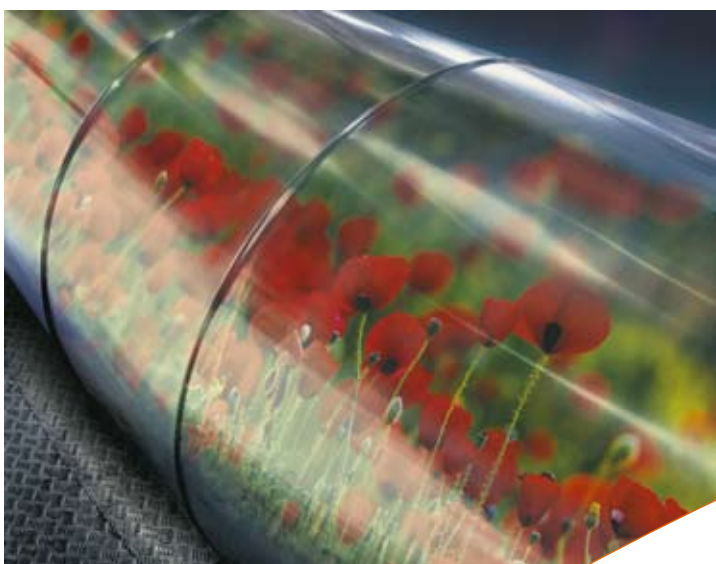


# ANNUAL REPORT 2010



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## DALKIA ENERGIA – EXPERT IN ENERGY OPTIMIZATION

Through the optimal operation of energetic systems, high efficiency equipment and the use of renewable energy resources Dalkia Energia helps its customers with the most modern solutions and performance guarantee in operating their energetic systems.

The activities of the company group focus on the energy consumption of its customers with regard to both technical performance and economic and environmental impacts.

Whether an industrial facility or different local government, healthcare or educational institutes the aim of Dalkia Energia is to contribute to the decrease of energy consumption and costs, better planning, and the protection of the environment.

**178 M EUR**

sales revenue in 2010

**730**

employees

**38 000 t**

of CO<sub>2</sub> saved\*

\* from the first year of the trading system (2009)

**5 765 TJ**

heat production

**913 GWh**

electricity production

**335**

contracts

**46**

energy supplied

health care

institutions

(14 610 beds)

energy for hundreds  
of facilities of

**50**

local governments

**17**

industrial facilities  
managed

**67 000**

households and  
hundreds of public  
customers with  
district heating  
supply

# INTRODUCTION BY THE CHAIRMAN-CEO

*2010 - a year of change  
and laying down  
the new foundations*

2010 represented a difficult year rich in challenges for Dalkia Energia. In addition to the economic changes taking place in the world, we also had to cope with the rearrangement of the legislative environment within the country.

I believe that the company found the adequate responses to these challenges, recognizing the fact that the changes affected not only Dalkia Energia but its clientele as well. Nonetheless we made serious efforts to always offer them valid answers and technical solutions, thus ensuring continuity of operation, the optimal utilization of energy and increasing efficiency while perceptibly reducing costs.

In a period laden with crises and financial difficulties businesses that are able to economize experience a particular increase in their importance; this is the reason why Dalkia Energia also managed to maintain profitability of its operations. In the interest of the further development projects, however, for the first time in its history the company chose not to pay dividends to its share-holders, which makes it possible to invest 100 per cent of the profit into local development projects.

During the year 2010 Dalkia Energia prepared itself to face the changes which will happen during 2011 and 2012 in the energy policies. Backed by its long term experience in Hungary and in the other 41 countries where Dalkia is active, Dalkia Energia has the ambition to contribute to reaching the country objectives in the energy field and to bring a competitive advantage to its customers.

A good example for the developments realized in 2010 is the virtual power plant system of a total capacity of 58 MWe, the result of three years' innovative efforts that has been accredited by MAVIR and is able to increase the competitiveness of cogeneration technology.

During the nearly 20 years of our presence in Hungary we have implemented development projects worth more than 65 billion HUF, mainly in the public sector. Our plan is to further increase this amount by 24 billion HUF in the near future thanks to the biomass development project in Pécs which not only has a significant economic impact and creates new jobs, but also leads to the appearance, by 2013, of the first Hungarian town heated exclusively with green district heat.

Our plans are ambitious and made for the long run. Our primary objective is to apply state-of-the-art and efficient solutions while meeting the needs of our clients so as to have the least possible negative impact on the environment.

Money in itself is not enough for the achievement of our objectives; in fact it is not worth much without the expertise and the creativity of our colleagues. I consider myself a lucky man, because I can direct the work of 730 highly qualified employees who can work as a team, support the company in this period of change and who join in the common effort of laying down the foundation for the future Dalkia Energia.

Gérard Bourland  
Chairman, CEO



**Gérard Bourland / Chairman, CEO**

# EXECUTIVE COMMITTEE MEMBERS



*Jean-Luc BOHIC / Deputy CEO*



*Sándor ANTAL / Director of the Energy Services Division*



*Tamás VARGA / Technical Director*



*Andrea SEMJÉN / HR Director*



*Attila PÉTERFFY / Director of the Power Plant Division*



*Márton MAJOR / Financial Director*



*Ferenc FERNEZELYI / Commercial Director*



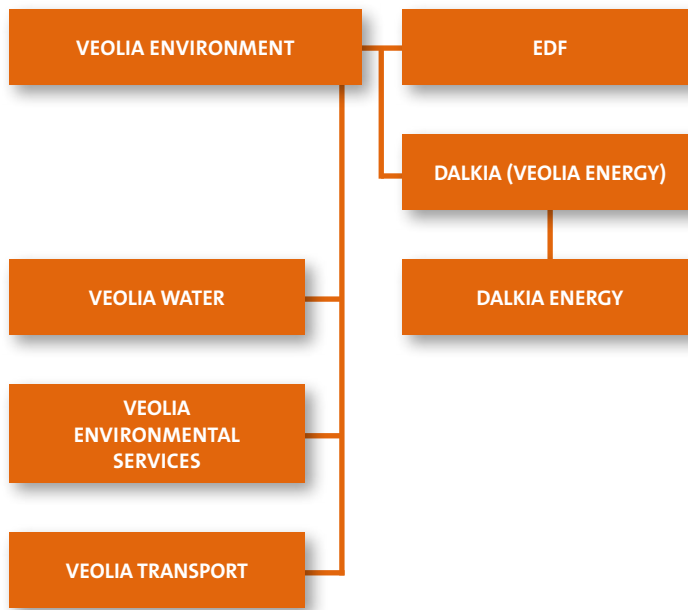
*Andrea ASZTALOS / Communication Director, Secretary of EXCOM*

## MEMBERS OF THE SUPERVISORY BOARD OF DALKIA ENERGIA:

Chairman: Jean-Michel Mazarelat

Members: Bernard Thomas, István Szabó, Isabelle Picard, János Pletzer

# OWNERS



The legal predecessor of today's **Dalkia Energia Zrt.** was **Prometheus Tüzelés-technikai Vállalat**, a company founded by OKGT (National Crude Oil and Gas Trust) in 1968 in order to develop the infrastructure for oil heating. By the 1980's – thanks to its successful development and the extension of its activities – the company was actively present in the whole range of heating technology including manufacturing and repair of boilers, turn-key implementation, and had a nationwide service network.

During the years of transition, Prometheus had to face liquidity problems and the shrinking of the market due to the changes in the economic environment. The company – a state-owned enterprise put up for privatization – was first transferred to the State Property Agency and then sold in 1992.

Majority ownership went to Dalkia, a professional investor, affiliate of **VEOLIA ENVIRONMENT**, **one of the world's largest environmental management company and of EDF.**

Dalkia has continuously increased the number of its shares and at present has a 99.61% share in the company.

“ *Dalkia,  
a leading player  
on the European  
energy  
market* ”

By importing the professional expertise and experience of the company group to Hungary and by extending the international customer relations the name Dalkia got established in Hungary, and since 2006 Prometheus Zrt. has been at the service of its customers under the name of **Dalkia Energia Zrt.**

Dalkia is a market leader in the European energy sector with a sales income of 8.6 bn €. **Through its affiliates in 42 countries worldwide, Dalkia operates nearly 120 000 units of equipment in the health, service, retail and industrial sectors. Due to its many years of experience and expertise** Dalkia guarantees to its customers not only safe system operation, but optimum energy use as well.

