

**Budapest  
Sewage  
Works Pte Ltd.**

**Business report  
2011**

Published by Budapest Sewage Works Pte Ltd.  
Editor in chief: György Palkó  
Prepress: MEGA Kft.

# Introduction

Last year the Budapest Sewage Works Pte Ltd. (Fővárosi Csatornázási Művek Zrt, hereinafter “the Company”) has been successful in the fields of development of sewage disposal and treatment, increasing operational safety as well as environment protection.

In 2011, the Company collected 165,603 thousand m<sup>3</sup>, of which 84,646 thousand m<sup>3</sup> were handed over for treatment to the Central Wastewater Treatment Plant of Budapest and 69,780 thousand m<sup>3</sup> wastewater were treated at the North-Pest and South-Pest Wastewater Treatment Plants operated by the Company. During the reporting period 93.8% of the wastewater and rainwater created in Budapest were discharged in the Danube after mechanical treatment, 90.3% after biological treatment, while 39.4% furthermore received complete nutrient-removal. In 2011, the quantity of collected wastewater and rainwater decreased by 31.1% compared to the previous year, since the year was extremely poor in precipitations. The invoiced wastewater quantity fell short of the previous year’s value by only 1%.

The modernization of the previously built wastewater treatment plants continued during the year. The successful one-year trial period of the nutrient-removal phase of the North-Pest Wastewater Treatment Plant ended in March 2011 and it has been operating normally since.

The Company took over the tasks of operation, maintenance and renovation of the public toilets of Budapest in 2010. In 2011, after the complete renovation of 4 public toilets and the structural reinforcement of 2 public toilets, the Company had 57 operating units and 21 units non-operating for technical reasons.

Beside the activity of continuous water damage prevention, flood protection was necessary during 5 days.

The Company operates activity management, environment focused management systems as per the ISO standard and work health and safety at work management systems as per the MSZ standard. The basic administration and technical tasks have been fulfilled under balanced financial conditions. As the collective result of savings in costs and revenues, the profit after tax of the Company reached HUF 5.3 billion. During the year, the financial situation of the Company remained solid and it has retained its continuous liquidity.

In conclusion, it can be stated that the Company – taking into account its existing technical and financial possibilities – operated the public utilities efficiently and successfully in 2011 as well.

Budapest, March 29, 2012.

György Palkó  
General Manager



# Table of contents

Introduction	3
Organization and legal position of the Company	7
Scope of activities	11
Assets and liabilities	13
Technical data	17
Financial position	24
Sewer charges	29
Business performance and results	30
Investments and developments	37
Maintenance	43
Environment protection	46
Human resources	54
Information technology	58
Communication	60
Appendix	63



# Organization and legal position of the Company

In the Share Purchase Agreement signed on November 19, 1997, the General Assembly of the Municipality of Budapest transferred shares representing 25% 1997 one vote of the Company's asset and specific operating and management control rights to a consortium formed by Berliner Wasser Betriebe (B.W.B.) and Compagnie Générale des Eaux (C.G.E.) for a period of 25 years. Using the possibility set forth in the Share Purchase Agreement, C.G.E. and B.W.B. established the Sewage Operating Holding Limited at the end of 1998, its current name is Sewage Holding Asset Management Pvt. Ltd.

In the meantime, C.G.E. changed its name to Vivendi. On June 6, 2000, B.W.B. transferred the ownership rights of the shares it owned to Berlinwasser Holding AG.

On 26 March 2002, Vivendi transferred the ownership rights to its shares – with indicating intermediate ownership of Vivendi Universal – to Vivendi Environnement, whose current name is Veolia Environnement S.A.

**Owners:**

- Municipality of Budapest Capital City
- Berlinwasser Holding AG
- Veolia Environnement S.A.
- Csatorna Holding Vagyonkezelő Zrt.
- 3 small investors

**Name of the Company:** Budapest Sewage Works Pte Ltd.  
**Address:** H-1087 Budapest, Asztalos Sándor street 4.  
**Postal address:** 1426 Budapest 72. Pf. 114.  
**Telephone:** +36 1 455-4100  
**Fax:** +36 1 455-4232  
**E-mail:** vezig@fcsm.hu



### **Board of Directors:**

Péter Kőrös – president	January 1.- January 10.
dr. László Kalmár – president	January 11.- December 31.
dr. Rózsa Bóta	January 1.- January 10.
dr. Zoltán Bolvári	January 1.- January 10.
Karl-Heinz Zorn	January 1.- January 10.
Peter Sczepanski	January 1.- December 31.
György Palkó	January 1.- December 31.
Philippe Guitard	January 1.- December 31.
Attila Kovács	January 11.- December 31.
János Somogyvári	January 11.- December 31.
Andreas Schmitz	January 11.- December 31.

### **Supervisory Board:**

Dieter Ernst – president	January 1.- December 31.
Étienne Petit	January 1.- December 31.
Katalin Devánszkiné dr. Molnár	January 1.- December 31.
Attila Dancs	January 1.- December 31.
dr. Andrea Szolnoki	January 1.- January 10.
Sándor Andó	January 1.- January 10.
Emese John	January 1.- January 10.
Andrea Aranyosi	January 1.- May 31.
László Tuba	January 1.- May 31.
Gyula Pirok	January 1.- May 31.
Péter Kőrös	January 1.- December 31.
Gyöngyi Orbán	January 11.- December 31.
Gábor Püspöki	January 11.- December 31.
Gábor Rátonyi	September 28.- December 31.
Máté Staudt	September 28.- December 31.
István Magyar	January 11.- July 31.
Zsolt Gyenge	January 11.- September 20.
László Kollár	June 1.- December 31.
János Péter	June 1.- December 31.
Zoltán Vízi	June 1.- December 31.

### **Independent auditor:**

PricewaterhouseCoopers Kft. Represented by: Pál Tímár	January 1. - December 31.
--	---------------------------

### **Company management:**

György Palkó General Manager	Dr. Éva Medovárszki Deputy General Manager	Peter Sczepanski Technical Deputy Manager
---------------------------------	---	--



## **Territorial location of the Company**

The management of the Company, all its functional organizations, as well as the Network and Contracting Department are all located on a site that can be considered the core, in the 8<sup>th</sup> district of Budapest, at Asztalos Sándor street 4, Kerepesi street 19 and Kerepesi street 21.

The 9<sup>th</sup> district Soroksári site can be considered a basic site where the offices of the Environment Management Department and the offices of the Trade Union can be found.

The Pump Stations Department and the Treatment Plant Department are physically located at the site where the tasks are fulfilled.

## **Organization of the company**

The Company exercises its activities according to the organizational structure set forth in the Organizational and Operational Regulation, whose version 1.13 was published on September 29, 2011 after review.

For the purpose of increasing the efficiency and profitability of operation, the following organizational changes have been realized:

From February 1, 2011 the following groups were created under the Construction and Logistics Service operating under the Environment Management Department:

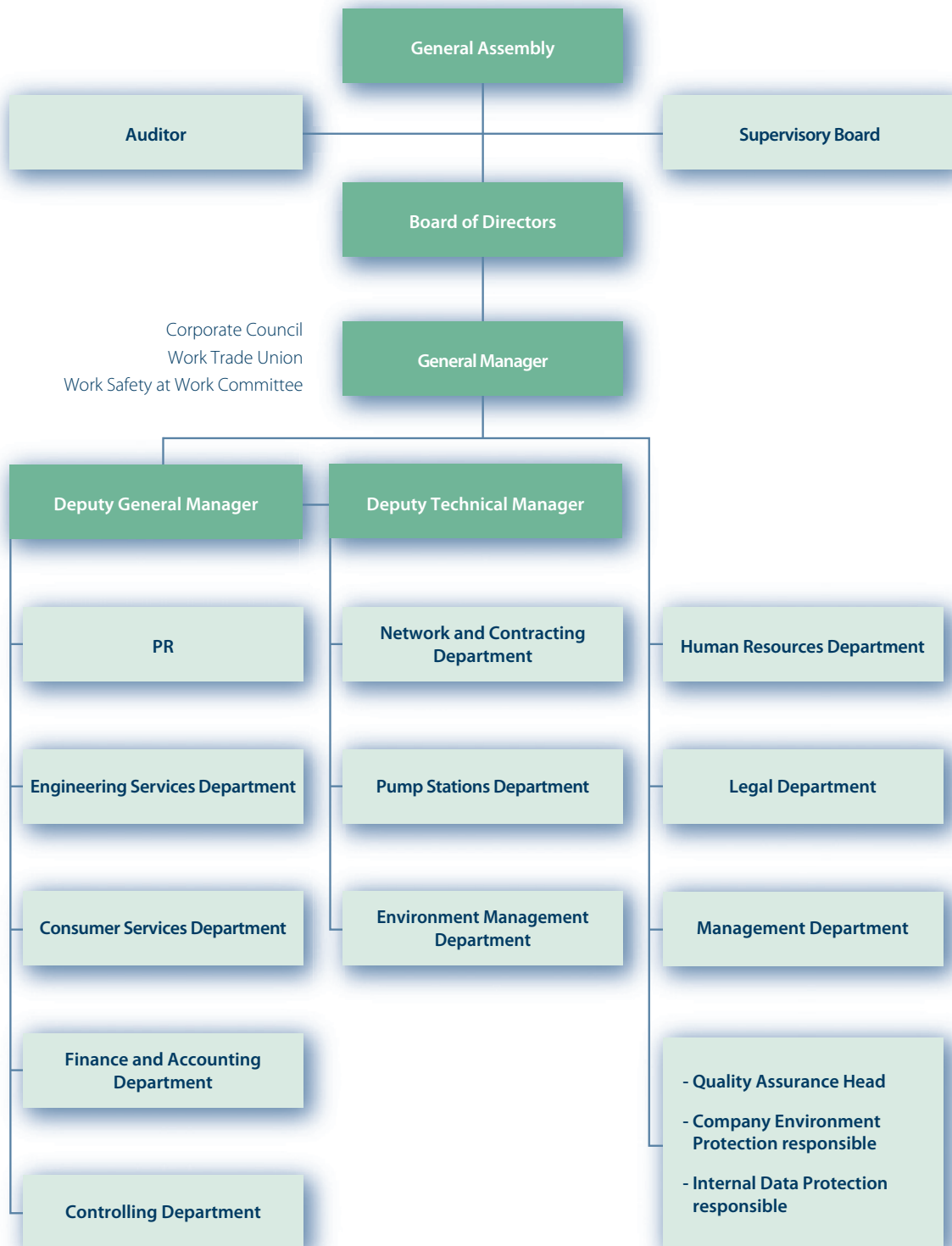
- Logistics Group,
- Construction and Maintenance Group,
- Toilet Management Group;

From March 1, 2011 an Authority Group was formed under the Engineering Services Department.

On September 17, 2011 a Sampling Group was created within the Engineering Services Department. The Water Quality Protection Group was dissolved, its scope of activities and its tasks were partially taken over by the newly created Sampling Group.



**Organizational structure of the Budapest Sewage Works Ltd. on December 31, 2011.**



# Scope of activities

The Municipality of Budapest Capital City has founded the Company to collect, treat wastewater and rainwater generated in the area of the capital and to discharge them into the receptor. The rights and obligations related to the task are regulated by the Public Service Agreement concluded between the two parties on November 3, 1997.

The Company has been organized exclusively for collecting and treating wastewater and rainwater. Although the Company serves only Budapest, sewers of some settlements outside the boundary of the capital are also connected to its network, based on the principle of their location in the drainage area.

As the Company provides a public utility service, it is a basic requirement that the service be continuous and safe. The fulfilling of the task, the supply of the service is also a mandatory obligation of the organization mandated with the task. (Partial service provision obligation.)

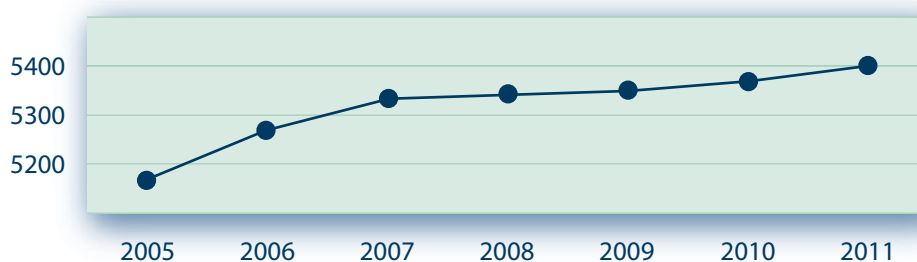
The most important rules regarding the core activity are included in Government decree 38/1995.(IV.5.) and its amendments. Certain dispositions of the law on water public utility services of 2011 number CCIX entered into force at 11 PM on December 31, 2011, which will influence the Company's operation in the future.

The Budapest Central Wastewater Treatment Plant (BCWTP), operated by BKSZT Budapest Wastewater Treatment Ltd. operated for a full year for the first time in 2011. The plant is technically closely connected to the assets operated by the Company. The Company transfers the wastewater and rainwater collected from a defined drainage area to the Csepel treatment plant through water driving, where it is treated biologically.

Beyond our core service, our Company provides another public service:

- the operation of the flood and inland water control system of Budapest and making suggestions on the development of the flood protection installations;
- the operation and development of the capital's public toilets.

Length of the sewage network in km

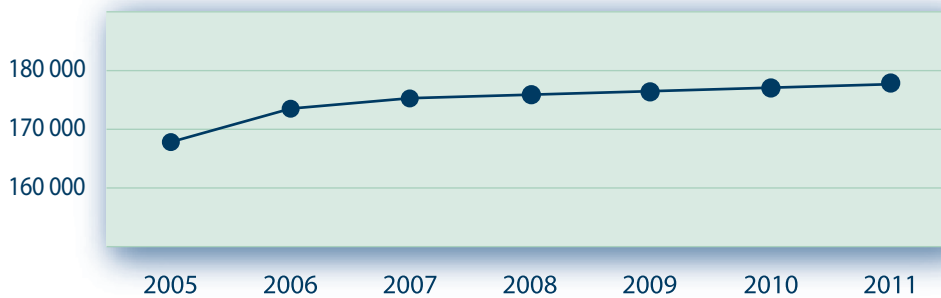


Main indicators of the sewers

Description	Unit	2007	2008	2009	2010	2011
<b>Capacity data on December 31</b>						
Length of sewage network	km	5 315	5 334	5 352	5 383	5400
- out of this: annual increase	lm	32 520	19 350	18 367	30 709	16 900
Sewer connections	pcs	175 610	176 844	177 905	178 725	179 342
- out of this: annual increase	pcs	1 950	1 234	1 061	820	617
Biological treatment capacity	thm <sup>3</sup> /day	280	280	280	280	280
- out of this: - South-Pest plant	thm <sup>3</sup> /day	80	80	80	80	80
- North-Pest plant	thm <sup>3</sup> /day	200	200	200	200	200
Nutrient removal capacity	thm <sup>3</sup> /day	80	80	80	280	280
<b>Performance data on yearly basis</b>						
Collected wastewater and rainwater	thm <sup>3</sup>	217 669	226 558	209 928	240 204	165 603
- out of this: - free flow	thm <sup>3</sup>	22 463	22 226	22 382	2 023	888
- pump stations and treatment plants	thm <sup>3</sup>	195 206	204 332	173 055	136 309	80 069
- sent to BCWTP	thm <sup>3</sup>	0	0	14 491	101 872	84 646
<b>Performance of the treatment plants of Budapest Sewage Works</b>	thm <sup>3</sup>	78 125	80 571	75 713	93 020	69 780
- mechanical treatment	thm <sup>3</sup>	78 125	80 571	75 713	93 020	69 780
- biological treatment	thm <sup>3</sup>	69 789	70 456	65 837	75 502	64 858
- nutrient removal	thm <sup>3</sup>	19 337	20 247	18 833	55 086	64 858
<b>Invoiced wastewater (with swimming pools)</b>	thm <sup>3</sup>	137 327	131 144	123 584	116 232	115 118
- out of this: households	thm <sup>3</sup>	88 795	86 051	83 508	80 709	81 090
industry, corporate + others	thm <sup>3</sup>	44 105	40 466	35 666	30 887	29 249
own well	thm <sup>3</sup>	1 721	1 795	1 709	1 581	1 387
agglomeration	thm <sup>3</sup>	2 284	2 432	2 433	2 893	3 216
swimming pool	thm <sup>3</sup>	422	400	268	162	176

Number of sewer connections

measurement in pieces



# Assets and liabilities

## Liabilities

The initial asset structure and current capital structure of the Company was established on January 1, 1993.

