

2019 ANNUAL REPORT

Východoslovenská distribučná, a.s.



Posledná obec zapojená na elektrickú sieť

CELOŠTÁTNY AKTIV ENERGETIKOV — ÚČASŤ STRANICKEJ A VLÁDNEJ DELEGÁCIE NA A
UKONČENIA ELEKTRIFIKÁCIE — VEĽKÝ DEŇ PARTIZÁNSKEJ OBCE ZLATÁ BAŇA
ČSSR PIATYM ŠTÁTOM VO SVETE V ELEKTRIFIKÁCII OBČI

Práve (od nášho spravodajcu) — Od elektrizácie sa všetkým smerom rozbiehajú elektrické siete. Navyše chýbajú ani poľnohospodárske dedinky, kde po celú dobu ľudom svetlo dávajú len sviečky. Každý sa snaží, aby i tu občanom mohli svietiť dobrotou elektriny a podieľať sa na všetkých kultúrnych a technických vynálezoch, ktoré poskytujú. Dodnes, keď sa uskutočňuje práca elektrifikácie obcí našej republiky, ako posledná stála na svete, je partizánska obec Zlatá Baňa v Prešovskom okrese.

dedínach určiť, verejnú osvetlenie za 10 miliónov Kčs.

Za partizánskeho štátu polnala vďaka popudom ľudí dedinka Zlatá Baňa v Slovenskom pohorí. Práve v takom čase pred 18 rokmi ju prepáliť bolševickí tankisti. Všetci a práve, kto partizáni a obec sa im postavili na odpor. Na rukoch a späť vyznačujú armáde vďaka tým ľuďom. V obci vyriadilo 118 nových domčekov, upravených škola, obchod, materská škola, vybudovaná cesta. Teraz tu maminka energetických rozost-

kánie splniť prácu elektriny v každom čase napriek vlnám elektriny, ako sa imosi, maľovať vyčistené a prístupné k mestu. Iba, ktoré spoločnosť sa na elektrifikáciu. Dnes, po skončení obci, každý trvá na práci ďalšie vybudované školy, zdravotníckych zariadení, vybudovať nové školy, vybudovať nové školy, vybudovať nové školy.

Why this design?

In 2019, VSD celebrated the 90th anniversary of its establishment.

It happened early in the year, on 17th January. We therefore decided to mention this round anniversary in the Annual report. On the following pages, you can see the visual intertwining of the events that took place in 2019 with various moments in the rich history of electricity industry in Eastern Slovakia.

Our archives are full of text and picture documents evidencing the number of braking events that happened in the 90-year history. Naturally, not all of them could be listed in the Annual report. But we managed to find several picture twins documenting two things: first,

that some things are functioning completely different than before, and second, that some things do not change even after decades.

We will be pleased if you find time to stop for a moment while reading the factual information. During those breaks, try to imagine what the life of electricians looked like at the time when electricity was not such an obvious luxury as it is today. It is difficult to believe and imagine that at that time people could eat, travel, speak, calculate, produce, cultivate – simply live normally without electricity. Today, computers, cellphones, trains, factories and stoves could not work without electricity.

We will leave up to each of you the consideration which was/is better. We are clear about that – for us, electricity is our everyday bread and butter. We believe that in ten years, when looking back over the shoulder, we will see other and new parallels between the history and presence.

We wish you pleasurable reading and viewing.

Yours VSD



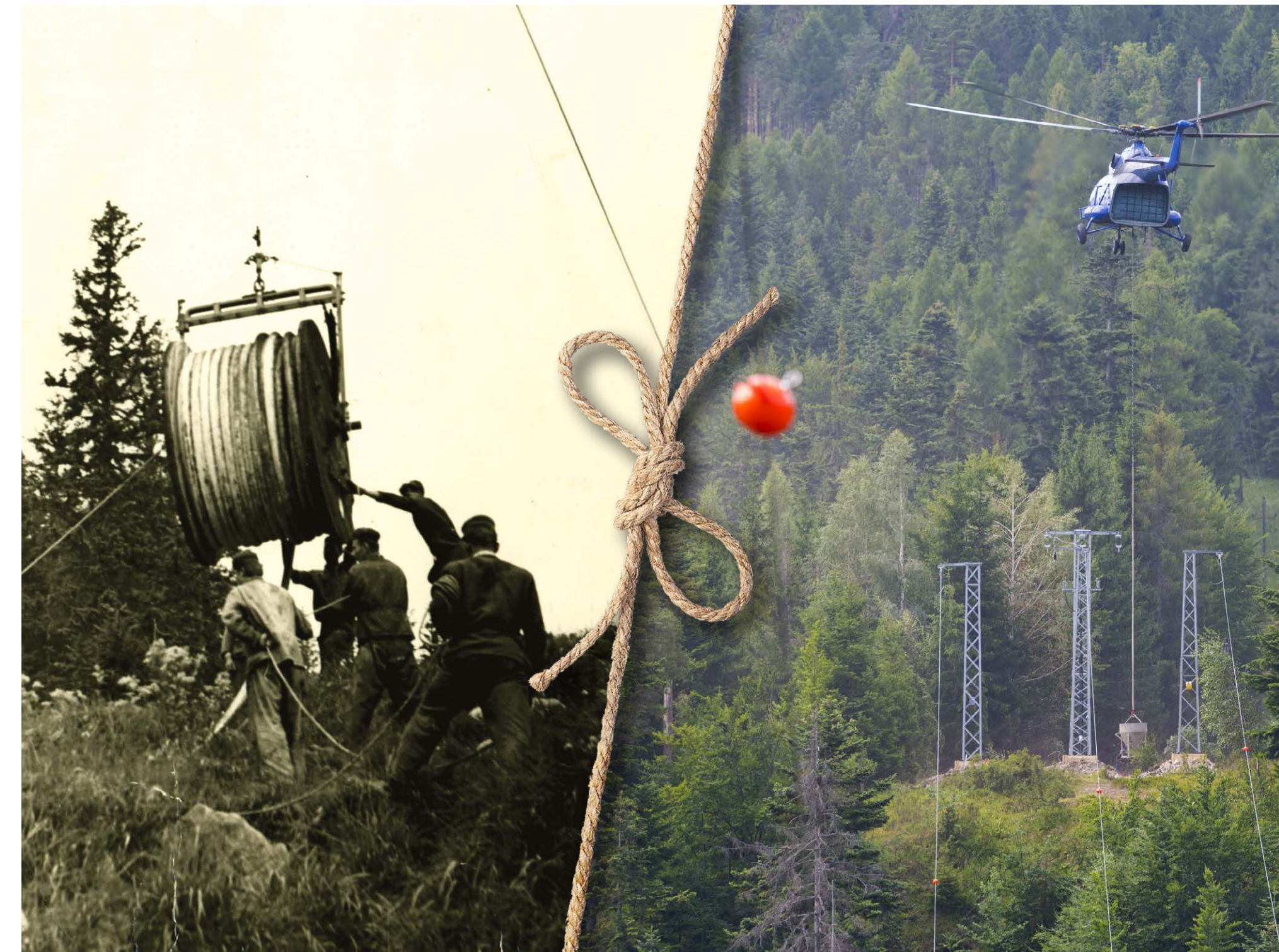
View of Mlýnský náhon (race-way) and Košice Power plant.

New VSE building.



Contents

Main indicators	4
Foreword by the Chairman of the Board of Directors	5
Supervisory Board's Report	6
Basic company data	7
Grid Sales	8
Investments and operation	11
OHS and quality management	12
Employees	13
Environmental policy	14
Economic situation	15
Business plans for 2020	17
Additional information	18
List of Abbreviations	19
Individual financial statements	20
Contacts	21



At our work in the field, we have always used the up-to-date technology and equipment. First only cranes, today also helicopters.

Main indicators

Main indicators		2019	2018
Distribution area	km ²	15,746	15,746
Electricity distribution	GWh	3,822	3,836
No. of take-off points		648,541	642,760
Profit from operations	ths. EUR	50,888	40,143
Total income for the year	ths. EUR	38,318	30,245
Total assets	ths. EUR	682,178	674,371
Cash flow from operating activities	ths. EUR	87,612	77,603
Investment	ths. EUR	44,983	43,752
Average headcount		1,038	1,040



Regional Control Room in Košice.

Central Control Room in Košice.

Foreword by the Chairman of the Board of Directors

Dear Customers, Business Partners, Colleagues.

In general, infrastructure is a means of progress. Nothing unknown but very important. Our investment strategy for revamping, development and systematic maintenance of the distribution system is built on quality enhancement concerning the distribution, safety, reliability and accessibility of infrastructure. It is a very long run. And it's O.K. In this context, I would particularly like to highlight two key indicators: the safety of our facilities and improving the quality of distribution. These two indicators reflect the breakdown rate of distribution system equipment not only in terms of the number of failure events, but also the extent, structure and duration of outages themselves. We are making continuous progress in this and I am very pleased with it.

In 2019, 82 thousand customers had a smart meter installed at their offtake point. In my opinion, in a functioning electricity market, customers should be able to make decisions based on their needs, requirements and preferences. The decision does not exclusively include electricity as a commodity. It is, and primarily will be, the services that (will) matter. Developing fairness and addressability means, among other things, accepting the consequences - both positive and negative - of one's

lifestyle and motivating ourselves to behave responsibly towards ourselves and the environment. Smart electricity meters are a good opportunity for developing new products and services. Including building a platform for installing small renewable energy sources designed primarily for local consumption, with the option of integrating them into larger virtual trading platforms. And this is an opportunity especially for customers with higher consumption, where more complex services, benefits and savings can be expected.

A major change since January 2020 has been the practical implementation of the reform of the support to electricity generation from renewable sources. From 1 January 2020, the central billing agent will be OKTE and not the relevant distribution system operator. Freeing up capacity allocation for new electricity generation sources as well as new functionality on the market - a buyer of electricity from renewable sources. All these steps are needed especially from future perspective. It is very important that, following the amendment of the relevant legislation, trade relations have been organized on the issue of producers' payments for access to the system. In 2020, the first ever auction for support for renewables is being prepared, which is also positive in terms of transparent allocation of support based on market

principles. The change is considerably complex and creates good prerequisites for more efficient system management and sustainability.

As for the future, we need to continue the electronization, automation and digitization of the services we provide to our customers. Already today, 40% of requirements are addressed through the eVSD portal. We will continue to implement digital services in order to increase the flexibility, offer and availability of the services we provide.

