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ANNUAL REPORT



BUDAPEST
WATERWORKS



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General Manager's Foreword

2012 can be truly called the year of changes, the year of transformation. However, it soon became apparent that the series of transformations did not end at the end of the year.

While the Company was still not able to remain fully resistant to the effect of the global economic crises, in terms of organization and for diversity and complexity of tasks the most intense activity of the Company in 2012 was the work generated by the execution of the Act CCIX of 2011 on Public Water Utility Services having an impact on all aspects of our operation. In order to be in full compliance with the content and set deadlines of the provisions of the Water Utility Act introduced in December 2011, the team comprised of experts of the Waterworks of Budapest started the work already at the beginning of 2012. Thanks to that, all the tasks stipulated by the Act were completed or are in progress and meet the deadline. Thus, discussion on the transfer of assets was opened up with the Municipality of Budapest. Preparation of the complete documentation needed for the accreditation was continued with intense efforts which brought the modification of several regulations along.

The agreement putting an end on the lengthy negotiations and concluded between the majority shareholder of the Waterworks of Budapest, the Municipality of Budapest and the foreign professional investors also brought considerable changes. The Termination and Settlement Agreement signed in July 2012 significantly

changed the ownership structure. as a result of which the Company was transferred into exclusive municipal possession, now the Company owns the majority of the shares, thus having a 20,94 % of the shares of the Company, which was earlier managed by the professional investors,. From many aspects it had a positive influence on the operations of the Company, on one hand being a municipal company national and community subsidies became available, with a help of which service quality can be further improved and sources open up which can be allocated on reconstruction works. On the other hand, the operation of the Company in the long term will be impacted by the loan repayment obligations; however the commitment to pay several millions of management fee on a yearly basis will not lay further burdens on the company.

The main objective of the Company remained the same, along with efficient and cost effective operations comprehensive, safe and good quality of water supply shall be preserved. Although the drinking water sales and revenues reached good results, cost optimization and cost saving operation still stayed in focus. Series of deliberate, well-considered actions provoked the possible savings of costs; of course remaining in compliance with the service quality defined by the regulations and in a way that the service



level accustomed and expected by our customers together with the water safety is preserved. During cost cutting we focused primarily on areas which had no direct impact on water supply, such as organization changes, revision of managerial levels, postponed renewal and replacement of office IT tools or expenses related to communication and CSR activities as well as fringe benefits. Thanks to that, along with the realization of the cost cutting measures we were able to increase our revenues by HUF 683 million, despite the fact that at the 2012 tariff setting in harmony with the new legal provisions the rate of tariff increase was altogether 2,5 % net. Needless to say, that the Company also took serious efforts to keep its workers.

More emphasis than earlier is paid to increase revenues realized from other activities beyond the core activity. Among the commercial development tasks in addition to the development of products and services being an alternative source of income besides the already existing ones, the importance to take part in international projects grew. Thanks to its technical and

operational experiences gained during many decades as well as its well trained and highly qualified professionals the Waterworks of Budapest can successfully participate in international programs where either in the framework of inter-governmental agreement or individual tenders the aim of the tender is to refurbish the drinking water supply system of a given area such as the reconstruction of the water treatment plants in Sri Lanka, where considerable progress was achieved in 2012.

Thanks to our efforts, the financial position of the Company remained stable, its liquidity throughout the year showed good development, our payment obligations were satisfied on time. I also consider important that the trust and satisfaction shown by our customers towards us did not change. According to the results of the customer satisfaction survey conducted at the end of the year, we successfully preserved the roughly 85 % satisfaction rate deemed to be a very high result. Again, at the third time we won the Business Superbrand Award which proves that the balance between strict financial management, preservation of service standards, customer care and corporate social responsibility could be held.

Csaba Haranghy
General Manager



Shareholders

Waterworks of Budapest has been a company limited by shares since 1 January 1994. Until 29 June 2012, there were two main shareholders: the Budapest City Council (73.6 percent) and Hungáriavíz Zrt (23.65 percent) owned by SUEZ Environnement S.A. and RWE Aqua GmbH. Smaller stockholders were Suez Environnement (0.87 percent) and RWE AQUA GmbH (0.84 percent) and a few local governments in the conurbation area (1.04 percent).

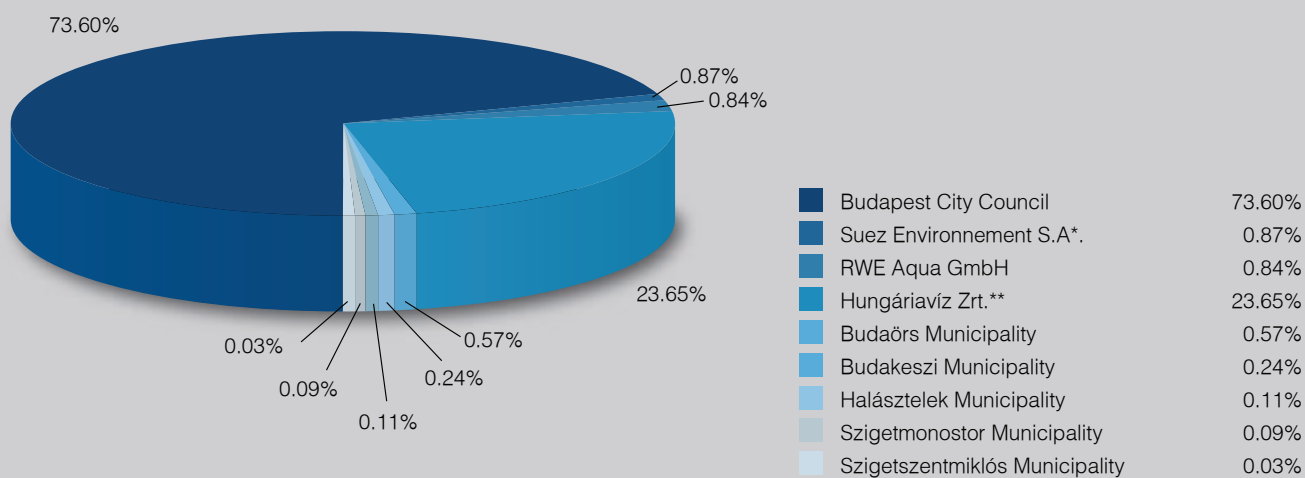
At the end of May 2012, the Budapest City Assembly approved the purchase of the minority stake of the Waterworks of Budapest, as well as the termination of the Syndicate and Management Agreement concluded in 1997, thus, in accordance with the Termination and Settlement Agreement signed in June 2012, the Company has practically become a property owned 100 percent by local governments.

In the course of 2012, following the signature of the Termination and Settlement Agreement concluded with the foreign investors, the ownership structure changed. The ownership rate of Budapest City Council increased to 78.02%, the Waterworks of Budapest, by purchasing own shares, possesses 20.94% of the shares, meanwhile the shares of five local governments in the conurbation area remained unchanged (1.04%)





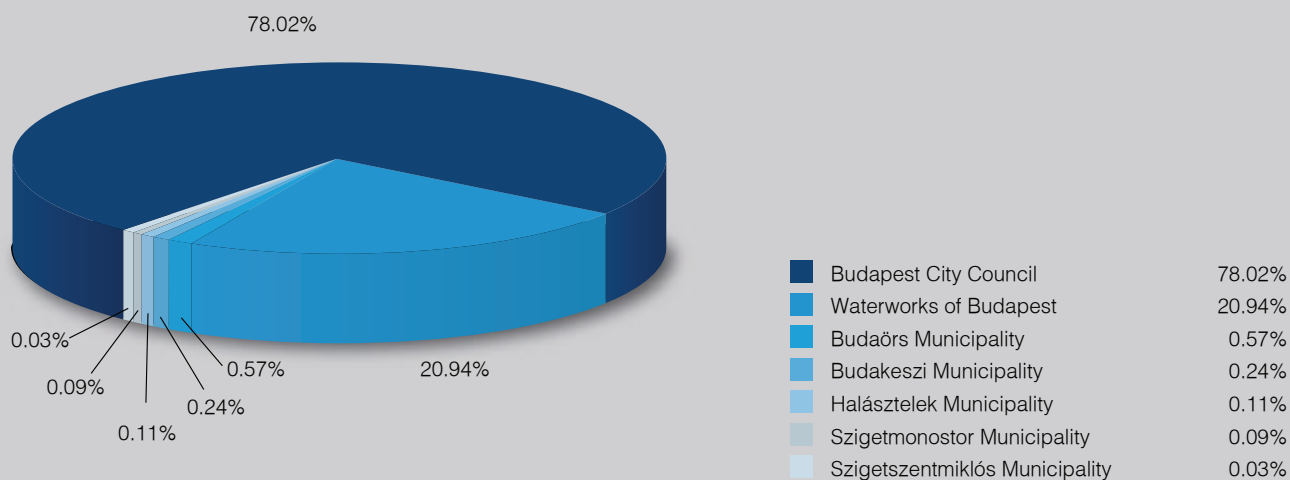
The ownership structure of the Waterworks of Budapest until 29 June 2012



* Until September 2003 Ondeo Services.

