

The BKV Ltd. is the leading transport company of the region

2006 ANNUAL REPORT

We make the city move

BKV Privately Held Corporation



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BKV Privately Held Corporaion



 *We make the city move*

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Economic and financial status of BKV Privately

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Similar to the previous years, our Company strived to improve its services in 2006, too. The fleet of vehicles was broadened by 50 low-floor articulated Volvo buses and 26 Combino trams. The first phase of measures to eliminate congestion began, new night services were launched, and the reconstruction of East-West Metro line was continued.

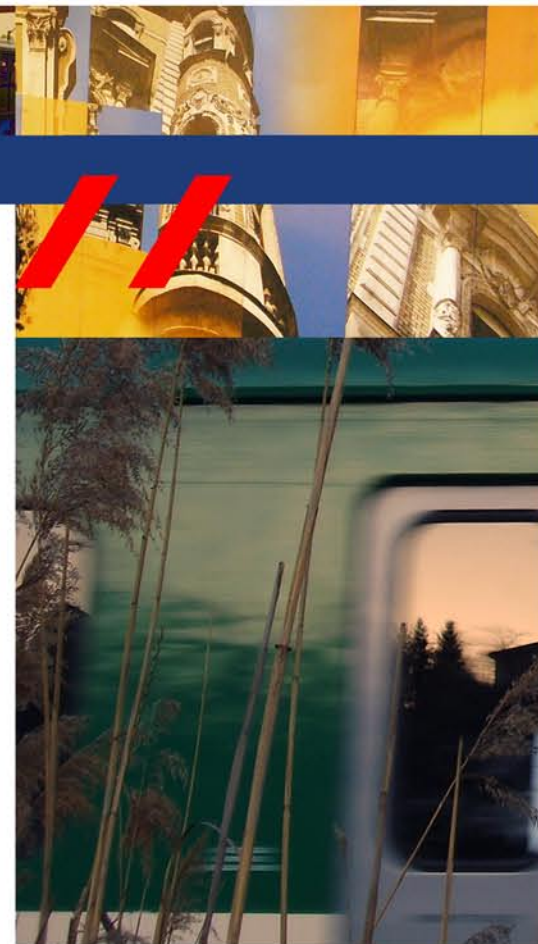
System performance has not changed compared to the plans and to the data of the year 2005. The statistical number of the passengers was close to 1.3 billion people, which means that 21.2 billion place kilometres were at the passengers' disposal. The vehicles of the Company covered 180 million kilometres. During the year the Company held 3007 vehicles on average, the average number of vehicles in traffic was 2330, the rate of operating fleet was 77.5 per cent. Based on the index numbers of standard of public transport vehicle occupancy was on average 25.6 per cent and speed of circulation was 15.7 Km/h.

The changes in the regulations during the year, such as the changes of the VAT law and the rise of the prices, including energy, had a significant and unfavourable effect regarding both the results and financial management. The total revenues of the Company reached HUF 107.287 billion in 2006, while expenditures totalled HUF 118.309 billion so the balance of deficit was HUF 11.022 billion. Development of public transportation was in the focus of attention of the Municipality of Budapest and the Government of Hungary.

The investments carried out by the Municipality of Budapest amounted to HUF 65.12 billion, out of which HUF 120.55 billion was a subsidy in the form of capital reconstruction from the General Assembly of the Municipality Council. Investments financed by the Company totalled HUF 3.372 billion so total value of company investments amounted to HUF 68.49 billion.



Fare box revenue in 2006



Public transport is included in the official maximized price services, fares are established by the Municipality of Budapest. The Company has restricted room to work out its own fare policy in accordance with the regulations for price calculation. It can only make proposals for the fares or for the changes of the fare-system. The General Assembly of the Municipality made a decision on prices on 24th November, 2005. The fare increase had to be carried out in one phase, at the average rate of 10 per cent from 1st January, 2006.

According to the currently available data the Company's net fare box revenue amounted to HUF 42.569 billion in 2006 which was below the budgeted HUF 42.727 billion. This is partly due to the 5 per cent raise of the VAT rate on public transport services from 1st September 2006. This caused approximately a HUF 500 million loss in fare collection. Price supplement provided by the state, which is in close normative connection with fare collection paid as compensation for reduced price tickets and passes and the lump sum remitted for reimbursement for free travels were lower than the budgeted sum of the total price supplement, i.e. HUF 17.911 billion instead of HUF 18.1 billion. Changes of VAT altogether produced a loss of HUF 747 million.

