



**BUDAPEST  
WATERWORKS**

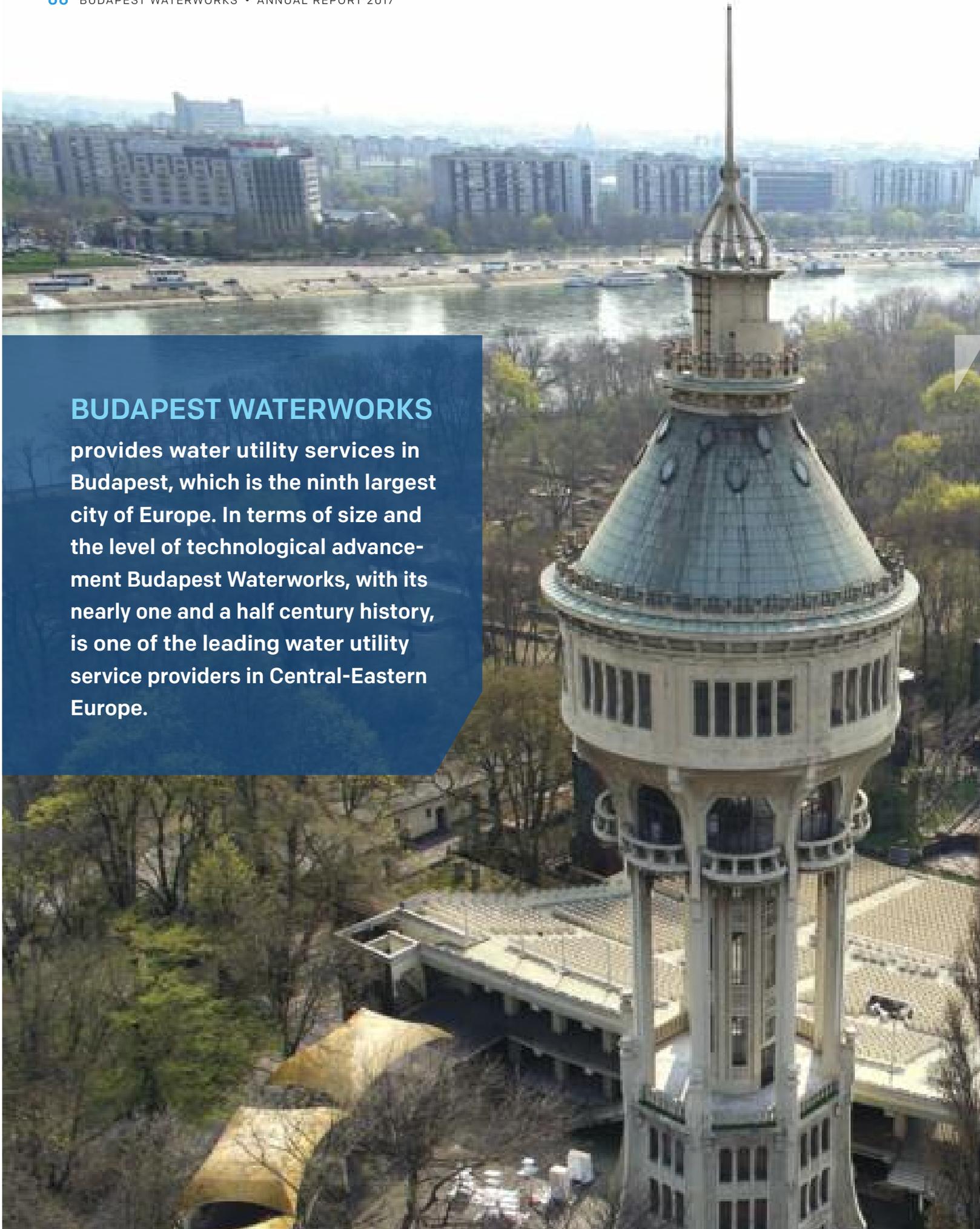


**Annual Report**  
**Budapest Waterworks**

**2017**

## **BUDAPEST WATERWORKS**

**provides water utility services in Budapest, which is the ninth largest city of Europe. In terms of size and the level of technological advancement Budapest Waterworks, with its nearly one and a half century history, is one of the leading water utility service providers in Central-Eastern Europe.**





In addition to the drinking water production, drinking- and industrial water supply it also provides sewage and wastewater disposal as well as wastewater treatment services for its customers in Budapest and a further twelve municipalities located in the conurbation by relying on its state-of-the-art technological background. Thanks to the domestic and international operational and professional experiences accumulated over 150 years, and to the technological developments and IT investments implemented in recent years, Budapest Waterworks is one of the outstanding service providers of the region.

The water utility services are supported by world class technology. Our longer than 5000 km drinking water supply network enmesh the city and its agglomeration. Both the drinking water production and the associated supply system are fully automated by now. Budapest's drinking water supply is entirely based on bank filtered horizontal filtering and drilled wells. Our Company's subsidiary, DUNA KÚT Ltd. fills a key role in the construction and maintenance of these water wells. The 750 drinking water production wells enable the company to produce more than 1 million cubic metres of drinking water per day.

In recent years, the Company played a significant role in the wastewater treatment of the capital city, and in the wastewater treatment and sewage disposal of the conurbation area. Budapest Waterworks implemented multi-billion HUF improvements – thanks to EU and domestic grants– in the conurbation municipal utilities managed by the Company, thereby also

contributing to the protection of the environment and fresh water reserves.

The professional, planning and construction knowledge and experience accumulated in the course of nearly one and a half centuries of operation and the outstanding level of engineering skills provide an excellent background for technical improvement projects, the most notable of which are the development of mobile water purification units and investments implemented using internal resources in the facility and network management and the IT solutions of operation management areas.

In the Company's certified and accredited laboratory, we examine almost 180,000 parameters of nearly 10,000 organic and inorganic chemical, microbiological, microscopic biological and toxicological test samples per year.

It is of particular value to the decision makers of Eastern- and Central European and developing nations, that in the period elapsed since the political transition, Budapest Waterworks has already gone through the phases of market, technological, operational and economic development that the other countries concerned are predominantly yet to face. The international cooperations serve the realisation of the shareholders' objectives by strengthening alternative, not directly water sales related revenues, increasing the value of the Company, acquiring professional experience and expanding our know-how with regards to the core activity.

## → Scope of activities

In terms of our main activity, Budapest Waterworks is a water utility service provider company. Until 2003 our Company – contrary to the common practice in Hungary – dealt exclusively with drinking water production and supply. From 2004 onwards the scope of our activities expanded initially through subsidiaries, then later with the addition of wastewater and sewage services as well as the operation of sewage networks and wastewater treatment plants. The Company currently supplies nearly 2 million people with healthy drinking water, while also providing sewage and wastewater disposal as well as wastewater treatment services for its customers.

Budapest Waterworks has been carrying out wastewater treatment services directly since 2013. On 1<sup>st</sup> June 2013 the Company took over the operation of the Central Wastewater Treatment Plant in Budapest, one of Central Europe’s largest and most significant environmental investments, with a biological wastewater treatment capacity of 350,000 m<sup>3</sup>/day. The environmentally friendly, completely enclosed plant uses revolutionary new solutions that combine physical, chemical, and biological treatment elements. As a result of the takeover, Budapest Waterworks also

operates the small power plant constructed on the site, which provides approximately 70% of the facility’s energy demand.

In order to compensate for the freezing and reduction of the water- and sewage disposal service charges in 2013 and the trend of ever decreasing water consumption, there is a growing emphasis on increasing the revenues from other sources. In addition to the core activity, customer service also provides an extra revenue source (data service, management activities, submeter services). The Company also earns income by industrial water production, letting out some of its properties such as offices and holiday homes, and performing technical (such as cartography, geodesy), laboratory (drinking- and bathing water testing) and other services.

The Company’s international presence has also increased since 2013. Budapest Waterworks initially started off with providing consultancy and engineering services on the international market, has been expanding its portfolio with a growing number of water purification plant construction- and reconstruction projects in recent years.



## → Service area



Act CCIX of 2011 (Vksztv.) which laid new foundations for water utility services resulted in significant changes for the Company's activity and service areas. In the course of 2013, our scope of activities in both the drinking water- and wastewater treatment fields was further expanded by taking over the water utility supply services of several settlements.

As a result of the changes, the Company now directly operates a water supply pipe network of 5900 km long, where the drinking water pipe system is longer than 5300 km, the industrial water pipe system is 45 km and the wastewater network pipe system is nearly 590 km long. Additionally, Budapest Waterworks also operates seven wastewater treatment plants.