**Veolia Environnement is the largest environment management service provider in the world: it has more than 317 000 employees on five continents.** The activities of this originally French company with an annual turnover of 34.8 bn € include water utility services, waste management, energy management and public transport. Among its customers we can equally find local governments, public institutions, as well as companies operating in industry or the service sector.

**EDF, Europe's largest electricity company, performs integrated activities of generating, transporting, distributing and selling energy, and provides energy-related services. The EDF Group supplies 37 million customers worldwide;** the company generated 630.4 TWh of electricity and its annual sales income totalled 65.2 bn € in 2010.



# VEOLIA ENVIRONNEMENT VALUES

## • CUSTOMER FOCUS

Our ability to listen carefully and professionally, to anticipate and adapt to client needs reflects our commitment to building solid, lasting relationships.

## • RESPONSIBILITY

We are aware of the impact our everyday actions have on improving the living conditions of people worldwide. We never forget how our business affects our employees and society as a whole and base our actions on our understanding of the general public interest.

Our managers are expected to take full responsibility for the decisions they make in carrying out their duties and managing their teams.

## • INNOVATION

Our creative research and innovative technologies combine to ensure that we are continuously improving our environmental solutions, now and for the future. Improving quality of service and value for our customers is a priority, reflected in our constant willingness to explore new scientific frontiers.

## • PERFORMANCE

Our financial performance is the result of financial discipline at every level across the globe. It ensures that the company will continue to create value for all stakeholders and guarantees our long-term growth.

## • TEAM WORK

Team work is a crucial element in the way Veolia Environnement works worldwide. Working together and pooling knowledge and experience ensures that every success is a shared victory.

# SUSTAINABLE DEVELOPMENT OBJECTIVES

1. Promote performance-based contracts, particularly in energy management.
2. Integrate environmental issues into our management system (regulation watch, identification of impacts, training, operating procedures, site audits) in a significant portion of our business.
3. Actively participate in the conservation of natural resources, by optimising efficiency in all our facilities.
4. Actively participate in reducing CO<sub>2</sub> emissions and measure progress with appropriate indicators.
5. Conduct programmes to analyse environmental risks at environmentally classified installations worldwide.
6. Implement and extend a system to prevent risks related to legionellosis-type bacteriological diseases in facilities at risk.
7. Increase the involvement of all employees in the prevention of safety, hygiene and health risks by deploying a participatory process in all operating units.
8. Foster the exchange and transfer of expertise in core disciplines (technical, marketing, administration, etc.), especially by encouraging wider use of the intranet.

# DALKIA ENERGIA GROUP

Dalkia Energia is committed to exploiting its expertise in order to optimize the energy use of its partners and thereby contribute to a better planning of and decrease in energy costs as well as environmental protection. In line with this, the Company provides background energy services that are indispensable for the core activities of its customers by offering flexible technical and financial solutions and by long-term HR management.



**The Energy Services Division** of Dalkia Energia offers a wide range of background energy services to hundreds of customers all over Hungary including municipal and public institutions, industrial and service companies, and provides overall technical operation and maintenance services as requested. In addition to the above activities, it contributes to the comfort of thousands of homes by providing district heating and continuous hot water supply to individual customers.

**The Power Plant Division** of Dalkia Energia includes Dorog Power Plant supplying Dorog and Esztergom towns, as well as the Richter Gedeon Nyrt. unit in Dorog, Kőbányahő Kft. Power Plant supplying another Richter Gedeon unit in Kőbánya, and members of the PANNONPOWER group. All power plants use cogeneration, while PANNON Power Plant in Pécs is one of Central Europe's biggest reference biomass units, which is constantly developed and extended.

**The operation of Dalkia Energia Zrt. covers the whole area of Hungary.** Regular communication with customers at local level is indispensable for reliable, long-term cooperation.

With this requirement in mind, the Energy Service Division of Dalkia Energia has divided Hungary into **three regions**: Eastern Hungary, with a head office in Debrecen; Transdanubia, with a head office in Kaposvár; and the Budapest region, which is responsible for business in Budapest and its metropolitan area.

Each regional center is responsible for managing trade, operation and administrative activities in its own region. There are several facilities operating in each region, serving the clientele of a smaller geographical area and supplying district heating in particular towns.

**The head office in Budapest** is responsible for the elaboration of the corporate level strategy, management as a whole, and communication with preferential customers.

# Members of the company group

## POWER PLANT DIVISION:

**PANNONPOWER Holding Zrt.:** PANNONPOWER Holding Zrt. is the largest affiliate of Dalkia Energia Zrt.; **the latter holds 99.94% of its shares.** In this way, Dalkia also has control over the companies belonging to PANNONPOWER HOLDING, namely PANNONGREEN Kft., Pannon-Biomassza Kft., Pannonenergia Kft., Pannon-Hő Kft., Pannon Hőerőmű Zrt., and PANNONENERGIA-SERVICE Kft. The power plant co-generating heat and electricity supplies district heat to **31,000 flats in Pécs through PÉTÁV Pécsi Távfűtő Kft.**, the local provider, in which its has a 49% share.

**Dorogi Erőmű Kft.:** In addition to supplying industrial consumers, the power plant produces heat and sanitary hot water for Promtávhő Kft., affiliate of Dalkia Energia and supplies district heat to **3,800 flats in Dorog and Esztergom towns.**

**Kőbányahő Kft.:** As a joint affiliate of Dalkia Energia Zrt. (75%) and Budapesti Erőmű Zrt. (25%), Kőbányahő Kft. has built a new cogeneration plant on the premises of Budapest Erőmű Zrt. in Kőbánya. This power plant **supplies steam to 6 industrial customers**, of which **Richter Gedeon Nyrt. is the biggest one**, and is also engaged in the sale of electricity co-generated with heat.

## ENERGY SERVICES DIVISION:

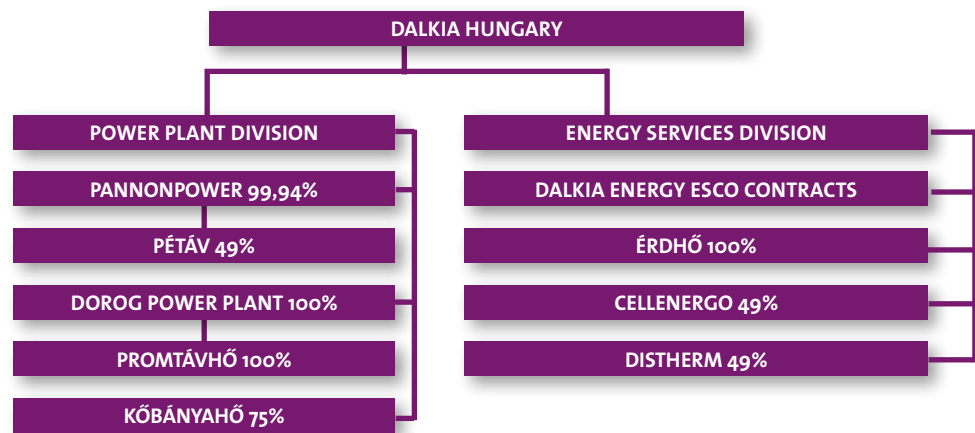
**Disthorm Kft.:** This company operates the **district heat network in Nyergesújfalu**, serving almost **1,000 flats.**

**Érdhő Kft.:** The company, 100% of which is owned by Dalkia Energia, is responsible for the district heat supply of **1,100 flats in Érd.**