In 1996, decision 1406/1996.(X.31.) of the General Meeting decided on the capitalization of the sewer network operated by the company. From this date, the value of the registered capital is HUF 70,045,200 thousand, and since November 19, 1997, 25% of the share capital (HUF 17,511 million) was transferred to foreign investors.

Equity on December 31

in million HUF

Designation	2010	2011
Equity	70 045	70 045
Capital reserve	13 557	13 557
Profit reserve	13 007	14 342
Fixed reserve		500
Evaluation reserve	-	-
Balance sheet profit	1 835	1 126
<b>Equity total</b>	<b>98 444</b>	<b>99 570</b>

The 2011 profit reserve of the Company increased by the 2010 balance sheet profit (HUF 1,835 million), of which HUF 500 million constituted a development provision and thus was put in fixed reserve.

The 2011 balance sheet profit figure was determined by the fact that the profit before tax was HUF 7,192 million. After corrections with the items modifying the tax base, HUF 1,846 million was paid as tax, which resulted in HUF 5,346 million profit after tax. Decreasing the after tax profit with the dividend payment obligation, due to which the net balance sheet profit of the Company in 2011 reached HUF 1,126 million.

The aggregate amount of the equity on December 31, 2011 amounted to HUF 99,570 million, exceeding the previous year's by the balance sheet profit.

### Changes in the composition of equity

Description	Value in million HUF	Ratio %	Value in million HUF	Ratio %
	December 31, 2010		December 31, 2011	
Working capital	12 053	12,2	11 596	11,6
Own fixed capital	86 391	87,8	87 974	88,4
<b>Equity total</b>	<b>98 444</b>	<b>100,0</b>	<b>99 570</b>	<b>100,0</b>

Within equity, the proportion of fixed capital slightly increased, while the proportion of liquid capital decreased by 0.2%.

### Evolution of provisions

in million HUF

Description	Writing	Release	Value
<b>Opening balance</b>			<b>4 025</b>
Wastewater penalty	778	412	366
Personnel-type liabilities	88	112	-24
Environmental liabilities	1 123		1 123
Liabilities financed in the fee of the reporting period but deferred to next year	1 530	81	1 449
<b>Provisions total</b>	<b>3 519</b>	<b>605</b>	<b>6 939</b>

The amount of short-term liabilities increased by HUF 1,428 million compared to December 31, 2010. Supplier – primarily investment supplier – payables increased by HUF 1,022 million, while other short term liabilities increased by HUF 406 million.

Accruals in 2011 reached HUF 16,994 million. These are:

- cost- and revenue accrual: HUF 242 million
- assets received without payment: HUF 3,808 million
- money received for development: HUF 12,944 million
  - out of this: from district municipalities: HUF 297 million
    - From the Municipality of Budapest: HUF 189 million
    - public utility development contributions: HUF 12,320 million
    - from other sources: HUF 138 million.

The liabilities of the Company have increased in total by HUF 5,396 million in comparison to the previous year.

Balance sheet as of December 31

in million HUF

Description	2010	2011
<b>Assets</b>		
Intangible assets	355	786
Fixed assets	106 060	107 994
Fixed financial assets	1 040	969
Inventory	326	325
Receivables	4 530	5 465
Securities	0	0
Cash and bank	7 421	8 437
Accruals	2 819	3 971
<b>Total assets:</b>	<b>122 551</b>	<b>127 947</b>
<b>Liabilities</b>		
Equity	98 444	99 570
Provisions	4 025	6 939
Long-term liabilities	0	0
Short-term liabilities	3 016	4 444
Deferred payments	17 066	16 994
<b>Liabilities total:</b>	<b>122 551</b>	<b>127 947</b>

## Assets

The level of assets was HUF 5,396 million higher than on December 31, 2010:

- The value of intangible fixed assets increased by HUF 431 million. The greatest increase was due to the fact that the Company acquired HUF 508 million in asset-type rights in the Érd and Environs Sewer Service Provider Consortium.
- Due to the cumulative impact of investments and write-offs in the reporting period, the value of fixed assets increased by HUF 1, 934 million.
- The value of long-term financial investments was HUF 71 million lower than in the previous year, primarily due to the changes in participations.
- Inventory decreased by HUF 1 million in comparison to the same period of the previous year.
- Receivables increased by HUF 935 million as opposed to the base data. Trade receivables increased by HUF 894 million (see details in the financial chapter), while other receivables decreased by HUF 41 million



- The Company did not have any securities.
- The value of cash and bank increased by HUF 1,016 million.
- The level of prepaid expenditures was HUF 1,152 million higher than on December 31, 2010 due to the income and receivables accruals.

Further analysis of the assets indicates that 84.4% of our Company's assets are represented by fixed assets. 92.7% of the fixed assets consist of real estate.

Fixed assets on December 31, 2011 in million HUF

Designation	Properties	Tech.machine, appliance, vehicle	Other equipment and vehicles	Investments and advances	Total
Gross value	153 733	19 401	2 406	2 783	178 323
Amortization	53 668	14 521	2 140	0	70 329
<b>Net value</b>	<b>100 065</b>	<b>4 880</b>	<b>266</b>	<b>2 783</b>	<b>107 994</b>

Details of properties on December 31, 2011 in million HUF

Item groups	Gross value	%	Net value	%
Sewers	126 554	82,3	78 884	78,8
Other underground structure	13 315	8,7	9 079	9,1
Land	3 664	2,4	3 664	3,7
Other buildings	10 200	6,6	8 438	8,4
<b>Total</b>	<b>153 733</b>	<b>100,0</b>	<b>100 065</b>	<b>100,0</b>

Besides its own assets, the Company also operates:

- assets withdrawn when the Company was established (December 1, 1993.), HUF 69 million,
- sewers owned by district municipalities and the Municipality of Budapest (until 1993): HUF 1,788 million,
- sewers established by using development fund and rental fees capitalized and owned by the city since 1997: HUF 56,287 million (excluding apartment value replacement, and fund handover),
- assets taken over for operation from districts since 1993: HUF 1,713 million,
- as well as flood and surface water protection assets taken over from the capital city for operation: HUF 18,011 million in gross value.

The gross value of third parties' properties operated by the Company in Budapest on December 31, 2011 was HUF 77,868 million.

# Technical data

The installations of the sewer system serve the public service collection and treatment of wastewater and rainwater generated in the area of Budapest and their discharge into the receptor.

Some of the facilities at the sewage works necessary for operation provide for collecting sewage (through the network and the intermediary pump station) and some for transferring sewage to the receptor (through the terminal stations). Finally, the disposal of the sludge generated by operating the system must also be ensured.

Further to the core activity, the chapter also contains the data related to the two separately defined capital city tasks (flood protection of the capital and operation of public toilets).

## Sewage collection and discharge

On December 31, 2011, the length of the capital city's sewers increased by 17 km compared to the previous year, reaching a total of 5,400 km with the following composition:

Specifications of the sewer network in Budapest in km

Year	Core sewer	Connecting sewer	Total	Out of this: new
2005	3 675	1 504	5 179	104
2006	3 745	1 537	5 282	103
2007	3 766	1 549	5 315	33
2008	3 777	1 557	5 334	19
2009	3 789	1 563	5 352	18
2010	3 814	1 569	5 383	31
2011	3 828	1 572	5 400	17

Composition of the Budapest sewer network in km

Year	Wastewater	Rainwater	Unified	Total
2005	1 467	425	3 287	5 179
2006	1 549	431	3 302	5 282
2007	1 574	433	3 308	5 315
2008	1 588	435	3 311	5 334
2009	1 600	440	3 312	5 352
2010	1 609	445	3 329	5 383
2011	1 617	451	3 332	5 400

176 intermediary automatic pump stations are part of the sewer network and support the transfer of sewage from low laying areas at 151 points, which are integrated into the sewer system.

The Company receives the sucked wastewater of areas not equipped with public sewers at 5 "card" concentrated collection sites operated as per decree 33/2010. (VI.21.) of the Municipality of Budapest. Their number remained unchanged in 2011. These wastewater collection sites are located at the North-Pest, the South-Pest Wastewater Treatment Plants, on 2<sup>nd</sup> distr. Nagykovácsi street, in 11<sup>th</sup> distr. Hunyadi János street, as well as 17<sup>th</sup> distr. Tóimalom street.

## Terminal stations

The quantity of wastewater and rainwater transferred through the pump stations was – just as in previous years – basically influenced by the quantity of precipitations. In 2011, the registered average precipitation quantity was 346 mm as opposed to the yearly 913 mm in 2010. As a consequence of the lack of precipitations, the combined quantity of collected wastewater and rainwater also show a significant decrease compared to the previous year.

Technical data of the pump stations in thousand m<sup>3</sup>

Description	2010	2011	Index
Wastewater transferred to BCWTP	101 872	84 646	83,09
Wastewater transferred to North-Pest plant	33 643	27 993	83,21
Wastewater discharged into the Danube	43 290	10 289	23,77
Wastewater and rainwater transferred through pump stations	178 805	122 928	68,75
Water transferred between pump stations	15 169	12 810	84,45
<b>Total</b>	<b>193 974</b>	<b>135 738</b>	<b>69,98</b>

During 2011 the Ferencváros and Kelenföld stations transferred the dry-weather wastewater and rainwater up to triple diluting collected in their drainage area to the Budapest Central Wastewater Treatment Plant. Thus, 84,646 thm<sup>3</sup> wastewater and diluted water were transferred through the two pump stations to the Csepel treatment plant, as opposed to the 101,872 thm<sup>3</sup> of 2010.

Incoming waters arrive to the Kelenföld Pump Station through the Buda canal from the Zsigmond square Pump Station (6,849 thm<sup>3</sup>), and those from the Albertfalva Pump Station's (1,503 thm<sup>3</sup>) drainage area through a main conduit, from where these are pumped to the Budapest Central Wastewater Treatment Plant.

The dry-weather waters and the rainwater up to triple dilution were sent to the North-Pest Wastewater Treatment Plant coming in to the Angyalföld Station and the Pók utca Station. This meant a total of 27,993 thm<sup>3</sup>. The waters coming in to the Békásmegyér Station (3,446 thm<sup>3</sup>) are transferred to the treatment plant through the Pók utca Station.

The total quantity of wastewater and rainwater discharged directly from the pump stations into the Danube decreased from 43,290 thm<sup>3</sup> in 2010 to 10,289 thm<sup>3</sup>. The drastic change is mainly due to the weather poor in precipitations. The decrease of wastewater emission also contributed to this diminution, just as the fact that the main conduit of the Danube shore did not operate full year in 2010. The wastewater from the Zsigmond square station was directly discharged into the Danube until February 17, just as that of the automatic pump stations in the first part of the year, which were later connected to the Buda main conduit. The Erdősor street station transferred a total of 1,012 thm<sup>3</sup> wastewater and diluted water to the Vas Gereben street Pump Station. During 2011, the transformation of the Csepel Vas Gereben street Pump Station was initiated, and after its completion expected for 2012, wastewater will also be transferred to the Budapest Central Wastewater Treatment Plant from here.

Three treatment plants perform the treatment of the wastewaters created in the Capital city. In 2011, 93.8% of the collected wastewater and rainwater were discharged into the Danube after some degree of treatment.

The biggest plant was built in Csepel, it is the Budapest Central Wastewater Treatment Plant, operated by BKSZT Budapest Wastewater Treatment Ltd. Dry-weather wastewater and rainwater up to triple dilution is transferred via water direction to Csepel through the network and pump stations operated by the Company, which it takes over for treatment. In 2011, this volume was 84,646 thousand m<sup>3</sup>.

Average actual biological treatment capacity in 2011 m<sup>3</sup>/day

Description	Average capacity	Load	Utilization %
BCWTP (Csepel plant)	300 000	231 907	77,3
North-Pest plant	200 000	123 742	61,9
South-Pest plant	80 000	53 951	67,4
<b>Treatment plants total</b>	<b>580 000</b>	<b>409 599</b>	<b>70,6</b>

In 2011, the quantity of biologically treated wastewater at the Company's plants was 64,858 thousand m<sup>3</sup>; nutrient removal was complete for this quantity.

The North-Pest Wastewater Treatment Plant, which is operated by the Company, is capable of biologically treating of and nutrient removal on 182,000 m<sup>3</sup>/day wastewater in average and 200,000 m<sup>3</sup>/day as a top.

The nutrient removal phase of the North-Pest Wastewater Treatment Plant was completed as an investment of the Municipality of Budapest. Its construction became necessary for the protection of the Black Sea from eutrophization and the respect of the legal requirements. The one-year trial period was closed on March 23, 2011. The 2011 water quality figures already reflect the successful operation of the nutrient removal phase. Based on the results, we can state that the quality of outflowing water greatly improved compared to previous years. As a consequence of the treatment, an especially significant decrease can be observed in the nitrogen and phosphorus content of the outflowing waters (see environment protection chapter).

The quantity of sucked wastewater transported to the plant in 2011 was 32,239 m<sup>3</sup>. At the beginning of the year, the sewer sludge receiving facility was commissioned, whose task is the receiving and treatment of sewer sludge created in the Budapest sewer network and the decrease of the organic matter content of the sand to 3%. The quantity of processed sewer sludge was 4,754 tons in 2011.

During anaerobe fermentation, 6,708 thousand m<sup>3</sup> biogas was produced at the North-Pest Wastewater Treatment Plant. The facility utilizes locally produced and foreign sludge, as well as incoming jointly fermenting matters. Incoming dehydrated sludge is received by the dehydrated sludge receiving facility operating since February 2011. The utilization of biogas took place in 3 small power stations. The joint electric power of these facilities reaches 3,035 kW, while their heat power is 3,425 kW. The produced energy was fed into the station's electric grid. In 2011, the produced electric energy covered 81% of the plant's yearly usage. As a consequence of the energetic investment realized at the North-Pest Plant, natural gas usage was stopped. The heating of the buildings and the production of usage hot water are completely done with the utilization of waste heat and biogas furnaces. The heat energy produced in 2011 covered 100% of the plant's yearly needs.

The quantity of dehydrated sludge created at the North-Pest Wastewater Treatment Plant was 72,587 m<sup>3</sup>.

The South-Pest Wastewater Treatment Plant is also operated by the Company. The parameters of the waters flowing out of the plant have remained within the individual threshold limits set by the authorities in relation to all components in 2011 as well (see environment protection chapter). The modernization of the plant went on the reporting period. The objective of the investments is to increase the technical-economic efficiency of the existing installations, to introduce new technologies and to ameliorate the quality of the service.

### **Main capital investments in 2011:**

- The extension and modernization of the aeration system of the activated sludge treatment phase:  
In 2011, we continued the design of the capacity extension of the activated sludge basins with "live machine technology", through the installation of purposefully selected flora and carrying matters for the purpose of increasing the existing biological treatment capacity.
- The covering and odour treatment of the pre-mechanic treatment facility:  
The covering of the sand traps of the pre-mechanic treatment unit was completed in the summer of 2011 and the aeration system required by the environment protection authority was also built.
- The change from chlorine gas decontamination to a UV radiation decontamination technology has started and should be completed in spring 2012.

In 2011, the plant produced 6,892,679 Nm<sup>3</sup> biogas from the sludge created during wastewater treatment and enriched with received waste. The 10,280,158 kWh electricity

gained from biogas covered 76% of the plant's electricity need and 100% of its technological and social heat needs.

One of the plant's main environment protection tasks remained the elimination of the odour sources forming during the treatment of wastewater. For this purpose, it has increased fivefold the capacity of the sucked wastewater emptying station and of the densifying biofilters. The commissioning and activation of the biofilters has taken place at the beginning of 2011 and are now operating at 90% efficiency.

The lockable light-structure building built for the liquid waste extraction station was commissioned in February 2011. The construction of the light-structure container storage that started in 2010 at the plant transfer station was completed and commissioned in March 2011. In total, these investments decreased the outflow into the atmosphere of stinking air created during the plant's technological processes by 80%.

