PRAGUE WATER SUPPLY

AND SEWERAGE COMPANY

IN 2011

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Background

Name:

Pražské vodovody a kanalizace, a.s.

Date of inception:

1 April 1998

Emergence:

Pražské vodovody a kanalizace, a public company limited by shares, is the legal successor of the state-owned enterprises Pražské vodárny, s.p. and Pražská kanalizace a vodní toky, s.p., to the extent specified in the privatisation proposal.

Legal form:

Public company limited by shares

Company No.

25656635

Share capital:

CZK 483,288,000

Shareholder:
VEOLIA VODA S.A. 100 %

Registered office:
Praha 1, Pařížská 11

The company does not have any organisational units outside the Czech Republic.

Bodies of the Company as at 31 December 2011

Board of Directors

Mr Philippe Guitard, Chairman
Mr Rostislav Čáp, Vice-Chairman
Mr Etienne Petit
Mrs Eva Kučerová
Mr Milan Kuchař
Mr Petr Mrkos
Mr Martin Bernard

Supervisory Board

Mrs Květoslava Kořínková, Chairperson
Mr Ivo Sušický, Vice-Chairman
Mrs Marcela Dvořáková
Mr Josef Šverma
Mrs Marie Abrahámová
Mrs Alena Březinová

Management Board

Mr Milan Kuchař, Chief Executive Officer
Mr Petr Mrkos, Deputy CEO, Chief Financial and Sales Officer
Mr Petr Slezák, Deputy CEO, Chief Personnel Officer
Mr Petr Kocourek, Chief Operating Officer
Mrs Radka Hušková, Chief Technical Officer
Mrs Marcela Dvořáková, Chief Communication and Marketing Officer

Facts and Figures

Turnover: CZK **5.07** billion

Profit: CZK **366,370,000**

Number of people supplied: **1.26** million and **200,000** residents of the Central Bohemian Region and the Vysočina Region

Number of employees: **1,040**

Water production: a **total of 119,050,000** m^3 of water, of which **118,034,000** m^3 **of drinking water**

Quantity of treated wastewater: a total of **129,356,000** m^3

Length of the operated water supply network, including supply pipes: **4,290** km

Length of the operated sewerage network, including drain pipes: **4,513** km

Number of contract customers: **86,510**

OUR SERVICES

PVK operates the water management infrastructure of the City of Prague. It is in charge of producing and distributing drinking water and draining and treating wastewater. It focuses on customer services helping to improve and simplify contacts with customers. PVK observes Customer Service Commitments, which are on a par with the European standards of the parent Veolia Eau Group. In addition to its core business, PVK also offers services to external customers such as detection of hidden faults and failures, surveys and measurements in the sewerage network, laboratory analyses, erection of service pipes, and rodent control.

PVK holds a gold certificate for its integrated management system (ISO 9001:2009, ISO 14001:2005, and OHSAS 18001:2008).

WATER PRODUCTION

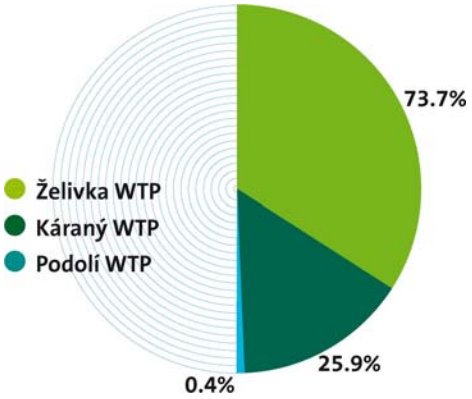
The Želivka, Káraný and Podolí water treatment plants produce water for 1.26 million Prague residents and another approximately 200,000 residents of the Central Bohemian Region and the Vysočina Region. The Podolí water treatment plant in Prague was only operated in August 2011 in connection with the outage of a penstock, on which cracks in the concrete walling had to be repaired. Otherwise, the Podolí water treatment plant is only a back-up capacity for cases of accidents at the Želivka and Káraný water treatment plants.