**Cellenergo Kft.:** The district heat company provides district heat to **540 flats in Celldömölk town.**



# Members of Dalkia Energia Group



# OUR ACTIVITIES

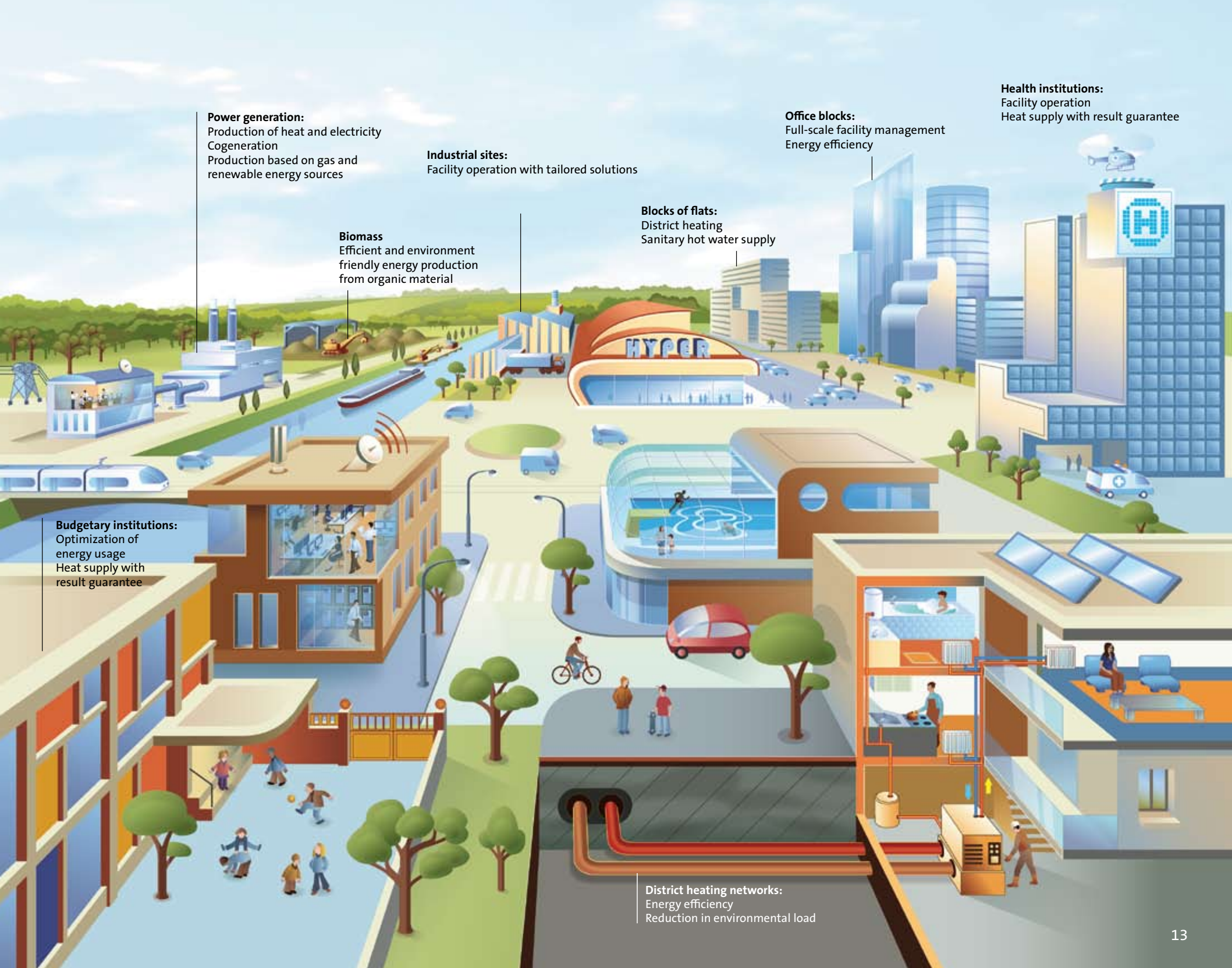


Dalkia Energia Zrt. provides a wide range of background energy-related services to hundreds of customers all over the country, and, upon request, also undertakes overall technical operation and maintenance. In addition to these activities, the group also ensures the permanent comfort of the homes of thousands of individual consumers: district heating and continuous supply of sanitary hot water.

Customers of Dalkia Energia Zrt. represent the following:

- national and local governments
- health institutions
- the service sector
- industry

The company operates heating networks serving 67 000 homes as well.



**Power generation:**  
Production of heat and electricity  
Cogeneration  
Production based on gas and renewable energy sources

**Industrial sites:**  
Facility operation with tailored solutions

**Biomass**  
Efficient and environment friendly energy production from organic material

**Blocks of flats:**  
District heating  
Sanitary hot water supply

**Office blocks:**  
Full-scale facility management  
Energy efficiency

**Health institutions:**  
Facility operation  
Heat supply with result guarantee

**Budgetary institutions:**  
Optimization of energy usage  
Heat supply with result guarantee

**District heating networks:**  
Energy efficiency  
Reduction in environmental load

# SERVICES PROVIDED BY THE GROUP

## HEAT SUPPLY CONTRACTS

Within the framework of long-term contracts usually running for 5-15 years Dalkia Energia is responsible for **choosing the adequate primary energy source and its utilization in the most economical way possible**; it also **operates and maintains** with great efficiency **the heating and cooling systems** taken over for operation; it puts on its payroll and controls the staff supervising the facility; as well as maintains the good condition of the system by regularly **servicing** it - often under guarantee. In addition to all these activities the Group performs the legally required measurements, checks and corrections with special regard to the environmental regulations. With this service Dalkia Energia can achieve an **energy saving of 5-35% for its clients**.



*The optimization of the energy use of our customers is in the centre of our activities, through which we can contribute to decreasing and planning the energy costs, as well as to protecting the environment.*



## COGENERATION

Cogeneration means the **simultaneous production of heat, electricity and cooling** in order to flexibly meet consumer needs. Cogeneration helps achieve optimum efficiency of the facility by means of a gas engine, steam or gas turbine or absorption refrigerator. Combined heat and electricity generation ensures high efficiency and low cost in the process; it is, however, of primary importance, to define the right scale adjusted to the system's needs. This mode of energy production contributes to **decreasing CO2 emissions by 16%, the dependence on gas by 6%, and the consumption of natural gas by 11%** compared to the production of the same volume of heat and electricity as separate products.

## SALE OF ELECTRICITY

In 2009 Dalkia Energia Zrt. set up its **electricity sale department**, in response to the changes in the regulation on obligatory off-take. The department carried out its activities with success in 2010 and helped the company group, Dalkia Energia Zrt. in positioning the generated electricity on the market with the most favourable conditions.





The key component and greatest advantage of this solution is that the customer has one single partner to perform the non-core activities it specifies.

### *INDUSTRIAL-TECHNOLOGIES*

There are certain functions in every unit of an industrial company that are indispensable for efficient operation, yet they are not part of the company's core activity. Dalkia Energia ensures the operation of the different energy supply units according to the individual needs of industrial companies, in line with their technical and cost efficiency requirements; this includes production of steam, compressed air, vacuum and electricity; overall maintenance of the generation plant; heating, cooling and air conditioning; as well as the operation of buildings and other infrastructures together with technical supervision and competent staff. Dalkia Energia aims to **elaborate individual solutions tailored to the needs of industrial companies**, thereby establishing long-term cooperation with them always focussing on the customers' objectives.

### *POWER GENERATION BY POWER PLANTS*

Dalkia Energia Zrt. has majority interest in three power plants: it holds a 99.94% share in **PANNONPOWER Holding of Pécs**, a 100% share in the **Dorog Power Plant** and a 75% share in **Kőbányahő Kft. of Budapest**.

The power plants in Pécs and Dorog produce heat mostly for district heating purposes, while the power plant in Kőbánya supplies industrial customers.

### *USE OF RENEWABLE ENERGY SOURCES*

With due regard to the sustainability of our environment, Dalkia Energia Zrt. takes increasing interest in the use of renewable energy sources. The experiences gained so far by the Power Plant Division will be further extended with the increased share of renewable energy sources in the future. As far as the energy-related services are concerned, here again our top priority objective is to explore the possibility of using renewable energy sources in every one of the facilities that Dalkia manages and find the optimal solution which can ensure local energy supply either as single or complementary energy source. Based on these considerations Dalkia Energia Zrt. has already started the **operation of pellet- or biomass-fuelled boilers** in the facilities of several customers or operates gas-based district heating systems that can be complemented with **solar panels** or **heat pumps** in the heat and hot water supply of households.

### *DISTRICT HEATING*

The properly operated district heating networks are not only capable of ensuring the constant temperature and hot-water supply of **households**, but they optimally meet the needs of **large industrial consumers** as well.

### *FACILITY MANAGEMENT*

The past few years have seen an increasing tendency of outsourcing **facility management activities** in both the private and the public sectors.

Facility Management services are provided primarily under contracts related to **office blocks** (which may belong to central public institutions), **shopping centres** and **hotels**; their contents can be flexibly adapted to the needs of the clients. In some cases these contracts cover just a few basic activities, such as maintenance and upkeep of heating, ventilation and air conditioning systems, buildings or their conservation, but they can be extended to include additional services such as building management, security and guarding, telephone system supervision, customer service, cleaning, gardening, and external-internal transport, etc.