** Joint organisation of Suez Environnement S.A. and RWE Aqua GmbH.

With effect of 29 June 2012, the ownership structure of the Waterworks of Budapest is as follows:





Chairman of the Board of Directors

Fabrice Rossignol (until 29 June 2012)
András Sármay (from 29 June 2012)

Chairman of the Supervisory Board

Dr. Tamás Derce

Board of Directors

Dr. Arndt Brandenburg (until 29 June 2012)
Zoltán Csorba (until 29 June 2012)
Endre Gelencsér
Csaba Haranghy
János Mészáros (until 29 June 2012)
Gábor Pelcz
István Vida

Supervisory Board

Gábor Borsos (until 30 May 2012)
Dr. László Fogarasi (until 8 February 2012)
Erzsébet Gottschall (until 17 December 2012)
György Hermann
Ákos Hanzély (from 30 May 2012)
Dr. Zsolt Hrutka
Tamás Jászay (until 29 June 2012)
Sándor Katona (from 18 December 2012)
Dr. Tibor Kékesi
Sándorné Kelemen (until 29 December 2012)
Péter Király
Dr. Dezső Kosztolányi
Pál Losonczy (from 8 February 2012)
József Raduly (from 29 June 2012)
Józsefné Stiffel (from 30 December 2012)
Dr. Ferenc Szóke (until 29 June 2012)





General Manager

Ferenc Keszler (until 29 June 2012)
Csaba Haranghy (from 30 June 2012)

Deputy General Managers

Deputy General Manager for Operations
and Technical Affairs

François Pyrek (until 30 June 2012)

Deputy General Manager for Finance

Steffen Rohr (until 30 June 2012)
Ferenc Keszler (from 30 June 2012)

Directors

Director of Human Resources

Edit Diós

Director of IT and BPR Management

Róbert Fritsch

Director of Logistics

Tamás Miklós Bencze (until 1 October 2012)

Director of Technical Development and Investment

Imre Pálfi

Director of International Business Development

Tamás Miklós Bencze (from 1 October 2012)

Director of Finance and Controlling

Dr. Piroska Horváth

Director of Customer Services


Péter Bognár

Director of Operations

Géza Csörnyei

Auditor

PricewaterhouseCoopers Kft.



P

roduction, sales

Currently, the Waterworks of Budapest provides potable water and industrial water services in the capital whilst also transferring potable water in bulk to the conurbation area. In order to compensate for the economic recession of recent years and the continuously decreasing water consumption, the increase of revenues from other activities receive greater emphasis.

In addition to core activity, extra revenue was generated from customer services (data service, administrations, sub-meter services). The Company profited from letting out certain properties, such as the workers' hostel and its own resort buildings, as well as from franchise activities, technical services (cartography and geodesy) and laboratory services (examination of potable water and bathwater).

Production capacities

In respect of production, the water level of the Danube was favourable in 2012, all year. There was no need for flood control measures and water level was in no case critically low. Potable water production and distribution facilities always had sufficient operating capacity as well as adequate stand-by capacity available. The Company was able to completely satisfy water demands throughout the year.

Nominal water production capacity on 31 December 2012 totalled 967 thousand m³/day. Average capacity utilisation compared to nominal capacity totalled 47.13 percent, with a peak utilisation level reaching 63.64 percent.

Average daily production of potable water in 2012 totalled 455.8 thousand m³, which is by 2.4 thousand m³ more than that of the previous year.

Potable and industrial water production

Potable water production in 2012 totalled 166,826 thousand m³, which is only 0.8 percent higher than in the previous year. Daily production reached its maximum in June with 615.5 thousand m³. This exceeded the maximum of year 2011 by 9 thousand m³.

South-Pest Plant provided for the complete industrial water production. The annual volume of industrial water protection totalled 2,250 thousand m³, which is 4.2 percent less than in 2011.





Monthly potable water production





Potable and industrial water sales

The Company billed 138,620 thousand m³ of potable water in 2012. In comparison to the sales of 138,219 thousand m³ in the previous year, this is an increase of 0.3 percent, despite the fact that the total volume of the precipitation in 2012 was 66 percent higher than in the preceding year. However, the average temperature was also higher than in the preceding year, apart from February, April and December.

The decrease in residential consumption was moderate compared to the decrease of the preceding years, the industrial, non-residential consumption remained stable, while the volume of bulk water was 8.7 percent higher than in 2011.

The volume of bulk water exceeded the volume in 2011 by 1,238 thousand m³.

Industrial water sales amounted to 2.3 million m³, which meant 0.2 million m³ increase compared to the previous year.

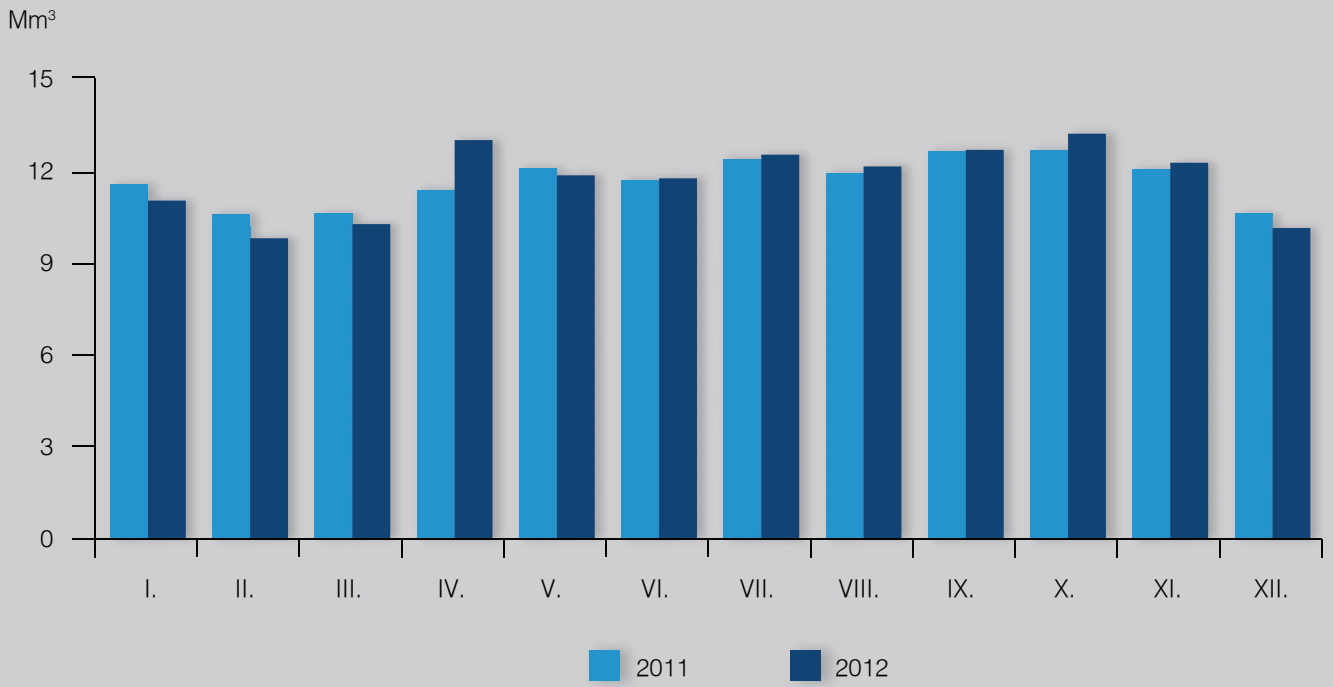
Non revenue water

Non-revenue water – the calculation of which is based on aggregate production and sales figures for the previous 12 months up to and including the current month – shows higher value (0.5 percent increase) than in 2011. The volume of water loss increased from earlier 27.4 million m³ to 28.4 million m³ during the year meanwhile the length of the network remained unchanged

