

**2016 ANNUAL REPORT**

**Východoslovenská distribučná, a.s.**

<b>Main indicators</b>		<b>2016</b>	<b>2015</b>
Distribution area	km <sup>2</sup>	15,746	15,746
Electricity distribution	GWh	3,750	3,666
No. of take-off points		632,753	627,937
Distribution revenue	ths. EUR	299,629	289,103
Profit from operations	ths. EUR	37,439	43,608
Total income for the year	ths. EUR	19,637	32,539
Total assets	ths. EUR	743,259	746,756
Cash flow from operating activities	ths. EUR	82,191	73,732
Investment	ths. EUR	43,703	43,582
Average headcount		1,047	1,038

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## Foreword by the Chairman of the Board of Directors

Dear customers, business partners, colleagues,

The condition of technical infrastructure significantly determines possibilities of economic and social development of a region, a country, of a state. This does not apply only to its energy infrastructure, but also to its road infrastructure, telecommunication infrastructure, education system and the like. However, high quality infrastructure is only a tool, although important, to achieve a sustainable economic and social progress.

For successful future of our region, the following represent the basic pillars of development: healthy economic growth, innovations with high level of added value, improvement of quality of education and employment growth.

We can expect that the market in which we operate will be economically and socially promising based only on the correct progress. VSD is aware of these facts. We run our business in an environment where economic and social differences are visible. The above mentioned fact is obvious also on the basis of the electricity consumption structure and volume, be it in industrial segments or households. For the future, not only for VSD, it is very important that individual parts of the region in which we operate are developing comparably, not only in the economic domain but also in the social one as well.

VSD has been supporting education institutions in the long-term. Care for environment and social responsibility belong to our priorities, too.

We make considerable effort and invest substantial resources into renewal, development of not only our distribution system as such, but also into new segments in the market such as telecommunication, public lighting, close cooperation with municipality and new services focused on customer needs.

Innovations, new products and services, active approach represent facts that are very inherent in and necessary for development of economically weaker parts of the region. I believe that VSD is advancing this way. I appreciate very much the open approach of our employees, management, when acting and thinking beyond the position of “only” distribution system operator.

I am convinced that to be open to changes and environment in which we concentrate our business activities and to actively participate in development of our region is the right way.

Yours sincerely,

Ing. Radoslav Haluška  
Chairman of the Board of Directors

## Report of the Supervisory Board

In 2016, the Supervisory Board of VSD was, in compliance with the Slovak legislation and Articles of Association, supervising the performance of the authority of the Board of Directors, business activities, company management, as well as the fulfilment of the company statuses. During 2016, there were two regular meetings of the Supervisory Board and one extraordinary meeting of the Supervisory Board, there were two voting of the Supervisory Board by letter (per rollam).

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.

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 2016 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 2016;
- approved a proposal of the Board of Directors for the profit distribution for 2015 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;
- discussed the amended business plan VSD 2016 and VSD investment plan for 2016;
- approved a proposal for a change of the Articles of Association with effect from 1 February 2016;
- approved the provision of a guarantee for long-term loans Východoslovenská energetická Holding, a.s. (loans by banks UniCredit Bank Czech Republic and Slovakia, a.s. and ING Bank, and Branch of ING-DiBa AG);
- approved the Rules of Procedure of the Supervisory Board with effect from 22 March 2016 in order for them to comply with the Articles of Association effective from 1 February 2016.

In the course of the year, the Supervisory Board was informed by the Board of Directors, in both verbal 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;

- Annual Report 2015;
- information on major intentions of the company management for 2016 and on estimated trend in assets, finance and revenues;
- Individual Financial Statements of the company for 2015; 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 23 March 2017.

The Supervisory Board inspected the financial statements prepared as of 31 December 2016 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 2016. It recommends to the General Meeting to adopt a resolution regarding the profit distribution for 2016 in accordance with the proposal of the Board of Directors.

Košice, 23 March 2017

Ing. Juraj Slafkovský  
Chairman of the Supervisory Board

*Proposal for the profit distribution for 2016:*

The Board of Directors proposes to the General Meeting to pay out the profit after tax for 2016 in its full amount of EUR 19,283 thousand as a dividend to the company shareholder.

## Basic company data

### *Formation and founding of the company*

Východoslovenská distribučná, s.r.o. ("VSD") was founded by the means of the Deed of Foundation dated 14 October 2005 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.

<b>Company name:</b>	Východoslovenská distribučná, a.s.
<b>Registered office:</b>	Mlynská 31, 042 91 Košice
<b>Company No.:</b>	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 municipality regions, as well as a part of Banská Bystrica municipality region, and performs mostly the following activities:

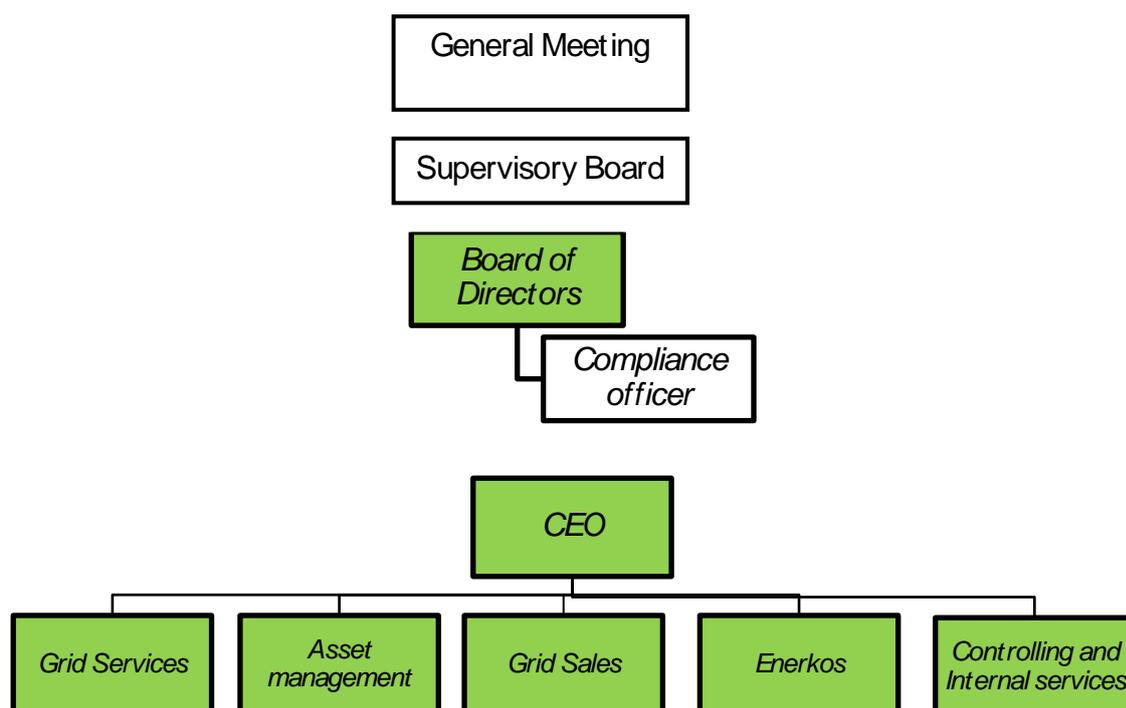
- electricity distribution,
- system development planning,
- distribution system controlling,
- sales of the grid connections capacity,
- supplier switching process for grid customers,
- energy data collection and provision,
- grid assets purchase and leasing,
- designing and constructing electrical 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 2016, 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 2016