## **Waste management**

During the operation of the sewage system, waste is generated which must be disposed of according to relevant environment protection regulations and the issued permits.

The reorganization of waste collection started in 2009 at the Company aimed a more efficient maintenance of the environmental conditions and cost efficiency. The new system covers all organizational units of the Company and almost all segments of the created waste. The created waste must be classified according to four specific groups:

- solid waste suitable for selective collection,
- technological waste originating from wastewater treatment and network operation,
- waste that can only be collected mixed,
- green waste.

■ Solid waste that can be collected selectively:  
Waste quantity created during our daily activities, of which about 30% is the collectable and recyclable part. The waste quantity sold in 2011 was 15,769 kg.

■ Technological waste:  
Waste generated during the operation of the sewage system, which must be disposed according to relevant environmental protection regulations and permits.

The dehydration of sewer sediments takes place through pre-settlement at the South-Pest plant. This sludge, including dehydrated sand and waste collected by sand and pebble collecting screens of smaller plants is collected, before disposal, at the South-Pest plant. Dehydrated sand trap sediments and grid waste created at the pump stations are delivered directly from the major stations – after decontamination – to companies responsible for collection.

The stabilization of the sludge created during the treatment of the wastewater transferred to the South-Pest Wastewater Treatment Plant is done in fermentors, the volume decreases by 2.5-3.5% during fermentation. With the cooperation of external companies and following composting, the created stabilized sludge is used for recultivation purposes only.

The sludge extracted during treatment is also processed at the North-Pest Wastewater Treatment Plant. The compressed sludge remaining after sludge densification and fermentation is taken away.

Specifications of technological waste of the sewage network in 2011 in tons

Description	Created quantity	Location		
		Csomád	External company	Total
Sand trap sediment	7 824		7 824	7 824
Grid waste	4 043		4 043	4 043
Plant compressed sludge	99 572	15 451	84 121	99 572
<b>Total</b>	<b>111 439</b>	<b>15 451</b>	<b>95 988</b>	<b>111 439</b>

52.8% of the waste was made up by dehydrated sludge originating from the North-Pest plant, 26.3% of which was placed at the landfill at Csomád operated by the Company. 36.5% of the waste was fermented and dehydrated sludge from the South-Pest Plant; 10.7% was given by other sewer waste. The quantity of sludge increased by 8.8% in 2011 compared to the previous year's 91,478 tons volume.

As opposed to the 104,483 tons created in 2010, the Company had to solve the disposal of 6.7% more technological waste originating from wastewater treatment. 13.9% of the technological waste quantity was disposed in the Csomád landfill, the remaining 86.1% was taken away and treated by an external contractor licensed by the authorities.

- Communal waste collected in a mixed way:  
In the case of mixed communal waste that is unsuitable for re-collection, the objective is the decrease of the quantity and the efficient decrease of the volume of waste, which can be solved through efficient selective collection. Compressing decreases transport costs and the emission of polluting matters into the air.
- Green waste:  
During the maintenance of flood protection structures and our sites a great quantity of green waste is created. From 2010, the disposal and handling of green waste is done at the Company's Csomád landfill.

The treatment plants continuously receive waste to be eliminated. The received waste strongly influences the quantity of produced biogas and the discharged dehydrated sludge as well. Sludge created during wastewater treatment - enriched by the received waste - is transformed by the Company into biogas at the fermentation towers operating at the South-Pest plant.

## Flood protection

The ensuring of the flood and inland waters of Budapest is the Company's task defined in a separate agreement. Based on the contracting agreement concluded with the



Municipality of Budapest, our Company performs the necessary flood protection on the Danube, the maintenance of the flood protection dykes and the operation of the centrally managed small streams of Budapest.

Due to the expected high water level signalled at the beginning of 2011, the Mayor's Office declared level 1 alert on January 16 and level 2 from January 17. The flood was caused by the quick melting accompanied by precipitations of the significant quantity of snow that had fallen in the upper drainage area of the Danube at the end of December 2010. Winter conditions greatly hindered the protection work, the short days and external temperature conditions, the mud and the difficulty of access to material gaining sites. The Mayor's Office revoked the alert on January 20. Despite the difficulties of the winter period, the protection took place without extraordinary events, in a disciplined and planned manner. The cost of the protection work was HUF 23,237 thousand. Beside the protection activity, this expense contained the costs of closing of gates on the protection line prevention and of the pumping of some 600 thousand m<sup>3</sup> treated water every day.

The remaining part of 2011 did not cause extremely rainy weather, so no mentionable water damage or water outflow took place on the small streams. The water damage prevention activity must be carried out continuously for the purpose of maintaining the security of the Capital and the elimination of previously occurred water damages. Part of it is a series of riverbed maintenance, green area caring, flood protection line maintenance works. The Company performed these tasks fully in 2011 as well.

Due to the extreme weather phenomena related to climate change, we still have to expect the formation of significant floods. For the purpose of prevention, the hydrological conditions evolving in the drainage area of the Danube must be continuously monitored.

## Operation of public toilets

In 2011, the complete renovation of 4 public toilets and the structural reinforcement of 2 public toilets took place. The purpose of renovations is that the toilets be unhindered in accordance with the current expectations and that they offer outstanding services to the visitors. The Company carries out the condition preserving maintenance of the operating toilets continuously for the purpose of ensuring unencumbered services.

### Operational data:

■ Toilets operated with operators	36
■ Automatic toilets operated	11
■ Toilets operated by Company (rented out)	10
■ Toilets not operating for technical reasons	21
<b>■ Total:</b>	<b>78 units</b>

The reconstruction and renovation of toilets will continue in 2012. Two automated toilets will be installed, which will ensure the possibility of use to people using wheelchairs.

# Financial position

The Company operated in a balanced liquidity position during 2011.

## Changes in receivables

The amount of client receivables as of December 31 is higher by HUF 894 million than last year's. Depreciation accounted for is HUF 102 million higher. The amount of outstanding receivables exceeded last year's by HUF 781 million, while the receivable-balanced client accounts increased by HUF 163 million.

95% of the receivables came from sewer usage charges, their value is higher than in the previous year by HUF 751 million. The receivables of other activities increased by 10%, the Company accounted for HUF 330 million on December 31, 2011 as opposed to HUF 300 million in 2010.

The distribution of receivables between not past due and past due is 50-50%. On time receivables exceeded the 2010 amount by 12%, while the same excess for past due receivables was 17%. Sewer usage charges on time receivables showed an increase of 12%, while the amount of past due receivables increased by 18%.

Uncollectable wastewater receivables were written off in a value of HUF 69 million in 2011.

Changes in receivables without amortizations on December 31 in thousand HUF

Description	2010		2011	
	Total	Wastewater	Other	Total
Past due receivables				
0 - 90 days	1 268 711	1 289 315	118 567	1 407 882
91 - 180 days	331 568	497 996	8 276	506 272
181 - 360 days	273 039	344 656	3 249	347 905
361 - days	709 279	746 950	20 484	767 434
Total past due receivables	2 582 597	2 878 917	150 576	3 029 493
On-time receivables	2 740 043	2 894 863	179 078	3 073 941
Total consumer receivables	5 322 640	5 773 780	329 654	6 103 434
Clients with credit accounts	183 381	345 812	729	346 541
Depreciation of receivables	-1 065 506			-1 167 576
<b>Consumer receivables on Dec 31</b>	<b>4 440 515</b>	<b>6 119 592</b>	<b>330 383</b>	<b>5 282 399</b>

## Evolution of the cash flow

The Company's financially settled revenues in 2011 reached HUF 55,191 million, which was fully freely usable cash; no financial asset handover took place from the municipalities in the reporting period. Own coverage was 13% in opening balance, 80% from sewer services and further 7% from other revenues.

Total revenue exceeded the plan by HUF 57 million. Its wastewater collection revenue was HUF 551 million higher than planned, which is the effect of price increase and the smaller than expected decrease. Revenue from sewer penalties exceeded the planned value by 63%, the value of public utility development contribution by 72% and received interests by 106%. The revenue from other activities is lower than planned (66%) mainly due to the non-realization of the planned industrial activities, while the failure of property sale decreased other revenues (HUF -71 million).

The value of financial expenditure reached HUF 46,755 million from freely available cash, and no expenditure from non-free cash happened (since there was no cash handover either). The amount of expenses remains 2% (by HUF 779 million) lower than the financial plan. The Company's careful administration is proven by the fact that, with the exception of investments, taxes and the cost of energy, the expenditures remained close to or under the planned values. Compared to the plan, the greatest expense savings in proportion was realized in the fields of maintenance and banking costs, as well as material purchases. The service fee paid out to BKSZT Budapest Wastewater Treatment Ltd. remained under the planned value by HUF 512 million due to the decrease in wastewater quantities, material purchase was HUF 461 million lower and operation costs were HUF 318 million lower. Salary-type expenses were lower than planned by HUF 92 million in relation with the lower level of industrial activities. The approved dividends after the 2010 year were HUF 218 million lower than the amount figured in the financial plan. The water burden fee (thanks to the better quality of the discharged water) decreased by HUF 76 million.

The Company did not have any past due liability towards the state budget, Social Security and its suppliers. The Company retained its solvability throughout the year.

The value of financially settled expenses was HUF 8,437 million less than actual revenues. On December 31, 2011, 100% of cash was in bank deposits.



## Evolution of cash flow I-XII. months 2011

in thousand HUF

Description	Plan	Actual	Difference	
	Jan-Dec	Jan-Dec	1000 HUF	%
<b>Opening balance</b>	<b>7 421 263</b>	<b>7 421 263</b>		
Revenues from sewer usage fees	43 572 643	44 123 211	550 568	101,26
Revenues from other activities	3 125 987	2 048 339	-1 077 648	65,53
Revenues from export activities	0	30 865	30 865	
Sewer penalties	50 000	81 344	31 344	162,69
Public utility development contribution	500 000	859 258	359 258	171,85
Interest revenue	243 000	499 624	256 624	205,61
Tax revenues (VAT refunds)	0	0	0	
Other revenues	155 544	84 447	-71 097	54,29
Social security contributions	66 000	42 834	-23 166	64,90
Technical revenues	0	0	0	
<b>Freely accessible cash total</b>	<b>55 134 437</b>	<b>55 191 185</b>	<b>56 748</b>	<b>100,10</b>
Municipality of Budapest cash handover total	0			
District municipality cash handover	0			
Cash received for maintenance of flood protection equipment	27 000		-27 000	0,00
<b>Total free cash flow on separate account</b>	<b>27 000</b>	<b>0</b>	<b>-27 000</b>	<b>0,00</b>
Material purchase expenses	2 567 781	2 106 597	-461 184	82,04
Energy	1 055 915	1 231 133	175 218	116,59
Operation	1 698 521	1 380 878	-317 643	81,30
Salaries, honoraries, severance pay	3 021 387	2 929 650	-91 737	96,96
Social security contributions	2 141 719	1 894 419	-247 300	88,45
Private pension funds	111 831	121 354	9 523	108,52
Wastewater penalties	411 131	402 504	-8 627	0,00
Water burden fee	903 330	826 991	-76 339	91,55
Taxes, penalties	3 584 941	3 867 535	282 594	107,88
VAT payment	5 109 370	5 034 924	-74 446	98,54
Bank and interest expenses	20 000	16 241	-3 759	81,21
Transfer water management	0		0	
Own investment and value-added renovations	8 040 021	8 842 899	802 878	109,99
Development fund	0		0	
Other cash for investment	0		0	
Definite cash for other purposes	50 000	56 415	6 415	112,83
Dividends	3 870 000	3 652 345	-217 655	94,38
Participations	0	0	0	
BKSZT	8 351 101	7 838 904	-512 197	
Other supplier payments	3 391 947	3 347 425	-44 522	98,69
Mayor's Office rental fee	3 144 344	3 144 344	0	100,00
Compensation	60 000	60 000	0	100,00
Technical expenses	0		0	
<b>Free cash total</b>	<b>47 533 339</b>	<b>46 754 558</b>	<b>-778 781</b>	<b>98,36</b>
Development investments	0		0	
District investments	0		0	
Operation of flood protection equipment	27 000		-27 000	0,00
Non-free payments	<b>27 000</b>	<b>0</b>	<b>-27 000</b>	<b>0,00</b>
<b>Total cash</b>	<b>7 601 098</b>	<b>8 436 627</b>	<b>835 529</b>	<b>110,99</b>
of this: bank deposits	7 598 000	8 429 629	831 629	110,95
of this term securities, portfolio				
of this petty cash	3 098	6 998	3 900	225,89

## Financial risk

Wastewater collection and treatment is an activity that is subject to partial service obligation in compliance with Government decree 38/1995. (IV.5.) As per the dispositions of the decree, the service can be restricted in the case of only a part of the consumers (with determined conditions).

Another difficulty comes from the fact that the invoiced wastewater must be defined – in lack of wastewater measurement, on the basis of data from an organization independent from the Company – on the basis of the water consumption. Water consumption is followed by measurement, invoicing and then payment. However, the service provision obligation is not combined by a payment obligation from the side of the consumer. This is the reason why the greatest risk or rather uncertainty arising during wastewater services is the realization of the plan of invoiced wastewater based on water consumption, the collection of the sewer charges and their schedule.

With the increase of the quality of the service, the increase of the proportion of treated wastewater, the expenses and thus the sewer tariff also increase. With the increase of the tariff, the risks of collection also increase. The weather constitutes another risk. In a rainy period, water consumption and wastewater emission (thus revenues) are smaller, while the additional costs of great showers are burdened on the service but are not invoiced.

The risks of the activity are taken into account in the cash flow type pricing. At its own discretion, the Company strives to decrease its receivables with the continuous inspection of receivables and with the tools as per the required processes in case of non-payment (prompt note, lawyer's note, personal collection, lawsuit, etc). In 2011, the 17 collectors collected HUF 3,732 million of gross past due fees.

The Company aimed the camera inspection of the household connection of 8,000 properties for 2011-2012. In case the network operates illegally (after noticing the consumer in writing), the Company starts invoicing the sewer usage fees. In case the concerned person cannot truly prove the date of connection, the Company will issue an additional invoice for up to 5 years. The inspection of 4,265 properties took place until end 2011, of which further proceedings took place in 1,596 cases.

The Company's risk management and hedging policies are justified by the fact that it settled its liabilities in time, has no tax debts and pays its invoices in time – without taking out credits.

For the purpose of preserving stable liquidity, a liquidity plan is prepared, with daily liquidity analysis, investments are safe. As a result of this, the Company's liquidity and willingness to pay is good and it economically enhances the continuous operation of the sewer network.





# Sewer charges

The sewer usage fee is a maximum price defined by an authority. Since January 1, 1994, pursuant to Act LXXXVII of 1990 the rights of the pricing authority are exercised by the local municipalities – in the case of our Company, by the Municipality of Budapest. The formula used for determining sewer charges is approved by the Municipality of Budapest by Decision No.1422/96. (X.31.) of the General Assembly.

Based on the Company's tariff suggestion, by Decree No. 67/2010 (XII.23.) of the General Assembly of Budapest, sewer charges for the City of Budapest from January 1, 2011 have been set at HUF 325.30/m<sup>3</sup>. The tariff also contained water burden charge in the amount of HUF 18.57/m<sup>3</sup> that must be determined based on Act LXXXIX of 2003 and re-charged to the users based on the Government Decree number 270/2003.(XII.24.).

In 2011, sewer charges were subject to 25% VAT.

For the purpose of preserving a unified sewer fee, the coverage of the operational expenses of the Csepel wastewater treatment plant operated by BKSZT Budapest Wastewater Treatment Ltd. are included in the sewer usage fee.

The definition of the conditions of price application is also a right of the authority. Among these, the rules of watering discounts are included in Government Decree 38/1995. (IV.5.) as amended. Based on the decree of the Municipality of Budapest on the price application conditions, the Company has been concluding agreements with the public baths of Budapest for the price of collection of swimming pool waters ever since January 1, 2001. According to defined conditions, the fee can be decreased by 50%.

Based on municipality decree 35/2010. (VI.21.), the collection fee of wastewaters arriving from the agglomeration – under defined conditions – may be 60% of the all-time sewer fee. In its decree 58/2011. (IX.15.), the Municipality of Budapest made possible to give a 50% discount for the collection of agglomeration wastewaters exceeding 1 million m<sup>3</sup>. Fee discounts do not extend to the re-charged water burden fee.

