



**BUDAPEST  
WATERWORKS**



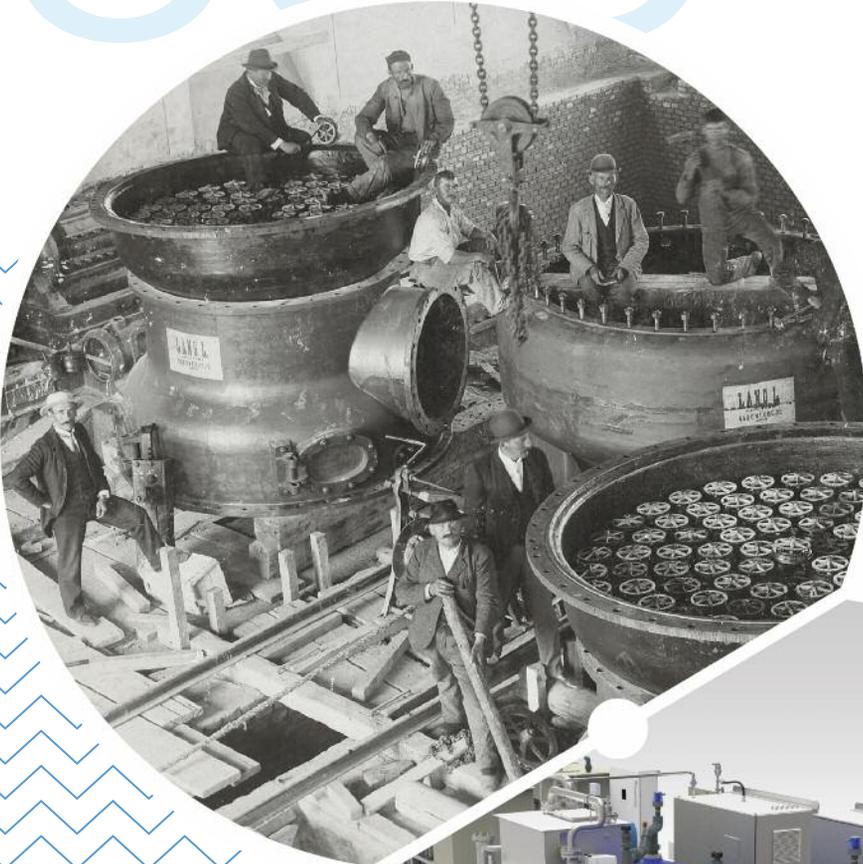
# Annual Report

**Budapest Waterworks**

2018

# 1868

150 YEARS



1904

One of Europe's most modern waterworks is built in Budapest

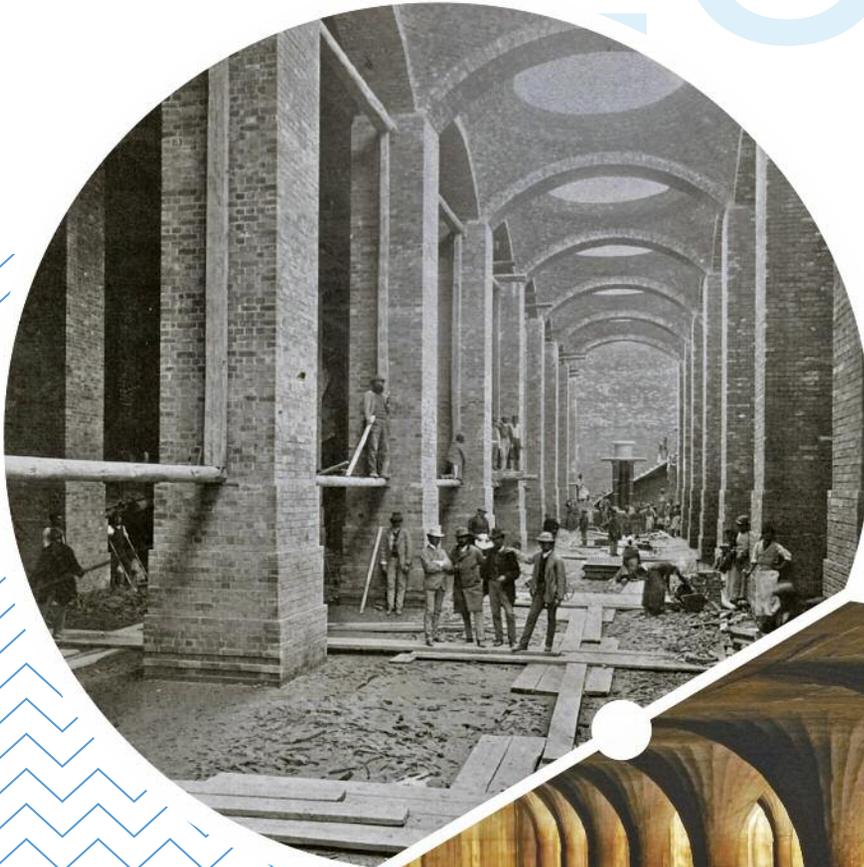


2016

Containerized Water Purification Unit  
(Innovation Award, BWS 2016)

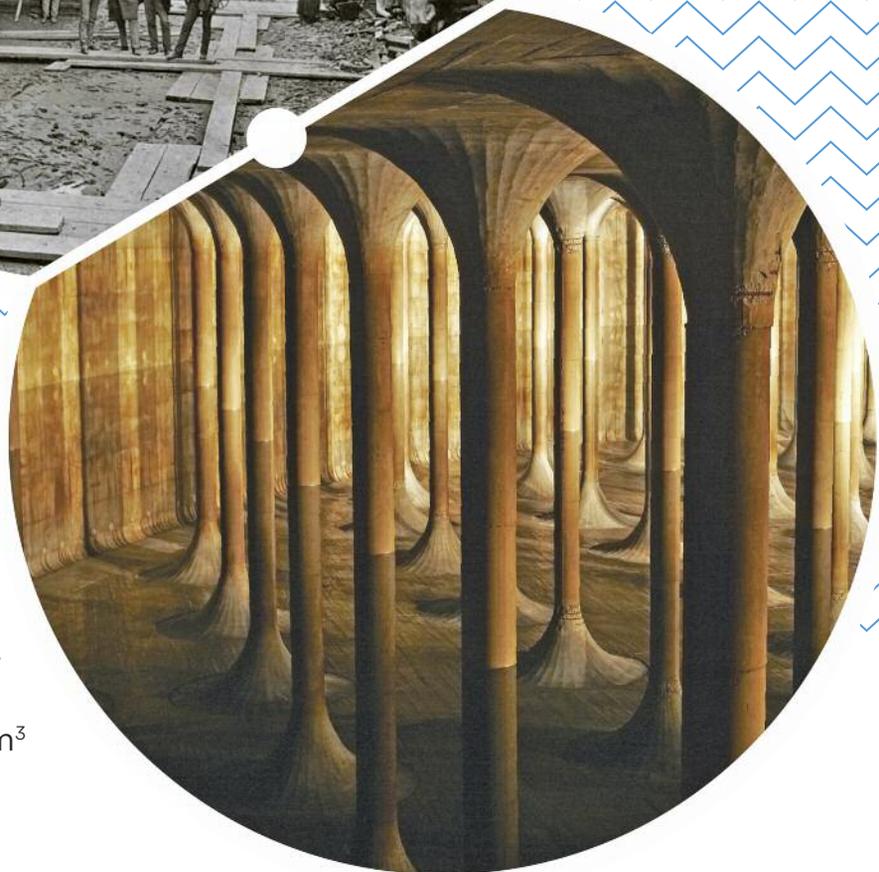
# 2018

TRADITION AND INNOVATION



1871

Budapest's first  
water reservoir  
with 23.000 m<sup>3</sup>  
capacity



1980

Gruber reservoir  
on Gellért Hill  
with 2x40.000 m<sup>3</sup>  
capacity



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## BUDAPEST WATERWORKS

Budapest Waterworks is one of Hungary's longest standing companies. The company, founded in 1868, respects and takes pride in its past, the traditions and the values created by its predecessors, and is committed to developing and expanding the professional knowledge and experience accumulated over the past century and a half.





Budapest Waterworks has always been one of the most significant, leading companies in Hungary. Throughout the century and a half, each generation of professionals inherited a tradition of sophistication, professionalism, maximum adherence to the spirit of the times, and a willingness to use the latest available technology and equipment. Having accumulated a 150 years of domestic operational experience and extensive international professional experience, as well as continually developing IT solutions to support the technology and operation, Budapest Waterworks continues to operate as an outstanding service provider in the region. The above described characteristics all contribute to the fact that, in addition to being the water utility provider of Budapest, the ninth largest city of Europe, and one of the leading water utility companies in Central and Eastern Europe, the company is known and recognized worldwide. This is evidenced by the "Distinguished Member of the World Network of Utilities" award, a high honour that our company earned in 2017. This award recognizes the highest, Gold Standard level of utility service performances.

The core business of the Budapest Waterworks is to provide water production and drinking water supply service, wastewater disposal and treatment services to more than 2 million people who live in Budapest and its conurbation area.