### Structure of company bodies in 2016

#### 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 (until 15 December 2016)

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 (until 15 December 2016)

Ing. Vladimír Valach – Vice-Chairman of the Board of Directors (since 16 December 2016)

JUDr. Tomáš Bucsko – Member of the Board of Directors (since 16 December 2016)

## **Supervisory Board**

Ing. Juraj Slafkovský - Chairman of the Supervisory Board (until 30 June 2016, since 16 December 2016 re-elected as a chairman)

Thomas Merker - Vice-Chairman of the Supervisory Board

MUDr. Renáta Lenártová - Member of the Supervisory Board (until 30 June 2016, since 16 December 2016 re-elected as a member)

Mgr. Radoslav Rigo - Member of the Supervisory Board (until 30 June 2016)

Ing. Artúr Benes - Member of the Supervisory Board (until 30 June 2016)

Ing. Richard Tušan - Member of the Supervisory Board (until 30 June 2016, since 16 December re-elected as a member)

Andrej Macár\* – Member of the Supervisory Board

Ing. Ladislav Dický\* – Member of the Supervisory Board

Ing. Slavomír Hlinka\* – Member of the Supervisory Board

Ing. Viliam Titka – Member of the Supervisory Board (since 16 December 2016)

Ing. Peter Želinský – Member of the Supervisory Board (since 16 December 2016)

\* an employee representative in the Supervisory Board

## Grid sales

The main mission of VSD, a.s. is to provide a safe and reliable distribution system operation, to provide electricity distribution and to provide for the system access following from the valid legislation, and to provide customer distribution services.

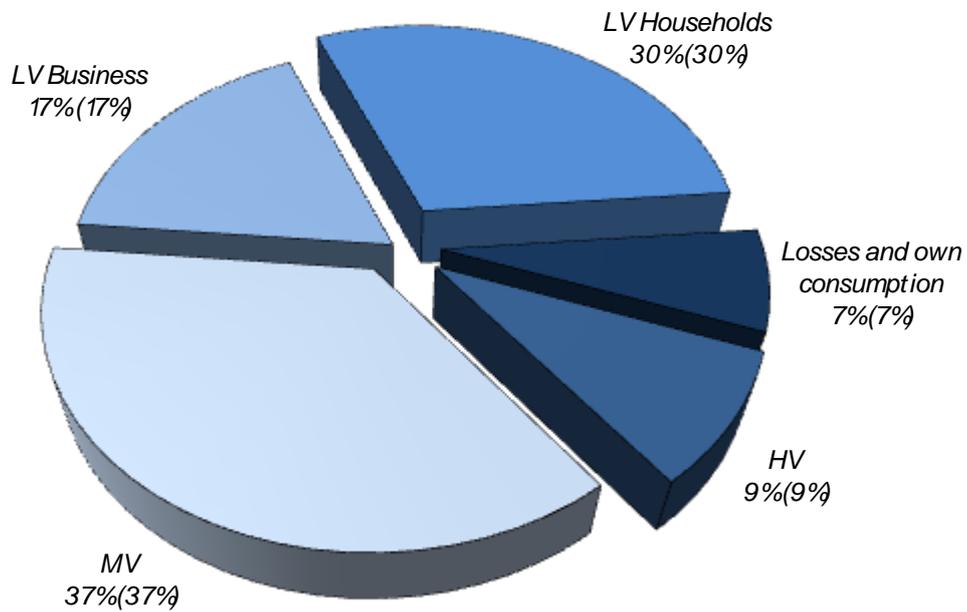
In 2016, VSD was providing for electricity distribution to more than 632 thousand offtake points in households, companies and organizations, but also to 1,015 connected electricity production facilities, and to 35 local distribution system operators.

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

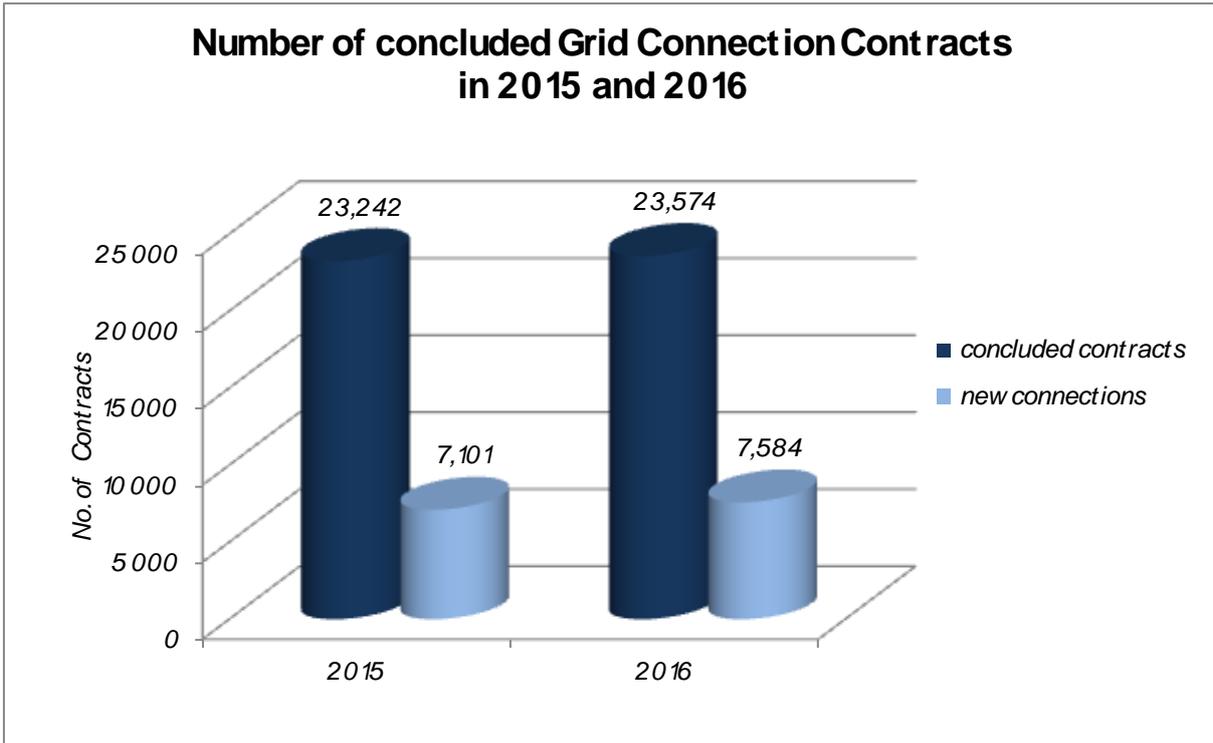
Voltage level	As of December 31, 2016	As of December 31, 2015
LV Households	560,951	555,389
LV Business	68,805	69,581
MV	2,972	2,941
HV	25	26
<b>Total</b>	<b>632,753</b>	<b>627,937</b>

The total electricity distribution volume to end consumers (including local distribution system operators) reached 3,750 GWh (2015: 3,666 GWh). A slight increase in distribution volume was recorded mostly in the area of distribution to industrial enterprises. This was caused by the recovery of the segment. The increase is visible also in the households segment, where the year-on-year change was in the amount of more than 10 GWh of electricity.