The greatest risk of the tariff is given by the unknown changes of the regulatory system and the wastewater quantity plans, which – in lack of measurements – must be determined on the basis of the invoiced water quantities in compliance with Government decree 38/1995. (IV.5.) as amended. The latter is a data originating from an organization independent from the Company.

The net fee defined for 2012 is HUF 333.60/m<sup>3</sup>, which is subject to 27% VAT.



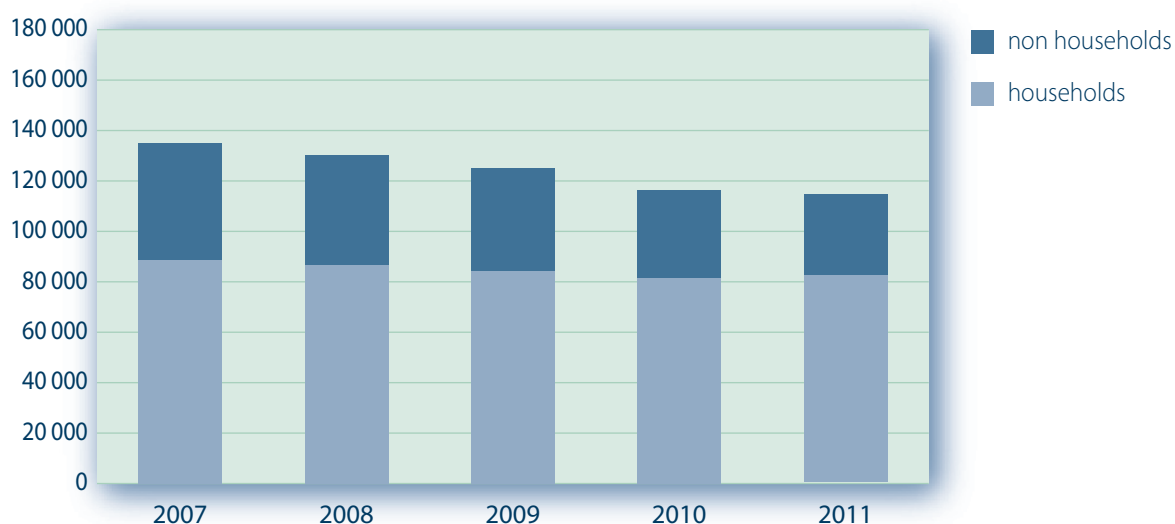
# Business performance and results

## Revenues

Annual income of the Company is basically determined by revenue from sewage collection and treatment, which is determined by current sewage charges and the volume of services rendered. In the year 2011 this income was HUF 37,211 million, which also contained HUF 2,147 million water burden fee. The revenue excess compared to the previous year is 17.9%, which comes from the 19.5% increase in the fee, the 1% decrease in invoiced wastewater and the agglomeration discounts.

Invoiced wastewater

in thousand m<sup>3</sup>



70% of the invoicing of 2011 was household wastewater emission, which was higher than the previous year's quantity by 628 thm<sup>3</sup>. The 2011 non-household consumption fell short of that of 2010 by 1,742 thm<sup>3</sup>. The change is caused by the fact that due to reclassification, the managers of condominiums among asset managers were classified within the household consumers (their consumption in 2010 was 1,414 thousand m<sup>3</sup>). In the capital, the volume of billed wastewater to corporate and industrial consumers was 22% of the highest quantity ever measured. (For this consumer group, the highest service usage was in 1985, with 153.4 million m<sup>3</sup>.)

The wastewater quantity analyses are related to actually invoiced volumes. Their composition is known, however, deferred services are only estimated, and may vary

according to actual sewage discharge. Invoiced volume consists of the following two parts: consumption in the current year and invoices issued for previous years' consumption.

- Current year's consumption remained 1.9% below last year's level.
- The effect of previous years' consumption delayed to 2011 was 9.5% higher than in the previous year.

As the cumulated result of the above two factors, in the year 2011, billed sewage was 1,114 thm<sup>3</sup> less than in the previous year

Volume of sewage as per the year of consumption in thousand m<sup>3</sup>

Description	2010	2011	Index
Deferred invoicing	9 555	10 462	109,5
Current year consumption	106 677	104 656	98,1
<b>Invoicing total</b>	<b>116 232</b>	<b>115 118</b>	<b>99,0</b>
Accrual	10 254	10 754	104,9
Accrual change	593	500	84,3
<b>Revenues total</b>	<b>116 825</b>	<b>115 618</b>	<b>99,0</b>

The annual plan targeted the invoicing of 114,800 thm<sup>3</sup> sewage, as well as deferred services of 9,100 thm<sup>3</sup> sewage. The plan realization of invoicing is 101.3%, that of deferred services 118.2%. In total, the basis of revenue is 1,773 thousand m<sup>3</sup> higher than planned.

The change in current year invoicing and deferment made possible the account of HUF 115,618 thousand m<sup>3</sup> of sewage quantity as revenue. This was less than in the previous year by 1,207 thousand m<sup>3</sup>. We can state that the pace of wastewater emission decrease has slowed down.

In the reporting period, a determining part of the net revenues of the Company (94.4%) came from wastewater collection and treatment. This proportion almost equals the previous year's.

Of the HUF 452 million revenues generated by water damage control and water quality protection activities, HUF 424 million was the counterpart of the maintenance of the flood protection facilities performed for the Municipality of Budapest. The revenues from actual flood protection in the reporting period was HUF 23 million.

Apart from this, other services were rendered in relation with the sewer utilities for HUF 461 million upon order. Within this, the most significant revenue came from wastewater control. The swimming pool water collection determined with a tariff discount of 50% and the invoicing of secondary water counters generated a total of HUF 192 million in revenues.

## Evolution of revenues

in million HUF

Description	2010 actual 3	2011 plan 2	2011 actual 3	Index % 3/1	Index % 3/2
1. Wastewater collection and treatment	31 558	36 568	37 211	117,9	101,8
2. Pool water, secondary counters	177	180	192	108,5	106,7
3. Other wastewater services	504	451	461	91,5	102,2
4. Water damage control, water quality protection	304	178	452	148,7	253,9
5. Industrial	147	583	33	22,4	5,7
6. Construction industry	0	0	0	0	0
7. Transport activity	1	1	1	100,0	100,0
8. Mediated services	136	12	16	11,8	133,3
9. Other activities	726	1 024	1 046	144,1	102,1
<b>Revenues from domestic sales</b>	<b>33 553</b>	<b>38 997</b>	<b>39 412</b>	<b>117,5</b>	<b>101,1</b>
<b>Revenues from export sales</b>	<b>0</b>	<b>0</b>	<b>24</b>		
<b>I. Net revenues from sale</b>	<b>33 553</b>	<b>38 997</b>	<b>39 436</b>	<b>117,5</b>	<b>101,1</b>
<b>II. Other revenues</b>	<b>18 560</b>	<b>22 606</b>	<b>21 404</b>	<b>115,3</b>	<b>94,7</b>
A. Operational revenues	52 113	61 603	60 840	116,7	98,8
<b>B. Financial revenues</b>	<b>450</b>	<b>300</b>	<b>598</b>	<b>132,9</b>	<b>199,3</b>
C. Normal operational revenue	52 563	61 903	61 438	116,9	99,2
<b>D. Extraordinary revenues</b>	<b>738</b>	<b>705</b>	<b>689</b>	<b>93,4</b>	<b>97,7</b>
<b>E. Total revenues</b>	<b>53 301</b>	<b>62 608</b>	<b>62 127</b>	<b>116,6</b>	<b>99,2</b>

The industrial, building industry and transport activities generated HUF 34 million revenues to the Company.

The value of mediated services exceeded the plan by HUF 4 million, reaching HUF 16 million.

Revenues from other activities increased by HUF 321 million compared to the previous year and reached HUF 1,047 million.

Other income increased by HUF 2,844 million compared to last year. Among the changes compared to 2010, the factoring income increase of HUF 2,804 million (caused mainly by the tariff increase besides the slight decrease of the scope of factoring) and the decrease of provision release by HUF 139 million are outstanding as well as the re-writing of depreciation higher by HUF 119 million. HUF 36 million additional sewer penalties were received than in the previous year, the change of all the other items was HUF 24 million.

As opposed to the plan, other revenues fell short by HUF 1,202 million. In the reporting period, factoring revenues were HUF 651 million lower, the planned property sales were not realized in a value of HUF 254 million. The difference of provision release compared to the plan is: HUF -506 million. As opposed to the plan, the sewer penalty revenues are HUF 31 million higher. Technical revenue above the plan arose from recovered depreciation (HUF 144 million), which is due to the net planning of depreciation. The remaining items were HUF 34 million higher than planned altogether.

Revenues from financial transactions were HUF 148 million higher the level of the year 2010. HUF 298 million revenue above the plan was reached, since free cash temporarily increased and interest rates evolved better than expected.

Amortization of assets received without compensation was included in extraordinary revenues, which decreased in comparison to the base period, by HUF 49 million.

As a summary, in the year 2011 the Company's net revenues reached HUF 39,436 million, HUF 5,883 million more than in the previous year. The total revenues of the Company exceeded HUF 62,127 million. This amount is higher by 16.6%, that is HUF 8,826 million than last year's - mainly thanks to the increase in sewer tariff.

## Expenses

Due to the high level of operating assets required for water management services, a large part of the expenses – similar to revenues – are beyond our control. Asset-based expenses are incurred independently from the usage of the service, and these make up the major part of the expenses. Among these, amortization, maintenance and rental fees are outstanding in terms of both volume and proportion.

In 2011, asset-based costs reached 59.3% of the sales expenses, among which 43.3% was amortization and the rental fee and 16% was maintenance.

In total, sales expenses increased by HUF 6,221 million, that is 29.5% in comparison with the base period, due to the effect of the fee payable to BKSZT Budapest Wastewater Treatment Ltd. all year long. The yearly plan was altogether achieved in 94%.

Sales expenses in million HUF

Description	2010 actual 1	2011 plan 2	2011 actual 3	Index% 3/1	Index % 3/2
Material-type expenses	9 954	16 400	15 384	154,6	93,8
Personnel-type expenses	5 586	6 470	6 011	107,6	92,9
Amortization	6 133	6 540	6 435	104,9	98,4
Capitalized own production	-613	-450	-550	89,7	122,2
<b>Sales expenses</b>	<b>21 060</b>	<b>28 960</b>	<b>27 280</b>	<b>129,5</b>	<b>94,2</b>

The actual value of material-type expenses was HUF 15,384 million. 17% of material-type expenses were given by material and energy costs, 82% by the value of used services. The joint proportion of other services and mediated services is 1% altogether.

Compared to the previous year, 92% of the HUF 5,430 million increase was caused by the waste water treatment service fee paid to BKSZT Budapest Wastewater Treatment Ltd. with HUF 4,987 million. Its cause is that 2011 was the first year when this cost arose during the full year. Furthermore

- material costs were HUF 25 million higher,
- energy costs increased by HUF 207 million - mainly as an effect of price change,
- change in other rental fees HUF +37 million,
- the excess in foreign maintenance is HUF 217 million,
- sludge disposal additional costs: HUF 176 million.

The decreasing factors:

- savings on chemicals costs is HUF 67 million,
- the change in mediated services: HUF -121 million,
- the reached decrease of other items is altogether HUF 31 million.

Compared to the plan, the decrease is HUF 1,015:

- at material and chemicals expenses HUF 285 million,
- energy costs HUF +89 million,
- the change in foreign maintenance is HUF -198 million,
- the decrease of the wastewater treatment service fee paid to BKSZT Budapest Wastewater Treatment Ltd. is HUF 584 million,
- the change in mediated services: HUF +4 million,
- the aggregate change of the other items is HUF -41 million.

Personnel-type expenses increased by 8% from the previous year. 70% of personnel-type expenditures was wage cost, 8% other personnel-type payments and 22% wage contributions. Three factors influenced the evolution of personnel-type expenditures, the wage increases, the increase in headcount and the change of non-recurring payment obligations (within this the personnel-type expense of flood protection).

In the year 2011, the value of amortization was HUF 6,435 million. The increase of 5% as opposed to the previous year was caused by the increase in the value of fixed assets.

Capitalized own production contributed HUF 550 million to the above listed expenses, which is HUF 63 million lower than the 2010 amount.

## Evolution of expenses

in million HUF

Description	2010 actual 1	2011 plan 2	2011 actual 3	Index% 3/1	Index % 3/2
Sales expenses	21 060	28 960	27 280	129,5	94,2
Other expenses	24 502	26 148	27 531	112,4	105,3
Operational expenditure	45 562	55 108	54 811	120,3	99,5
Financial expenses	13	7	7	53,8	100,0
Normal operational expenses	45 575	55 115	54 818	120,3	99,5
Extraordinary expenses	315	110	117	37,1	106,4
<b>Total expenses</b>	<b>45 890</b>	<b>55 225</b>	<b>54 935</b>	<b>119,7</b>	<b>99,5</b>

Above sales costs, the aggregate amount of expenditures reached HUF 27,655 million. Within this other expenditure reached HUF 27,531 million, which represents a HUF 3,029 million increase compared to the previous year. The expense of factoring increased by HUF 2,928 million in compliance with the increase of the revenue. The local tax grew by HUF 14 million, while the amount of other local taxes increased by HUF 11 million. Provisions were HUF 486 million higher the level of the year 2010. This is caused by the fact that HUF 704 million more had to be provisioned for wastewater penalties, HUF 943 million more for plan/actual differences, while the provision made in 2011 for environment protection obligations was HUF 977 million lower, provision for personnel-type expenditures by HUF 184 million. As an effect of the decrease of wastewater quantities and the increase of efficiency of the treatment phase, the WBF decreased by HUF 317 million, wastewater penalties decreased by HUF 229 million. The amount of penalties, indemnities, allowances was HUF 18 million lower than in the previous year, while depreciation for receivables, inventory and investments grew by HUF 420 million. In 2010 the accounting value of sold fixed assets was HUF 5 million, the Company did not account for any such expenses in 2011. The value of above-plan depreciation is lower than the previous year's by HUF 203 million, the amount of other taxes, duties, other items is lower by HUF 56 million.

The cost of financial transactions of the Company is 55% of the previous year's and reached HUF 7 million.

Among extraordinary expenses, we can find HUF 56 million of definitely handed over cash (József Attila Theatre HUF 36 million, trade union HUF 13 million, public utility subsidies HUF 7 million) and the HUF 60 million paid to the Network Foundation. The amount of extraordinary expenses was HUF 198 million lower than the 2010 figure, since in 2010, we performed a HUF 200 million-worth cash donation.

In summary, total costs and expenses of the Company reached HUF 54,935 million in 2011. Because of this and the revenues, profit before tax was HUF 7,191 million, which is 97% of the base figure.

## Profit

The Company's profit before tax was influenced by the following factors: the operating profit was HUF 6,029 million; the profit from financial operations increased this profit by HUF 591 million. An extraordinary profit of HUF 572 million was accounted for. The combined effect of the above resulted in the profit before tax of HUF 7,192 million. The Company had a profit tax payment obligation of HUF 1,846 million.

Evolution of the profit in 2011

in million HUF

Description	Revenue	Expenses	Profit
Operational activities	60 840	54 811	6 029
Financial operations	598	7	591
Normal operational activities	61 438	54 818	6 620
Extraordinary activities	689	117	572
Profit before tax	62 127	54 935	7 192
Payable tax			1 846
Prot after tax			5 346
Paid (approved) dividends			4 220
Balance sheet profit			1 126



# Investments and developments

## Capital investments

The operation of sewers is investment intensive. Development and reconstruction expenses are high and of a bigger volume as well. Sewers of the capital are still incomplete, both in terms of sewage and rainwater collection and their treatment. At present, capital investment for sewage works may come from the following financial sources:

- EU and state subsidy (via the Municipality of Budapest),
- budget of the Municipality of Budapest and rental fee payable for the rented assets,
- own development resources of the Company,
- contribution from district municipalities,
- financial resources of the general public for the construction of sewers (in general with additional subsidies from the district municipalities).

All completed developments are operated by our Company.