Water production in 2011 (m^3)

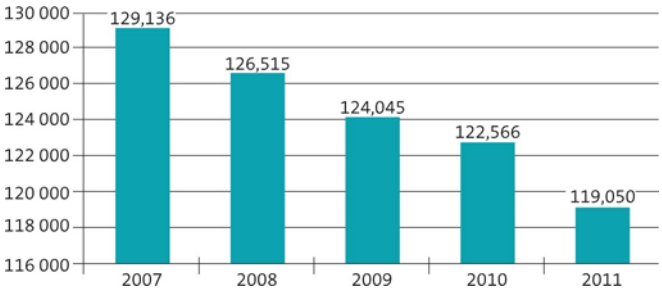
	m^3
Želivka water treatment plant	87,021,679
Káraný water treatment plant	30,551,270
Podolí water treatment plant	460,783
Total drinking water	**118,033,732**
Industrial water main	1,016,454
Total production	**119,050,186**

A total of 119,050,000 m^3 of water was produced in 2011. Of this amount, **118,034,000 m^3 was drinking water** (99.1%) and 1,016,000 m^3 was non-potable water (0.9%).

Share of drinking water at water treatment plants in 2011



Total water production between 2007 and 2011, in thousands m^3

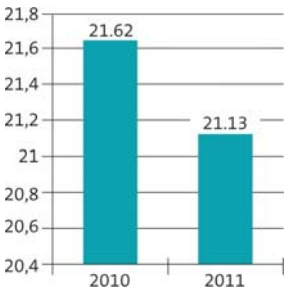


Water business between 2007 and 2011 (in thousands m^3), drinking water + the industrial water main

	2007	2008	2009	2010	2011
Total production	129,136	126,515	124,045	122,566	**119,050**
Water supplied to other operators	15,716	16,525	16,327	15,827	**16,135**
Water received from other operators	0	0	0	0	**0**
Water intended for supply	113,420	109,990	107,719	106,738	**102,915**
Total water billed in Prague	88,401	85,964	83,845	82,517	**80,257**
Unbilled water	25,019	24,026	23,873	24,221	**22,659**
Percentage of loss of water intended for supply	21.40	20.84	20.99	21.62	**21.13**

In 2011, water production declined by 3,516,000 m^3, i.e. 2.9%. This major drop in water production was attributable to loss reductions and lower water consumption in summer and autumn. Specific water consumption of households amounted to 112 litres/person/day.

Water losses (%)



In 2011, water losses were reduced from 21.62% to 21.13%, which is a favourable result given the significant drop in water production. Reductions in water losses are also supported by preventive checks of the water supply network. In 2011, 2,817 km of the water supply network was subjected to checks, revealing 337 hidden water leaks. It will be very difficult to cut the percentage of losses even more without carrying out replacements in the water supply network at the recommended rate.

Length of water supply network	**3,518 km**
Length of supply pipes	**772 km**
Number of supply pipes	**109,043**
Number of water meters	**110,943**
Number of reservoirs	**73**
Volume of reservoirs	**947,714 m^3**
Number of pumping stations	**47**

Water Meters

Water meters intended for billing, of which there are 110,943 in the water supply network, measure drinking water consumption in Prague. Remote readings of water meters via radio modules take place for 1,276 meters. Primarily because of the expiry of the validity of verification, 17,422 water meters were replace in 2011.

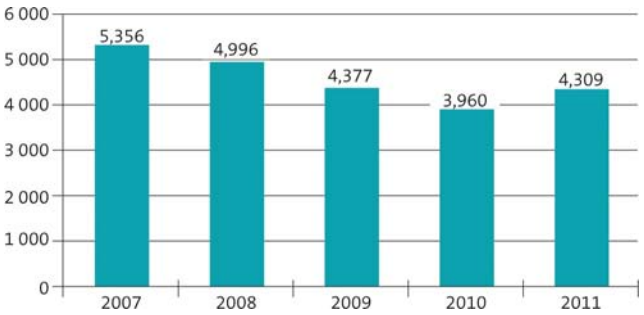
In 2011, the technical support and metrology department commissioned the repair and verification of 5,882 water meters and 681 official tests of water meters from an external supplier. On 23 September 2011, the new Metrology Rules came into effect; subsequently, metrology recording of meters was launched in the new Technical Information System (TIS).

Accidents in the Water Supply Network

A total of 4,309 accidents, i.e. 349 accidents (8.1%) more than in 2010, were tackled in the water supply network in 2011. The average supply interruption time per failure was cut to **8 hours and 51 minutes,** down by **26 minutes** compared with 2010.