# CUSTOMERS

## New customers in 2010

By taking over the former brewery of Komárom in 2008, the Belgian **Vandamme Group** engaged in producing vegetable oil since 1903, started its operation in Hungary not far from the premises of Rossi Biofuel Zrt, another customer of Dalkia Energia. Our company contacted the management of Vandamme Kft. and offered to perform the supervision and maintenance of their steam boiler. The managers of the Hungarian member of the Belgian group received the offer favourably and late February 2010 they signed an open-ended operation contract with our company.

In June 2010, **BKSZT, the Budapest Sewage Treatment Kft.** started a public procurement procedure for the operation, maintenance and repairs of the equipment located on the 70 000 m<sup>2</sup>- large premises of the Central Sewage Treatment plant of Budapest, considered to be one of the capital's most significant development projects in the field of environmental protection. Our company took part in the procedure with success and as a result, a 4-year contract was signed with BKSZT Kft. late July 2010. This was followed by the takeover of the operation of the existing system on August 1. 2010, the day our services started and have been provided without any trouble ever since.

The international reputation of the Dalkia Group is well illustrated by the fact that **Portico Investments Kft.** initiated contact with Dalkia Energia in Hungary through the Polish subsidiary. The company engaged in real estate development asked us to submit a bid for the management of a warehouse and a shoe shop building in Budakalász, including the occasional repairs. The bid was successful and late summer 2010 an open-ended contract was signed.

Following a tender for invited participants issued by **Sole-Mizo Kft.**, member of one of Hungary's most important food industry groups (the Bonafarm Group), Dalkia Energia was chosen to perform works related to the implementation of the new energetic system in the Csorna plant. The actual work began in November 2010, after the contractual negotiations. The reconstruction of the plant included the refurbishment of 3 boiler houses and their fittings, as well as the refurbishment or construction of the gas receiving and distributing system.



## Extension and renewal of existing contracts

It was in 1997 that Dalkia Energia signed a contract with Ferroglobus Trading House, that changed its name later on and acts today under the name **Tyssenkrupp Ferroglobus Zrt.** Our company undertook the complex management of the energetic system of the company dealing in steel, light and non-ferrous metals and synthetic materials (operation, maintenance and troubleshooting) but after successful negotiations these activities were complemented with heat supply starting on July 1, 2010, and in this way we now provide the full range of our services to a loyal customer.

Another business partner of our company is **FŐKEFE Non-profit Kft.** for whom we performed occasional maintenance jobs in previous years. We assessed the opportunities for further optimization and then submitted a bid to our customer for the extension of operation-related services and the supply of district heat. The bid was accepted late June 2010 and our contract was prolonged for another 10 years. In terms of the agreement Dalkia Energia not only provided operation-related services and energy, but constructed a new boiler in the plant owned by the customer and refurbished the existing boiler as well.

Our contractual relationship with **Hungerit Zrt.** started in January 2006, when our company bought the gas engine-based small power plant operating in their plant. In accordance with the contract our client received the heat generated by the gas engine, while the electricity was generated for the public utility grid. At the same time, the company received state subsidy as well. When the legislation changed, we contacted the client with a bid for the direct sale of electricity in order to make the gas engine more economical to run. To increase competitiveness of our prices we increased heat generation but this required transformation of the heat generating and distributing system. Thanks to the excellent technical solution used, our gas engine can operate economically in the future as well, to the satisfaction of both the customer and our company.

*“ Our goal is to use our expertise to not only meet, but also to anticipate our customers’ needs and build lasting relations with them. ”*

The contract for occasional construction works was signed with **Accor-Pannonia Hotels Zrt.** a company working in the service sector in 2009 and then, in November 2010 the number of premises covered by the contract increased to include the **Sofitel Budapest Hotel** building.

Our company has had a contract with the **Prison and Penitentiary in Sátoraljaújhely** since 1995. After a public procurement procedure in 2005, the contract was prolonged for another 5 years. A new public procurement was announced in 2010 when that contract expired, leading to another 5-year prolongation of the contract for the supply of heat to the institution.

Late 2006, after a tender with invited participation Dalkia Energia concluded a three-year agreement for the operation-related and maintenance tasks of **Hungexpo Zrt.** Thanks to the satisfaction of our customer the contract expiring in 2010 was prolonged for another three years, thus our company continues to be in charge of the electric, technological and mechanical maintenance of the buildings, tools and equipment used by Hungexpo.

# COMMITTED EMPLOYEES AT THE SERVICE OF OUR CUSTOMERS

The success of Dalkia Energia is determined to a great extent by its ability to acquire and retain in the long run the competence that meets customers' requirements. The company's management pays special attention to the job satisfaction of its 730 employees, their continuous development and the efficient integration of newcomers.

Due to our nationwide presence and the number of organizations that belong to Dalkia it is particularly important to **create a uniform company culture, strengthen internal communication and share knowledge efficiently.** Customer orientation, innovation, performance, solidarity and responsible attitude represent our most important values, which clearly reflect the efforts we make to keep a balance between company and individual interests. We are fully aware of the fact that the **expertise and commitment of our employees** is as important for value creation as the highly developed technology put at the service of our customers' comfort and safety of operation, therefore our primary objective is to ensure their professional development and the proper working conditions.

For this purpose we organized several **team-building programmes** in Hungary, but many of our colleagues took part in **international training programmes or project activities** managed by our parent company. A survey is conducted every two years to measure the levels of commitment and job satisfaction and depending on the findings of the survey an action plan is developed for the areas where improvement is needed. This is how a **career management programme** was launched in 2010 among others, with a view of training a new generation of experts and consciously planning individual career paths.

To preserve the good health of our employees we have offered a **free screening programme** consisting of an optional set of examinations in the last three years in several parts of the country. Our goal is to further improve the 50% participation rate, thereby promoting prevention and increasing awareness of the importance of good health. Several excursions were organized as part of the **TEAM days**



programme (acronym from the Hungarian words for 'You Constitute Us') first held in 2009, and in 2010 we launched the Dalkia soccer championship, which will hopefully continue in the future as part of the Health Day involving various sports.

**ÉRTED Manager Training Academy** (the name is an acronym coming from the Hungarian terms ÉRTékesítés /Sales/ and MenEDzser /Manager/), a programme that is of utmost importance in the life of Dalkia Energia Zrt., was completed in 2010. 40 managers and 12 employees concerned with sales took part in this series consisting of several modules and focusing on skills development. The programme was deemed to be of outstanding quality both by our parent company and the domestic professional organizations. This is also proved by the **first prize won in the category 'Permeability' at the international competition held by Dalkia and the Hungarian award 'Human team of the year - 2010' obtained in the category of medium-sized companies.**

Every six months a **performance assessment interview** is held during which individual goals and competencies are discussed, as well as areas of future development are defined. The data collected in this way are used to make the annual training plan and the replacement schedule. Dalkia Energia – following the policy of its parent company - makes it a **priority to retain talents and foster mobility within the company group even on an international scale.**

There are **in-service training courses** prescribed by the law that – together with other **courses of various specializations** – contribute to maintaining the expertise of our engineering staff. Employees take part in a **labour safety training** every year in order to improve labour safety. In 2010 a comprehensive audit was conducted to analyse processes of customer service and as a result, plans have been made to improve communication skills. Relying on their **professional expertise and steady customer relations**, our employees of long standing can serve the company's present and new customers in a reliable way and at a high standard during the life of our long-term contracts.

To ensure continuity of development and train a new generation of staff, we count on having more and more new graduates, young professionals. For this reason, we have developed a **strong co-operation with the Special College of Energetics of the Budapest Technical University**, have had the company represented at several of their events and receive annually 4-8 students as trainees. In 2010 three students of the Budapest Technical University had the opportunity to gain international experiences in Paris during a one-week summer university organized by Veolia.

Dalkia Energia spends **2.5% of its HR budget on development programmes** for employees and the improvement of their general well-being. We are proud of being able to keep up these efforts during the economic crisis as well, recognizing the fact that these activities can guarantee our sustainable development.