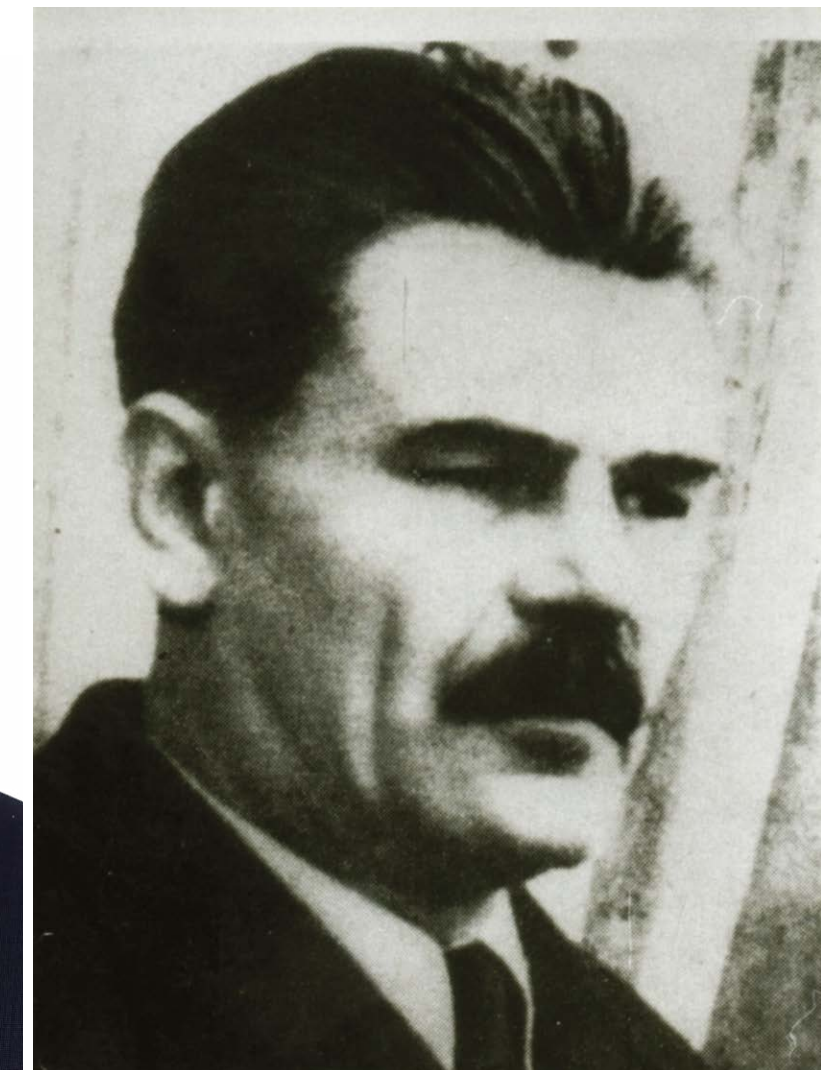
I would like to thank sincerely for the proper cooperation of our customers, employees and partners. I believe that fair approach and communication are the basis of mutually beneficial cooperation.

Yours sincerely,

Ing. Radoslav Haluška
Chairman of the Board of Directors



Ing. Radoslav Haluška
Chairman of the Board of Directors



Ing. Jozef Styk
the first Managing Director

Supervisory Board's Report

In 2019, in compliance with the Slovak legislation and the Articles of Association of the company, the Supervisory Board of VSD supervised the performance of the authority of the Board of Directors, business activities and management of the company, as well as the observance of the Articles of Association. In 2019, three regular meetings and four per rollam voting rounds of the Supervisory Board took place.

The regular agenda of the Supervisory Board meetings included information about the company economic results, 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 distribution system operation. Information about activities of the company in the area of communication, resolutions adopted by 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 regularly informed about activities in the H&S area, and in the area of crisis management, physical and object security, including employee protection in the area of information security.

Among other things, the Supervisory Board:

- appointed PricewaterhouseCoopers Slovensko, s.r.o. to perform an audit of the company financial statements for

2019, and recommended to the General Meeting of the company to approve the aforesaid company to perform an audit of the company financial statements for 2019;

- approved a proposal by the Board of Directors on the 2018 profit distribution, and recommended to the General Meeting to adopt the respective resolution concerning the 2018 profit distribution in accordance with the proposal of the Board of Directors;
- approved several business decisions of the company (agreements) exceeding the amount of EUR 3 million;
- discussed VSD's 2020 individual annual business plan and approved the investment plan of VSD for 2020;
- approved several amendments to the Organizational Rules of VSD with effect from 1 July 2019 and 1 January 2020;
- Approved the transfer of external credits provided by the banks: ING Bank, and Branch of ING-DiBa AG; UniCredit Bank Czech Republic and Slovakia, a.s. and Slovenská sporiteľňa, a.s from VSE Holding, a.s. to VSD, a.s.
- took due note of the submitted auditor's report on findings related to outstanding cost resulting from the support of RES and CHP in the year ended on 31 Dec. 2018.
- approved a monetary contribution to the registered capital of VSD, a.s.
- took due noted of the information about

the course and results of the company general meetings;

- discussed the company annual report for 2018;
- took due note of the information on the main objectives of the company management for 2019 as well as on the projected development of assets, finance and revenues;
- discussed the 2018 individual financial statements of the company; at the same time, the Supervisory Board recommended to the General Meeting to approve the financial statements.

In the course of the year, the Supervisory Board was informed by the Board of Directors, in both oral and written form, of the situation related to the following:

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

Based on the results of its continuous inspection activities, the Supervisory Board concludes that the Board of Directors carried out all the necessary activities to

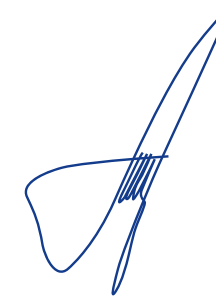
develop business and to maintain good reputation of the company.

The auditor's report as well as the financial statements consisting of the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the financial statements will be discussed by the Supervisory Board members at their meeting held on 24 March 2020.

The Supervisory Board will examine the financial statements drawn up as of 31 December 2019 and will recommend to the General Meeting to approve the statements.

The Supervisory Board will approve a proposal made by the Board of Directors regarding the 2019 profit distribution. The Supervisory Board will recommend to the General Meeting to approve the distribution of the 2019 profit in accordance with the proposal of the Board of Directors.

Košice 28. 2. 2020



Ing. Juraj Slafkovský
Chairman of the Supervisory Board

Proposal for the 2019 profit distribution

The Board of Directors proposes to the General Meeting to pay out the profit reached in 2019 in its full amount of EUR 38,578 ths. as a dividend to the company shareholder.

Basic company data

Formation and founding the company

The Deed of Foundation of 14 October 2005 established the company Východoslovenská distribučná, s.r.o. („VSD”) as a daughter company of Východoslovenská energetika a.s. („VSE”), the legal form of which was changed to a joint stock company by a decision of the General Meeting of 30 January 2007.

Východoslovenská distribučná, a.s. began its operation on 1 July 2007. As of the aforesaid date, within the legal unbundling of the vertically integrated company VSE, VSD took over all the assets and liabilities, and all the titles and obligations related to the distribution activities performed by its mother company VSE up to that date. In accordance with the requirements of the energy legislation, as of 1 January 2014, a part of the company from the parent company VSE (from 1 July 2014 with the business name Východoslovenská energetika Holding a.s. - “VSE Holding”) was invested in VSD; the invested part of the company included the Network Services division carrying out all 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 Reg. No: 36 599 361

The company is registered in the Business Register maintained by the 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 includes the Košice and Prešov self-governing regions, as well as part of the Banská Bystrica self-governing region, and performs the following prime 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 machines, instruments, switchboards, and objects without explosion 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 2019, the Company's share capital of EUR 220,040,272 consisted of 10 pieces of book-entry shares with a nominal value of EUR 3,320, 1 book-entry share with a nominal value of EUR 212,782,315, 1 book-entry share with a nominal value of EUR 4,920,000 and one book-entry share with a nominal value of EUR 2,304,757.

Structure of the company bodies in 2019

Board of Directors

Ing. Radoslav Haluška – Chairman of the Board of Directors
Ing. Peter Pipák, MPH – Vice-Chairman of the Board of Directors (until 30 June 2019)
Ing. Peter Melniček – Vice-Chairman of the Board of Directors (since 1 July 2019)
Ing. Jana Palková – Member of the Board of Directors
Dipl.-Ing. Klaus Buhl – Member of the Board of Directors
JUDr. Tomáš Bucsko – Member of the Board of Directors

Supervisory Board

Ing. Juraj Slafkovský – Chairman of the Supervisory Board
Thomas Merker – Vice-Chairman of the Supervisory Board (until 10 September 2019)
Tamás Jászay – Vice-Chairman of the Supervisory Board (since 11 September 2019)
MUDr. Renáta Lenártová – Member of the Supervisory Board
Ing. Richard Tušan – Member of the Supervisory Board
Ing. Viliam Titka – Member of the Supervisory Board
Ing. Peter Želinský – Member of the Supervisory Board
Andrej Macár* – Member of the Supervisory Board
Ing. Ladislav Dický* – Member of the Supervisory Board (until 24 August 2019)
Ing. Slavomír Hlinka* – Member of the Supervisory Board (until 24 August 2019)
Marián Palenčar* – Member of the Supervisory Board (since 25 August 2019)
Ing. Jozef Jenčo* – Member of the Supervisory Board (since 25 August 2019)

* employees' representative in the Supervisory Board

Grid Sales

Being a useful company with high added value for the customer means moving away from the traditional understanding of the role of natural monopoly. The current customer expects more than just a reliable electricity distribution based on a high-quality electricity infrastructure and fast service in client centers. He wants services and products that increase his comfort and save his time. Providing comprehensive services at home is becoming standard. The basis for meeting these expectations is the ability to communicate, be closer to the customer and look through their eyes, transform data into useful information, streamline processes and deliver the necessary products and services directly at the customer's offtake point. Therefore, we place great emphasis on deepening the automation and electronization of services, supplying products at the offtake point, individual approach to business entities and the development of the Partnership with Local Authorities program. We want to be better in meeting the needs of our customers and partners.

Our partners:

Customer-oriented constructions of distribution system expansion ensure the development of residential construction sites. Whether as part of the IBV Komplet product or residential buildings, as well as covering the performance requirements of new industrial parks or individual industrial customers. And they naturally also bring about significant aesthetization of the territory of our region. In 2019, we secured the 155 MW capacity needed to connect more than 9,400 new offtake points to the distribution system and covered the service for almost / over 648,000 offtake points.

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

Voltage level	Status as of 31 Dec. 2019	Status as of 31 Dec. 2018
LV_households	578,048	571,823
LV_businesses	67,350	67,808
MV	3,115	3,104
HV	28	25
Total	648,541	642,760

Customers at low voltage (mass segment):

As part of the project for the development of electronic on-line services, we have expanded the automated process of connecting a new offtake point for all the values of the main circuit breakers, which can thus be used by households and LV entrepreneurs from the comfort of their home or business. We also electronized some selected types of requests. The provision of services through eVSD portal(www.vsd.sk) and the increase in the number of clients using it confirms the need to electronically communicate with customers.

With the introduction of the new product "Connect your house" we have met the requirements of customers for the construction of a customer's offtake equipment (home connection) on a turnkey basis.

Corporate customers:

The requirements of industrial customers for higher added value services, comprehensive service, energy efficiency and consulting led us to the establishment of a specialized department for the provision of targeted, tailor-made services, especially in the area of construction, management and operation of their electric-power equipment.

Construction of optical networks within our prime infrastructure and sharing them as an open infrastructure for third parties enable us to take part in fulfilling Slovakia's goal to create a gigabyte society by 2025 and to cover the so called "White spots" of access to the Internet. VSD's efforts to be part of this program were crowned by the conclusion of a Memorandum of Cooperation with the Office of the Deputy Prime Minister for Investment and Information Technology.

For our customers we regularly publish quarterly VSD Info with interesting facts from the events in VSD, on the electricity market, new trends in the field of power engineering or ecology.



To be beneficial to our customers – this has been the dominant issue both in the past and today. Then, the topic of the day was the utilization of electricity in households; today we charge electric cars from terminals that we are able to install on a turn-key basis.

