting high level of environmental safety, both in the area of waste management and in the area of protecting nature and the landscape. In total, VSD spent more than EUR 360 thousand on environmental protection.

Aspect: Biodiversity

Electricity distribution grid is also located in landscape protected areas. Their total area accounts for 16 % of the total area of the territory within which VSD distributes electricity. Overhead electric lines pose a specific threat to birds. There are more than 60 endangered bird species registered in the current Red List of Threatened Species of the International Union for the Conservation of Nature and Natural Resources – IUCN.

In cooperation with the State Environmental Protection Agency and non-governmental organisations, we agreed on a strategy for eliminating these negative impacts. In 2015, we focused on monitoring of those sections of overhead lines which were evaluated as an increased risk from the point of bird collisions. 135.41 kilometres of lines were monitored. Apart from this, 22 kV overhead lines in special protection areas and in national parks were further adjusted in a way so they will not be dangerous for birds. On the whole, 386 support points were adjusted, which represents 29 kilometres of lines.

We built alternative nest pads for relocation of nests of the white stork (*Ciconia ciconia*). We moved dozens of nests from the LV overhead lines to alternative nest pads.

Aspect: Emissions, sewage and waste

VSD, a.s does not operate any technology which could be considered medium or bigger sources of emissions according to the current legislation. The SF6 gas, which is categorized as a greenhouse gas, is used as an insulating and quenching medium for technical equipment (switchgear, distribution boards). Due to some minor leakage on devices in 2015, 12.2 kilos of gas was released into the atmosphere.

Cleaning plants which are operated by VSD, a.s. released 2,272 cubic metres of sewage into recipients in 2015. A total of 293 tons of hazardous waste and 1,703 tons of other waste was produced in 2015 during renewals, repairs, maintenance, and operation of the grid. Except for this, our employees produced 1,166 tons of municipal waste. 75 % of the total waste was recycled and 25 % was deposited at waste disposal sites with relevant licences.

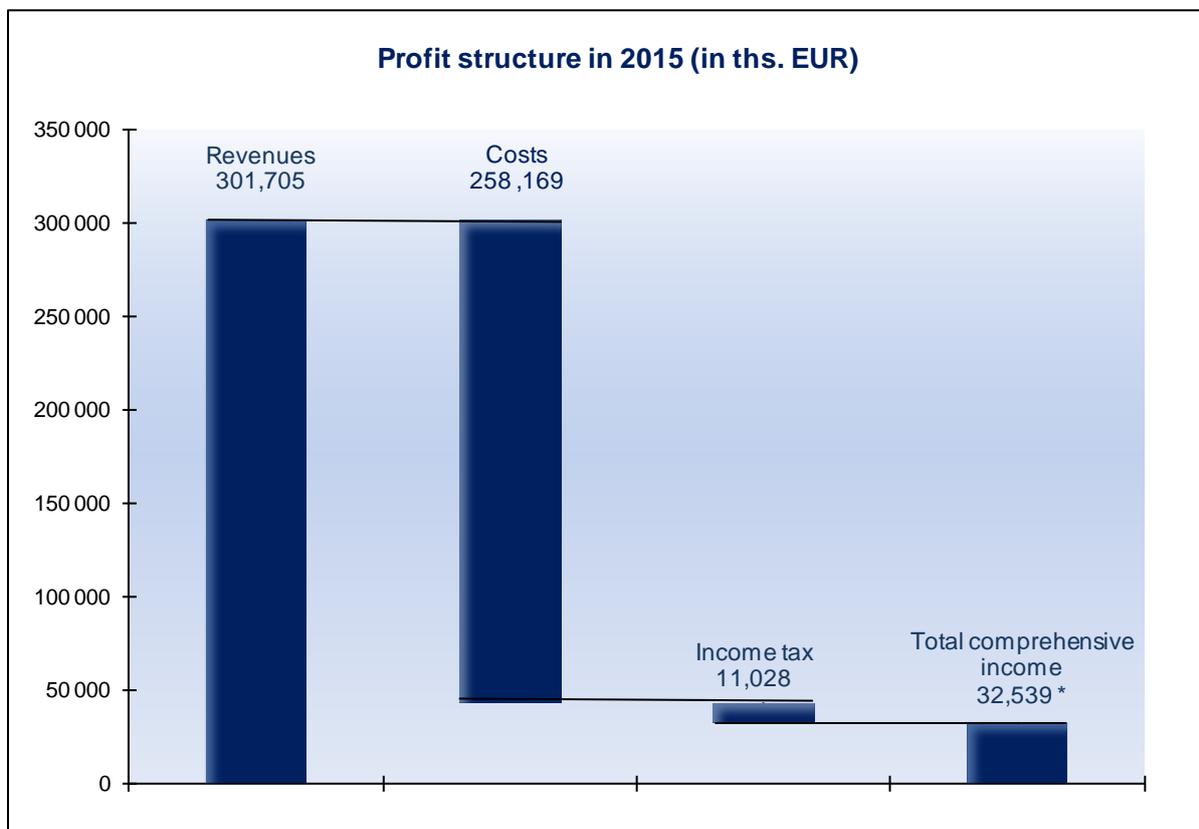
In 2015, we did not record any larger oil leaks from our equipment. Every small leakage of transformer oil was recorded and adequate precautions were implemented.

