

**Budapest
Sewage
Works Ltd.**

**Business report
2010**

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

Introduction

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

In relation with Budapest, the greatest events related to wastewater were the completion of the trial operation of the Budapest Central Wastewater Treatment Plant (hereinafter referred to as BCWTP) on July 31 and the start of the actual operation on August 1. During the first four years following the trial operation, the plant will be operated by the consortium winning the public procurement procedure, the BKSZT Budapest Wastewater Treatment Ltd. However, the wastewater to be treated will be collected and transferred to the wastewater treatment plant by the Company, which quantity reached 101 872 thousand m³ in 2010. The modernization of the treatment plants went on in 2010. The one-year trial operation of the nutrient removal phase began on March 23, 2010.

In 2010, 94.3% of the wastewater and rainwater discharged into the Danube was treated biologically, while 29.3% underwent complete nutrient removal.

In 2010, the quantity of collected wastewater and rainwater exceeded the previous year's value by 14.4%, but the invoiced wastewater quantity fell short of the previous year's value by 5.9%.

In 2010, the Company took over the responsibility of operating, maintaining and renovating the public restrooms of Budapest previously operated by the defunct IL-NET public company. The quality of 30 restrooms was improved due to renovations in 2010.

Along with water damage prevention activities, flood protection was also needed. The flood taking off was the fourth highest-peaking iceless flood in the past one hundred years.

The Company operates according to the quality assurance and environment-focused management systems as per standards ISO 9001:2000 and ISO 14001:2004, as well as the workplace health & safety management system as per standard MSZ 28001:2008

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 5.5 billion. During the year, the financial situation of the Company remained solid – despite the decrease of the invoiced wastewater quantities – 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 2010 as well.

Budapest, March 2011.

György Palkó
General Manager

Table of contents

Introduction	3
Organization and legal position of the Company	7
Scope of activities	10
Assets and liabilities	12
Technical specifications	16
Financial position	23
Sewer charges	27
Business performance and results	28
Investments and developments	35
Maintenance	41
Environment protection	44
Human resources	52
Information technology	56
Communication	59
Appendix	63



Organization and legal position of the Company

The General Assembly of the Municipality of Budapest transferred shares representing 25% + 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. The contract was signed on 19 November 1997. 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.

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

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

Owners:

- The Municipality of Budapest
- Berlinwasser Holding AG
- Veolia Environnement S.A.
- Csatorna Holding Vagyonkezelő Zrt.
(Sewage Holding Operating Pvt. Ltd)
- 3 small investors

Name of the Company: Budapest Sewage Works Ltd.

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Board of Directors:

Péter Kőrös	January 1. - December 31.
dr. Rózsa Bóta	January 1. - December 31.
dr. Zoltán Bolvári	January 1. - December 31.
Karl-Heinz Zorn	January 1. - December 31.
Peter Sczepanski	January 1. - December 31.
György Palkó	January 1. - December 31.
Philippe Guitard	January 1. - December 31.

Supervisory Board:

Dieter Ernst – chairman	January 1. - December 31.
Étienne Petit	January 1. - December 31.
dr. Andrea Szolnoki	January 1. - December 31.
Attila Ughy	January 1. - March 12.
László Zsinka	January 1. - June 7.
Sándor Andó	January 1. - December 31.
Emese John	January 1. - December 31.
Devánszkiné dr. Katalin Molnár	January 1. - December 31.
Andrea Aranyosi	January 1. - December 31.
Attila Dancs	January 1. - December 31.
Istvánné Loszman	January 1. - March 30.
László Tuba	January 1. - December 31.
Gyula Pirok	June 7. - December 31.

Independent auditor:

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

György Palkó General Manager	Dr. Éva Medovárszki Deputy General Manager	Peter Sczepanski Technical Deputy Manager
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Organization of the company

Several organizational changes took place in 2010 to facilitate more dynamic and efficient work, which can be grouped as follows:

The Controlling Division was created by merging the Controlling and Supervisory Department, the Venture Financing Group and the IT Department. The operators of public restrooms, the Services Department, Vehicle Operations Department, the Social Security Group, and the Construction Group, ceased to be independent organizations and were placed under the control of other existing organizations. The task of public

procurement was divided up based on the different activities (acquisition and investment), and tax accounting was separated within the financial activities.

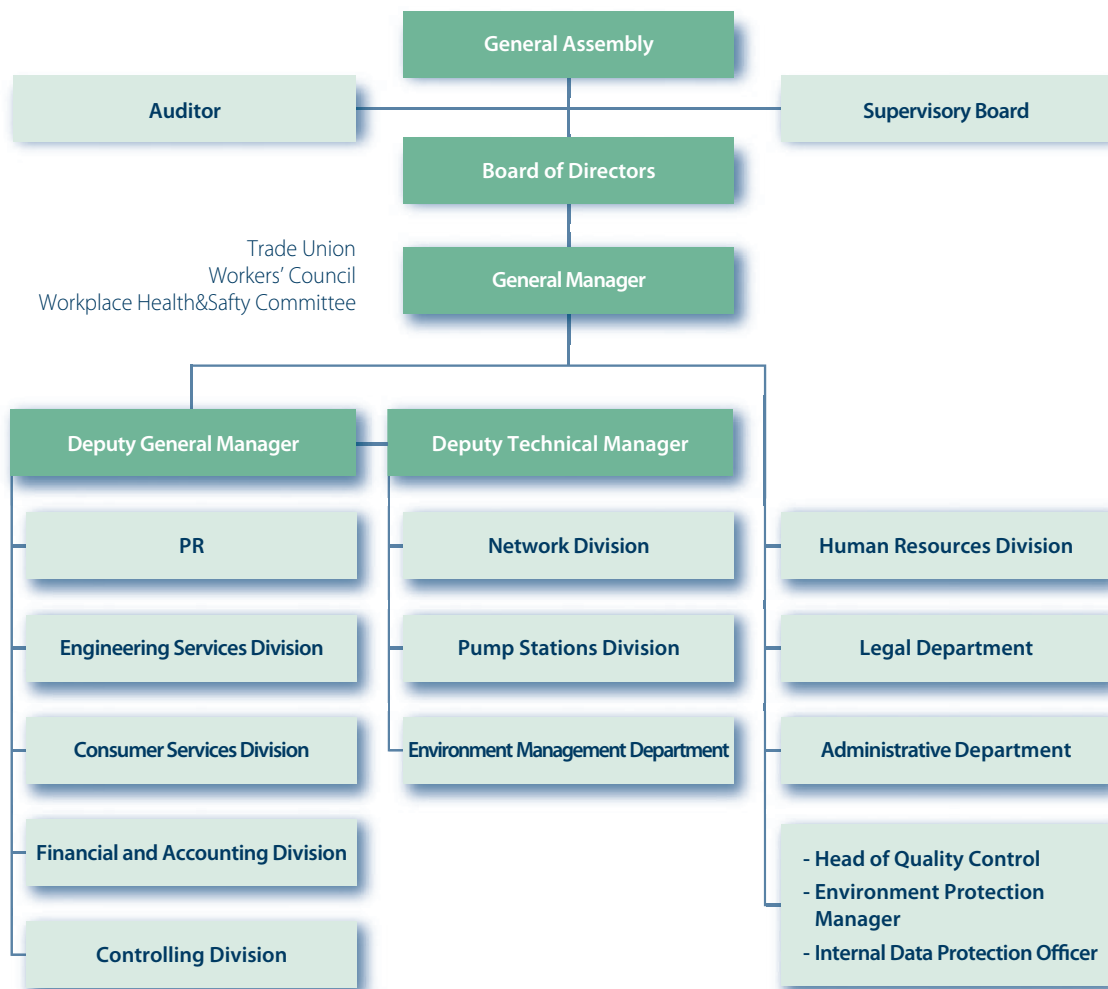
Territorial location of the Company

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

The IX. Soroksári site can be considered a basic site where the offices of the Flood Protection Department and the Trade Union Committee can be found.

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

Organizational structure of the Budapest Sewage Works Ltd. on December 31, 2010



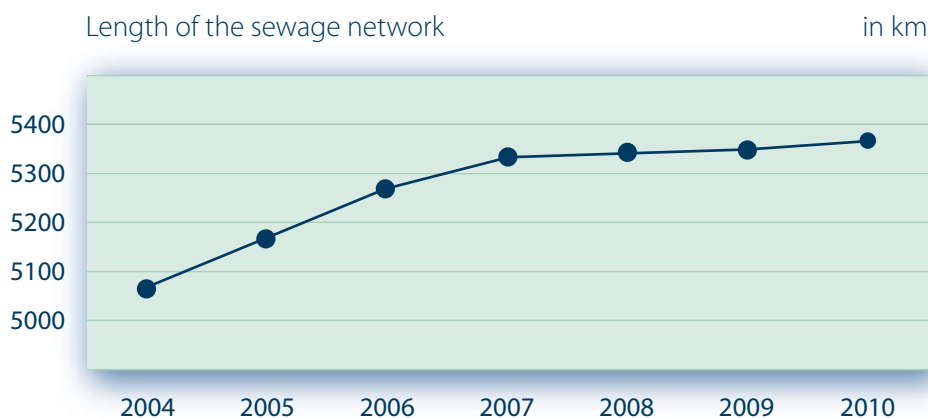
Scope of activities

The Municipality of Budapest Capital City has founded the Company to collect, treat wastewater and rainwater generated in the area of Budapest 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.

The newly built Budapest Central Wastewater Treatment Plant (BCWTP), handed over in 2010, will be operated in the four years following the trial operation by the BKSZT Budapest Wastewater Treatment Ltd. On a technical level, this is fundamentally connected to the range of equipment operated by the Company. The Company channels wastewater and rainwater collected in a sewer network from pre-determined drainage areas to the Csepel treatment facility via flow control, where it is biologically treated.

Beyond our core service, our Company provides another public service: we operate the flood and inland water control system of Budapest and make suggestions on the development of the flood protection installations. In addition, we are in charge of the operation and continual development of the capital city's public restrooms.



Main indicators of the sewage works

Description	Unit	2006	2007	2008	2009	2010
Capacities on December 31.						
Length of sewage network	km	5 282	5 315	5 334	5 352	5 383
- out of this: annual increase	lm	103 186	32 520	19 350	18 367	30 709
Number of sewer connections	pcs	173 660	175 610	176 844	177 905	178 725
- out of this: annual increase	pcs	5 711	1 950	1 234	1 061	820
Biological treatment capacity	thm ³ /day	280	280	280	280	280
- out of this: - South-Pest plant	thm ³ /day	80	80	80	80	80
- North-Pest plant	thm ³ /day	200	200	200	200	200
Nutrient removal capacity	thm ³ /day	80	80	80	80	280
Annual performance						
Collected sewage and rainwater	thm ³	235 540	217 669	226 558	209 928	240 204
- out of this: - discharged via free outlet	thm ³	24 000	22 463	22 226	22 382	2 023
- water overflow	thm ³	211 540	195 206	204 332	173 055	136 309
- discharged to Csepel	thm ³	0	0	0	14 491	101 872
Performance of FCSM treatment plants	thm ³	92 351	78 125	80 571	75 713	93 020
- mechanical treatment	thm ³	92 351	78 125	80 571	75 713	93 020
- biological treatment	thm ³	76 835	69 789	70 456	65 837	75 502
- nutrient removal	thm ³	22 085	19 337	20 247	18 833	55 086
Billed sewage	thm ³	139 873	136 905	130 744	123 316	116 070
- out of this: households	thm ³	91 705	88 795	86 051	83 508	80 709
industrial, corporate + other	thm ³	46 328	46 389	42 898	38 099	33 780
private well	em ³	1 840	1 721	1 795	1 709	1 581

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	2009	2010
Registered capital	70 045	70 045
Capital reserve	13 557	13 557
Profit reserve	11 566	13 007
Valuation reserve	-	-
Balance sheet profit	1 441	1 835
Total equity	96 609	98 444

The profit reserve has increased by the balance sheet profit of 2010 (HUF 1,441 million). No other change has occurred in 2010.

The 2010 balance sheet profit figure was determined by the fact that the profit before tax was HUF 7,411 million. After corrections with the items modifying the tax base and taking into account the additional tax, HUF 1,923 million was paid as tax, which resulted in HUF 5,488 million profit after tax. Decreasing the after tax profit with the HUF 3,653 million paid in dividends, the balance sheet profit of the Company in 2010 reached HUF 1,835 million.