The length of the pipe network of the capital city and its conurbation is over 5,000 km. Utilizing one of Europe's largest bank-filtered drinking water resources concentrated on one location, the Island of Szentendre, the drinking water supply of Budapest is exclusively provided by the bank-filtered drilled and horizontal wells, which were constructed and are maintained with the major contribution of the com-

pany's subsidiary, the DUNA-KÚT Kft. In addition to Szentendre Island, a total of 760 wells located in three water catchment areas supply water to the capital and the conurbation area providing more than 1 million cubic meters of drinking water per day. The drinking water production and supply network is fully automated.

Budapest Waterworks is dynamically adapting to the ever-evolving challenges and is driven by a desire for continuous renewal, placing a strong emphasis within its scope of activities on technical and development projects out of which the investments in the field of facility and network operation, water quality assurance, environmentally responsible operation, IT solutions for operations management and the development of mobile drinking water treatment units implemented with the help of internal resources stand out.

In the Company's certified and accredited laboratory, more than 180,000 parameters are examined in the course of carrying out the organic and inorganic chemical, microbiological, microscopic biological and toxicological testing of nearly 10,000 samples per year.

Thanks to the market, technological, operational and economic advancements that the company has made since the regime change, it can offer a professional collaborative, supportive partnership for countries where these processes are either still ongoing or have not yet begun. Since 2013, the company's more intensive involvement on international markets played an important part in increasing alternative, not directly water sales related revenues, boosting the company's value, acquiring professional experience and expanding the know-how in the core business.

## → Scope of activities

In terms of its core business, the company is a water supply service provider, which initially only provided drinking water supply services, however, since 2004 has been playing an increasingly important role in the wastewater disposal and treatment field, initially indirectly through its subsidiaries, then directly from 2013 onwards.

The Company took over the operation of the Budapest Central Wastewater Treatment Plant on 1<sup>st</sup> June 2013. The plant has a biological wastewater treatment capacity of 350,000 m<sup>3</sup>/day, and was built as one of the biggest and most significant environmental protection investments of Central Europe. It is an environmentally friendly construction and incorporates revolutionary new solutions combining its closed-roof technology with physical, chemical and biological water treatment phases. The small power plant built on the site that provides about 60 percent of the wastewater treatment plant's energy demand is also operated by Budapest Waterworks.

Thanks to EU and Hungarian grants, the multi-billion developments carried out on the municipal water utilities managed by the company in the conurbation

area, have also contributed to the protection of the environment and living waters.

In order to compensate for the freezing of water and sewage service tariffs in 2013 and the continuously declining water consumption, there is a growing emphasis on increasing the revenues from other activities.

In addition to the core activity, customer service provides an extra revenue source (data service, management, submeter services). The Company also earns an income by industrial water production and letting out some of its properties, such as offices, own holiday homes, and by providing technical services (cartography, geodesy), laboratory services (drinking and spa water testing) and through other activities as well.

As of 2013, the company has increased its involvement in international projects. Budapest Waterworks initially provided consulting and engineering services for international markets, but in recent years this scope has been expanded with an increasingly important water treatment plant construction and reconstruction activity.



## → Service area



Act CCIX of 2011 (Vksztv.), which laid new foundations for water utility services, resulted in significant changes in the Company's activity and service area.

In 2013, both the drinking water supply and wastewater service activities expanded by taking over the water utility services of further settlements.

As a result of the changes, the company now operates a longer than 5,900 km network of pipelines, out of which the drinking water network is longer than 5,300 km, the industrial water pipelines are 45 km long and the sewer network is nearly 590 km long. Budapest Waterworks operates six wastewater treatment plants as well.

## → Key figures

**150** 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

- **5363** 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



**15,5%**  
non-revenue water

**1868**

**Foundation**

**1904**

Construction  
of the Káposz-  
tásmegyer  
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



- 24,6** billion HUF  
→ **drinking water**
- 6,8** billion HUF  
→ **wastewater**
- 7,4** billion HUF  
→ **export /other**

**2004**

Appearance of the wastewater sector

**2012**

**Repurchase**

**2013**

BKSZTT take over

Residential water fee 2018

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

## → Owners

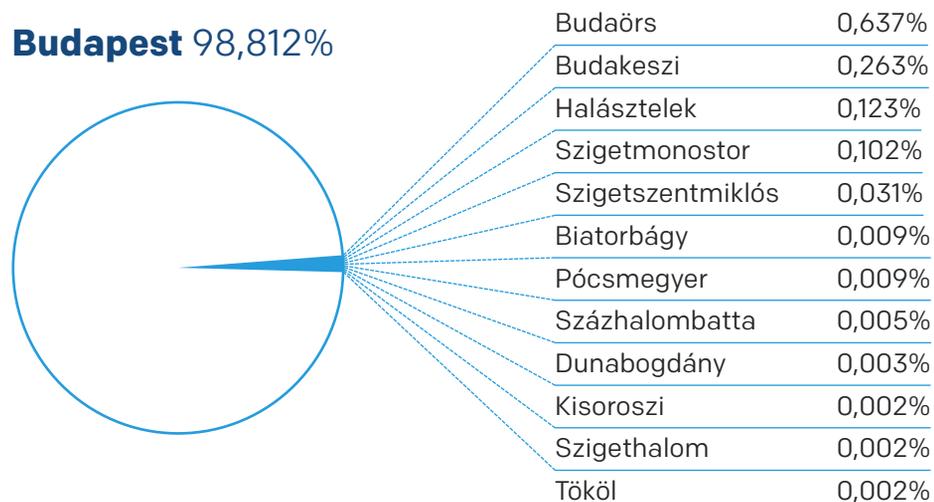
Budapest Waterworks operates as a joint-stock company. Since 2012, following the repurchase of the minority share package from foreign investors, and according to the modified ownership structure, the company is wholly (100%) owned by municipal shareholders.

As a result of Act CCIX of 2011 on the Water Utility Supply (Vksztv.), the changes in the company's scope of activities and service area significantly transformed the structure of the municipal shareholders

as well: the expansion of the service area also implicated the appearance of municipalities responsible for supply as shareholders, bringing the number of local authorities with ownership shares to thirteen by the end of 2015. There were no further changes in 2018.

The main shareholder of the company is the Municipality of Budapest with a 98.812 percent ownership.

### The ownership structure as of 31 December 2018:



## → The management

### Chairman of the Board of Directors

András Sármay

### Board of Directors

József Lajos Dámsa

Dr. Csaba Gyula Górn

Csaba Haranghy

Béla Zoltán Hegyeshalmi

János Rimóczi

Bálint Attila Theisz

### Chairman of the Supervisory Board

Dr. Dénes Kosztolányi

### Supervisory Board

János Danada

Sándor Katona

György Máté Kovács

Mrs. József 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

#### Operations Director

Géza Csörnyei

## → Our mission

Budapest Waterworks supplies high quality drinking water essential to life to more than 2 million consumers in Budapest and its conurbation area, as well as providing wastewater disposal and treatment services in order to protect the living waters.

**Our company's aim is to maintain our position as an outstanding domestic water utility provider through effective business management, sustainable development, and an approach that focuses on quality management, drinking water safety, environmental awareness and safe working practices, thus gaining the recognition of our stakeholders. We endeavour to further enhance the reputation of our company and the international recognition of our service portfolio.**



## → Social engagement

Being a responsible corporation, one of the determining elements of Budapest Waterworks' strategy, apart from being committed to delivering high-quality services and achieving our business objectives, is a commitment to social responsibility. Due to the nature of our activities, our company gives a high priority to the protection of the environment, sustainable development and supporting the vulnerable members of society.

## → Environmental protection

The objectives set out in Budapest Waterworks' Environmental Programme are defined by the ISO 14001:2015 Environmental Management System, a certification that covers the company's scope of activities in its entirety.

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 responsible activities. Environmental protection, drinking water production, water supply and wastewater treatment form an integral part in our scope of activities.

As part of our environmental protection activities, we paid particular attention to tasks related to the safety of the water resources, the elimination of illegal landfills in the areas of our water resources, the disposal of hazardous waste and the protection of air quality in 2018 as well. In order to protect the air quality, we have partially upgraded our fleet, acquired new EURO 6 emission standard cars, and put five purely electric vehicles in service that are primarily used by our armed security guards who serve on our water resources' sites.

With the expansion of Budapest Waterworks' scope of activities, the role of environmental protection increased significantly, thus, special attention is paid to the environmental aspects of the operation of the Budapest Central Wastewater Treatment Plant. The plant also obtained ISO 9001 and 14001 certifications. The operation of a small-scale hydroelectric power plant installed on the outflow channel is not only important in terms of reducing the CO<sub>2</sub> emissions and the ecological footprint of the site, but also plays a key role in green energy production. The company also pays special attention to the energy self-sufficiency of the plant, which thanks to the biogas production and technical optimization was 54.84% in 2018 in terms of the electricity demand and almost 72.19% taking into consideration

the total energy demand of the plant (electricity, thermal energy). 70 percent of the site's area is green, which makes it a liveable part of nature. Thanks to the enclosed operation area, which houses a biological treatment technology, the building's roof is a green roof covered with vegetation. The preservation of the site's green character is ensured by the continuous maintenance, tree planting and replanting.

