

# ANNUAL REPORT 2008



Budapest Transport Privately Held Corporation

**BUDA**  **PEST**



## ANNUAL REPORT 2008





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Dear Reader,

As the Chief Executive Officer of BKV Zrt., I am happy to present the Company's Annual Report for 2008. I am pleased, because although we had to apply strict measures in operation also last year, and as the extremely complicated problem of financing was not solved, this publication illustrates that even within its limited potential our Company made its best endeavours to improve services and rationalise and develop the network in 2008, too.

I was able to join this work only in the last third of the year, but in my opinion it is a cause for optimism that despite all the difficulties BKV Zrt. survived and operated in the interest of the passengers day after day.

In the meantime, our Company has celebrated its 40th anniversary, maintained its solvency, kept the trust of its partners and retained the paying passengers who use its services. A remarkable result these days! That is a solid base and strong starting point for further action and development, guaranteeing the future of the Company and the service for Budapest, the passengers and the staff.

I believe in that, and wish to maintain that spirit in managing this company in its performance of an extremely exciting task with a huge impact on the life of the capital city and the general condition of its population.



Dr. István Kocsis



## INTRODUCTION

2008 marked the 40th anniversary of the foundation of the Company and brought many changes in the history of BKV.

One of the most important changes, felt also by the passengers, was the introduction of a new parameter book.

Its objective was to improve the quality of service and the public transport network of Budapest; satisfying passenger requirements. Consequently, the new regulation contained numerous co-ordinated development and rationalisation components, the simultaneous introduction of which was favourable. As a result of the interconnection and extension of several service routes, remote parts of the city can now be reached without changing lines. With better co-ordination of the service timetable, the waiting time at service change has been reduced. New stops were established at places which were not previously covered by the services. In total, the timetable is more in line with the volume of passenger traffic, the change options have improved in the co-ordinated system of services and many routes are served by the low-floor vehicles which are of great help to people with disabilities.

In the autumn of 2008, Budapest Municipality, the owner of the Company, appointed a new management. Dr. István Kocsis was appointed CEO. The CEO's programme defined BKV Zrt.'s future vision as follows: 'BKV should become an integrated and competitive, stable and major actor on the public personal transport market, while complying with the EU market regulation. The strategy must be based on this future vision.' Dr. István Kocsis envisages BKV's future in a holding structure. Based on the owner's decision, in this structure the holding centre would become the main owner, controller and manager of the subsidiaries. The holding company would create opportunities for capitalisation, would separate the operating and capital expenditures, would make the usage of support transparent, by reorganising the processes it would optimise resource utilisation and, last but not least, would generate HUF 4-5 billion savings for the Company. Stable financing, modernisation of the fleet and more effective and passenger friendly operation are also key aspects. The implementation of the three-year programme began in 2008.





## MANAGEMENT



**Dr. István Kocsis**

*Chief Executive Officer*

A certified mechanical engineer, with a PhD degree obtained at Budapest University of Technology and Economics in 1985, where he worked as a tutor for a number of years. Parallel with this job, he was director of a dormitory for six years. Between 1991 and 1993, he was an executive director then a deputy state secretary at the Ministry of Industry and Trade. Until 1997, he was the deputy CEO and then CEO of the company managing and privatising state-owned assets (ÁV Rt. and ÁPV Rt.). Between 1998 and 2002, he managed energy companies. He then took charge of Paksi Atomerőmű Zrt (Nuclear Power Plant) for three years. Between 2005 and 2008, he was the CEO of the state-owned Magyar Villamos Művek Zrt. (the leading Electricity Company of Hungary). On 1<sup>st</sup> September 2008, he was appointed the Chief Executive Officer of Budapest Transport Privately Held Corporation.

He is also the chairman of the Board of Directors of the personal transport companies of the Hungarian State Railways (MÁV Start Zrt), a member of the Board of Directors of the largest Hungarian bank (OTP Nyrt.) and Paksi Atomerőmű Zrt as well as a member of the Supervisory Board and Board of Directors of several other companies. He is married and has three children.



**Zsolt Balogh**

*General and technical deputy CEO*

He began his career as a physical worker and then a foreman with construction companies. He became a technical controller at the Hungarian Postal Service in 1986, and then went on to a telecommunications company (MATÁV) where he was regional capital investment manager until 1999. Between 1999 and 2000, he worked as the head of monitoring department of the Hungarian Postal Service's CEO's Office. Between 2000 and 2006 he worked for banks as an independent expert, managing for example EU development project (smart1, smart2) preparations. Between 2000 and 2002, he was the member of the Board of Directors of MÁV Vagon Ltd. In April 2007, he was appointed the manager of the Capital Investment Implementation Office of BKV Zrt. At the beginning of August 2007, he was appointed head of the Capital Investment Department and then became the technical deputy CEO in September. From February to August 2008, he was acting CEO, appointed by the Board of Directors, and then became the general and technical deputy CEO of BKV on 1<sup>st</sup> October 2008.

Apart from a diploma in transport construction, he is also a certified REFA German project manager and is a qualified economic organiser. In 2002, he obtained an international controller diploma.

He is married and has three children. His oldest son is a transport professional, his daughter studies at university and his younger son passed his final examination.



**Tibor Bolla**

*Financial deputy CEO*

He is a certified financial economist, and a certified corporate managing agricultural engineer. After graduating from the University of Agricultural Sciences in Gödöllő, he also obtained a diploma at the College of Finance and Accountancy. He is also a chartered accountant and has high-level foreign trade qualifications. Between 1993 and 2003, he worked for the company managing and privatising state-owned assets as a manager and director (ÁV Rt. and ÁPV Rt.), then spent nearly 6 years at a financial company as a deputy CEO (Cívis Credit Pénzügyi Szolgáltató Zrt.). Currently he is responsible for managing the economic, financial and sales processes of the company.



**József Lazurán**

*Internal control director*

He is a certified telecommunication engineer and economist and he has another degree, too. He has worked for Orion Rt., MATÁV Zrt. and the Ministry of Internal Affairs. In 2000 he joined BKV Zrt and became the head of Internal Audit Department which was transformed into the Division of Internal Audit and Security in 2002. The Internal Control Directorate came to existence in 2008 under his leadership. He regularly takes part in vocational trainings and he is the member of the Hungarian Organisation of Internal Auditors (BEMSZ)

## MANAGEMENT



**Gábor Mihálszky**  
*Transport deputy CEO*

He is a transport engineer who chose BKV to work for in 1987. He worked in traffic control, first as a controller, and then joined the Company's main dispatching service as a central dispatcher in 1989. In 1996 he was appointed senior dispatcher. During the years served as senior dispatcher, he managed numerous extraordinary situations, through which he learnt the process of organising components of the traffic process into one system. He was in charge of operational traffic control tasks in relation to major events for several years. In 1994, he received an award from the Minister of the Interior for his public transport control and organisation activities related to the OSCE (Organisation for Security and Co-operation in Europe) meeting.

From March 2007 he managed the traffic control transformation project then in August 2007 he was appointed head of the traffic control department.

In May 2008 he became transport deputy CEO and is currently responsible for the core traffic related services.



**Dr. Eleonóra Szalai Szilágyi**  
*HR director*

She is an economist and labour economist, she achieved her PhD with a dissertation on human resource management.

After graduating from the University of Economics, she joined BKV as her first workplace. Her career has led through all stages of promotion, working as an administrator, group leader, unit manager and head of department before being appointed HR director in 2003.

Apart from training and social issues, her responsibilities also include employment, wage management and the Collective Agreement. She is also in charge of the tasks regarding the relations with the trade unions which she performs in the spirit of a mutual search for consensus.



**Dr. Erzsébet Székelyné Pásztor**  
*Communications director*

Having graduated at the College of Foreign Trade, she obtained a Far East Intercultural Management Economist diploma in a post-gradual course.