## → Key figures

**149** years

of operating experience in Budapest



Significant water utility service provider in Central Europe

Technological developments

**19**

Patents



International professional experience



Excellent water quality by European standards



### Drinking water

- **5400** km water network
- **166** million m<sup>3</sup>/year production
- **1** million m<sup>3</sup> daily capacity
- **766** wells
- **2** treatment plants



### Wastewater

- **90** million m<sup>3</sup>/year treated wastewater
- **370 000** m<sup>3</sup> daily capacity
- **586** km wastewater network
- **7** treatment plants

**166 million m<sup>3</sup>**  
annual water production



**16,3%**  
non-revenue water

**1868**

**Foundation**

**1904**

Construction of the Káposztásmegyer waterworks

**1911**

Construction of the Margaret Island water tower, the symbol of our Company

**1945**

Continuous water supply in Budapest during WW II

**1963**

Construction of the first horizontal well on Margaret Island

**1997**

**Privatization**

## ↳ MOST IMPORTANT COMPETENCIES



## Customers

- **2 000 000** supplied population
- **1730** employees

## Revenues



**24,7** billion HUF  
→ **drinking water**

**8,3** billion HUF  
→ **wastewater**

**12** billion HUF  
→ **export /other**

**2004**

Appearance of the wastewater sector

**2012**

**Repurchase**

**2013**

BKSZTT take over

Residential water fee 2017

**172.4** HUF/m<sup>3</sup>+VAT in Budapest

## → Owners

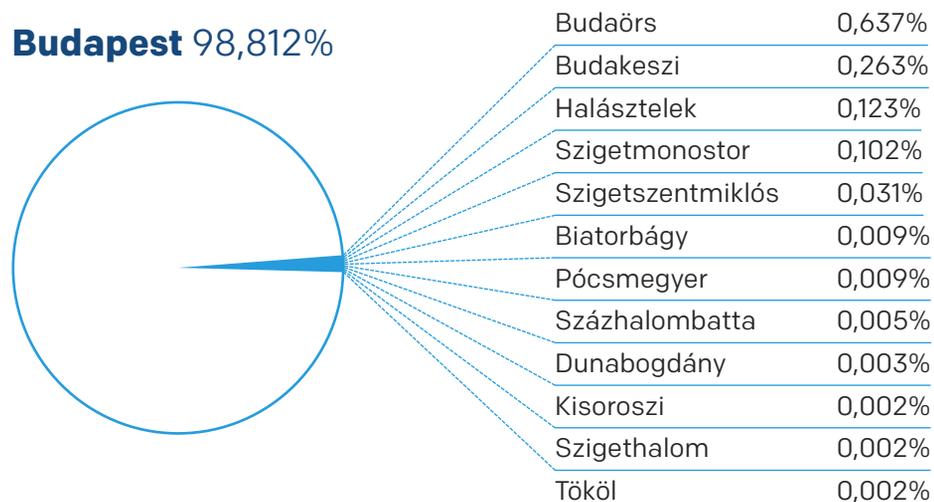
Budapest Waterworks operates as a public limited company. After repurchasing the minority share package from foreign investors in 2012 and thus changing the ownership structure of the Company, it is now wholly owned by Municipalities.

As a result of Act CCIX of 2011 (on water public utility service), the changes in the Company's activity and service area significantly transformed the structure of its municipal shareholders as well: the service area

expansion meant that the municipalities responsible for the service in the area also became shareholders, thus by the end of 2015 the circle of owner municipalities increased to thirteen. There were no further changes in 2017.

The main shareholder of the Company, owning a 98.812 % of the shares is the Municipality of Budapest.

### Ownership structure as of 31<sup>st</sup> December 2017



## → Management

### Chairman of the Board of Directors

András Sármay

### Board of Directors

József Dámsa  
Dr. Csaba Górn  
Csaba Haranghy  
Béla Hegyeshalmi  
János Rimóczy  
Bálint Theisz

### Chairman of the Supervisory Board

Dr Dénes Kosztolányi

### Supervisory Board

János Danada  
Sándor Katona  
Máté Kovács  
Józsefné Stiffel  
Attila Szűcs-Holczmann

### Auditor

BDO Magyarország  
Könyvvizsgáló Kft.

### CEO

Csaba Haranghy

### CFO

Ferenc Keszler

### DIRECTORS

#### Technical Investment Director

Gábor Lengyel

#### International Business Development Director

Tamás Miklós Bencze

#### Support Services Director

Róbert Fritsch

#### Customer Service Director

Dr. Piroska Paksi

#### Water Sector Operational Director

Géza Csörnyei

## → Our mission

Budapest Waterworks supplies excellent quality drinking water essential to life to about 2 million customers living in Budapest and its conurbation, and additionally it also provides sewage disposal- and treatment services in order to protect the fresh water reserves.

**Our Company aims to maintain – through efficient business management, sustainable development, quality management, an environmentally conscious approach to ensure the safety of the drinking water, and providing safe work conditions – its position as an outstanding domestic water utility provider and to win the recognition of our interested partners. A further goal of our Company is to achieve international recognition for our service portfolio.**



## → Social engagement

Budapest Waterworks as a responsibly operating large company aims to harmonise its business goals with social responsibility, with particular regard to environmental protection, sustainable development and supporting those in need. In addition to providing high-level service, the Company also pays attention to act in the interest of the general good.

## → Environmental protection

Our Company's management is committed to the protection of the environment, the prevention of environmental pollution and the continuous strengthening of the Company's environmentally conscious activities. Environmental protection, drinking water production, water supply and wastewater treatment constitute an integral part in our activities. With this in mind, we devote significant funds to the efficient protection of the environment and our water resources. To shape and maintain the environmental approach, we regularly organise trainings for our staff.

In order to continuously improve the quality of drinking water and treated wastewater, and our environmental performance we are operating an environmental management system. Pursuant to the new MSZ EN ISO 14001: 2015 system standard, we have started a new three-year audit cycle in 2017.

As part of our environmental activities, we pay particular attention to the disposal of hazardous materials, waste management, wastewater outlet monitoring, air quality and noise protection. In order to protect the air, part of our car fleet was replaced; we purchased new, EURO 6 emission cars and five electric vehicles, which are mainly used by our armed security guards working on the site of our water resources.

Our water-resources protection and drinking water production activities are closely linked. We operate more than 750 drinking water production wells on our water resources sites located in Szentendre and Csepel Islands, in Ercsi, in Margaret Island within the inner city of Budapest, and on the right and left bank of the Danube. As of 1st January 2017, our company has taken over the drinking water supply services for Dunabogdány and Visegrád (Szentgyörgypuszta) and the operation of the water resources in Dunabogdány. In comparison to previous years, it can be considered a significant step forward that the proportion of our officially designated

or previously delimited water resources has increased to 93.75%. In order to supervise our water resources, we carry out regular site visits, and issue an operator's statement with regards to any activities planned by external partners on our sites. We continued to disseminate information regarding our water resources protection with our publications for the residents of Szentendre and Csepel Islands in 2017.

## → Grants

Our Company strives to define guidelines and objectives for grants that reflect our commitment to society and also meet the expectations of the consumers and society in general. We determine the annual grant budget based on the joint assessment of the economic results and the expected effects among the participants of our operational environment. The fact that our financial burdens have been increasing for years means that there is less funding available for grants and sponsorships, therefore the principle of a justifiable and transparent grant policy has to be applied even more thoughtfully and consistently.

We have been consistently following the main guidelines set out for our grant policies for years. The four cornerstones of our grant policy are: responsibility for the environment, healthy living, commitment to ensuring cultured leisure time opportunities for the disadvantaged and those living in our service area.

Our sponsorship policy focuses primarily on sports, health preservation and charitable activities. However, we also place great emphasis on professional dissemination, especially by supporting professional events. We consider supporting professional water management and water production organizations and events in these fields of utmost importance as we need to ensure the future of water utility services by furthering the education of upcoming generations in our areas of expertise.

Furthermore, we prioritise events that focus on environmental protection and awareness. In addition to sponsoring such events, we also actively participate in them. We traditionally take part in the Danube Day, the Car Free Day and the 'Do It For Yourself!' events in Budapest.

At the same time, we also aim to cover our entire area of service with our sponsorship activities, thus we try to respond to the requests submitted by the conurbation settlements as well as those in Budapest.

## → Missionary activities

A main priority of Budapest Waterworks' strategy is to provide assistance in areas left without healthy drinking water after a disaster situation. In cooperation with the professional disaster management agencies, our Company has been engaged in the management of domestic disaster situations and emergency water supply since 1986.

In order to support this activity, our experts joined forces with external partners in 2009 and created a state-of-the-art mobile water purification and packaging unit which is modular, pallet-mounted and equipped with sand-, ultra-, reverse osmosis filters and a UV disinfectant. A saltwater module was added to the unit in 2014.

Beyond serving humanitarian aims, our cross-border relief efforts greatly contributed to raising the international awareness and strengthening the reputation of our Company. The civil protection and humanitarian aid duties are carried out by the Hungarian Water Aid Unit (HWAU), founded and operated by our company. In the framework of the civil protection duties of the unit, HWAU volunteers provided and distributed water bags at a number of major sports and other types of events, including the World Aquatics Championship held in Hungary in 2017.





# Business management of Budapest Waterworks in 2017

## → Financial situation

The main objective of the company in 2017 continued to be the highly efficient, cost-effective business management. Thus, Budapest Waterworks' financial situation and liquidity remained stable, and we managed to fulfill all our payment obligations in time.