Self-governments:

As part of the region, we continue to build mutually beneficial cooperation with local self-governments by strengthening our "Partnership" program to ensure a common goal - increasing the satisfaction of the citizen, our customer. We have signed five memoranda of understanding and mutual cooperation with the towns Revúca, Plešivec, Vysoké Tatry, Spišská Nová Ves and Lipany. We have sealed the developed closer cooperation with the Prešov Self-Governing Region - a higher territorial unit covering almost half of our distribution area - with a similar Memorandum. Part of our program was the organization of two Regional Days of VSD, this time in cooperation with regional associations of towns and villages of the Bodva Valley, Rudohorie and Poddukliansky region. A new element in this program was our cooperation with the Regional Education Center in the organization of two conferences for city mayors and mayors of towns and municipalities and for employees of construction administration authorities. The program includes providing targeted and up-to-date information to local self-governments in the form of the electronic monthly VSD Info - Regional Special. The aim of our cooperation and joint discussions is to ensure the development of towns and villages of Eastern Slovakia, to make the territory more attractive for new investors and to provide quality services for the population. Explaining the specifics of everyday life in the electricity sector is also of great added value, as mayors have a great deal of power to spread awareness among the population. Being useful in the social field means working with local governments to ensure a sustainable supply of electricity for marginalized groups of the population. Our "Prepaid Electricity" product with the use of intelligent metering and electricity consumption management is recommended by the Ministry of Internal Affairs of the Slovak Republic in the construction of new apartment blocks of municipalities, and it was successfully implemented in Dobšiná, Košice - Šaca, Kunová Teplice, Jarovnice, Košice - Luník IX and Čoltovo.

Sources and local distribution systems:

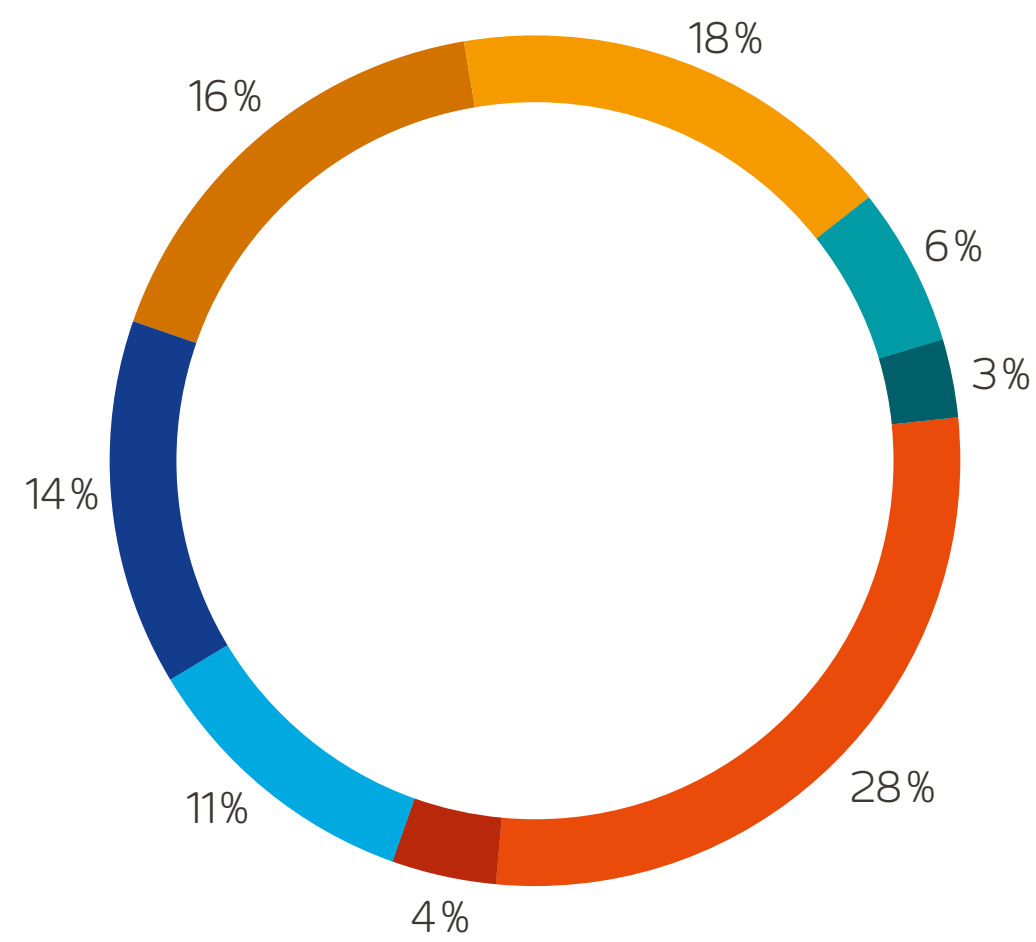
The last year of the application of the old RES and CHP support system by the obligatory purchase of electricity by VSD brought more than 2.4 times the volume needed to cover losses in the distribution system. This year, before the start of the new support system, we provided full support and cooperation in transferring the support management know-how to the new support system manager - OKTE as well as to the selected electricity buyer - SPP. In order to ensure a smooth and trouble-free transition to the new support system, we have provided several targeted information and educational campaigns for the affected electricity producers (almost 1600 sources) as well as for special-interest associations (e.g. SAPI). In support of the development of new renewable sources in the Slovak Republic, we started to allocate power capacity in accordance with the set limit of the Ministry of Economy of the Slovak Republic - for the distribution territory of VSD. In order to maintain transparency and timely information about the construction of resources, information on the state of capacity utilization with their on-line update was published on the website www.vsds.sk. The new support for renewables met with great interest especially for the construction of local resources, where the allocated capacity was exhausted within one year.

The physical supply of electricity from RES and CHP sources in the territory of VSD was more than 820 GWh of electricity.



Important milestones could never pass without the attendance of the government and self-government officials. Then – the foundation stone of our building in Prešov; today – signing a memorandum with the Deputy Prime Minister.

Supply from RES and CHP sources



- Biomass
- Biomass and fossil fuel
- Biogas
- Sunny energy
- Hydropower energy
- Natural Gas
- Natural Gas and Coal
- Incineration of waste

We continue cooperation with more than 43 local distribution system operators in our distribution area.

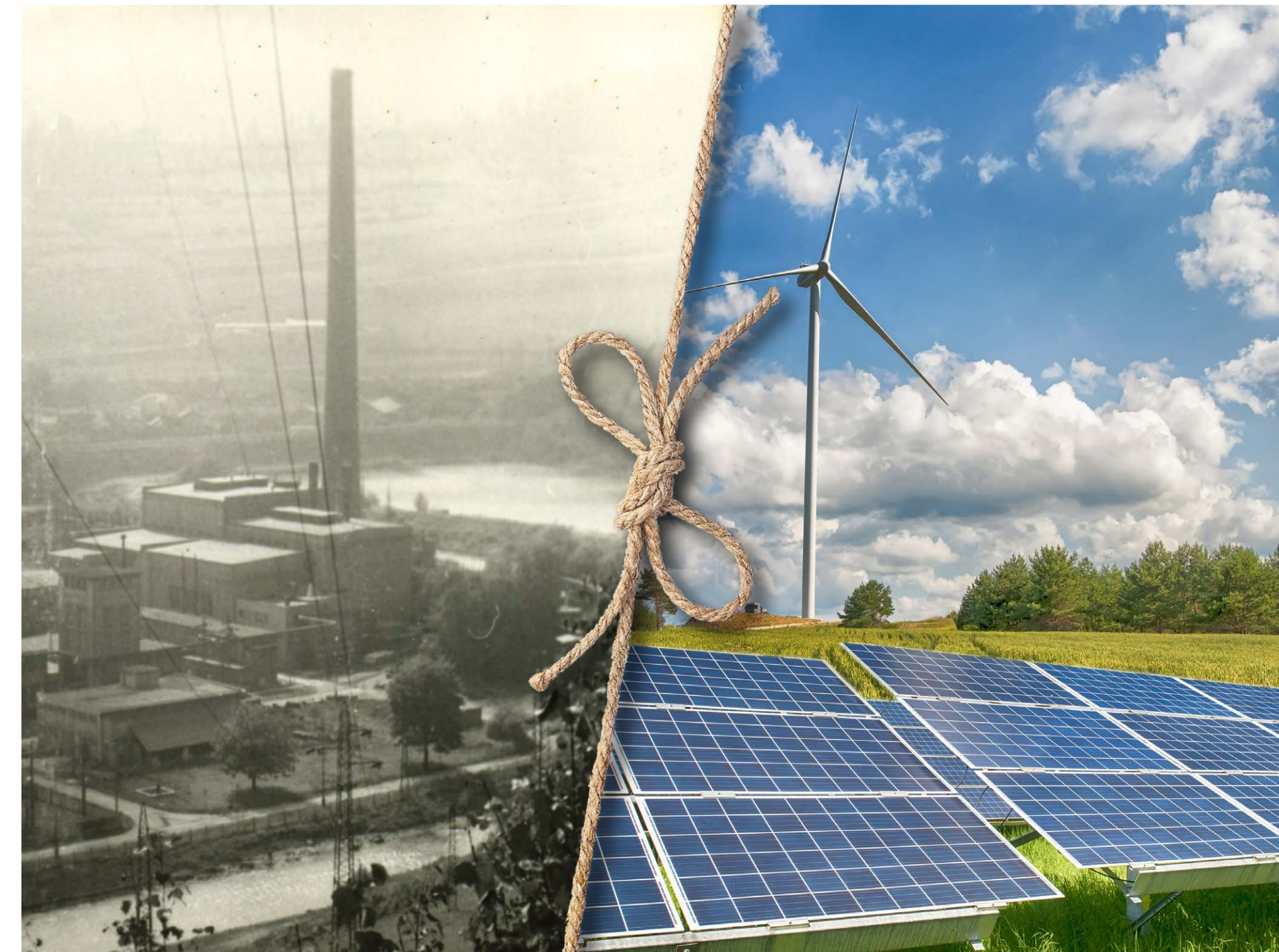
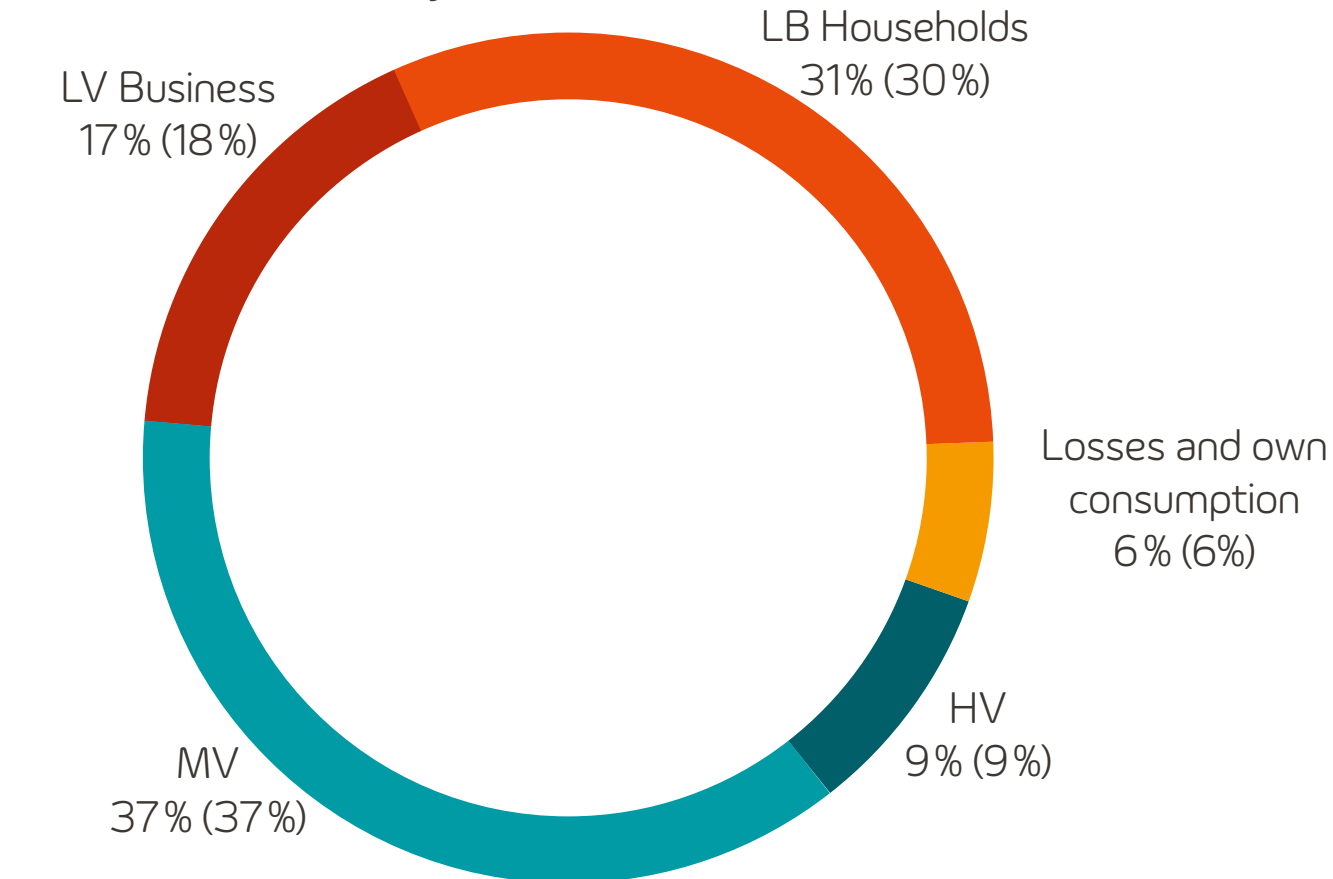
Electricity suppliers:

The fact that the liberalization of the electricity market is a viable system is evidenced by the number of electricity suppliers outside the VSE group (24) operating in our territory. Their share in the total electricity distribution was almost 40% with more than 110,000 offtake points in their portfolio. Finding common solutions for the benefit of customers, responding to current and future challenges of the electricity market, especially with its main theme - changing the system of support for RES, was the subject of discussions at the fifth professional conference Electricity Supplier and Distributor, organized by us. Besides representatives of electricity suppliers, significant participants were also representatives of the Ministry of Economy, OKTE, SEPS, HERE and USSK.

Distributed electricity:

The total volume of electricity distributed to end consumers reached 3,822 GWh (2018: 3,836 GWh), which represents a slight year-on-year decrease (-0.4%). This decline in electricity distribution results mainly from the recorded cooling of the economy in the industrial segment. The volume of electricity distribution losses and own consumption reached the level of less than 6%. The distribution of electricity among individual segments of consumers is comparable with the previous years.

Structure of electricity distribution in 2019 (2018)

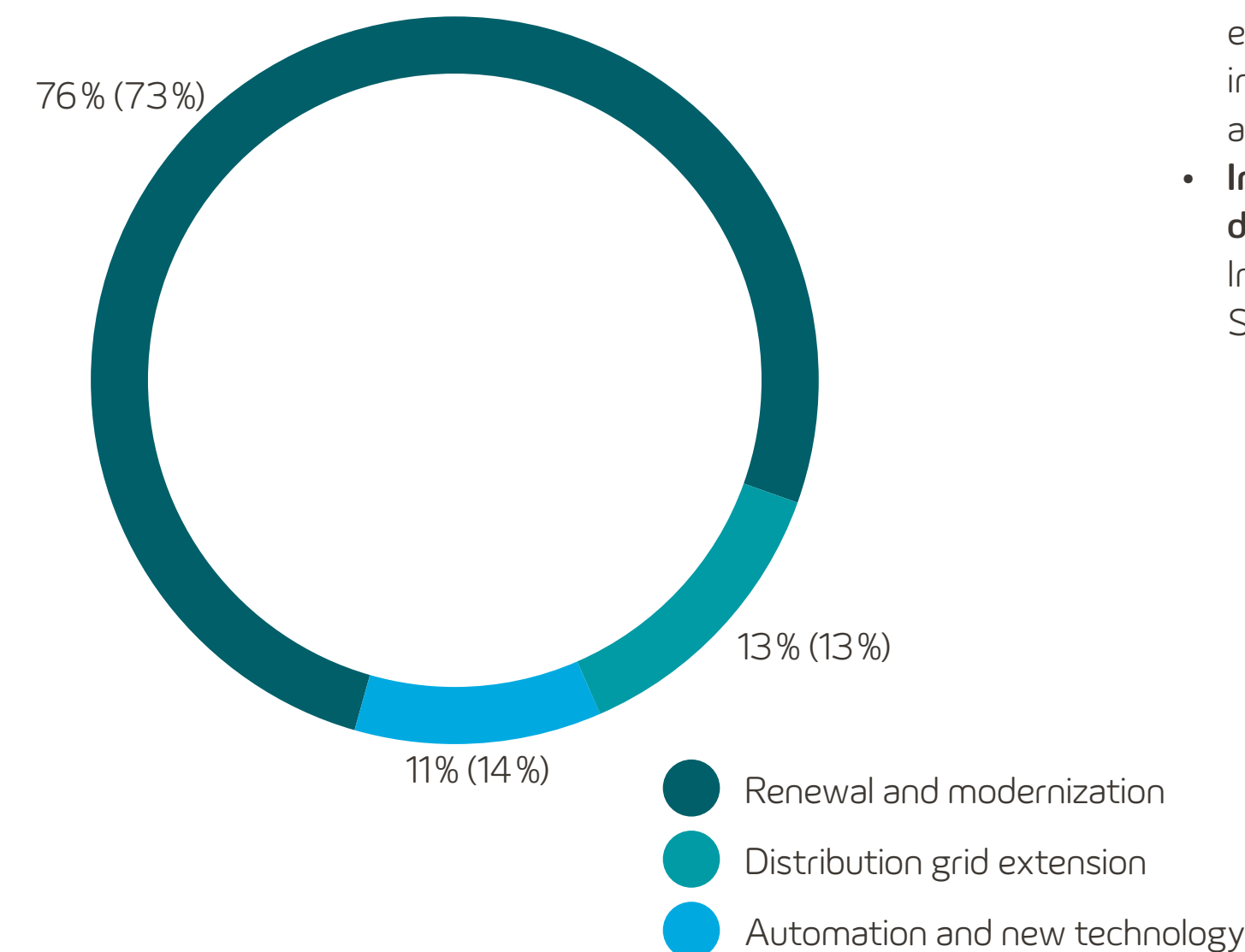


In the past, the supreme progress was represented by a power plant which burnt brown coal, today we prefer more environment-friendly resources.

Investments and operation

At present, energy is currently one of the critical criteria for the economic development of each state and its regions. The main objective of the company is therefore to ensure the safe and reliable distribution of electricity to all customers in the Košice, Prešov and parts of the Banská Bystrica regions. In 2019, VSD invested EUR 45.0 million into its distribution system (2018: 43,8 mil. EUR); two thirds of the funds invested are primarily related to the renewal of distribution system equipment. At the same time, part of the investment was focused on providing new products to customers. The total supplied area is almost 16 ths. km², where the company operates more than 22,100 km of power lines of all voltage 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. At the HV and MV levels, the company operates 56 electrical transformer and switching stations in total.

Structure of investment to distribution grid in 2019 (2018)



Overview of the most important investment projects in 2019:

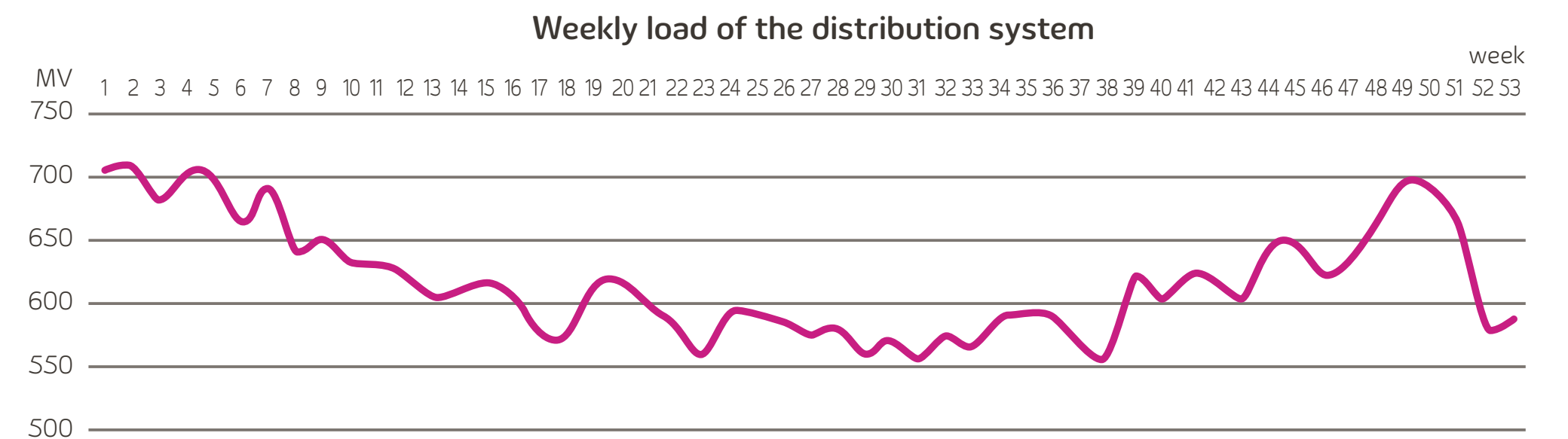
- Electrical substation 400kV/110kV Spišská Nová Ves I**
 We have completed the technological revamping of the last of the four transformation junctions between the transmission system operator (TSO) and the distribution system (DS) operators in the demarcated area of VSD in coordination with TSO.
- Revamp of electrical substations 110/22 kV Kežmarok, Prešov2, Trebišov**
 The investment projects included technological revamping of key distribution system junctions and, in the case of Kežmarok, an increase in installed capacity for the development of the HV system in the Kežmarok and High Tatras areas.
- Investments in the renewal and development of MV and LV power lines and MV / LV transformer stations**
 Every year, more than 2/3 of the investment resources are directed to high and low voltage levels, which directly supply the largest number of VSD customers. The most important investments in 2019 were mainly directed to replacing the existing power lines by underground high-voltage cable lines in the locations where primarily trees, due to the influence of atmospheric influences, reduce the reliability of distribution.
- Implementation of smart metering systems in the VSD distribution system**
 In 2019, VSD continued to implement Intelligent Metering Systems (IMS) in accordance with legislative requirements, and as

of 31 December 2019 more than 82,000 electricity meters were successfully operated.

- Investments in process automation, innovative technologies and cyber security**
 Special attention should be paid to investments in the automation of the HV system and 22kV / 0.4kV transformer stations, which directly increase the operational ability of the controller to respond to abnormal states. Equally important activities are investments in the electronization of communication channels with the customer, which significantly improve the comfort of the customer. The operation of complex control, automation and information technology systems for communication with customers requires increased attention and activities, taking into account adequate and effective cyber security.