She was the corporate communications manager of OMV oil and gas industry group until transferring to BKV. Earlier she had been the communications manager at Paksi Atomerőmű Rt. She spent 25 years at the state-owned oil company (MOL Magyar Olaj- és Gázipari Rt.) in various managerial positions, including serving as PR and foreign relations director, marketing PR director and corporate communications officer.

She is a member of the National Association of Hungarian Journalists and IPRA (International Public Relations Association) which is based in London. She speaks English, French and Russian.



**Dr. György Sziebert**  
*Legal director*

After obtaining his legal diploma at the joint Faculty of Law of Szeged University and Károli Gáspár University of the Reformed Church in Hungary in Kecskemét in July 2000, he sat specialist legal examinations in October 2004.

Between 2001 and 2003, he worked for the Office of Public Finance (from July 2003: Hungarian State Treasury) Legal Department as an adviser. Between 1st January 2003 and 31st October 2003 he was also a legal representative of the Office of Public Finance and the Hungarian State Treasury, Budapest and Pest County Directorate.

From 1st November 2003, he joined the Legal Directorate of Budapest Airport Zrt. as deputy legal director, while, between January and July 2006 he was a member of the Supervisory Board of RÜK Repülőtéri Üzemanyag Kiszolgáltató Kft. (AFS, i.e. Airport Fuel Supply LLC.) then managing director of Budapest Airport Minibusz Kft. between August 2006 and September 2007.

Since 19th May 2008 he has been working as the legal director of BKV Zrt.



## BKV ZRT.'S OPERATION IN 2008

Including its legal predecessors, BKV is a company with more than 100 years of history, great tradition and expertise. It has played a major role in the transport of Budapest through its entire history. The Company operates 5 large divisions in an integrated system: bus, tram, metro network, suburban railway (HÉV) and trolleybus. In addition, BKV also operates the rack railway and the funicular, which are primarily tourist attractions. The Company employs sub-contractors to run the Libegő (chairlift) and a number of boat services on the Danube.

BKV is a so called privately held corporation, owned by Budapest Municipality.

In 2008, the Company performed its business plan according to the shareholders' expectations and fulfilled all its principal repayment, leasing and interest payment obligations. Loans and major state support were required for the operation of the Company in 2008, too. In December 2008, BKV Zrt. received a HUF 10 billion one-off cost re-imbursement from the state, which significantly improved its financial position.

In 2008, the total revenues were almost HUF 121 billion, total expenditure was HUF 126.7 billion and net loss amounted to HUF 5.7 billion.

The statistical number of passengers calculated from tickets and passes sold was 1.3 billion, the passenger kilometre 5.5 billion; the space kilometre made available to passengers was 21.4 billion. Vehicles covered 176 million kilometres.

The average vehicle fleet included 2,869 vehicles, of which 2,202 were involved in traffic on a daily basis; the rate of availability of the vehicles was 76.8%. The average age of vehicles is 22 years. More specifically, buses are older than 15 years, trolleybuses are older than 18 years, the average age of rail-bound vehicles is nearly 30 years, within which category HÉV and MFAV (Millennium Underground) vehicles are older than 30 years.

Among the quality indices of public transport, the average utilisation of vehicles was 25.9%, and the rate of circulation was 16.34 km/hours.

Development of public transport was a priority also for Budapest Municipality. Of the investments, HUF 45.4 billion was financed by the Municipality and HUF 10.5 billion was financed by the Company.

The average full-time headcount figure in 2008 was 11,839 employees. The extended impact of redundancies made in 2007 could be felt in 2008 too. The reduction compared to the previous year's average headcount was 165 persons in the white-collar staff and 434 persons in the blue-collar staff (without drivers and assistant drivers). Drivers headcount figure increased by 15 persons.

The closing full-time headcount figure was 11,812 on 31 December 2008, reflecting a reduction by 41 persons compared to the previous year's closing headcount figure.

The payroll expenses in the balance sheet of BKV Zrt. were HUF 37,521 million, exceeding the previous year's figure by 2.3%.





## BKV ZRT.'S OPERATION IN 2008

### PROFIT AND LOSS ACCOUNT OF BKV ZRT. (HUF million)

Description	2007	2008
Income from fares	45 974	50 908
Supplement to income from fares (Ministry of Economy and Transport)	588	0
Price supplement	17 135	17 139
Contribution from municipality	0	0
Bonus option	0	0
Income from regional and district public transport	461	453
Income from contracted and other services	893	916
Total income from passenger transport services	65 051	69 416
Income from other activities	2 349	2 721
Other income from operations	2 365	5 021
Reimbursed expenses	0	10 000
Normative state subsidy	32 198	32 198
<b>I. TOTAL INCOME FROM OPERATIONS</b>	<b>101 963</b>	<b>119 356</b>
Material costs	8 275	8 078
Diesel fuel for operation	7 712	9 000
Traction power	6 320	7 614
Other energy	3 257	3 785
Igénybe vett szolgáltatások értéke	14 876	14 716
Value of services used	1 053	986
Purchase price of goods sold	47	78
Value of services sold (sold as an intermediary)	3 254	4 459
Material-type costs	44 794	48 716
Wage costs	36 682	37 521
Other staff remuneration	7 238	5 860
Wage contribution	13 396	13 781
Staff remuneration	57 316	57 162
Depreciation and amortisation	14 866	15 026
Other operating expenses	2 451	1 564
Own work capitalised	-3 181	-3 034
<b>TOTAL OPERATING EXPENSES</b>	<b>116 246</b>	<b>119 434</b>
<b>INCOME FROM OPERATIONS</b>	<b>-14 283</b>	<b>-78</b>
II. Financial income	579	1 356
Financial costs	6 775	6 714
<b>NET FINANCIAL COSTS</b>	<b>-6 196</b>	<b>-5 358</b>
<b>PROFIT ON REGULAR ACTIVITIES</b>	<b>-20 479</b>	<b>-5 436</b>
III. Extraordinary income	3 901	241
Extraordinary expenses	252	547
<b>EXTRAORDINARY PROFIT</b>	<b>3 649</b>	<b>-306</b>
<b>PROFIT BEFORE TAX</b>	<b>-16 830</b>	<b>-5 742</b>

### BALANCE SHEET (HUF million)

Number	Description	2007	2008
A.	Long term assets	393 130	448 117
I.	Intangible assets	190	416
II.	Tangible assets	391 773	446 567
III.	Financial investments	1 167	1 134
B.	Current assets	10 552	9 243
I.	Inventories	2 751	2 872
II.	Receivables	7 549	6 100
III.	Securities	0	0
IV.	Liquid assets	252	271
C.	Prepaid expenses	199	249
<b>TOTAL ASSETS</b>		<b>403 881</b>	<b>457 609</b>
D.	Equity	103 157	116 252
I.	Issued capital	127 000	127 000
	of this: repurchased ownership share at face value	0	0
II.	Subscribed but unpaid capital (-)	0	0
III.	Capital reserve	108 493	127 330
IV.	Revenue reserve	-115 522	-132 352
V.	Earmarked reserves	16	16
VI.	Valuation reserves	0	0
VII.	Retained profit	-16 830	-5 742
E.	Special provisions	1 747	2 252
F.	Liabilities	112 994	104 176
I.	Liabilities ranked behind	0	0
II.	Long-term liabilities	57 393	50 138
III.	Short-term liabilities	55 601	54 038
G.	Accruals	185 983	234 929
<b>EQUITY AND LIABILITIES</b>		<b>403 881</b>	<b>457 609</b>