*The commitment and expertise of our staff is the pledge of the company's future. The recognition and development of both of them is in the focus of our HR activities.*

# TECHNICAL DIRECTORATE

## What is a „TIR” Virtual power plant?

The virtual power plant is an **information and telemetry system accredited by MAVIR that connects independent energy generating systems** (gas engines, turbines) located in various parts of the country and **treats them as a single power plant unit**. This solution has several advantages, for example it can make straggling equipment of relatively small individual capacities more competitive at the free market of electricity, or can show more serious sales potential to electricity traders. It stabilizes operation and makes it more predictable, or - through its controlling function - has the ability to centralize and optimize technical maintenance tasks, thereby reducing operation costs. In addition, it also supports the fulfilment of legal obligations prescribed during the KÁT (obligatory off-take) process, prescribed by the Hungarian Energy Office for co-generation plants at the request of the system manager. The purpose is to give co-generation plants a bigger role in system-level regulation.

**At present the virtual power plant of Dalkia Energia connects 5 gas turbines of 5 MW capacity and 44 gas engines of capacities ranging from 0.3 to 2.2 MW** in various parts of the country. From a technical point of view the system is capable of integrating further power plants, even of different types, without limitation. The only restrictions can be imposed by the regulations or various subsidizing systems.

The system was developed as a result of 3 years of hard work creating also **know-how of exceptional**





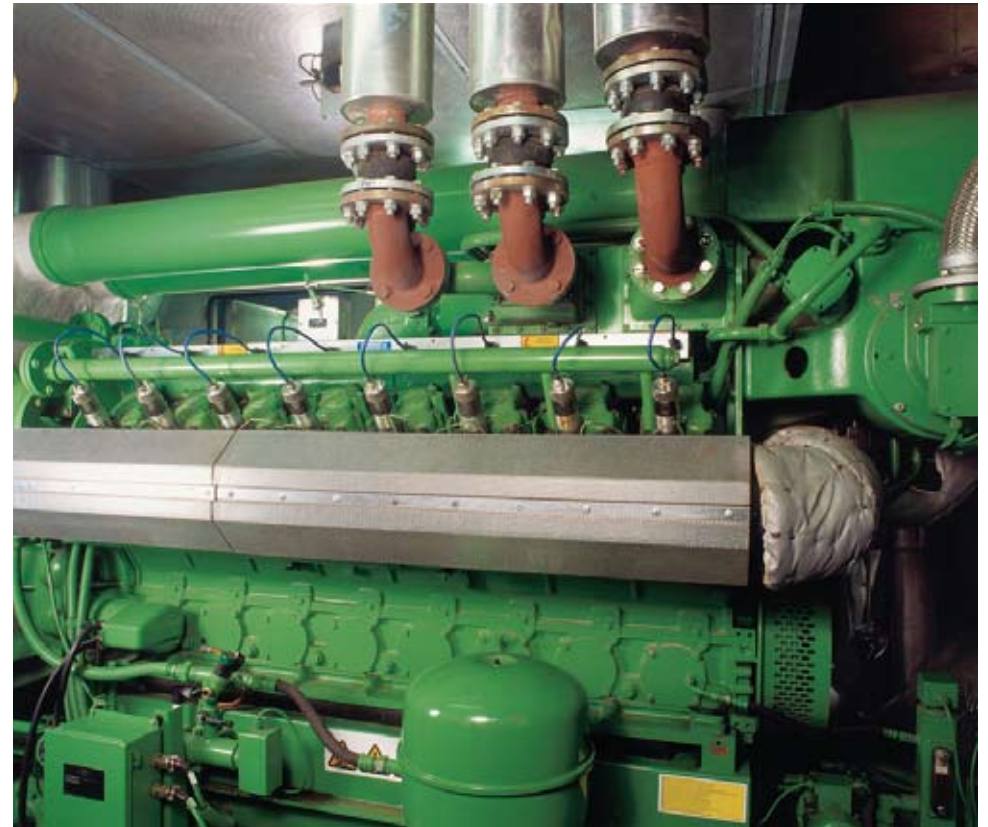
**value.** The small power plants run by the Dalkia Energia group have generated electricity through this system for more than a year now so the system has proved to be good and can be considered as officially recognized. All the **technical and economic advantages** that the system can provide allow Dalkia Energia to pass on the advantages to its business partners, by concluding heat supply contracts advantageous for its customers.

The operation of the virtual power plant has advantages for MAVIR as well, considering that it takes over and performs a number of tasks in the course of system control and the same advantage works also with the energy traders at the free electricity market as well. **The modular system allows any number of generators or traders to join it.** The connection and co-operation can take many forms and adapts itself to the requirements and conditions.

Other advantages to be highlighted include:

- safety of data management,
- remote access from any part of the country,
- parallel supply of ancillary services to several balance circles,
- and last but not least, full compliance with the regulations applying to co-generation plants.

Dalkia Energia is in charge of and responsible for the **continuous development and enlargement of the software and telemetry system** operating the virtual power plant, because this is the only way to maintain the innovative character of the system.



# TECHNICAL DIRECTORATE

## Sales of electricity

Dalkia Energia Zrt. and its affiliate, Kőbányahő Kft. have started the preparations for the sale of electricity according to the new legal regulations taking effect from January 2011, and have launched the reorganization of the processes related to the sale of electricity as early as the summer of 2010. As part of the preparation **the Technical Directorate issued a call for tender in June 2010 for free market traders of electricity.** The call included so-called “peak” products and balance group



KŐBÁNYAHŐ KFT.

YEAR OF CONSTRUCTION: 2004

HEAT CAPACITY: 56 MW

ELECTRIC CAPACITY: 15,6 MW

MAIN EQUIPMENT:

- 3 gas turbines:  $3 \times 5.2 \text{ MW}_e$
- 3 heat recovery boilers:  $3 \times 8.9 \text{ MW}_{th}$
- 3 steam boilers:  $3 \times 10.3 \text{ MW}_{th}$

services. Balance group services help companies with trading and distribution licences to ensure the balance of the system through free market reserves, in other words, help partially reduce the load for the National Grid.

**Balance group services** set higher expectations for the generators than market products and only significant volumes of capacity (minimum 10-15 MW) can be sold as such product.

Small power plants with lower capacities cannot compete on their own, they need to be linked and synchronized – this is what we call “**virtual power plant**” –, the development of which would naturally entail some investment.

As a result of the above tender Kőbányahő Kft. has concluded a contract with **E.ON Energy Supplier Kft**, under which the capacities of the power plant are sold as a balance group service. The solution offers favourable conditions for both parties. Kőbányahő – by making use of the special characteristics of its generation equipment – has practically concluded an agreement for the next year for the **sale of a so-called capacity product**, which is different from the standard products well-known for the traders and generators. The capacity product for Kőbányahő Kft. means the keeping of capacities available and the supplying of electricity according to the demands of the partner. The benefit of this solution is that the buyer, E.ON Energy Supplier Kft. is not required to buy a product which is planned ahead of time, but has the opportunity to request a flexible volume best fitting the condition of the system on the given day, which means that the customer can communicate its demands to the seller on the day of the supply.

With this **innovative service** Kőbányahő Kft. can sell a product considered to be unique on the Hungarian free market of electricity; a product which provides the best opportunity both for the supplier and the customer in the present market and regulatory environment.



“

*E.ON Energy Supplier Kft. is investing more and more resources into trying to balance the daily and the intra-day fluctuations of its electricity purchasing portfolio. It requires special and flexible capacity products, which are not available on the standard wholesale market of electricity. By having successfully concluded a contract for the gas engine portfolio of Kőbányahő Kft. we managed to take a big step toward cost efficiency and optimisation.*

*dr. Zoltán Uzonyi*

*Manager of Energy Procurement Relations*

*E.ON Energy Supplier Kft.*

”



# GOING ALONG THE PATH WE HAVE ALREADY TAKEN

The construction of the new biomass-fuelled power plant has started on the premises of PANNONPOWER Holding Zrt.