Even in 2019, VSD managed to keep the distribution system reliability index on the favorable level of 99.98% ASAI (Average Service Availability Index), including taking into account such factors as weather conditions and interruptions caused by third parties.

The maximum load in the distribution system was reached on 8 January at the level of 706 MW, the minimum load was recorded on 29 July at the level of 555 MW.



OHS and quality management

VSD operates in a sector with an increased safety risk and therefore one of its key priorities is, of course, safety and health at work.

OHS in general applies to the areas arising from legislation and is focused on 3 basic segments: company employees, customers and employees of third parties (suppliers and subsuppliers).

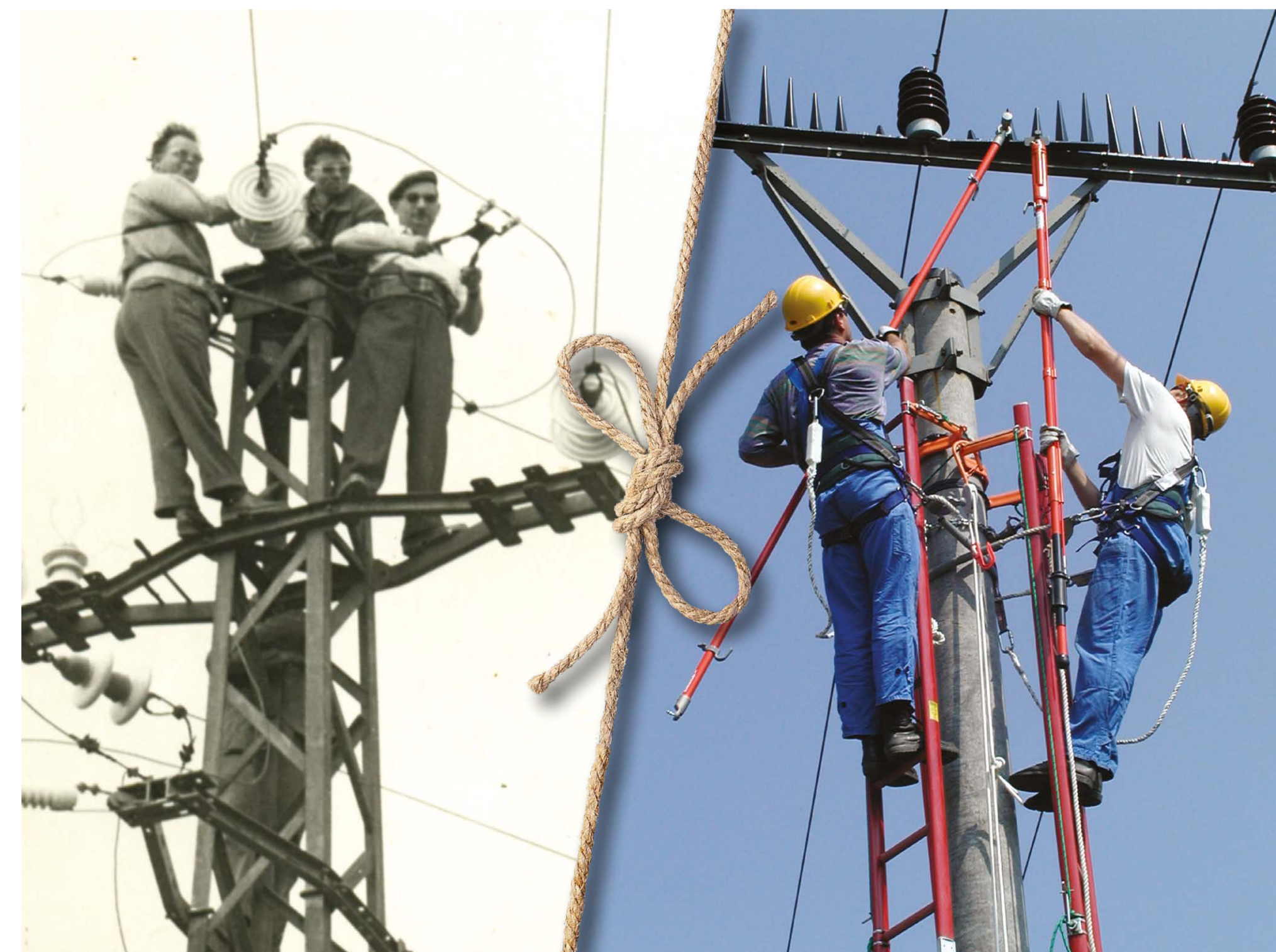
Obligations to ensure activities in this area are strictly observed by VSD, which was also inspected in 2019 by the state supervision authorities: Labor Inspectorate, HaZZ (firefighters and rescue team), RÚVZ (Regional Office of Public Health) through seven inspections, without finding any shortcomings.

Compliance of VSD processes with high international ISO standards is also confirmed annually by an external audit, which results in the following certificat:

This year, too, we maintained the long-term trend of a low number of injuries, largely in the category of 'falls and slips'.

A special activity that brought benefit to all parties involved was the implementation of an exercise at the PS (Power System) Voľa in cooperation with firefighters.

OSH and quality thus contribute to the main goal of the company - i.e. security and reliability of the entire distribution system.



Times change. Barrets have been replaced by helmets, belts have been replaced by complete harnesses, and birds are protected from being hit by electricity through the installation of comb guards.

CERTIFIKÁT ◆ CERTIFICADO ◆ CERTIFICATE ◆ 認 証 証 書




CERTIFIKÁT

TUV SÚD Slovakia s.r.o.
 Certifikačný orgán systémov manažerstva
akreditovaný SNAS
 osvedčenie o akreditácii č. R-018
 potvrdzuje, že organizácia



Člen innogy

Východoslovenská distribučná, a.s.
 Mlynská 31
 SK - 042 91 Košice
 IČO: 36 599 361

zariadenia a používajú
systém manažerstva bezpečnosti a ochrany zdravia pri práci v oblasti

Distribúcia elektriny, prevádzkovanie, údržba, opravy,
 rekonštrukcie a výstavba elektro rozvodných sietí
 a s tým súvisiace služby.

Auditom, správa č. 1069/40/18/BI/AS/IR3
 bolo preukázané splnenie
 požiadaviek normy

STN OHSAS 18001:2009

Certifikát je platný do 2021-03-11
 Registračné číslo certifikátu B 1069-3

Bratislava, 2019-07-12



TUV SÚD Slovakia s.r.o.
 Certifikačný orgán systémov manažerstva
 člen skupiny TÜV SÜD
 Jaskova 6, 821 02 Bratislava

F-0-04992

Employees

Our company is one of several large stable employers based in Eastern Slovakia. Thanks to the high motivation of our employees, for whom "something more for the customer" goes without saying, we are able to provide services and solutions for all segments of our customers.

Our company was appreciated by both professional and lay public

The year 2019 was special for us, as the professional and lay public rewarded our company to be the BEST for several times. We ranked again as TOP2 the best employer of Slovakia in the category "Production and Industry" in the survey of the portal profesia.sk.

We were awarded the Best Project of the Year "HR Inspiration" award in Slovakia. It was a system of recruitment at schools for future technical professions in the field of power engineering. The system is a combination of face-to-face and social networking activities involving pupils and students and their teachers. Last but not least, among a hundred of exhibitors, our company was declared the best exhibitor at the Profesia Day trade fair. The successes prove our concentrated work on creating the employer branding both externally and internally. We owe them above all to the high involvement of our colleagues.

Employee Engagement Survey

How can we be sure of their high passion for working in Východoslovenská distribučná, a.s.? In an engagement survey in November 2019, employees confirmed their engagement up to 88%, well above the Slovak labor market standard. How do we define the term engagement? The employee answers positively to the questions whether he is engaged - enabled (he has all the conditions for quality performance) - energized (the work fills him and charges him with energy).

Fulfilled priorities of 2019

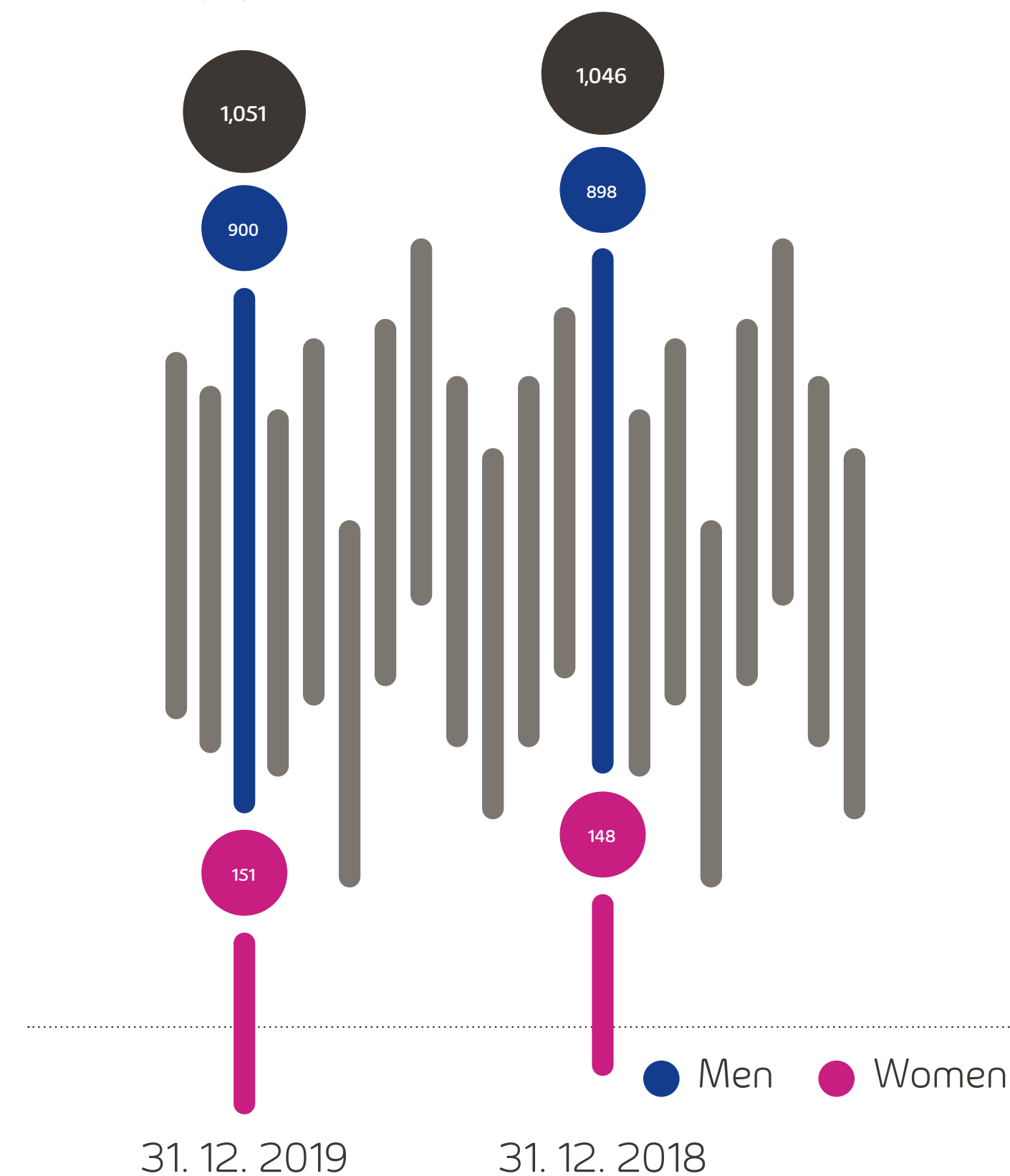
The priorities of 2019 with the aim of continuously improving the functioning of the company were mainly activities focused on standardization of professions and job descriptions and organizational changes in order to strengthen the flat organizational structure.