## CASH FLOW (HUF million)

Number	Description	2007	2008
I.	Profit before taxation (without dividend)	-16 851	-5 750
2.	Depreciation and amortisation	14 873	15 026
3.	Write-out value of long term assets	607	656
4.	Loss of value and write-back of financial investments	0	0
5.	Other loss of value and write-back	32	50
6.	Difference between provisions created and used	443	505
7.	Income from the sale of invested assets	-309	-17
8.	Changes in trade payables and bill of exchange obligations	2 844	-209
9.	Changes in other short-term liabilities	-309	2 058
10.	Changes in accruals	-11 700	-2 776
11.	Changes in trade receivables and promissory note receivables	-369	1 079
12.	Changes in current assets (without trade receivables and liquid assets)	-1 492	202
13.	Changes in prepaid expenses	-88	-50
I.	Operating cash flow	-12 319	10 774
14.	Acquisition of invested assets	-64 860	-74 345
15.	Changes in the stock of financial investments	-9	30
16.	Sale of invested assets	468	73
17.	Dividend received	21	8
II.	Cash flow of investments	-64 380	-74 234
18.	Taking out bank credits	17 524	4 500
19.	Taking out other credits and borrowings	0	0
20.	Financial leasing	780	0
21.	Funds received	72 457	70 559
22.	Additional payment for shares	0	0
23.	Amortisation of financial leasing	-723	-810
24.	Amortisation/repayment of credit	-13 090	-10 770
III.	Cash flow from financial activities	76 948	63 479
IV. a.	CHANGES IN FINANCIAL ASSETS	249	19
	Correction of previous years' profits	-222	0
IV. b.	ACTUAL CHANGES IN FINANCIAL ASSETS	27	19

## TRANSPORT

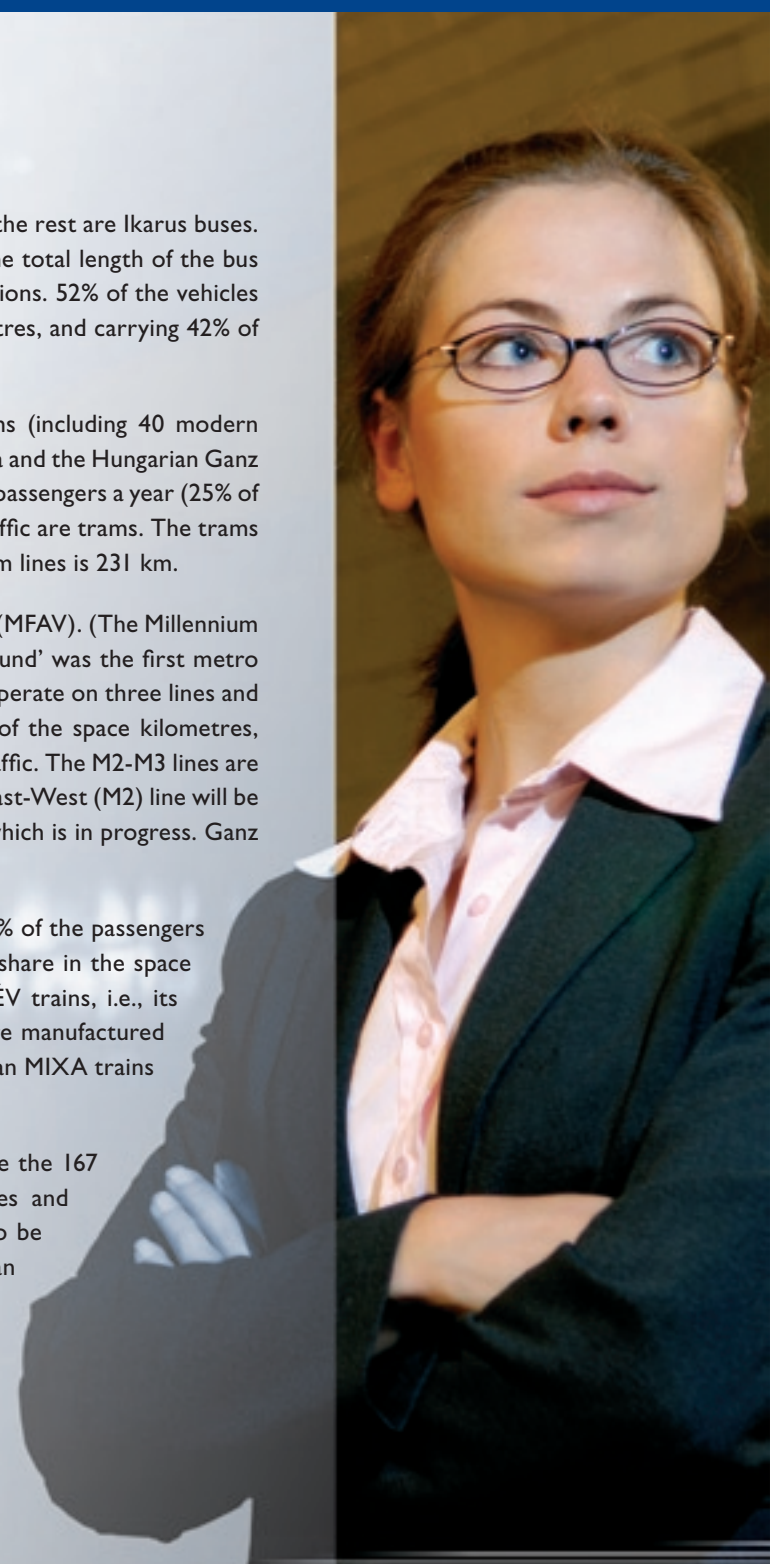
The vehicle fleet of the company is dominated by buses. Of the 1,409 buses, 150 are modern Volvo 7700A models, and the rest are Ikarus buses. The bus is the leading division also in several other aspects. The total length of the bus routes is 1,676 km, three times the length of all the other divisions. 52% of the vehicles used in traffic are buses, representing 39% of the space kilometres, and carrying 42% of the passengers, i.e. 546 million passengers a year.

Trams come in second place in traffic volume. The 607 trams (including 40 modern Siemens Combinos, the older German DÜVAG, the Czech Tatra and the Hungarian Ganz trains and the rack-rail trains made in Austria) carry 333 million passengers a year (25% of the total number of passengers). 20% of the vehicles used in traffic are trams. The trams have a similar share in space kilometres too. Total length of tram lines is 231 km.

The third largest division is the metro and underground railway (MFAV). (The Millennium Underground railway (M1), generally known as 'little underground' was the first metro line in continental Europe opened in 1896.) The 392 carriages operate on three lines and carry 23% of the passengers (297 million), representing 26% of the space kilometres, although the metro operates only 13% of the vehicles used in traffic. The M2-M3 lines are operated using rolling stock manufactured in Russia, while the East-West (M2) line will be equipped with new Alstom metro trains, the procurement of which is in progress. Ganz articulated vehicles operate on the M1 underground railway.

The situation is somewhat reversed in relation to HÉV. Only 4% of the passengers use the green trains (55 million people) which have only 13% share in the space kilometres, while 10.5% of the vehicles used in traffic are HÉV trains, i.e., its ratio is similar to the share of the metro. The HÉV trains were manufactured in the German Democratic Republic; apart from a few Hungarian MIXA trains running on the Csepel line.

Trolleybus transport has a marginal share in Budapest, because the 167 trolleybuses represent only 3% of the total space kilometres and provide only 6% of the vehicles involved in traffic. It must also be noted that even so trolleybuses carry more passengers than the HÉV. 77 million passengers use trolleybuses each year, representing 6% of the total number of passengers. Russian trolleybuses still operate on a few lines, but they are currently being replaced with Hungarian Ganz or Czech Skoda state-of-the-art vehicles. The trolleybus fleet is dominated by Hungarian Ikarus vehicles.







## ACTIVITIES

### INVESTMENTS, DEVELOPMENT PROJECTS

#### Major investments and developments

##### *The Parameter Book of 2008*

Budapest Municipality City Operation and Environmental Committee adopted the so-called Parameter Book laying down the main characteristics of BKV services on 28th May 2008. The book was implemented in two phases, on 21st August 2008 and on 6th September 2008.

The implementation of the new parameter book was a customer-friendly measure, because transport requirements had changed significantly in the previous years and our company adjusted its services to those requirements in 2008.