In accordance with the EU policy on renewable energy Hungary undertook to increase its gross use of renewable energy resources from the present 4.5% to 14.6% by 2020. In good agreement with this commitment PANNONPOWER has started the construction of **its second biomass-fuelled power plant** on the basis of the experiences gained during the operation of its first biomass-fuelled unit. The fuel to be used by the power plant is composed of **straw**, smaller quantities of **corn stalk** (agricultural by-products) and **miscanthus** (energy plantation). **The investment** into the construction of the new unit meant to burn mainly agricultural by-products amounts to **24 billion HUF** and has several positive effects both on the national economy and the regional level. The new unit is considered a break-out opportunity also for the agricultural enterprises in the region because agriculture can benefit from the new, environmentally friendly energy generation technology in several ways. **By 2013 the biomass-fuelled boilers of PANNONPOWER will be able to supply 9.1% of Hungary's biomass-based heat and electricity.**

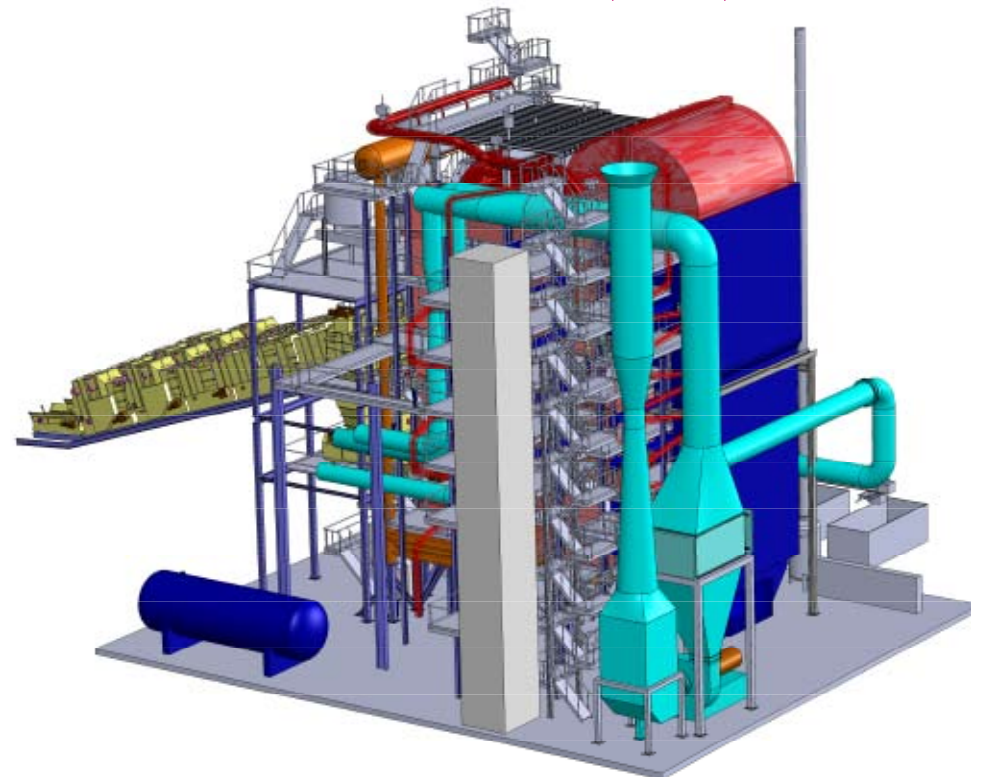
## *Creating and retaining jobs*

In the construction stage the **biomass-fuelled power plant of a planned 35 MWe nominal capacity** will provide **employment for about 100-150 persons** on the whole, 75-80 of whom are contributed by the companies in the region. Later operation will require **40 employees**; they are already available due to the retraining of personnel operating the already existing units, therefore it has a job retaining effect. These data are of key importance in the long run for a region where the unemployment rate is currently rather high.

## *Break-out opportunity for agriculture*

The priority given to the biomass fuels of agricultural origin means a **new opportunity for agriculture as well**, considering that the continuous fuel supply of the power plant requires agricultural partners for whom the long-term contracts offered by the power plant promise predictable, secure income.

“Efficient and environment friendly energy production from organic material”



### ***Vitalizing impact on the economy***

In addition to the extra income created by the regional vitalizing impact of biomass procurement this development project will **influence taxation** as well. **The extra local tax** to be paid by PANNONPOWER alone is estimated to amount to **130 m HUF** annually.

### ***Decreasing energy dependence***

A key element of the planned project is the possibility to economize **annually 46 million m<sup>3</sup> of imported natural gas** at the power plant level, and **another 35-37 million m<sup>3</sup> at the level of national electricity generation based on natural gas**, thus contributing to a great extent to the decrease in Hungary's energy dependence.

### ***Further decrease in toxic emissions***

This change in fuel will result in a total **decrease of 159 000 tons in CO<sub>2</sub> emission**, thereby contributing to the fulfilment of the requirements of the energy policy planned for 2020 in the EU and Hungary. This amount is composed of the 91 000 tons of CO<sub>2</sub> economized by the power plant of Pécs on the one hand and, on the other, of the additional 69 000 tons of CO<sub>2</sub> economized due to the replacement of natural gas at the national level of energy generation. The efforts for using the highest possible ratio of biomass are encouraged not only by the EU directives, but also by the basic principles of Hungarian energy policy (security of supply, competitiveness, sustainable development).

### ***Hungary's first green urban supplier of district heat***

Thanks to the use of biomass as fuel, **Pécs can become the first town built on green energy resources** in respect of both heat and electricity generation thus contributing to the realization of the municipality's dream of „**Green Pécs**” project.

### ***Low district heat prices***

It is important to point out that **biomass is cheaper than natural gas** therefore green district heat generated in Pécs by the biomass-fuelled unit will be among the cheapest in comparison with other towns.

### ***Relation with green organizations***

The power plant has been engaged in a dialogue with groups representing the population and civil organizations for several years recognizing their right to obtain the relevant information, as well as their duty and responsibility to use this information properly and share it with the population.

The initiative called '**Civil Control**' was launched in 2010, giving representatives of civil organizations and interested inhabitants several opportunities to inspect power plant processes personally; they were also given valid data and information about the construction of the new, straw-fuelled unit.



# CORPORATE QUALITY POLICY



The key principles governing Dalkia Energia Zrt. are **quality and reliability**, and they are respected throughout the operation of the company as a whole. We are committed to fully meeting our customer's needs, complying with environmental expectations and requirements, and preserving our position one of the best energy services supplier in Hungary.

For this purpose we operate an **efficient and cost-effective quality management and environmental management system** that guarantees the permanent high quality of our energy services, their ongoing development, as well as high performance in the area of environmental protection.

With regard to the changing conditions and the needs of our customers our experts never cease to work on increasing our competitiveness.

In order to achieve the above goals we operate a quality and environmental management system conforming to standards **ISO 9001:2000** (MSZ EN ISO 9001:2001) and **ISO 14001:2004** (MSZ EN ISO 14001:2005).

A **quality and environmental management organization** responsible for the continuous operation and improvement of our integrated system has been set up within the management in order to assist the process.



*Quality and reliability are our key principles.*



For the same reason priority is given to the following tasks:

- making sure that **laws, regulations and rules** related to the environmental impact of our activity are monitored and observed at all times;
- establishing **long-term alliance and relationship with suppliers and subcontractors** that identify themselves with the objectives and expectations of our company;
- taking all technically and financially feasible actions to **prevent environmental pollution**, and regularly checking the contaminants emitted under normal circumstances;
- making efforts to **reduce the specific resource consumption of operations**, and committing ourselves to improving our environmental performance and environmental management system on a continuous basis;
- **supporting the continuous training and self-education of our staff members** because it contributes to the achievement of our objectives. As service provider, the company considers availability, the way it is realized and its quality a strategically important factor;
- **encouraging all our employees to contribute to the success of the company with their skills, expertise and responsible behaviour.**



# ENVIRONMENTAL PROTECTION

Ever since its foundation, Dalkia Energia Zrt. has followed a predictable business policy and continuous business development. Being a **responsible company**, it has committed itself to the principles of sustainable development and the environmental regulations drawn up by Veolia Environnement, its parent company.

It is on this basis that the company set **the objective of generating and supplying energy in a safe, economical, competitive and environmental friendly way.**

We hope to achieve our objectives in good agreement **with the objectives of our parent company concerning sustainable development.**

Our company performs its activities on the basis of strict environmental regulations within the framework of the environmental management system **ISO 14001, which was certified by SGS Hungária Kft. in 2010 without any modifications.**

As a result it can be stated that the everyday activities Dalkia Energia Zrt. has successfully integrated long-term business objectives and the observation of environmental requirements.

## ENVIRONMENTAL PROTECTION IN THE POWER PLANTS

Since the high priority environmental development projects implemented between 2007 and 2009 were already completed, there was no need for further development specifically related to environmental protection in 2010. At the same time, in addition to the large developments we continue to monitor the operation of our existing equipment and make efforts to improve them. With this aim in mind a damage prevention border has been built to the vehicle oil draw station in the **Dorog Power Plant**, while a damage prevention project has been launched in the lime silo of **Kőbánya Power Plant**.