Economic situation

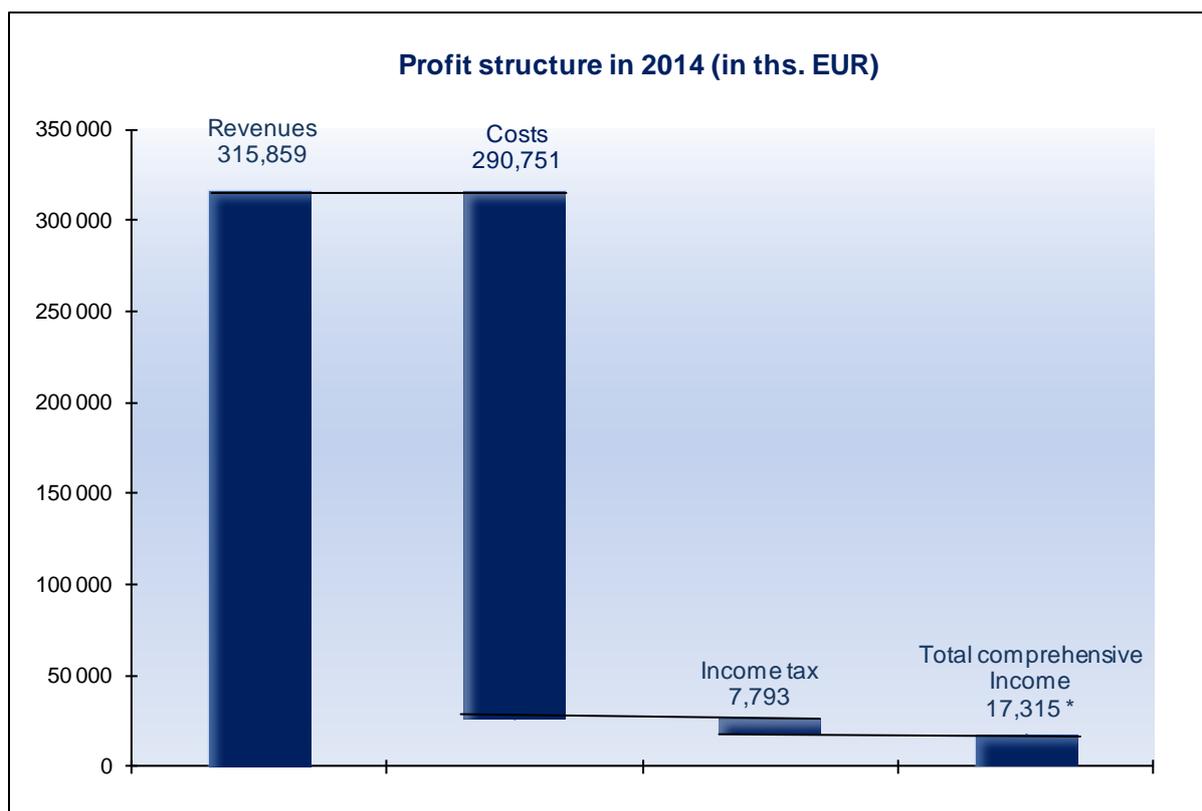
The financial data stated below draw from the financial statements of Východoslovenská distribučná, a.s. for 2015 elaborated according to the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Development of revenues, costs and profit