We increased the operating periods of several lines, through which daily services are often available late in the evening and at night. We have extended the routes of several lines, as a result of which 2-3 previous services are provided with vehicles operating on the combined line. The new extended lines are ideal for direct trips from one end of the city to the other without changing lines. On these long lines passengers are able to reach their destinations without experiencing the discomfort of multiple service changes or without any loss of time, as a result of which the average time spent in travelling has also been reduced. A trip on one line without any need to change also reduces the cost to passengers, because earlier they needed to use several single tickets for the multiple service changes.

By the modifications of the bus routes in the Castle District the direct approach of the city centre and the tourist attractions has been made possible. A direct service departing from the metro hub in the city centre connects the main historic monuments of the Pest and Buda sides of the city, for example Basilica of St. Stephen, Chain Bridge, Funicular and Buda Castle.

The routes of several services have been extended at weekends and on holidays. This way we have managed to eliminate a number of line changes which had unnecessarily increased travelling times.

We have introduced several so-called 'exploring' and 'distribution' services and extended the length of the existing lines in areas which were previously not easily accessible by public transport. That made it easier for passengers to reach the primary lines and also reduced the number of changes required.

In line with our efforts to improve the general quality of service, we also tried to give better information to passengers at stops. Timetables were displayed indicating the starting time of the vehicle from the specific stop, contrary to the previous practice when the timetable showed when the vehicle left the terminus. The starting times of low-floor vehicles are specifically marked in our timetables, apart from the very busy periods, when only the density of services operated is shown thanks to higher frequency of services. For better transparency, we have also changed and standardised the numbering of the services.

As a result of the developments specified in the Parameter Book,

- approximately 90 new stops were established,
- various technical interventions and reconstructions were completed at approximately 240 stops,
- approximately 1,200 new timetables were prepared, and
- approximately 50 development projects (line extension, line connection, launch of new service, extended operation) were completed.

The implementation of the changes defined in the Parameter Book is followed by a monitoring period, during which potential deficiencies and errors will be identified.

#### *DBR Metro*

The construction of the new metro line 4 began in 2006. The total budget of the first phase connecting South Buda and Baross tér in the centre of the Pest side is approximately HUF 353 billion. The total budget includes the inflation of recent years, the related surface construction works, the vehicle depot and the fixtures, as well as the EU contingency budget. Financing is shared between the Hungarian State and Budapest Municipality in a 79% / 21% ratio, but the Municipality, i.e. the beneficiary, expects approximately HUF 224 billion support from the EU Cohesion Fund. If the Municipality is granted this support then its equity financing requirement will drop to approximately 10%. The 'Assistant Contract' has been signed, the National Development Agency has sent it to Brussels and the decision is expected in 2009 once all the necessary revised calculations have been submitted.

Of the tunnels connecting the two planned termini (Etele Square and Baross Square), half of the first 7.5 kilometre section was completed by the end of 2008. Both shields of the tunnel boring machine have left Móricz Zsigmond Square and approached St. Gellért Square station. This way, tunnelling has been finished on Buda side, which, at the same time means the beginning of the tunnel boring works under the Danube and then on Pest side.



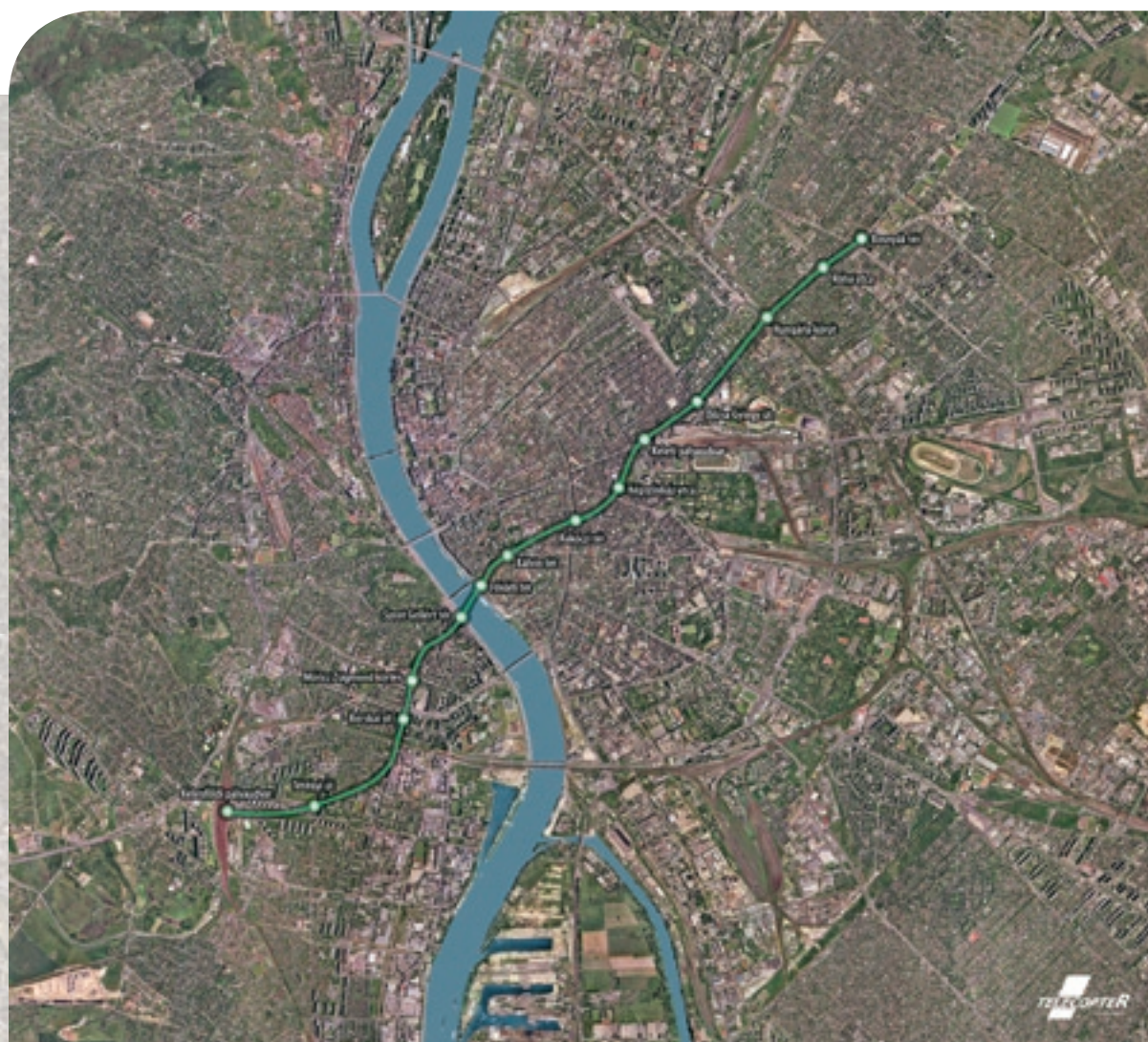




## ACTIVITIES

According to the technical solution finalized in the autumn of 2008 the 40 metres long tunnels of Fővám Square station reaching under the river will be placed approximately 20 metres closer to Kálvin Square in order to locate it further from the riverbed. In order to accelerate the work, construction began in November on parts of the platform tunnels not affected by the changes, but the approval of the licence modification by the authorities was also in progress at the end of the year. The platform tunnels and ventilation tunnels of the stations are constructed using an excavation method. Approximately 50% of the platform tunnels extending under the Danube have protection by injected pipes but it does not exclude the application of freezing for the purpose of additional security.

The level of completion of some of the stations is approximately 40-50% while others are 80-90% complete. The degree of completion of the total project is approximately 35-40%.



### *Reconstruction of the M2 metro line*

The complex reconstruction works lasting for several years were completed in 2008. The tracks, power supply and the stations were refurbished and reconstructed in the last section (between stations 'Stadion' and 'Örs vezér tere') as well. The site conversion, required for the reception of the new metro trains has begun, and the complex reconstruction of the signalling equipment has commenced.