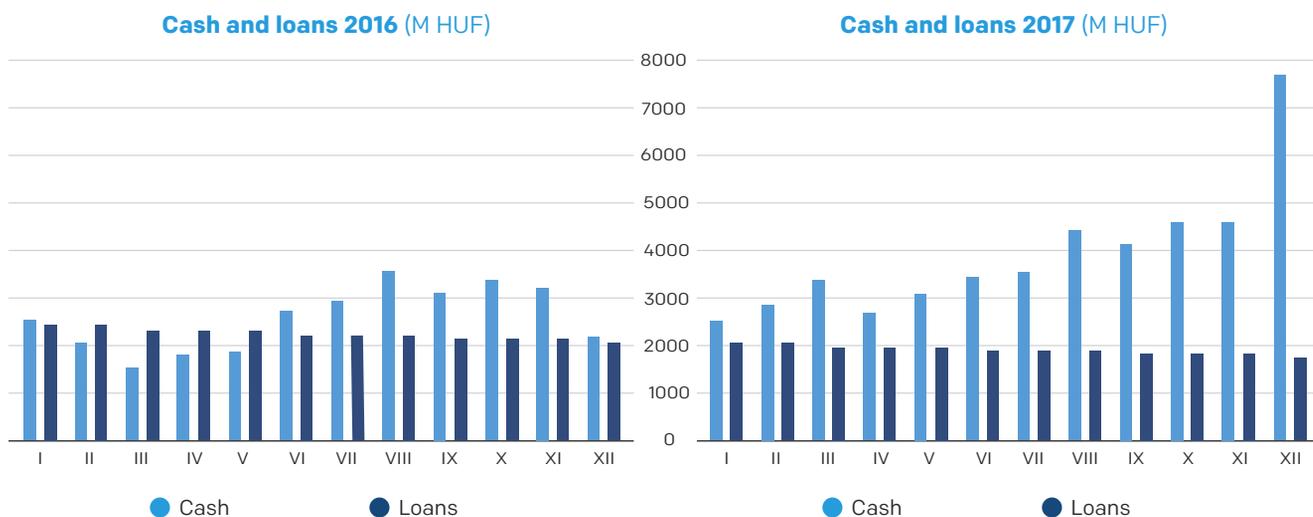
The replacement of foreign investors' shares was realised by repurchasing our own shares, for which the Company received a shareholder loan. Out of the outstanding loan the Company paid back a further 750 million HUF in 2017, thus the debt was reduced to 2.95 billion HUF by the end of the year.



29,049

finance  
Air transport  
production  
Industrials  
energy industry

The amount of cash at bank shows a significant increase compared to the previous year's 2,196 million HUF: the company closed the year 2017 with 7,760 million HUF cash at bank.



## → Revenues

The total revenue of the Company amounted to 45,033 million HUF, which represents a 12.6 % increase compared to 2016. Although the total net sales revenue is 2.6 percent below that of the previous year's figure, the revenues from drinking water sales has increased by 4.6 percent, and the sales revenue from sewage system services increased by 170 million HUF. The latter is mainly due to the increased number of new sewer connections implemented as a result of sewer system developments carried out in several settlements from KEOP sources.

Revenues from other activities also showed a favourable trend. The 0.8 percent increase was mainly due to the acceleration of the replacement of the submeters by Budapest Waterworks, the increase in the volume of works carried out for Budapest District Heating Plc., and the investment projects in connection with the water utilities of Dunabogdány and Százhalombatta settlements.

The company earned an additional 20 million HUF income from export on top of the 389 million HUF earned from the Sri Lanka project and 263 million HUF earned from the Indonesian Project.

Revenues (M HUF)	2016	2017
Drinking water revenue	23 623	24 704
Sewage service revenue	1 372	1 542
Wastewater treatment revenue	6 767	6 758
Industrial water	179	149
Other activities	2 737	2 759
Sewage collection	12	12
Export	2 893	672
<b>Total net sales revenue</b>	<b>37 583</b>	<b>36 596</b>
Other revenues*	1 265	7 168
Own performance value	1 129	1 269
<b>Total</b>	<b>39 977</b>	<b>45 033</b>

## → Costs, expenditures

The costs and expenditures decreased by a total of 1.8 % compared to 2016. The decrease in expenditures was due to the more favourable electricity prices, the lower insurance supervisory fee, while the value of services used increased, mainly due to the water utility rental fee payable upon taking over the operation of the Dunabogdány water utility services based on a lease and operating agreement, and as a result of maintenance work carried out by external contractors. There was also an increase in commission charges, the costs of transferred wastewater treatment and leased assets, as well as the public sanitation costs.

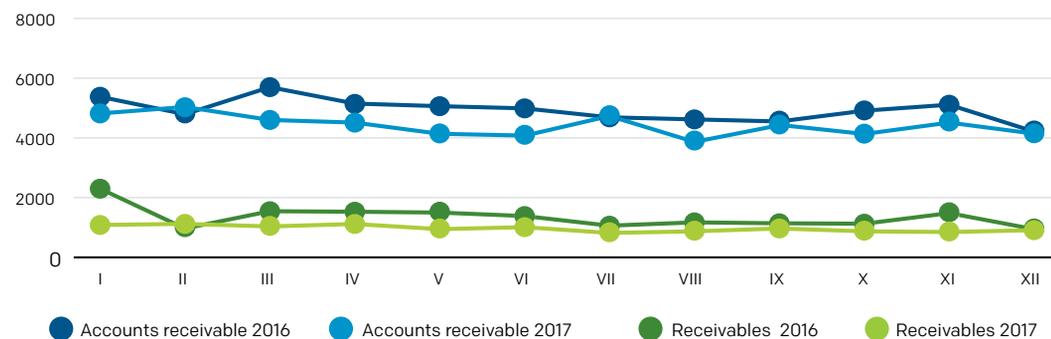
In 2017, the personnel costs increased slightly more than in the previous year, by 333 million HUF. The growth is due to the 6.7 % salary increase which was implemented in accordance with the Collective Agreement.

## → Accounts receivable

The gross accounts receivables decreased from 4,285 million HUF to 4,231 million HUF compared to 2016, the change in the accumulated impairment loss +74 million HUF.

The outstanding receivables from our own invoiced clientele decreased from 1,109 million HUF in 2016 to 982 million HUF this year.

Accounts receivable – receivables (M HUF)



## → Equity

The composition of the equity had been influenced by three factors: the increasing effect of the 3,557 million HUF after-tax profit in 2017, the retained earnings-reducing effect of the 24 million HUF additional capital contribution paid to subsidiaries and placing the 379 million HUF earned in 2016 into retained earnings.

It caused a significant change in the composition of shareholders' equity pursuant to 109.§ (6) of Act CLXXXIX. of 2011 on Local Self-Government, the 1,860 million HUF reserved at the end of 2017 to cover the repurchase obligation of the assets managed by the company was transferred from retained earnings to tied-up reserve.

Equity (M HUF)	2015	2016	2017
<b>Equity</b>	<b>12 606</b>	<b>12 974</b>	<b>16 507</b>
Registered capital	7 978	7 978	7 978
Capital reserve	0	0	0
Profit reserve	3 825	4 617	3 112
Tied-up reserve	0	0	1 860
<b>Profit after tax</b>	<b>1 444</b>	<b>803</b>	<b>379</b>

## → Earnings

The Company's operating profit was 4,947 million HUF. The Company's profit before tax was 4,890 million HUF, which is a significant increase compared to the 604 million HUF profit before tax in 2016.

The total tax liability – taking into consideration the tax base-adjustment items – of Budapest Waterworks for 2017 is 1,333 million HUF. Out of this amount, 214 million HUF was payable as corporate tax liability, and 31 million HUF was paid in taxes abroad for international projects. Budapest Waterworks also has to pay a 31 % public utility provider tax introduced in 2013. The amount of public utility provider tax was 1,088 million HUF based on the 2017 results.

Profit after tax is 3,557 million HUF. The Company did not pay dividends in 2017, as they were placed in the 2018 retained earnings.

The sale of the Central Office building was an economic transaction of exceptional value in 2017. In addition to the 5,630 million HUF revenue from the transaction, it also had an after-tax profit effect of 2,786 million HUF, thus the profit after tax earned from regular business activities is 771 million HUF.