Kijárat ↑

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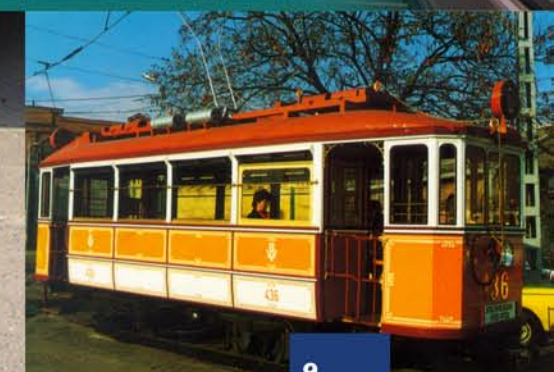
Fare box revenue in 2006



In 2006 the price supplementation of public transport passes for students and pensioners increased from HUF 3,500 to HUF 3,580 for each sold reduced price pass. Concerning conurbation passes the price reductions and supplementation of the students' and pensioners' passes changed significantly. After amending 2003 Law LXXXVII on retail prices conurbation bus lines are categorized as distance bus lines and the suburban railway service (HÉV) classifies as a railway service from 1st June, 2006. The General Assembly of the Municipality did not change the prices during the year, so the amendment of the law caused a gross deficit of HUF 573 million in the second half of 2006.

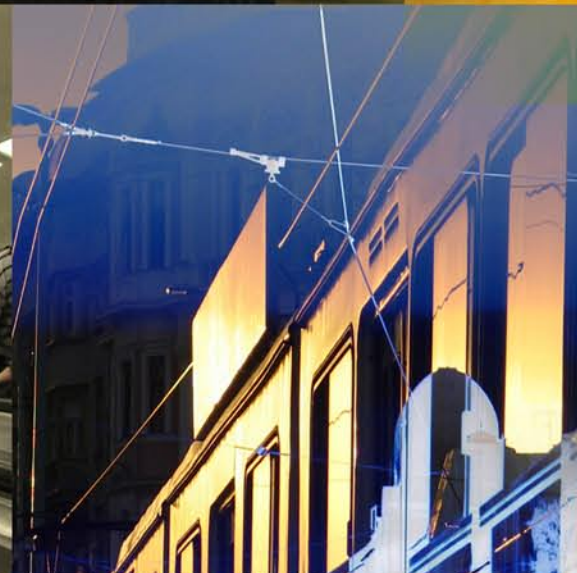
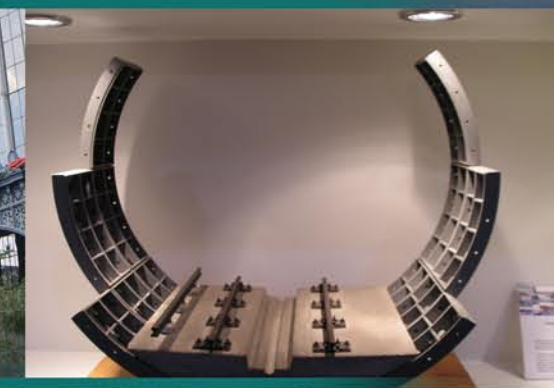
The unified pass system (BEB i.e. Budapest unified passes), introduced on 1st September 2005, resulted in more rightful and uniform fares and, underwent some changes: in 2006 BEB passes could be purchased also for a year. 35 thousand different types of BEB passes were sold, reducing the expenses of commuters to Budapest travelling on railway or distance buses.

Since 2006 tax-regulations for employers providing local passes for their employees have changed favourably. The tax-law has been modified by Parliament so passes used in local public transport can be given to employees totally free of tax. The favourable effect of this could be felt in the turnover of the passes.



Core activity of the Company

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The activities of BKV Ltd. are based on the Service Contract signed with the Municipality of Budapest. Beyond this framework BKV Ltd. aims to carry out passenger transport services on the basis of individual contracts with the participants of the market as well as with the district governments and the local governments of conurbation towns. In compliance with the legal regulations and the ordered quantity requirements BKV Ltd. also strives to satisfy the quality demands which have an ever growing role.