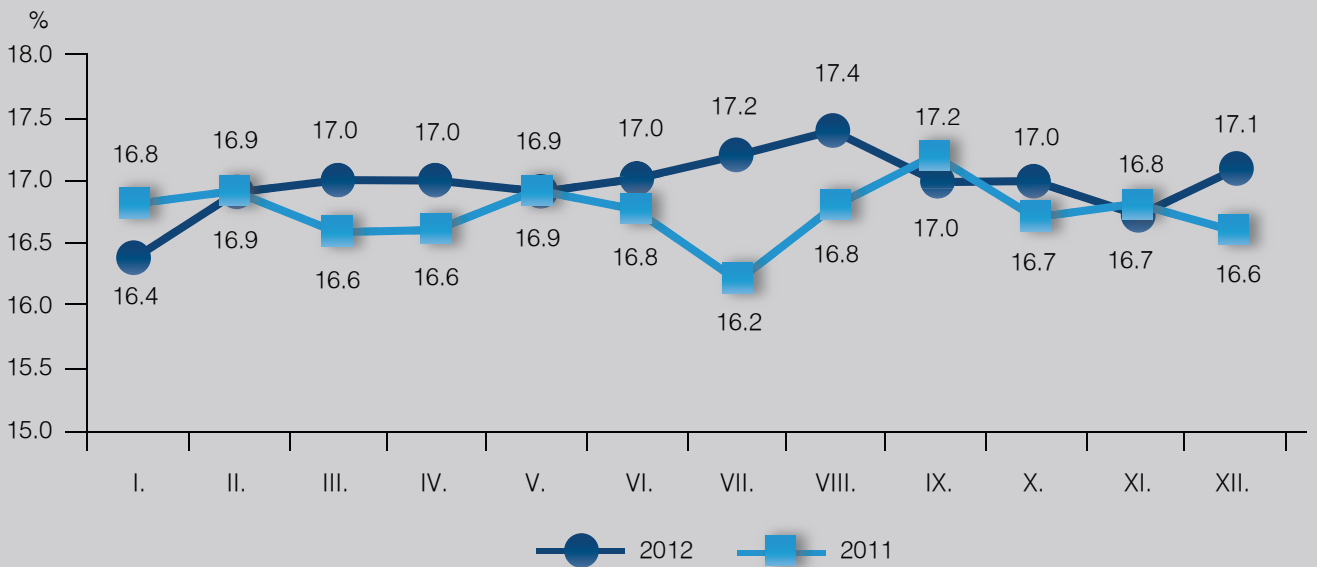




Monthly potable water sales



Non revenue water





Water quality

In 2012 the Waterworks of Budapest performed its water supplier activities in strict observation of the Hungarian and EU regulations, and provided the residential, industrial and non-residential customers as well as partner waterworks with water of appropriate quality. The Company investigates the quality of potable water in accordance with the sampling plan approved by the Public Health Administration Services of Budapest Metropolitan Government Office, on the basis of requirements and parameters stipulated in Government Decree no 201 of 2001 (X.25) on the quality requirements of potable water quality and related controls, as well as in other related legal rules.

Water quality controlling process covers each and every factor influencing the quality of potable water. During the year, the Company took a total of 11,495 samples, of which 4,713 were samples from supplied water, i.e. from reservoirs, pump houses and consumption points. In the course of it, 220,805 parameters were examined. The compliance ratio relative to the number of parameters was 99.41 percent.

There was a decline in the rate of overall compliance in comparison to the previous year: by parameters the compliance level reached 99.41 percent (in 2011: 99.64 percent), and by sample number 89.71 percent (in 2011: 93.54 percent).

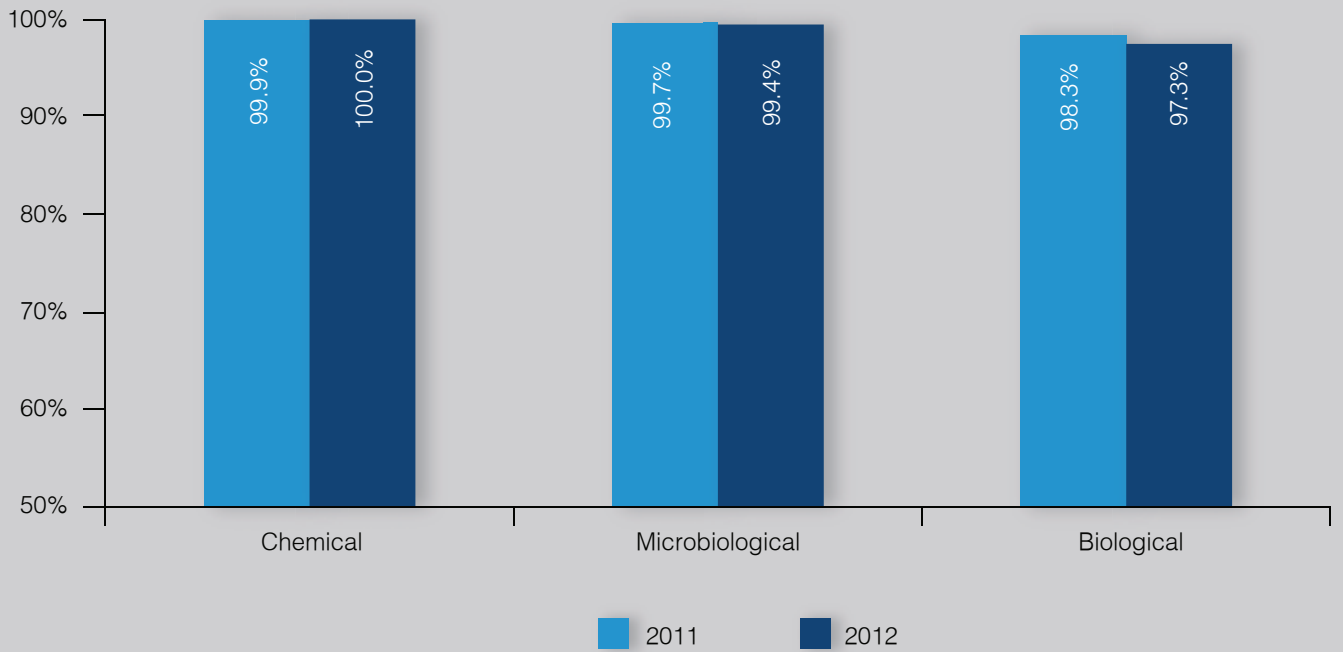
The Public Health Administration Services of Budapest Metropolitan Government Office did not request any water quality improvement measure in our service area in 2012.

In 2012 there were 8 consumer complaints about water quality, in contrast to 10 in the preceding year.