The most significant factor influencing economic activities of VSD in 2015 was the promotion scheme for RES/CHP in several aspects. Almost double increase in the total summary profit was caused mostly by the TPS deficit (tariff for the system operation) correction from the previous period, i.e. from 2013, which was almost three times as high as the TPS correction in 2014 for 2012. In 2015, several RES/CHP producers lost their entitlement to support for their production after they had failed to meet their notification duties drawing from the relevant legislation, which influenced the costs of VSD paid out to such producers. Another factors that influenced the amount of costs and revenues related to the promotion scheme, including the procurement of electricity for losses, was a change of a process model of a service agreement on the provision of electricity from the sister company VSE. Last but not least, the TPS deficit that had been lasting for several years and which is subject to corrections in two years was showed by VSD also in 2015. The development of other items of revenues and costs did not change significantly in comparison to the previous year and the company concluded its economic activities in 2015 with the total summary profit in the amount of EUR 32,539 thousand.



* including EUR 32 thousand (other summary profit)



* including EUR 770 thousand (other summary profit)

Total revenues

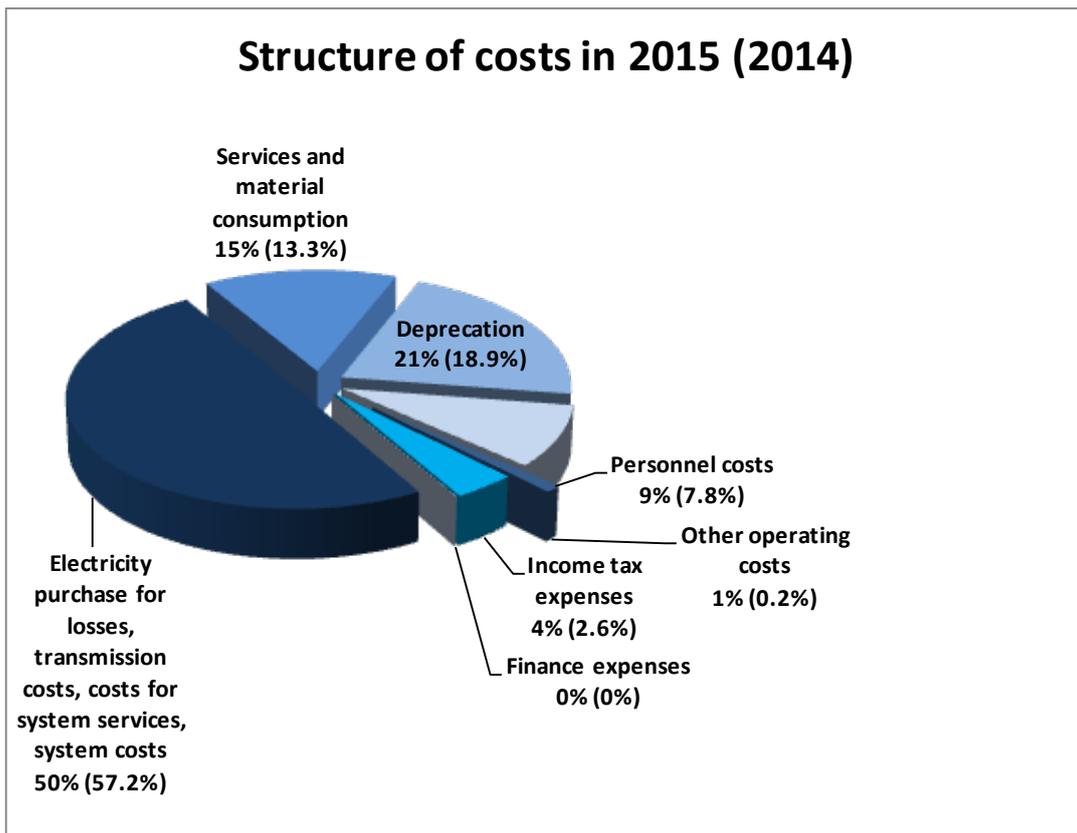
In the area of operating and finance activities in 2015, the company achieved revenues in the amount of EUR 301,705 thousand, which represents a decrease by EUR 14 million compared to the previous year. The revenues structure of VSD remains the same as in the past, i.e. the main item of revenues of the company as a distribution system operator are revenues from electricity distribution, which account for 94 % of the total revenues. The decrease in revenues is mostly related to the above mentioned change regarding electricity based on an SLA namely in the area of the sales of electricity purchased from RES/CHP, which exceed the necessary volume of electricity for losses.