The aggregate amount of the equity on December 31, 2010 amounted to HUF 98,444 million, exceeding the previous year's by the balance sheet profit.

The Company's liabilities increased by HUF 3,673 in comparison to the previous year.

Changes in the composition of equity on December 31

in million HUF

Designation	2009		2010	
	in million HUF	Ratio %	In million HUF	Ratio %
Current capital	10 073	10,4	12 053	12,2
Own fixed capital	86 536	89,6	86 391	87,8
Equity total	96 609	100,0	98 444	100,0

Within the equity, the proportion of fixed assets decreased to 87.8 %, while the proportion of working capital increased to 12.2%.

Among the assets, the provisions for expected losses increased by HUF 2289 million in the reporting period. The aggregate amount of the provisions on December 31 amounted to HUF 4,025 million:

The Company provisioned HUF 412 million for two years' wastewater fines (the 2010 recording was HUF 74 million, and the release was HUF 636 million) and HUF 926 million for the coverage of personnel-type obligations (the 2010 recording was HUF 272 million, and the release was HUF 106 million). HUF 2,100 million provisions for expected losses needed to be made for liabilities related to environmental protection that were already expected in 2010 but would only be realized later. Provisions with an expected value of HUF 587 million needed to be made for contractual liabilities that stretched into 2011 and whose tariff cover was generated in the reporting period.

The Company did not have any long term liabilities.

Short-term liabilities have been decreased by HUF 290 million. Supplier – primarily investment supplier – payables increased by HUF 488 million. Other short-term liabilities have decreased by HUF 121 million (due to the effect of the decrease of the WBT).

Accruals in 2010 reached HUF 17,066 million. These are:

■ cost- and revenue accrual:	HUF 312 million
■ other assets and assets received without payment:	HUF 3,972 million
■ cash taken over for development purposes:	HUF 12,782 million
out of this: from district municipalities:	HUF 312 million
From the Municipality of Budapest:	HUF 201 million
public utility development contributions:	HUF 12,127 million
from other sources:	HUF 142 million

Balance sheet as of December 31

in million HUF

Designation	2009	2010
Assets		
Intangible assets	355	355
Fixed assets	105 563	106 060
Fixed financial assets	939	1 040
Stocks	335	326
Receivables	4 853	4 530
Securities	0	0
Cash and bank	3 982	7 421
Deferred charges	2 851	2 819
Total assets:	118 878	122 551
Liabilities		
Equity	96 609	98 444
Provisions	1 736	4 025
Long-term liabilities	251	0
Short-term liabilities	3 306	3 016
Accured expenses	16 976	17 066
Total liabilities:	118 878	122 551

Assets:

The level of assets was HUF 3,673 million higher than on December 31, 2009:

- The value of intangible fixed assets did not change.
- Due to the cumulative impact of investments and write-offs in the reporting period, the value of fixed assets increased by HUF 497 million.
- The value of long-term financial investments grew by HUF 101 million, primarily because of changes in interest relationships. The IL-NET public company's HUF 19 million interest was eliminated due to the liquidating of the company. With regards to previous investments, the Company bought all shares of the FCSM Civil Engineering Ltd; the increase was HUF 131 million.
- Inventory decreased by HUF 9 million in comparison to the same period of the previous year.
- Receivables increased by HUF 323 million. Trade receivables increased by HUF 15 million (see details in the financial chapter), while other receivables decreased by HUF 338 million.

- The value of securities on December 31 is zero.
- The value of cash and bank increased by HUF 3,439. (Out of this, HUF 2289 is accounted for by provisions for expected losses.)
- The level of prepaid expenditures was HUF 32 million lower than on December 31, 2009 due to the decrease of income accruals.

Further analysis of the assets indicates that 87 % of our Company's assets are represented by fixed assets. 92 % of the fixed assets consist of real estate.

Fixed assets on December 31, 2010 in million HUF

Designation	Properties	Tecn. machine, appliance, vehicle	Other equipment and vehicles	Investments and advances	Total
Gross value	147 144	17 703	2 257	3 662	170 766
Amortization	49 498	13 260	1 948	0	64 706
Net value	97 646	4 443	309	3 662	106 060

Details of properties on December 31, 2010 in million HUF

Item groups	Gross value	%	Net value	%
Sewers	122 105	83,0	78 089	80,0
Other underground structure	12 345	8,4	8 426	8,6
Land	3 651	2,5	3 651	3,7
Other building	9 043	6,1	7 480	7,7
Total	147 144	100,0	97 646	100,0

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 sewers owned the city and capitalized since 1997: HUF 54,231 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 20,316 million in gross value.

The gross value of third parties' properties operated by the Company in Budapest on December 31, 2010 was HUF 78,117 million.

Technical specifications

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 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.

Besides our core activities, this chapter also contains technical specifications related to the Company's two special municipal duties (flood protection and public restroom operation in Budapest).

Sewage collection

On December 31, 2010, a total of 5,383 km public sewers were operated, 31 km more than in the previous year, as detailed in the following:

Specifications of the sewer network in Budapest in km

Year	Main sewer	Connecting sewer	Total	out of this: new
2004	3 605	1 470	5 075	160
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

Composition of the Budapest sewer network in km

Year	Wastewater	Rainwater	Combined	Total
2004	1 380	415	3 280	5 075
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

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. Their number increased by 2-2, respectively.

The Company receives trucked sewage collected from areas with no public sewer system at multiple stations. According to the 33/2010. (VI.21.) order of the General Assembly of the City of Budapest, liquid communal waste can only be received at „card-based“ concentrated drain stations in Budapest, and the liquid waste cannot enter the receiver untreated. In carrying out these regulations, 18 „covered“ drain stations and one station directly connected to the Danube were closed. The following five drain stations meet the provisions of the order as of July 1, 2010: the one at the North- and South-Pest Wastewater Treatment Plants, the one at Nagykovácsi Street in the 2nd District, the one in Hunyadi J. Street in the 11th District, and the one in Tóimalom Street in the 17th District.

Terminal stations

On December 31, 2010 three major sewage treatment plants operated in the capital. In addition, 15 automatic terminal pump stations – transferring sewage into the river Danube – operated at 10 sites.

With the construction of the Buda conduit, the number of free overflows decreased by 20 in 2010. This increased the workload of the terminal stations and amount of sewage treated. The amount of wastewater and rainwater collected at pump stations was influenced by the amount of precipitation. In 2010, the average amount of registered precipitation was 913 mm, as opposed to the 556 mm measured in 2009. Consequently, the rate of wastewater and rainwater collected by pump stations also grew in comparison to the previous year (by 31 %) from 147,481 thm³ to 193,974 thm³ (out of which 13,768 thm³ were pumped multiple times). Some of this (136,808 thm³) was transferred to a treatment plant via pumping, while the rest appeared as collected volume. The volume of sewage transferred directly into the Danube from the pump stations decreased from 97,342 thm³ to 43,398 thm³. The proportions of wastewater arriving to the plants and discharged into the receptor from there also reflect the significant technical changes of the reporting period.

In 2010, the Ferencváros and Kelenföld plants transferred the wastewater and rainwater received from the area of the water collector to the Budapest Central Wastewater Treatment Plant (BCWTP). Besides the sewage of its own water collectors, The Kelenföld pump plant also transfers the sewage from the Albertfalva and Zsigmond Square pump plants to the BCWTP. The Zsigmond Square pump plant, connected to the completed Buda Danube bank conduit, has been working as an intermediary pump plant since February 17, 2010.

The other three pump stations, which are intermediate stations that can operate as terminal stations if needed are the Angyalföld station, the Pók Street and the Békásmegyér stations. From these – in case of normal operation – wastewater and rainwater collected in the drainage area of these pump stations is transferred to the North Pest treatment plant. In the reporting period, 33,602 thm³ wastewater was transferred to wastewater treatment plants from pump stations by water steering. Three treatment plants perform the treatment of the wastewater created in the capital city. In 2010, 94,3% of all wastewater and rainwater was treated biologically.

The biggest plant was built in Csepel and its one year trial operation successfully ended on July 31, 2010. The plant is operated by the BKSZT Budapest Wastewater Treatment Ltd. Dry weather wastewater and (up to triple dilution) rainwater is transferred to Csepel through the network and pump stations operated by the Company via water steering, and is taken over by the BCWTP for treatment. In 2010, this volume was 101,872 thousand m³.

53.4% of the dry weather wastewater was received by two treatment plants which are operated by the Company. The Csepel plant was unable to receive 19,333 thousand m³ of wastewater and rainwater due to the high level of precipitation in the reporting period.

Average actual biological treatment capacity in 2010 m³/day

Designation	Average capacity	Load	% of usage
BCWTP (Csepel plant)	300 000	279 101	93,0
North-Pest plant	200 000	142 632	71,3
South-Pest plan	80 000	64 222	80,3
Treatment plants total	580 000	485 955	83,8

65% of dry weather wastewater was received by two treatment plants operated by the Company. The South-Pest treatment plant has a biological treatment and nutrient-removal capacity of 80 thm³/day, and the capacity of the North-Pest plant is 200 thm³/day, however, the trial operation of the same-sized nutrient-removal phase of this plant only began on March 23, 2010.

The third treatment (nutrient-removal) stage of the North-Pest Wastewater Treatment Plant was realized as an investment of the Municipality of Budapest. The two-phase, one-year trial operation began on March 23, 2010. In the first phase, the installation of the activated sludge system was carried out, and then the trial operation began two months later.

Unlike in previous years, the amount of rainwater and wastewater arriving at the plant increased. Compared to the previous year, the quality of discharged water improved considerably. The decrease in the amount of nutrient components in the discharged treated water is especially great.

The fermentors operating at the North-Pest Wastewater Treatment Plant produced 6,876 thousand m³ of biogas in 2010. The created electricity (13,654,372 kWh) was transferred into the plant's electricity network and covered 82% of the usage. Through this investment, the quantity of sludge and its organic matter content both decreased, the dehydration possibility of sludge ameliorated, biogas can be recycled, the reception of matters increasing the production of gas can be ensured, and the contagiousness of sludge also decreases. Further to wastewater sludge created on the spot, the fermentors received 46,090 tons of external waste and sludge. Natural gas usage has ceased at the plant. The heating of buildings and the provision of hot water is carried out fully by the utilization of waste heat and biogas furnaces.

Sludge treatment technology also advanced in 2010. The transition to polyelectrolyte-based sludge-conditioning significantly reduced chemical costs. With regards to the average quality of water discharged from the South-Pest plant in 2010, all individual components were below the unique threshold limit set by authorities.

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. In 2010, the main investments were the following:

- The extension and modernization of the aeration system of the activated sludge treatment phase.
The design of the capacity extension of the activated sludge basins with „live machine technology“ continued in 2010, in order to increase the existing biological treatment capacity through the installation of purposefully selected flora and carrying matters.
- The covering and odor treatment of the pre-mechanic treatment facility.
The environment protection authority has prescribed the realization of the covering and aeration of the pre-mechanic treatment facility, more precisely of the aerated sand collectors, which is under way, and is expected to be handed over in Summer 2011.
- The construction of a new gasifier post-fermentor, the transformation of the current post-fermentor into a mesophilic fermentor.

In order to increase fermentation time, reach better organic matter decomposition efficiency and thereby a smaller quantity of fermented sludge with better dehydration possibilities, the increase of the fermentation volume became necessary, which means the creation of the heatability of the existing fermentor and its fitting with a mixer. The undertaking was successfully completed in December 2010. In the fermentor tower featuring the new mixing method, 25% more biogas can be produced.

In 2010, the plant produced 8,633,397 Nm³ biogas from the sludge created during wastewater treatment and enriched with received waste. The 11,282,300 kWh electricity gained from biogas covered nearly 80% of the plant's electricity need and 100% of its technological and social heat needs. One of the plant's main environmental goals in 2010 was the elimination of odor sources produced during wastewater treatment, hence the threefold increase (carried out by the Company) in the capacity of the trucked sewage emptying station and the covered thickening biofilters.

Construction of a light-structure container storage commenced at the plant's transfer station, which will be handed over in 2011. A light-structure sluicing-enabled building was constructed at the liquid waste regulating station, which will be handed over in February 2011. Altogether, these investments reduced the amount of odorous air emitted into the open air during the plant's technological processes by 80%.

Sludge disposal

Waste generated during the operation of the sewage system must be disposed according to relevant environment protection regulations and the issued permits. Sludge settled in the sewers is dehydrated in the South-Pest plant by settlement. 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 and

grid waste collected by the screens at major transfer stations is delivered directly – 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.