Traffic improvement actions of BKV

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Outstanding service events in 2006

As a part of the process to fulfil the requirements of the Law of Equal Opportunities another 50 articulated low-floor Volvo buses - equipped with EURO III engine - were put into operation. Those and similar buses purchased in the previous years operate on nine routes with full time service - excluding metro replacement period - and on further 14 routes at certain departure times on weekdays and/or on weekends. The primary concern in marking the different routes was to develop the continuous low-floor network as well as even distribution between the districts of Budapest. At the beginning of March 2006 the change of the existing tram fleet for low-floor vehicles also began with Combino trams, which have been arriving continuously since then.

Till the end of the year, 28 Combino trams arrived, 26 were tested and 21 were put into regular operation. The last Combino tram is scheduled to arrive at the end of April 2007. Under the influence of the ever growing passenger traffic between the Airport and the city - with the conversion of the Airport Bus - a new route was started on 14th April with service number 200. The low-floor Volvo buses have a place allocated to suitcases as well. Bus No. 200 is in service with a lengthened operation time and with a higher frequency than the former Airport Bus.

After negotiations with the local governments - taking the advantage of the possibility to purchase new buses - vehicles adopting better to the demands of the passengers were put into operation. A new terminus was built at Keleti Railway Station and at some other more important end stations. To improve the standards of service and the comfort of passengers the Company examined the busiest lines and tried to find solutions for decreasing the degree of utilization - taking also expenditures into consideration.



Traffic improvement actions of BKV

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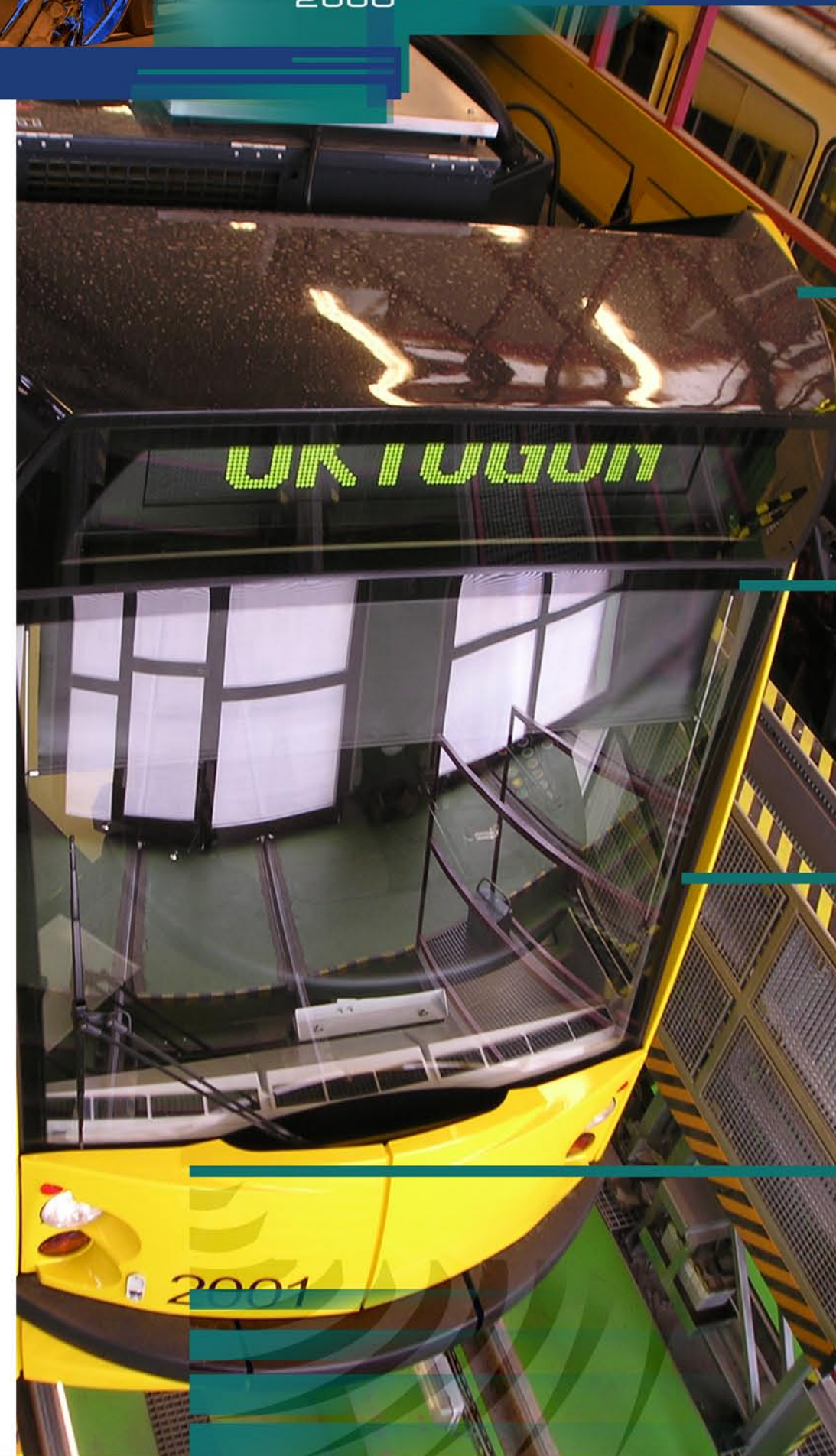