**We managed to operate our technology without exceeding the limit values in 2010 as well, and managed to meet the target values set for the environment.**

In 2010 – similarly to previous years – the Company's main objectives have been the efficient operation by respecting the environmental requirements and the stable and safe energy production.

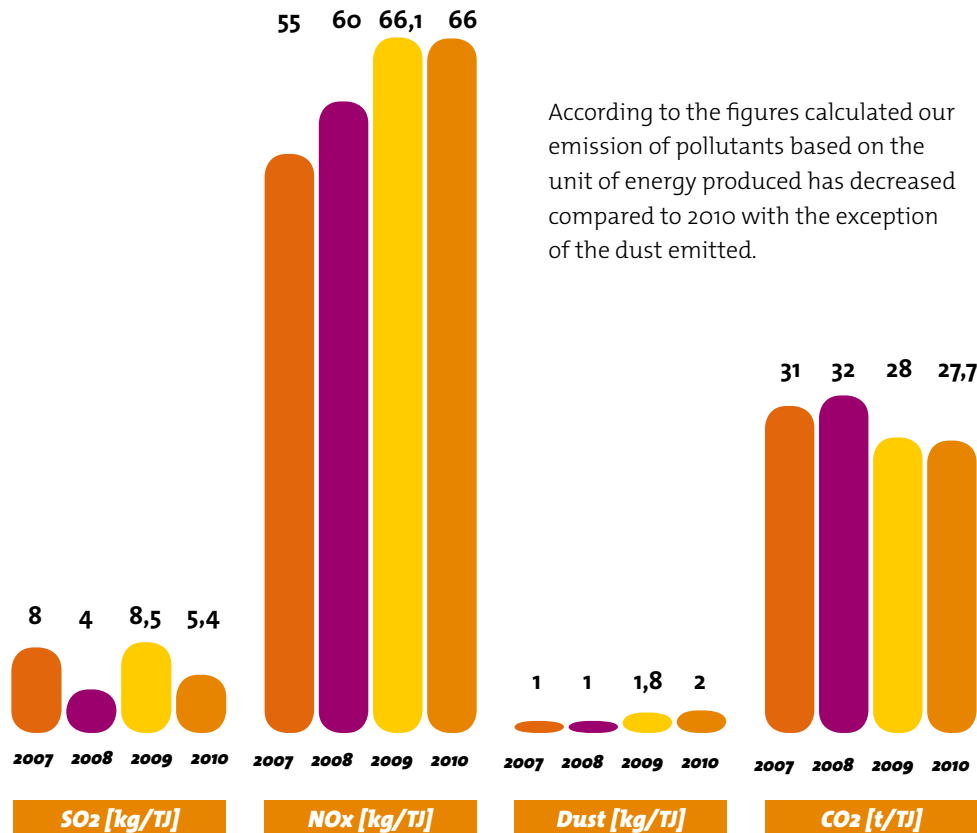
*The management of our company is committed to the continuous development of the integrated management systems, to the promotion of environmentally sound energy production and supply, and to the prevention of environmental pollution.*

From the point of view of **air cleanliness** – similarly to previous years – the emission of pollutants by all the three power plants has remained **well below the limit values. The emission figures** (particularly that of SO<sub>2</sub> and CO<sub>2</sub>) **have improved** compared to 2009, because there was no need to switch to oil-firing as was the case during the gas restrictions of the previous year; therefore, we could operate based on gas-firing with much better emission parameters throughout the whole year.

**The concentration of pollutants released into the surface waters, similarly to the air pollutants, has not increased the set limits.** No soil or water pollution has occurred, and the consumption of water by the power plants has improved as well. These favourable operational conditions have been confirmed by the authorities during the mid-year inspections.



### EMISSION BY DALKIA ENERGIA POWER PLANTS



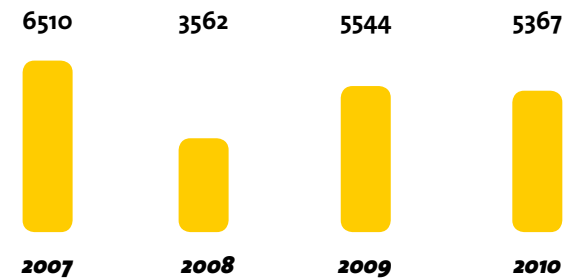
According to the figures calculated our emission of pollutants based on the unit of energy produced has decreased compared to 2010 with the exception of the dust emitted.

### WATER CONSUMPTION BY DALKIA ENERGIA POWER PLANTS (m<sup>3</sup>)



The water consumption of the power plants of the Dalkia Energia group has decreased by 20.9% in 2010 compared to 2007.

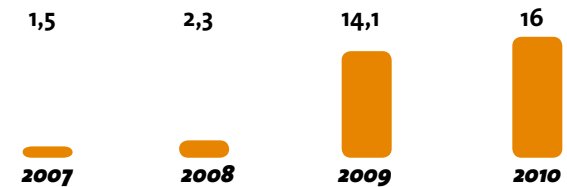
### TECHNOLOGICAL WASTE PRODUCTION BY THE POWER PLANT DIVISION OF DALKIA ENERGIA (m<sup>3</sup>)



The increase in the amount of waste compared to 2008 is attributed to the higher ash content of the black coal used in Dorog Power Plant.

A more significant increase in the emission of **sodium-oxides and dust** was observed in the years 2008 and 2009. The reason for the first is found in the fact that in order to replace the wood supplied by forestries, the biomass-fuelled boilers burn an annually increasing amount of agricultural by-product but this increases the NO<sub>x</sub> content of the smoke emitted.

### AMOUNT OF FUEL FROM AGRICULTURE (thousands of t)



Dust emission increased in 2009 as compared to 2008 because the production of bioash, a yield-enhancing product started at that time with the technology used in boiler No.10 in Pécs, which led to a somewhat higher dust emission. It is, however, important to note that even this increased emission stayed well below the limit, not reaching half of the value allowed.

# LABOUR SAFETY

**Dalkia Energia Zrt. and its parent company, Veolia Environnement, pay special attention to the issues related to labour protection and labour safety.**

It is also a requirement by the professional fields of the company group, because our colleagues very often carry out work in working areas which require a lot of attention and accuracy from the point of view of safety.

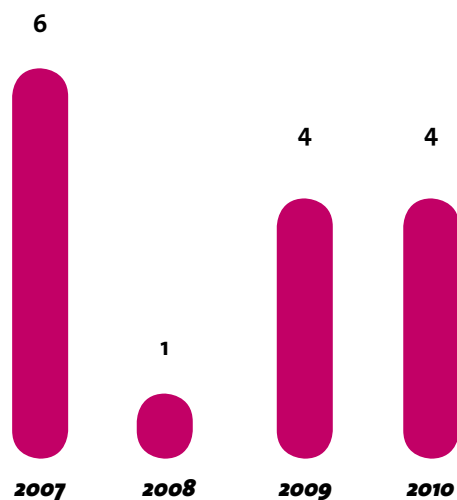
The employees constitute the basic strength of the Company therefore labour protection is the key to continuous development. In addition to the **compulsory labour protection trainings** several competitions and applications organised by the company within the **Labour Safety Week** help the employees to get information, learn about and become more aware of the problems of this field.

In the year 2010 four work-related accidents occurred within the Dalkia Energia company group: one in the Power Plant Division and three in the Energy Services Division. The accidents resulted in 284 days lost bringing **our accident frequency rate (FR1)**, the rate of accidents resulting in days lost corrected by the working hours, to **2.9 in 2010**, which rate is basically the same as in the year before.

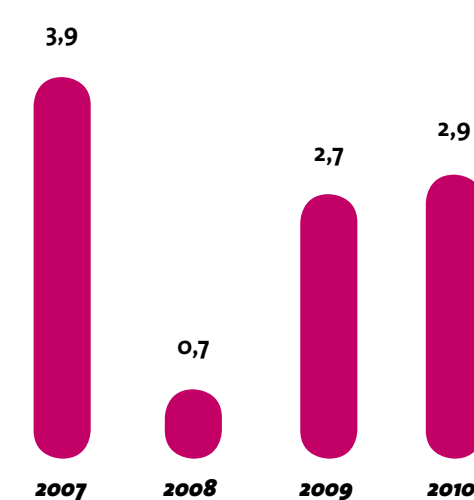
Although this index is considered to be one of the lowest within the Dalkia International Company group, we cannot be satisfied, because our objective cannot be other than to ensure that each of our employees returns home safe and sound after work each day.