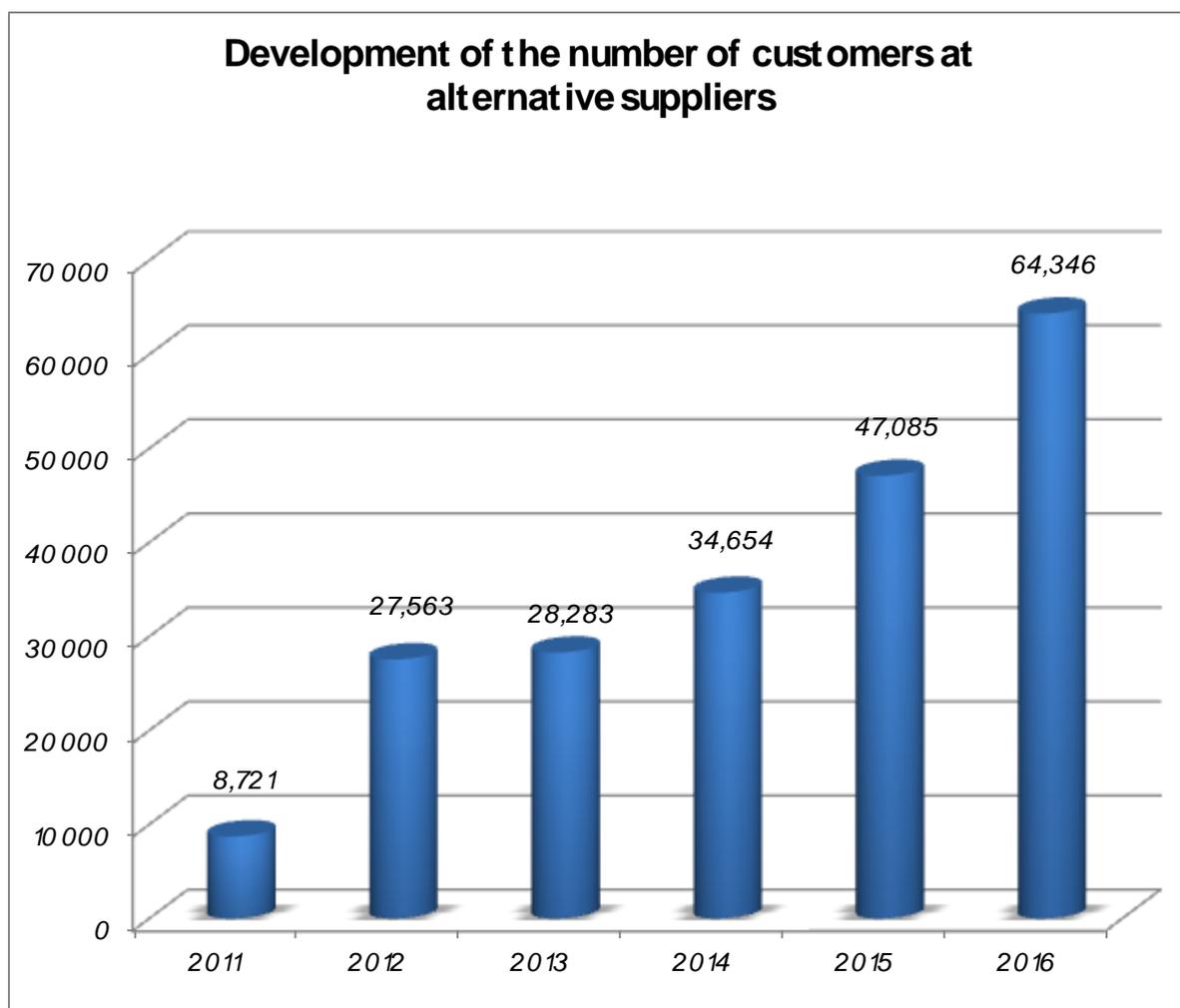
### Structure of electricity distribution in 2016 (2015)



In 2016, we recorded a slight economic development in the designated area of VSD. We keep a record of an increase in the number of concluded connection agreements amounting to 23,574. Out of that, 7,584 newly concluded connection agreements, what represented a need for a new power capacity of 136 MW according to voltage levels.



Similarly to the previous years, we keep a record of ongoing development of the liberalized electricity market also in 2016 which is proven by the fact that the number of performed supplier switch procedures within the existing supplier portfolio in the VSD designated area increased. The share in the distribution volume of new, or well-established electricity suppliers, has an increasing tendency which was also proved by the development of 2016. As of 31 December 2016, VSD, a.s. kept records of 26 electricity suppliers (in 2015: 29 electricity suppliers) with whom the company had valid general distribution agreements.



#### *Distribution losses*

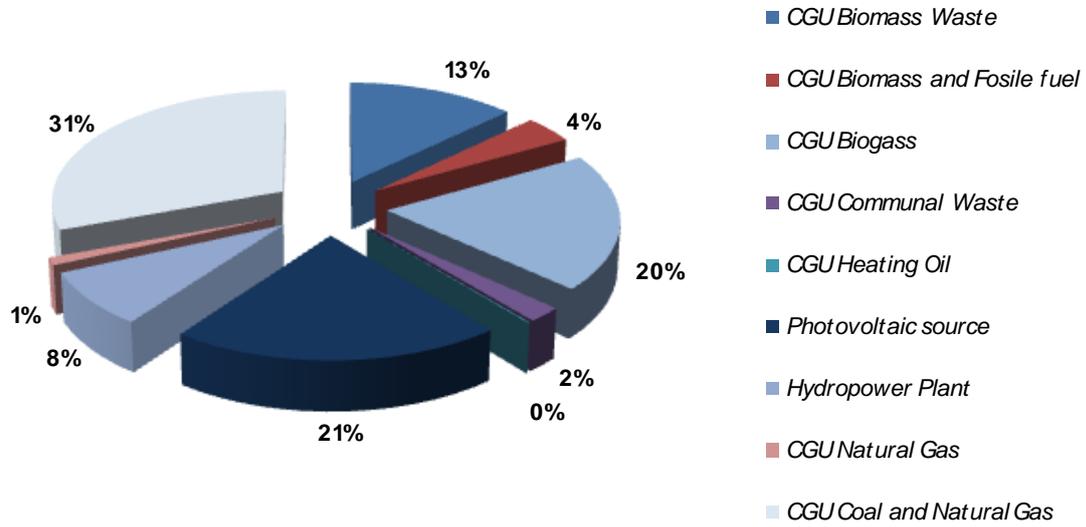
Distribution losses are an inherent physical phenomenon and are caused by the operation of distribution system electrical equipment and in the chain of activities related to metering, evaluation, electricity distribution as such, and to business losses.