Together with the changes in the types of vehicles the other important project was the first phase of congestion handling. This meant primarily reorganizations, due to which the system performance did not increase or only to a very small extent.

BKV Ltd. paid a lot of attention to managing station- and track closures due to reconstruction works, to the replacement of the temporarily eliminated transportation capacity of the Metro line 2 and the Szentendre suburban railway (HÉV).

During the reconstruction works of East-West metro air-conditioned low-floor replacement buses ran in accordance with traffic requirements.

The night service, which was put into operation on 1st September 2005 and has been working reliably ever since, has been supplemented with further elements upon the experiences of the latest period and upon the requirements of the passengers: since November new routes have been put into service, furthermore, since December, more vehicles - and on some lines articulated buses - have been operated with greater frequency on the busier weekends on the busier routes.





To keep up the competitiveness of public transport the right-of-way transport technology solutions offer effective help. To work out the right-of-way programmes and the details, as well as to implement them, cooperation between the Municipality Council, Municipal Public Services Co. Ltd. and BKV Plc.. is essential. To manage the reconstruction works in the streets, on the metro and the construction of the new metro and similar tasks the coordinated work of the co-organizations is a must. The results of the realized projects are highly favourable, travel time has decreased, schedule reliability has increased we can conclude that on the whole the standard of the service increased.

BKV Ltd. considers it a high priority to publish comprehensive information on its activity, developments, investments and services. Its aim is to provide the residents of the capital city, visitors, decision makers, trade associations, the press and, last but not least, the passengers of the Company with information from as many sources as possible. The Company conveys its messages to the aimed public with its publications, its website (www.bkv.hu) and with its good relations with the press. The Company is curious of its passengers' opinion which is shared more and more intensively with the employees of the Customer Service in an average of 250 enquiries a day (most of them through telephone, a smaller part in letters, and quite many people visit the office personally, as well).

In 2006 besides the passenger information tasks arising from the reconstruction works on Metro line 2 the campaign of Combino trams purchased for the Grand Boulevard represented an issue of high importance - introducing the vehicles and making them accepted.

Judgement of public transport - and of BKV Ltd. itself - and making public transport accepted, are becoming increasingly important issues. Direct contact with passengers is becoming a tradition, an everyday event also in fields not closely related to the Company. The Combino trams were introduced in more phases and in various ways: celebrities and decision makers travelled in the trams, there were pop-concerts of "Megastars", there were open days in one of the most frequented point of Budapest, at Moszkva tér, introducing the vehicles to the public.



On the Night of Museums, in cooperation with MÁV (Hungarian Railways), the Company operated horse-trams between Nyugati tér and Oktogon, and that night an unprecedented crowd visited the Underground Railway Museum at Deák tér, where besides the old-time vehicles, visitors could see a photo exhibition of the pictures arrived for a competition with the title of "Old and New". In September the Company was also present on the closing event of the European Mobility Week in the temporarily car-free Andrásy út. With the arrival of the new trams and putting them into traffic began the withdrawal of the UV type vehicles from traffic. The first UV tram was adapted by the Szentendre Public Transportation Museum in the framework of a fun day for children. Little children got a nice Christmas present: a tale-tram, a Combino rolled out to the street with István Csukás writer on board, who told tales to the children on the whole route of the tram.