## I. Investments financed by the Municipality of Budapest

Based on the agreement of the owners, the Company contributed to the sewer developments in 2011 by the payment of the HUF 2,515 million rental and usage fee ensured in the tariff and indirectly through the transfer of the HUF 2,879 million rental fee payable by BKSZT Budapest Wastewater Treatment Ltd. after the assets of the BCWTP and also ensured in the sewer tariff (the rental fee coverage of the rental fee payment obligation of the Csepel Wastewater Treatment Plant was included in the sewer tariff, the operator BKSZT Budapest Wastewater Treatment Ltd. receives it from the Company as a part of the wastewater treatment service fee and then transfers it further to the Municipality of Budapest).

The tariff did not include any development fund in the reporting period. The payment of the rental and usage fee took place monthly in accordance with the Cash handover-takeover agreement.

The value of the assets taken over for operation continuously increases; in 2011, value-increasing renovations took place at both the North-Pest and the South-Pest Wastewater Treatment Plants, and the newly built Esztergomi street main conduit has been capitalized.



Capital investments in the possession of the Municipality of Budapest and operated by the Company in thousand HUF

Description of investment	until year end 2010	in 2011	until year end 2011
XI., Hamzsabégyi str. - Ajnácskő str. conduit	389 176		389 176
Rákosvölgy northern conduit	1 870 149		1 870 149
IV-XV., Szilaspaták-shore conduit	356 666		356 666
IV., Corvin-Bajza-Fóti street conduit	382 990		382 990
II., Zsigmond square pump station	1 743 317	27 285	1 770 602
South-Pest Wastewater Treatment Plant	6 019 836	63 962	6 083 798
North-Pest Wastewater Treatment Plant	5 566 791	68 133	5 634 924
South-Buda conduit	657 546	2 079	659 625
North-Pest concentrated receiver	38 927		38 927
Albertfalva concentrated receiver	46 127		46 127
III., Bécsi street conduit	277 429		277 429
X., Kőbányai street conduit	775 220		775 220
XIV., Hungária boulevard	608 851		608 851
XI., Etele square	77 446		77 446
Expo area	345 745	2 186	347 931
XV., Szócs Áron and Eötvös str.	33 519		33 519
Hungária-Könyves Kálmán boulevard	241 230		241 230
Route number 5.	321 338		321 338
VI-VII-XIV., Dózsa György street	80 174		80 174
IX., Haller street	67 786		67 786
Fiumei street	90 124		90 124
XVII., Rákosszaba street - Péceli street	92 016		92 016
VIII., Orczy street	1 316		1 316
XIV., Bácskai str. - Laky A. str.	279 435		279 435
IV., Káposztásmegyer development area	265 556	7 452	273 008
Csomád landfill	629 545		629 545
XXIII., Szent László str. pump station	18 020		18 020
III., Pók str. main conduit	1 561 697		1 561 697
III., Pók str. pump station	1 421 624		1 421 624
XX., Nagykőrösi service road	11 986		11 986
XVII., Cinkotai street	13 554		13 554
II., Hűvösvölgyi street	719 181		719 181
XIII., Esztergomi street main conduit and sewers	0	1 727 989	1 727 989
Other properties	13 195		13 195
Other pump stations	682 402	66 545	748 947
Sewers taken over from districts	28 530 754	90 204	28 620 958
<b>Total</b>	<b>54 230 668</b>	<b>2 055 835</b>	<b>56 286 503</b>

## II. Projects completed from own resources of the Company

Composition of own development resources in 2011:

- Opening amount of available financial resources HUF 489.3 million.
- Development contribution received: HUF 686.9 million.
- HUF 6,434.7 million was created as amortization in the reporting period.
- From Company cash, HUF 508.0 million was used for counterparts of concession rights.
- Other sources in the fee (value of manhole covers ensured for road constructions in the Capital): HUF 91.7 million.
- Book value of assets written off: HUF 115.9 million.
- Cumulated interest of development funds unused in previous years was: HUF 51.2 million.
- HUF 48.1 million was received for damage compensation.
- The amount ensured from Company cash – due to lack of revenue – HUF 429.1 million.

In total, HUF 8,854.9 million resources were available for investment.

### Utilization of resources available for development

The amount used for investments was HUF 8,854.9 million, of which HUF 508.0 million was spent on the acquisition of concession rights by the Company, while the amount ensured for the Budapest road constructions (manhole covers, water grids) was HUF 91.7 million. The total expense for own investments was HUF 8,255.2 million.

Most of the Company's investments and renovations have to be done under the Public Procurement Act. In 2011, 62 public procurement processes took place in relation with purchases realized performed from investment resources reaching the public procurement threshold and based on these, 153 contracts were concluded. Furthermore, 24 centralized public procurement processes took place through the Public Procurement Supply Directorate.

From the HUF 8,255.2 million own resources 97% was reconstruction and replacement of assets and the proportion spent on development only 3% .

### Reconstruction, value-added renovation, replacement

Reconstruction utilization and replacement was HUF 8,039 million. We dedicated 51% of the total usage to the reconstruction of sewers, 24% to that of wastewater treatment plants, 4% to that of pump stations, and 15% to that of other assets. The replacement of assets constituted 6% of the utilization.

## Detailed allocation of own financial resources by objectives

in million HUF

Description	2010 actual	2011 actual
Wastewater treatment		
Value-added	104,9	285,9
Reconstruction	1 468,1	1 610,4
Pump station		
Value-added	18,2	65,2
Reconstruction	109,2	264,8
Network		
Reconstruction	3 731,1	4 113,8
Others		
Value-added	457,6	500,6
Reconstruction	239,6	461,1
Planning	146,2	216,1
<b>Reconstruction total</b>	<b>6 274,9</b>	<b>7 517,9</b>
IT	55,2	31,4
Specialized machines	29,3	171,9
Transport means	12,5	96,2
Small machines, instruments	111,9	136,6
Small assets	65,1	85,1
<b>Replacement total</b>	<b>274,0</b>	<b>521,2</b>
<b>Reconstruction and replacement</b>	<b>6 548,9</b>	<b>8 039,1</b>
IT	220,8	125,3
Stench prevention	0,0	0,0
Small machines, instruments	27,9	34,1
Small assets	43,4	56,7
<b>Development total</b>	<b>292,1</b>	<b>216,1</b>
<b>Own usage</b>	<b>6 841,0</b>	<b>8 255,2</b>
Road constructions	152,0	91,7
Concession rights		508,0
<b>Usage</b>	<b>6 993,0</b>	<b>8 854,9</b>

The value of sewer reconstruction carried out in 2011 was HUF 4,114 million, above which HUF 92 million of manhole cover replacement in relation with Budapest road constructions burdened the Company.

During the implementation of the investments, the contractors carried out the renewal of 10,137 lm public sewers in 59 streets.

In relation with the Budapest and district road reconstructions public sewers were rebuilt in 8 streets in a length of 1,177 lm. These are the following:

■ IV district Knezich str. (Attila str. - Nádor str.)	165,5 lm
■ IV district Venetianer str. (Lőrincz str. - Deák F. str.)	100,0 lm
■ IV district Thaly K. str. (Labdarugó str.- Baross str.)	202,2 lm
■ IV district Labdarugó str. (Thaly K. str. - Gárdi J. str.)	137,4 lm
■ IV district Schweidel J. str. (Schweidel J. str. - Attila str.)	110,8 lm
■ X district Kelemen str. (Gergely str. - Kápolna square)	259,8 lm
■ XIII district Pozsonyi str. (Jászai M. square - Victor Hugó str.)	manholes
■ XX district Attila str. (Kossuth L. str. - Zilah str.)	201,4 lm

Due to the condition of public sewers, the renovation of the public sewer network was carried out in further 51 streets, in a length of 9 km based on the investment program.

Among public sewer reconstructions, we shall note:

■ II district Pázsit str. (Szilágyi E. avenue - Pasaréti str. )	275,4 lm
■ II district Nagybányai str. (Csalán str. - Vöröstorony str. )	578,4 lm
■ IV district Zichy M. str. (MÁV Szobi - Istvántelki str.)	200,6 lm
■ IV district Csokonai str. (Nádor str.- Klauzál str.)	192,5 lm
■ VII district Marek J. str. (Dózsa Gy. str. - Murányi str.)	204,9 lm
■ X district Sírkert str. (Kozma str. - Sírkert str. 27.)	191,3 lm
■ X district Kozma street (Sírkert str. - between 42 <sup>th</sup> trunk)	112,9 lm
■ XI district Badacsonyi str. (Bocskai str. - Diószegi str. )	166,9 lm
■ XI district Kökörcsin. str. (Karolina str. 50-56.)	200,1 lm
■ XI district Halmi str. (Fejér L. str. - Mohai str. )	298,5 lm
■ XIII district Dráva str. (Hegedűs Gy. str. - Váci str. )	300,2 lm
■ XIV district Báróczy str. (Mogyoródi str. - Egressy str. )	380,4 lm
■ XIV district Bazsarózsa str. (Örs Vezér str. - Fischer I. str. )	358,1 lm

■ XIV district Utász str. (Kerepesi str. - Tábornok str.)	138,8 lm
■ XXIII district Grassalkovich str. (Hunyadi str. - Házikert str.)	337,5 lm
■ KÖKI terminal	651,9 lm
■ X district Mázsa square	605,8 lm

The reconstruction of pump stations has made up HUF 265 million, while the amount spent on value-added renovations reached HUF 65 million.

The amount spent on the reconstruction of wastewater treatment plants was HUF 1,610 million, which was further increased by HUF 286 million value added renovations. The Company spent HUF 108 million on the reconstruction works of the North-Pest plant. Among these the most significant are: the modernization works of the sludge hall HUF 51 million, the sludge densifying table HUF 30 million, the construction of the shore well HUF 15 million. We performed the acquisition of polyelectrolyte-dosing units and capacity increase for further HUF 12 million.

The extension of the Csomád composting facility and the purchase of a loading machine took HUF 56 million.

The amount spent for the reconstruction of the South-Pest plant in 2011 was HUF 1,425 million. Of this HUF 633 million was spent on completing the covering of pre-mechanical facilities, and the covering of the aeration basins also started for HUF 500 million. The installation of a disinfection system cost HUF 56 million. The heightening of the activated sludge biological branch took HUF 46 million and HUF 73 million were spent on the concrete corrosion protection of the pre-mechanical facility. The Company spent HUF 40 million on purchasing on-line measurement instruments, while the extension of the receiving of the liquid waste receiving unit cost HUF 30 million. The installation of the dehydration unit represents an investment value of HUF 47 million.

Based on several smaller items, further HUF 21 million were accounted for the reconstruction of the plants.

The Company ensured HUF 352 million for investments and value-added renovations carried out in-house.

The replacement of various tools cost a total of HUF 521 million. 59% of these were the replacement of small machinery and instruments (HUF 137 million) and specialized machines (HUF 172 million). The Company spent HUF 96 million on replacing transport means. The replacement of IT assets cost HUF 31 million and that of small assets and working clothes cost HUF 85 million.

## Development

The Company spent a total of HUF 216 million on development investments, which equals only 3% of all own utilizations. Within this, the most significant is the amount spent on information technology, which reached HUF 125 million.

# Maintenance

The ensuring the continuous operability of the high level of assets can be achieved through appropriate maintenance activities.

The primary goal of the maintenance activity is to preserve and improve the technical condition of the equipment park of the service. The Company was able to ensure the conditions of continuous and safe operation throughout 2011 in regards of both its own assets and those taken over for operation. The Company performed the works and had them performed so that the technical condition and physical appearance of the structures and appliances be continuously good and tidy. Budapest Sewage Works Pte Ltd. maintains the operated assets and optimizes their use.

In 2011, our Company spent HUF 4,373 million on maintaining fixed assets. The proportion of maintenance costs within sales expenses is 16%.

Evolution of maintenance in 2011 in thousand HUF

Description	2010	2011	Index %
Own maintenance	2 848 624	3 206 873	112,6
External maintenance	949 252	1 165 870	122,8
<b>Total</b>	<b>3 797 876</b>	<b>4 372 743</b>	<b>115,1</b>

The value of maintenance performed by external contractors made up 27% of the total amount spent on maintenance, which is HUF 217 million or 23% higher than the previous year's amount. The value of own maintenance was HUF 358 million, exceeding the 2010 expenses by 13%.

The Company performed the works and had them performed so that the technical condition and physical appearance of the structures and appliances be continuously good and tidy, it maintains the operated assets and optimizes their use.

In 2011, the Company did not refrain from the maintenance of the structures and equipment, there was no omitted task to which the Municipality ordered the Company to do (at the latter's expense).

In 2011, the Company complied with decree of the Municipality of Budapest 59/1995.(X.20.) on the use of Budapest public spaces and the order of public spaces, it obtained the public space usage permits for the investments and has paid the public space usage fee determined by the owner of the public space.

## Data and evaluation of network maintenance

Maintenance of the Budapest network

Description	Unit	2010	2011	Index %
Main conduit cleaning	lm	18 329	18 619	101,6
Traditional crab cleaning	lm	8 851	14 584	164,8
Total mechanical cleaning	lm	27 180	33 203	122,2
High pressure machine cleaning	lm	501 297	524 999	104,7
Total sewer cleaning	lm	528 477	558 202	105,6
Obstruction elimination	lm	61 935	45 030	72,7
<b>Total cleaning</b>	<b>lm</b>	<b>590 412</b>	<b>603 232</b>	<b>102,2</b>
Line sinkhole cleaning	pc	30 113	34 813	115,6
Individual cleaning	pc	22 968	16 991	74,0
<b>Total sinkhole cleaning</b>	<b>pc</b>	<b>53 081</b>	<b>51 804</b>	<b>97,6</b>
<b>Obstruction elimination</b>	<b>pc</b>	<b>3 045</b>	<b>3 002</b>	<b>98,6</b>
<b>Extracted sludge</b>	<b>m<sup>3</sup></b>	<b>37 256</b>	<b>37 434</b>	<b>100,5</b>
<b>Inspected sewer length</b>	<b>lm</b>	<b>1 210 485</b>	<b>1 604 499</b>	<b>132,6</b>
<b>Repaired sewer length</b>	<b>lm</b>	<b>3 504</b>	<b>3 519</b>	<b>100,4</b>

2011 was poor in precipitations. The quantity of wastewater further decreased. As a result of these, the stench of the sewers increased and complaints from the population grew more frequent.

For the purpose of decreasing stench effects, the Company put a special attention to the cleaning of sewer sections subject to stench, especially conduits. The efficient method of cleaning of conduits is the crab cleaning, which increased by 65% compared to the previous year. It is still necessary to manually remove great quantities of debris from the sewer network, therefore, we purchased a new pair of crabs at the end of the year.

As a result of planned prevention works and the lack of precipitations, the number of obstructions decreased in both number and the length of concerned network compared the last year.

The Company put a great emphasis on the prevention maintenance of main and public transport routes for sinkhole cleanings and the number of lined sinkhole cleanings increased. The number of stray cleanings somewhat decreased as an effect of prevention and lack of precipitations as well.

The length of inspected sewers increased by almost 33%. The fact that the Company puts a great effort in the camera uncovering of illegal connections also contributed to this.



An external contractor winning the public procurement procedure performs the maintenance-like repair works, in good quality. The length of repaired sewers remained at last year's level.

In 2011, the operation of the Buda side Danube-bank conduit started after its trial operation. This conduit collects a great quantity of wastewater to the Kelenföld Pump Station with its big diameter, slight fall and direction cuts. The experience related to the new conduit is still positive in both flood and rainy weather. The Company still handles the conduits leading to the treatment plants with an outstanding attention and regularly removes the settled sewer sludge. The quay part of the conduit must be continuously inspected and the manholes replaced if necessary.

The Company reorganized the selection of sewer casts (taking into account the load conditions). The public procurement related to the new casts with the help of auxiliary framed self-levelling covers has been closed successfully in 2011.

The use of paperback maps has stopped, map digitalization was completed, which increases the accuracy and speed of data provision. The replacement of the CSAHIR system linking the paperback map base and the asset registry, the completion of which is expected for 2012.

### **Main risks of the network maintenance activity**

With the decrease of the volume of dry weather wastewater and the unfavourable change in the characteristic hydraulic conditions, the quantity of settling sewer sludge increases.