Total costs

In 2015, the company spent its total costs, including the costs related to the income tax, in the amount of EUR 269,197 thousand, which represents a year-on-year decrease by EUR 29.3 million, i.e. 9.8 %.

50 % of the total costs were used to purchase electricity for losses and for an additional payment within the promotion scheme for RES/CHP, and transfer costs. The year-on-year decrease in these costs is a result of the aforesaid influences related to the promotion scheme and TPS. The service costs include mostly costs related to services in the area of shared services and call centre services, which are provided to VSD on the basis of service level agreements by the other companies of the VSE Holding Group. The increase in costs for depreciations reflects our ongoing intense investment programme.

In the area of taxes, the income tax costs in 2015 are higher due to a higher profit before tax.

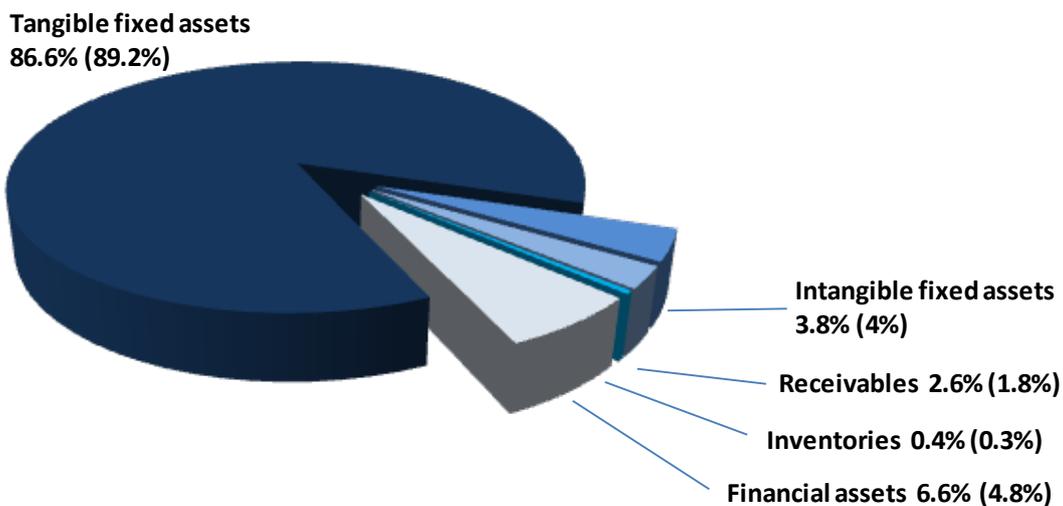


Structure of assets and its liabilities

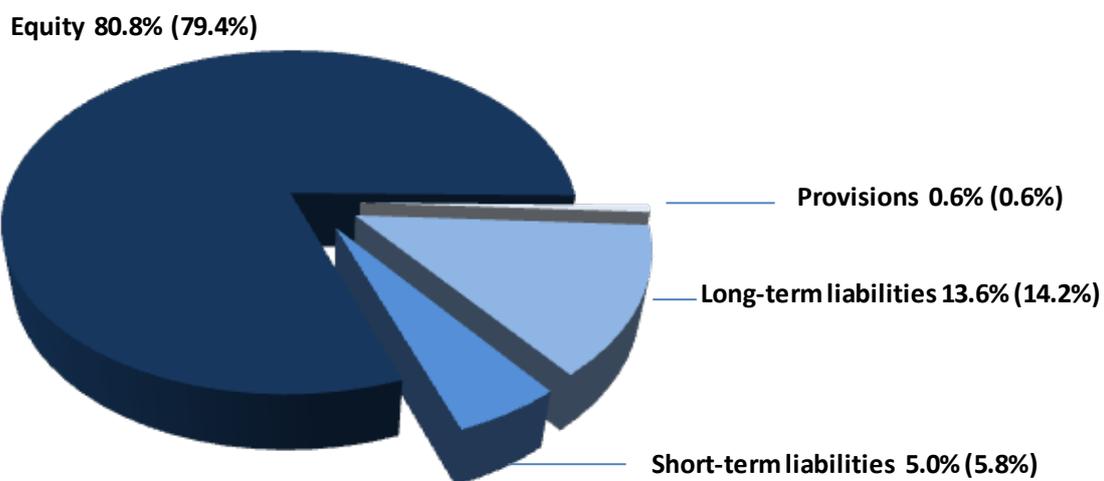
The value of assets as of 31 December 2015 was EUR 746,756 thousand. That means a year-on-year increase of the balance sum by EUR 5,824 thousand, i.e. 0.79 %.

The volume of equity increased by 2.6 % and reaches a share of almost 81 % in total liabilities. The amount of share capital and reserve fund remains unchanged in comparison to 2014. The total indebtedness is equally stable.

Structure of assets in 2015 (2014)



Structure of equity and liabilities in 2015 (2014)



Financial situation

As of 31 December 2015, the balance of financial means and financial equivalents reached the amount of EUR 48,891 thousand.

The company runs its business without bank credits, with regard to external funding resources, only a financial leasing from the past continued. The company had enough liquid

sources for fluent payment of all operating and investment needs, which improved the distribution system.

The mother company, Východoslovenská energetika Holding a.s., was paid dividends for 2014 in the amount of EUR 17,315 thousand.