A new waste collection system has been in place at the Company since 2009, which was justified by the more efficient maintenance of the environmental conditions and by cost efficiency. The new system covers all organizational units of the Company and almost all segments of the created waste. The created waste must first be qualified. The four waste-specific main groups are the following: solid waste that can be included in selective collection, technological waste originating from wastewater treatment and network operation, waste that can only be collected in a mixed way and 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 quantity of sold waste in 2010: 15,500 kg.
- Waste generated by the technologies:
Waste generated during the operation of the sewage system must be disposed according to relevant environmental protection regulations and permits (see sludge disposal chapter) selective collection.

Specifications of waste generated by the sewage network in 2010 in tons

Designation	Created quantity	Disposal		
		Csomád	External contractor	Total
Sand trap and sewer alluvium	10 195		10 195	10 195
Screenings	2 810		2 810	2 810
Compacted sludge at treatment plant	91 478	10 990	80 488	91 478
Total	104 483	10 990	93 493	104 483

In 2010, 39.9% of the waste was made up by dehydrated sludge originated from the North-Pest plant, 26.4% of which was placed at the landfill at Csomád operated by the Company. 47.6% of the waste was fermented and dehydrated sludge for the South-Pest plant, while the remaining 12.5% was given by other sewer waste. In 2010, the quantity of sludge decreased by 6% compared to the previous year, when we had to organize the disposal of 98,428 tons of technological waste created from wastewater treatment. 10.5% of the technological waste quantity is disposed in the Csomád landfill, the remaining 89.5% is treated by an external contractor licensed by the authorities. EWC-H Kft, successful at the public procurement tender, collects the waste from the South-Pest plant.

- 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 is possible through efficient selective waste collection. Thickening reduces transporting costs and pollutant emission.
- Green waste:
During the maintenance of flood protection structures and our sites a great quantity of green waste is created. During the previous years, the total of green waste was disposed. In 2010, the disposal and handling at the Company's green waste was done at the Company's Csomád landfill. Further to economic aspects, we do not burden the receiving communal landfill with organic matters, which is in full compliance with the regulatory background.

The treatment plants continuously receive waste to be eliminated. The received waste strongly influence 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 flood- and inland water protection of Budapest is a specially defined task of the Company. Under a service contract, we carry out the maintenance of the 93 km defense line from an annual budget received from the Municipality of Budapest. The excessive amount of precipitation and extreme, heavy rain in 2010 presented a considerable challenge in carrying out this activity. These reasons made the task, the maintenance of the water-collecting capability of the channels considerably harder. Managing obstructions formed by sediment and drift material washed off the water collectors was more time-consuming than in previous years. The weather in 2010 brought about extreme events in smaller watercourses too. The first major challenge was the intensive rainfall in the middle of May. Due to the fierce three-hour storm that hit Törökbálint on May 30, the Hosszúréti stream flooded its Budapest section. On June 14, the storm hitting Kistarcsa caused the Szilas stream to flood. Lake Náplás (a flood protection basin), formed on the Szilas stream, protected the lower areas of the 16th District. The importance of preventive protection in the city's flood damage prevention is signified by both the occurred and prevented flood damages.

The flood between June 1 and 14 was the result of the considerable amount of precipitation that had fallen on the Upper and Lower Austrian water collectors on the Danube. Preparations for the flood began based on Austrian forecasts. A rather high peaking was likely, since the Slovakian tributaries had also reached the Danube with considerable rates of discharge. Based on the forecast, the Municipality immediately ordered a level 2 alarm, which was raised to level 3 on June 5. The river peaked at 827 cm on June 8. In spite of the challenges, flood protection was carried out without any extraordinary events, in a disciplined manner, according to plan.

The cost of the protective work was HUF 138,757. This covered the installation of 30 thousand sandbags, the closing of the embankment crossings at Királyok Street (which required considerable earthworks), as well as the costs of pumping some 600 thousand m³ treated wastewater along with other protective measures. The flood of 2010 was the fourth highest-peaking iceless flood in the past one hundred years, but even among all the floods (including icy floods) it ranked fifth.

Due to climate change, extreme weather phenomena affect the area of the Danube water collector, thus the risk of a notable flood must be considered more often. Experience shows that several serious floods may occur on the Danube every year. For the sake of prevention, thoroughly familiarizing ourselves hydrometeorological relationships arising on the Danube's water collector must remain a priority. Smaller watercourses also represent considerable risk, as quick showers can lead to only locally significant, but nonetheless serious floods. The increase in the amount of local precipitation is also considered a risk. This can lead to quicker floods and overflowing. Other unforeseeable circumstances (such as waste oil pollution) can also cause damages bigger than flooding. Considering that a large part of the system goes through highly urbanized areas, even smaller floods can cause considerable damages.

Operation of public restrooms

The Company has been carrying out the operation, maintenance and renovation of Budapest's public restrooms since the liquidating of the IL-NET public company on July 3 2010. Out of the 74 restrooms taken over, 30 underwent quality-improving renovations in 2010. These renovations (painting, color-washing, sanitary replacement, reparation of flooring/covering defects) served to increase the quality of the service. In case of one restroom (at the undercrossing at the Southern railway station in the 1st District), complete reconstruction was carried out, creating facilities for showering and changing babies. The reconstructed restroom, complete with operating personnel, also had an automatic section built into it, which enables handicapped clients to use the facilities 24/7.

Operational data:

■ Restrooms with operators	33
■ Automatic restrooms operated	12 (8 owned)
■ Restrooms not operated by the Company (leased)	11
■ Restrooms incapable of being operated due to technological reasons	22

In 2010, the final façade of the public restrooms was established. Part of next year's plan is the complete reconstruction of 4 restrooms with operating personnel, out of which 2 are currently operating and 2 are in a ruinous state. In 2011-12, 20 of our own automatic restrooms are expected to be installed, which will further increase the number of restrooms available to the public.

Financial position

The Company had a balanced liquidity position over the entire year. This financial balance was significantly influenced by changes in receivables.

Changes in receivables

In comparison to last year's figures, trade receivables of 31st December increased by HUF 15 million. The change was due to the transfers and changes of HUF -117 million credit balance trade receivables and the increase of depreciation by HUF 6 million and the increase of receivables by HUF 138 million.

94% of receivables was made up by sewer usage charges. The distribution of receivables between not past due and past due is 51-49%. Within on-time receivables, the decrease of sewer charges receivables was 4%; however, there was a 4.5% tariff increase at the beginning of the year. The increase of past due sewer charge receivables as opposed to the base period was 12%.

Receivables from other activities decreased by 13%.

Uncollectable wastewater receivables were written off in a value of HUF 147 million in 2010.

Changes in receivables without amortizations on December 31 in thousand HUF

Designation	2009		2010	
	Total	Wastewater	Other	Total
Past due receivables				
0 - 90 days	1 038 139	1 153 008	115 703	1 268 711
91 - 180 days	284 647	312 086	19 482	331 568
181 - 360 days	298 761	267 394	5 645	273 039
361 - days	626 526	697 676	11 603	709 279
Total past due receivables	2 248 073	2 430 164	152 433	2 582 597
On-time receivables	2 937 142	2 592 389	147 654	2 740 043
Total customer receivables	5 185 215	5 022 553	300 087	5 322 640
Crediting customers	300 777			183 381
Depreciation of receivables	-1 059 618			-1 065 506
Total receivables on Dec. 31.	4 426 374			4 440 515

Evolution of the cash flow

In 2010, the cash and bank income of the Company reached HUF 46,042 million; out of this HUF 46,038 million was unrestricted and HUF 4 million held in a separate bank account.

9% of the own coverage was opening balance, 84% of it came from wastewater services. Revenues remained 4% (HUF 1705 million) below the plan.

The financially realized income from wastewater collection was HUF 1,356 million less than expected, since invoiced wastewater quantities decreased. This decrease represents 80 % of the gross shortfall, and the absence of income from water utility development makes up 19% of the rest. Income from sewer penalties and interest rates grew in comparison to the target, which represented 1% of the gross income and compensated for other shortfalls.

The value of financially realized expenditures was HUF 38,621 million, 38,617 million of which was unrestricted resources. The latter is HUF 3,878 million lower than budgeted. The 9% decrease of expenditure compared to the budget occurred basically due to two reasons. The sum of investment expenditures (including VAT) was HUF 1,631 million than planned. This is due to the fact that resources were scarcer than planned and delays occurred in the timing of the works. The other big change occurred in the so-called „other contractor payments“, within which there was a decrease mainly in the sums to be transferred to BKSZT Kft. As a result of cost efficiency and the lower than planned wastewater volumes, costs remained lower than planned. This effect appeared in the decrease in the cost of materials, maintenance and energy. The water burden charge was also lower –thanks to the decrease in the amount of wastewater and its quality- than planned.

Greater expenses above plan amounted to HUF 799 million in total. In order, compared to the total value of overcompensations, these greater expenses were the following:

- VAT payments (47%)
- Social security expenses (18%)
- Investment purchase (16%)
- The sum of other smaller above-plan expenses (19%)

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

In summary, the value of realized cash-type expenses were HUF 7,421 million less than actual revenues. On December 31, 2010, cash and bank were in bank deposits.

Cash flow I-XII. months 2010

in thousand HUF

Designation	Plan	Actual	Difference	
	I-XII. month	I-XII. month	1,000 HUF	%
Opening balance	3 982 193	3 982 193		
Revenues from sewer charges	39 854 624	38 498 469	-1 356 155	96,60
Revenues from other activities	2 428 592	2 223 423	-205 169	91,55
Revenues from export			0	
Sewage penalties	15 600	44 874	29 274	287,65
Public utility development contribution	1 051 250	725 472	-325 778	69,01
Interest received	110 800	385 288	274 488	347,73
Tax revenue (VAT return)			0	
Other revenues	233 359	136 227	-97 132	58,38
Social Security	66 000	41 938	-24 062	63,54
Technical revenues		0	0	
Total non-restricted cash available	47 742 418	46 037 884	-1 704 534	96,43
Municipality of Budapest transfer of financial resources				
Local Municipality of Budapest transfer resources				
Received for flood control equipment maintenance	27 000	4 195	-22 805	15,54
Available on a separate account	27 000	4 195	-22 805	15,54
Purchased materials	2 326 582	2 035 003	-291 579	87,47
Energy	1 330 377	1 271 244	-59 133	95,56
Maintenance	1 461 003	1 059 055	-401 948	72,49
Wages, remunerations, compensations	2 484 314	2 518 190	33 876	101,36
Social Security	1 484 902	1 625 512	140 610	109,47
Private Pension Fund	268 669	222 164	-46 505	82,69
Wastewater penalties	621 797	631 617	9 820	0,00
Environmental load tax	1 856 078	1 726 840	-129 238	93,04
Taxes and penalties	3 457 098	3 434 043	-23 055	99,33
Tax paid (VAT)	5 153 643	5 530 463	376 820	107,31
Bank fees and interest expenses	19 036	15 577	-3 459	81,83
Passage, water arrangement	0		0	
Own investment and value-added reconstruction	8 535 582	6 904 955	-1 630 627	80,90
Development fund	0		0	
Other financial resources for development	0		0	
Other resources for development	63 250	62 620	-630	99,00
Dividends	3 798 204	3 905 349	107 145	102,82
Participations	0	130 900	130 900	
Other payments to suppliers	6 320 253	4 529 092	-1 791 161	71,66
Rent paid to the Municipality	3 113 750	2 813 997	-299 753	90,37
Compensation	200 000	200 000	0	100,00
Technical expenses			0	
Total available financial assets	42 494 538	38 616 621	-3 877 917	90,87
Development investments			0	
Regional investments				
Maintenance of flood control equipment	27 000	4 195	-22 805	15,54
Restricted payment	27 000	4 195	-22 805	15,54
Total financial assets	5 247 880	7 421 263	2 173 383	141,41
fixed deposits	5 245 000	7 414 849	2 169 849	141,37
fixed liquid securities, portfolio		0	0	
out of this: cash	2 880	6 414	3 534	222,71

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 invoiced – in lack of 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 tariff also increase. The increase of the VAT rate also affects the tariff. With the increase of the tariff, the risks of collection also increase. Since the expenses of the activity are basically asset-based, costs do not decrease proportionately with the decrease of revenues in case of volume decrease. 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 2010, the 13 collectors collected HUF 3,361 million of past due fees.

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

This sewer usage fee is a maximized price determined by the authorities. Since January 1, 1993, pursuant to Act LXXXVII/1990 amended by Act CIV/1993, the rights of the pricing authority are exercised by the body of representatives of local municipalities – in the case of our Company, by the Body of Representatives of 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.