In the area of development of employees and talents, we continued our activities to prepare employees for future challenges, especially for the development of new services and products for customers. These include, in particular, support for obtaining a school-leaving examination or university education, intensive work with secondary schools and elementary schools,

as well as continuation of internal programs for the development of employees with vertical career potential or for project management purposes.

As of 31 Dec. 2019, 1,051 employees were employed in VSD, a.s., which confirms the long-term stable level of jobs. Voluntary fluctuation remained low at around 1.7%, which is a standard in the network industries, but very low fluctuation across the labor market. The average age of our employees was 44 years, and the average number of years worked for the company exceeded 17 years.

Structure of employees



We liked and still like to spend our leisure time together with our colleagues.

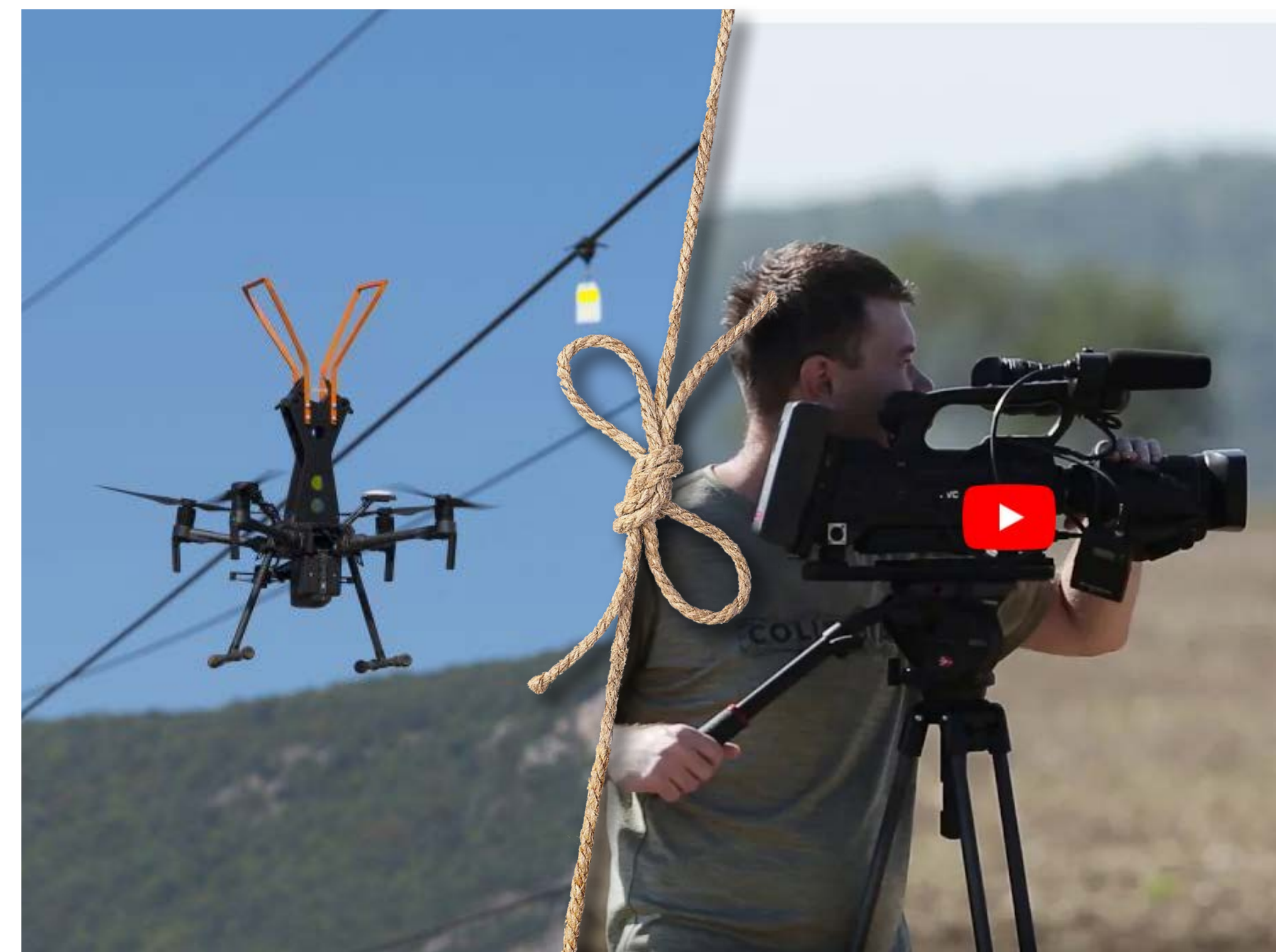
Environmental policy

The operation of the distribution system brings environmental risks, therefore VSD actively creates conditions for the implementation of long-term strategic projects in this area. In addition to responsible waste management, which is a natural part of our activities and for which we are fully certified, we focus primarily on minimizing the environmental impact of the operation of our facilities.

In 2019, we continued to cooperate with the protection of birds and predators. Our joint activities include the protection of birds against hitting overhead power lines by the installation of so-called deflectors on high-voltage power lines, as well as the installation of ecological barriers against bird sitting on individual support points. In close cooperation with conservationists and local authorities, we continue to transship stork nests in municipalities in order to keep the birds in their natural environment without the risk of perishing. These activities combine VSD's priorities in the field of environmental policy and automation / digitization of our activities.

One of the major environmental priorities is the management of bushes around our overhead power lines. Our long-term goal in the management of forest aisles at the voltage levels of HV and MV is to move away from the traditional removal of bushes towards sustainable planting of suitable bushes. We can see a great future by combining a sensitive approach to local fauna and flora with a link between local agricultural service providers.

Similar to bird protection, we use state-of-the-art technologies in forest aisles management, e.g. drones. These can bring us interesting synergic effects even for the needs of routine maintenance and repairs.



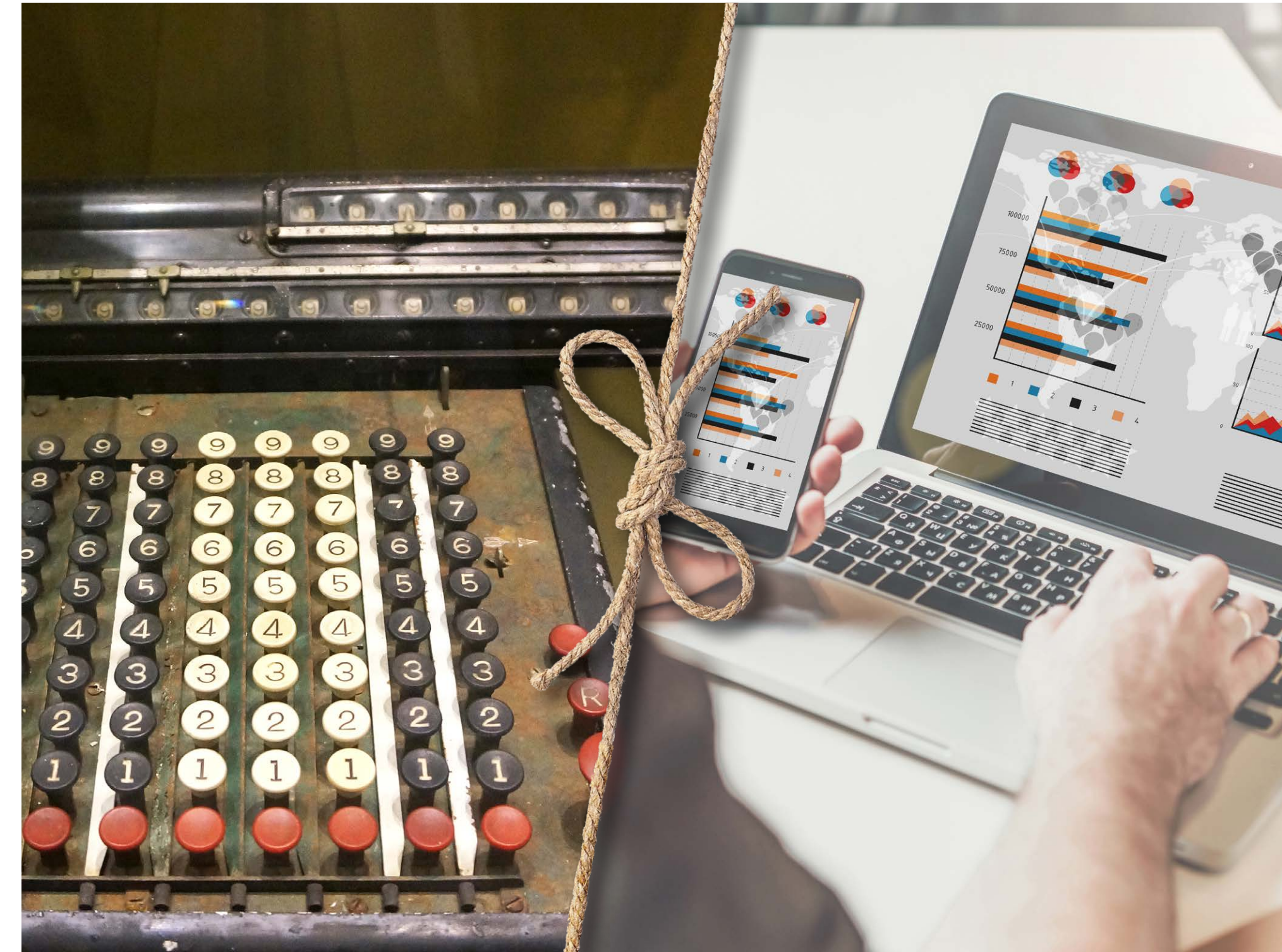
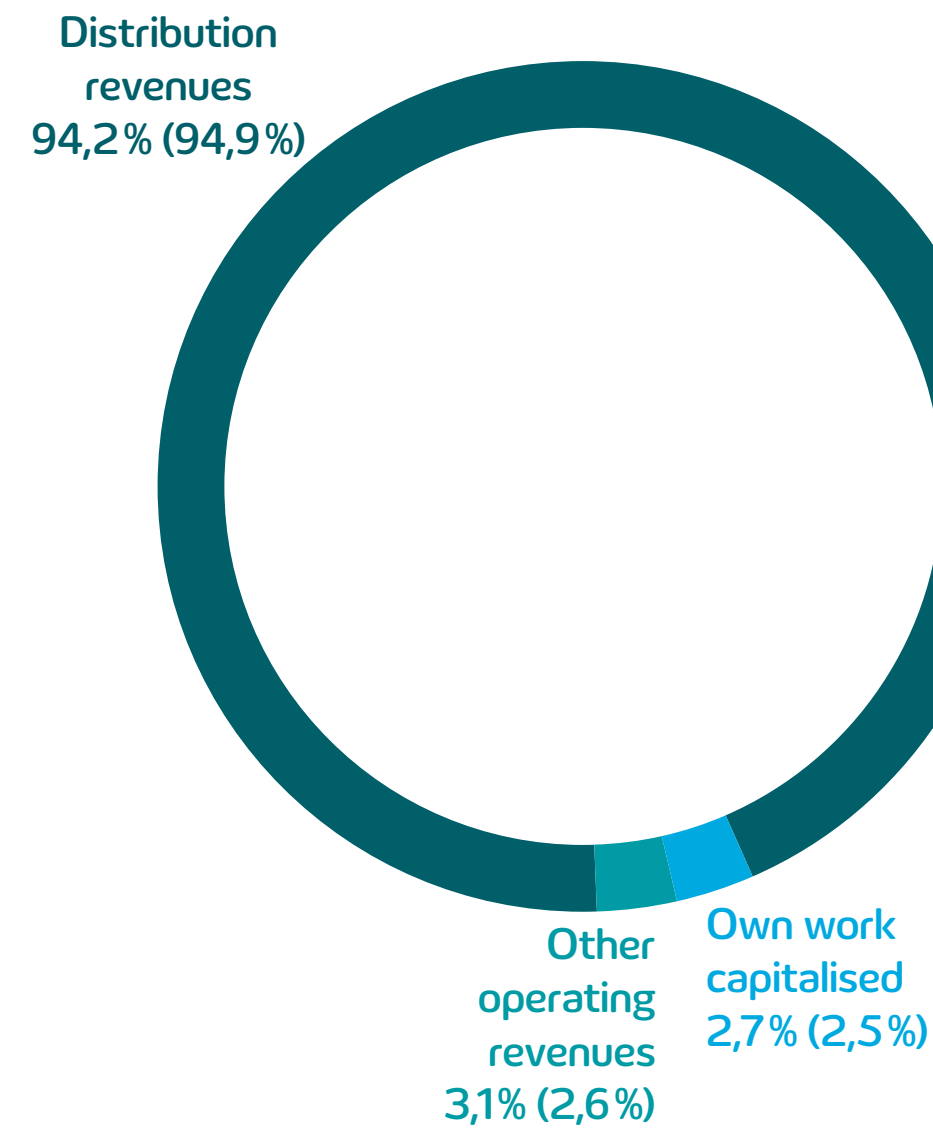
Some activities are no longer performed. These can be completed better by machines, e.g., drones. (see the video)