Communication, international relations

szombat-vasárnap	5.14, 24, 34, 44, 54, 6.04
vasárnap	6.14, 24, 34, 44, 54, 7.04, 14, 24, 34, 44, 54, 8.04
minden este	20.12, 17, 23, 28, 34, 39, 47, 54, 21.02, 09, 17, 24, 32, 39, 47, 54
	22.04, 14, 24, 34, 49, 23.04, 19



In 2006 BKV Ltd. managed several marketing campaigns. An amendment of law made it possible for employers to continue to provide tax-free passes for their employees. The campaign generated significant revenues. Operating the 'regular passenger system' is an activity continuing all the year round. In the quarterly newsletter of the Company regular passengers are informed directly about the changes concerning BKV Ltd., changes in traffic, and they can also read a sample from the history of the vehicles of the Company.

BKV Ltd. has got extensive international relations, it is a member of the International Association of Public Transport (UITP) and the Alliance of German Transport Companies (VDV).



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Developments, investments



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At Árpád Bridge 650 meters fence was built. This year many of the investments of the Company were related to the arrival of the new trams, so modernization of the tram-depots, of tracks in halls and yards and of platforms took place. With the reconstruction of Hungaria Tram-depot and the purchase of new technical equipment the conditions of storage, operation and maintenance of the new trams are put in place. To take the most advantage out of the possibilities of the design of the vehicles the stops were modernized and standardized. During the works the platforms were adjusted to the floor of the vehicles, received new paving and modern shelters were built with outdoor furnishing. To make use of the recuperation capability of the new trams on the Grand Boulevard and to increase the operational safety of the power supply, modernization of the power supply system was carried out on the Grand Boulevard. This way the connection of the converters and the overhead lines were replaced and anchored on 40 km, new feeding sections were installed, cables were laid and switch boxes were installed during the works. To realize the project the Company won a non-repayable support on the competition commenced by the European Union Structural Funds (Environmental Protection and Infrastructural Operational Program). Taking advantage of the framework contact for maximum 150 vehicles the third set of 50 low-floor Volvo buses was purchased and now air-conditioning is being installed into the passenger compartments of the first 50 buses. The first shipment of low-floor trams arrived and the trams were put into service on the routes of tram Nos. 4 and 6 in 2006. On May 30, 2006 BKV Ltd. signed a contract on the purchase of 22 five-car metro trains for the East-West Metro line and of 15+7 four-car metro trains for Metro line 4.

Reconstruction of Metro line 2 took place in several phases: during the summer works the platforms of Déli Railway Station, Moszkva tér and Deák tér Stations were renewed. During the continuous track closure the rails were replaced simultaneously in both tunnels between Deák tér and Déli Railway Station, and the tunnels were isolated. During the autumn stage of the reconstruction the tracks and the isolation of the tunnels continued, the renovation of the three stations' maintenance and storage facilities was finished, smoke-exhauster- and sprinkler systems and jet-ventilators were installed. During the reconstruction of the Szentendre suburban railway (HÉV), which began in 2005, in 2006 the units of the power supply system were completed, and the installation and wiring of the safety equipment was accomplished. The indoor panels of the safety equipment are under assembly. The follow-up adjustment of the tracks and the necessary metalling was finished.