The tariff suggestion for the year 2010 was negotiated in December 2009. According to Decree No. 83/2009. (XII.23.) of the General Assembly of Budapest, sewer charges for the City of Budapest from January 1, 2010 were set at HUF 272.20/m³. The new service fee also contained a water burden charge in the amount of HUF 23,73/m³ determined by our Company based on Act LXXXIX of 2003 and re-charge to the users based on the Government Decree number 270/2003.(XII. 24.). In 2010, the amount of VAT on sewer charges was 25%.

The conditions of price application are also fixed by the appropriate authority. Among these, the rules of watering discounts introduced in 1994 remained unchanged ever since the modifications of 2004 made through the Government decree 38/1995. (IV.5.). Public baths, which signed a contract with the Municipality of Budapest, may enjoy a 50% discount on sewer charges applicable to water discharged from public baths since January 1, 2001 under certain conditions. This rule of the price application has not changed but does not apply to the re-charged water burden charge in 2004. In 2010, the conditions of price application broadened. According to the 35/2010. (VI.21.) decree by the Municipality, the price of receiving wastewater from the suburbs (without a water burden fee) may be more moderate. The degree of the cut may be, if the fixed conditions are met, 40% of the sewage charges.

The General Assembly of the Municipality of Budapest prescribed in its 2000/2009 (XII.18.) regulation that the Company provide a HUF 200 million fund for public consumers using the sewage service who are entitled to a compensation. The settlement lasts from March to March of next year. 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 from time to time. The latter is a data of an organization independent from the Company. The net fee for 2011 is 325,30 Ft/m³. The 2011 fee does not include compensation coverage.

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 2010 this income was HUF 31,558 million, which also contained HUF 2,774 million water burden fee. The shortfall is 0.6% compared to the previous year due to the 4.5% increase of the tariff while the volume of invoiced sewage was reduced by 5.9%.

Volume of sewage billed

in thousand m³



70% of the invoicing of 2010 was household wastewater emission, which was lower than in the previous year by 2,799 thm³. The 2010 non-household consumption fell short of that of 2009 by 4,447 thm³. In the capital, the volume of billed wastewater to corporate and industrial consumers was 23% of the highest quantity ever measured. (For this consumer group, the highest service usage was in 1985, with 153.4 million m³.)

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: services rendered in current year and invoices issued for previous years' consumption.

- Current year's consumption remained 6% below last year's level.
- The effect of previous years' consumption delayed to 2010 was 4% less than in the previous year.

As the cumulated result of the above two factors, in the year 2010, billed sewage was 7,246 thm³ less than in the previous year.

Volume of sewage as per the year of consumption in thousand m³

Designation	2009	2010	Index
Delayed invoicing	9 932	9 555	96,2
Current year consumption	113 384	106 515	93,9
Total invoicing	123 316	116 070	94,1
Accruals	9 661	10 254	106,1
Change in accruals	-1 627	593	-36,4
Income total	121 689	116 663	95,9

The annual plan targeted the invoicing of 120,800 thm³ sewage, as well as deferred services of 9,361 thm³ sewage. Actual change was more drastic than that. In fact, 116,070 thm³ were billed, and 10,254 thm³ were accrued for. In total, the basis of revenue is 4,137 million m³ less than planned.

The change in deferment made possible the account of HUF 116,663 thm³ of sewage quantity as revenue. This was less than in the previous year by 5,026 thm³.

In the reporting period, a determining part of the net revenues of the Company (94%) came from wastewater collection and treatment. This proportion equals the previous year's.

Based on the contract concluded with the Capital the water damage control and water quality protection activity generated HUF 304 million revenues. The fundamental reason of the HUF 86 million surplus compared to the base period is that in 2010, revenues from flood protection reached HUF 139 million, compared to the HUF 61 million of the base period.

Apart from the capital city tasks, other services to outside parties were rendered in relation with the sewer utilities for HUF 540 million, of which revenues from sewage-neutralization represent a considerable portion. The swimming pool water collection determined with a tariff discount of 50% and the invoicing of secondary water counters generated HUF 177 million in revenues.

Evolution of revenues

in million HUF

Designation	2009. actual 1	2010. plan 2	2010. actual 3	Index % 3/1	Index % 3/2
1. Wastewater collection and treatment	31 742	32 807	31 558	99,4	96,2
2. Pool water, secondary meters	175	181	177	101,1	97,8
3. Other wastewater services	390	612	504	129,2	82,4
4. Water damage elimination, water quality protection	218	157	304	139,4	193,6
5. Industry	66	85	147	222,7	172,9
6. Construction	0	0	0	0	0
7. Transit activities	5	3	1	20,0	33,3
8. Mediated services	92	166	136	147,8	81,9
9. Other activities	666	687	726	109,0	105,7
Revenue from domestic sales	33 354	34 698	33 553	100,6	96,7
Revenue from export	0	0	0		
I. Net sales revenue	33 354	34 698	33 553	100,6	96,7
II. Other income	18 037	18 815	18 560	102,9	98,6
A. Business income	51 391	53 513	52 113	101,4	97,4
B. Financial income	636	130	450	70,8	346,2
C. Usual business income	52 027	53 643	52 563	101,0	98,0
D. Extraordinary income	636	662	738	116,0	111,5
E. Total income	52 663	54 305	53 301	101,2	98,2

The industrial, building industry and transport activities generated HUF 148 million revenues to the Company.

The value of mediated services reached HUF 136 million. The company provided the required energy to the investor during the trial operation of the connections running under the Danube into the Csepel treatment plant. As a result, mediated services were exceeded an average year's figures.

Revenues from other activities increased by HUF 60 million compared to the previous year and reached HUF 726 million. Rent generated HUF 21 million, agglomeration sewer

operation HUF 18 million revenue losses. The operation of public restrooms generated income for the first time in the reporting period, amounting to HUF 20 million. The other activities generated an HUF 1 million increase aggregate income compared to 2009.

Other income increased by HUF 523 million compared to the previous year. Among the changes compared to 2009, the factoring income increase of HUF 930 million (caused by the tariff increase besides the broadening of the scope of factoring) and the provision release of HUF 265 million are outstanding. Income from sewer penalties decreased by HUF 83 million compared to the previous year.

The income from asset sales were HUF 48 million higher than in 2009 million, which marked the handover of the assets related to network repair activities. The change of the remaining items compared to the base period was HUF -11 million.

As opposed to the plan, the missing income is HUF 254 million. Among the smaller than budgeted income items, the HUF 164 million decrease of asset sale is outstanding due to the delay of the planned real estate sales to 2011. Factoring income fell short of the plan by HUF 79 million, in line with the amount of invoiced. Sewer penalty income was HUF 55 million less than budgeted. Provision release exceeded the plan by HUF 16 million. A technical revenue above the plan arose from recovered depreciation (HUF 25 million), which is due to the net planning of depreciation. The remaining items were HUF 35 million higher than planned altogether.

Revenues from financial transactions were HUF 186 million below the level of the year 2009, due to a decrease in interest income. HUF 320 million revenue above the plan was reached, since unrestricted resources increased due to the delay of investment performance.

Amortization of assets received without compensation was included in extraordinary revenues, which was increased, in comparison to the base period, by HUF 102 million.

As a summary, in the year 2010 the Company's net revenues reached HUF 33,553 million, HUF 199 million more than in the previous year. The revenues of the Company exceeded HUF 53,301 million. This amount is higher by 1.2 %, that is HUF 638 million than last year's.

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 2010, asset-based costs reached 59% of the sales expenses, among which 41% was amortization and the rental fee and 18% was maintenance.

In total, sales expenses increased by HUF 308 million, that is 1.5% in comparison with the base period. The yearly plan was basically achieved at 91.7%.

Sales expenses

in million HUF

Designation	2009. actual 1	2010. plan 2	2010. actual 3	Index % 3/1	Index % 3/2
Material type expenses	10 079	11 542	9 954	98,8	86,2
Personnel type expenses	5 266	5 566	5 586	106,1	100,4
Amortization	6 051	6 255	6 133	101,4	98,0
Activated own performance	-644	-402	-613	95,2	152,5
Cost of sales	20 752	22 961	21 060	101,5	91,7

The actual value of material-type expenses was HUF 9954 million. Among material type expenses, 25% was materials and energy expenses, 72% was purchased services, and 1% other services and 2% mediated services.

The HUF 125 million surplus as opposed to the previous year is caused by the following:

- at material and chemicals expenses HUF +10, in line with the inflation,
- at energy costs, the result of energy rationalization HUF -155 million,
- at rental and usage fees HUF -1857,
- HUF +199 million at external maintenance,
- sludge disposal additional costs: HUF +130 million,
- wastewater treatment service fee paid to BKSZT Kft.: HUF +1449 million
- the change in mediated services: HUF +43 million,
- the aggregate change of the other items is HUF + 56 million.

An excess of HUF 1588 million compared to the plan was achieved:

- at material and chemicals expenses HUF -87 million,
- at energy costs, the result of energy rationalization HUF -307 million,
- at external maintenance HUF -222,
- decrease in wastewater treatment service fee paid to BKSZT Kft.: HUF 907 million
- the change in mediated services: HUF -29 million,
- the aggregate change of the other items is HUF -36 million.

Personnel-type expenses grew in comparison the previous year by 6%. 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 (including the personnel-type expenditures of flood protection).

In the year 2010, amortization was HUF 6,133 million. The increase of 1.4% as opposed to the previous year was caused by the increase in the value of fixed assets.

Capitalized own production contributed HUF 613 million to the above listed expenses. This amount basically matches last year's.

Evolution of expenses in million HUF

Designation	2009. actual 1	2010. plan 2	2010. actual 3	Index% 3/1	Index % 3/2
Cost of sales	20 752	22 961	21 060	101,5	91,7
Other expenses	24 725	21 802	24 502	99,1	112,4
Business expenses	45 477	44 763	45 562	100,2	101,8
Financial expenses	25	14	13	52,0	92,9
Usual business expenses	45 502	44 777	45 575	100,2	101,8
Extraordinary expenses	745	264	315	42,3	119,3
Total expenses	46 247	45 041	45 890	99,2	101,9

Above sales costs, the aggregate amount of expenditures reached HUF 24,830 million. Within this other expenditure reached HUF 24,502 million. This is HUF 223 million lower than last year's figure. Considerable variances: Water burden fee expenditure was HUF 4034 million lower mainly due to the decrease in the volume of treated wastewater, the cost of factoring was HUF 1,986 million higher, provisions were HUF 2584 higher, and depreciation-write-offs were HUF 27 million higher. HUF +125 of uncollectable receivables was written off and the aggregate change of other items is HUF +35 million.

HUF 2,700 million savings was achieved compared to the plan. Most changes occurred for reasons beyond the Company's control (wastewater volume decrease, unsuccessful property sale attempt, delay of authority decisions, etc.) The most important extra expenditures were the following: HUF +100 million additional write-off, HUF + 2900 million provisions and HUF +37 million uncollected wastewater receivable write-off. Notable

decreases in expenses were the following: HUF -82 million factoring expenses, HUF -205 million water burden charges and a total of HUF -50 million of other items.

The cost of financial transactions of the Company reached HUF 13 million.

Under extraordinary expenditure there was no requirement to pay a development portion. HUF 200 million came from the contribution to the foundation compensating sewer users. Other payables of HUF 115 million were included in the extraordinary expenses category.

In summary, total costs and expenses of the Company reached HUF 45,890 million. Because of this and the revenues, profit before tax was HUF 7,411 million.

Profit

Profit before tax of the Company was influenced by the following factors: Operating profit was HUF 6,551 million. Profit from financial transactions increased this by HUF 437 million. An extraordinary profit of HUF 423 million was accounted for. The combined effect of the above resulted in the profit before tax of HUF 7,411 million. The Company had a profit tax obligation of HUF 1,923 million.

Evolution of profit in 2010

in million HUF

Designation	Income	Expenses	Profit
Business activities	52 113	45 562	6 551
Financial activities	450	13	437
Business activities	52 563	45 575	6 988
Extraordinary activities	738	315	423
Profit before tax	53 301	45 890	7 411
Payable tax	0	0	1 923
After tax profit			5 488
Dividends paid (approved)			3 653
Balance sheet profit			1 835

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 development fund incorporated into sewage charges,
- 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. Development financed by the Municipality of Budapest

In the year 2010 our Company – with the shareholders' approval – contributed to the development of the sewage network in Budapest by paying HUF 2491 million in the form of sewage usage and rental fees provided for by the sewer charges. The fee did not include a development portion in the reporting period. Accordingly, these resources were not dependent on the volume of invoiced wastewater, thus there was no need for an end-of-the-year settlement of accounts. In accordance with the Financial Asset handover-takeover contract, payment of usage and rental fees took place on a monthly basis.