### *Replacement of the vehicles on the M2 metro line*

The Municipality finances the purchase of the new vehicles. The prototype of the metro carriages has been completed and is now being tested.

### **Other developments and capital investments**

#### *Combino project*

Within the framework of the project, all 40 Siemens Combino trains were supplied with air conditioning equipment in first half year of 2008, providing more pleasant conditions for passengers on the trams in the summer. The 3 air conditioning units on each train reduce the inside temperature by at least 5 C° compared to the outside temperature.

The Combino trams operate on the Grand Boulevard in Budapest which is the busiest tramline in Europe. As a result of further modernisation of the power supply network of this line, there is a secure power supply and we have achieved 28% energy savings per year.

#### *Changes related to the reconstruction of the Northern Railway Bridge*

Due to the reconstruction of the Northern Railway Bridge carrying railway traffic across the Danube, from 21st July 2008 the trains operating between Budapest and Esztergom ran on some of the HÉV track into the city centre (Margaret Bridge) on the Buda side, instead of their terminus on the Pest side. The tickets and passes issued by our Company were valid for the trains operating (by the State Railways) on the joint sections.

To support the crossing of the Danube during the reconstruction period, our Company employed a sub-contractor to operate a ferry service between 14th June and 21st September 2008.

#### *Szentendre HÉV line*

The signalling equipment and additional facilities on the internal section (i.e. within the administrative boundaries of Budapest) were reconstructed consequently, transport became faster and safer. We have also begun to prepare and plan for the reconstruction of the complex external section of the line.





## ACTIVITIES

### *Priority of public transport*

This project was dedicated to improving the quality of the tram service, and included reconstruction on two tramlines (No. 12 and 14) as well as the preparation of the complex reconstruction of the infrastructure of two other lines (on Fehérvári út and Fiumei út).

### *Track reconstruction*

In order to improve travel conditions, major reconstruction works were completed on tram and HÉV tracks. Apart from maintaining and increasing the safety of operation, repairs were carried out, and tracks were replaced, rail welding and grinding works were done for the purpose of reducing speed restrictions due to faulty track, and for increasing travelling speed. The reconstruction also included the refurbishment and replacement of rail sidings, switch drives and switch heating.

- full refurbishment of the tracks of tram No. 56 was finished by the reconstruction of track section between Budagyöngye – Hűvösvölgy
- on tram route No. 28 between Orczy tér – Könyves Kálmán körút state-of-art tracks were made
- on tram line No. 24 section between Balázs Béla utca – Nagyváradi tér was reconstructed
- on Kőbánya-Kispest Metro Station the double track bonds were refurbished
- highway crossing of Könyves Kálmán körút – Gyáli út with a heavy road traffic was reconstructed
- on tram lines Nos. 12-14, 21 and 62-69 the replacement of large panels has begun. The works will be completed in 2009.

### *Temporary relocation of Kőbánya-Kispest bus terminal*

Due to property development at the southern terminal (Kőbánya-Kispest) of the M3 metro line, the bus terminus was moved to a temporary location established at the former P+R car park on 28th December 2008.

### *Reconstruction of vehicles*

The planned vehicle reconstruction projects were all completed. In 2008, structural reconstruction took place on 40 Ikarus buses and 3 trolleybuses. In addition, major reconstruction works were completed on 56 metro motor carriages, 2 Millennium Underground trains, 12 three-unit HÉV trains, 57 trams and 1 rack-rail train.

### *Escalator reconstruction*

The planned 7 large and 4 small step escalators were reconstructed according to plan.

### *Refurbishment of infrastructure*

The major investment projects in infrastructure scheduled for 2008 were completed, including:

- roof insulation ,
- reconstruction of HÉV transformer at 'Kavicsbánya',
- renovation of trolleybus ground cable network,
- replacement of cables on North-South metro line,
- replacement of catenary (overhead and messenger wiring) on HÉV lines,
- exchange of poles of trolleybus overhead network,
- replacement of contact rails of Millennium Underground,
- replacement of air conditioning equipment in the service rooms of North-South metro line and Millennium Underground,
- refurbishment of the extractor systems of the battery rooms.

### **Preparation and planning of European Union projects**

The projects co-financed by the EU are being prepared, applications are being drafted and planning and licensing are in progress. We expect that the implementation phases of certain projects to begin in 2009.

Projects in progress:

- Establishment of interconnecting tram network in Buda, Phase I,
- Development and modernisation of traffic control and the passenger information system,
- Launch of a new bus corridor to Rákospalota (an external district of Budapest),
- Establishment of interconnecting tram network in Buda, Phase II.



## ACTIVITIES



### OPERATION

#### Purchasing and logistics

Purchasing and logistic activities are centralised. Last year the company conducted 91 public procurement and 286 competitive tenders. In total, 27,656 orders were placed in relation to daily continuous operation involving in total HUF 42,658,339.

#### Technical operation

The vehicles and infrastructure devices owned by the Company are operated safely and economically and the required technical and technology background is supported with assets of approximately HUF 257 billion book value. The Company spent HUF 12.1 billion on maintenance and operation in 2008. Daily operational activities are performed by three different Chief Engineer's Office (Road Vehicles, Rail Vehicles and Infrastructure). Their activities are primarily managed at level of 'specialized services'. Under the control of the Rail Vehicles Chief Engineer there are three specialised services (Tram, Metro and HÉV), and the Infrastructure Chief Engineer's Office operates four specialized services (Track Maintenance; Power Supply; Telecommunications and Signalling Equipment; Machine Engineering and Tunnel Maintenance).

#### Operation support

Operation support is also centralised; the Chief Engineer's Office responsible for that began its operation on 1<sup>st</sup> July 2008. This organisational unit is responsible for the maintenance and operation of the offices, facilities, buildings of the company. (It means 32 sites, total area of real estates: 1,200,000 m<sup>2</sup>, total built useable floor area: 275,000 m<sup>2</sup>, 59 transformer buildings (21,800 m<sup>2</sup>), 136 buildings at the termini and stations on the HÉV lines (7,900 m<sup>2</sup>).

Major tasks:

- the integration of new or transferred organisational units resulting from the functional hierarchy,
- the supervision and management of offices after restructuring,
- the management of the project for improving social and work conditions,
- the implementation of the tasks related to the changes contained in the Parameter Book.





## ACTIVITIES

### SALES, FARE REVENUES

#### Fare revenues

The prices of public transport are maximised by the regulatory authorities, therefore the Company cannot decide on its ticket and pass types alone: the fares are established by Budapest Municipality. The Company can form its tariff policy, or make proposals for fares or amendments in the fare structure, only within the framework specified by the Municipality's regulation on pricing. Budapest Municipality approved the prices effective from 1<sup>st</sup> January 2008 on 20<sup>th</sup> December 2007. The average 13% tariff increase had to be completed in one phase from 1<sup>st</sup> January 2008.

On 1<sup>st</sup> September 2008 Budapest Municipality introduced passes for parents with small children for HUF 3,250 which is the same price paid by students and pensioners. This extremely favourable option is available for those who receive childcare benefit from the state.

2008 was a successful year in terms of revenues: during the year the Company earned HUF 50.9 billion net fare revenues, which was higher than the originally budgeted HUF 49.882 billion, although below the HUF 51.9 million budgeted target. The majority of the HUF 900 million shortfall, approximately HUF 700 million is only a technical item because some January passes were sold in December. The remaining HUF 200 million shortfall was due to the general economic downturn.

The state price supplement for the preferential tickets and passes is in relation with the fare revenues. The amount disbursed to fund free trips is established by the Minister of Transport, Telecommunications and Energy. The price supplement for the free trips was raised by 4.8% in 2008. The HUF 3,580, serving as compensation for local transport allowances (student and pensioner passes) did not change. In total, we earned higher than budgeted revenues from the price supplement, in the amount of HUF 17.139 billion instead of HUF 17.039 billion. Compared to the budgeted HUF 68.895 billion, the total revenues from passenger transportation were HUF 68.047 billion.