## → Profit and loss statement

	2015 (M HUF)	2016 (M HUF)	2017 (M HUF)
<b>Revenues</b>			
Drinking water	23 984	23 623	24 704
Sewage service revenue	1 155	1 372	1 542
Wastewater treatment revenue	6 651	6 767	6 758
Industrial water	194	179	149
Revenue of other activities	2 360	2 737	2 759
Wastewater pumping revenues	15	12	12
Export revenue	4 947	2 893	672
<b>Total net sales revenue</b>	<b>39 306</b>	<b>37 583</b>	<b>36 596</b>
Other revenues*	1 514	1 265	7 168
Total revenues	1 323	1 129	1 269
<b>Bevételek összesen</b>	<b>42 416</b>	<b>39 977</b>	<b>45 033</b>
<b>Expenditures</b>			
Material costs	2 967	2 720	2 700
Electricity costs	2 541	2 361	2 281
Material-type services used	8 497	8 580	8 951
Cost of sold goods, mediated services	4 722	2 912	625
Other services	1 441	1 471	1 432
Total material expenses	20 168	18 044	15 989
Labour costs	7 216	7 669	8 323
Personnel costs	937	1 028	928
Salary contribution	2 180	2 298	2 077
Personnel expenses	10 333	10 995	11 328
Depreciation	5 417	5 767	6 056
Other expenditures*	5 082	4 564	6 713
<b>Total expenditures</b>	<b>41 000</b>	<b>39 370</b>	<b>40 086</b>
<b>Operational profit or loss</b>	<b>1 416</b>	<b>607</b>	<b>4 947</b>
<b>Financial operations</b>			
Financial operations revenue	126	145	49
Financial operations expenses	302	148	106
<b>Financial profit or loss</b>	<b>-176</b>	<b>-3</b>	<b>-57</b>
<b>Profit or loss before tax</b>	<b>1 240</b>	<b>604</b>	<b>4 890</b>
<b>Tax liability</b>	<b>437</b>	<b>225</b>	<b>1 333</b>
<b>Profit or loss after tax</b>	<b>803</b>	<b>379</b>	<b>3 557</b>

\* The balance sheet does not include the impacts of the realignment of balance sheet items carried out in connection to the affiliated companies

## → Balance sheet\*

	2015 (M HUF)	2016 (M HUF)	2017 (M HUF)
<b>A. Fixed assets</b>	<b>111 018</b>	<b>114 190</b>	<b>114 230</b>
I. Intangible assets	615	671	764
II. Tangible assets	110 106	113 239	112 907
Technical equipment, machinery, vehicles	109 384	112 769	112 276
Investments	722	470	631
III. Invested financial assets	297	280	559
<b>B. Current assets</b>	<b>9 069</b>	<b>7 497</b>	<b>12 495</b>
I. Inventories	967	544	616
II. Receivables	5 926	4 757	4 119
Receivables from trade and services (customers)	5 162	3 815	3 835
Other receivables	764	942	284
III. Securities	0	0	0
Bonds purchased for sale	0	0	0
Own shares, business shares, shares purchased for sale	0	0	0
IV. Cash and cash equivalents	2 176	2 196	7 760
Cash and cheques	2	3	1
Bank deposits	2 174	2 193	7 759
<b>C. Accrued income and deferred expenses</b>	<b>3 246</b>	<b>3 358</b>	<b>2 721</b>
<b>TOTAL ASSETS</b>	<b>123 333</b>	<b>125 045</b>	<b>129 446</b>
<b>D. Equity</b>	<b>12 606</b>	<b>12 974</b>	<b>16 507</b>
I. Equity capital	7 978	7 978	7 978
II. Capital reserve	0	0	0
III. Retained earnings	3 825	4 617	3 112
IV. Tied-up reserve	0	0	1 860
V. Profit after tax	803	379	3 557
<b>E. Provisions</b>	<b>431</b>	<b>303</b>	<b>362</b>
<b>F. Liabilities</b>	<b>106 739</b>	<b>107 828</b>	<b>108 885</b>
I. Long-term liabilities	99 214	102 025	102 907
II. Short-term liabilities	7 525	5 803	5 978
Advance payments from customers	828	366	139
Liabilities (suppliers)	4 531	2 415	2 707
Short-term credits	375	375	375
Other current liabilities	1 791	2 647	2 757
<b>G. Accrued expenses and deferred income</b>	<b>3 557</b>	<b>3 940</b>	<b>3 692</b>
<b>TOTAL LIABILITIES</b>	<b>123 333</b>	<b>125 045</b>	<b>129 446</b>

\* The balance sheet does not include the impacts of the realignment of balance sheet items carried out in connection to the affiliated companies

→ Audit Report





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## Independent Auditor's Report

to the Shareholders of Fővárosi Vízművek Zrt.

### *Opinion*

We have audited the financial statements of Fővárosi Vízművek Zrt. (the „Company”) for the year 2017 which comprise the balance sheet as at December 31, 2017 (which shows an equal amount of total assets and total liabilities of HUF 129 446 millions and an after-tax profit for the year of HUF 3 557 millions, as well as the related profit and loss account for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017 and its financial performance for the year then ended in accordance with Act C of 2000 on Accounting (hereinafter: "the Accounting Act") effective in Hungary.

### *Basis for Opinion*

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We are independent of the Company in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board (IESBA Code of Ethics) and we also comply with further ethical requirements set out in Rules and Standards.

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

### *Other Information: the Business Report*

The other information comprises the business report of the Company for the year 2017. Management is responsible for the preparation of the business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the business report.

In connection with our audit of the financial statements, our responsibility is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that the business report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility to consider whether the business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any and to express an opinion on this and on whether the business report is consistent with the financial statements.



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In our opinion, the business report for the year 2017 of the Company is consistent with the financial statements for the year 2017 in all material respects, and the business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the Company's business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the business report therefore we have nothing to report in this respect.

***Responsibilities of Management and those charged with governance for the Financial Statements***

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Act, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis in preparation of the financial statements. Management has to apply the going concern basis of accounting unless other relevant rules prevent its application or there are facts and circumstances contradicting the going concern principle.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it

exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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 1476 Budapest, Pf. 138.

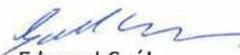
- Conclude on the appropriateness of management's use of the going concern basis in the preparation of the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on other legal or regulatory obligations: unbundling of accounts**

Referring to our obligation prescribed by Section 49 (4) of Act CCIX of 2011 on Water Utility Supply and Section 105/A (1) of Act LXXXVI of 2007 on Electric Energy, we certify that the rules the Company has adopted and applied in connection with the requirement of unbundling of accounts as well as the pricing of transactions between the various activities contain effective facilities to avoid cross-subsidization between the various divisions of the Company.

Budapest, 8 March 2018

BDO Hungary Audit Ltd.  
 1103 Budapest, Kőér utca 2/A  
 Registration number: 002387

  
 Edmond Gaál  
 Managing Director



  
 Péter Kékesi  
 Statutory registered auditor  
 Registration number: 007128

*This is the translation of the original Hungarian statutory report. In case of any discrepancies, the original Hungarian version prevails.*

# BUDAPEST WATERWORKS' ACTIVITIES IN 2017





## → Water sector

### → Water production capacities

The drinking water production is provided by the bank filtration wells in Szentendre and Csepel Islands, and in Margaret Island (within the boundaries of Budapest) and on the left and right banks of the Danube. In the case of water extracted on Csepel Island, iron and manganese removal is required prior to releasing the water into the network, while the quality of the water provided by the other wells meets the regulatory requirements, thus it is only necessary to disinfect it in order to ensure the microbiological stability of the water. The water supplies of Százhalombatta (that became a part of the service area in 2016), and Dunabogdány (that was added to the service area in 2017), are provided with independent bank filtration water resources located in the respective areas.

The water production and distribution facilities were operating throughout 2017 with adequate capacity and operational availability. As a result of taking over Dunabogdány's water utility operation, the nominal water production capacity slightly increased compared to last year, to 1,011 m<sup>3</sup> per day on 31<sup>st</sup> December 2017 compared to the 1,010 m<sup>3</sup> in 2016.

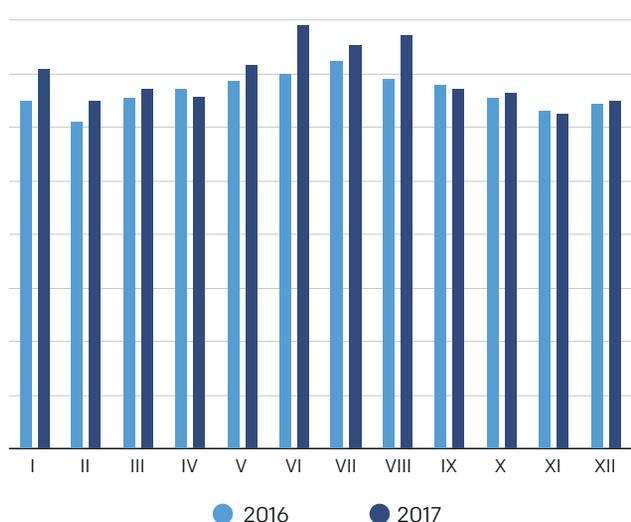
The Company was able to fully meet water demands at all times.