Assets taken over for operation continue to grow, no risk or uncertainty is expected in the field. There was no change in the assets taken over for operation after the end of the fiscal year. One identified change is that the 2011 fee, including the Financial Asset handover-takeover, includes a usage and rental fee amounting to HUF 2,515 million from Municipality assets operated by the company. Following the completion of the Csepel plant's trial operation and the activation of the investment, a rental fee payment obligation appears for the BCWTP, the costs of which (HUF 2,879 million) is included in the sewer charges and is received by operator BKSZT Kft. and transferred to the Municipality of Budapest.

Capital investments in the possession of the Municipality of Budapest and taken over by the Company for operation (excluding property value, replacement for housing property value and transfer of funds) in thousand HUF

Designation of investment	until year end 2009	in 2010	until year end 2010
XI. Hamzsabégi-Ajnácskő str. conduit	389 176		389 176
Rákosvölgy North conduit	1 870 149		1 870 149
IV-XV. Szilaspaták conduit	356 666		356 666
IV. Corvin-Bajza-Fóti str. Conduit	382 990		382 990
II. Zsigmond Square pump station	1 739 491	3 826	1 743 317
South-Pest Wastewater Treatment Plant	6 535 840	-516 004	6 019 836
North-Pest Wastewater Treatment Plant	5 572 653	-5 862	5 566 791
South-Buda conduit	657 546		657 546
North-Pest concentrated purging	38 927		38 927
Albertfalva concentrated purging	46 127		46 127
Bécsi str. conduit	277 429		277 429
Kőbánya conduit	775 220		775 220
Hungária boulevard	608 851		608 851
XI. Etele Square	77 446		77 446
Expo-area	345 745		345 745
XV. Szócs and Eötvös str.	33 519		33 519
Hungária – Könyves Kálmán boulevard	241 230		241 230
National road no. 5	321 338		321 338
VI-VII-XIV. Dózsa György str.	80 174		80 174
IX. District Haller str.	67 786		67 786
Fiumei str.	90 124		90 124
Rákoscsaba – Péceli str.	92 016		92 016
Orczy str.	1 316		1 316
Bácskai str. – Laskay str.	279 435		279 435
IV., Káposztásmegyér development area	259 144		259 144
Csomádi landfill	629 545		629 545
XXIII., Szent László str. pump station	18 020		18 020
III. Pók str. conduit	1 561 697		1 561 697
III. Pók str. pump station	1 421 624		1 421 624
XIV., Nagykőrös service road	11 986		11 986
XVII. Cinkotai str.	13 554		13 554
II. Hűvösvölgyi str.	719 181		719 181
Other properties	13 194		13 194
District sewers	28 590 978	628 591	29 219 569
Total	54 120 117	110 551	54 230 668

II. Projects completed from own resources of the Company

In 2010 own development resources of the Company reached HUF 7,482.3 million and were the following:

- Opening amount of available financial resources HUF 390.1 million.
- Development contribution received: HUF 580.4 million.
- HUF 6,133.1 million was created as amortization in the reporting period.
- Other resources in the tariff (value of manhole covers for Budapest road constructions): HUF 152 million.
- Book value of assets written off: HUF 161.7 million.
- Cumulated interest of development funds was: HUF 53.6 million.
- HUF 11.4 million was received for damage compensation.

In the previous year, the Company had resources worth HUF 8,541.3 million. Both the opening balance and the value of contributions decreased, which tendency can be expected on a longer term.

Utilization of resources available for development

HUF 6,993 million was contributed from the Company's own resources. From this, HUF 152 million was the resource usable for road constructions in Budapest (manhole covers, sink gratings). A total of HUF 6,841 million was used for own investments.

A big part of the investments of our projects fall under the process of public procurement. In 2010, the group managed 32 public procurement processes, of which 25 were centralized public procurements.

From own resources – similarly to the previous year – 96% was reconstruction and replacement of assets and the proportion spent on development only 4%.

In 2010, the Company did not utilize HUF 489.3 million from all its available financial resources. However, this amount is fully dedicated for investments in 2011 already under way.

Detailed allocation of own financial resources by objectives in million HUF

Designation	2009 actual	2010 actual
Wastewater treatment		
Value added	177,8	104,9
Reconstruction	1 668,8	1 468,1
Pump station		
Value added	106,4	18,2
Reconstruction	345,9	109,2
Network		
Reconstruction	3 540,8	3 731,1
Other		
Value added	370,4	457,6
Reconstruction	288,6	239,6
Planning	213,1	146,2
Total reconstruction	6 711,8	6 274,9
IT	53,5	55,2
Specialized machine	55,3	29,3
Transport assets	103,9	12,5
Small machine, instrument	89,5	111,9
Small fixed asset	80,6	65,1
Total replacement	382,8	274,0
Reconstruction and replacement	7 094,6	6 548,9
IT	213,8	220,8
Odor control	0,0	0,0
Small machine, instrument	22,4	27,9
Small fixed asset	53,7	43,4
Total development	289,9	292,1
Own resources	7 384,5	6 841,0
Road construction	198,6	152,0
Utilization	7 583,1	6 993,0

Reconstruction, value-added renovation, replacement

Reconstruction utilization and replacement was HUF 6,549 million. We dedicated 57% of the total usage to the reconstruction of sewers, 24% to that of wastewater treatment plants, 2% to that of pump stations, and 13% to that of other assets. The replacement of assets constituted 4% of the utilization.

In 2010, we spent HUF 3,731 million on sewer reconstructions. In addition, the cost of manhole cover replacements amounting to HUF 152 million at Budapest road constructions was generated in the reporting period. During the implementation of the investments, the contractors carried out the renewal of 12,600 lm public sewers in 47 streets. In relation with the road reconstruction program of the capital city, sewer reconstructions were carried out in the following 5 streets in a total length of 2,352 lm:

Sewer reconstructions related to road renewals

■ II. ker. Pasaréti út (Gábor Áron u. - Radna u.)	434,6 lm
■ VII. ker. Thököly út (Dózsa György út - Verseny u.)	414,8 lm
■ XIII. ker. Röppentyű u. (Országbíró u. - Frangepán u.)	236,1 lm
■ XIV. ker. Fráter György tér (Fráter Gy. u. - Kopja u.)	146,3 lm
■ XIX. ker. Ady Endre út	1120,3 lm

Due to the condition of public sewers, the renovation of the public sewer network was carried out in further 34 streets, in a length of 10 km on the basis of the investment program.

Among these the following are outstanding:

■ II. ker. Orló u. (Branyiszkó u. - Gábor Á. u.)	307,2 lm
■ II. ker. Repkény u. (Lublói u. - Felhévizi u.)	115,7 lm
■ II. ker. Marczibányi tér (Garas u. - Ezredes u.)	216,9 lm
■ II. ker. Lórántffy Zs. u. (Hermann O. u. - Trombitás u.)	149,8 lm
■ IV. Ker. Gárdi J. u. (Megyeri u. - Baross u.)	428,0 lm
■ IV. ker. Janda V. u. (Csömödér u. - Baross u.)	364,9 lm
■ V. Ker. Vitkovits u. (Városház u. - Semmelweis u.)	123,5 lm
■ X. ker. Jegénye u. (Hidas u. - Bihari u.)	304,0 lm
■ XI. ker. Balogh T. u. (Ménesi u. - Somlói u.)	214,0 lm
■ XI. ker. Beregszász u. (Budaörsi u. - Beregszász köz)	555,0 lm

■ XIII. ker. Párkány u. (Dunavirág u. - Viza u.)	927,1 lm
■ XIV. Francia u. (Thököly u. - Semsey u.)	336,0 lm
■ XIV. Ond vezér u. (Gvadányi u. - Szolnoki u.)	287,0 lm
■ XVI. ker. Hunyadvár u. (Dióssi u. - Hunyadvár u. 56.)	291,2 lm
■ XVII. ker. Kaszáló u. (Cinkotai u. - 128.531/2 j. út)	373,9 lm

The reconstruction of pump stations has made up HUF 109 million, while the amount spent on value-added renovations reached HUF 18 million. Among the larger investments of 2010 is the replacement of meter boxes at 8 pump stations and 6 automated pump stations for HUF 12 million. The Zsigmond Square pump station's temporary reconstruction took place in an investment of HUF 14 million. The communal building of the Vas Gereben street pump station underwent complete architectural and mechanical renovations for HUF 14 million, while the construction of the Ferencváros pump station connecting pipe cost HUF 36 million.

The amount spent on the reconstruction of wastewater treatment plants was HUF 1,468 million, which was further increased by HUF 105 million value added renovations. The Company spent HUF 821 million on reconstructions at the North-Pest plant. The most notable among these are: the sludge-receiving station was completed (HUF 369 million investment), the membrane press plates were replaced (HUF 78 million) and the dewatered sludge receiving station was built for HUF 74 million.

Reconstructions at the South-Pest plant cost HUF 647 million. The second phase of the modernization of the sludge line was completed with a total cost of HUF 106 million and the covering of the pre-mechanical appurtenances was started, which will cost HUF 165 million. Intensifying investments at the plant amounted to HUF 178 million in 2010.

The amount used for other renovations was HUF 843 million.

The replacement of various tools cost a total of HUF 274 million. In 2010, 52% of this was accounted for by small equipment-, instrument- and special equipment replacements. The replacement of transport assets cost a total of only HUF 12 million, since the procurement process for private vehicles was unsuccessful in the reporting period.

Development

The Company spent only HUF 292 million on development investments, which equals only 4% of all utilizations. Within this, the amount spent on information technology reached HUF 221 million, since the SZOLINFO integrated customer relations system was activated during the reporting period.

Maintenance

To provide appropriate maintenance for large number of fixed assets it is essential to keep operation undisturbed.

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 2010 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 these structures and appliances be continuously good and tidy. Our Company maintains the operated assets and optimizes their use.

In 2010, our Company spent HUF 3,798 million on maintaining fixed assets. The proportion of maintenance costs within sales expenses is 18%.

Evolution of maintenance in 2010.

in thousand HUF

Designation	2009	2010	Index %
Own maintenance	2 858 360	2 848 624	99,7
External maintenance	750 036	949 252	126,6
Total	3 608 396	3 797 876	105,3

25% of all expenditure on maintenance was performed by external contractors. In 2010, the value of external maintenance was HUF 949 million, which exceeded the 2009 value by HUF 199 million. The reason for the increase is that the network construction-type works (network repair) are performed by an external contractor since May 2009 with assets taken over from the Company via outsourcing. This is also reflected by the composition of maintenance works, which were only carried out by our own forces in 75%. In comparison to the previous year, this maintenance activity increased by 5% – above inflation – which is due to the replacement of external maintenance by our own work for non-construction type works as well as the reduction of the time required for maintenance provided by our own workforce.

70% of the maintenance works carried out by the organization was the maintenance of the sewage collection structures; therefore, the natural indicators of the network maintenance show best the Company's maintenance activities.

Maintenance of the Budapest network

Designation	Unit	2009	2010	Index %
Conduit cleaning	lm	15 473	18 329	118,5
Traditional coiler cleaning	lm	10 090	8 851	87,7
Total mechanic cleaning	lm	25 563	27 180	106,3
Cleaning by high pressure machine	lm	487 638	501 297	102,8
Total sewer cleaning	lm	513 201	528 477	103,0
Obstruction elimination	lm	60 455	61 935	102,4
Total cleaning	lm	573 656	590 412	102,9
Line sinkhole cleaning	pcs	24 785	30 113	121,5
Individual cleaning	pcs	20 218	22 968	113,6
Total sinkhole cleaning	pcs	45 003	53 081	117,9
Obstruction elimination	pcs	3 216	3 045	94,7
Removed sludge	m³	37 995	37 256	98,1
Length of examined sewer	lm	1 548 324	1 210 485	78,2
Length of repaired sewer	lm	3 132	3 504	111,9

During the past year, the total length of cleaned sewer increased by 3%. Within this, more emphasis was placed on the main conduit cleaning, which is more work-intensive. As a result of technological change, traditional coiler cleaning (which is also a conduit cleaning technique) decreased compared to the previous year. The construction of the conduit network leading to the BCWTP was completed in 2010, and its cleaning is also the task of the Company. The length of sewers cleaned with high-pressure specialized equipment was 14 km higher than in the previous year.