## → Grants

As a responsible public service provider, the company's charitable support policies and objectives reflect our commitment to society in a way that meets both consumer and social expectations. Due to our company's ever-increasing burden in recent years, the principle that our grant policy must be well justifiable and transparently traceable has to be applied even more strategically and consistently due to the scarcity of resources available for grants and sponsorships.

The main directions of our charitable support policies have been consistently followed for years. The four cornerstones of our support policy are: responsibility for the environment, healthy lifestyle, commitment to help the disadvantaged and the residents living in our service area to spend their leisure time in orderly conditions.

Our sponsorship policy focuses primarily on sports and health protection, including water-related activities and charitable engagements. At the same time, we place great emphasis on providing professional knowledge, mainly through sponsoring professional events. For the future of the water utility profession, we attach outstanding importance to supporting the future generations' education in the field of water management and water production, the activities of professional organizations in those fields, and events dedicated to these purposes.

The main objective of the János Wein Foundation, established with the participation and support of Budapest Waterworks, is to promote and support the improvement of the Hungarian water sector and thus the quality of water supply in Hungary. The Foundation also intends to actively participate in perform-

ing public service tasks that are directly or indirectly related to water and water supply. This is how water rescue and prevention of water accidents became the focus of the Foundation's activities among other health protection and disease prevention goals. The company's financial support in 2018 aimed at laying the foundations of water rescue service on the Budapest section of the Danube, similarly to the practice at Lake Balaton that has been successful for years.

## → Missions

One of the main priorities of Budapest Waterworks' strategy is to provide assistance in areas left without healthy drinking water after catastrophes. Our company has been involved in the management of domestic disaster situations and emergency water supply services in cooperation with the professional disaster management organizations since 1986.

In 2009, in order to support this activity, our specialists – in cooperation with external partners – created a state-of-the-art modular mobile water purification and packaging unit that is pallet-mounted and equipped with sand-, ultra- and reverse osmosis filters and UV disinfecting unit. A saltwater module was added to the unit in 2014. Beyond the humanitarian aims, our cross-border relief efforts greatly contributed to increasing our company's international profile and recognition.

The civil protection and assistance tasks are performed by the HWAU (Hungarian Water Aid Unit), which was established and is operated by our company. In accordance with the unit's civil protection tasks, HWAU volunteers continued to provide packed drinking water at several major public and sporting events in 2018. In December 2018, HWAU participated in an international civil protection exercise in Italy organized by the European Union Civil Protection Mechanism.



# HWAU



# Business management of Budapest Waterworks in 2018

## → Revenues

**Total revenues of the Company amounted to 38,767 million HUF.** Among the export revenues, the company achieved an additional export revenue of 55 million HUF generated by the Tirana Project, in addition to the 235 million HUF generated by the Indonesia Project.

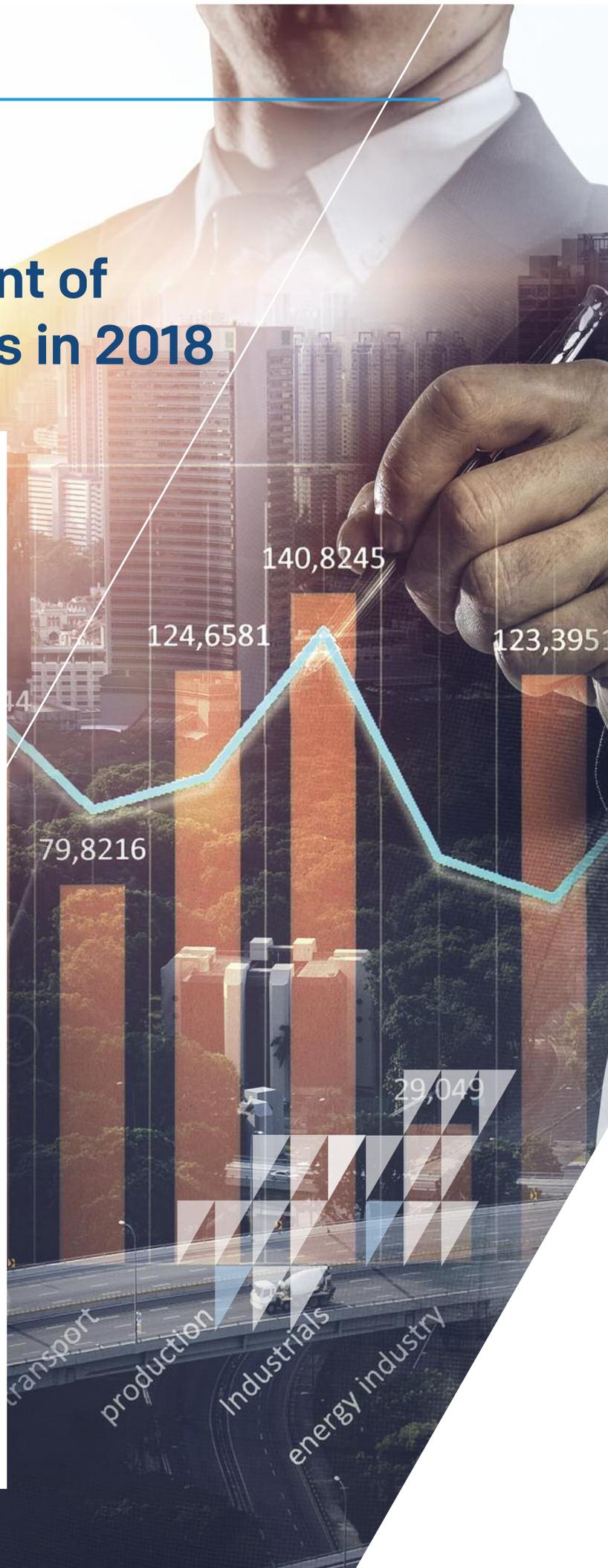
Revenues (M HUF)	2017	2018
Drinking water revenue	24,704	24,578
Sewerage service revenue	1,542	1,609
Wastewater treatment revenue	6,758	6,837
Industrial water	149	134
Other activities	2,759	2,861
Revenue from sewage disposal	12	14
Export	672	290
<b>Total net sales revenues</b>	<b>36,596</b>	<b>36,323</b>
Other revenues	7,168	1,208
Own performance value	1,269	1,236
<b>Total</b>	<b>45,033</b>	<b>38,767</b>

## → Profit or loss

The Company's earnings before interest and taxes were 694 million HUF. The Company's profit before tax in 2018 was 708 million HUF.

**The Company's profit after tax was 544 million HUF.**

Maintaining an effective and profitable operation has been increasingly difficult as the service charges have been constant for years, while our costs have risen significantly.



## → Costs, expenditures

The costs and expenditures decreased by 5 percent in total compared to 2017. While the company was forced to spend 74 million HUF more on electricity due to the unfavourable energy price and the fees for the services received were also increased, the material cost was lower than in the previous year.

The main item causing the increase in the services used is the cost of renting an office instead of operating a self-owned office building, which, however, is significantly less than the maintenance costs of our own building previously were.

The rise in the cost of other services is mainly due to the increase of the supervisory fee paid to Hungarian Energy and Public Utility Regulatory Authority.

Personnel expenditure rose by HUF 372 million. The basic salaries were increased by 5 percent in 2018. The salary increase, the increase in overtime and on-call availability allowances, project bonuses and the introduction of the substitution allowance resulted in a 404 million HUF increase in payroll costs, while the headcount was reduced by 52 persons. All of the 2.5% contribution saving went to increase salaries.

## → Financial situation

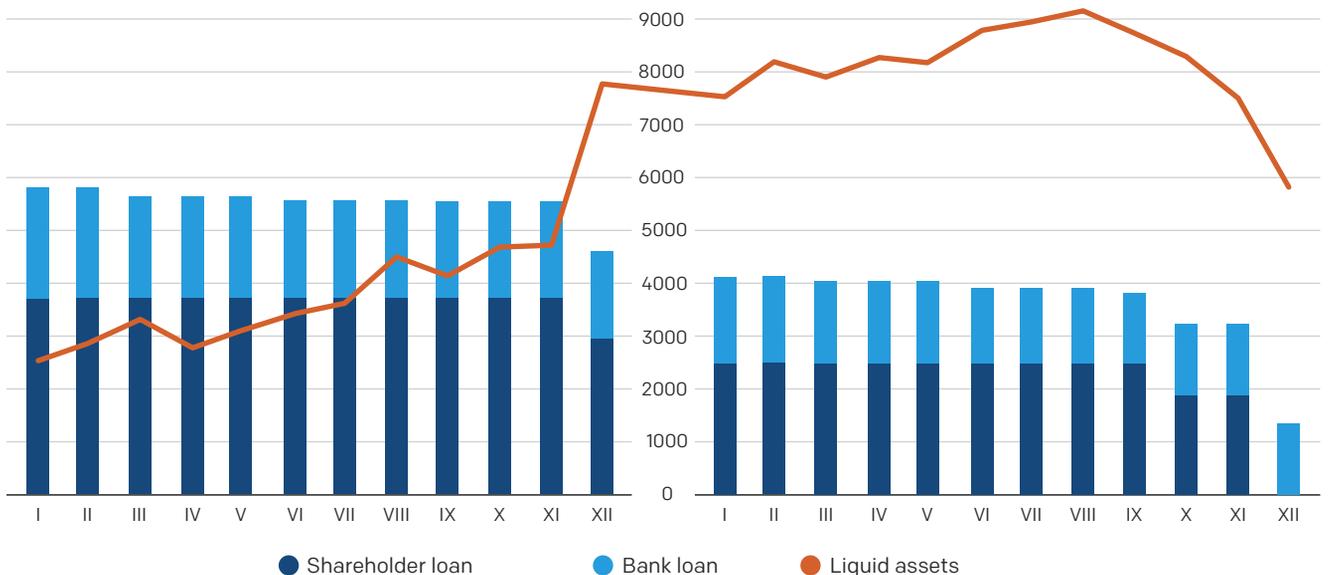
**As in previous years, the key financial objective of the Company's activities in 2018 was to continue maintaining a cost-effective operation.**

**The Company's financial situation and liquidity was stable, and it continued to fulfill its payment obligations in time.**

The replacement of foreign investors' shares was realized by purchasing own shares, made possible by a shareholder loan. One of the most significant results of 2018 was the repayment of the 2.95 billion HUF shareholder loan, as a result of which the company settled the debt in full. This also resulted in a decrease of the closing cash balance.