The Company did its best to increase the ticket and pass purchase options. In 2008, 65 ticket offices were operated, of which 6 were active periodically.

In addition, passengers were able to buy tickets and passes at 264 vending machines (of which 105 are equipped with modern touch screens and sell various types of tickets), from 1,340 re-sellers and 5 major partners, also supplying passes. Bankcards can be used for payment in four ticket offices (Akácfa u. 15., Moszkva tér, Nyugati tér, Örs vezér tere) and at 24 vending machines. We deliver the passes to our partners purchasing passes in bulk without charging them extra delivery expenses.

#### Surcharge claims

Surcharges increased by 20% in 2008.

Primarily the following factors affected the collection of our Company's lawful claims: data protection requirements, the state of limitations, legal requirements and difficulties in the inspection of fare payment. The Company endeavoured to collect the penalties effectively within the shortest possible time.

In addition to more intensive controls at entrances, we also sought to make surcharge collection more effective. The controls at the entrances, applied on the metro, were also introduced at some surface hubs and termini.

In 2008 the total surcharge revenues were approximately HUF 1.8 billion that is HUF 300 million greater than budgeted. Owing to the new control methods, passengers' discipline and willingness to purchase tickets and passes also improved. There was a slight increase in the number of individuals who provided true personal data to our ticket inspectors, based on which we were subsequently able to reach them with notice letters instructing them to pay their debt, and allowing us to reduce the fare losses due to fare evasion.

The surcharge debts accumulated increasingly as time passed. We relied on the services of law offices in debt collection in 2008, too. At present 25% of all pending surcharge cases are managed by law offices. Surcharge revenues increased by approximately HUF 6 billion compared to the previous year and were 20% higher than contained in the annual budget.







### CORPORATE SOCIAL RESPONSIBILITY (CSR)

Respect for the interests of the social and natural environment is extremely important to our Company. The main directions of BKV's CSR activities are as follows:

- Supply of the best quality services to passengers and customers, thus improving their general comfort and quality of life, with special regard to equal opportunities,
- Respect for the traditions of the Company,
- Compliance with written legal regulations, internal regulations and unwritten ethical rules.

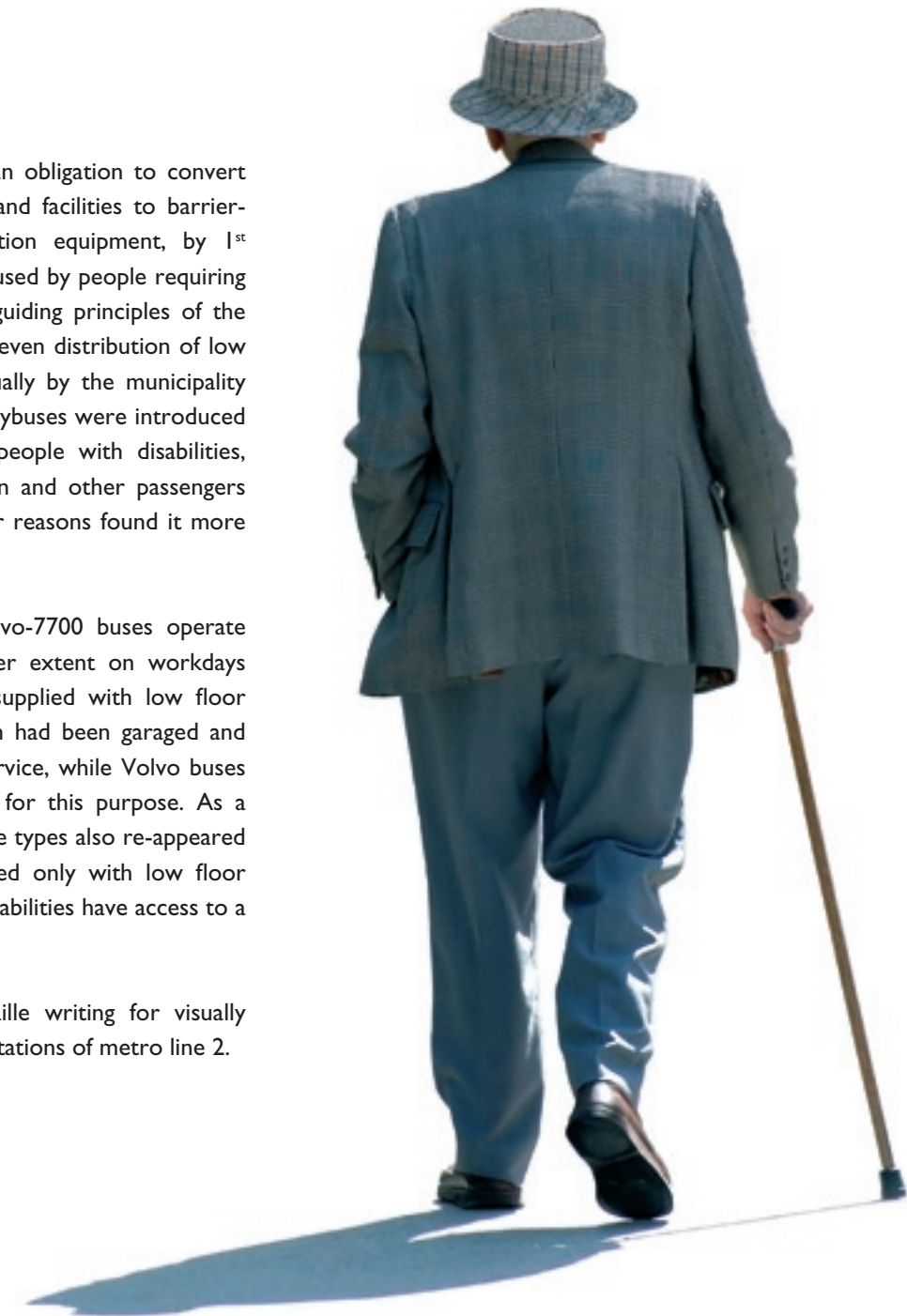
Even if its financial resources are limited, the Company still seeks to assist those in needs through the application of various instruments. Thus, e.g., in 2008 BKV made available buses and boats at preferential rates or gratis to the Pető Institute (an internationally known child rehabilitation centre), a Roma Minority Representation in District XII and the Rotary Club, as well as assisting the Municipality in relation to various events by carrying, e.g. disabled people.

### *Equal opportunities*

The Act on equal opportunities sets an obligation to convert the existing public transport systems and facilities to barrier-free, including signalling and information equipment, by 1<sup>st</sup> January 2010, so that they can also be used by people requiring assistance. Consequently, one of the guiding principles of the draft 2008 Parameter Book was more even distribution of low floor buses, which was supported equally by the municipality and NGO-s. Low floor buses and trolleybuses were introduced in parts of Budapest, where earlier people with disabilities, old people, parents with small children and other passengers struggling with movement due to other reasons found it more difficult to use public transport.

From 1<sup>st</sup> March 2008 Ikarus-412 and Volvo-7700 buses operate primarily at weekends and, to a lesser extent on workdays on lines which were not previously supplied with low floor vehicles. Low floor Ikarus buses which had been garaged and not previously in use were put into service, while Volvo buses were reallocated from other services for this purpose. As a result of these measures, the old vehicle types also re-appeared on lines which had previously operated only with low floor buses, though today passengers with disabilities have access to a much wider range of our services.

Information tables prepared with Braille writing for visually impaired passengers were installed on stations of metro line 2.





## ACTIVITIES

### MARKETING, COMMUNICATIONS

#### *External communications*

The external communication activities of the Company included, among others, responding to press queries, the organisation of press conferences and issue of press releases, the management of press corrections, press monitoring, the approval of photographic and filming activities as well as the purchase of press products. It also partly covers image building, the issue of PR articles and interviews, and the organisation of PR campaigns and major PR events. Good examples of the latter included the 'LÉPJEN' (TAKE A STEP) PR campaign at the M1 metro line terminus in the city centre and 'Asterix and Obelix choose BKV' promotion event, dedicated to the BKV calendar-free pass.