The reporting period was especially rainy. In spite of this, thanks to preventive action, the number of obstructions decreased by 5% compared to the previous year. As a result of frequent and intensive rainfalls, the length of sewers affected by obstructions exceeded the previous year's figures by 2%. In the past two years, when cleaning sink water traps, the Company laid greater emphasis on the preventive maintenance of main public transportation routes. As a result, the number of sink water trap obstructions decreased somewhat. Previously, 40 thousand sink water traps were cleaned every year on average. In 2010, the cleaning of 53 appurtenances were carried out by the Company (and approximately 18% increase compared to the previous year), and an increase was seen mainly in the number of unique cleanings.

The number of sewer network inspections decreased. One reason for this is that inspections have become more time-consuming. In the reporting period, as a side-effect of constructions in the city, illegal discharge of liquid concrete into the sewer network was increasingly frequent, and more concrete and debris ended up in the sewers. Before the inspection, the obstructions need to be removed (often carved out) in order to prevent retention and damming up and make the inspection possible. This took up considerable resources in the better part of the year. In the coming years, this problem will probably have to be taken into account.

In 2010, there was a growth in the demand for sewer repair. Since the year was especially rainy, the minor deficiencies of the sewer network were revealed. Sewer repairs due to larger sewer breakages had to be carried out in several places. Since 2009, maintenance-type repair has been carried out by an external contractor, in good quality.

From the aspect of network operation, two important results in 2010 were the completion of the digitization of the specialized professional map range and the establishment of a new basis (taking into account load conditions) for the selection of sewer casts.

Main risks of the network maintenance activity

The decrease of the volume of rainy weather wastewater resulted in the unfavorable change in the characteristic hydraulic conditions and the increase of the quantity of settling alluvium. 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 through sink-holes. The sludge with high inorganic matter content packs and its removal becomes more and more difficult. As a result of the above, the number of obstructions may increase, just as the length of greasy sewer sections.

The trial operation of the Buda side Danube-bank conduit ended in 2010, which collects a great quantity of wastewater to the Kelenföld Pump Station. The performance of the conduit has been favorable so far, in times of both flood and rain. The conduits leading to the treatment plants still require special attention, as alluvium has to be removed regularly.

The average age of the sewer increases, thus the need for reconstructions is urging, and as a result of this, failures and preventive maintenance need also increase. Related to climate change, the frequency of significant intensity showers concentrated in small areas increases, resulting in the increase of the average load and charge of the network.

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 purchase of a new camera cleaning head for the purpose of better optimization of the specialized machine park.
- The acquisition of new capstans for the cleaning of collectors with larger sections.
- Cessation of the use of paperback maps, which increases the accuracy and speed of data supply.
- The harmonization of asset registers and the digital map range.
- The renovation of the brick-walled sewers' fittings and the bed filling of sewers made of other materials increases the life-span of sewers considerably. We are planning to make this activity regular.

Environment protection

The environmental activities of our Company in 2010 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. The Company's scope of activities include tasks in connection to the environment and the enforcement of environmental regulations, the control of the wastewater quality flowing into the capital's public sewer network and the Danube, registration of data and the compliance with the data supply requirements.

In the field of environment protection, keeping in touch with the authorities is carried out in a secretarial system, and relationships were balanced and problem-free throughout the year.

The Company is one of the biggest water public utility companies of the country, and via its wastewater collection and treatment activities, it is in the meantime the greatest environment protection company in the country. Our fundamental objective is the 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** In cooperation with owners, we aim to provide quality- and environment-centric solutions during the carrying out of reconstructions necessitated by wastewater collection and treatment.
- 2** The work of employees is the basis for all processes, so we consider it important to prevent injuries and health impairment among workers, as well as constantly analyze and improve workplace health protection and safety management. We strive to provide safe working conditions for our workers and minimize the risk of potential workplace hazards. To this end, we define the hazards and dangers involved in our activities, and assess the risk of their occurrence. We apply technical and organizational measures to prevent accidents and emergencies, and constantly monitor adherence to workplace safety regulations.
- 3** We reinforce the sense of responsibility for the protection of our environment on all levels of the Company.

- 4** It is our goal to prevent pollution and keep the extent to which wastewater collection and treatment is a burden on the environment as small as possible. We are constantly optimizing wastewater treatment technologies, so that the discharged wastewater is an ever smaller burden on the environment. We aim to increase the volume of biologically treated wastewater and the efficiency of the treatment process in accordance with the EU's expectations in environmental protection.
- 5** Throughout the wastewater treatment process – besides quality control conducted in laboratories – we constantly analyze environmental effects and take steps to reduce environmental impact and prevent and reduce pollution.
- 6** We examine and estimate the environmental and workplace health & safety-related impact of all new technologies to be introduced. We strive to make new technologies environmentally friendlier, safer, and less dangerous to health than older technologies.
- 7** We guarantee our wide-reaching cooperation with authorities.
- 8** We consider energy- and material-efficiency, as well as workplace safety when acquiring equipment.
- 9** We introduce our quality, environmental and workplace health & safety policies to our suppliers and subcontractors, and have them embrace these policies, which we always take into account when signing contracts.
- 10** We aim to guarantee a serene environment to the public through the use of modern sewer-cleaning equipment and technologies.
- 11** We facilitate communication with our consumers via a modern, well-established system, and improve satisfaction through surveying.

Our 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 our 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 & safety management system in accordance with the 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 plants have had a certification deed since the beginning, the Angyalföld pump station since 2008, the Békásmegyer and Pók Street pump stations since 2009, and the Csomád sludge landfill plant obtained it in the reporting period. The certification deeds are valid through 2013. In 2009, the KIR programs planned for the certified sites have been completed pro rata temporis.

In 2010, environmental objectives, plans and programs related to certified plants were 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 activated sludge basins with the installation of new ones.
- Construction of a lightweight structure installation serving the storage of sewer waste and containing a disinfection unit.
- Making the posterior fermentor able to heat.

North-Pest Wastewater Treatment Plant:

- The creation of the North-Pest wastewater treatment plant's nutrient matter (nitrogen, phosphorus) removal phase and the extension of its capacity.
- Storage and recycling of the sludge created at the North-Pest wastewater treatment plant.
- Fermentation of the sludge produced at the plant and the usage of the biogas produced in the process for energy-utilization
- Decrease of the noise effects of the North-Pest Wastewater Treatment Plant.
- Temporary storage of diluted and rainwater arriving to the plant.
- Intensification of the plant's sludge hall biofilter.

Csomád Sludge Landfill Plant:

- Monitoring of groundwater quality trends provided by the groundwater-monitoring well network of the sludge landfill plant.
- Tree planting at the plant's poplar watering field.
- Evaluation of the sludge landfill's environmental effects using the eco-point system.

Angyalföld Pump Station:

- Improving the efficiency of deodorizing (biofilter).
- Planting of a protective plant belt around the biofilter building to decrease odor effects.
- Regulation of the minimum value of oxygen dosing.
- Transportation of condensers containing PCB.

Békásmegyer Pump Station:

- Examination of the optimization possibilities of the oxygen dosage.
- Transportation of condensers containing PCB.

Pók Street Pump Station:

- Replacement of dead plants.
- Inspection of the efficiency of screenings-disinfection

The Company has regulated waste management, more precisely the tasks related to hazardous materials. The Company complied with all obligations regarding the data supply and permitting pertaining to waste.

- The South-Pest Wastewater Treatment Plant received an authorization to utilize hazardous waste.
- The South-Pest plant received an authorization to pre-treat non-hazardous waste (screenings, waste from sand traps).
- The Company received a nationwide authorization to collect and transport non-hazardous waste.
- Since 2009, all sites of the Company operating with staff have had a possibility to selectively collect waste. The quantity of selectively collected waste transferred for recycling: plastic waste 4,230 kg, paper waste 5,480 kg.

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. 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 odorous matters. The quantity of treated air in 2010: 1,338 million Nm³.

In order to prevent odor formation and outflow in the sewer network, – at the critical points of the network – biofilters placed in pitches as well as 58 gel boards decreasing the odor effect are operated. The transformation of sinkholes to odor trapping in order to eliminate odors is under way. In 2010, 48 sinkholes were transformed. In order to prevent wastewater arriving by conduit from the agglomeration of becoming anaerobe, the Company operates a limited nitrogen adding system in Kerepes.

In the framework of energy rationalization, the quantity of received organic waste increased at the South-Pest plant, thus the production of biogas increased by 9 % compared to 2009. Part of this is flared, but further utilization possibilities are under investigation. The quantity of electricity produced in gas engines increased by 21% at the plant.

In 2010, the North-Pest plant received permission from authorities for the operation 2 biogas-engine generators. This way, the total electric output of the 3 gas engines operating at the North-Pest plant increased to 3035 kW. Due to the operation of the gas engines, the amount of purchased energy decreased by 66%, while the amount of energy produced was doubled. The plant could cover 82% of its energy demand with energy produced at the plant.

In December 2010, the replacement of the ignition transformers of the fluorescent lamps used for the lighting of buildings was carried out at the Company's four plants. 35% of the energy used for lighting at the plants can be saved with this.

In 2010, the Company has spent almost HUF 95 million on research and experimental development. We have cooperated with universities and research centers regarding almost all areas of activity. Research conducted as own activity focused primarily on the increase of applied technologies, the development of new technologies and methods. In 2010, as a result of research contracts and our own research activities documentations were developed that serve the optimization of the treatment activity and wastewater collection and uncover energy rationalization opportunities.

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 increased.

The Company's central laboratory and the wastewater sampling unit operated as per the system standard last year as well. The accreditation of the laboratory activities and the sampling activities were both finished. The revision of the accreditation in 2010 at both units was successful.

Activities of the year 2010

Activity	Measurement index in pc		
	2008	2009	2010
Inspection of business units	587	586	486
Inspection of complaints of the population	142	83	81
Number of self control sampling	1 023	813	317
Control of the transfer of communal liquid waste	2 586	2 193	2 159
Project documentation opinion	355	376	200
Number of samples processed at the laboratory	20 333	21 871	28 601
Number of laboratory analyses	103 910	115 216	145 772

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
2006	55 825 965	3 958 477	6 272 491	1 120 267
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

The North-Pest plant received the water rights operation permit in June 2009, while the South-Pest plant received it in August 2007. In 2010, the environment protection permit of the South-Pest plant was modified due to the development of the plant.

The obligation of the Company, (in accordance with the Public Utilities Service Contract concluded with the Capital City) is 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 m³/day, while its actual daily water output is 64,222 m³, its load 80.3 % in the reporting period. The 3rd cleaning grade of a same capacity makes possible the removal of nutrient (phosphorus and nitrogen) at the full quantity. The National Inspectorate for Environment set a threshold for the amount of effluent treated 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	2010		
COD	70,0	30,3	50	50/80
BOD ₅	12,6	10,2	10	25
Floating matter	21,0	3,6	35	35
NH ₄ nitrogen	25,7	1,2		summer:2 winter:4
Total phosphorus	2,4	0,4	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 now detectable.

North-Pest Wastewater Treatment Plant

The hydraulic capacity of the North Pest Wastewater Treatment Plant is 200,000 m³/day, its average load reached 142,632 m³/day (64.4%). On March 23, 2010, the one-year trial operation of the third phase of the treatment began, which permits the removal of nutrients (phosphorous and nitrogen). The National Inspectorate for Environment set a threshold for the amount of effluent treated wastewater.

Water Quality Parameters of the North-Pest Plant

Component	Outflowing water quality		Design Value	Threshold from March 2010.
	1996	2010		
COD	52,0	37,4	75	125
BOD ₅		10,8	25	25
Floating matter	13,7	7,0	35	35
NH ₄ nitrogen	14,1	11,0	5	summer:27 winter:35
Total phosphorus	4,9	1,4	2	4

The plant's average hydraulic load matches its current capacity. However, the 2010 average nutrient load of 32,726 kg BOD₅/day considerably exceeded the planned average 25.500 kg BOD₅/day value. However, the plant's average daily load has grown by over 20% since 1996, from 20,869 m³/day to 142,632 m³/day.