Liquid sources were used to pay all operating and investment need, whereas available funds were included into an efficient management of financial flows via cash pooling within the VSE Holding Group.

Business plan 2016

2016 will be significantly important for VSD in order to ensure its further operation, namely from the view of objectivity and foreseeability of the regulatory framework. Since the new regulatory period will begin in 2017, it is exactly 2016 that will be decisive for the process of setting up a sustainable regulatory framework as well as input parameters for the calculation of regulated fees. Within the process, the priority will be given to such setting of the regulatory asset base, the rate of their profitability, which will allow for ensuring a reliable, safe, and efficient distribution system operation in compliance with legal requirements, as well as in compliance with customer requirements in the upcoming years.

At the same time, long-lasting problems in the area of supporting RES/CHP and the deficit setting of the system, which is currently funded by distribution companies, lead to a need of setting a new transparent system in the form of a central purchaser of green electricity. Advancing this change is therefore another priority of the company when setting up the new regulatory period.

Despite the important and difficult tasks, VSD will continue in yet started processes of implementation of new technologies, preparation of new products, and further innovations with the aim to improve services provided by the company and bearing in mind customer requirements, as well as new trends in the external environment. The "New Way of Working" programme is supposed to help us with this. The programme was initiated in 2015 and is focused on creating a new company culture and on improving overall processes with the orientation on such activities that bring added value to the customer, and that will have a positive financial impact on the economic results of VSD.

**Individual financial statements as of 31 December 2015 and Report
of an independent auditor on the individual financial statements for
2015**