In order to cover losses, the distribution system operator is still legally obliged to carry on a preferential purchase of electricity produced by renewable energy sources and high-efficiency combined heat and power generation (“RES and HE-CHP”), whereas the electricity volume from the obligatory purchase from RES and HE-CHP sources keeps significantly exceeding the volume of distribution losses.

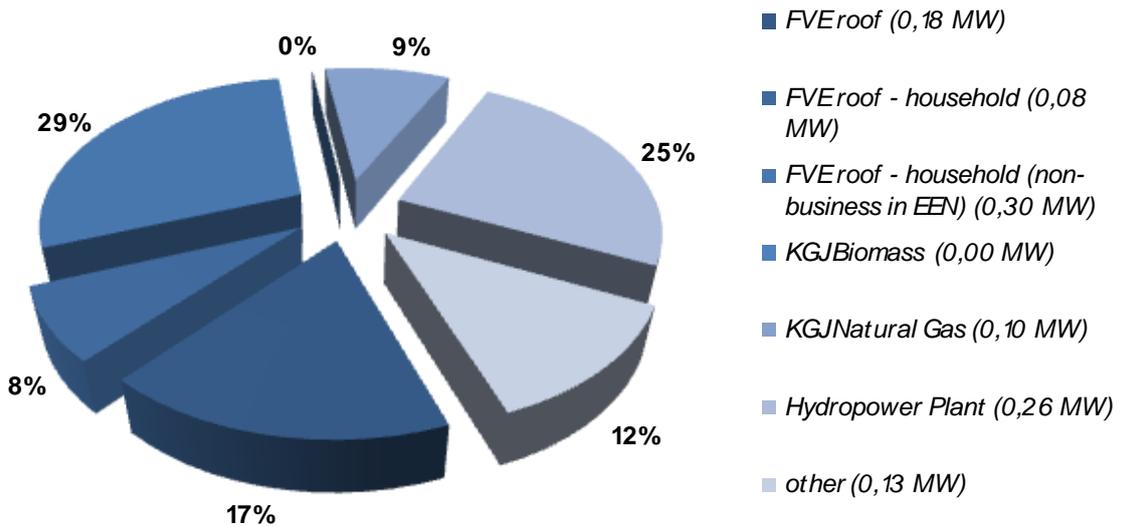
The number of connected renewable energy sources that are not running their business in the energy industry (households) showed more than 800% increase - from 13 (in 2015) to 104 (in 2016). It can certainly be presumed that a significant part of these newly connected sources utilized financial subsidies by applying vouchers for the construction of such sources as part of the support of the Slovak national project called “Green to the households”.

On the other hand, the number of newly connected sources in the RES and HE-CHP promotion system up to 10kW of installed capacity is comparable with 2015. Currently, we keep a record and pay subsidies to more than 800 RES and HE-CHP producers.

### The share of electricity supply sources to cover losses by type in 2016



### Installed capacity (MW) of power plants in 2016



### *New solutions for customers*

2016 was in VSD marked by a thorough focus on customer needs. That is why we launched several initiatives whose aim was to improve provided services and increase satisfaction of electricity consumers as well as other electricity market participants with regard to our services provision.

Our Client Centres were equipped with a queue management system that made the customer services clearer and we also introduced a regular customer satisfaction survey in phone and personal contact.

VSD also continued in developing closer cooperation with municipality with the aim to look for new possibilities in an active approach to the region, optimization of administrative processes in the area of engineering needed for the very execution of construction of new parts of the VSD distribution system. The concluded memorandums on cooperation, for example, with Giraltovce, Stará Ľubovňa, Bardejov or Spišská Belá represent a result of these activities. An example of customer processes optimization, observing the needs of municipality and specific customers, was the execution of a pilot project of individual housing construction Košice - Krásna Záhumnie. The execution of this project brought comprehensive solutions in the area of MV and LV distribution system, public lighting and own optic fibre network.

In 2016, VSD continued in increasing the knowledge of electricity distribution processes of our company with regard to electricity suppliers by organizing conferences and trainings.

In the area of new products, VSD experienced success in offering its public lighting solution for municipalities. In 2016, 18 business cases were contracted, out of which 4 were finalized in terms of investments and execution and submitted to the customers for their further use. VSD plans to make use of the experience gained in the area and to extend its offer with technical solutions for bigger municipalities and cities in the future.

In 2016, VSD also carried out a pilot project of providing its optic fibre lines for connection of end customers (households) into the world wide web. The concept of an open network allows for the provision of data services by more providers of these services. VSD cooperates with three internet providers in the pilot location (Seňa municipality). Apart from this concept, VSD continued in leasing its inter-city optic fibre lines also in 2016.