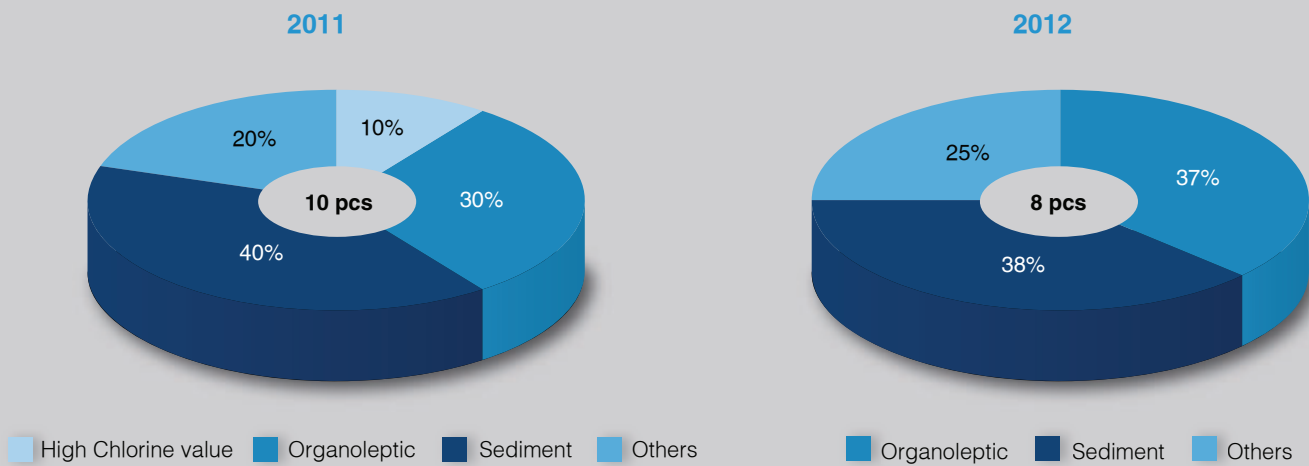
The Public Health Administration Services of Budapest Metropolitan Government Office submitted altogether 9 official notes out of which critical parameter was found in seven cases and in two cases the Company was requested to perform control sampling. The repeated samples taken at the complained places were compliant everywhere.



Compliance of supplied water by parameters



Complaints





Environmental Protection

Given the Company's activities, special emphasis was laid on protecting the environment and water resources in 2012 as well. The environmental protection program is determined by the objectives formulated under the ISO 14001:2004 Environmental Management System introduced for all of the Company's activities, which includes investment projects related to the environment and activities that can be accounted as cost.

This program included the remediation of underground fuel storages (HUF 8.6 million), hazardous waste disposal (HUF 1.7 million), air quality protection measurements (HUF 0.4 million), the elimination of flood and illegal waste depots (HUF 0.3 million), the completion of tasks related to non-compliances discovered during audit (HUF 4.9 million) and sewage self-controls (HUF 0.7 million).

In the framework of 2012 investments related to environmental protection, HUF 4.2 million were spent on the improvement of waste management and HUF 19.4 million on the improvement of sewage disposal.

In 2012 HUF 16.6 million were spent on the implementation of the objectives of the environment protection programme, HUF 6.8 million more than in the preceding year.





Water Tariffs

Until the end of 2011, in every settlement, the price authority regulating potable water prices was the local government. Also, until the end of 2011 the tariff of bulk water provided to partner companies was always adjusted to the costs occurring at the point of transfer and was based on agreement concluded by the contracting parties. As of 2012, with Act CCIX of 2011 on public water services (Vksztv.) coming into effect, there have been significant changes in the price authority role. The former scheme wherein prices were determined by the local governments has been replaced by a central price regulation system.

In the future, the prices of potable water provided by public utilities as well as prices of waste water drainage and treatment performed by public utilities, furthermore prices of bulk water will be determined in a ministerial decree by the minister responsible for public water services, in due consideration of the recommendations of the Hungarian Energy and Public Service Regulation Office.

Price increase in 2012 was determined with taking into account the new statutory stipulations, the increase rate was net 2.5 percent.

Industrial water tariff is liberalised.

Revenues from other activities depend on market circumstances, these prices are determined by the competition.

Description	2012 HUF/m ³	2011 HUF/m ³	+/- in %
Potable water tariff, Budapest	191.9	187.20	2.5%
Industrial water tariff (average)	198.9	194.00	2.5%



B Business and Financial Position

Revenues

Revenues of the Company totalled HUF 29.7 billion, which exceeded the revenues of the preceding year by 2.2 percent (HUF 638 million).

In 2012 net sales revenue was HUF 27.822 billion, which is HUF 469 million higher than the value achieved in 2011.

Potable water sales revenue was 1.8 percent higher than in the previous year, as a result of water price increase together with the positive impact of weather on consumption.

The volume of industrial water sales increased by 12 percent, the resultant sales revenue increase was HUF 34 million over 2011.

Other activity revenues lagged behind the preceding year by 1.3 percent. Whilst the revenues stemming from the sales of materials, from economic activities and from the utilisation of the workers' hostel and other properties lagged behind the revenues achieved in 2011, extra revenue was earned on submeter services, data services and approval of plans, which partly counterbalanced the lost revenues.

The value of own performance decreased by 17.4 in comparison with 2011.

Costs, Expenses

Costs and expenses totalled HUF 27.6 billion.

There was 10 percent decrease in material-type expenses, which is the combined impact of the following factors: Material costs decreased by 3 percent. Although the costs of materials necessary for fire hydrant maintenance exceeded the figure of the preceding year, but activated carbon was not purchased in 2012.

The electric energy demand of the Company was satisfied from the market; the consumption fee exceeded the figure of the preceding year by 7.5 percent meanwhile the volume consumed was lower than in the preceding year, which resulted in an overall increase of HUF 140 million (7.3%) in comparison with the preceding year.

On the ground of the Termination and Settlement Agreement signed in June 2012 by Budapest City Council and the investors, the management fee was borne by the Company only in the 1st quarter, which in comparison with the preceding year meant a saving amounting to HUF 1.4 billion.

Similarly to the preceding years, in 2012 there was strictly controlled financial management resulting in significant savings in the operation costs of the departments.



Staff costs increased by HUF 247 million in comparison to the previous year. In comparison with the preceding year, the increase in the wage costs totalled HUF 227 million, which is the result of the implemented wage increase – as prescribed by the law and the average at the Company – and the increase in the headcount.. Wage costs developed in accordance with the plans. Other staff costs fell by HUF 92 million compared to the previous year, wherein the most significant factor was the termination of the retirement with age exemption. The 7% growth in wage-related contributions is the result of the change in the elements subject to contribution payment. The Company spent significantly, by HUF 80 million less to staff costs compared to the plan.

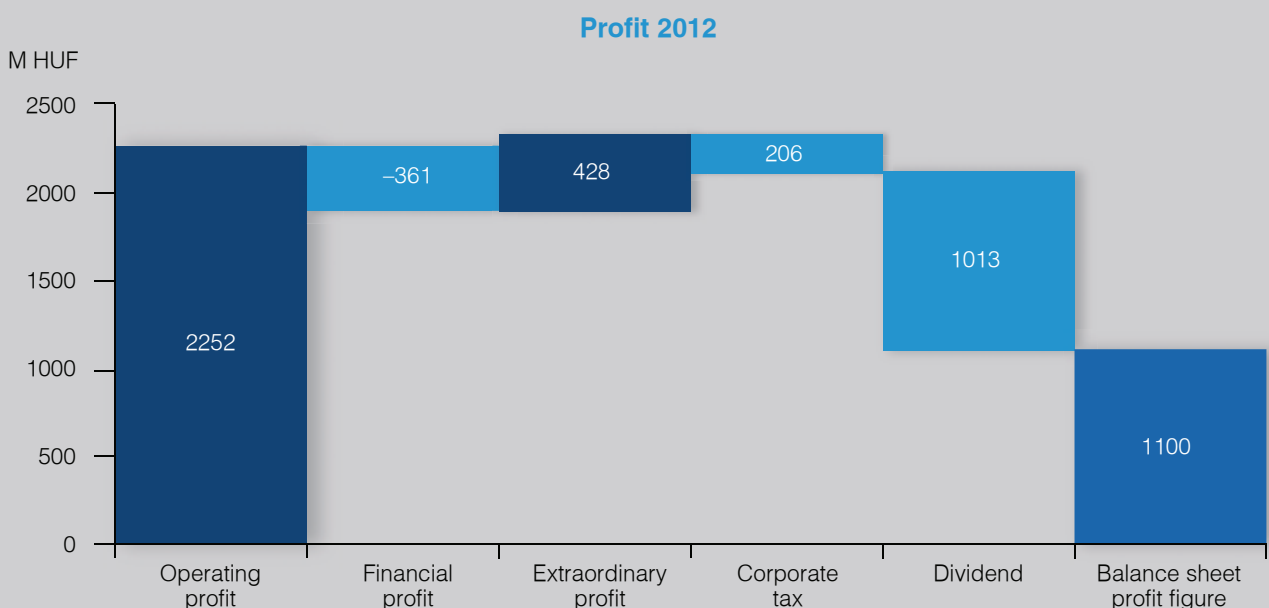
As a result of capitalization, depreciation increased by 2.3 percent in comparison with 2011.