## → Drinking, industrial water production and sales

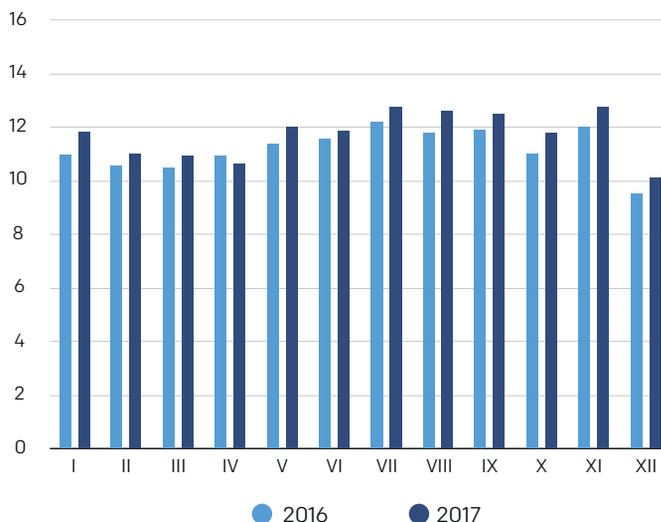
In 2017, the drinking water production amounted to 166,467 thousand cubic metres, which is 4.6 % higher than in the previous year. The peak daily water production was 595 thousand cubic metres in June. That exceeds the maximum daily amount produced last year by 21 thousand cubic metres. The daily average drinking water production of 456 thousand m<sup>3</sup> is 21 thousand m<sup>3</sup> higher than in the previous year.

In 2017, household water consumption increased by 2 percent and industrial water consumption increased by 6 percent, while bulk water transfer rate was 16.6 percent higher than in 2016. Out of the 551 million HUF revenue resulting from the drinking water base tariff in 2017, 220 million HUF was generated from the industrial-institutional tariff and 331 million HUF from the retail tariffs.

Monthly drinking water production (Mm<sup>3</sup>)



Monthly drinking water sales (Mm<sup>3</sup>)



## → Non-revenue water

The value of non-revenue water – which is calculated based on the cumulative production and sales data of the last 12 months up to the reference month – was 16.3 % in 2017. The reason for the slight increase observed in 2016 is that water consumption grew less than production, and that in 2017 the volume of bulk water received from other suppliers was higher than

in 2016. Regarding operation, some of the factors affecting the ratio of non-revenue water were the amount of water loss caused by the freezing of meters at the beginning of the year that was not invoiced pursuant to the regulation, and the increase in the number of pipe breaks and failures resulting in water escape in comparison to last year.

Non-revenue water 2016–2017 (%)



## → Water quality

Budapest Waterworks continued to provide water supply services in strict compliance with the Hungarian and EU regulations regarding water quality in 2017, ensuring adequate water quality for the population, industrial and public entities, and associated companies.

The Company monitors drinking water quality based on the sampling plan approved by the Public Health Authority (Government Office of the Capital City Budapest, Policy Administration Services of Public Health formerly National Public Health and Medical Officer Service), as well as on the parameters and requirements stipulated in Government Decree No. 201 of 2001.(25 Oct) and the related legislations regarding quality standards and drinking water monitoring.

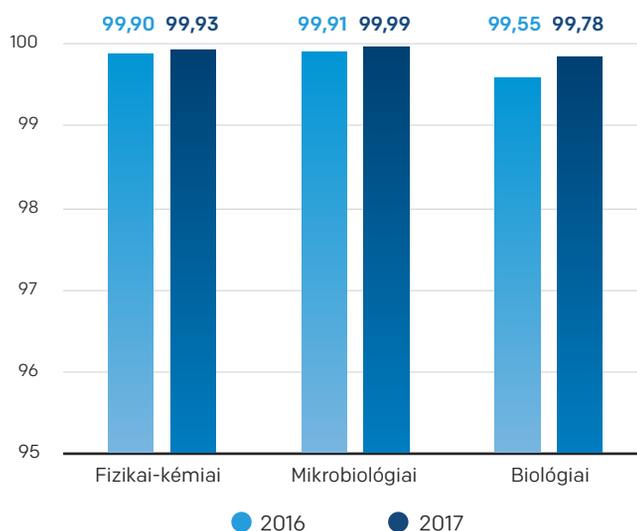
The monitoring process of water quality covers all of the factors affecting the quality of the drinking water. In 2017 the Company analyzed 182,030 parameters in the course of testing a total number of 9,675 water samples. Out of the total samples taken, with regards to the supplied water (points of consumption, reservoirs, pump houses, inlet points) 69,490 parameters were analyzed in 3,250 samples. The compliance ratio based on the parameter numbers was 99.92 % and total compliance ratio based on the sample numbers was 98.62%. Both values exceeded the ratio achieved last year, and similarly to the preceding year, they were outstandingly high in 2017 as well.



In 2017, new drinking water quality testing requirements came into effect: obligations to measure radioactive substances and more detailed pesticide residue tests have been added to the already stringent regulatory requirements. The sampling plan for 2018 will have to include these changes pursuant to the relevant Government Decree.

**In the service area of Budapest Waterworks, there were no water limitation measures imposed by the authorities due to water quality non-compliance in 2017 either.**

### Szolgáltatott víz megfelelőségek (%) paraméter szerint



In order to increase consumer satisfaction and maintain a safe and high quality drinking water supply, the company implemented several quality assurance developments in 2017. The Integrated Management System certificate has been successfully renewed in accordance with the ISO 9001, ISO 14001, ISO 22000 standards, including the introduction of risk management and life cycle approach. The accreditation procedure of the laboratory for the expansion of scope – wastewater laboratory testing, testing in compliance with the new Clostridium standard and Legionella testing – has also been successfully completed. At the upstream reservoir of pump house no. IV at Káposztásmegyér, the company installed and commissioned a new online toxicology analyzer which is connected to the SCADA control system and will be supplemented with an alarm system.

→ Wastewater sector





## → Wastewater treatment, sewage services

The Company's wastewater treatment and sewerage service activities have been further strengthened. It was a major change in 2017 that the Company took over the operation of the sewer system of Dunabogdány, thus Budapest Waterworks now manages the sewage services of eleven settlements.

Developments carried out within the framework of the KEOP (Complex Water Safety Programme) launched in 2014-15 greatly contributed to the modernization of wastewater networks of these settlements, as a result of which further newly canalized settlement areas have been involved into the operation and asset management portfolio of the Company. Owing to this network development and the addition of the town of Dunabogdány, the sewer system operated by Budapest Waterworks has increased from 539 kilometers to 586 kilometers. The Company is also in charge of operating 44 large public booster stations on this network, 502 small public booster stations on the Presskan network in Tököl as well as 607 private booster stations.

In 2017, the wastewater treatment plants received a total of 6,078 thousand cubic metres, a daily average of 16,652 cubic metres of wastewater, which means a 76% of capacity utilization. As a result of KEOP (Complex Water Safety Programme) developments the previous overload of the plants has been eliminated.

From the networks of Pócsmegyer, Kisoroszi and Szigetmonostor on Szentendre Island a 158 thousand  $m^3$ , and from Dunabogdány a 187 thousand  $m^3$  of wastewater were transferred by the Company to the Dunamenti Regional Waterworks in 2017.

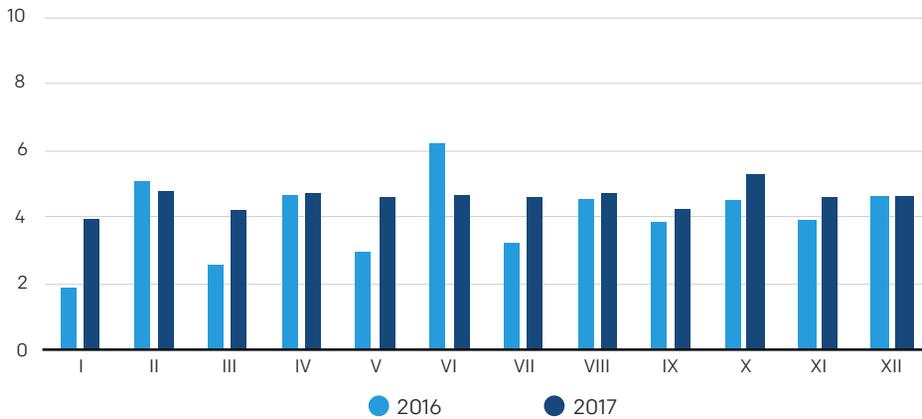
With the accruals, a total of 1,542 million HUF in revenue had been generated from sewage services, consisting of 9 million HUF of base fees, 1,380 million HUF from consumption charges, 60 million HUF revenue from wastewater treatment and 92 million HUF from water load tariff.

In the course of 2017, the Central Wastewater Treatment Plant in Budapest (BKSZTT) issued invoices for a total of 85.5 million cubic metres of treated wastewater. Taking into consideration the 350 thousand cubic metre/day maximum capacity of the wastewater treatment plant, the average 241.3 thousand cubic metre/day load resulted in a 68.9% average capacity utilization rate. At the end of 2017, BKSZTT started to receive the total amount of wastewater from Budaörs.