## Investments and operation

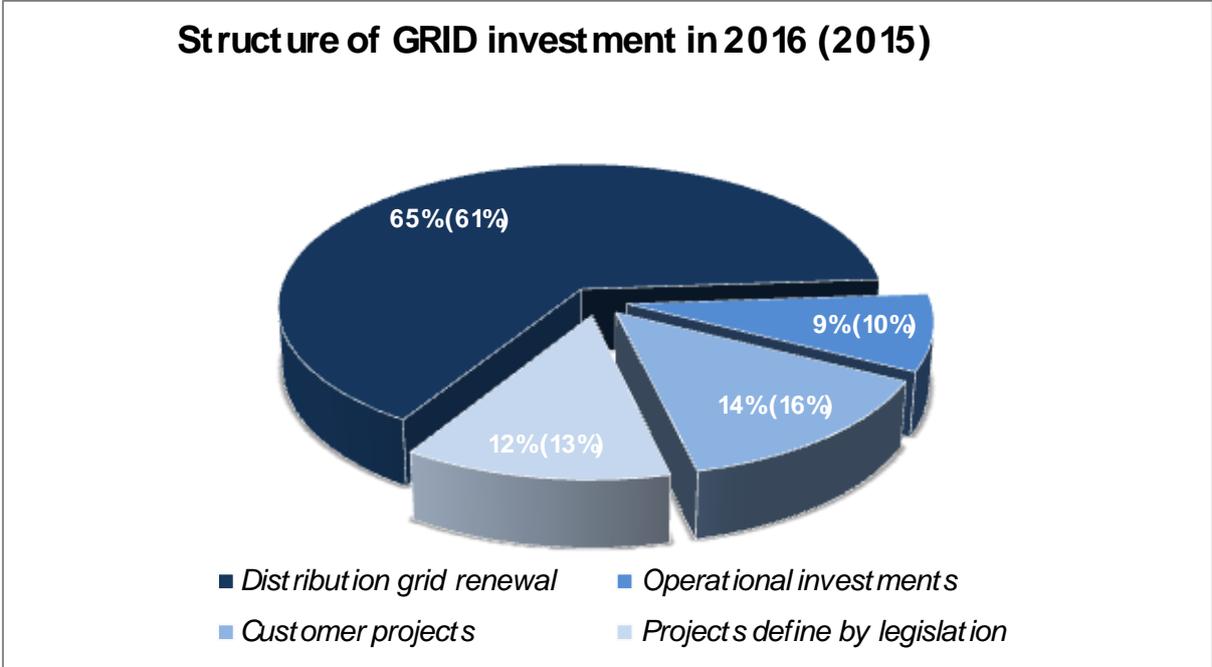
VSD operates an extensive distribution system consisting of more than 21 thousand kilometres of HV, MV and LV lines in the area of 16 thousand square kilometres, whereas its connection to the transmission system is provided for by 4 electrical substations with a voltage level of 400 kV and 220 kV. At the HV and MV levels, the company operates 57 electrical transformer and switching stations in total, out of which:

- 4 switching stations of 110 kV in stations with the transmission - distribution system transformation<sup>1</sup>
- 31 transformer stations 110/22 kV,
- 1 switching station 110/110 kV,
- 4 transformer stations 22/10 kV,
- 17 switching stations 22/22 kV.

Even in 2016, VSD managed to keep the distribution system reliability index on a favourable level of 99.97% ASAI (Average Service Availability Index), taking into consideration also such factors as weather conditions and interruptions caused by third parties. A programme of regular renewal and modernization of the grid in the VSD distribution area contributes to the result, as well.

A long-term interest of VSD, a.s. is to operate a reliable distribution system which is led by decisions of the company while drawing up its investment plan.

In 2016, VSD invested EUR 43.7 mil. into its distribution system (2015: EUR 43.5 mil.), while the biggest volume of invested funds was, as usually, directed into the grid renewal with the aim of further improvement of customer services. At the same time, a part of investments was focused on providing new products extending the portfolio of VSD services to the customers.



<sup>1</sup> ES Lemešany includes also 110/22 kV transformation

## **Major investments and activities in 2016**

- ***ES Spišská Nová Ves I***

This regards one of the four transformer nodes between the transmission system operator and the distribution system operator in the designated area of VSD. The investment coordinated with the transmission system operator initially started by constructing a building of joint operation, by establishing technology connecting own consumption of the station, by adjusting electrical protection and replenishing its managing system.

- ***ES 110/22 kV Rožňava***

One of the most important stations in the distribution area of VSD in which the operation of subordinate nodal areas of high voltage is divided. From the view of transformation to MV level, the station represents the most important one in the area of Dobšiná, Revúca and Rožňava. The system of medium and high voltage went through its renewal and at the same time the technology of own consumption of the station was adjusted.

- ***ES 110/22 kV Budulov***

The reconstruction is focused on constructing a new building of joint operation and on a comprehensive technological exchange of medium voltage systems, compensation chokes, responding to the growing scope of cables of powered medium voltage lines.

- ***ES 110/22 kV Poprad 2***

The start of the investment whose execution is expected in 2016-2018 and that was this year mainly based on adjusting about half of the high voltage switching station.

- ***ES 110/22 kV Prakovce***

The investment was based on constructing a new building operation, establishing own consumption, managing, secondary technology and exchanging both compensation chokes.

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

The implementation of smart metering (IMS) was one of the important topics in VSD also in 2016. The topic as such is very complex and includes finalization of data and communication centre, installation of smart meters at offtake points of our customers.

In line with legal requirements of Ordinance No. 358/2013, we successfully installed 24,818 electricity meters (cumulative number including 2015) of all functionalities levels in case of end consumers of so called 1,2 and 4 categories.

VSD put successfully into operation its data and communication centre that carries out a comprehensive management of IMS meters, i.e. communicates with them remotely, reads them, sets parameters for them, if needed, it disconnects them (if a given meter is equipped with such a switch) and the like.

Alongside the topic of IMS, VSD was continuously engaged in new trends in technology throughout 2016, whereas the company in cooperation with the Technical University of Košice successfully

developed and put into pilot operation an alternative way of transfer of metered data from a smart meter into the data and communication centre using a customer's internet connection. Further steps taken while deploying new technologies are mobile phone applications that are able to display past and current consumption of a customer.

▪ ***eVSD internet portal***

In the area of creating the eVSD electronic portal as a modern communication interface, VSD implemented several innovative functionalities. This regards provision of information on physical infrastructure for telecommunication companies (note: an obligation of a physical infrastructure owner as from 1 July 2016 based on Act No. 231/2011 Coll. on Electronic Communication as amended) in different formats. Another tool that can be used by those customers who prefer a digital form of communication is the provision of power factor values measured at a customer's offtake point. Via a free account on the portal, our customers can choose to be informed about the beginning and end of a planned electricity distribution interruption, about a planned electricity meter exchange, or about a service performance at their offtake point via e-mail communication. For its project partners, the eVSD portal offers a possibility of calculation of costs related to a customer oriented construction and costs related to its design documentation.

With the aim to make registration and account creation on the eVSD portal easier, there were five pre-registration campaigns in 2016 that resulted in 1,002 new customer accounts on the portal.

In the second half of 2016, development of functionalities for a new process of connection into the distribution system commenced. By the implementation of such electronic process, it will possible to provide more quality, but mainly more comfortable, services for our customers during the connection process via an electronic way. A customer will be offered a possibility to start the connection process via the eVSD portal and participate in the connection process from the comfort of his or her home. The implementation of the technical solution started at the end of 2016, whereas we estimate that its conclusion and full deployment into operation will take place in December 2017.

### ***OHS and quality management***

Occupational health and safety ("OHS") of our employees is one of the key priorities of the company as it operates in the sector with higher risks. In 2016, these problems were paid even more attention, as the top management declared the year of occupational health and safety.