Other expenditures increased by 5.6 percent over 2011.

Profit

In 2012 the Company's operating profit totalled HUF 2,252 million. This exceeds the figure of the preceding year by HUF 1,165 million that is the resultant of HUF 638 million increase in the revenues and HUF 527 million decrease in the expenses. The profit after tax is by HUF 676 million better than in 2011.

The amount of the dividend that would expectedly be paid to the shareholders out of the result achieved in 2012 is HUF 1,013 million that lags behind the figure of the previous year by 7.5 percent. The balance sheet profit thereafter expected totals HUF 1,100 million.





Financial position

The Company's financial position, liquidity was stable throughout the year, it met its payment obligations on time.

A Share Sales-Purchase Contract is enclosed to the Termination and Settlement Agreement made on 13 June 2012 among the Municipality of Budapest, SUEZ Environnement S.A., RWE Aqua GmbH and Hungáriavíz Zrt., which stipulates that the Company buys back its own shares from the foreign investors in the amount of HUF 12,094 million.

In order to ensure coverage for the repurchase of shares, the General Assembly of the Company held on 29. jun. 2012 approved a Shareholder Loan Contract under which the Municipality of Budapest grants shareholder's loan to the Company, in the amount of HUF 12,094 million. In 2012 the relevant interest burden totalled HUF 429.1 million.

On 30 May 2011, the Company's General Assembly approved the borrowing of HUF 1,500 million investment loan that could be used in 2011 and 2012. Out of the available sources the company utilised HUF 1,492 million in total.

Liquid assets closed the year at HUF 3,099 million, which is HUF 324 million more than in the previous year. The significant value of the securities portfolio as at the end of 2012 can be attributed to the own share repurchase transaction in the amount of HUF 12,094 million, which was executed in June 2012.

Accounts receivable

In comparison with 2011, the gross accounts receivable increased from HUF 3,153 million level to HUF 3,299 million, the aggregate loss of value was higher by HUF 138 million, therefore the net accounts receivable that was HUF 2,712 million at the end of 2011 changed to HUF 2,720 million.

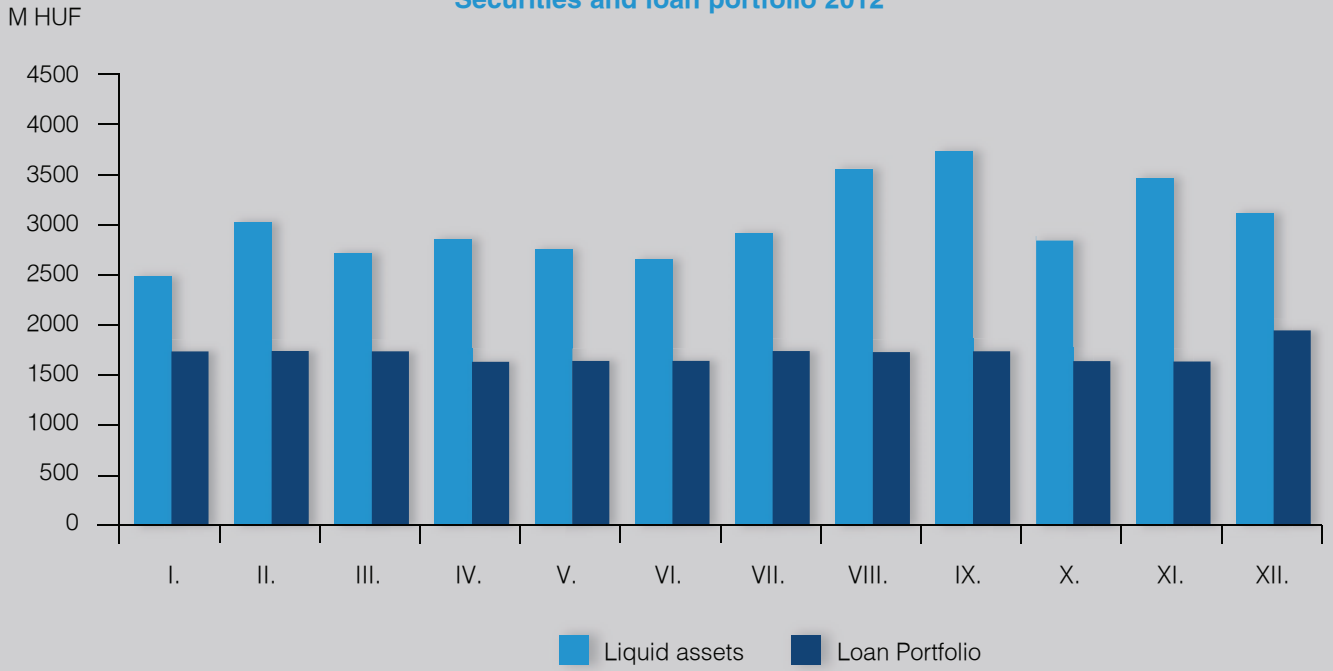
Outstanding receivables from the customers invoiced by the Company rose from HUF 891 million at the end of the previous year to HUF 1,026 million.

This is the joint result of HUF 141 million increase in the receivables from own potable water sales and HUF 35 million decrease in overdue receivables related to bulk water sales.

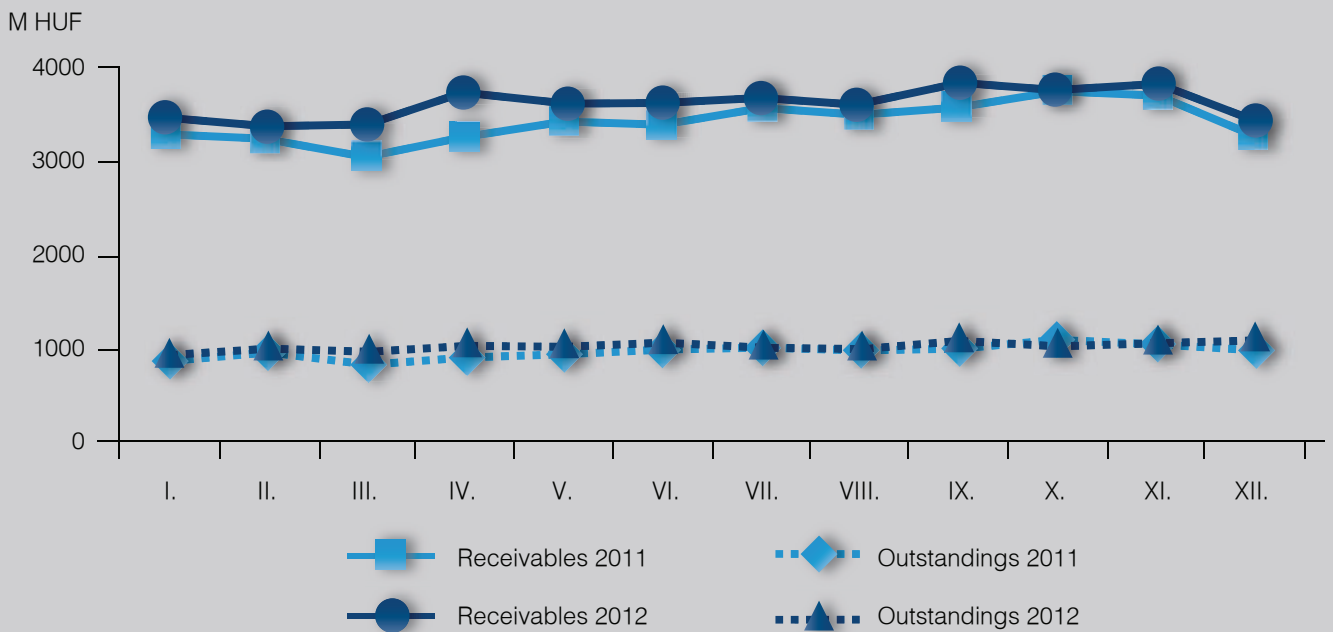




Securities and loan portfolio 2012



Account receivables – Outstandings





Investments

In 2012 the Waterworks of Budapest completed investments totalling HUF 5,246 million, which is 13.2 percent less than the performance figure of HUF 6,041 million in the previous year. The value of investments financed from own funds was HUF 4,555 million. In addition to the above, on the expenses of the investment loan approved by the Company's General Assembly totalling HUF 1.5 billion, in 2012 investments totalling HUF 599 million were realized. The value of the works implemented from external sources granted by third parties was HUF 132 million in 2012.