Cash and cash equivalents 2017 (M HUF)

Cash and cash equivalents 2018 (M HUF)



## → Equity

The composition of the equity was influenced by three main factors: the 544 million HUF increase in the after-tax profit of 2018, the decreasing effect on the retained earnings of the 7 million HUF additional capital contribution paid to subsidiaries and the fact that the company placed the 3,557 million HUF profit earned in 2017 into retained earnings.

Act CLXXXIX of 2011 on local governments in Hungary has brought about a significant change in the composition of equity. Pursuant to § 109 (6) of the Act, the company moved the 2,678 million HUF that was intended to cover the replenishment obligation for the assets under management at the end of 2018, from retained earnings to fixed reserve.

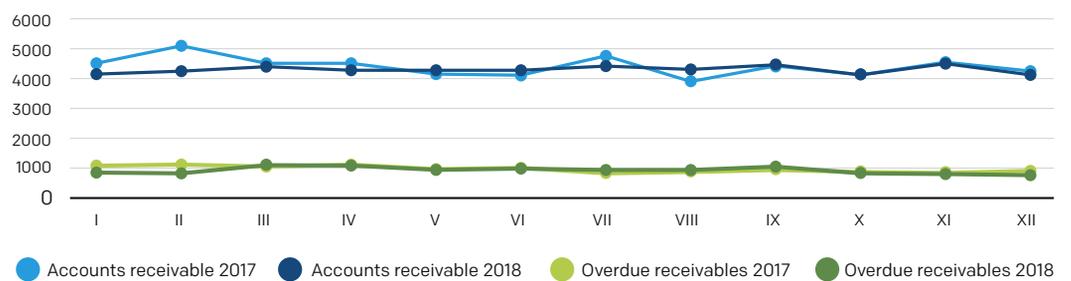
Equity (M HUF)	2016	2017	2018
<b>Equity</b>	<b>12 974</b>	<b>16 507</b>	<b>17 044</b>
Registered capital	7 978	7 978	7 978
TCapital reserve	0	0	0
Retained earnings	4,617	3,112	5,844
Fixed reserve	0	1,860	2,678
<b>Profit after tax</b>	<b>379</b>	<b>3,557</b>	<b>544</b>

There is no coverage available for the amounts of recognized impairment loss for assets realized through the Environment and Energy Operation Programme (KEOP) tenders and the increased depreciation cost resulting from the evaluation of the assets, as those costs were not included in the service fees.

The accumulated profit reserve modified in accordance with the above was 5,844 million HUF as of 31 December 2018.



### Accounts receivable – Overdue receivables (M HUF)



## → Accounts receivable

The gross value of accounts receivable decreased from 4,231 million HUF to 4,061 million HUF compared to 2017, the accumulated impairment loss was 36 million HUF.

The overdue receivables from our own invoiced clientele decreased from 982 million HUF in 2017 to 848 million HUF this year.

## → Profit and loss statement

	2016	2017	2018
	(M HUF)	(M HUF)	(M HUF)
<b>Revenues</b>			
Drinking water	23,623	24,704	24,578
Sewerage service revenue	1,372	1,542	1,609
Wastewater treatment revenue	6,767	6,758	6,837
Industrial water	179	149	134
Revenue from other activities	2,737	2,759	2,861
Revenue from the sewage disposal service	12	12	14
Export revenue	2,893	672	290
Total net sales revenues	37,583	36,596	36,323
Other revenues	1,265	7,168	1,208
Own work capitalized	1,129	1,269	1,236
<b>Total revenues</b>	<b>39,977</b>	<b>45,033</b>	<b>38,767</b>
<b>Expenditures</b>			
Material costs	2,720	2,700	2,542
Electricity costs	2,361	2,281	2,355
Material-type services used	8,580	8,951	9,111
Cost of goods sold (COGS), mediated services	2,912	625	280
Other services	1,471	1,432	1,467
Total material expenditure	18,044	15,989	15,755
Payroll costs	7,669	8,323	8,727
Personnel costs	1,028	928	976
Payroll contribution	2,298	2,077	1,997
Personnel expenditure	10,995	11,328	11,700
Depreciation	5,767	6,056	6,099
Other expenditures	4,564	6,713	4,519
<b>Total expenditures</b>	<b>39,370</b>	<b>40,086</b>	<b>38,073</b>
<b>Earnings before interest and taxes</b>	<b>607</b>	<b>4,947</b>	<b>694</b>
Revenue from financial operations	145	49	74
Financial expenditures	148	106	60
<b>Financial profit or loss</b>	<b>-3</b>	<b>-57</b>	<b>14</b>
<b>Profit or loss before tax</b>	<b>604</b>	<b>4,890</b>	<b>708</b>
<b>Tax liability</b>	<b>225</b>	<b>1 333</b>	<b>164</b>
<b>Profit after tax</b>	<b>379</b>	<b>3,557</b>	<b>544</b>

## → Balance sheet\*

	2016	2017	2018
	(M HUF)	(M HUF)	(M HUF)
<b>A. Fixed assets</b>	<b>114,190</b>	<b>114,230</b>	<b>114,719</b>
I. Intangible assets	671	764	773
II. Fixed assets	113,239	112,907	113,347
Technical equipment, machinery, vehicles	112,769	112,276	112,435
Investments	470	631	912
III. Financial fixed assets	280	559	599
<b>B. Current assets</b>	<b>7,497</b>	<b>12,495</b>	<b>10,555</b>
I. Inventories	544	616	666
II. Receivables	4,757	4,119	4,046
Receivables from trade and services (customers)	3,815	3,835	3,701
Other receivables	942	284	345
III. Securities	0	0	0
Bonds purchased for sale	0	0	0
Own shares, business shares, shares purchased for sale	0	0	0
IV. Liquid assets	2,196	7,760	5,843
Cash and checks	3	1	2
Bank deposits	2,193	7,759	5,841
<b>C. Prepayments and accrued income</b>	<b>3,358</b>	<b>2,721</b>	<b>2,787</b>
<b>TOTAL ASSETS</b>	<b>125,045</b>	<b>129,446</b>	<b>128,061</b>
<b>D. Equity</b>	<b>12,974</b>	<b>16,507</b>	<b>17,044</b>
I. Registered capital	7,978	7,978	7,978
II. Capital reserve	0	0	0
III. Retained earnings	4,617	3,112	5,844
IV. Fixed reserve	0	1,860	2,678
V. Balance sheet result	379	3,557	544
<b>E. Provisions</b>	<b>303</b>	<b>362</b>	<b>323</b>
<b>F. Liabilities</b>	<b>107,828</b>	<b>108,885</b>	<b>107,030</b>
I. Non-current liabilities	102,025	102,907	100,657
II. Current liabilities	5,803	5,978	6,373
Advance payments from customers	366	139	284
Liabilities (suppliers)	2,415	2,707	3,331
Short-term loans	375	375	375
Other current liabilities	2,647	2,757	2,383
<b>G. Accruals and deferred income</b>	<b>3,940</b>	<b>3,692</b>	<b>3,664</b>
<b>TOTAL LIABILITIES</b>	<b>125,045</b>	<b>129,446</b>	<b>128,061</b>

\* The balance sheet does not include the impacts of the realignment of balance sheet lines caused by 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 2018 which comprise the balance sheet as at December 31, 2018 (which shows an equal amount of total assets and total liabilities of HUF 128 061 millions and an after-tax profit for the year of HUF 544 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, 2018 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 (IEASBA 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 2018. 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.

In our opinion, the business report for the year 2018 of the Company is consistent with the financial statements for the year 2018 in all material respects, and the business report has been prepared in



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 1476 Budapest, Pf. 138.

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.
- 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



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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 2019

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 2018





## → Water sector

### → Water production capacities

The company produces the drinking water supply using bank-filtered wells located on Szentendre and Csepel Islands, on Margaret Island in Budapest and on the left and right banks of the Danube. The water produced on Csepel Island requires iron and manganese removal prior to letting the water into the network, while the quality of the water provided by the wells located in the other areas meets the requirements without treatment, thus, disinfection is carried out only to preserve the microbiological stability of the water. The drinking water supply of Százhalombatta, which was added to the service area in 2016 and Dunabogdány, which joined the service area in 2017, shall be provided by on-site independent bank-filtered water resources.