The company repaired 1,400 failures on water mains and 675 failures on supply pipes in 2011. The number of large-scale accidents (46) and medium-scale accidents (231) decreased by 2.6%. The most frequent cause of the accidents was corrosion of materials (66%) and land movement (27%).

Number of defects in the water supply network repaired between 2007 and 2011



SEWAGE COLLECTION AND TREATMENT

Total length of sewerage network	**3,572 km**
Length of sewage drain pipes	**941 km**
Number of sewage drain pipes	**115,696**
Number of pumping stations operated	**306**
Number of sewage treatment facilities	**21 branch WWTP + CWWTP**

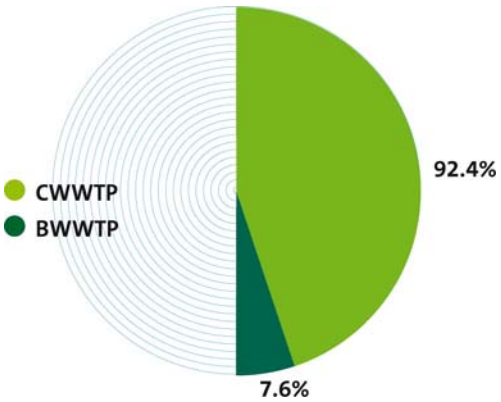
In 2011, 1.24 million people were connected to the sewerage network in Prague. Its overall length, including sewage drain pipes, was 4,513 km. The sewerage network in Prague was built as an integrated system. The main sewers in the system pass wastewater to the Central Waste Water Treatment Plant (CWWTP). The outskirts of Prague have separate sewerage networks that do not mix sewage and rainwater, but divert them into separate systems.

In 2011, PVK operated 21 branch waste water treatment plants in addition to the CWWTP: in Běchovice, Březiněves, Horní Počernice - Čertousy, Dolní Chabry, Holyně, Kbely, Koloděje, Kolovraty, Klánovice, Královice, Lochkov, Miškovice, Nebušice, Nedvězí, Sobín, Svépravice, Uhříněves - Dubeč, Újezd nad Lesy, Újezd u Průhonic, Vinoř, and Zbraslav.

Quantity of wastewater treated in 2011 (m^3)

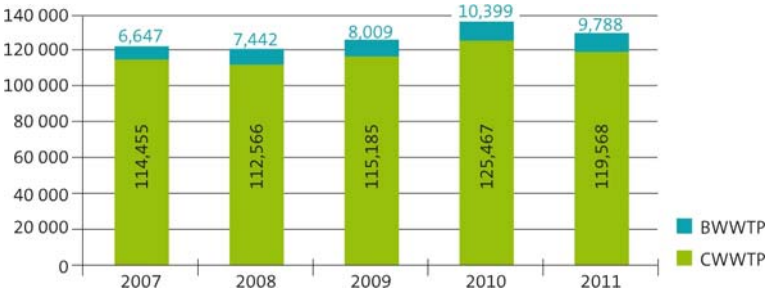
	m^3
CWWTP	119,568,480
BWWTP	9,787,912
TOTAL	**129,356,392**

Share in wastewater treatment in 2011



In 2011, the CWWTP and BWWTP treated a total of 129,356,000 m^3 of wastewater, which was 4.7% less than in 2010. In Prague, the wastewater quantity has varied in recent years, depending on the weather and other external factors prevailing in each particular year.

Quantity of wastewater treated at CWWTP and BWWTP between 2007 and 2011 (thousands m^3)



Sewerage Network Surveys

In 2011, preventive surveys of the sewerage network covered 146 km of sewers, and included the inspection of 2,028 access shafts and other installations in the sewerage network. The checks helped to detect 21 defects. Part of the preventive surveys was checks of the condition of sewers before the end of the warranty period, when 20 km of sewers were examined. Of the 34 structures inspected, 28 were found to be defective.