The intensity of storms increased, while their frequency decreased, whereby the natural scavenging of the unified system sewer became also scarcer. A great quantity of waste, sand (lubricity elimination) and alluvium (highland areas) get into the sewer. The sludge with high inorganic matter content packs and its removal becomes more and more difficult. In flat land, in the slow inclination sections, a great quantity of matters settles in the sewers from the wastewater. Debris and settlement cause obstruction, fermentation and ultimately stench. In the future, it will be necessary to prevent the increase of obstructions and the increase of the length of fattening sewer sections with mechanical and manual means.

### **Tools for expected development and risk diminution**

- The application of the combined sewer cleaning technology in further main conduits for the purpose of increasing the cleaning efficiency.
- The putting into operation the new crab pair for the cleaning of bigger cross-section conduits.
- Continuing the conciliation of the asset registry and the digital map base.
- The lining of the fugues of brick-walled sewers and of the bed of other material sewers and their renovation greatly increases the life expectancy of the sewer. The Company institutionalizes this activity in 2012.

# Environment protection

The environmental activities of our Company in 2011 were still influenced by the legal changes occurring as a result of the legal harmonization processes due to the accession to the EU. The Company operates in the fields of water quality protection, waste management and air purity protection on the basis of Act LIII of 1995. One of the main tasks of the Company is the performance of the environment protection tasks and the respect of the environment protection rules, the control of the wastewater quality flowing into the capital's public sewer network and the Danube, the registration of data and the compliance with the data supply requirements.

In the area of environment protection, contacts with authorities happens through the relationship manager system, contacts were balanced and without problems throughout the year.

Our Company is one of the biggest water public utility companies of the country and through its wastewater collection and treatment activities, it is also the biggest environment protection service provider. Our fundamental objective is the continuous development of the service level and safety, and this in a way that prevents environment pollution, as well as the increase of consumers involved in the collection and treatment of wastewater and rainwater. The Company's Environment Management system defines the most important principles in detail.

## **In terms of the tools for environment protection, the principles of the policy applied by the Company are:**

- 1** Cooperating with our owners, the Company strives to realize solutions that are quality and environment focused during the implementation of reconstructions necessary in the fields of wastewater collection and treatment.
- 2** The basis of the operation of the processes is the employees' work, thus the Company considers important the prevention of the injuries of employees and of health damages at work, the continuous analysis and development of workplace health protection and safety management. The objective of the Company is to set up safe working conditions for its employees and to minimize the risks of possible workplace threats. For this purpose, it defines the threats associated with the activities and assesses the risks of their occurrence. It contains technical and organizational measures to prevent the occurrence of accidents and emergencies and continuously monitors the respect of safety at work rules.
- 3** At all levels of the Company, it reinforces the feeling of responsibility towards the protection of our environment.

- 4 The objective of the Company is to maintain the polluting effects of wastewater collection and treatment at the lowest possible level and to prevent polluting the environment. It continuously optimizes the wastewater treatment technologies so that the emitted wastewater burdens the environment less and less. It intends to increase the quantity of biologically treated wastewater as well as the efficiency of treatment in accordance with the EU environment protection requirements.
- 5 During wastewater treatment, the Company continuously analyses the effects on the environment – besides laboratory quality control – and makes steps to decrease the load on the environment, to prevent and decrease pollution.
- 6 In the case of each new technology to be introduced, the Company analyses and pre-assesses its effects on the environment, health protection on the workplace and the safety of work. It strives to achieve that the new technology be environment friendlier, safer and less threatening for health than the previous one.
- 7 We ensure broad cooperation with the authorities.
- 8 During the procurement, development and operation of equipment, it takes into account the efficient energy and material usage and the safety of work.
- 9 The Company presents the policies related to quality, environment protection and safety at work with its suppliers and sub-contractors and ensures that they accept them and concludes its contracts taking this into account.
- 10 Through the application of state-of-the-art sewer cleaning equipment and technologies, it strives to ensure the population's environmental serenity.
- 11 It enhances the relationship with its consumers through a modern and well installed system and develops satisfaction on the basis of surveys.

The Company intends to achieve the qualitative and quantitative development of its service provision activities together with the creation of a healthy environment to the satisfaction of its consumers, employees, and the inhabitants of the capital city of Budapest and its surroundings.

The Company organizes its activities according to the quality assurance standard ISO 9001:2000, the environment-focused management standard ISO 14001:2004 and the workplace health protection and safety management systems standard MSZ 28001:2008. The Company's environment management system (KIR) obtained its certification deed on June 11, 2001 from the auditing organization of Lloyd's.

The North-Pest and the South-Pest Wastewater Treatment Plants have the certificate from the beginning, the Angyalföld pump station since 2008, the Békásmegyer and the Pók street pump stations since 2009, while the Csomád landfill has it since 2010. The certification deeds are valid through 2013.

The Company has started the preparation work in 2011 for the introduction of the EMAS system at the Angyalföld Pump Station according to decree 1221/2009/EC. The first step is the

collection of the data necessary for the compilation of the environment protection declaration and their registry into a system. The external audit that took place in May 2011 certified the existence and operation of all requirements set forth in the decree. The organization of the certification body Lloyds Austria found the system compliant and issued a certificate valid until July 14, 2014, on the basis of which it has been registered under number Hu-000025 in the Member State (Hungarian) list of the International Registry system of EMAS.

In 2011, the environmental objectives, targets and programs for the certified sites have been realized as follows:

#### **South-Pest Wastewater Treatment Plant**

- complete covering of the pre-mechanics and the treatment of created stinking air through biofilters,
- the examination of efficiency increase of the activated sludge biological treatment unit with half-operating experiments,
- the replacement of aeration panels in the activated sludge basins with the installation of new ones,
- construction of a lightweight structure installation serving the temporary storage of sewer waste and containing a disinfection unit,
- replacement of the biofilters operating at the communal liquid waste receiving unit and the gravitational sludge densifier,
- capacity increase of the communal liquid waste receiving unit.

#### **North-Pest Wastewater Treatment Plant**

- the creation of the plant's nutrient (nitrogen, phosphorus) removal phase and the extension of its capacity,
- storage and recycling of the sludge created at the station,
- fermentation of the plant's wastewater sludge and utilization of the created biogas for energy production purposes,
- decrease of the noise effects of the wastewater treatment plant,
- temporary storage of diluted and rainwater arriving to the plant,
- intensification of the plant's sludge hall biofilter.

#### **Csomád Landfill**

- trend monitoring of the ground water quality data provided by the landfill's ground water monitoring well network,
- planting of trees in the aspen watering field of the landfill,
- the assessment of the environment effects of the landfill through ecopoint system.

### **Angyalföld Pump Station**

- renovation of geiger grids,
- renovation of the compound pulley and the grid,
- lower range regulation of the oxygen dosing.

### **Békásmegyer Pump Station**

- continuing the optimization of oxygen dosing,
- utilization of the created green waste.

### **Pók street Pump Station**

- utilization of the created green waste,
- creation of an own well for watering,
- creation of an own well for spraying (water use of biofilter).

The Company performs its waste management in a regulated framework too.

The Company has complied with all obligations regarding the data supply and permitting pertaining to waste.

The pre-treatment (grid waste, sand trap sediments) permit of the South-Pest Wastewater Treatment Plant has been modified due to the increase of the quantity of waste. In relation with this, the permits pertaining to recycling and collection through transport have also been extended. Related to the extension of the scope of treatable waste, the plant received a permit to pre-treat waste from paper factories, as well as for the collection and treatment of leachate water.

The quantity of recyclable waste created at the North-Pest Wastewater Treatment Plant increased and in relation with this, the permits related to transport have also been extended. Related to the extension of the scope of treatable waste, and of waste treating activities, the plant received a permit to pre-treat waste from paper factories.

The Csomád Wastewater Sludge Landfill received a permit for experimental recycling and the possibility to recycle alternative waste in the composting technology has been opened through the modification of the IPPC permit.

Since 2009, all sites of the Company operating with staff have a possibility to selectively collect waste. The quantity of selectively collected waste transferred for recycling in 2011: 6,780 kg plastic waste, 5,302 kg paper waste.

We completed all tasks related to the protection of air cleanness for the entire Company. The Company has entirely performed the air purity measurements and data supply obligations. Currently, air suction and treatment is 100% at the covered installations of the two treatment plants. Our Company uses biofilters to suck polluted air created during the treatment of wastewater and to treat used air in order to decrease the emission of stinking matters. The quantity of treated polluted air in 2011 was 1,927 million Nm<sup>3</sup>.

The prevention of stench creation and outflow are ensured by gel tables located in critical points of the sewer network (41 units). In order to decrease the collection stench flowing out of the network through sinkholes, the Company has transformed the sinkholes into stench closing ones. In 2011, we have performed 227 such transformations and the replacement of 28 traditional (opening grain) sinkholes to stench closing (swivel joint) has taken place.

In order to prevent wastewater arriving by conduit from the agglomeration of becoming anaerobe, the Company operates a limited nitrate adding system in Kerepes, the XVIII. Üllői street, and the III. Rózsadomb street intermediary pump stations. For the same purpose, iron(III)-nitrate is being added at the III. Zab street and the XVIII. Méta street intermediary pump stations.

## **Energy rationalization**

Due to the breakdown of one of the fermentation towers at the South-Pest plant, the production of biogas decreased by 14% compared to 2010, thus the quantity of electricity produced in the gas turbine was also 14% lower.

With the appropriate operation of the 3 gas turbines at the North-Pest plant the quantity of the locally produced electricity grew by 5.5%. The self-supply of the wastewater treatment plant during 2011 was 80.48%.

In 2011, the replacement of the lighting transformers of the fluorescent lamps used for the lighting of the building have been replaced in several sites of the Company. With the modernization of the lighting technology, the energy saving was 35%.

The heat insulation of the office building located at the Kerepesi street 19. site started in December 2011.

In 2011, the Company has spent almost HUF 90 million on research and experimental development. We have cooperated with universities and research centres regarding almost all areas of activity. Research conducted as own activity focused primarily on the increase of the efficiency of applied technologies, the development of new technologies and methods. As a result of research contracts, documentations have been developed in 2011 which serve the basis of energy rationalization objectives and the optimization of wastewater collection and sludge recycling.

## **The inspection of wastewater emitters**

We have placed great emphasis on the efficient inspection of the origins of the public sewer damages caused by industrial outputs. As a result of legal obligations – in the case of industrial factories emitting considerable load – the number of compulsory self-controls has further increased.

The Company's central laboratory and the wastewater sampling unit operated as per the system standard last year as well. The Company has requested the renewal of the accreditation status of the Sampling Group and the Laboratory Group in June 2011 from the National Accreditation Body. The re-accreditation process was successful for both units, thus the NAB renewed the accreditation statuses until November 23, 2014.

## Activities of the year 2011

Activity	Measurement index in pc		
	2009	2010	2011
Inspection of business units	586	486	497
Inspection of complaints of the population (complaint against odours)	83	81	134
Number of self control sampling	813	317	247
Control of communal liquid waste (TFH) transport	2 193	2 159	42*
Project documentation opinion	376	200	291
Number samples processed at the laboratory	21 871	28 601	24 761
Number of laboratory analyses	115 216	145 772	138 037

\*The receiving of TFH happened exclusively at card receiving sites in 2011. The figured number of controls means the condition inspection of abandoned cover receivers.

On the basis of contracts for the use of receiving locations for communal liquid waste, the control of the suppliers was also carried out during the reporting period.

## Quality of discharged wastewater

We inspect the quality of wastewater running into the Danube as receptor within the framework of the self control agreement concluded with the Central Danube-Valley Environmental Protectorate. The results of the inspections are recorded in a modernized data management system. Partner organizations and authorities are continuously informed of the results.

The trend of harmful substances led into the Danube via the sites of the Company kg/year

Year	COD	Organic eluting solvent extract	Total nitrogen	Phosphorus
2007	55 742 782	3 167 670	6 239 101	901 467
2008	53 979 443	2 464 980	6 686 267	845 865
2009	41 808 841	1 683 573	4 899 255	656 573
2010	8 163 365	345 999	1 758 565	157 866
2011	7 243 486	272 684	1 209 123	135 786

The North-Pest Wastewater Treatment Plant received its hydraulic legal operation authorization in June 2009, while the South-Pest Wastewater Treatment Plant received it in August 2007. The hydraulic legal operation permit of the North-Pest plant has been amended in 2011 due to the development of the plant.

The Company has complied with its obligation not to increase the contaminant load of the Danube in comparison to last year (up to 20% load increase) and not to allow the quality parameters of the wastewater of the treatment plants to worsen in comparison to 1996. Their evolution by site is the following:



## South-Pest Wastewater Treatment Plant

The capacity of the plant is 80,000 m<sup>3</sup>/day, while its actual daily water output is 53,951 m<sup>3</sup>, its load was 67.4% in the reporting period. The 3<sup>rd</sup> cleaning grade of a same capacity makes possible the removal of nutrient (phosphorus and nitrogen) at the full quantity. The Environment Protection Supervision has defined unique thresholds for effluent wastewater. The parameters of the treated wastewater effluent from the plant have changed as follows since 1996:

Water quality parameters of the South-Pest Plant mg/l

Component	Outflowing water quality		Design Threshold	Threshold
	1996	2011		
COD	70,0	30,5	50	50/80
BOD <sub>5</sub>	12,6	10,8	10	25
Floating matter	21,0	3,8	35	35
NH <sub>4</sub> nitrogen	25,7	1,9		summer:2 winter:4
Total phosphorus	2,4	0,2	1	1,8

The data prove that there has been significant water quality improvement since 1996 while its impact on the Danube at Soroksár is already detectable.

## North-Pest Wastewater Treatment Plant

The hydraulic capacity of the North-Pest Wastewater Treatment Plant is 200,000 m<sup>3</sup>/day, its average load reached 123,742 m<sup>3</sup>/day (61.9%). The one-year trial period of the third phase of the treatment has ended at the plant on March 23, 2011. Thanks to the third phase, the removal of nutrients (phosphorus and nitrogen) has also become possible.

The Environmental Protection Directorate has set individual limits for the quality of the effluent water for the duration of the trial period. Following the ending of the trial period, the thresholds related to the quality of effluent water have been set forth by the Directorate in the plant's hydraulic legal operation permit.

Water quality parameters of the North-Pest Plant mg/l

Component	Outflowing water quality		Design Value	Threshold until March 2011	Threshold in the Operational Permit
	1996	2011			
COD	52,0	41,4	75	125	125
BOD <sub>5</sub>		10,2	25	25	25
Floating matter	13,7	8,3	35	35	35
NH <sub>4</sub> nitrogen	14,1	2,2	5	summer:27 winter:35	10
Total phosphorus	4,9	1,6	2	4	5

The plant's average hydraulic load matches its current capacity. The daily average load of the site increased from the 1996 level of 20,869 m<sup>3</sup> to 123,742 m<sup>3</sup>/day in 2011.

The Budapest Central Wastewater Treatment Plant (BCWTP) receives the wastewaters flowing in from the drainage areas of the Kelenföld and the Ferencváros Pump Stations, the quantity of which was 84,646 thm<sup>3</sup> in 2011. Through this, the proportion of treated wastewater in Budapest has significantly increased. The plant is operated by BKSZT Budapest Wastewater Treatment Ltd. Dry-weather wastewater and rainwater up to triple dilution is transferred via water direction to Csepel through the network and pump stations operated by the Company, which it takes over for treatment.

## **Major risks and uncertainties observed in relation with environment protection**

The quantity of wastewater discharged via the public sewers has been continuously decreasing since the beginning of the 1990's, hence the emission concentration shows an increasing trend. The Company has no control on the quality of the collected wastewater and their treatment equipment park is also given. Based on this, the greatest risk is given by the followings:

- The current capacity still does not make it possible to treat all the wastewater generated in Budapest (South-Buda region, Csepel, Margaret Island).
- The individual thresholds defined on the basis of the decrees in force adopted during EU harmonization are stricter than they used to be.
- The legal norms for the calculation of penalties are getting stricter.

The increasing tendency of the wastewater penalties still remains until treatment of the wastewaters of Csepel, the South-Buda region and the Margaret Island is solved.

The quality control of the rainwater sewers leading to small streams will have to be resolved in the near future. This means the increase of the number of sampling and laboratory examinations, and at sections where no pre-treatment unit is available before the terminal point, the increase of the wastewater penalty should increase.