The aim was to increase the awareness of our employees in this area, to realize risks as well as responsibility for oneself and his or her colleagues. Activities that were carried out in order to support OHS are listed below:

- the annual Employee Assembly took place in June, the main topic of which was OHS. Apart from the presentation focused on the current state of OHS and introduction of activities for the following period, ca. 20 different workshops were prepared (demonstration of evacuation of a dummy from the height, crash simulator, practical instructions of firemen on how to activate a fire extinguisher, instructions of policemen on how to defend oneself when attacked, presentation of doctors from a department dealing with burns, demonstration of results of PPE burning tests, demonstration / practicing of providing first aid using a dummy...)
- we launched an internal communication campaign "IT'S NOT ONLY ABOUT YOU"

- 13 workshops for managers were held at all levels of management with the aim to improve the OHS culture. The workshops are part of the concern programme which will continue in 2017 in the form of employee workshops.
- we comprehensively revised the process of reconstruction and construction from the OHS perspective. The result is a new concept of ensuring safety in constructions, its aim is to strengthen the aspect mainly in the preparation phase.

As always, inspections of state supervision bodies did not avoid us last year either: during 2016, state supervision bodies (National Labour Inspectorate, Fire and Rescue Brigade, Regional Public Health Authority) carried out several inspections in VSD without any major findings.

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

## Employees

Our company is one of several stable employers with their registered office in Eastern Slovakia providing high-standard employee care in all aspects. Programmes supporting work-life balance, employee health and well-being, programmes in the area of diversity and graduate jobs programmes represent a standard.

In 2016, priorities of the “people” area were focused on recruitment and training of new colleagues in so called blue collar positions in relation to the starting wave of colleagues leaving for their retirement (“generation exchange”). We replaced a number of our employees. Based on a feedback regarding uncertainty of our employees related to their retirement at the end of the year and in the following years, we implemented a new measure that helped minimize the uncertainty of our colleagues and plan termination of their employment well in advance.

2016 was fully marked by the NWoW project (New Way of Working). One of the main project branches was “leadership & direction”. In this area, we implemented several measures with the aim to reduce excessive workload of some managers, to use a feedback tool in performance management better. The new tool called “morning coffee with a director” was part of this as well, when all company employees were meeting the company management at their workplaces and discussed the company strategy, its implementation and overlap with the NWoW transformation project.

As of 31 December 2016, VSD was employing 1,031 employees. The year-on-year decrease in the headcount was related to termination of employment as of the end of the year, the overall employment in the company remains stable.

The voluntary staff turnover remained low at the level of about 1.5%, which is a standard turnover rate in network industries. The average age of our employees was 43 and the average number of years in service for the company reached 18.

### *Overview of basic data:*

<b>Headcount structure</b>	<b>Unit of measure</b>	<b>2016</b>	<b>2015</b>
<i>Men as of 31 December</i>	<i>Number</i>	<i>897</i>	<i>918</i>
<i>Women as of 31 December</i>	<i>Number</i>	<i>134</i>	<i>130</i>
Total as of 31 December	Number	1,031	1,048
FTE	Number	1,047	1,038
Shortened time equivalent	Number	6	7
New hires	Number	41	41
Voluntary staff turnover	%	15	0.8
Overall staff turnover	%	5.9	5.2

## Environmental policy

VSD considers the care for environment to be a basic part of the concept of long-term sustainable development, whereas it has been supporting and executing projects focused on environmental protection for a long period of time. In 2016, we kept working on the project called *Energia v krajine – elektrické vedenia a ochrana prioritných druhov vtákov v územiach Natura 2000* (Energy in the country - power lines and protection of priority bird species in Natura 2000 areas) that is supported also by the European Commission within the LIFE13 programme and will last till 2019. In 2016, we signed a partnership agreement on execution of yet another, now international project within the LIFE15 programme of the European Commission. Environmental aspects of all activities pertaining to electricity distribution, including related legal requirements, are regularly analysed and evaluated. Each year, the company sets up environmental targets and executes respective environmental projects and measures focused on their achievement. Internal and external audits performed in 2016 confirmed the long-lasting high level of environmental safety, both in the area of waste management and in the area of protecting nature and landscape. In total, VSD spent nearly EUR 433 thousands on environmental protection in 2016.

### *Aspect: Biodiversity*

VSD together with the State Nature Conservancy (Štátna ochrana prírody) and non-governmental organizations have a long-term strategy for eliminating unfavourable influence represented by overhead power lines in protected areas with regard to birds. We keep monitoring those sections of overhead lines which were assigned an increased risk from the point of bird collisions. 922 pieces of marking elements were installed on power lines with the aim to make them more visible for birds. 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. 280 support points in total were adjusted, which accounts for 20 km of lines. We moved dozens of nests of the white stork from our LV overhead lines to alternative nest pads.

### *Aspect: Emissions, sewage and waste*

Our company does not operate any technology which could be considered medium or bigger source of emissions according to the current legislation. The SF<sub>6</sub> gas, which is categorized as a greenhouse gas, is used as an insulating and quenching medium for technological equipment (switch gears, distribution boards). Due to some relatively small leaks, the amount of 17.4 kg of this gas was released into the atmosphere in 2016. Cleaning plants which are operated by VSD released 1,623 m<sup>3</sup> of sewage into recipients in 2016.

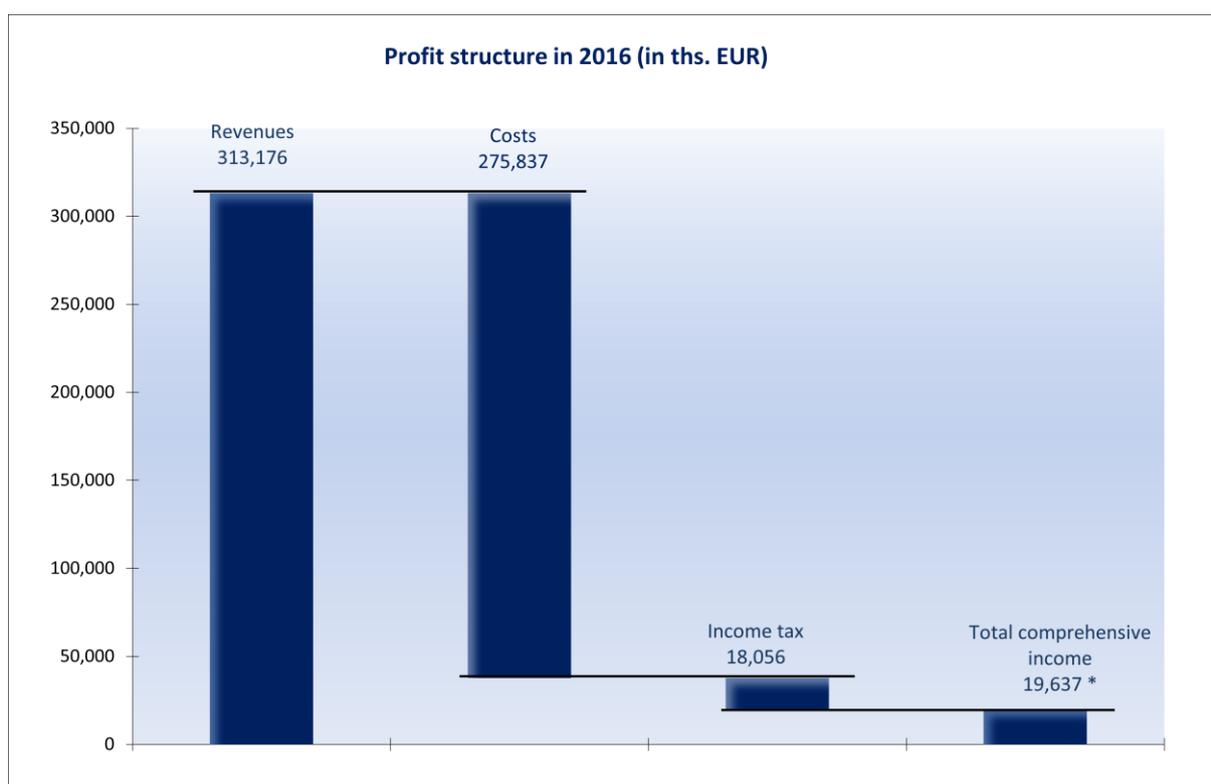
A total of 465 tons of hazardous waste and 14,085 tons of other waste were produced in 2016 during constructions, renovations, repairs, maintenance and operation of the grid. Except for this, our employees produced 1,088 tons of municipal waste. 63 % of total waste was recycled and 37 % was deposited at waste disposal sites with the relevant license.