The water production and distribution facilities (with the exception of the wells in Dunabogdány) were operating with adequate capacity and operational availability throughout 2018 as well. In Dunabogdány, the company had to implement water rationing for the period between 22 August and 3 September 2018.

As of 31 December 2018, the nominal water production capacity was 1,011 thousand cubic meters, with an average capacity utilization ratio of 45 percent and a maximum utilization ratio of 54 percent.

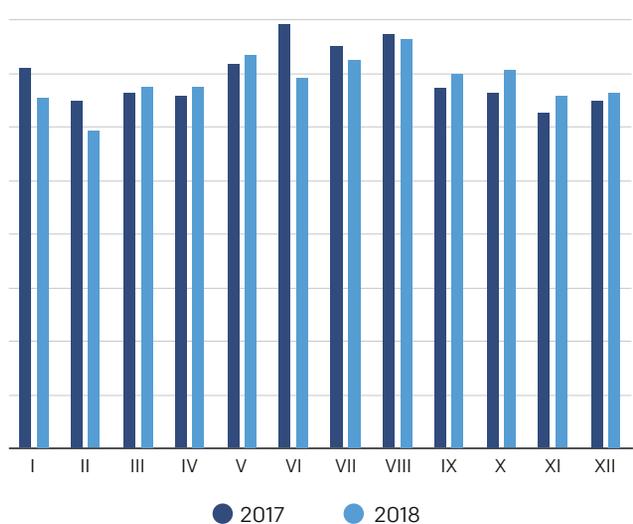
In terms of flooding, the water level of the Danube was favourable throughout the year, no protective measures were required. From August to mid-December the operation was carried out according to the low water operating status. During this period, water levels fell below the critically low level (<70 cm) for 4 days in August, 12 days in October, 15 days in November, and 2 days in December.

## → Drinking and industrial water production and sales

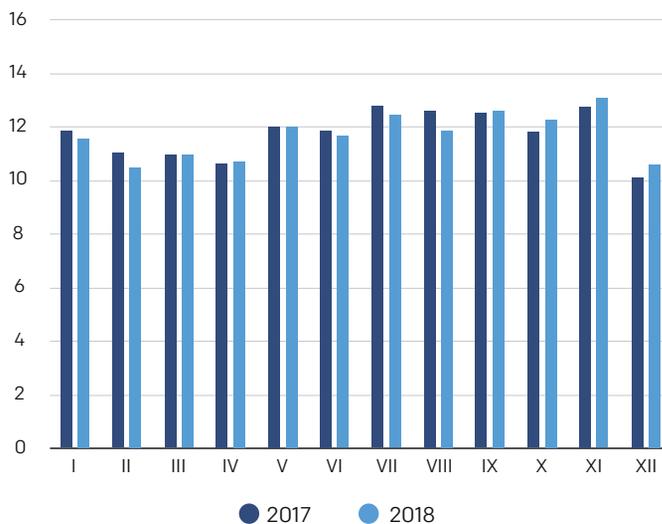
The 165,035 thousand cubic meters of drinking water produced in 2018 is 0.9 percent lower than in the previous year. The highest daily production reached 546 thousand cubic metres in May, which is 49 thousand cubic metres lower than the maximum daily production in the previous year. The average daily drinking water production of 452 thousand m<sup>3</sup> is 4 thousand cubic metres lower than in the previous year.

The residential drinking water consumption decreased by 0.2% in 2018, while industrial and non-residential water usage increased by 2 percent. The volume of bulk water transfer was 4.6 percent below the 2017 volume. The annual industrial water production was 895 thousand m<sup>3</sup>, which is 9.6 percent (95 thousand m<sup>3</sup>) below the amount produced in 2017. The total quantity sold was 885 thousand cubic meters.

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



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



## → Non-revenue water

The ratio of non-revenue water was 15.5 percent in 2018 which is 0.8 percent lower than in 2017. One of the reasons for this improvement is that in 2018, there were 912 pipe burst repairs, which is 1,015 fewer than in 2017. Compared to the previous year, there were

fewer failures connected to escape of water (distribution main, connections, fittings). Due to the mild winter in 2018, we did not have to calculate with the amount of escaped but not invoiced (as per legislation) water resulting from frozen meters.

Non-revenue water 2017–2018 (%)



## → Water quality

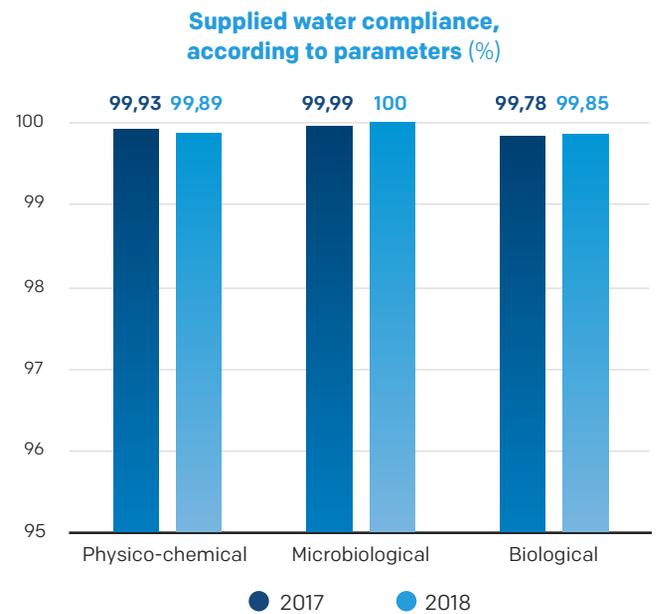
Budapest Waterworks carried out water services in strict compliance with Hungarian and EU standards regarding water quality in 2018 as well, ensuring adequate water quality for the population, industrial and non-residential users, and related companies. Drinking water quality control is carried out by the accredited laboratory of Budapest Waterworks as part of a drinking water sampling programme that covers the entire process of water production, transportation and supply service.

The Company monitors the quality of drinking water according to the sampling plan approved by the Public Health Authority (Government Office of the Capital City of Budapest, Policy Administration Services of Public Health), based on the parameters and requirements set out by the Government Decree No. 201 of 2001 (25 October) "on the quality standards and monitoring of drinking waters" and related legislation.

The monitoring process of water quality covers all the factors affecting the quality of the drinking water. In 2018, the Company conducted the analysis of 199,044 parameters in the course of 10,235 sampling. With regards to the supplied water (consumer points, reservoirs, pump houses, inlet points), 75,668 parameters of 3,361 samples were analyzed out of the total number of samples. Compliance based on the

parameter numbers was 99.9%, and total compliance based on the number of samples was 98.3%. As in previous years, both values were exceptionally high in 2018 as well.

**Around Budapest Waterworks' service area, the authority did not have to impose water consumption rationing due to water quality non-compliance in 2018.**



## → Wastewater sector

### → Wastewater treatment, sewerage services

Budapest Waterworks provides sewerage services to ten settlements in Budapest's conurbation area and operates five wastewater treatment plants.

In 2018, the sewer network operated by the Budapest Waterworks has been extended from 586 kilometers to 593 kilometers. The company operates an increased number of booster stations across the network: 148 large booster stations and 504 small booster stations belonging to the Tököl presskan system that are located in public areas and 1,025 small domestic pump stations.

In 2018, the plants received a total of 17,671 thousand cubic metres, on average 6,450 m<sup>3</sup> of wastewater per day, which means a 81% capacity utilization rate.

On Szentendre Island, the company disposed of a 183 thousand cubic metres of wastewater discharged from the networks of Pócsmegyer, Kisoroszi and Szigetmonostor, and a 192 thousand cubic metres of wastewater from the Dunabogdány network was disposed of and transferred to Danube Regional Waterworks in 2018.



Sewerage services, including accruals, generated 1,609 million HUF in sales revenue, a sum that consisted of a base charge of 13 million HUF, a consumption charge of 1,430 million HUF, a sewage collection charge of 70 million HUF and 96 million HUF of reduced water load fee.

#### Sewerage service (Mm<sup>3</sup>)

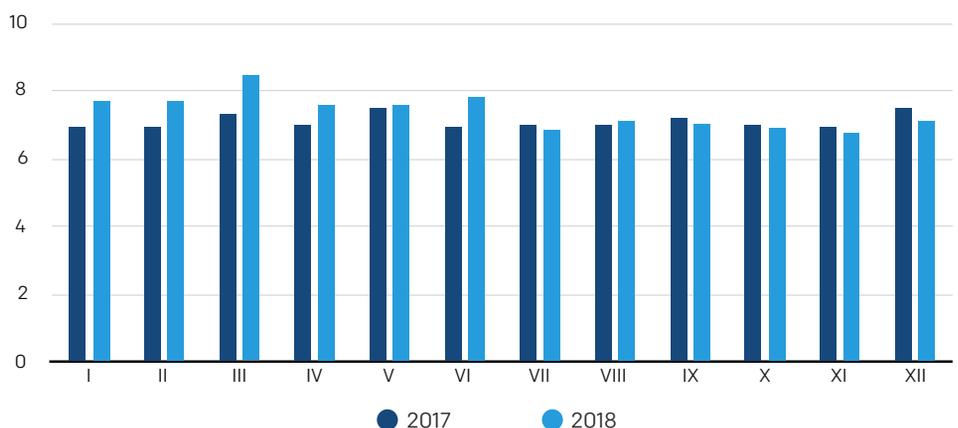


In the course of the operation of the Budapest Central Wastewater Treatment Plant (BKSZTT), the amount of treated wastewater invoiced in 2018 was 89.2 million cubic metres, which is 4.2 percent higher than in 2017. The main reason for the increase was the addition of the discharge stream of the wastewater from Budaörs.