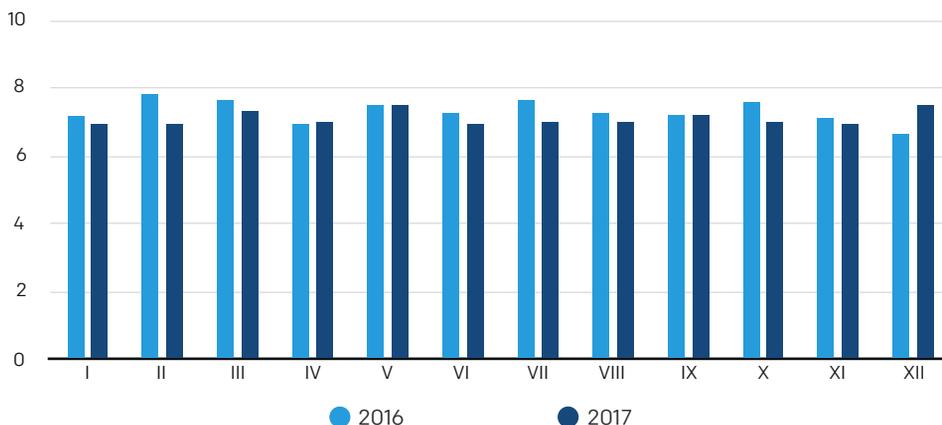
The 6,758 million HUF wastewater treatment service revenue was generated from the following sources: 2,511 million from wastewater treatment service fees, nearly 403 million from water load charges, 2,879 million from rental fees, 800 million from sludge treatment fees, and 14 million from property insurance.

In 2017, the Company has concluded the negotiations with the Municipality of Budapest on the reimbursement of the additional costs generated by adding the third cleaning phase at BKSZTT, since the purpose of this investment was to comply with the TP80/TN70-80 percentage removal efficiency EU regulation expected by the Municipality, as opposed to local authority regulations. The revenue resulting from this agreement was 151 million HUF in 2017, which included the subsequent reimbursement of expenses for 2016.

**Sewage service (Mm<sup>3</sup>)**



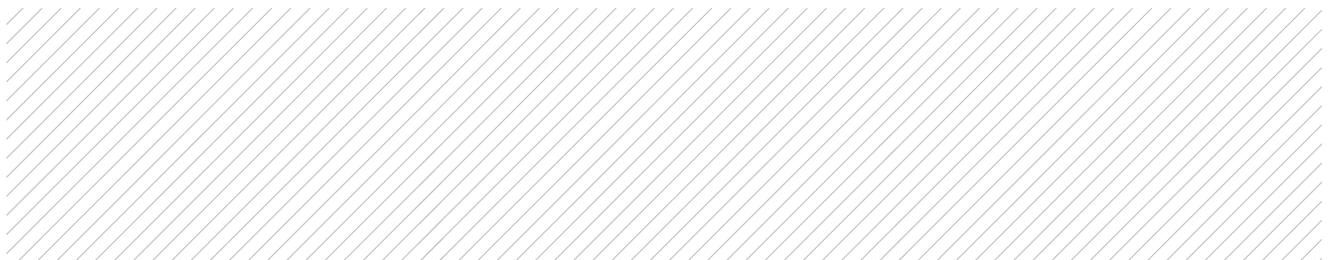
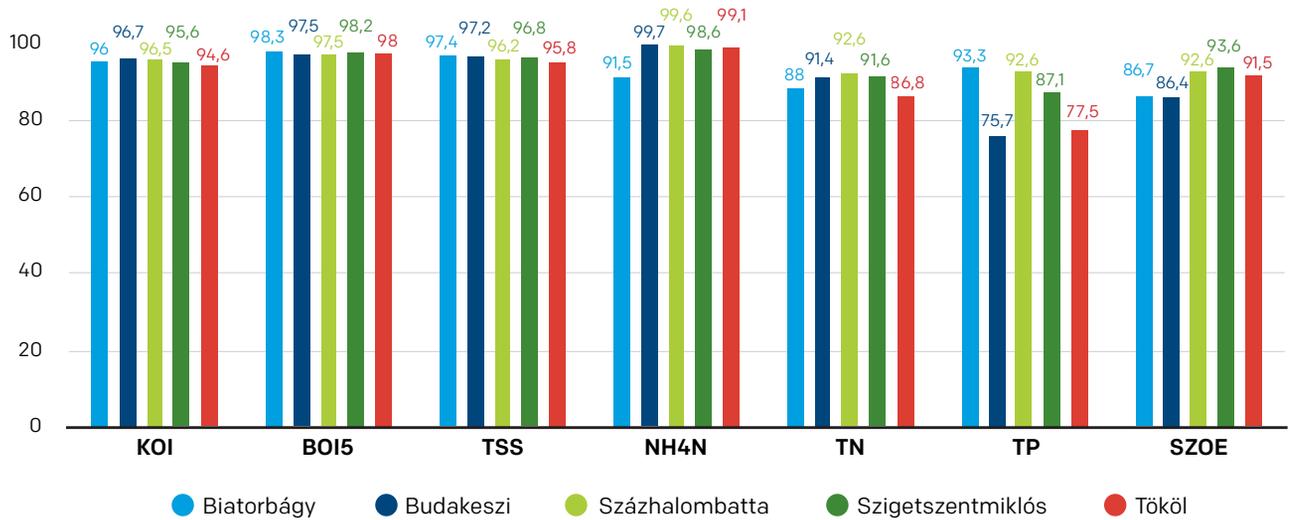
**Monthly wastewater treatment (Mm<sup>3</sup>)**



## → Wastewater quality

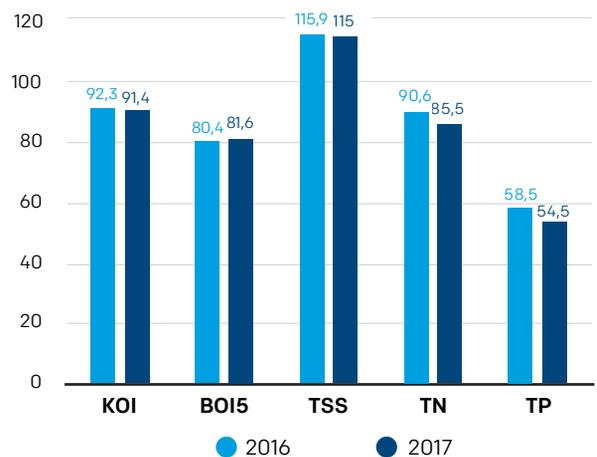
Accredited measurements are carried out on a monthly basis according to a pre-defined schedule on the wastewater plants in conurbation area. Both the inlet and outlet wastewater are analyzed based on 7 different parameters.

Average contaminant removal efficiency in conurbation wastewater plants (%)



At the Budapest Central Wastewater Treatment Plant accredited measurements are carried out 24 times per year also according to a pre-defined schedule, in terms of the inlet, pre-settled, and outlet wastewater. In 2017, all the measured values were within the specified value range. Additionally, technological measurements are also carried out daily in the wastewater laboratory of the plant.

Inlet wastewater capacity utilisation rate (%)  
BKSZTT



The outlet water quality values are excellent. The quality of the treated water let into the Danube meets the strict European standard. In addition to complying with the outlet limit values of the parameters specified in the water treatment facility operating permit, the Plant also fulfills the expectations of the third cleaning phase, that is 70 percent of the total nitrogen (TN) and 80 percent of total phosphorus (TP) are to be removed from raw wastewater.

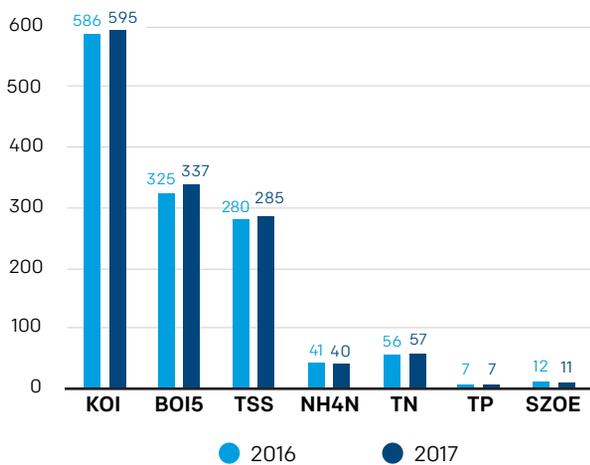
The inlet water quality values – apart from the suspended solids – remained below the design value (100%). The measured values were slightly below the values reached last year, but stayed above 90 percent. This is important, because the amount of incoming contaminants has an effect on the technological processes, and an increase of the contaminant levels generates more operation and maintenance costs.

The total suspended solid load deserves a special mention. With regards to the parameter of total suspended solids, the actual load significantly exceeded the design capacity in 2017 as well. An overload of such volume pushes the boundaries of the sludge line’s safe operational capacity. In case of a further increase in capacity utilization, the operating costs may also increase.

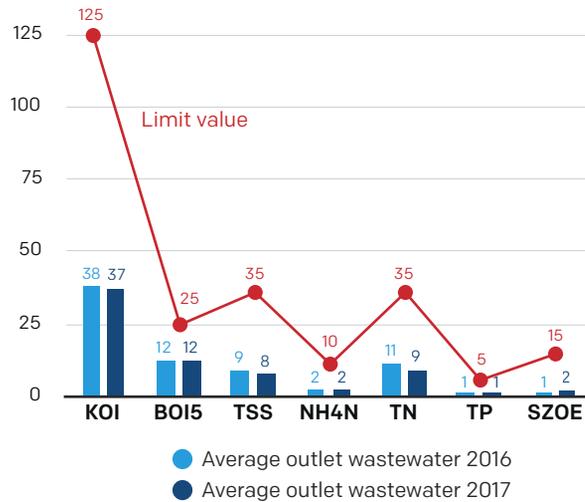
**Wastewater treatment plant operated on Wienerberger’s site**

In October 2017, the company signed a contract with Wienerberger to operate the wastewater treatment plant located on their site. Thus by the end of 2017 the number of wastewater treatment plants operated by the Company has increased to seven.