Economic situation

According to the International Financial Reporting Standards (IFRS), the company achieved a total comprehensive profit of EUR 38.3 million in 2019. (2018: EUR 30.2 mil.). Profit from operating activities increased year-on-year by 26.8%, as in the last year of operation of the original system of support for electricity production from RES and CHP the amount of VSD costs not covered by revenues from the system operation tariff (TPS) was significantly lower compared to previous periods.

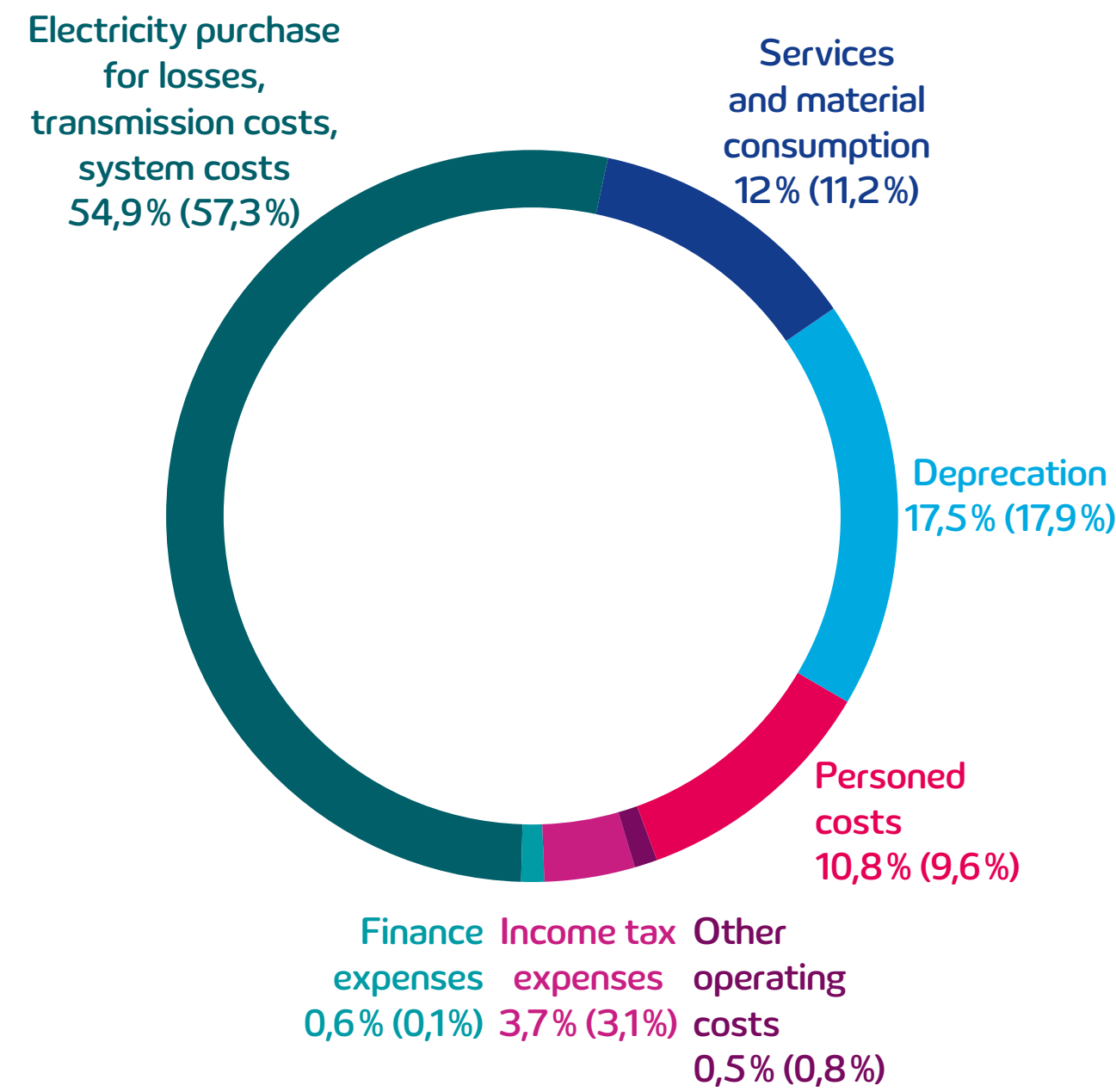
In 2019, the company generated a total profit of EUR 322.1 mil., which included both operation and financial incomes. (2018: 327.8 mil. EUR) and the total cost including income tax in the amount of EUR 283,8 mil. (2018: EUR 297.6 mil.). An important reason for the year-on-year decline in costs was the decrease in support costs for electricity producers from RES and CHP, related to a slight decrease in the volume of electricity produced and a decrease in the amount of the bonus for producers (influenced by the market electricity price course). The introduction of component depreciation on MV power lines and distribution substations also contributed to the optimization of costs. These measures helped offset the increase in cost items such as personnel costs, which increased year on year in line with the expected trend in the labor market. In the area of revenues, the company recorded a slight year-on-year decline related to the continued decline in electricity distribution tariffs.

Structure of revenues in 2019 (2018)



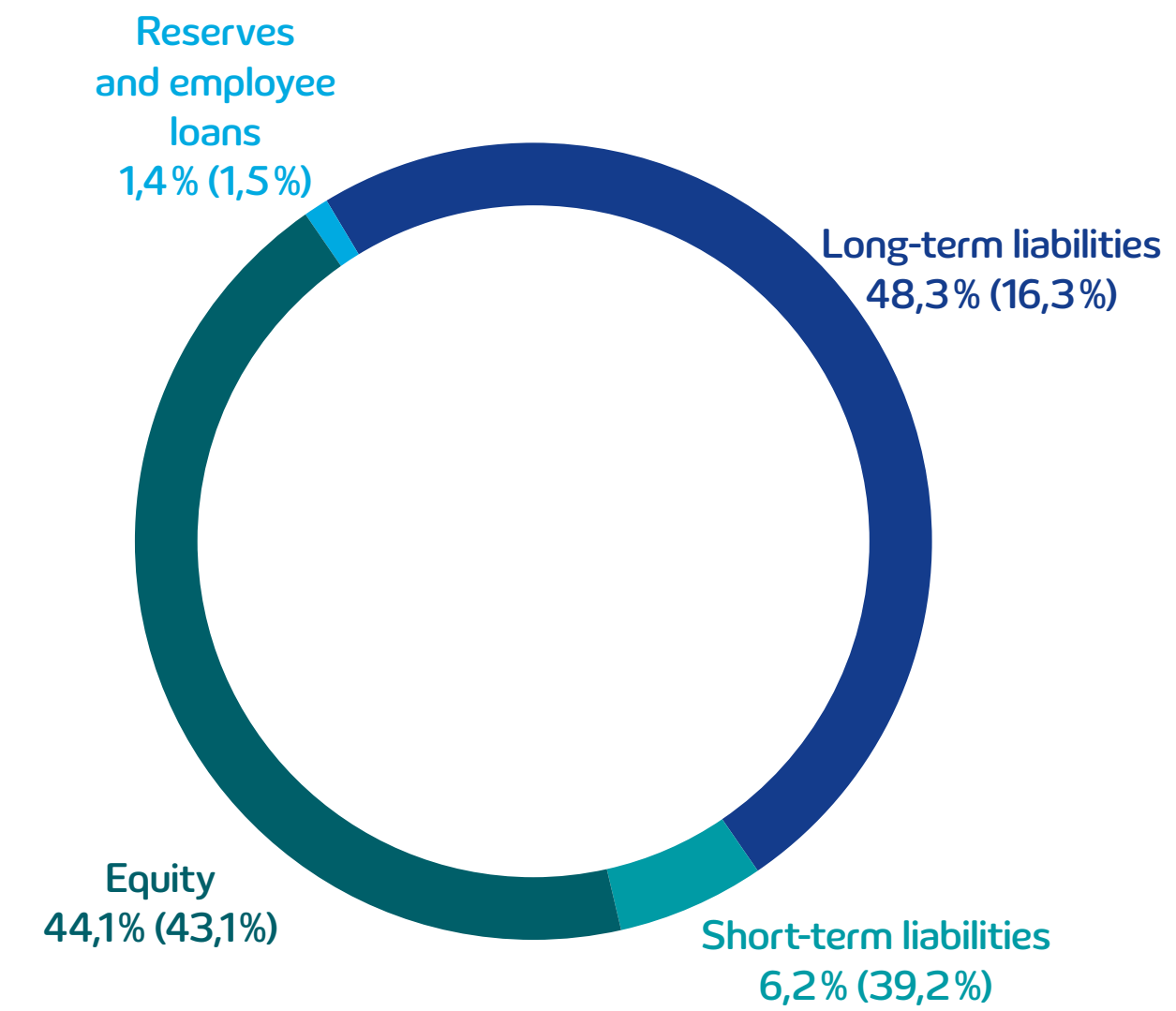
The tools may have changed, but accurate numbers are still essential for correct decision-making and subsequent success.