#### *Internal communications*

Employees are informed of Company matters partly by e-mail. The main instrument of internal communication is the intranet, from which employees can learn about the actual news, the organisational structure, issued instructions and circular letters. Every Thursday an E-newsletter is published which contains current information, employee preferences, a cultural supplement and puzzles. The Company also publishes an internal magazine 'On the Move' issued in 12,500 copies free of charge each month. Internal communication is also responsible for collecting questions and ideas from employees in regard to their work. Important for such purposes are the on-site suggestion boxes and e-mail.

#### *Marketing*

A point collection promotion was organised to encourage our passengers to regularly purchase their passes at the end of the month. This had a dual objective: to reduce queues at the beginning of the month and to encourage regular pass purchases.

Two promotions were launched to reduce surcharge debts. Anyone could obtain 5-30% discount from the wheel of fortune at the country's largest popular music festival (The Sziget Festival). As a Christmas promotion, in December we provided a 20% discount from each surcharge debt to those who pay up.

At the end of the year we used an on-line questionnaire to collect the comments and opinions of our passengers regarding the marketing events of 2008.

From 2008, gifts bearing the BKV logo may be purchased from Customer Services and the Company museums.

We have begun to establish a 'You are here' information system at the main metro stations in co-operation with educational institutions and travel agencies, for the purpose of promoting public transport.

It is important for our Company to open up to society and our passengers. We can achieve this primarily through our events. In 2008 we organised the following events:

- The Company celebrated the 40<sup>th</sup> anniversary of the foundation of BKV with a large ceremonial event on 21<sup>st</sup> June 2008 in "Városliget" (City Park).
- We organised open days at several sites for the interested public (Bus garage at Kelenföld, depot 'Szépilona' and depot of trolleybuses).
- The ceremonial opening of the City Transport Museum, combined with a family day of varied programmes, was a very popular event on the first weekend in April.
- We organised a transport safety event for children in autumn in 'Transport Park in Orczy-kert'.
- The new Combino trams were involved in two events. At the 'Ice Age in Combino' event we communicated the installation of the air-conditioning equipment. At the end of the year famous actors told German tales to children within the framework of the 'Tram Tales' programme.
- The City's Public Transport Museum in Szentendre hosted a programme presenting the poems of Dezső Kosztolányi, the famous Hungarian poet, under the title of 'Music in the Museum'.
- Our Company also attended the joint May Day festival organised for utility companies owned by the municipality, the Sziget Festival, the Budapest event of the European Car-free Day, the 5<sup>th</sup> Bus Festival in Tököl and the event of so called 'Health Park'.





## ACTIVITIES

### Museums

Two periodical exhibitions were opened in the Company museums in 2008. The interested public could visit the '40 years of BKV' exhibition at the City's Public Transport Museum in Szentendre, a small town in the Budapest agglomeration and 'Snapshots from the Public Transport of the 1950s and 60s' at the Underground Railway Museum which is in Budapest at Deák tér metro junction. A selection of photos, tickets, posters and cartoons were displayed from the years between the revolution of 1956 and 1968, foundation of BKV. In October the Underground Railway Museum and the Budapest Stamp Museum jointly organised a temporary exhibition under the title 'Public Transport on Stamps'. The Company museums also took part in national programmes, like 'Night of Museums' and Days of Cultural Heritage.



### International relations

BKV has been a member of UITP (The International Association of Public Transport) for many years. In 2008 we also regularly monitored the European changes affecting the sector, with reliance on the reports of the UITP EuroTeam. The most important change, the new EU regulation setting out the main future conditions for urban public transport services was also discussed by the management. Our members of staff had the opportunity to learn about the current news and most advanced technologies of the sector at international conferences both in Hungary and abroad. To celebrate 75 years of the history of BKV's trolleybus division, a conference was organised with the involvement of foreign guest speakers. Bilateral relations with transport companies of other European cities were exploited primarily during the course of international comparisons and exchanges of experience. In 2008 we also received professional delegations from the Czech Republic, Italy, Switzerland and China.





## ORGANISATIONAL STRUCTURE

### CEO's Office

- Internal Control Directorate
- Strategic and Organisational Directorate
- HR Directorate
- Legal Directorate
- IT Division
- Communications Office
- Secretariat of CEO's Office
- Heads of Operation

### Technical Directorate

- Technical Operation Division
- Development and Investment Division
- Logistics Division
- Technical and Quality Assurance Office
- Project Office

### Transport Directorate

- Traffic Operation Division
- Division for Service, Development and Planning
- Traffic Control Division

### Economic Directorate

- Accounting Division
- Financial Division
- Controlling Division
- Manpower Administration Division

### Sales Directorate

- Sales Division
- Public Connections Division
- Marketing Department
- Suburban Coordination Department
- Coordination Department
- Cashbox Control Group

### DBR Directorate

- DBR Metro Project Directorate
- Operational Project Management





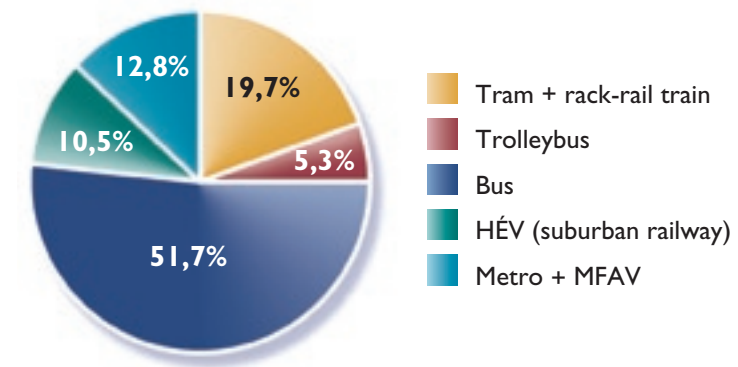
## STATISTICAL DATA

### CAPITAL INVESTMENT PERFORMANCE (thousand HUF)

Description	Technical	Financial
<b>I. Major projects financed by the Municipality</b>		
Construction of metro line 4 (DBR)	45 021 942	48 531 000
Reconstruction of metro line 2	423 520	2 788 594
Replacement of the vehicle stock of metro line 2	0	8 859 899
Total major investments financed by the Municipality	<b>45 445 462</b>	<b>60 179 493</b>
<b>II. Corporate investments</b>		
Reconstruction of vehicles	4 796 560	3 520 485
Modernisation of vehicles	1 721 347	1 174 788
Refurbishment of escalators	691 228	691 228
Track refurbishment	1 625 571	1 625 555
EU projects	457 273	457 273
Reconstruction of infrastructure	1 131 480	1 116 376
Improvement of travel conditions (total)	13 638	14 099
Planning and preparations (total)	12 945	12 945
Corporate investments (total, technical performance including also reconstruction performed with own resources)	<b>10 450 042</b>	<b>8 612 749</b>
Procurement of low value assets, working clothes and uniforms and other items for purposes other than transport (Financed by the Company)	771 254	770 472

### VEHICLES INVOLVED IN TRAFFIC

Description	Distribution in %
Tram + rack-rail train	19,7%
Trolleybus	5,3%
Bus	51,7%
HÉV (suburban railway)	10,5%
Metro + MFAV	12,8%
Total	100,0%







## STATISTICAL DATA

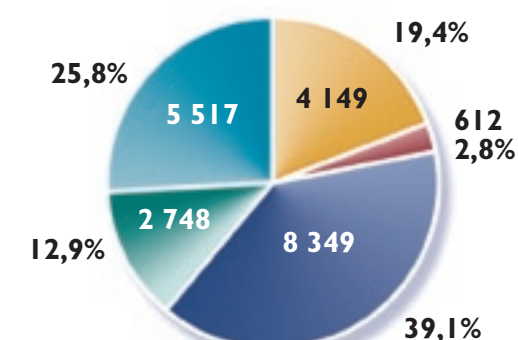
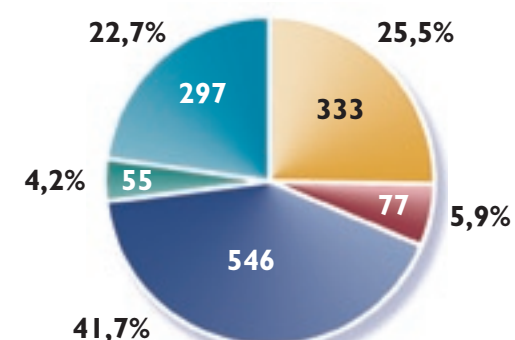
### FARES