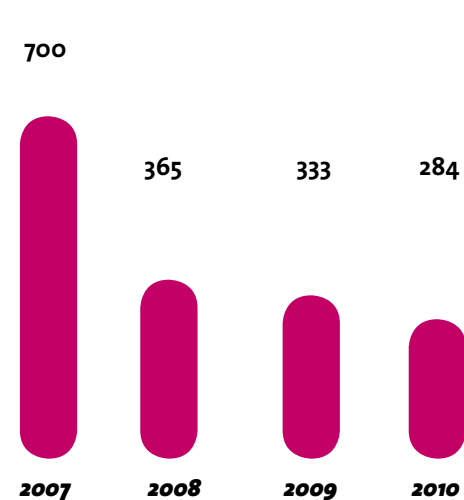
Number of work-related accidents



Accident frequency rate (FR1)



Number of days lost



# SOCIAL AND ENVIRONMENTAL RESPONSIBILITY



## *Christmas Offer in cooperation with the clients*

Contrary to the tradition of previous years at Christmas 2010 we asked our clients to forget about the usual Christmas gifts and give good deeds instead.

We developed a web page especially for this occasion and recommended three foundations - **Red Nose Clown Doctors (Piros Orr Bohócdoktorok)**, **Habitat for Humanity** and **WWF Hungary** – to our clients asking them to support the foundation of their choice by one vote.

**We distributed 3 million HUF among the foundations in proportion to the votes received.**

With the help of the support the **Red Nose Clown Doctors** visited the sick children treated in the **Gottsegen György National Cardiology Institute** each week for six months. **More than 800 children benefited from the curing power of a smile during this time!**

**Habitat for Humanity** managed to **solve the housing problems of eight families** thanks to the support received.

**WWF** could provide the financial coverage from the support for the **plantation of 1 ha indigenous forest on flood area as part of the rehabilitation of Szabadság-sziget (Liberty Island).**

## *Tree planting with the help of our clients*

During the Partner Party of our company in 2010 the guests could collect so called 'seedling dollars' in the course of different activities, which were added up at the end of the evening and exchanged for real tree seedlings.

As a result Dalkia Energia Zrt. purchased **700 tree seedlings** which were planted in the **Pilis Forest Park** in the spring of 2011.



“ At Christmas 2010 more than 400 of our partners contributed with their votes to the implementation of very important healthcare, social and environmental objectives. Thank you very much! ”

# BALANCE SHEET

## Profit and Loss Statement

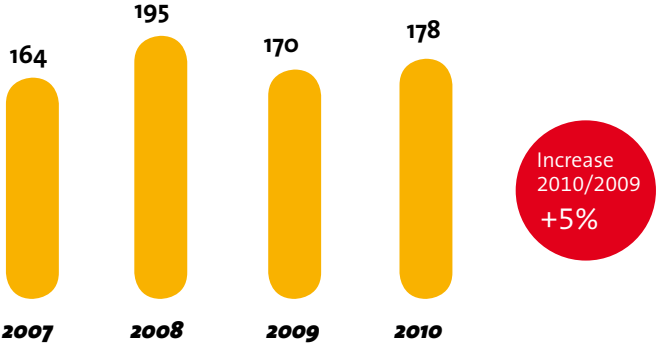
<b>ASSETS (thousands of HUF)</b>	<i>Dec. 31. 2009</i>	<i>Dec. 31. 2010</i>
(A) Fixed assets	47 355 859	46 187 694
(B) Current assets	9 824 787	11 701 463
(C) Prepayments and accrued income	2 635 635	3 205 827
<b>TOTAL ASSETS</b>	<b>59 816 281</b>	<b>61 094 984</b>

<b>EQUITY &amp; LIABILITIES (thousands of HUF)</b>	<i>Dec. 31. 2009</i>	<i>Dec. 31. 2010</i>
(D) Equity	20 732 596	24 546 478
(E) Provision	2 637 140	2 782 431
(F) Liabilities	30 283 318	27 115 121
(G) Accruals and deferred income	6 163 227	6 650 954
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>59 816 281</b>	<b>61 094 984</b>

<b>Profit and Loss Statement "A" (thousands of HUF)</b>	<i>Dec. 31. 2009</i>	<i>Dec. 31. 2010</i>
Net sales	47 642 084	48 954 232
Capitalised value of own production	60 446	216 368
Other income	4 784 745	2 623 753
Material & other external charges	-33 096 812	-34 152 680
Staff costs	-4 385 582	-4 342 941
Depreciation	-4 423 354	-4 011 926
Other expenses	-5 032 525	-3 349 246
<b>OPERATING RESULT</b>	<b>5 549 002</b>	<b>5 937 560</b>
Financial income	728 833	267 189
Financial charges	-3 225 767	-1 783 618
<b>FINANCIAL RESULT</b>	<b>-2 496 934</b>	<b>-1 516 429</b>
<b>NET PROFIT (loss) before extraordinary activities</b>	<b>3 052 068</b>	<b>4 421 131</b>
EXTRAORDINARY PROFIT OR LOSS	-2 987	-8 753
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>3 049 081</b>	<b>4 412 378</b>
Income tax	-371 532	-408 597
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>2 677 549</b>	<b>4 003 781</b>
Part of retained earnings used for dividends	0	0
Approved dividends	-1 497 022	-107 201
Minority interests	-33 270	-1 951
<b>BALANCE SHEET NET PROFIT FIGURE</b>	<b>1 147 257</b>	<b>3 894 629</b>

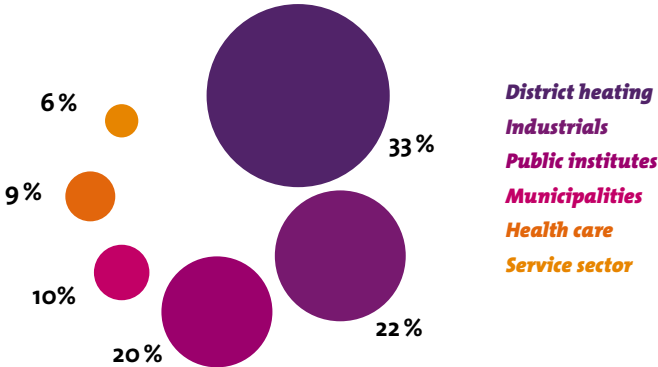
# KEY FIGURES, DIAGRAMS

## NET SALES (MEUR)\*

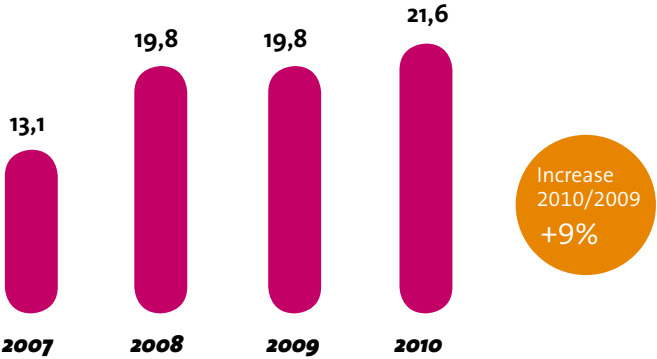


\* Hungarian Accounting Standards (HAS)

## DISTRIBUTION OF TURNOVER BY TYPES OF CLIENTS

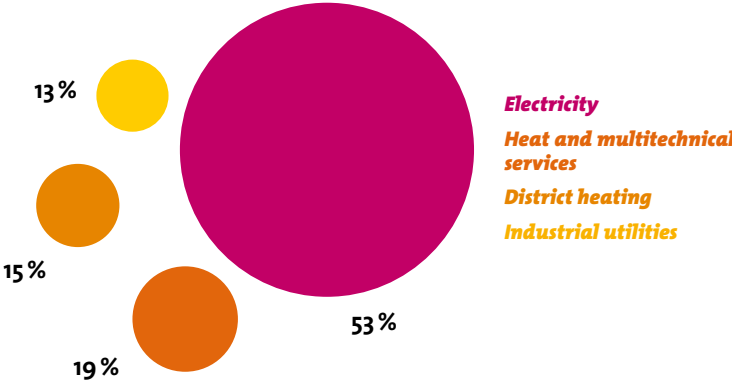


## OPERATING RESULT (MEUR)\*



\* Hungarian Accounting Standards (HAS)

## DISTRIBUTION OF TURNOVER BY ACTIVITIES



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