On July 31, 2010, the one-year trial operation of the Budapest Central Wastewater Treatment Plant in Csepel successfully ended. The plant is operated by the BKSZT Budapest Wastewater Treatment Ltd. Dry weather wastewater and (up to triple dilution) rainwater is transferred to Csepel through the network and pump stations operated by the Company via water steering, and is taken over by the BCWTP for treatment. The central wastewater treatment plant receives wastewater from the Kelenföld and Fenercváros pumping plants' drainage areas, which amounted to 101,872 thousand m³ in 2010. Thus the amount of wastewater collected in Budapest increased considerably.

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 posed by the following:

- The current capacity does not make it possible to treat all the wastewater generated in Budapest (South-Buda region, Csepel, Margitsziget).
- The individual thresholds defined on the basis of the decrees in force adopted during EU harmonization are stricter than they used to be.
- The calculation method of the penalty also changed in an unfavorable manner.

The increasing tendency of the wastewater penalties still remains until the treatment of wastewater from Csepel, the South Buda region and Margitsziget is made possible.

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 plant, the goals are the full coverage of the pre-mechanical unit and the activated sludge biological treatment unit, as well as the complete cleansing of sucked air.
- The improvement is needed in the water-supply engineering and water quality of the Ráczkeve (Soroksár) arm of the Danube by transferring treated wastewater from the South-Pest plant to the Big-Duna arm.
- The comprehensive collection of the South Buda wastewaters and their deflection into the Csepel central wastewater treatment plant by water control is under planning



Human resources

During the human resources activities of 2010, attention was primarily given to achieving the strategic objectives set by the Company and the fulfillment 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 2010 and that the operation of the Company was characterized by stability, just as in previous years. The most notable task was to ensure the workforce necessary for the two new activities of the Company: the operation of restrooms and the implementation of the SZOLINFO customer relations system. By the end of 2010, we had succeeded in ensuring the continuous operation of restrooms in Budapest with the employment of a considerable number of disadvantaged or disabled workers – in the name of social responsibility.

During 2010, the average statistical headcount increased from 1,054 people to 1,095 due to the recruitment of new employees thanks to the two new activities.

Average staff of the Company

Designation	2009		2010	
	people	%	people	%
Blue-collar	646	61,29	665	60,73
White-collar	400	37,95	411	37,53
Total full time	1 046	99,24	1 076	98,26
Part time	8	0,76	19	1,74
Total staff	1 054	100,00	1 095	100,00

In the reporting period, the number of employees increased by 41 on average compared to the previous year. Recruitment mostly took place in the second half of the year, hence the smaller increase in the average headcount than the actual number of additional workforce, proof to which is the fact that on December 31 the number of employees was 98 persons higher than on the last day of the year in the base period.

During the year, 197 main employees were hired, on the one hand, to meet the workforce needs of the new activities, and on the other, to replace leaving professionals and ensure the continued development of the Company. The new task brought a 119-person expansion of the headcount.

The appropriate replacement of professionals was ensured by a new recruitment-selection process designed to emphasize qualification and experience, as well as include disadvantaged and disabled workers. As a first step, after becoming acquainted with the special legal background, the Company contacted foundations and the Rehabilitation Office of the Employment Center. The job description of restroom operators (6-hour days, environment appropriate for special health-related needs, etc.) was framed utilizing the knowledge gathered in the process. As a result, by the end of 2010, the Company had 38 disadvantaged or disabled employees.

In the reporting period the employment of 86 people was terminated.

Distribution of job terminations

Employment terminated	persons
By mutual agreement	23
Employee's normal termination	3
Normal termination by employer	5
Employment terminated under trial period	19
Extraordinary termination	1
Retired	30
Early retirement	2
Retirement due to disability	2
Deceased	1
Total terminated employment	86

Wages

Based on the wage-increase provided by the Municipality of Budapest in the fees, a 4.2% 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 4.2% base salary increase was implemented from 1 April not retroactively, 1.5% of which was obligatory, while the remaining 2.7% was determined in a fully differentiated way, maximized at 6.9% per employee. In the other two steps, variable pay increased in line with base salaries. In the second step, an amount equaling 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 to the employees in November as salary of the thirteenth month from the floating salary.

Base salaries were increased by delay of the guaranteed raise (HUF 1093 thousand, effective July 1, 2009.) to the reporting period.

The wage costs of the fight against the 2009 flood, ensured from a separate fund was HUF 22,062 thousand. The same costs amounted to HUF 47,295 thousand in 2010.

The development of the labor cost in thousand HUF

Designation	2009	2010	Index %
Physical full time wage	1 880 123	2 050 809	109,1
White-collar full time wage	1 637 222	1 753 176	107,1
Total full time wage	3 517 345	3 803 985	108,1
Part time	14 346	15 290	106,6
Wage out of headcount	53 156	51 224	96,4
Total wage of employed	3 584 847	3 870 499	108,0
Honoraries	54 445	51 437	94,5
Total wage expenses	3 639 292	3 921 936	107,8
Flood wage	22 062	47 295	214,4
Corrected wage	3 562 785	3 823 204	107,3

The number of members of the Board of Directors and did not change, the appointment of 2 Supervisory Board members ended during the course of the year, and new members were not appointed in their place. The sum of honoraries, considering the change in the number of members, decreased, and honoraries in the previous year increased in line with the base salary increase at the Company.

In 2010, the actual average wage of all employees of the Company reached HUF 3,534,702/person/annum, which is higher than the previous year's HUF 3,401,183/person/annum by 3.9%.

The average wage without the salaries paid out during the flood will constitute the wage increases of the coming year, that is. In 2009, this value was HUF 3,380,251 person/year, while it reached HUF 3,491,511 person/year in the reporting period. The average wage – without flood protection salary – increased compared to the previous year by 3.3%.

Training

In 2010, the Company spent HUF 18,660 thousand on training, which helped workers improve their expertise in their respective fields. Throughout the year,

818 people took part in Company-financed professional- and language courses and conferences. Preliminary workplace- and fire safety training was expanded. In line with the insertion program set-up in 2010, new recruits receive substantial information about the Company's organization, values and mission.

Integration into the organization and the quick and intensive familiarization with work-related tasks have a favorable effect on corporate performance and costs.

Holidays

For the purpose of regeneration of employees and their families, holiday resorts were available in 5 towns and a total of 116 places, 3 with continuous opening and 2 with seasonal opening. In the reporting period, 1,493 people and their families took this vacation opportunity ensured by our Company with substantial discounts. 56 of the employees' children took part in group holidays for children.

Within the framework and possibilities provided by the related law – the Company's corporate health service was ensured to the employees in 2010 as well with regular medical checks and job suitability control, but also dental services. In 2010, work-related medical inspection was carried out by an external contractor. For the purpose of preventing contagious diseases, employees in dangerous working environments regularly receive vaccinations. Employees could take part at preventive examinations for the purpose of health protection. Further to the Company's own employees, it provides – on the basis of a separate contract and against payment – services to the employees of several Ltd's.

Dental care continued to be available to employees in our own, well-equipped dentist's office.

We have financed the subsidies for the employees' home building, purchase and amelioration of housing conditions of employees from the amounts of repayment of previous loans. In 2010, 14 people received – for the purpose of home building, purchasing and modernization – a total of HUF 14,400 thousand refundable non-interest bearing loan subsidies.

The 72-houseroom worker's hostel operating at the upper level of the Soroksári Avenue social building operated with an average occupancy of 71% in 2010. The accommodation, equipped with a dining room, a lounge and a smoking area at each level had an average of 51 occupants. In lack of female accommodation, 2 female employees received rental allocations.

In the reporting period, the Company ensured a unified HUF 5,500/person meal contribution and HUF 7,900/person voluntary pension fund contribution every month to its employees.

Information technology

Among the 2010 IT results, the most important achievements were in the field of the SZOLINFO customer relations system.

The basic objective of the project started in 2005 is the setting up of an integrated IT system that has a consistent database for the management of affairs, that can manage affairs step by step in the fields of both data registry and document creation and that keeps registries centrally, efficiency can be increased through its application, the processes of the management of affairs can be simplified and the run-through times can be decreased.

The SZOLINFO system can be divided into four components, which were introduced continually:

- SZAK, which has been operating live since 2007. Its task is to support the core activities of the Company (management of the construction affairs, management of consumer changes, complaints, declarations, etc.). Its strength is its automatic task- and case-management system, unique in the water utility sector in Hungary. Administration is transparent, its steps from data entry through the respective work phases to the ready documents are traceable. The efficiency of administration increased through its application, thus the run-through of affairs decreased - to the satisfaction of clients.
- KASSZA, which provides the IT background to the invoicing of sewer charges to consumers, as well as the accounting and collection of invoiced receivables through interfaces developed in partnership with Fővárosi Vízművek Zrt. (Budapest Waterworks Ltd.) and Díjbeszedő Holding Zrt. (Fee Collection Holding Ltd.). The module allows for the management and registration of public utility contracts, account complaints, bank transactions, water utility contributions, customer accounts and assets, organized into processes and guided controlled by task management.

The introductory phase of the program ended in December 2009, live operation started in 2010, in multiple phases for the sake of avoiding risks. In the first phase, the invoicing of business organizations and other, non-public consumers was realized. In the second phase, invoicing started for the circle of –mainly civil-clients falling under the long-standing service contract with Díjbeszedő Holding Zrt. Since the end of September 2010, The KASSZA component of SZOLINFO has

been responsible for the preparation of the electronic database of the sewage collection fee invoice and (partially) its printed form for all consumers with a connecting meter in Budapest. As long as Díjbeszedő Holding Zrt. is eligible for the reading of auxiliary meters, the preparation and delivery of wastewater collection fee invoices is carried out by Díjbeszedő Holding Zrt. The transition to invoicing based on the Company's own database was noticeable in only a very small circle of consumers.

- SZOLÁR, whose task is the IT service of the professional components of SZOLINFO (SZAK and KASSZA) and the Consumer Services Division. An important part of the SZOLÁR component is the task management fully interweaving the SZOLINFO system. The services of SZOLÁR have been available since the implementation of the SZAK component.
- VIR's data storage function enables the takeover of data clusters with pre-defined structures and content from the databases of the SZAK, SZOLÁR and KASSZA applications and the preparation of set-parameter or one-off statistics and queries of different parameters based on the data taken over. The VIR component has been available since the implementation of the two basic components (the end of 2007.), while the functions related to the KASSZA component have been live since October 2010.

According to effective regulations, the amount of collected wastewater to serve as the basis for the invoicing of the wastewater collection fee has to be determined by taking into account the amount of drinking water gauged or invoiced at the place of consumption. This is why water consumption data has to be taken over for the invoicing of the wastewater collection fee.

Nonetheless, the SZOLINFO IT system is a major step forward in meeting consumer demand while ensuring and up-to-date service of the highest quality. The system's IT solutions meet the demands of our age, fit the thin client system used by the Company, and, thanks to its flexibility and modular structure, leaves room for continuous expansion with components and applications aiding the up-to-date operation of the Company.

For the sake of the IT infrastructure's development, the Company updated and developed in previous years several main elements of the thin client system that forms the central IT system. In 2010, new modules were modernized. With the replacement of the central mailing system, file access and storage were placed on new foundations, as was the provision of servers. The new servers operate in a failsafe mode above a new, highly available disc subsystem.

Instead of the licensed mailing system used in the past six years, a new, free, open-source, modular mailing system is now used by the Company. At the same time, the previously used webmail with a payable fee was replaced with an open-source one. The data storage and network service server group is also made up of open-source cluster systems.

In the field of central server provision, in the application and database server functions, the Company uses open-source software wherever possible due to their accessibility, easy reparability - and lack of payable fees.

In the thin client system, the numerous Windows-based software were run on terminal servers, the reliability of which was the source of many problems. To prevent this and increase service levels, the Citrix-based application publishing system was introduced for the operation of Windows-based software, which was accompanied by the unification of the Company's address database previously available in different locations.

The previous network solution of the server groups in the server room did not exclude the possibility of simultaneous failure. With the replacement of switches and the establishment of a high availability network, the operation of the system can be ensured even in case of the failure of a network device. The central switch found in the server room of the Kerepesi Street central plant used to be a potential source of danger, since in case of its failure, all users at the central plant would be unable to work. The expansion of the large-capacity network device was completed in 2010. An availability of such high level was achieved with the expansion, that the operation of the computer-network services is ensured even under the failure of the device.

In order to protect the work stations and servers, a new, uniform antivirus system was introduced, which solves the problems of different antivirus solutions.

During the course of the year, the save and archiving capacity was increased along with the capacity of the storage system, due to the ever-increasing amount of data, most of which was produced because of the SZOLINFO invoicing module implemented this year. A new hard-disk-based save unit was installed beside the tape-based save system.