Compared to the 350 thousand cubic metre daily capacity of the wastewater treatment plant, the average daily utilization rate of 250.9 thousand cubic meters resulted in an average capacity utilization rate of 71.7 %.

The Company's revenue from wastewater sector was 6,837 million HUF. Additional cost reimbursement for third phase cleaning in 2018 amounted to 78 million.

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



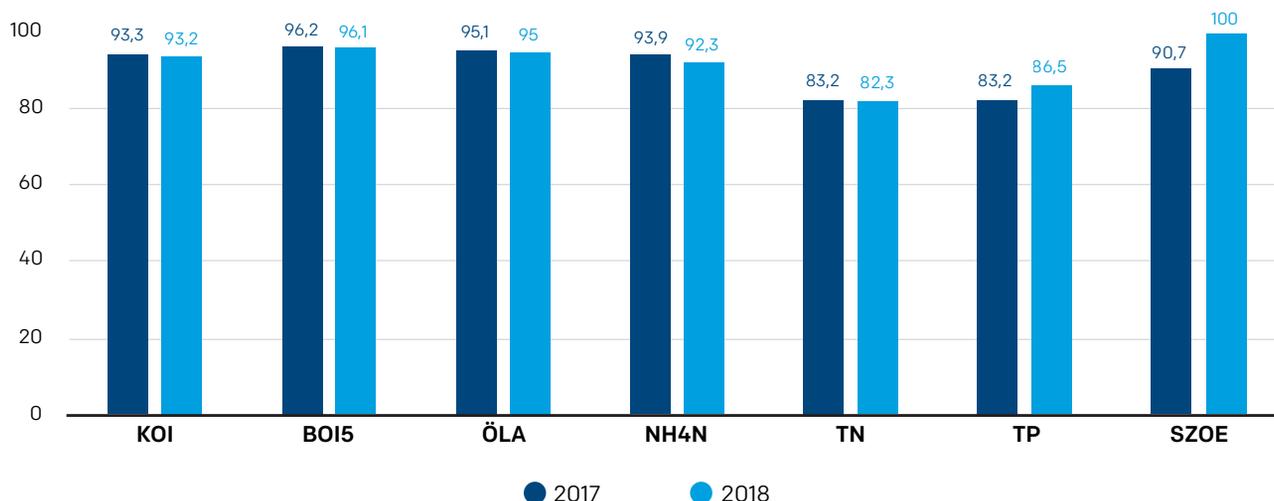
## → Wastewater quality

The quality standards for wastewater to be discharged into the public sewer system are established by the Ministry of Environmental Protection and Water Management (KvVM) Decree No. 28/2004 “on the emission limit values of water-pollutant substances and laying down the rules of application thereof” which also specifies the limit values for the discharge of pollutants and the specific rules for the application of such values. The limit values for the discharged product – treated wastewater – will be specified by the competent authority in the water operating permit issued for each wastewater treatment plant.

Since the beginning of 2018, the company’s own accredited wastewater laboratory has been measuring the pH, conductivity, COD, BOD5, TSS, NH4-N, TN, TP parameters as required by the self-monitoring plan as well carrying out technological tests on the wastewater treatment plant sites.

In 2018, the measured values were well within the specified limit range in all cases. Based on the results of the accredited measurements, the average pollutant removal efficiency is above 90 percent in most of the cases.

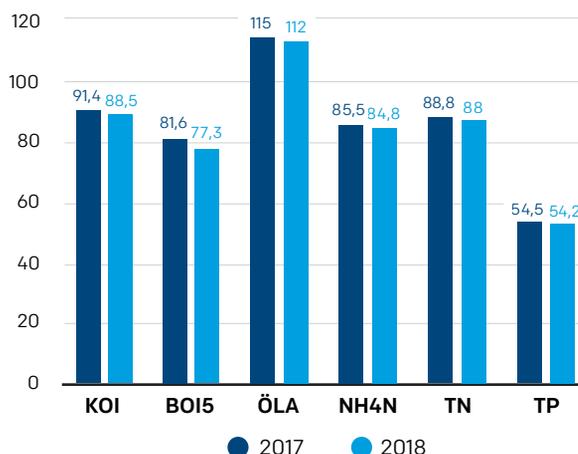
### Average pollutant removal efficiency (%)



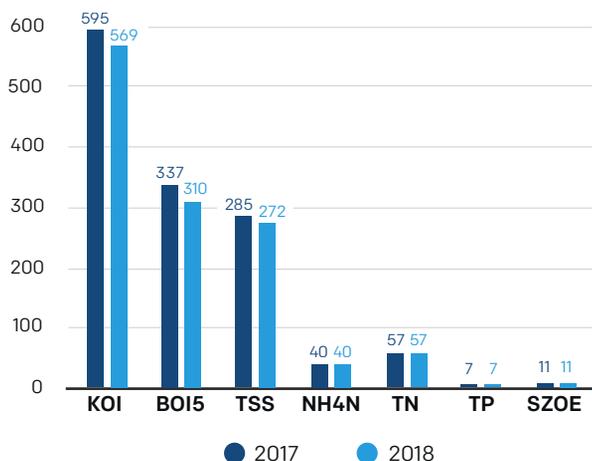
Based on the results of technological inspections, the total suspended solid load of influent wastewater exceeded all the parameters (in varied proportion) of the planned values that were specified in the Water Rights Implementation Permit.

The effluent water quality values were excellent in 2018 as well. The quality of the treated wastewater discharged into the Danube meets the strict European standard. The Plant, on top of complying with the discharge limit values of the parameters specified in the water operating permit, also meets the requirements of third phase cleaning set out by the municipality, according to which 70% of the total nitrogen (TN) and 80% of the total phosphorus (TP) must be removed from the raw wastewater.

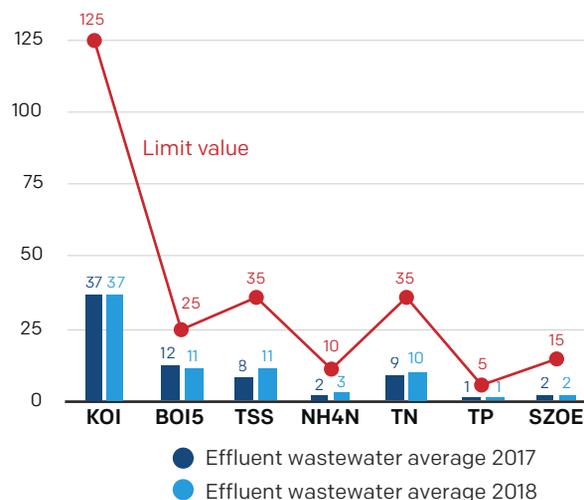
### Influent wastewater capacity utilization rate (%) Budapest Central WWTP



Influent wastewater quality – BCWWTP (mg/l)



Effluent wastewater quality – BCWWTP (mg/l)



## → Service charges

### Drinking water and sewerage service charges

Drinking water and wastewater service charges are determined by the Price Authority. As of 2012, pursuant to the provisions of the Water Utility Supply Act, the former municipality pricing was replaced by a central price regulation. The charges for drinking water supply, sewage disposal and treatment provided by a body governed by public law as well as the bulk water and sewerage transfer charges shall be determined by the minister responsible for water utility services in a ministerial decree, taking into account the proposal of the Hungarian Energy and Utility Regulatory Authority.

As there has been no change in fees since the Act came into force, the company was able to charge the same fees in 2018 as in the second half of 2013, which, taking into account the 10% decrease, approximately corresponds to the 2009 price level.

After taking over the service activities of the conurbation settlements, Budapest Waterworks charges the previously used water and wastewater service fees that are adjusted according to the decrease in public utility charges.

#### The most typical drinking water supply charges in the service area of the company: (Ft/m<sup>3</sup>)

	2016	2017	2018
Budapest residential water consumption charge (HUF/m <sup>3</sup> )	172,40	172,40	172,40
Industrial and non-residential drinking water consumption charge (Ft/m <sup>3</sup> )	198,90	198,90	198,90

In addition to the consumption charge, a base charge must also be paid by the consumers if their water consumption is above "0".

## → Wastewater treatment charges (Budapest Central WWTP)

Pursuant to the Wastewater Treatment Service Agreement that was concluded between the Municipality of Budapest, Budapest Sewage Works (FCSM), and Budapest Waterworks, FCSM is obligated to pay water treatment service fee to the operator of Budapest Central Wastewater Treatment Plant as of 1 June 2013.