In 2016, we did not record any larger oil leaks from our equipment. Every - even small - leakage of transformer oil was recorded and adequate precautions were implemented.

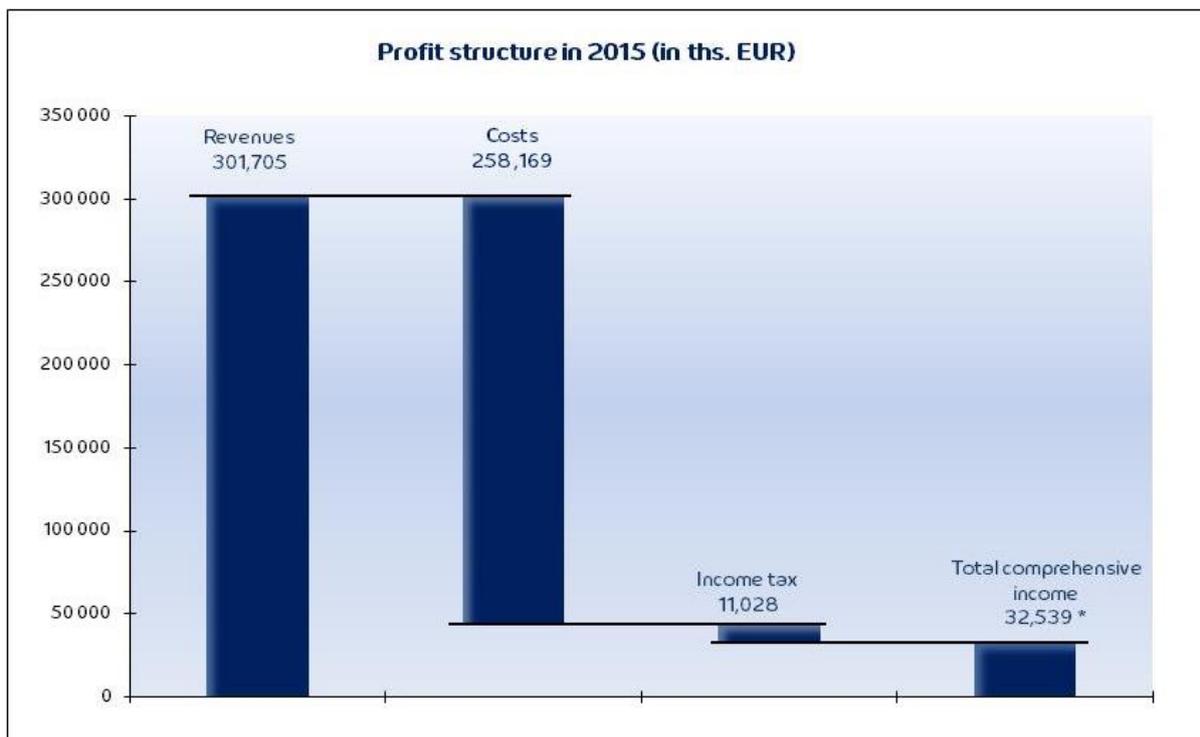
## Economic situation

The financial data stated below draw from the financial statements of Východoslovenská distribučná, a.s. for 2016 prepared according to the International Financial Reporting Standards (IFRS) as adopted by the European Union.

In 2016, the total comprehensive income of the company was in the amount of EUR 19,637 thousands, which represents a year-on-year decrease of almost 40%. The profit from operating activities decreased by almost 15% on a year-on-year basis. The main factor influencing this profit is still the existing deficit setting of the RES/HE-CHP electricity generation support scheme via the tariff for the system operation (TPS) which is subject to its corrections two years later. The current deficit of 2016, by which the costs related to the support of produced electricity exceed the TPS revenues, is almost twice as high as it was in 2015. Simultaneously, the amount of deficit of 2014, which is subject to its correction in 2016, is less almost by half than the amount of deficit of 2013, which was subject to its correction in 2015. These negative impacts are partially compensated by the growth of distribution volumes, by new, starting services and products for customers, as well as by results of programmes focused on increasing efficiency of the company activities. At the same time, it is necessary to mention that profit after tax in 2016 is also influenced by a one-off effect of the increase in income tax costs. These are related to the amended act on the special levy from regulated activities and its influence on the amount of deferred income tax.



\* including EUR 354 thousand (other comprehensive income)



\* including EUR 32 thousand (other comprehensive income)

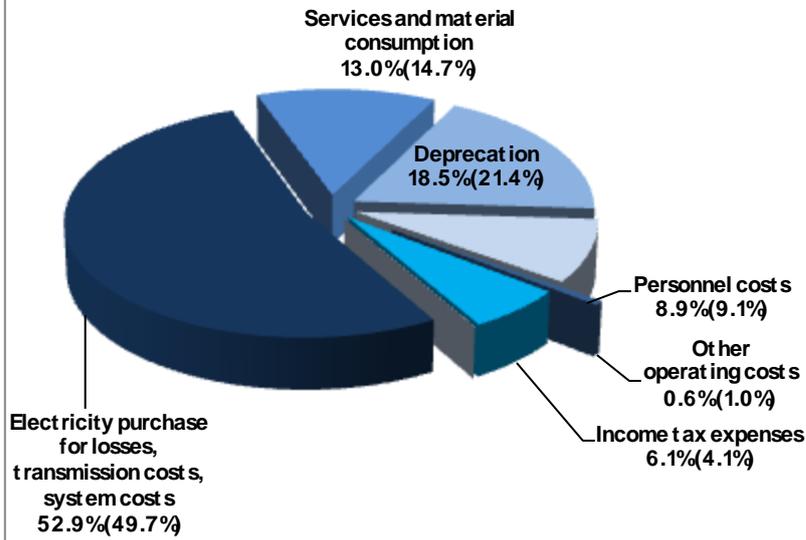
#### *Structure of revenues, costs, assets and equity and liabilities*

In the area of operating and financial activities in 2016, the company achieved revenues in the amount of EUR 313,176 thousand, which represents an increase of EUR 11.5 mil. compared to the previous year. The VSD revenues structure remains the same as in the past, i.e. the main item of the company revenues, as of a distribution system operator, are revenues from electricity distribution, which account for 94 % of its total revenues. In 2016, the company spent its total costs, including the costs related to the income tax, in the amount of EUR 293,893 thousand, which represents a year-on-year increase of EUR 24.7 mil., i.e. 9.2%. Nearly 53% of the total costs were used to purchase electricity for losses and for the additional payment within the RES/HE-CHP promotion scheme and transmission costs. The level of depreciations reflects our ongoing intense investment programme.