Manpower management



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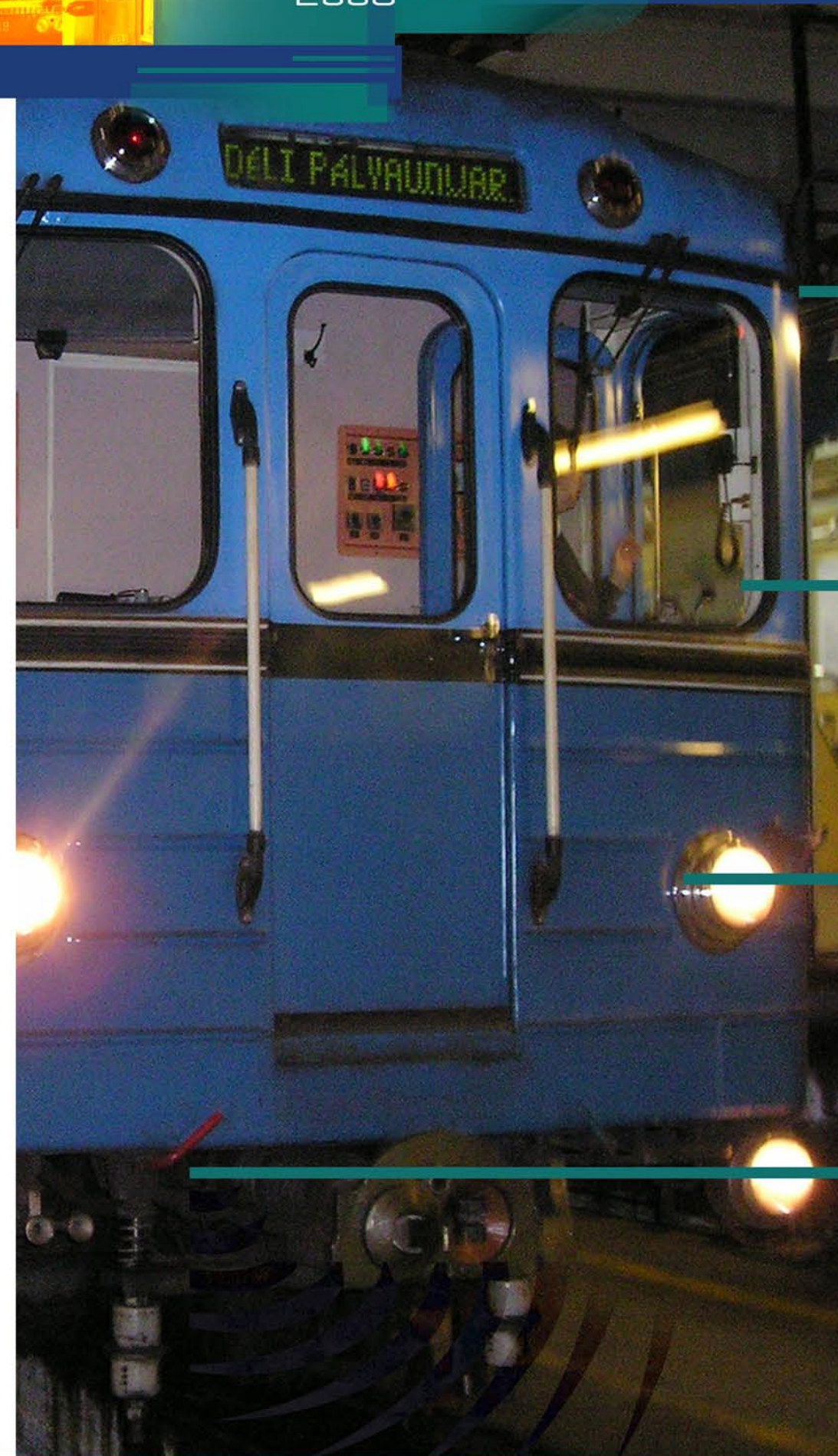


Reasons for the increase of the number of drivers:

- primarily the replacement service due to reconstruction works
- new recruitments based on the increase in working hours due to Collective Agreements.

In the business plan of year 2006 the Company defined its average headcount figure as 12,875 persons. Due to the measures introduced during the year the real number of full-time employees was 12,817. The number of white collar and blue collar employees (excluding drivers) remained 175 people below the plans, at the same time the average number of the full-time drivers increased with 117 persons.

To contribute to measures concerning staff number 12 persons took an early retirement and 24 people got their notice with severance pays in 2006. The employment wage bill of the Company in 2006 was HUF 34,454 million, which exceeds that of the base period with HUF 3,651 million, i.e. by 11.9 per cent. On company level the wages of full-time employees exceeded the average wages of the previous year by 10.1 per cent. Wage costs according to the balance (with delimitations in time) amounted to HUF 34,509 million.



BALANCE SHEET

	2005	2006
A. Invested Assets	271 578	335 717
I. Intangible Assets	99	210
II. Fixed Assets	270 326	334 347
III. Financial investments	1 153	1 160
B. Current Assets	10 673	8 694
I. Stocks	2 030	2 121
II. Receivables	8 358	6 348
III. Securities	0	0
IV. Liquid Assets	285	225
C. Prepayments	118	111
TOTAL ASSETS	282 369	344 522
D. Shareholders Equity	102 084	100 938
I. Registered capital	127 000	127 000
From which: repurchased owner's stake at par value	0	0
II. Capital registered but not paid in	0	0
III. Capital Reserves	78 672	89 222
IV. Reserves	-81 138	-104 278
V. Allocated Reserves	16	16
VI. Valuation Reserves	0	0
VII. Net Profits	-22 466	-11 022
E. Provisions	514	1 304
F. Liabilities	81 828	97 783
I. Back-rated Liabilities	0	0
II. Long-term Liabilities	52 305	49 787
III. Short-term Liabilities	29 523	47 996
G. Accrued Expenditures	97 943	144 497
TOTAL LIABILITIES	282 369	344 522