Structure of costs in 2019 (2018)

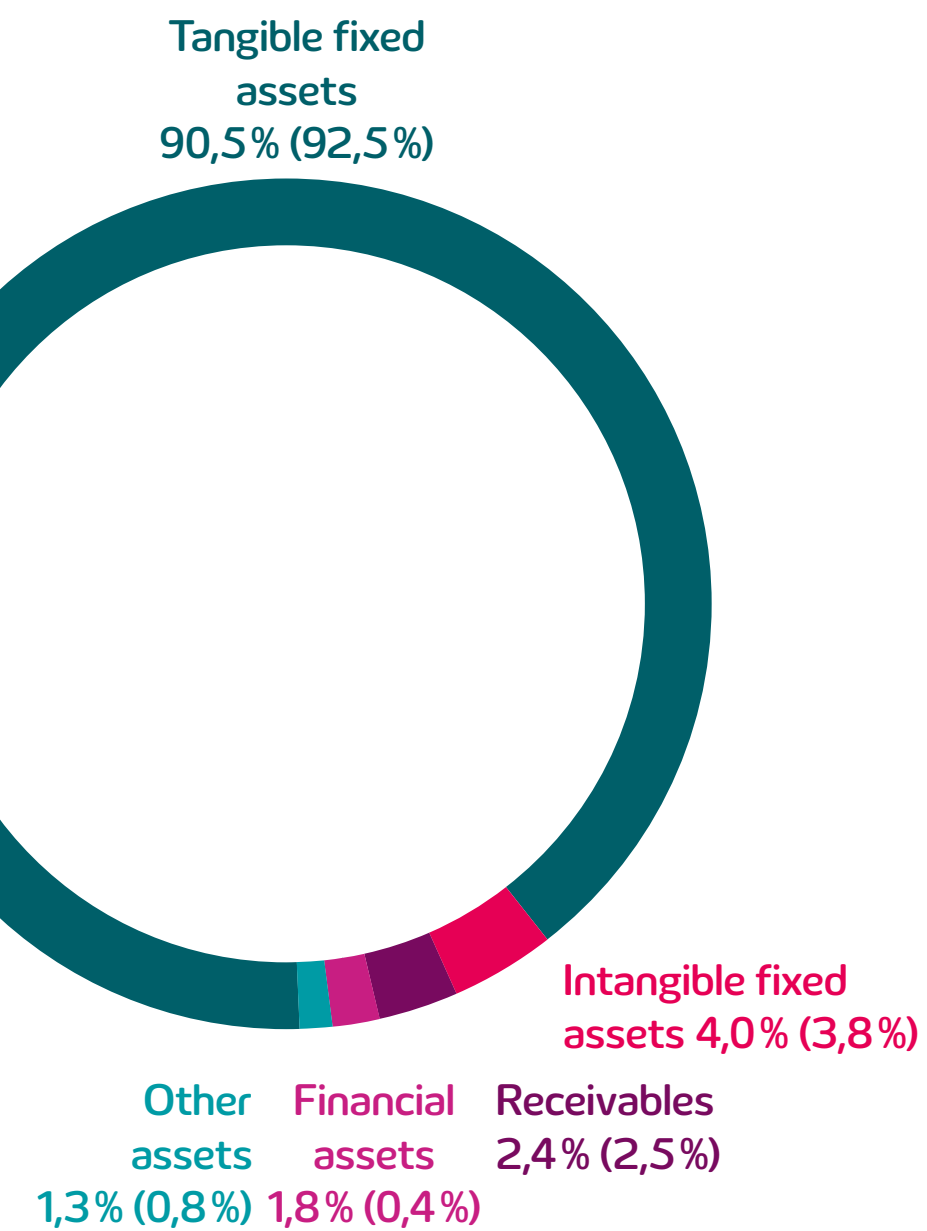


In 2019, the process of changing the structure of VSD financing was completed, when the loan from the parent company VSE Holding was replaced by a loan from the external banking environment and, at the same time, the nature of the liabilities changed from short-term to long-term, so that the company's long-term assets are financed by long-term resources. In order to effectively manage the financing of investments, operating needs and dividend policy, VSD uses, in addition to external funds in the form of external bank loans and financial leasing, a cash-pooling system within the VSE Holding Group.

Structure of equity and liabilities in 2019 (2018)



Structure of assets in 2019 (2018)

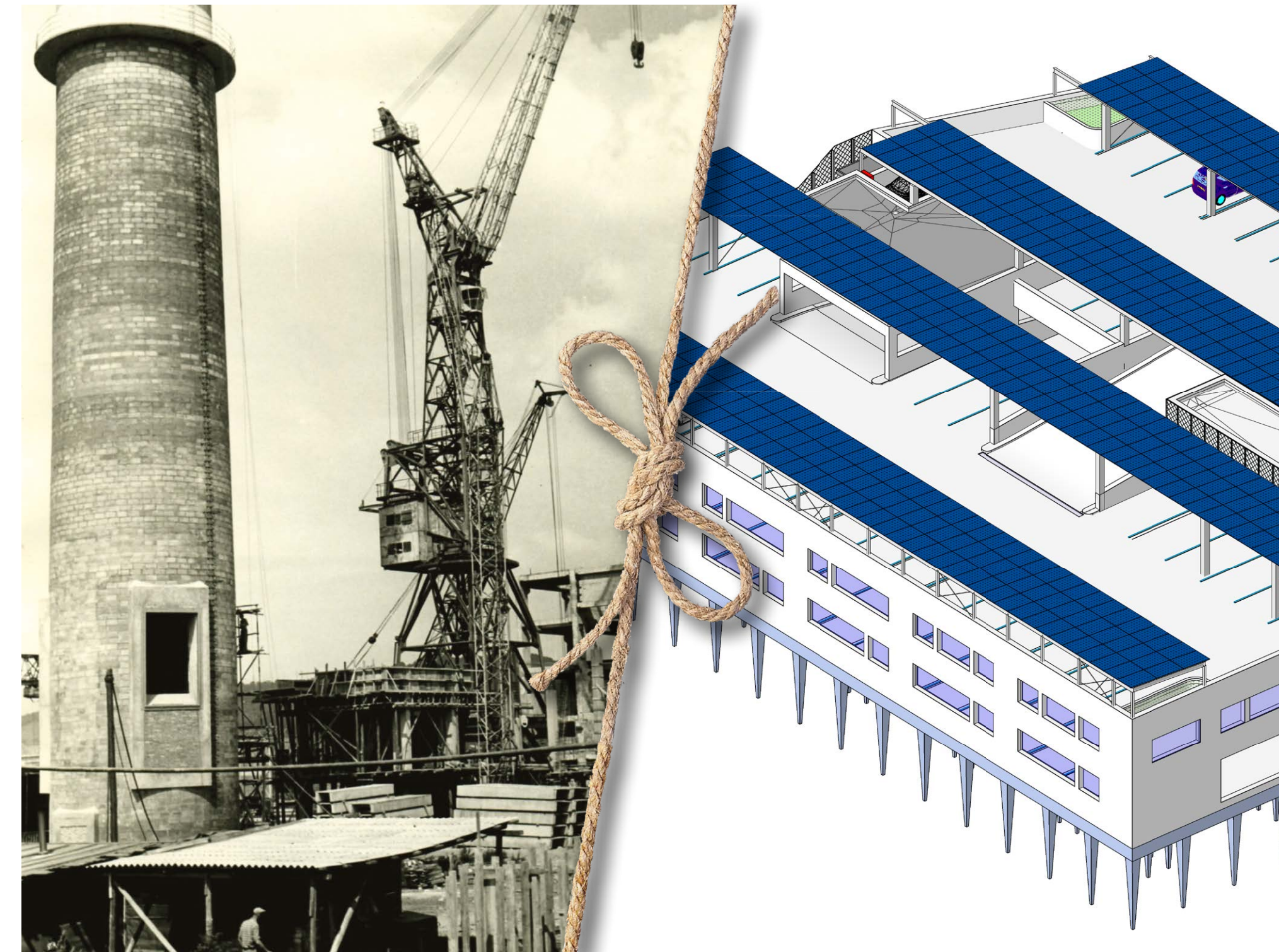


Business plans for 2020

The most significant change in 2020 in terms of regulation with an impact on both the financial and process aspects of the company will be the introduction of a centralized system to support the production of electricity from RES and CHP, within which VSD, as a distribution system operator, will only be responsible for the technical processes of connecting the producers and not for the financial flows related to the support system. The reimbursement of costs incurred and uncovered for the support of RES in 2018 and 2019 remains an important topic for 2020 in order to achieve a solution in line with the agreed legislative and government measures. Distribution prices for 2020 remain stable, reflecting unchanged calculation methods, including the original input parameters for the current regulatory period.

Investments in the following year will be influenced by a one-time project of the intelligent parking house and the purchase of a part of an office building to be used by VSD. Investments in the revamp and development of the distribution system, but also in new technologies and also in the expansion of optical networks on their own distribution territory will continue.

The expected achievement of the legally required level of smart meter installation, modernization of the dispatch and workflow management systems, the use of data analytics, and the use of the Internet environment are examples of how we will continue to provide our customers with services in 2020, which derive from the traditional service of safe and reliable electricity distribution, but bring added value to the customer in accordance with 21st century requirements.



More than 50 years ago, a power plant was built; today, we are planning to build an intelligent parking house.

Additional information

Expenses for activities in the area of research and development

In 2019, the company incurred costs of research and development activities.

Acquisition of the own shares, interim certificates, shares and other equity, parent's interim certificates and shares

In 2019, the company did not carry out any activity in this area.

Information about the company organization units abroad

The company has no organization unit established abroad.

Information on significant risks and insecurities the accounting entity is facing

The company management is currently not aware of any risks that would significantly influence the company economic result in the future.

Information of special importance events which occurred after the termination of the accounting period for which the Annual Report is elaborated

After 31 December 2019, no events occurred that would require recognition or recording in the financial statements for 2019.

Further information regarding the above-mentioned facts are included in the side notes to the financial statements for the year ending on 31 December 2019; the financial statements form an integral part of this annual report as its attachment.



Electric substations have passed significant changes. You can visit one (located in Dobšiná) by means of a virtual visit.

List of Abbreviations

OKTE	Short-term Electricity Market Operator
OHS	Occupational health and safety
CR	Commercial register
IHB	Individual housing building
LV_households	low voltage electricity consumers - households
LV_businesses	low voltage electricity consumers - businesses
MV	medium voltage
HV	high voltage
RES	renewable energy sources
CHP	combined heat production
MoE SR	Ministry of Economy of the Slovak Republic
SEPS	Slovak Transmission System Operator
AES	Association of Electricity Supplier
USSK	US Steel Košice
HaZZ	Firefighters and rescue team
RÚVZ	Regional public health care office
ISO	ISO 9001 (quality)
ES	electrical substation TPS
TPS	tariff for the system operation



In early last century, the attention of bystanders was attracted by the transport of a steam boiler near the Jakobov palác; early this century, it was attracted by the construction of a unique underground transformer station on Hlavná street. (see also the video about this investment project which was completed under the management of our parent company, VSE Holding).

Individual financial statements

Individual financial statements as of 31 December 2019
and Report by an independent auditor on the individual
financial statements for 2019



Contacts

Východoslovenská distribučná, a.s.
Mlynská 31
042 91 Košice
Slovenská republika

T +421 (0) 850 123 312
E info@vsds.sk
I www.vsds.sk

Klientske centrum Košice
Hollého 3
Košice

Klientske centrum Michalovce
Štefániková 2
Michalovce

Klientske centrum Poprad
Továrenská 3924/1
Poprad

Klientske centrum Prešov
Levočská 3
Prešov