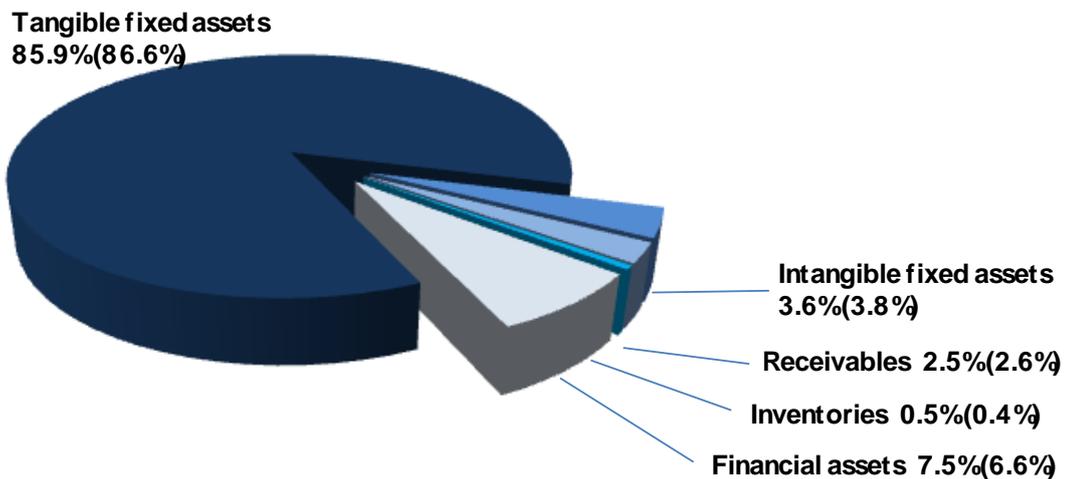
The value of assets as of 31 December 2016 was EUR 743,259 thousand. This means a year-on-year decrease of the total assets by EUR 3.5 mil., i.e. 0.5%. The volume of equity decreased by 2.1% and reaches a share of almost 79.4% in total equity&liabilities. The structure of individual items of current and non-current assets, as well as own and external sources of their financing, will remain stable compared to the previous period.

The company was running its business without bank loans, only financial leasing agreed in the past continued as part of external sources of financing. Liquid sources were used to pay all operating and investment needs, whereas available funds were included into efficient management of financial flows via cash pooling within the VSE Holding Group. In 2016, VSD continues in its policy of paying out the full dividend to its shareholder.

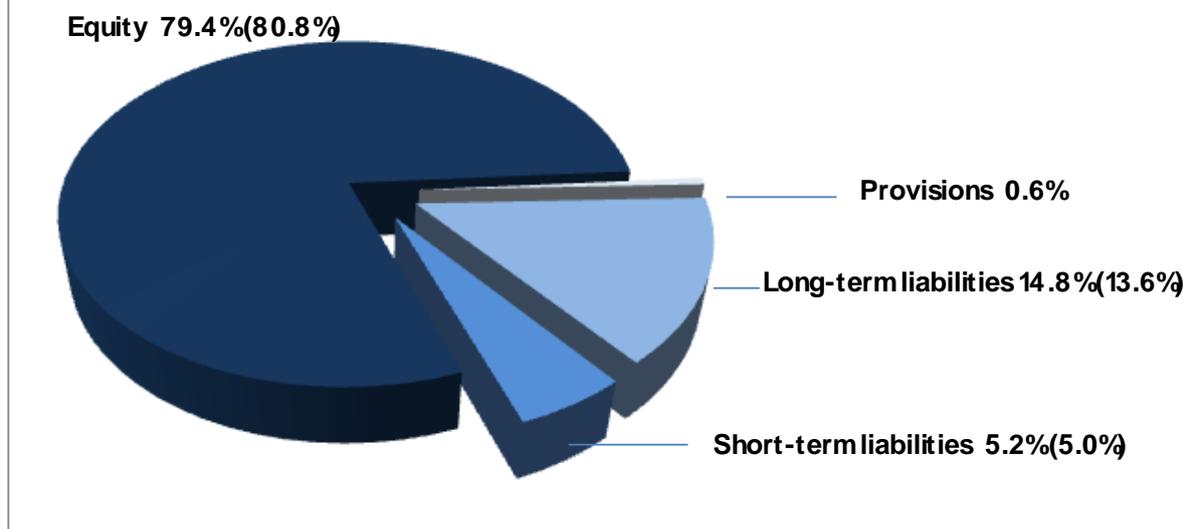
### Structure of costs in 2016 (2015)



### Structure of assets in 2016 (2015)



## Structure of equity and liabilities in 2016 (2015)



### Business plan 2017

2017 is the first year of the new 5<sup>th</sup> regulatory period which will last till 2021. Henceforward “bottom-up” calculation of distribution tariffs applying the method of maximum average price will be used. It is based on allowed costs for distribution and allowed profit related to asset base used. This will enable continuous demanding investment process directed into the distribution system renewal and development. For 2017, we plan activities in the area of renewal of ES SNV and other substations, as well as to continue in the systematic renewal of our MV/LV grid. At the same time, we will keep installing smart electricity meters in terms of respective legislation and our intention is to bring about investments in new areas of providing services, e.g. public lighting.

The main topic of the regulatory area in 2017 will, however, be a review of the RES/HE-CHP electricity generation support scheme. The deficit setting of the system lasting for several years whose negative impacts related to funding the whole system by distribution companies proves the inevitability of the system change. This should bring mostly an increase in the system transparency in the form of a central purchaser. The system change as such represents a complicated process, nevertheless, VSD will try to actively participate in it.

We will also continue in the “New Way of Working” (NWoW) programme where we want to keep bringing improvements useful for our customers as well as employees. Completion of the change of the first connection process, or other new services that we want to include into our portfolio, are just some examples of our effort to innovate and improve our services while respecting trends arising in the markets and in the society.

**Individual financial statements as of 31 December 2016 and Report of an independent auditor on the individual financial statements for 2016**