PROFIT AND LOSS ACCOUNT (with Total Costs Procedure)

Items	2005	2006
I. Net sales receipts	62 434	63 913
II. Profit on activated own performance	2 843	3 171
III. Other incomes	17 590	33 851
IV. Material expenditure	40 391	42 445
V. Staff related expenditure	46 158	51 202
VI. Depreciation	12 275	13 296
VII. Other expenditures	4 703	2 517
A PROFIT ON (BUSINESS) OPERATION	-20 660	-8 525
VIII. Income from Financial Transactions	750	1 965
IX. Expenditures on Financial Transactions	4 666	6 937
B. PROFIT ON FINANCIAL TRANSACTIONS	-3 916	-4 972
C. USUAL ENTERPRISE PROFIT	-24 576	-13 497
D. EXTRAORDINARY PROFIT	2 110	2 475
E. PRE-TAX PROFIT	-22 466	-11 022
F. AFTER-TAX PROFIT	-22 466	-11 022
G. RETAINED PROFIT OF THE YEAR	-22 466	-11 022



Cash flow

		CASH FLOW	
		2005	2006
		(in thousand HUF)	
1.	Pre tax profit (ex-coupon)	-22 466 365	-11 055 510
2.	Accounted depreciation	12 274 824	13 295 684
3.	Invested assets	567 565	5 172 544
4.	Depreciation and reversal of financial investments	541 935	0
5.	Other depreciation and reversal	170 579	67 936
6.	Difference between reserve generation and utilization	326 516	789 474
7.	Sales profit on invested assets	-195 071	-723 756
8.	Change of suppliers' and bill of exchange liabilities	2 090 195	-295 784
9.	Change of other short-term liabilities	908 050	725 397
10.	Change in accrued expenditures	-492 545	-7 713 174
11.	Change of customer's and bill of exchange liabilities	-379 558	233 653
12.	Change of current assets (without customer and assets)	-2 811 743	1 617 996
13.	Change of accrued and deferred assets	-19 936	6 925
I. CASH FLOW OF OPERATION		-9 485 554	2 121 385
14.	Purchase of invested assets	-50 083 331	-73 369 436
15.	Revaluation of invested assets	171 250	-7 353
16.	Sales of invested assets	3 483 988	855 471
17.	Received dividend	0	33 591
II. CASH FLOW OF INVESTED ACTIVITIES		-46 428 093	-72 487 727
18.	Bank loans	19 100 000	6 523 574
19.	Other borrowings	142 450	0
20.	Financial leasing	3 541 520	3 408 416
21.	Received financial assets	36 982 909	64 817 506
22.	Additional payment of shares	0	0
23.	Repayment of financial leasing	0	-448 155
24.	Repayment of loans and credits	-3 875 922	-3 321 459
III. CASH FLOW FROM FINANCIAL OPERATION		55 890 957	70 979 882
IV.a. CHANGE OF LIQUID ASSETS (without self-audit)		-22 690	613 540
Correction of Results of Previous Years			-673 865
IV.b. CHANGE OF ACTUAL FINANCIAL ASSETS		-22 690	-60 325

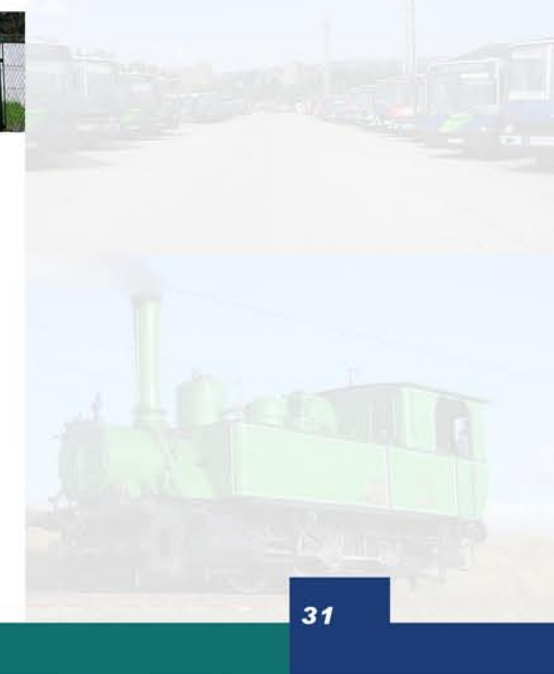


OVERHAUL OF PASSENGER-CARRYING VEHICLES (pieces)