Description	from 1 January 2007 (HUF)	from 1 January 2008 (HUF)
Single ticket	230	270
Transfer ticket	380	420
10 pieces discount coupon book (10 single tickets)	2 050	2 350
20 pieces discount coupon book (20 single tickets)	3 900	0 (megszűnt)
One-day travel card	1 350	1 550
Three-day travel card	3 100	3 400
Seven-day travel card	3 600	4 000
Family ticket	2 220	2 000
Short section metro ticket	180	220
Monthly pass, full price	7 350	8 250
Monthly pass for students and pensioners	2 950	3 250
Pass for two-weeks	4 800	5 300
Unified monthly pass, full price	8 100	9 050
Unified monthly pass for students and pensioners	3 250	3 550
Unified pass for two-weeks	5 300	5 700

### NUMBER OF PASSENGERS

Megnevezés	Million passengers	Distribution in %	Million space kilometres	Distribution in %
Tram	333	25,5	4 149	19,4
Trolleybus	77	5,9	612	2,8
Bus	546	41,7	8 349	39,1
HÉV (suburban railway)	55	4,2	2 748	12,9
Metro + MFAV	297	22,7	5 517	25,8
<b>Total</b>	<b>1 308</b>	<b>100,0</b>	<b>21 375</b>	<b>100,0</b>

### SPACE KILOMETRES



Tram      Bus      Metro + MFAV  
Trolleybus      HÉV (suburban railway)







## STATISTICAL DATA



### NETWORK AT YEAR-END (km) 2008

Tram + rack-railway	
Construction length	153,80
of which single track	3,90
double track	149,90
Track length	341,20
Service length	230,90
Trolleybus	
Network length	66,00
Service length	72,95
<b>Bus</b>	
Network length	818,95
Service length	1676,30
<b>HÉV</b>	
Construction length	102,90
of which single track	27,30
double track	75,60
Track length	239,50
<b>Metro + MFAV</b>	
Construction length	35,00
Track length	92,50
Service length	31,40

### AVERAGE PERSONNEL HEADCOUNT SPLIT BY STAFF GROUPS (PERSONS)

Description	2008	Distribution in %
Total white-collar	2 251	17,9
Total public transport vehicle drivers and assistant drivers	4 888	38,9
of which: Tram	911	7,3
Trolleybus	335	2,6
Bus	3 151	25,1
HÉV (suburban railway)	124	1,0
MFAV (Millennium Underground)	68	0,5
Metro	242	1,9
Assistant metro driver	57	0,5
Other physical workers	4 700	37,4
Total physical workers	9 588	76,3
Total full-time employees	11 839	94,2
Other personnel engaged	728	5,8
<b>Total</b>	<b>12 567</b>	<b>100,0</b>

### NUMBER OF STOPS

### AVERAGE VEHICLE FLEET

Description		
Tram	671	607
Trolleybus	276	167
Bus	3 826	1 409
HÉV (suburban railway)	139	294
Metró + MFAV	78	392
<b>Összesen</b>	<b>4 990</b>	<b>2 869</b>

### ACTIVITIES OF THE TICKET AND PASS CONTROL SERVICE

Passengers controlled	20 million persons
Vehicles controlled	1.4 million cars
Number of surcharge cases (process reports)	372 563
Number of surcharges paid on the spot	44 442
Number of passes presented	37 330
Surcharge revenue	HUF 1 808 220 091
Commercial revenue of HÉV Ticket Inspection Service	HUF 405 242 806



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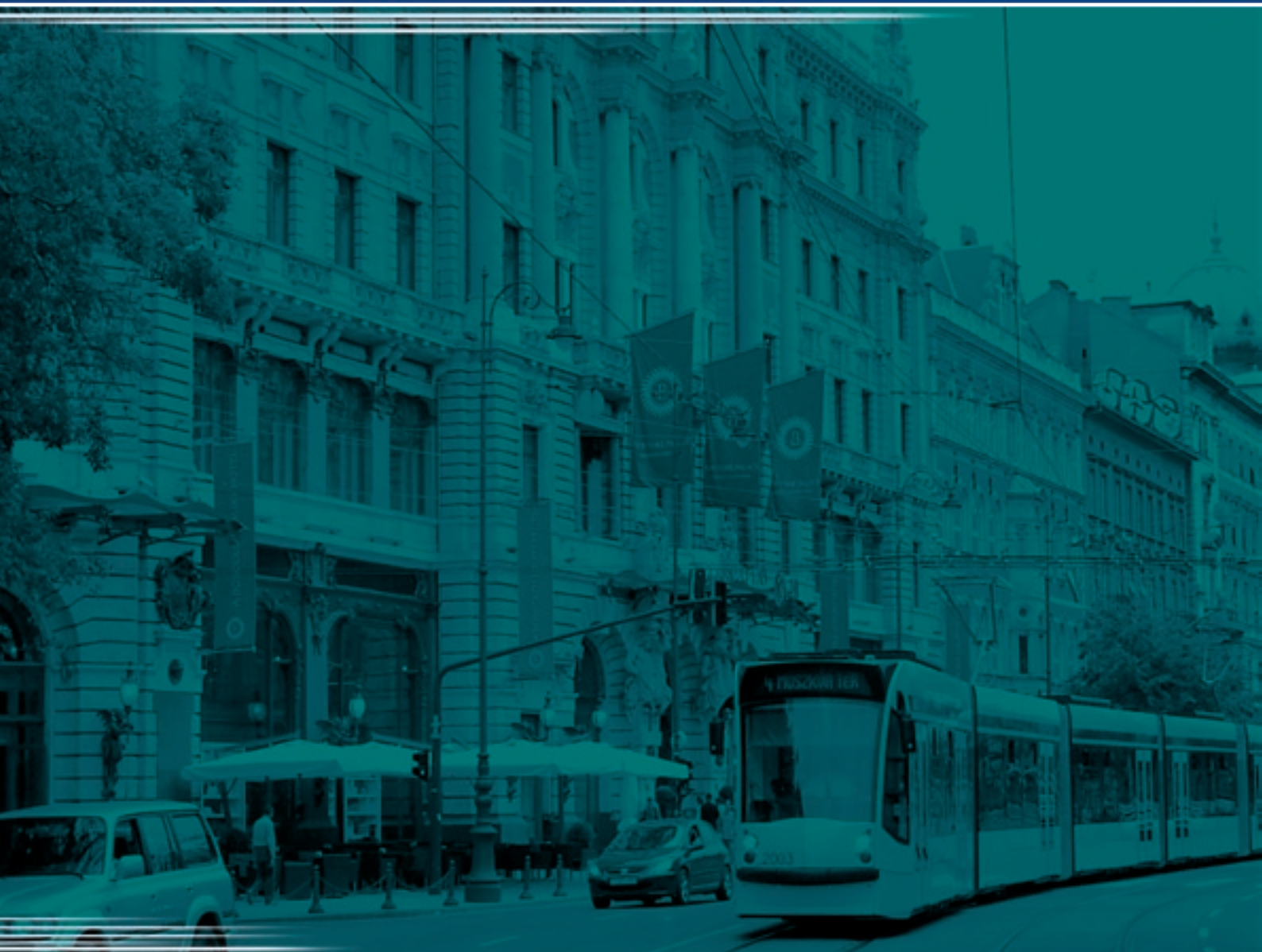
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