## **Developments expected in the field of environment protection**

The quantity of wastewater discharged from the existing treatment plant increases and their quality ameliorates:

- At the South-Pest Wastewater Treatment Plant, the objective is the complete coverage of the pre-mechanic unit and the 100% treatment of the sucked air.
- The improvement of the waste management and water quality of the Ráckeve (Soroksár) Danube branch can be realized through the deflection of the treated wastewaters of the South-Pest Wastewater Treatment Plant to the Big-Danube branch.
- The size of the drainage areas connected to the treatment plants must be increased. The comprehensive collection of the South-Buda wastewaters is under construction and the collection system of the South-Buda region is under way as well as the planning of their deflection into the Csepel central wastewater treatment plant by water control.

# Human resources

During the human resources activities of 2011, attention was primarily given to achieving the objectives set by the Company and the fulfilment of the requirements set forth in the Public Utility Service Contract and the Shareholders' Agreement. The efficient and successful human resources management also contributed to the achievement of the business objectives set for 2011 and that the operation of the Company was characterized by stability, just as in previous years. The Company received the first prize of the "Best Women's Workplace 2010." in the category of employers with more than 250 employees, as a recognition of its human resources activities.

The greatest task was still to ensure the staff necessary for the operation and seasonal operation of the toilets. During 2011, we managed to solve the unhindered operation of the continuously increasing number of toilets in the area of Budapest by employing a significant number of people with disabilities. In the framework of the program created for the extenuation of the problems of the homeless in Budapest we employed 11 persons having the status of homeless.

In 2011 the employee yearly statistical staff was 6% higher than last year's average due to the hiring related to the new activity, it changed from 1,095 people to 1,157 people.

## Average staff of the Company

Designation	2010		2011	
	people	%	people	%
Blue-collar	665	60,73	708	61,19
White-collar	411	37,53	420	36,30
<b>Total full time</b>	<b>1 076</b>	<b>98,26</b>	<b>1 128</b>	<b>97,49</b>
Part time	19	1,74	29	2,51
<b>Total staff</b>	<b>1 095</b>	<b>100,00</b>	<b>1 157</b>	<b>100,00</b>

In the reporting period, the number of employees increased by 62 in average compared to the previous year. Hiring mainly took place in the second and third quarters of the year. Due to the significant hiring of staff of the end of 2010, the increase in average staff is far greater than the actual employee excess, which is also proven by the facts that the number of employees on December 31, 2011 was less than on the last day of the base period by 3 persons.

During the year, we have hired 138 employees, partly to serve the staff need of new activities and second to replace exiting and retiring professionals as well as for the purpose of the continuous development of the Company.

The supply of quality professional was ensured by the hiring and selection process putting education and work experience in the forefront as well as the one elaborated especially for people with disabilities. During 2011, the cooperation with the foundations and the Rehabilitation Office of the Labour Office remained continuous. As a result of this, the Company employed 35 persons with disabilities on December 31, 2011.

In the reporting period the employment of 148 people was terminated.

Distribution of job terminations

Job terminated	people
With common agreement	54
Normal termination	4
Extraordinary termination	6
Job terminated within trial period	12
After end of definite period	4
Retired	53
Early retirement	10
Early retirement	2
Disabled	1
Deceased	2
<b>Total job terminations</b>	<b>148</b>

## Wages

Further to the wage-increase provided in the fees (4.5%), an average 4.75% wage increase was implemented. The utilization of the wage increase happened in three steps based on an agreement with the Trade Union Committee. In the first step, a basic wage increase of average 4.75% was implemented from 1 April not retroactively, which happened in a differentiated way by employees. Depending on their classification wage, the employees could receive 3%, 4.3%, 5.3% or 7% wage increase. In the second step, an amount equalling half a month of base salary of the employees was paid out in May. The third step involved the payment of one month of base salary for premium to the employees in November as salary of the thirteenth month.

Average wages were increased by the amount of guaranteed wage increase (HUF 5,835 thousand) above wage increase implemented from January 1, 2011. The wage costs of the fight against the flood, ensured from a separate fund was HUF 47,295 thousand in 2010, while that of 2011 was HUF 7,773 thousand.

The development of the labour cost in thousand HUF

Description	2010	2011	Index %
Physical full time salary	2 050 809	2 228 751	108,7
White-collar full time salary	1 753 176	1 856 220	105,9
<b>Total full time salary</b>	<b>3 803 985</b>	<b>4 084 971</b>	<b>107,4</b>
Part time	15 290	23 753	155,3
Extra headcount salary	51 224	67 939	132,6
<b>Total employee salaries</b>	<b>3 870 499</b>	<b>4 176 663</b>	<b>107,9</b>
Honoraries	51 437	53 673	104,3
<b>Total wage cost</b>	<b>3 921 936</b>	<b>4 230 336</b>	<b>107,9</b>
Flood salaries	47 295	7 773	16,4
<b>Corrected salaries</b>	<b>3 823 204</b>	<b>4 168 890</b>	<b>109,0</b>

The number of members of the Board of Directors did not change, while the number of members of the Supervisory Board increased by 2 persons. This happened because the mandate of 2 members expired in the middle of 2010 and the appointment of the new members only happened in 2011. Thus the amount of honoraries paid out increased proportionately to the number of members, the monthly amount did not change in 2011.

In 2011, the actual average wage of all employees of the Company reached HUF 3,609,908/person/year, which is higher than the previous year's HUF 3,534,702/person/year by 2.1%. The average wage without the salaries paid out during the flood will constitute the wage increases of the coming year. In 2010, this value was HUF 3,491,511/person/year, while it reached HUF 3,603,192/person/year in the reporting period. Average salary – excluding flood salaries – increased by 3.2% compared to the previous year.

## Training

The fact that the expense paid out for the training of the employees reached HUF 33,006 thousand in 2011 enhanced the higher level of performance of work

tasks and the increase of professional skills. During the year, 884 persons took part at courses and conferences financed by the Company. The participation at professional conferences remained high in 2011 as well. Due to the frequent changes in legislation, 120 employees of the Company broadened their knowledge at one-day courses. 30 employees of the Customer Service Department could take part at two-day trainings. 30 people took part at English language courses adapted to the employees' work time and language skills. Through the financing of tuition fees and the ensuring of working time discounts, 10 people participated in school-like trainings.

Just as in previous years, the Company put a great emphasis on the safety technique education and training of the employees. The professional trainings financed by the Company contributed to the professional development of employees in 2011 as well.

## **Holidays**

For the purpose of regeneration of employees and their families, holiday resorts owned by the Company were available in 5 towns and a total of 159 places, 2 with continuous opening and 3 with seasonal opening. During 2011, the employees wishing to use the holiday opportunities ensured by the Company could rest at two new locations, in Kehidakustány and Siófok-Széplak. During the reporting period, a total of 1,293 people used the holiday services. We have ensured group-wise holiday opportunity to 56 persons among the children of our employees.

Within the framework and possibilities provided by the related law – the Company's corporate health service was ensured to the employees in 2011 as well with regular medical checks and job suitability control, but also dental services. For the purpose of preventing contagious diseases, the employees employed in hazardous jobs regularly receive vaccinations. The employees could take part at ultra-sound examinations for prevention purposes. The employees could still use the dental services in our own well-equipped dental office.

The Company has financed the subsidies for the employees' home building, purchase and amelioration of housing conditions of employees from the amounts of re-payment of previous loans. In 2011, 8 people received – for the purpose of home building, purchasing and modernization – a total of HUF 11,700,000 refundable non-interest bearing loan subsidies.

The 72-houeroom worker's hostel operating at the upper level of the Soroksári avenue social building operated with an average occupancy of 69% in 2011. The accommodation equipped with a dining room, a lounge and a smoking area at each level had an average of 50 occupants. In lack of female accommodation, 5 female employees received rental allocations.

In the reporting period, the Company ensured a unified HUF 5,500 /person meal contribution and HUF 8,300/person voluntary pension fund contribution every month to its employees.

# Information technology

The IT tasks started in the first quarter of 2011 with the development of the data display module of the Geographical Information System. The first phase of the development was realized, the most important step of which was the replacement of the data conversion.

As a result of the development, all users can use the most up-to-date data in real time. Through this solution, we can ensure that the geographical information system be accessible from both the Company and the inspection vehicles in real time.

For the purpose of the safety of Company saving, the duplication of the data located on the existing disc subsystem and the removal of the tape saving unit from the saving, the replacement of its capacity, since this capacity expired in 2011 due to the increase of the quantity of data found at the Company. In order to prevent problems, the development of the saving system was completed.

The increasing fallout of Internet usage may cause immediate disturbances. For the purpose of solving the problem, we set up an error-tolerating firewall system.

The Company handles IT safety, the safety and stability of the operation of the systems as a priority. For this purpose, the transformation of the complete central server environment into high availability one has started at the end of 2011. Within the framework of the project, new servers will be placed in database and application serving positions in the cases of the operating finance-accounting system (Topsoft) and the purchasing module (Fiber). A new tape storage unit will be commissioned, the proxy, the firewall and the geographical information system will be high availability ones and new network supervision servers will be put in place.

The thin client system is more than 7 years old and needs a technology refreshing. The replacement of the client appliances has also become timely, the further development and extension of the thin client system is under way. At the end of the year and after a successful public procurement process, the modernization of the Sunray thin client system has started, as well as the development of the NX thin client technology.

For the purpose of setting up a unified IT surface, the thin client stations will be NX-based. The completion of the project is expected for the first quarter 2012.

The preparation of the more modern L-SOFT Piramis program selected for the replacement of the human resources, wage and social security modules suiting much better the user needs. The project should be completed in spring 2012.



In the second semester of 2011, a unique Budapest Sewage Works system enhancing receivables management processes has been developed as a complement to the KASSZA module of the SZOLINFO system. The system to be implemented at the beginning of 2012 after testing aims at rendering receivables management more efficient, decreasing outstanding receivables, applying regulated processes with modern IT support. With the introduction of the KASSZA module, the Company is able to proactively check the accuracy of the database and the invoiced items, is informed on time of consumer changes, is capable of individually handle invoice complaints on the basis of the received data, and with the support of the system, receivables management can become more efficient in the future. The replacement of the hardware infrastructure should be the closing phase of the infrastructure development of the SZOLINFO system. In 2012, the server and disk subsystems of SZOLINFO will reach a critical age from an IT perspective. A new environment will be set up within the framework of the project, which will endure on the long term the performance needs of SZOLINFO and the archiving system as well as the safe replacement spare-parts.

During the year, we managed to close several smaller volume projects beside the bigger volume projects. Among these, one if the setting up of the sewer handover-takeover system, the development of the old program, which ensures the possibility of integration with the geographical information system as well.

Beside the above IT tasks, several IT appliances have been purchased (notebook, PC, monitor, printer), which ensure the future infrastructure and reserve equipment too.



# Communication

Considering its service provision area and the population served, the Budapest Sewage Works is the biggest environment protection public service provider in Hungary. Complying with today's environment protection requirements and challenges, apart from our core tasks, we deal with water and air purity protection, waste management, and even the production of bioenergy. Furthermore, it undertakes two very important tasks: The operation of the flood and inland water control system of Budapest and the operation of the capital's public toilets.

The Company continuously informs the public on its activities and developments. Our communication objective is that our customers and those living in the wider environment understand the importance of the core tasks of Budapest Sewage Works Pte Ltd. and the significance of our role undertaken for our environment and the improvement of the quality of life. As a responsible public utility service provider, our long term goal is that people and the service provider actively protect the environment and the living waters together and separately as well.

In order to achieve the above objectives, the Company strives to inform its environment through the media on the one hand on through other communication channels and supports on the other hand.

In 2011, we had the opportunity to meet the adult population and their families in several open events. In the framework of the Public Service Providers open day, 350 visitors came to the North-Pest and the Ferencváros sites. 14 thousand visitors came to the Eco-day organized at the Millenáris Park, of whom many visited the tent and stage of the Budapest City Management Centre regrouping the public utility service providers. The visitors could watch an environment-aware educational short film at the Health Island event.

Thanks to the Water World day open days that have become tradition by now, more than a thousand students could get to know wastewater treatment protecting the living waters and the renewable energy production. Interactive hydraulic experiments and a publication well connected to the curriculum and made especially for children enhanced the better assimilation of what has been seen and heard. The open objective of the environment-aware education program organized with Veolia Water Ltd. is that the generation growing up proactively protect one of our most valuable natural treasures, the water through environment-aware behaviour.

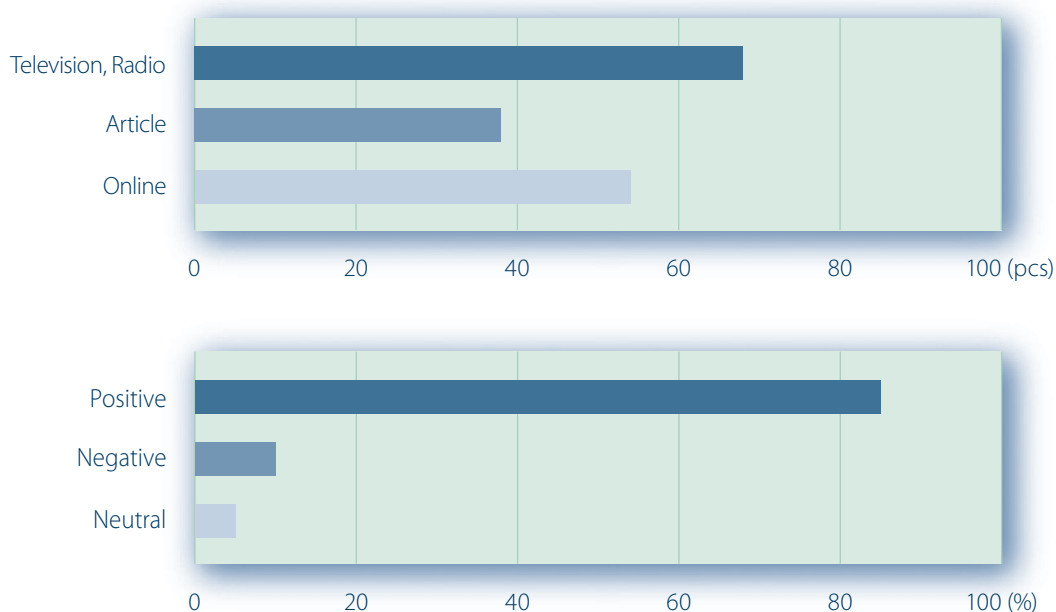
The rewarding of the 14 policemen who caught sinkhole cover-thieves and fake sewer workers serves the strengthening of the relationship with the authorities.

The Company resolves the information of the consumers primarily through the website and on the back of the invoices. The renewal of the Internet portal is under way. The website to be created will follow the trends and will be easy to access through the quickly spreading smartphones as well.

Budapest Sewage Works Pte Ltd. continues to put considerable funds in disadvantaged families having significant fee debts to decrease their financial burdens, as well as in the Hungarian competition sports.

The most significant communication channel, the media, put the attention onto the Company several times in 2011, in total in 733 cases. Out of this, in more than 500 cases, the Company's name was only osculatorily mentioned in a certain context. Budapest Sewage Works Pte Ltd. has been contacted directly by journalists or materials have been prepared from the issued media statements in 161 cases. Out of managed media facings, 38 newspaper articles, 68 television and radio and 54 online news were prepared. 85% of these were positive, 5% neutral and 10% negative.