Communication

Considering its service provision area and the population served, the Budapest Sewage Works Ltd. currently is Hungary's greatest environment public service company. 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. We continuously inform our environment about our investments and developments.

It is a goal of communication to help clients and those living in its extended surroundings understand the importance of the Company's core task and the significance of its role in improving the standard of living and the environment. As a responsible public utility provider, it is a long-term goal toward a sustainable future to have client and provider protect the environment and the living water together and also separately.

To reach the Company's communication goals, we strive to inform our environment through the media and other channels and means of communication.

The company has a unified, easily identifiable image, which sets it apart from other public utility providers. In 2010, the range of image carriers was expanded by elements used in the field of our new activity, the operation of public restrooms. The signs of the continually improving restroom-network are in harmony with the Company's current image, and convey a sense of modernity.

Thanks to our now traditional open days for World Water Day, once again over two thousand students got to know the processes meant to protect the living water: wastewater treatment and renewable energy production. At both treatment plants, interactive water experiments and handouts for children in line with school curricula helped the understanding of new information. It is no secret that the aim of the environmentally conscious educational program designed in partnership with Veolia is to ensure that new generations protect living water, one of our most valuable natural resources, through environmentally conscious behavior.

We had a chance to meet the adult population at the so-called Health Forest event. Several thousand visitors had the chance to see the Company's short films –among them the PR film about bioenergy production- on a central projector.

The awarding of the 10 police officers who had apprehended manhole cover thieves and fake sewer workers helped strengthen relationships with the authorities.



The Company was present at ÖKO-AQUA, the most prestigious expo and conference in the field. Services that other water utility providers can also benefit from were all on display, as was the curb gully drainage, the depression-free cover, the operation of biogas works, and an original design, a small boat outfitted with a sewer-monitoring camera, which operates with remote control in the sewers. The professional short films were continuously shown on the projector.

The Wastewater Sector Conference, organized in partnership with the Hungarian Water Utility Association and well-known in the field, was held for the seventh time in 2010. The event's motto was „Environmental challenges – domestic solutions“, with notable experts giving presentations on the subject.

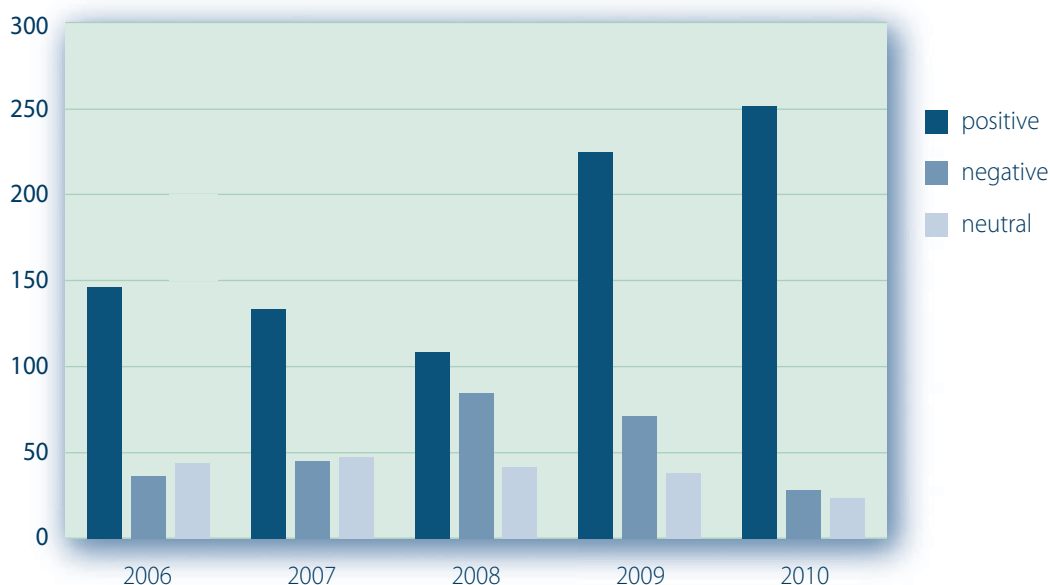
The Company's clients can directly find information mainly on our website or the back of invoices or in the newsletter optionally attached to invoices. The Company's internet portal now contains information on our new activity, restroom operation. Administrative paperwork can now be accessed and completed online.

Naturally, the Company still makes considerable contributions to alleviate the financial burden of struggling families and to support professional sports in Hungary.

The range of Company publications was expanded with two trade-related brochures. „Biogas Production from Wastewater“ was released in Hungarian and English, while „Laboratory Services“ was released in Hungarian. The general corporate publication and the one about the South-Pest plant were renewed. The previously released network-operation brochure was now released in English.

In 2010, the most notable communication channel, the media, directed attention to the Company on several occasions, 780 altogether. Within this, 400 were only passing mentions of the Company in some related matter. 319 times the company was directly contacted by journalists or had press releases appear. Within this 146 were newspaper articles, and 173 were television, radio or online reports and newscasts. 82% of these was positive in tone, 8% neutral, and 10% negative.

Evolution of media coverage



According to the client satisfaction survey, the reputation of the Company has improved. The Company is keeping up with the ever-increasing expectations, which is shown by the finding that the Budapest Sewage Works Ltd. is one of the two most likable public utility providers.

The great majority of answerers, 96%, are familiar with the Company's activity. 55% find the quality of service reliable in light of previous experiences, and 25% saw a definite improvement.

Awareness of services outside our core activities has also improved. For example, awareness of our flood protection activity rose from 64% to 70%, biogas production activity from 34% to 47% and waste processing from 31% to 46%.

The evaluation of our personal and telephone customer service was almost always above 4 on a scale of 5. In the area of personal administration, the appearance (4.4), the politeness (4.25) and the expertise (4.13) of our employees and the swiftness of the process (4) scored the highest. Finding is the area of telephone administration show that clients find our employees polite (4.3) and well-prepared (4.2).

The Budapest Sewage Works Ltd., with its safe and unobtrusive wastewater collection activity, is one of the most reliable providers of the people of Budapest, representing the cutting edge of its field with 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 2010 (in which the balance sheet total is MHUF 122,551, the profit per balance sheet is MHUF 1,835), 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.

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 2010, and of the results of its operations for the year then ended.

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 2010.

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 in 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 2010 business report is consistent with the disclosures in the financial statements as of 31 December 2010.

Budapest, 26 May, 2011.


Barsi Éva
Partner
PricewaterhouseCoopers 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.

a	b	c	d	e
01.	A. Fixed assets (02.+10.+18. lines)	106 857		107 455
02.	I. INTANGIBLE ASSETS (03.-09. lines)	355		355
03.	Capitalised foundation/restructuring			
04.	Capitalised research and development			
05.	Concessions, licences and similar rights			
06.	Trade-marks, patents and similar assets	355		355
07.	Goodwill			
08.	Advance payments for intangible assets			
09.	Adjusted value of intangible assets			
10.	II. TANGIBLE ASSETS (11.-17. lines)	105 563		106 060
11.	Land and building and related property rights	97 094		97 646
12.	Plant, machinery, equipment and vehicles	5 411		4 443
13.	Other equipment, fixtures and fittings, vehicles	342		309
14.	Breeding stock			
15.	Assets in the course of construction	2 716		3 662
16.	Prepayments for capital expenditures			
17.	Adjusted value of tangible assets			
18.	III. LONG-TERM FINANCIAL ASSETS (19.-25. lines)	939		1 040
19.	Long-term participations in related parties	651		763
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	88		77
24.	Long-term debt securities			
25.	Adjusted value of financial investments			

Description		Previous year	Modific. of prev. year(s)	Current year
a	b	c	d	e
26.	B. Current assets (27.+34.+40.+45. lines)	9 170		12 277
27.	I. STOCKS (28.-33. lines)	335		326
28.	Raw materials and consumables	299		193
29.	Work in progress and semi finished products	36		133
30.	Animals for breeding, fattening and livestock			
31.	Finished products			
32.	Goods			
33.	Advance payments for stocks			
34.	II. RECEIVABLES (35.-39. lines)	4 853		4 530
35.	Trade debtors	4 281		4 323
36.	Receivables from related parties	145		118
37.	Receivables from other investment			
38.	Bills of exchange receivables			
39.	Other receivables	427		89
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)	3 982		7 421
46.	Cash, cheques	5		6
47.	Bank deposits	3 977		7 415
48.	C. Prepaid expenses and accrued income (49-51. lines)	2 851		2 819
49.	Accrued income	2 524		2 792
50.	Prepaid expenses	327		27
51.	Deferred expenses			
52.	TOTAL ASSETS (01.+26.+48. lines)	118 878		122 551

a	b	c	d	e
	Description	Previous year	Modific. of prev. year(s)	Current year
53.	D. Shareholders' equity (54.+56.+57.+58.+59.+60.+61. lines)	96 609		98 444
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)	11 566		13 007
59.	V. ALLOCATED RESERVES			
60.	VI. REVALUATION RESERVE			
61.	VII. PROFIT OR LOSS FOR THE YEAR	1 441		1 835
62.	E. Provisions (63.-65. lines)	1 736		4 025
63.	Provisions for contingent liabilities	1 736		4 025
64.	Provisions for future commitments			
65.	Other provisions			

Description		Previous year	Modific. of prev. year(s)	Current year
a	b	c	d	e
66.	F. Liabilities (67.+71.+80. lines)	3 557		3 016
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)	251		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	251		
80.	III. CURRENT LIABILITIES (81. and 83.-89. lines)	3 306		3 016
81.	Short-term borrowings			
82.	of which: convertible bonds			
83.	Other short-term loans			
84.	Prepayments received from debtors			5
85.	Creditors	991		1 348
86.	Bills of exchange payable			
87.	Short-term debts to related parties	9		140
88.	Short-term debts to other investments			
89.	Other current liabilities	2 306		1 523
90.	G. Accrued expenses and deferred income (91.-93. lines)	16 976		17 066
91.	Deferred income	116		102
92.	Accrued expenses	7		210
93.	Deferred extraordinary revenues and negative goodwill	16 853		16 754
94.	TOTAL LIABILITES (53.+62.+66.+90. lines)	118 878		122 551

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	33 354		33 553
02.	Export sales, net			
I.	Total sales, net (01.+02.)	33 354		33 553
03.	Direct cost of sales	18 108		18 345
04.	Cost of goods sold	15		2
05.	Provision of (consignment) services	80		135
II.	Direct cost of sales (03.+04.+05.)	18 203		18 482
III.	Gross sales (I.-II.)	15 151		15 071
06.	Selling and marketing costs	212		223
07.	Administration costs	1 314		1 276
08.	Other general overhead	1 023		1 079
IV.	Indirect cost of sales (06.+07.+08.)	2 549		2 578
V.	Other revenues	18 037		18 560
	of which: diminution in value	31		25
VI.	Other expenditures	24 725		24 502
	of which: reserved diminution in value	309		407
A.	OPERTING PROFIT/(LOSS) (±III.-IV.+V.-VI.)	5 914		6 551

	Description	Previous year	Modific. of prev. year(s)	Current year
a	b	c	d	e
09.	Dividends and profit-sharing (received or due)	34		54
	of which: from related parties	25		54
10.	Exchange gains disposal of shares	2		
	of which: from related parties	2		
11.	Interest and capital gains on long-term financial assets			
	of which: from related parties			
12.	Other interests and similar income (received or due)	598		392
	of which: from related parties			
13.	Other revenues from financial transactions	2		4
VII.	Financial revenues (09.+10.+11.+12.+13.)	636		450
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	25		13
VIII.	Financial expenditures (14.+15.+16.+17.)	25		13
B.	FINANCIAL PROFIT OR LOSS (VII.-VIII.)	611		437
C.	PROFIT OR LOSS OF ORDINARY ACTIVITIES (±A.±B.)	6 525		6 988
IX.	Extraordinary revenues	636		738
X.	Extraordinary expenditures	745		315
D.	EXTRAORDINARY PROFIT OR LOSS (IX.-X.)	-109		423
E.	PROFIT BEFORE TAX(±C.±D.)	6 416		7 411
XI.	Tax payable	1 322		1 923
F.	PROFIT AFTER TAX (±E.-XI.)	5 094		5 488
18.	Dividends and profit-sharing paid from retained earnings			
19.	Dividends and profit-sharing paid (payable)	3 653		3 653
G.	PROFIT OR LOSS OF THE YEAR (±F.+18.-19.)	1 441		1 835