**Inlet wastewater quality, BKSZTT (mg/l)**



**Outlet wastewater quality, BKSZTT (mg/l)**



→ **Service charges**

→ **Drinking water and sewage service charges**

The charges for drinking water and wastewater services are determined by the Pricing Authority. As of 2012, pursuant to the provisions of the Water Utility Service Act, municipality pricing had been replaced with central price regulation. In the future, the charges for drinking water utility service, sewage disposal and treatment service, bulk water transfer and wastewater acceptance will be determined – taking into account the proposal of the Hungarian Energy and Public Utility Regulatory Authority – by

a ministerial decree issued by the minister responsible for the water utility services. As the charges have not changed since the Act came into effect, the Company continued to charge the same fees in 2016 that have been effective since the second half of 2013. With regards to the water utility provision services of the conurbation settlements, Budapest Waterworks charges the previously used water and wastewater service fees adjusted according to the requirements of decreasing the public utility charges.

**The most common water service charges in the Company's service area (HUF/m<sup>3</sup>)**

	2015	2016	2017
Budapest residential water consumption fee	172,40	172,40	172,40
Budapest industrial and public water consumption fee	198,90	198,90	198,90

**→ Wastewater treatment charges (BKSZTT)**

Under the terms of the Wastewater Treatment Service Agreement between the Municipality of Budapest, Budapest Sewage Works (FCSM) and Budapest Waterworks, Budapest Sewage Works is obligated to pay a water treatment service fee to the operator of the Central Wastewater Treatment Plant (BKSZTT) as of 1st June 2013.

In addition to wastewater treatment, water load and sludge recycling fees, wastewater treatment service fee also includes rental and property insurance charges. Wastewater treatment fee is a charge pro-

portional to the amount of the treated volume (HUF/m<sup>3</sup>) and is invoiced by the Company based on the inlet wastewater volume. The water load charge is determined on the basis of the existing legislation, while the sludge recycling fee, the rental fee and the property insurance charges will be invoiced according to the actual incurred costs.

The law stipulates that wastewater acceptance fee also falls under central price regulation. The determination of this fee shall be the competence of the minister responsible for water utility services.

**→ Additional services**

Partly in order to satisfy customer needs more extensively and to utilise the accumulated professional experience and partly to compensate for the revenue loss caused by the ever decreasing water consumption, we laid the foundations of our commercial and marketing strategy at the end of 2009.

The WaterPlus (VízPlusz) brand created by Budapest Waterworks in 2010 mainly targets the business segment. We developed it as an umbrella brand consisting of market based business and technical services. We constantly incorporate the feedback received from our customers (based on the results of the regular customer satisfaction surveys), into our business development strategy, striving to provide an even higher level of service and to increase customer satisfaction.

The repertoire of WaterPlus is continuously expanded by new service offers that are now also available to the general public. The most popular element of WaterPlus is the WaterPlus card programme. With the free WaterPlus discount card, numerous services and products offered by our 24 partners were available in 2016. The number of registered cardholders is almost 51 thousand.

In March 2014 we introduced our "Waterproof protection" insurance service, which offers a solution to the customers of Budapest Waterworks to reduce the risks resulting from water leakages. "Waterproof protection" provides assistance to private individuals in unexpected life situations such as unemployment or incapacity for work. As of 31<sup>st</sup> December 2017, the number of insured customers was close to five thousand.

In 2013 we launched the installation of network water dispensers, in a leasing package. By the end of 2017 the revenue generated by this service exceeded 14 million HUF which was approximately 11% higher than the preceding year. Water dispensers marketed by our company provide cold, hot and carbonated water in many office buildings, food manufacturing companies, stores, warehouses and swimming pools throughout the country.

We carried out several complex technical projects for external contractors in 2017 as well. The contract with Wienerberger stands out of these projects, where our company carried out the reconstruction of the wastewater treatment plant at brick factory in Solymár, the operation of which we subsequently took over.



## → International services

Capitalizing on the technical, operational and service experience accumulated over almost one and a half centuries of its existence and its well-trained professionals, Budapest Waterworks successfully participates in international projects that aim to modernize the drinking- and wastewater service system of certain areas either within the framework of intergovernmental cooperation or through independent tenders. Our well-trained and prepared experts who regularly publish in Hungarian and foreign professional journals and are invited to conferences all over the world, are the backbone of our domestic and fast-growing international successes in the drinking water and sewage service, and water and wastewater treatment sectors.

We have entered into negotiations with several cities recently regarding consultancy, technology development and prime contracting services.

Within the framework of our cooperation we provide our partners with services, technological and management solutions that can help them raise their standard of service and ensure a higher level of supply security, increase operational efficiency, reduce losses, and improve customer satisfaction.

An example for such a cooperation is the agreement with the National Water Supply and Drainage Board of Sri Lanka's capital city, Colombo, for the recon-

struction works of two water treatment facilities. In this project our company had to carry out the modernization and improve the safety of the plants that supply water for part of Colombo (a city of 2.4 million inhabitants) and the surrounding area. The expansion of the capacity required by the contracts and improvement of the cleaning efficiency were successfully implemented on both plants, and additionally Budapest Waterworks also developed a new sludge treatment technology. The project was completed with the technical acceptance procedure on 26th February 2017, which date marked the beginning of the one year technical support and warranty period.

The public procurement project announced by the Indonesian Public Works Ministry was awarded to the consortium of Budapest Waterworks and Artha Enviromata Jo Joint Operation led by Budapest Waterworks. Within the framework of this project, the consortium was entrusted with constructing water treatment units at a total of 34 settlements on three islands of Indonesia (Sumatra, Java and Sulawesi). The project progressed in line with the pre-defined schedule in 2017.

Following a discussion in 2015 between Hungarian and Russian professionals and as a continuation of the market research and negotiations supported by the Hungarian Government, we have started negotiations in 2017 with the leaders of the Ural Federation

District regarding a potential cooperation to modernize the public water supply and drainage system as required by the Russian Federation and the management of water supply systems in cities with an operating concession from the state.

Our company, with its Albanian consortium partner, has carried out the technical audit of the Tirana Water Supply and Sewerage Utility (UKT SH.A). The scope of the project aimed at the technical, technological assessment of the sewage and drinking water network and the water treatment plants currently in operation. In the course of the project our company prepared proposals for the development of the facilities to improve the supply security and quality.

Following the successful completion of the technical audit, we signed a new contract in December 2017 for the medium-term technical development programme of Tirana Waterworks (UKT) in order to implement the most cost-effective technical investment solutions required in the medium term. The goal of this longer than two-year programme is that in addition to enable Tirana Waterworks to supply healthy drinking water 24 hours a day, it also aims to allow the company to reduce significantly the amount of non-

revenue water and improve the drinking water supply and sewer system coverage in the area.

The mobile water purification unit, registered in the European Union's Civil Protection Mechanism, and the Hungarian Water Aid Unit (HWAU), founded and operated by our Company, continued its humanitarian activities in Hungary and abroad in 2017, while also expanding its international disaster management network system.

A mission in Turkey launched in 2016 has been completed successfully in 2017. In the course of this project our company provided the drinking water supply for an entire refugee camp with a newly developed and manufactured mobile water purification unit in cooperation with the Ministry of Foreign Affairs and Trade and the State Disaster Management Agency of Turkey. The mission lasted for six months until the camp was closed.

In line with our expanding role in the European Union's Civil Protection Mechanism, the mobile water purification unit developed by our Company successfully participated in two international drills in 2017 by fulfilling the criteria and requirements of the Union.

## → Investments

The Company's investments amounted to a total of 6,218 million HUF in 2017, which exceeded the previous year's total by 11.2 percent. A total of 21 km of pipelines were upgraded in 2017, out of which 19 km was part of the water network, and 2 km was part of the wastewater network reconstruction project.

## → Maintenance, operation

In 2017, the company's maintenance and operational expenditure exceeded the previous year's cost by 389 million HUF. In the water production sector, the expenditure exceeded the 2016 figures by 82 million HUF, while the exceedance was 115 million in the wastewater sector and 192 million in the support area.