Similarly to previous years the Company continued to lay great emphasis in 2012 on developments improving the water quality and ensuring the continuity of water supply.

The Company spent HUF 1,318 million on investment projects related to water technology facilities, which is almost identical with the value of the project implemented from own sources during the preceding year. The priority projects included the renovation of the water producing

wells and reconstruction of shaft wells (HUF 443 million), the reconstruction works of the Testvérhegy, Kálvária tér, Ráckeve booster and Krisztina Diesel pump houses (HUF 133 million), and the reservoir renovation works performed to protect water quality (HUF 138 million).

In 2012, expenditures related to protected areas and flood prevention amounted to HUF 85 million, which is 4.9 percent more than in the previous year.

HUF 30 million less than in the previous year was spent by the Company on water technology equipment and machinery (HUF 148 million).

The Company spent HUF 860 million on support area investments (IT investments, purchasing machinery and instruments as well as vehicles, investments in safety technology and security and non-water technology facilities) in 2012, which should be compared to HUF 909 million in the previous year.



HUF 4 million less were spent on other investments than in 2011. Out of the HUF 175 million budget-line, HUF 11 million was spent on research and development, while HUF 94 million was spent by the Company on preparations for next year's projects. The value of investment projects brought forward from 2011 totalled HUF 70 million.

Maintenance, operation

In 2012 the total cost of repair and preventive maintenance was HUF 5,012 million, which was 8.2 percent higher than in the previous year.

Maintenance	2012 M HUF	2011 M HUF	Change in %
Repair	2978	2512	18.6%
Network	2603	2081	25.1%
Water production	186	223	-16.6%
Supporting activities	189	208	-9.1%
Maintenance	2034	2119	-4.0%
Network	857	1039	-17.5%
Water production	528	473	11.6%
Supporting activities	649	607	6.9%
TOTAL	5012	4631	8.2%



Repairs

The total number of network failures increased by 35.7 percent compared to the previous year, within this the number of connection failures was by 23.9 percent, the number of pipe bursts was by 14.6 percent while the number of failures of the fittings was by 57.8 percent higher than the comparable figures of the base year. As a consequence of all the above, the network failure repair costs were HUF 522 million higher than in 2011. The number of failures affecting water production facilities was 4.3 percent higher, meanwhile repair costs fell by HUF 37 million compared to 2011. The underlying reason was that for the repair of failures discovered in the course of channel flushing, the Company utilised sources allocated for maintenance.

Major repair jobs:

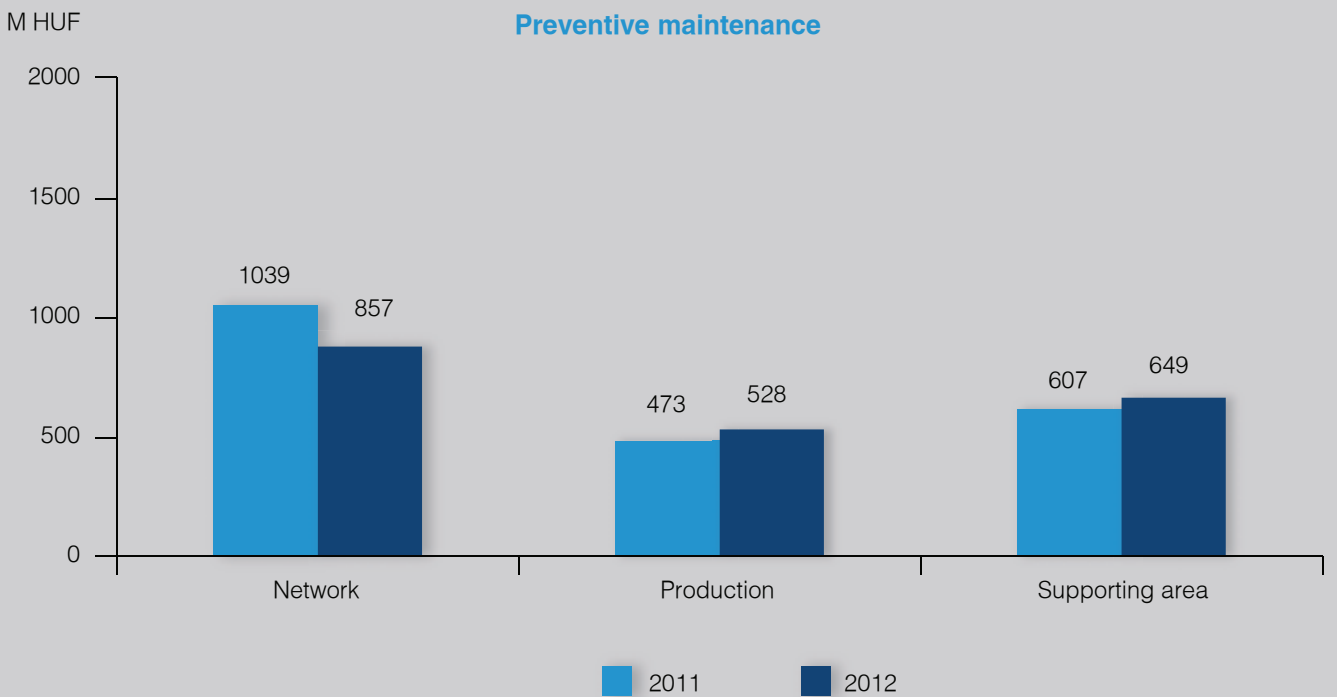
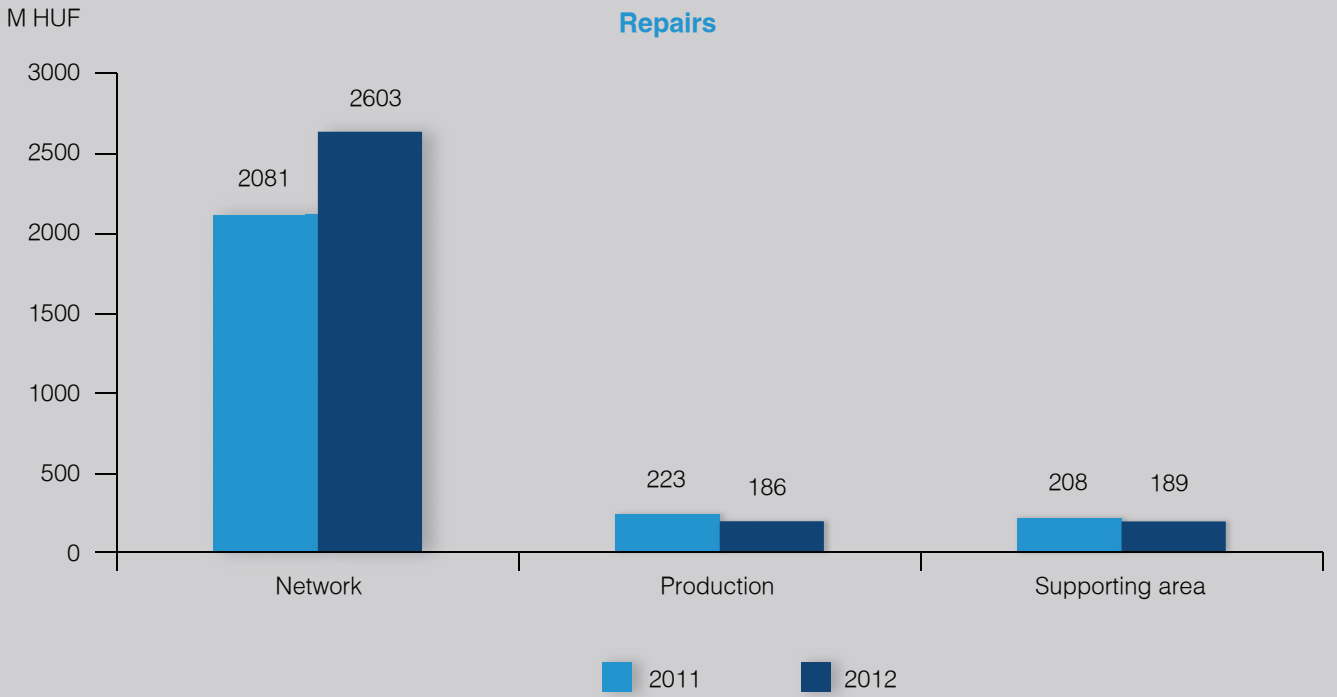
- Repair of Rocla socket leakages,
- At Tunnel II of the Left Side: elimination of water inflow, corrosion protection, anti-slip treatment of the walkways,
- Káposztásmegyer, pump house no. I: repair of the electric engine manufactured by ABB,
- Left Side II/4: repair of the submersible pump,
- Margitsziget: repair of the gate valve DN 300,
- XI., Köérberki út: burst of a HOBAS pipe DN 300,
- XI. Bartók Béla utca – Orlay utca: burst of a Sentab pipe DN 1000,
- XIV. Thököly út – Hungária körút: puncture of a cast iron pipe DN 175,
- II. Ezredes utca – Forint utca, burst of an asbestos-cement pipe DN 150,
- Extraordinary replacement of 7,200 water meters