The wastewater treatment service fee includes rental and property insurance fees, in addition to the wastewater treatment fee, the water load fee and the sludge recovery fee. The wastewater treatment fee is

a fee proportional to the amount treated (HUF/m<sup>3</sup>), which is invoiced by the company based on the amount of wastewater received by the plant. The water load fee shall be determined on the basis of the legislation in force, while the sludge recovery fee, rent and property insurance fees shall be invoiced on the basis of the costs actually incurred. Under the Act, the wastewater collection fee is also subject to the central price regulation, and as such falls within the jurisdiction of the minister responsible for the water utility services.

## → Investments

In 2018, the Company's total investments amounted to a total of 6,322 million HUF which is 1.7% higher than the previous year's amount. The total length of reconstructed pipelines in 2018 was 12 kilometres.

The resources available for investments were significantly affected by the fact that as a result of the 2017 modification of Water Utility Supply act, the amount of funds transferred to establish new connections has already decreased significantly in 2018, and a further decrease is expected. Also an effect of the 2017 amendment to the Act is that the number of parties required to pay the water utility development contribution has been significantly narrowed, thus seriously limiting the amount of water utility development contribution to be collected. This also results in a reduction of resources available for investments.

### Investment performance (M HUF)

	2017	2018
Water network	2,351	2,056
Water production	1,270	1,405
Support area	1,498	1,999
Other	330	381
Wastewater	448	314
Projects	1	0
<b>Investments (own resources)</b>	<b>5,898</b>	<b>6,155</b>
New connections, investments implemented with help of grants	320	167
<b>Investment performance in total</b>	<b>6,218</b>	<b>6,322</b>

## → Maintenance, operation

In 2018, the Company spent 462 million HUF less on maintenance and operation than in the previous year. In comparison to 2017, this represented a decrease of 226 million HUF in the case of the water network, 66 million HUF in the case of water production, 57 million HUF in the case of the wastewater sector and 113 million HUF in the support area.

### Maintenance, operation (M HUF)

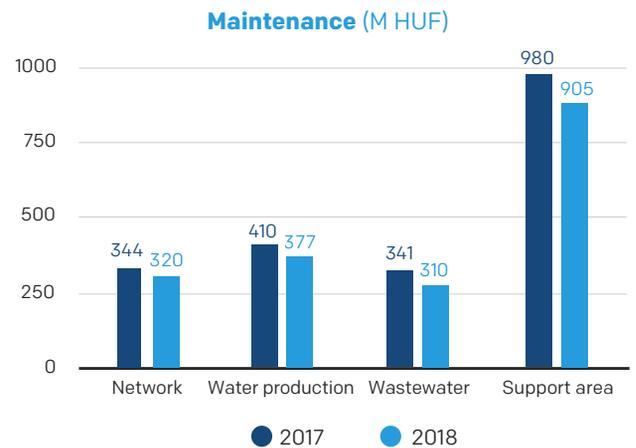
	2017	2018
<b>Troubleshooting</b>	<b>2,445</b>	<b>2,103</b>
Water network	1,751	1,542
Water production	171	120
Wastewater	311	267
Support area	212	174
<b>Maintenance</b>	<b>2,075</b>	<b>1,912</b>
Water network	344	320
Water production	410	377
Wastewater	341	310
Support area	980	905
<b>Operation</b>	<b>1,136</b>	<b>1,179</b>
Water network	441	448
Water production	477	495
Wastewater	218	236
<b>TOTAL</b>	<b>5,656</b>	<b>5,194</b>

## → Maintenance

In 2018, the costs of preventive, scheduled maintenance exceeded that of the previous year by 7.9 %. While the cost of maintaining the fittings has increased, the company spent less on maintaining the connection pipes. The water production sector spent 8% less on maintenance as a result of a decrease in the volume of maintenance works in comparison to last year.

Within the wastewater sector, a crucial portion of the maintenance costs of the conurbation settlements was spent on the maintenance of large booster stations and wastewater treatment plants. The maintenance of the site buildings, the wastewater network and the presskan booster stations of Tököl represented a smaller proportion within the maintenance costs. In the area of Budapest Central WWTP, more than one third of the maintenance costs were incurred in the biogas plant, but the maintenance costs of the water and sludge lines and electrical equipment as well as the gray and green surfaces were also significant.

The 7.7 percent decrease in the maintenance costs of support area was due partly to fewer external repair works of the vehicle fleet, and partly to the lack of capacity in the meter replacement operations, while in the property management area only the statutory minimum has been implemented due to lack of capacity and the relocation of the headquarters.



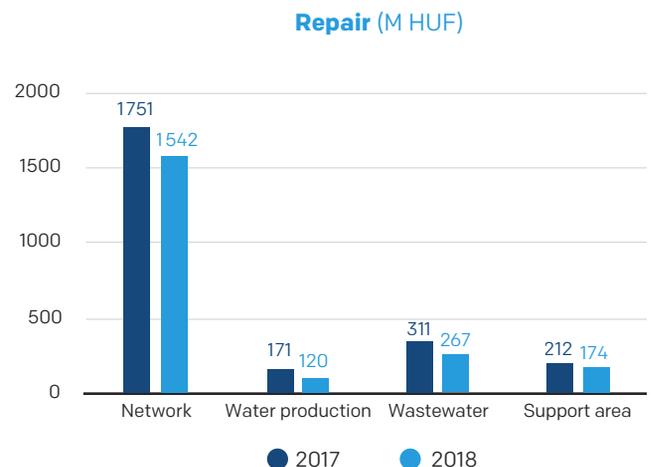
## → Repair

Number of network failures declined by a total of 11.8% compared to 2017. The number of pipe bursts was 10.1, the connection failures 15.1, and fitting failures 3 percent below the 2017 rates. As a result, the repair costs of the network operation were 209 million HUF lower than in 2017.

The number of failures that occurred in the water production facilities decreased by 13.6% compared to last year, and the amount spent on repair works decreased by 51 million HUF in 2018.

In the wastewater sector, repair costs occurred in conurbation area decreased by 17.4 percent. The repair works carried out on the presskan system in Tököl, the sewer network and the large booster stations accounted for the largest proportion of the 119 million HUF total expenditure whereas the repair costs of the wastewater treatment plants contributed in a smaller volume and the building repairs represented a marginal volume in the total cost.

In the case of the Budapest Central WWTP most of the repair works were carried out on the water line but the costs of sludge line repairs and biogas utilization was also significant in 2018. Costs incurred were 11.6 percent below those of last year.



## → Additional services

Partly for satisfying customer needs and utilizing the accumulated professional experience, and partly to compensate for the revenue loss caused by the ever decreasing water consumption, the company laid the foundations of the commercial and marketing activities at the end of 2009.

The WaterPlus (Vízplusz) brand that was created by Budapest Waterworks in 2010 is targeted mainly at the business segment. It was launched as an umbrella brand to encompass market-based business and technical services. Its most popular element is the WaterPlus (Vízplusz) card programme. Thanks to our partners, 23 discount offers were available with the free discount card (offering a number of reduced price products and services) in 2018, and the number of cardholders almost reached 79 thousand. The number of card users increased by 20 percent compared to the previous year.

In March 2014, we launched our “Waterproof protection” insurance service, which offers a solution to the customers of the company to reduce the risks resulting from water leakages. As of 31 December 2018, the number of insured customers exceeded six thousand.

## → Supported projects

Funds from the European Union and other sources, which have been applied for and won with the help of the company’s specialists, play an important role in the innovation activities and international involvement of Budapest Waterworks. Thanks to these opportunities, several key projects were realized in 2018.

The AquaNES Project, in cooperation with the József Eötvös College, is a part of the Horizon 2020 research and innovation programme, which focuses on innovations based on the optimization of water management and natural and artificial water treatment processes and technologies.

Also in the framework of the Horizon 2020 programme, the company is participating in an international consortium project called Smart.Met, which fits well with the endeavour to introduce and apply technologies that will ensure long-term efficiency, in this particular case, in the field of IT-backed remote meter reading.

The placement of network water dispensers started in 2013, within the framework of leasing arrangements. By the end of 2018, revenues from this activity increased by approximately 12 percent compared to the previous year and exceeded 15.8 million HUF. The number of leased dispenser units increased by 11 percent compared to the previous year.

In 2018, several complex technical projects were carried out for external clients. Out of these projects the contract with Ecser Utility stands out, according to which the company operates the drinking water network of the industrial park.

Following a successful tender in 2018, Budapest Waterworks has also been commissioned to carry out the parallel-drilling reconstruction work of the well located on Wienerberger Plc’s site in Solymár.

As a result of the cooperation agreement with Városliget Plc, the company carried out the specialist tasks related to the implementation of a uniform and optimal operation of the City Park pond and its irrigation system, as well as the tasks related to the hydraulic modelling of the City Park.

The aim of the SmartChlor project lead by Inno-Water Plc. is to develop a chlorination process that guarantees the safety of drinking water supply without affecting the enjoyment value of the drinking water.

Budapest Waterworks is one of the members of a five-member consortium that also includes the Ecological Research Centre of the Hungarian Academy of Sciences, Budapest University of Technology and Economics, the University of Miskolc and the National Institute of Public Health, and as such, participates in a three-year project under the National Excellence Programme entitled “Clean drinking water: A multidisciplinary evaluation of safe supply from the source to the consumers” through activities such as water sampling, hydraulic testing, and constructing an integrated model system. The project focuses on addressing already existing, newly emerging and expected risks that might affect the security of the water supply.