#### Evolution of managed media facings

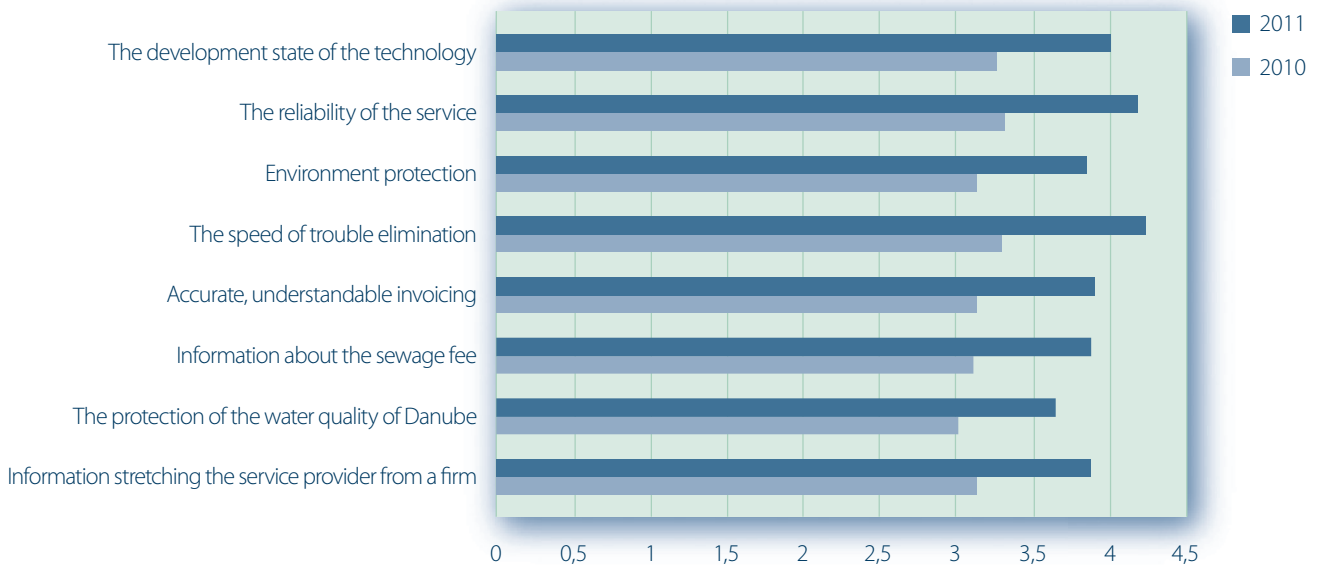


The Company strives to keep pace with the increasing consumer requirements. The slight improvement of the indices can be considered quite good in the current economic situation and social atmosphere.

During the sympathy measurement, the assessment of Budapest Sewage Works went from 2.8 to 3.5 on the scale of five. 70% of the subjects considered it sympathetic (25% of them very sympathetic) and only 2% did not find it sympathetic. 11% of the subjects called the Company neutral, while 17% could not assess it or did not answer. The latter proportion was mainly composed of those who are not in direct contact with the Company because they do not have their own water counter. Among the public utility service providers of Budapest, Budapest Sewage Works Pte Ltd. has been ranked third in close competition.

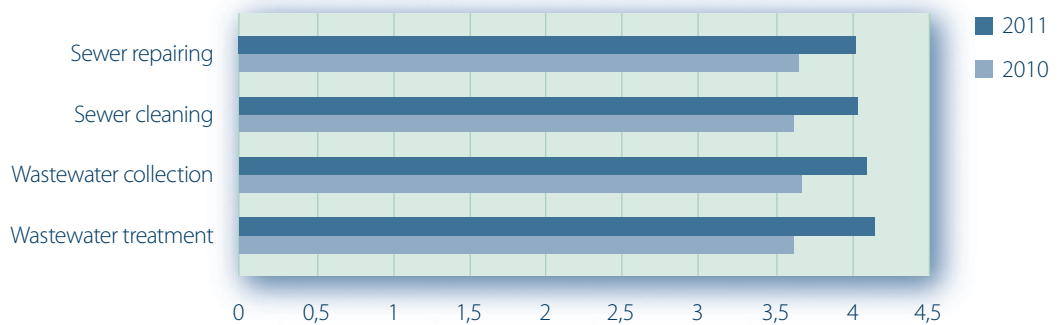
The satisfaction of consumers related to the Company's performance increased in all aspects. The following diagram shows well that for ex. the speed of trouble elimination went from 3.27 to 4.21, the reliability of the service from 3.29 to 4.16, the development state of the technology from 3.24 to 3.99.

### Satisfaction with the Budapest Sewage Works's achievement in the practise



Clients know the scope of activities of the Company. 97% of the subjects knows our core activity, hence 47% even knows that the operation of public toilets is also among the tasks of Budapest Sewage Works Pte Ltd. The flood protection activity has been somewhat forgotten. While 64% of the subjects named this activity in 2009, now that we have not had any greater rise in the Danube water level, only 28% mentioned it. The answerers had heard of the company active in energy production (19%) and waste processing (21%) as well. However, 21% of the subjects thinks that Budapest Sewage Works Pte Ltd. also provides drinking water. Slightly, but the consumers perceived an improvement in the case of certain service areas (e.g. wastewater collection increased from 3.67 to 4.1, wastewater treatment from 3.62 to 4.15).

### The standard of activities



An average of 53% of the subjects experienced a clear development during the last three years in the fields of wastewater collection, sewer cleaning and wastewater treatment. 50% of the consumers knows that the wastewater treatment proportion of Budapest is now almost complete (95%), but 30% still only knows the 51% ratio. With the safe and undisturbed wastewater collection, Budapest Sewage Works Pte Ltd. is one of the most reliable service providers of the inhabitants of Budapest, while it is one of the leaders of the profession through its innovative solutions.

# Appendix







**INDEPENDENT AUDITOR'S REPORT  
(Free translation)**

**To the Shareholders of Fővárosi Csatornázási Művek Zrt.**

**Report on the financial statements**

We have audited the accompanying financial statements of Fővárosi Csatornázási Művek Zrt. ("the Company") which comprise the balance sheet as of 31 December 2011 (in which the balance sheet total is MHUF 127,947, the profit per balance sheet is MHUF 1,126), the related profit and loss account for the year then ended, and the notes to the financial statements including a summary of the significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hungarian Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

---

PricewaterhouseCoopers Könyvvizsgáló Kft. 1077 Budapest, Wesselényi u. 16. Hungary  
T: (+36 1) 461 9100, F: (+36 1) 461 9101, www.pwc.hu



### *Opinion*

During our work we have audited the components and disclosures along with the accounting records and supporting documentation underlying the financial statements of Fővárosi Csatornázási Művek Zrt. in accordance with the Hungarian Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provision of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the accompanying financial statements give a true and fair view of the financial position of Fővárosi Csatornázási Művek Zrt. as of 31 December 2011, and of the results of its operations for the year then ended.

### *Other Matters*

We draw attention to the fact that the attached financial statements have been prepared for the consideration of the shareholders at the forthcoming General Meeting and, as such, do not reflect the effects, if any, of resolutions that might be adopted at that meeting. Our opinion is not qualified in respect of this matter.

### **Other reporting requirements regarding the business report**

We have examined the accompanying business report of Fővárosi Csatornázási Művek Zrt. ("the Company") for the financial year of 2011.

Management is responsible for the preparation and fair presentation of the business report in accordance with the provision of the Accounting Act and accounting principles generally accepted in Hungary. Our responsibility is to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements. Our work in respect of the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2011. business report is consistent with the disclosures in the financial statements as of 31 December 2011.

Budapest, 18 May 2012

Barsi Éva  
Partner  
PricewaterhouseCoopers Könyvvizsgáló Kft.  
1077 Budapest, Wesselényi u. 16.  
License Number: 001464

Tímár Pál  
Statutory auditor  
Licence number: 002527

### *Translation note:*

*Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version. The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.*



Description		Previous year	Modific. of prev. year(s)	Current year
a	b	c	d	e
<b>01.</b>	<b>A. Fixed assets (02.+10.+18. lines)</b>	<b>107 455</b>		<b>109 749</b>
02.	I. INTANGIBLE ASSETS (03.-09. lines)	355		786
03.	Capitalised foundation/restructuring			
04.	Capitalised research and development			
05.	Concessions, licences and similar rights			508
06.	Trade-marks, patents and similar assets	355		278
07.	Goodwill			
08.	Advance payments for intangible assets			
09.	Adjusted value of intangible assets			
10.	II. TANGIBLE ASSETS (11.-17. lines)	106 060		107 994
11.	Land and building and related property rights	97 646		100 065
12.	Plant, machinery, equipment and vehicles	4 443		4 880
13.	Other equipment, fixtures and fittings, vehicles	309		266
14.	Breeding stock			
15.	Assets in the course of construction	3 662		2 695
16.	Prepayments for capital expenditures			88
17.	Adjusted value of tangible assets			
18.	III. LONG-TERM FINANCIAL ASSETS (19.-25. lines)	1 040		969
19.	Long-term participations in related parties	763		699
20.	Long-term loans granted to related parties			
21.	Other long-term investments	200		200
22.	Long-term loans granted to other investments			
23.	Other long-term loans granted	77		70
24.	Long-term debt securities			
25.	Adjusted value of financial investments			

a	b	c	d	e
<b>26.</b>	<b>B. Current assets (27.+34.+40.+45. lines)</b>	<b>12 277</b>		<b>14 227</b>
27.	I. STOCKS (28.-33. lines)	326		325
28.	Raw materials and consumables	193		250
29.	Work in progress and semi finished products	133		75
30.	Animals for breeding, fattening and livestock			
31.	Finished products			
32.	Goods			
33.	Advance payments for stocks			
34.	II. RECEIVABLES (35.-39. lines)	4 530		5 465
35.	Trade debtors	4 323		5 217
36.	Receivables from related parties	118		65
37.	Receivables from other investment			
38.	Bills of exchange receivables			
39.	Other receivables	89		183
40.	III. SECURITIES (41.-44. lines)	0		0
41.	Participations in related parties			
42.	Other participations			
43.	Treasury shares and own participation			
44.	Marketable debt securities			
45.	IV. LIQUID ASSETS (46.-47. lines)	7 421		8 437
46.	Cash, cheques	6		7
47.	Bank deposits	7 415		8 430
<b>48.</b>	<b>C. Prepaid expenses and accrued income (49-51. lines)</b>	<b>2 819</b>		<b>3 971</b>
49.	Accrued income	2 792		3 941
50.	Prepaid expenses	27		30
51.	Deferred expenses			
<b>52.</b>	<b>TOTAL ASSETS (01.+26.+48. lines)</b>	<b>122 551</b>		<b>127 947</b>

a	Description	Previous year	Modific. of prev. year(s)	Current year
a	b	c	d	e
<b>53.</b>	<b>D. Shareholders' equity (54.+56.+57.+58.+59.+60.+61. lines)</b>	<b>98 444</b>		<b>99 570</b>
54.	I. ISSUED CAPITAL	70 045		70 045
55.	of which: treasury shares redeemed at face value			
56.	II. ISSUED CAPITAL NOT PAID (-)			
57.	III. CAPITAL RESERVE	13 557		13 557
58.	IV. RETAINED EARNINGS/ (LOSSES)	13 007		14 342
59.	V. ALLOCATED RESERVES			500
60.	VI. REVALUATION RESERVE			
61.	VII. PROFIT OR LOSS FOR THE YEAR	1 835		1 126
<b>62.</b>	<b>E. Provisions (63.-65. lines)</b>	<b>4 025</b>		<b>6 939</b>
63.	Provisions for contingent liabilities	4 025		6 939
64.	Provisions for future commitments			
65.	Other provisions			

Description		Previous year	Modific. of prev. year(s)	Current year
a	b	c	d	e
<b>66.</b>	<b>F. Liabilities (67.+71.+80. lines)</b>	<b>3 016</b>		<b>4 444</b>
67.	I. SUBORDINATED DEBTS (68.-70. lines)			
68.	Subordinated debts to related parties			
69.	Subordinated debts to other investments			
70.	Subordinated debts to third parties			
71.	II. LONG-TERM LIABILITIES (72.-79. lines)	0		0
72.	Long-term borrowings			
73.	Convertible bonds			
74.	Debts from the issue of bonds			
75.	Investment and development loans			
76.	Other long-term loans			
77.	Long-term debts to related parties			
78.	Long-term debts to other investments			
79.	Other long-term liabilities			
80.	III. CURRENT LIABILITIES (81. and 83.-89. lines)	3 016		4 444
81.	Short-term borrowings			
82.	of which: convertible bonds			
83.	Other short-term loans			
84.	Prepayments received from debtors	5		10
85.	Creditors	1 348		2 433
86.	Bills of exchange payable			
87.	Short-term debts to related parties	140		72
88.	Short-term debts to other investments			
89.	Other current liabilities	1 523		1 929
<b>90.</b>	<b>G. Accrued expenses and deferred income (91.-93. lines)</b>	<b>17 066</b>		<b>16 994</b>
91.	Deferred income	102		92
92.	Accrued expenses	210		150
93.	Deferred extraordinary revenues and negative goodwill	16 754		16 752
<b>94.</b>	<b>TOTAL LIABILITES (53.+62.+66.+90. lines)</b>	<b>122 551</b>		<b>127 947</b>

## Profit and loss statement

in million HUF

a	Description b	Previous year c	Modific. of prev. year(s) d	Current year e
01.	Domestic sales, net	33 553		39 412
02.	Export sales, net			24
<b>I.</b>	<b>Total sales, net (01.+02.)</b>	<b>33 553</b>		<b>39 436</b>
03.	Direct cost of sales	18 345		24 505
04.	Cost of goods sold	2		3
05.	Provision of (consignment) services	135		14
<b>II.</b>	<b>Direct cost of sales (03.+04.+05.)</b>	<b>18 482</b>		<b>24 522</b>
<b>III.</b>	<b>Gross sales (I.-II.)</b>	<b>15 071</b>		<b>14 914</b>
06.	Selling and marketing costs	223		335
07.	Administration costs	1 276		1 302
08.	Other general overhead	1 079		1 121
<b>IV.</b>	<b>Indirect cost of sales (06.+07.+08.)</b>	<b>2 578</b>		<b>2 758</b>
<b>V.</b>	<b>Other revenues</b>	<b>18 560</b>		<b>21 404</b>
	of which: diminution in value	25		144
<b>VI.</b>	<b>Other expenditures</b>	<b>24 502</b>		<b>27 531</b>
	of which: reserved diminution in value	407		624
<b>A.</b>	<b>OPERTING PROFIT/(LOSS) (±III.-IV.+V.-VI.)</b>	<b>6 551</b>		<b>6 029</b>

a	Description b	Previous year c	Modific. of prev. year(s) d	Current year e
09.	Dividends and profit-sharing (received or due)	54		62
	of which: from related parties	54		62
10.	Exchange gains disposal of shares			
	of which: from related parties			
11.	Interest and capital gains on long-term financial assets			
	of which: from related parties			
12.	Other interests and similar income (received or due)	392		519
	of which: from related parties			
13.	Other revenues from financial transactions	4		17
<b>VII.</b>	<b>Financial revenues (09.+10.+11.+12.+13.)</b>	<b>450</b>		<b>598</b>
14.	Exchange losses on long-term financial assets			
	of which: from related parties			
15.	Interest payable and similar charges			
	of which: from related parties			
16.	Diminution in the values of shares, securities and bank deposits			
17.	Other expenditures on financial transactions	13		7
<b>VIII.</b>	<b>Financial expenditures (14.+15.±16.+17.)</b>	<b>13</b>		<b>7</b>
<b>B.</b>	<b>FINANCIAL PROFIT OR LOSS (VII.-VIII.)</b>	<b>437</b>		<b>591</b>
<b>C.</b>	<b>PROFIT OR LOSS OF ORDINARY ACTIVITIES (±A.±B.)</b>	<b>6 988</b>		<b>6 620</b>
<b>IX.</b>	<b>Extraordinary revenues</b>	<b>738</b>		<b>689</b>
<b>X.</b>	<b>Extraordinary expenditures</b>	<b>315</b>		<b>117</b>
<b>D.</b>	<b>EXTRAORDINARY PROFIT OR LOSS (IX.-X.)</b>	<b>423</b>		<b>572</b>
<b>E.</b>	<b>PROFIT BEFORE TAX(±C.±D.)</b>	<b>7 411</b>		<b>7 192</b>
<b>XI.</b>	<b>Tax payable</b>	<b>1 923</b>		<b>1 846</b>
<b>F.</b>	<b>PROFIT AFTER TAX (±E.-XI.)</b>	<b>5 488</b>		<b>5 346</b>
18.	Dividends and profit-sharing paid from retained earnings			
19.	Dividends and profit-sharing paid (payable)	3 653		4 220
<b>G.</b>	<b>PROFIT OR LOSS OF THE YEAR (±F.+18.-19.)</b>	<b>1 835</b>		<b>1 126</b>