Preventive maintenance

The costs of scheduled preventive maintenance were by 4 percent higher in 2012 than in the previous year. In accordance with the Company's long-term strategy, in 2012 emphasis was again placed on distribution pipe flushing related to water quality improvement. The air-scouring cleaning program continued within network operations. As regards water production – in alteration of the practice followed in the preceding years – from 2012 the internal repair of gravity pipes is executed in the frames of maintenance, therefore the relevant costs were recognised under maintenance.

Major preventive maintenance works:

- Cyclic maintenance works of the low and high voltage equipment, machines used in water production and distribution
- Internal maintenance of a Rocla channel, DN 1800, at Horány-Surány
- External painting of the central building and the passage way in Ráckeve
- Monostor I, wells 1 to 3: maintenance of the collecting pipes, investigation of tracks and junctions, assembly of inspection eyes
- Air scouring technology cleaning of 57 km distribution pipe
- Replacement of 46,402 meters with expired calibration





Human resources

Headcount

In 2012 the average headcount at the company totalled 1,328 (in 2011: 1,318), of which the number of full-time employees totalled 1,316 (in 2011: 1,303).

Wage management

In 2012 the Company implemented 3.5 percent wage increase, thus it has fully executed the compulsory wage increase aimed at the maintenance of the level of net wages.

In 2012 the amount of the discretionary fringe benefits, i.e. the cafeteria was HUF 37,000 /employee/month.

Main organisational changes

In 2012, through the modification of the Rules of Organisation and Operation of the Waterworks of Budapest several significant changes have been executed in the organisational structure and therefore in the processes.

With effect of 30 September 2012, the Logistics Directorate as an organisational unit and a job was terminated; and with effect of 1 October 2012 the relevant organisational units are controlled by the Deputy General Manager for Finance.

With effect of 30 September 2012, the Company's Communication Department was terminated, its tasks were distributed among three organisational units.

In the interest of exploiting international project possibilities, it was necessary to establish an International Business Development Directorate that will operate as an independent organisational unit.

In the interest of the independent and uninfluenced operation of the laboratories of the Water Quality and Environmental Protection Department, the Water Quality and Environmental Protection Department reports now instead of the Deputy General Manager for Operations directly to the General Manager.

In addition to the above the Company executed other changes on group level, aimed at efficiency improvement and optimisation.

Education and training

In 2012, similarly to the previous year, the Company spent an amount equalling 0.7% of the wage bill, i.e. HUF 40 million on training, which means more than 1700 participations. In 2012, in view of the still hard economic circumstances – similarly to the foregoing years, such training courses were held that enabled the company to meet its statutory obligations and the employees



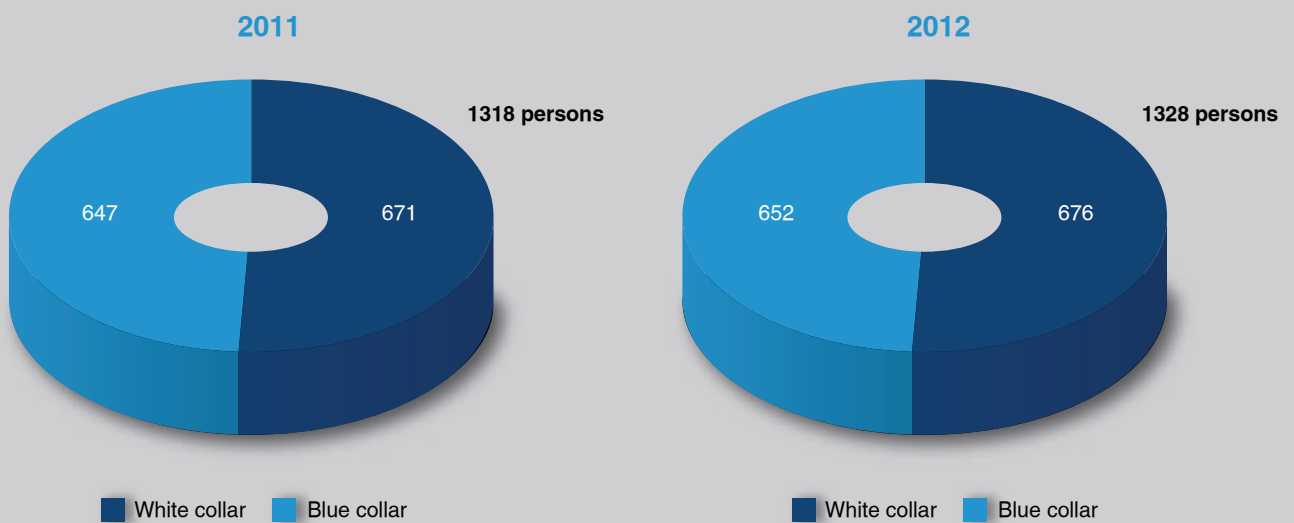
to monitor the legislation and to acquire professional knowledge necessary for performing their tasks. With resources tight, internally organised developments gained special emphasis in 2012, too.


parations for the enactment of the new Labour Code as well as the compliance with that were significant challenges, with particular regard to the special regulations related to economic companies in community ownership. Necessary modifications of the labour contracts have been executed; furthermore the Collective Agreement in correspondence with the new Labour Code has been elaborated.

Personnel development

In year 2012, in the areas of personnel development and human resources administration, the pre-

Headcount





Appendices

Key figures of the company

Production	Unit	2012	2011	+/- in %
Potable water production	th m³	166,826	165,502	0.8%
Average daily potable water production	m ³	455,809	453,430	0.5%
Highest production per day	m ³	615,541	606,619	1.5%
Industrial water production	th m³	2,250	2,348	-4.2%
Average daily industrial water production	m ³	6,148	6,433	-4.4%

Sales	Unit	2012	2011	+/- in %
Potable water sales	th m ³	138,176	138,098	0.1%
	M HUF	25,641	25,180	1.8%
Industrial water sales	th m ³	2,274	2,061	10.3%
	M HUF	228	194	17.5%

Length of network	Unit	2012	2011	+/- in %
Total	km	5,011	5,032	-0.4%
of that: Budapest	km	4,623	4,644	-0.5%
conurban settlements	km	388	388	0.0%
of that: potable water	km	4,966	4,987	-0.4%
industrial water	km	45	45	0.0%

Number of main meters	Unit	2012	2011	+/- in %
Total	pcs	230,608	229,593	0.4%
of that: Budapest	pcs	209,717	208,828	0.4%
conurban settlements	pcs	20,891	20,755	0.7%