The upgrade of the MIRTUSZ core module, designed to support the planning and management of water utility operation processes with intelligent IT solutions, that commenced in 2018 will be implemented with the support of a grant awarded by the National Office for Research, Development and Innovation within the framework of a consortium formed by Geometria Kft. and Budapest Waterworks.

The energy efficiency upgrade of the sports facilities belonging to the real estate portfolio of Budapest Waterworks was implemented with the support of the Cohesion Fund of the European Union, through the modernization of the building components and building engineering and the improvement of the thermal technology parameters.

The preparation of the energy efficiency upgrade of the Csepel plant engineering office and the Budafok pump house commenced with the support of the KEHOP-5.2.8-17-2018-00011 grant. The modernization of the Csepel office building components and engineering, as well as the installation of a small solar power plant in Csepel and the Budafok pump house, significantly contribute to the company's energy efficiency efforts.

Using electric cars is an important part of the environmentally responsible operation of Budapest Waterworks. In 2018, the company expanded its electric car fleet by purchasing 10 electrical vehicles for their own use and 5 vehicles for their subsidiary, FTSZV Kft., with the support of the Ministry for National Economy.



## → International services

Taking advantage of the technical, operational, and service experiences accumulated over the course of nearly one and a half century, and the support of well-trained professionals, Budapest Waterworks can successfully participate in international projects that aim at modernizing the drinking and wastewater service system of certain areas, either within the framework of intergovernmental cooperation or through independent tenders.

Within the framework of co-operations, the company offers services, technological and management

solutions for its partners that can help them raise their standard of service and water supply security to a higher level, while also increasing the operational efficiency, reduce losses, and improve customer satisfaction.

Following the successful completion of the reconstruction of two water treatment facilities in Colombo, the capital of Sri Lanka in 2017, the implementation of the capacity and treatment efficiency upgrade on both sites in accordance with the contract has been finished, along with the development

of a new sludge treatment technology introduced by Budapest Waterworks. The one-year technical support and warranty period for the projects commenced following the technical handover.

ArthaEnviromata Jo Joint Operation – a consortium lead by Budapest Waterworks – has been commissioned to construct water treatment units for 36 municipalities located across four Indonesian islands (Sumatra, Java, Sulawesi and Flores). The project progressed in 2018 according to schedule.

Based on an agreement between Hungary and Laos, an important water treatment project was completed in the capital city of Vientiane, the focus of which was the development of a sewerage system and the construction of a wastewater treatment plant. The wastewater treatment plant will be designed by a subsidiary of Budapest Waterworks, Magyar Víz Mérnökszolgálati Kft (Hungarian Water Engineering Ltd).

A subsidiary of our company, Uráli Vízügyi Rt. (Ural Water Company) has played a significant role in the construction and commissioning of the water treatment plant in the city of Revda, which is expected to be completed in the second half of 2019.

Despite strong German competition, Duna-Kút Kft., a subsidiary of Budapest Waterworks, has won Belgrade Water Supply and Sewerage Company's tender in 2018 to upgrade a horizontal filtering well.

In the framework of a Ministry of Foreign Affairs tender, Budapest Waterworks was awarded the opportunity to prepare the technical assessment of the drinking water supply network of the city of Vlora, Albania.

The company has conducted a technical survey of Cienfuegos and Santa Clara, Cuba, to prepare an investment feasibility plan that meets the requirements of the International Investment Bank or potential financing institutions, and thereby develop the drinking water supply and sewerage services in these cities with the support of international funding.

The mobile water treatment module, which is now registered in the Civil Protection Mechanism of the European Union and the Hungarian Water Aid Unit, which was founded and is operated by Budapest Waterworks, continued their humanitarian activities both in Hungary and abroad, further expanding their network of connections within the field of international disaster relief.



## → Customer service

The customer service activities of Budapest Waterworks are certified in accordance with the MSZ EN ISO 9001: 2008 standard, with the SAP's IS-U module providing the IT background for these activities. This module also manages the water meter registry, the organization of meter replacements, meter reading and invoicing, account management and debt recovery, as well as customer relations.

In 2018, further new features were added to the online customer service site which was upgraded in 2017, and which, in addition to providing many convenience services for administrative tasks, also enables electronic invoice generation, presentation and online bill payment. As a result to the company's marketing campaign, the number of registered users increased by nearly 15,000 over the course of the year.



Budapest Waterworks pays special attention to providing regular and detailed updates for its customers, as well as to the changes and developments that can increase customer satisfaction. To this end, the company introduced the automated customer satisfaction feedback feature of the telephone customer service in 2016, which enables customers to evaluate the service they received and the preparedness and attitude of the administrator upon finishing the conversation. In 2018, the users of this channel gave customer support a rating of 8.91 out of 9.

The customer satisfaction survey system – which is also available on tablets at the company’s personal customer service offices – was unified in 2018 for all the water utility companies at the initiative of the Hungarian Energy and Public Utility Regulatory Authority. According to customer satisfaction surveys conducted via telephone and in person among six types of clients, despite the changes in the company’s life and the regulatory environment (the relocation of our headquarters and the introduction of the GDPR), the high level of customer service experienced in previous years has been maintained.

Budapest Waterworks received a very good rating in a wide range of areas, including quality of service and customer service preparedness: taking into account all of the aspects, the overall rating was 8.5 on a scale of ten, and in terms of the personal customer service offices, the central office received an 8.47 and the branch office in Szigetszentmiklós an 8.91 satisfaction score.

The vizmuvek.hu website is available in a mobile-friendly version as well, moreover, customers can obtain up-to-date information on maintenance, news or administration through their smartphones.

In addition to the administration through telephone and the online platform, there are still many people visiting our customer service offices in person.

In 2018, the company moved its headquarters and at the same time, its central customer service office to a new location, where it also provides customer service to the FTSZV Kft (Municipal cleaning and environmental services). The results of the customer satisfaction survey showed that the waiting times in customer service office and the customer identification process continued to improve in comparison to previous years.

In addition, the company is present at the common customer service points in Budapest that serve as a home for the customer service of several other service providers. In the service areas outside Budapest, several new customer service branch offices and customer centres have been opened in the past few years, for the convenience of the customers, at familiar customer service centres previously established by local governments in a number of cities.

The “one-stop” customer service handled just over one million customer inquiries in 2018 through the various platforms of customer service: almost 300 thousand over the phone, nearly 150 thousand in-person, over 70 thousand by post and 50 thousand by email, as well as the nearly 270 thousand visits to the online customer service platform.

Launched in 2015, the Otthon + (Home +) application provides customers with the option of a simple, fast, and location-free administration. The app is available on Android and IOS smartphones.

In the capital and its conurbation area, the company introduced a unified reading system that resulted in a more efficient operation, significant cost savings and an increased transparency of the process for the customers. Thanks to the introduction of a new type of handheld computer, the meter reading has been modernized. As a result of its development, including the associated operating system, it has been possible to manage the entire PDA device pool remotely and ensure continuous data flow between the SAP system and the meter readers’ PDAs.

In 2018, the Waterworks of Budapest organized a professional day for the condominium representatives with nearly 100 participants. Throughout the event, representatives of larger housing associations and condominiums were able to attend lectures on useful topics such as remote reading or the Home+ service and opportunities for collaboration in meter reading.

Pursuant to the practice of previous years, an intense frost-awareness campaign was conducted in 2018 as well, as a result of which the number of frozen main water meters was reduced to about one tenth. As part of the campaign, frost warnings were sent to nearly 25,000 customers by text message, nearly 10,000 customers by email and the company also placed a flyer in an awareness-raising envelope in the mailboxes of approximately 168,000 households.

## → Human resources

### → Headcount

In 2017, the average annual statistical headcount was 1,670 employees in total, out of which the number of full-time employees was 1,625 people. The decline in staff numbers compared to the previous year was caused by the general labour shortage and the deterioration of the company's competitive position in the labour market.

### → Payroll management

In 2018, the company increased the basic salaries by 5 percent in accordance with the agreement reached with the workplace representation of the employees. The increase was funded partly from the company's own resources and partly from the savings accumulated due to the reduction of allowances. In order to employ and retain the workforce, Budapest Waterworks had to compete with the significantly increased daily rates of the construction industry as well. To this effect, our company prioritizes performance-based remuneration, thus has taken additional steps beyond raising the base salaries: Introducing a 30 percent overtime allowance, raising the on-call availability allowances, introducing a project bonus system, paying a substitution allowance.

### → Education, training

The company spent 56.3 million HUF on training in 2018, which enabled employees to attend nearly 11 thousand training sessions.

As in the previous years, the trainings that helped to ensure that the company stayed in compliance with its legal obligations were prioritized in 2018 as well, which enabled employees to keep track of the legislative changes and to gain the professional knowledge necessary to fulfil their responsibilities. At the same time, an increasing number of employees were able to participate in programmes aimed at professional, integration and skills development and to facilitate cooperation.

In the spring of 2017, the company also launched a series of professional and skills development trainings held by a team of in-house trainers and educators that enjoyed a high attendance rate.

As a result of the introduction of individual training plans and the credit system, the structure of the educational programme and thus the attendance rate has improved significantly compared to previous years. Courses represented the highest cost, while the highest participation rates were recorded at the in-house trainings.





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