### Maintenance, operation (M HUF)

	2016	2017
<b>Troubleshooting</b>	<b>2 321</b>	<b>2 445</b>
Water network	1 691	1 751
Water production	169	171
Wastewater	282	311
Support area	179	212
<b>Maintenance</b>	<b>2 228</b>	<b>2 075</b>
Water network	719	344
Water production	371	410
Wastewater	317	341
Support area	821	980
<b>Operation</b>	<b>1 068</b>	<b>1 136</b>
Water network	476	441
Water production	436	477
Wastewater	156	218
<b>TOTAL</b>	<b>5 617</b>	<b>5 656</b>

## → Maintenance

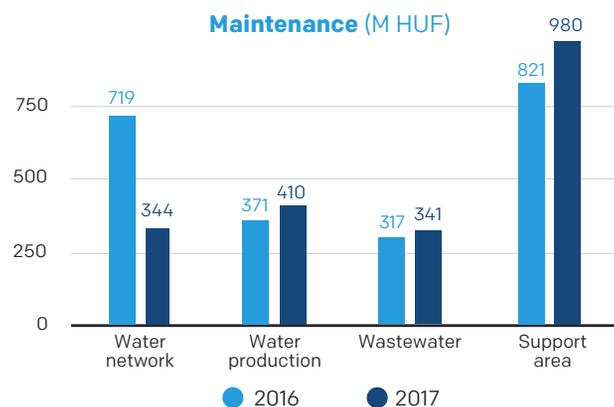
The cost of preventive, scheduled maintenance works was 6.9 % lower compared to 2016. The company also spent less on the maintenance of the fittings and the inlet pipes, as the capacities were tied up by the increased repairing. The total cost of the increased amount (in comparison to last year) of maintenance works in the water production sector was more than 10.5 percent higher than the previous year.

In the wastewater sector, most of the 19 million HUF maintenance expenditure was spent on the maintenance of the large booster stations and wastewater plants located in the conurbation settlements. The cost of the maintenance of the site buildings, the wastewater network and the presskan system pumps in Tököl represented a smaller proportion of the total maintenance expenditure.

On the BKSZTT site, from the total maintenance expenditure of 222.2 million HUF in 2017, nearly a third was spent on the biogas plant, but the cost of the

water- and sludge line and electrical works as well as the maintenance of the gray and green areas was significant as well.

The increase in the maintenance costs of the support area is a consequence of the reallocation of the meter replacement activity, which also appears as a reduction factor in the water network sector.

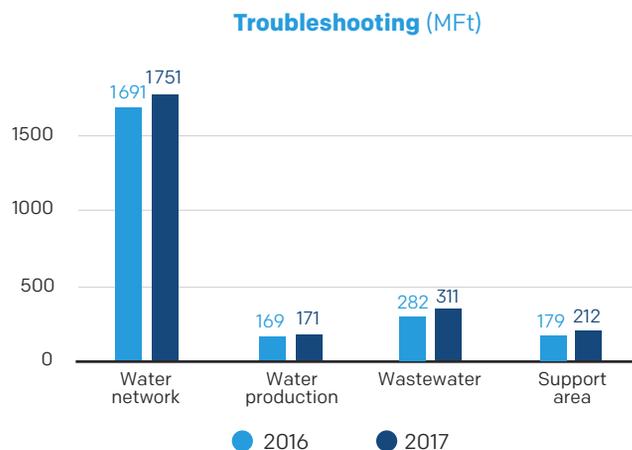


## → Repair

The number of network failures increased by a total of 0.6 % compared to 2016. Although the number of pipe breaks increased by 6.3 percent, as a result of the 3.2 percent lower connection error rate and the 9.2 percent lower fitting failure rate, the total repair cost of the network maintenance was 60 million HUF less than in 2016.

The number of failures in the water production facilities increased by 7 % which is a significantly lower rate than last year's, while the amount spent on repair works was approximately the same as in 2016.

The repair costs of wastewater sector in the conurbation area increased by 29% compared to the preceding year. The repair works on the large booster stations and presskan system of Tököl represented the bulk of the 144 million HUF total cost. In the case of BKSZTT, most of the repair works were done on the water line but the repair costs of the biogas recovery and sludge line were also significant in 2017 as well. The costs incurred were 2.1 % below the previous year's amount.



## → Customer service

Budapest Waterworks' customer service areas are certified according to the MSZ EN ISO 9001:2008 standard. SAP's IS-U module provides the IT background for this activity, as well as handling the record-keeping of water meters, the organization of meter replacements, meter reading and invoicing, debt collection and customer relations.

In November 2017, our online customer service was upgraded and expanded with new features, which, in addition to providing many convenience services for administrative processes, also enables electronic invoicing and presentation.

The Company's environmentally conscious approach is reflected in the electronic process of the incoming requests as a result of which the work is not only faster and more flexible but also paperless.

In 2016, the company introduced the automatic customer service feedback feature of the call centre, through which at the end of the call customers can rate the received service, the preparedness and politeness of the administrator.

The [www.vizmuvek.hu](http://www.vizmuvek.hu) website is now also available in a mobile friendly version, moreover, customers can get up-to-date information about maintenance, news, or methods of administration via smartphone.

In addition to the phone and online administration, many people still visit our customer service offices in person. The company's central customer service office was fully renovated in 2017, and for the sake of a more comfortable and efficient administration, five other capital city service providers in addition to Budapest Waterworks are located there to cater to the customers' needs. In the common customer area, information boards help the customers' orientation. In its personal customer service offices Budapest Waterworks also performs customer service activities on behalf of other service providers.

The company is present in Budapest with two more joint customer service points along with several other service providers. In the service areas outside of Budapest we also operate several customer service branch offices and customer points that had been previously established by local municipalities for the convenience of customers in multiple cities.

In 2017 the „one stop“ customer service handled requests by nearly one million customers via the separate customer service channels: we received over 400 thousand phone calls, 150 thousand visitors in person, 90 thousand letters and nearly 45 thousand e-mails. Our online customer service was visited by over 230 thousand people. The three millionth customer contact was concluded in 2017 since the 2003 introduction of the SAP module registering customer requests that laid new foundations for the customer registration and the follow-up process of reports.

The Otthon+ (Home+) application introduced in 2015 provides customers with an easy, fast and flexible access to administrative processes. The application is available on smartphones with Android and IOS systems as well as on Windows Phones.

Another tool enabling a faster and more convenient administration is the toll-free number (Green number) service that was established in 2015. This number can be called from landlines 24 hours per day to record meter readings. The number received more than 105 thousand calls in 2017. In compliance with the resolution of the Hungarian Energy and Public Utility Regulatory Authority, we renewed our Business Policy in 2017 – available on our website.

According to phone and personal customer satisfaction surveys, the clients' satisfaction with personal administration increased by 8% compared to the previous year. Based on the surveys, our customers are greatly satisfied with the online customer service.

The company introduced a unified meter reading system, which resulted in more efficient operation and significant cost savings, and made the processes more transparent for the customers. Thanks to the introduction of a new type of handheld computer, the meter reading has become more advanced. As a result of the development that included the associated operating system, it has become possible to manage remotely the entire PDA device fleet and ensure continuous data flow between the SAP system and the meter readers' PDAs.

In 2017, the company sent bulk text messages to its customers for the first time, informing them of an upcoming frost threat. A total of 72,964 text messages were received by the affected consumers.

## → Human resources

### → Headcount

In 2017 the annual average statistical headcount was a total of 1,722 employees, out of which the number of full time employees was 1,692. The decline in staff numbers compared to the previous year was due to the general labour shortage, and the deterioration of the competitive position of the company on the labour market.

### → Payroll management

In 2017 the Company implemented a 6.7 percent pay increase according to the agreement with the workers' unions, which was funded partly from the company's own resources, partly from savings resulting from a decrease in contributions, and partly from re-allocation of some of the Cafeteria budget.

### → Education, training

In 2017, the company spent 57.70 million HUF on education, enabling employees to complete a total of 8,798 training courses.

Maintaining the practice of recent years, we continued to prioritise trainings in 2017 that helped to ensure that the Company complied with its legal obligations, and that the employees were able to keep up-to-date with the legislative changes and gain the professional knowledge necessary to fulfill their responsibilities. At the same time, an increasing number of employees were also offered opportunities to participate in professional, integration, skill development and cooperation programs.

In the spring of 2017, the team of the company's own trainers and educators launched a series of professional and skill development trainings, with significant participation by the employees.

Due to the introduction of individual training plans and the credit system, the educational structure and the participation rate also changed significantly in comparison to the previous years. The highest cost was represented by courses (52%), while the internal training achieved the highest attendance rates (59%).

### → Organizational changes

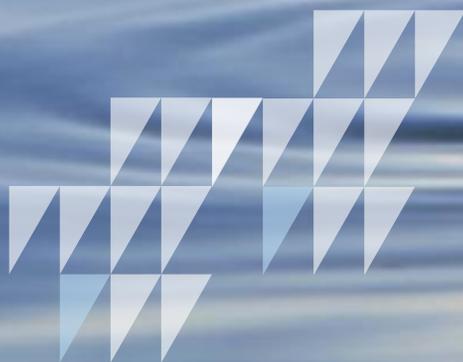
Budapest Waterworks restructured multiple departments in 2017, continuing the practice of previous years. The primary objective of these changes in addition to the efficiency improvement and optimal structuring of the processes was to further elevate the level of customer service.

Accordingly, the largest organisational changes mainly affected the Customer Service Directorate. Within the Customer Service Directorate, the Water Meter Department was established, at the same time, the Technical Licensing and Control Department was eliminated. With the elimination of the water measurement division of the Network Operations Department, the groups that had been operating there up to that point were transferred to the Technical Licensing and Control Department.





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