Capacity	Unit	2012	2011	+/- in %
Total	m³/day	1,093,680	1,093,680	0.0%
of that: potable water	m ³ /day	967,180	967,180	0.0%
industrial water	m ³ /day	126,500	126,500	0.0%

Profit and Loss Statement

Profit and loss statement	2012 (M HUF)	2011 (M HUF)	+/- in %
I. Revenues			
Potable water sales	25,641	25,180	1.8%
Industrial water sales	228	194	17.5%
Other activities revenues	1,953	1,979	-1.3%
Net sales, total	27,822	27,353	1.7%
Other revenues	1,236	924	33.8%
Capitalized value of own investments	681	824	-17.4%
Total revenues	29,739	29,101	2.2%
II. Expenses			
Cost of raw material	2,338	2,410	-3.0%
Electricity	2,072	1,932	7.2%
Material-type services	5,303	6,672	-20.5%
Other services	351	174	101.7%
Material type of expenses, total	10,064	11,188	-10.0%
Payroll	5,431	5,204	4.4%
Employee benefits	825	917	-10.0%
Contributions on wages	1,705	1,593	7.0%
Staff (labour) costs	7,961	7,714	3.2%
Depreciation	5,053	4,938	2.3%
Other expenditures	4,409	4,174	5.6%
Total expenses	27,487	28,014	-1.9%
Operating profit	2,252	1,087	107.2%
III. Financial transactions			
Financial Revenues	204	198	3.0%
Financial expenditures	565	67	743.3%
Financial profit	-361	131	-375.6%
Profit on ordinary activities	1,891	1,218	55.3%
IV. Extraordinary profits			
Extraordinary revenues	869	837	3.8%
Extraordinary expenditures	441	437	0.9%
Extraordinary profit	428	400	7.0%
Profits before tax	2,319	1,618	43.3%
V. Corporate tax	206	181	13.8%
After tax profit	2,113	1,437	47.0%
Used up profit reserve	0	0	-
Dividend	1,013	1,095	-7.5%
Balance sheet profit figure	1,100	342	221.6%



**Report of the independent auditor on the summary financial statements
(Free translation)**

To the shareholders of Fővárosi Vízművek Zártkörűen Működő Részvénytársaság

The accompanying summary financial statements, which comprise the balance sheet as at December 31, 2012, the income statement and the cash flow statement for the year then ended, are derived from the audited financial statements of Fővárosi Vízművek Zártkörűen Működő Részvénytársaság for the year ended 31 December 2012. We expressed a qualified audit opinion on those financial statements in our report dated 31 May 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by the Act C of 2000 on Accounting. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Fővárosi Vízművek Zártkörűen Működő Részvénytársaság.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described on the page 31.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Hungarian Standards on Auditing 810, "Engagements to Report on Summary Financial Statements" and with applicable laws and regulations in force in Hungary.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Fővárosi Vízművek Zártkörűen Működő Részvénytársaság for the year ended 31 December 2012 are consistent, in all material respects, with those financial statements, on the basis described on the page 31.

However, the summary financial statements are potentially misstated to the equivalent extent as the audited financial statements of Fővárosi Vízművek Zártkörűen Működő Részvénytársaság for the year ended 31 December 2012. The potential misstatement of the audited financial statements is described in our qualified audit opinion in our report dated 31 May 2013.




Our qualified audit opinion is based on the fact that in accordance to the Act CCIX of 2011 on Water Utility Services, water utility assets were transferred to the relevant local governments as of 1 January 2013. As a result of the assets transfer, total equity of the Company does not reach two thirds of its registered capital as required by Act IV of 2006 on Business Organisations, therefore shareholders are obliged to take actions to restore equity. Consequently, the value of treasury shares included in the books as at 31 December 2012 in the amount of THUF 12,094,000, significantly decreased on 1 January 2013, to THUF 3,106,658 proportionally. No impairment charge was recorded on the treasury shares in 2012 as the Company expects that these shares will be withdrawn during the process of restoring equity.

The restoration of equity and the withdrawal of treasury shares should be approved by the General Meeting. This approval has not happened until the issue date of our audit opinion therefore we were not able to complete our audit procedures relating to the valuation of the treasury shares.

Our opinion includes that except for the effect of the modifications that could have been necessary had we been able to completely perform our audit procedures for the valuation of the treasury shares, the financial statements give a true and fair view of the financial position of Fővárosi Vízművek Zártkörűen Működő Részvénytársaság as of 31 December 2012, and of the results of its operations for the year then ended in accordance with the provisions of the Accounting Act.

Budapest, 7 June 2013


Barsi Éva
Partner
PricewaterhouseCoopers Auditing Ltd.
1077 Budapest, Wesselényi u. 16.
Licence No.: 001464
Registered auditor
Licence No.: 002945

Translation note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.

Balance Sheet*

Balance sheet	2012 (M HUF)	2011 (M HUF)	+/- in %
A. Fixed assets	90,622	90,617	0.0%
I. Intangible assets	603	632	-4.6%
II. Tangible assets	89,675	89,617	0.1%
Plant and machinery	89,185	88,637	0.6%
Tangible assets in course of construction	490	980	-50.0%
III. Financial assets	344	368	-6.5%
B. Current assets	19,363	5,941	226.4%
I. Inventories	244	192	27.1%
II. Receivables	3,956	2,974	33.0%
Accounts receivable	2,720	2,712	0.3%
Other receivables	1,236	262	371.8%
III. Securities	12,094	0	0.0%
Bonds bought for sale	0	0	0.0%
Own shares, share quotas, shares bought for sale	12,094	0	0.0%
IV. Liquid assets	3,099	2,775	11.7%
Cash, cheques	2	1	100.0%
Bank deposits	3,097	2,774	11.6%
C. Prepayments and accrued income	2,147	2,221	-3.3%
TOTAL ASSETS	112,162	98,779	13.5%
D. Equity	73,832	72,725	2.0%
I. Registered capital	58,600	58,600	0.0%
II. Capital reserves	12,464	12,464	0.0%
III. Retained earnings from previous years	-10,426	1,311	-
IV. Earmarked reserve	12,094	8	-
V. Profit	1,100	342	221.6%
E. Provisions	778	1,008	-22.8%
F. Liabilities	18,957	6,671	184.2%
I. Long term liabilities	1,834	1,599	14.7%
II. Short term liabilities	17,123	5,072	237.6%
Advance payments from customers	90	4	-
Trade accounts payable	2,222	2,514	-11.6%
Short term bank loans and bank overdrafts	369	369	0.0%
Other short term liabilities	14,442	2,185	561.0%
G. Accruals and deferred income	18,595	18,375	1.2%
TOTAL EQUITY & LIABILITIES	112,162	98,779	13.5%

Cash Flow*

Cash flow	2012 (M HUF)	2011 (M HUF)
Balance sheet profit figure	1,100	342
Depreciation	5,053	4,938
Change in provisions	-230	275
Change in loss in value	138	51
Book value of asset disposal	3	11
Scrapping of fixed assets	242	146
Gross cash flow	6,306	5,763
Change in inventories	52	42
Change in trade accounts receivable	146	229
Change in bonds bought for sale	0	0
Change in shares	12,094	0
Change in other receivables	974	53
Change in prepayments and accrued income	-74	71
Cash need for operation	13,192	395
Change in trade accounts payable	-292	1,072
Change in advance payments from customers	86	-3
Change in other short term liabilities	12,257	-499
Change in accruals and deferred income	220	-184
Cash generated by operation	12,271	386
Net cash flow	5,385	5,754
Intangible assets	265	275
Plant and machinery	5,553	6,649
Tangible assets in course of construction	-491	-505
Financial investments	-24	-5
Cash need for investments	5,303	6,414
Change in shareholders' equity	0	0
Change in profit reserve	7	3
Change in short term bank loans and bank over-drafts	0	158
Change in long term liabilities	235	662
Change in cash and equivalents	324	163
Cash flow 01.01	2,775	2,612
Change in cash and equivalents	324	163
Cash flow 12.31	3,099	2,775

* The balance sheet and the cash-flow statement were prepared in accordance with the general ledger data; they do not contain the effects of any reclassification between B/S rows on account of affiliated companies.



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