Denomination	2005	2006
Tram – total	147	64
Complete overhaul	18	9
MOT test	48	55
Other value adding improvement	81	0
Cogwheel railway – total	2	2
Complete overhaul	2	2
Trolleybus – total	31	18
Improvement	28	5
Repair of frames	3	13
Bus – total	266	145
Improvement	79	15
Repair of frames	187	130
Suburban railway (HÉV) – total	36	48
Complete overhaul	9	9
MOT test	27	39
Metro – total	41	32
Complete overhaul	18	14
MOT test	23	18
Millennium Underground – total	6	5
Complete overhaul	0	0
MOT test	6	5

FARE INCOME (HUF) FROM THE DIFFERENT TYPES OF TICKETS

Denomination	2006 (in thousand HUF)
Single ticket	8 201 793
Suburban railway (HÉV) ticket	630 206
Metro ticket	738 313
One-day ticket	656 479
7-day travel card	350 893
Budapest card	230 939
Combined monthly pass	16 123 702
Combined yearly pass	5 147 858
Suburban railway (HÉV) pass	571 848
Conurbation pass	197 904
Combined monthly pass for students/pensioners	8 355 763
Combined yearly pass for students/pensioners	302 749
Suburban railway (HÉV) pass for students/pensioners	113 638
Conurbation pass for students/pensioners	68 763
Transportation of children	3 426
Other income	119 555
Income from fines	692 866
Total fare income	42 506 695
Funicular	366 216
Not subsidized non-scheduled services	54 077
Scheduled contracted services	479 128
Total	43 406 116



INCOME FROM PASSENGER TRANSPORT

2006

Denomination

(in Million HUF)

Fare + other income from passenger transport	43 407
Price supplement	17 935
Subvention from Local Governments (Budapest districts & conurbation towns)	429
TOTAL	61 771

INCOME

2006

In percentage

Denomination

(in Million HUF)

%

Passenger transport	61 771	57,5
From which:		
• fare income	42 507	39,6
• price supplement	17 935	16,7
• local government subvention	0	0,0
• income from public transport of		
Budapest districts and conurbation towns income from public transport	429	0,4
• income from contracted + non-scheduled services	534	0,5
• funicular	366	0,3
Normative state subvention	32 140	30,0
Other incomes	3 853	3,6
Financial and extraordinary incomes	9 523	8,9
TOTAL INCOMES	107 287	100,0

EXPENDITURES

2006

In percentage

Denomination

(in Million HUF)

%

Material expenditures	42 445	35,9
Staff related expenditures	51 202	43,3
Depreciation	13 296	11,2
Other expenditures	2 517	2,1
Financial and extraordinary expenditures	12 020	10,2
Profit on activated own performance	-3 171	-2,7
TOTAL EXPENDITURES	118 309	100,0

INVESTMENTS

2006

In percentage

Denomination

(in Million HUF)

%

Construction	44 852	65,5
Purchase of machines	0	0,0
Public transport vehicles	21 444	31,3
Other aims	2 191	3,2
TOTAL	68 487	100,0



AVERAGE HEADCOUNT BY EMPLOYMENT TYPES (person)

Denomination	2006 (persons)	In percentage %
White collar employees total	2 551	18,4
Drivers and assistant drivers on public transport vehicles	4 818	34,9
Of which: Tram	853	6,2
Trolleybus	361	2,6
Bus	3 144	22,7
Suburban railway	120	0,9
Millennium Underground	60	0,4
Metro	229	1,7
Metro assistant driver	51	0,4
Other blue collar employees	5 448	39,4
Blue collar employees total	10 266	74,3
Full time employees total	12 817	92,7
Other employees	1 005	7,3
Total	13 822	100,0

EXPENDITURE ON WAGES BY EMPLOYMENT TYPES

Denomination	2006 (in Million HUF)
White collar employees	8 995
Blue collar employees	23 899
Full time employees	32 894
Other employees	1 560
Total	34 454

EXPENDITURE ON WAGES

Denomination	2006 (in Million HUF)
Expenditures on wages according to Balance	34 512