Accidents in the Sewerage Network

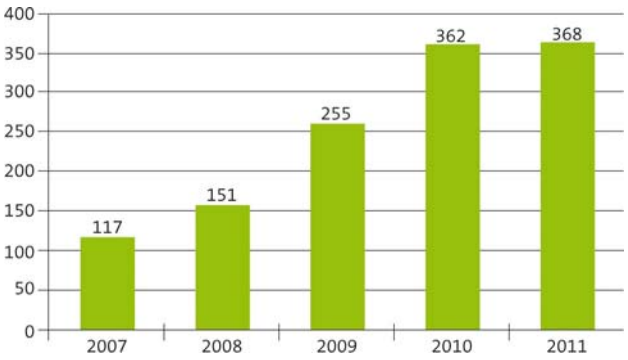
A total of **3,189** accidents in the sewerage network (including defects of lids and blocked pipes), which was **442** (**16.1%**) more than in 2010, were repaired in 2011.

Type of facility	Number of failures	%
Sewers	481	15.1%
Drain pipes	1,995	62.5%
Shafts, chambers, reservoirs, aprons	573	18.0%
Other	140	4.4%
Total	3,189	100%

In terms of the type of defect (accident), the company repaired **2,556 blockages** (80.2%), and 265 sewer shaft lids (8.3%). The other causes of accidents included destruction, damaged wall masonry, cracks, mechanical damage etc., which accounted for the remaining 11.5%.

For the sake of comparing the development of accidents in the sewerage network with preceding year, accidents on main sewers, drain pipes and access shafts (excluding blockages and defects of lids on these installations) were excluded from the total number. In 2011, a total of **368** such accidents were tackled.

Number of failures and accidents on main sewers, drain pipes and access shafts repaired between 2007 and 2011



Water Quality

The quality of drinking and waste water is monitored by PVK's accredited laboratory on a regular basis. The accreditation covers the entire range of ÚKKV's activity: sampling and analysis of drinking, bottled, surface, raw, ground and waste water, water from intermediary process stages (inter-stage water), sludge, and water for swimming, including waste sampling and analysis of process chemicals used in water treatment.

Drinking Water

Tap drinking water supplied by Pražské vodovody a kanalizace, a.s. for public consumption is **wholesome and its quality is systematically checked.** On the basis of the continuous monitoring of the drinking water quality in the Prague distribution network it can be noted that the quality of the supplied drinking water **completely meets the Czech and European standards** in physical, chemical, microbiological and biological terms.

Drinking water quality is monitored under Regulation No 252/2004, as amended, which lays down the requirements for drinking water and hot water and the scope and frequency of drinking water checks. This is a regulation that implements the law on public health, Act No 258/2001, as amended. The above legislation is in line with the EU's requirements for drinking water.

The whole process of drinking water production and distribution is, at each stage of its path from the water treatment plant to the consumers' taps, checked on a regular basis. To improve the quality of supplied water, water treatment plants and the distribution network are gradually being modernised and refurbished.

As in previous years, in 2011 PVK's laboratories **monitored drinking water quality on almost 6,000 samples. Water quality was compliant for 99.7% samples**. Of these, 75% of samples were taken from the Prague distribution network and the other samples from the Želivka and Káraný water treatment plants. In August, water quality checks were also made on samples taken at the Podolí water treatment plant, which at that time supplied water to the distribution network because of the planned repair of the penstock from the Želivka plant. The distribution network was checked both along the distribution route (reservoirs, pipelines) and at consumers.

Overall evaluation of drinking water checks in 2011

Site	Total number of samples for microbiological and biological analysis / number of parameters	Total number of samples for chemical analysis / number of parameters	% of compliant parameters
Želivka WTP	374 / 2,716	374 / 9,341	99.9
Káraný WTP	399 / 2,937	400 / 7,118	100
Podolí WTP	7 / 67	38 / 754	100
Distribution network – reservoirs, pipelines	552 / 5,466	649 / 16,099	99.5
Distribution network – consumer premises	2,419 / 23,137	2,812 / 66,306	99.2
Total	**3,751 / 34,323**	**4,273 / 99,018**	**99.7**

Wastewater

PVK's laboratory monitors the quality of wastewater from the CWWTP and its process equipment, including sludge and biogas, and also wastewater from BWWTP, industrial consumers, sewerage networks, and drainage points operated by PVK, on a regular basis. Liquid waste transported to the CWWTP and BWWTP is also checked. The scope and frequency of monitoring complies with the applicable legislation on wastewater. Compliance with the prescribed limits on released wastewater is monitored to ensure that the environment is not damaged and that our operations comply with all legislation.

In 2011, a great **improvement was achieved at the CWWTP**, which treats more than 92% of all wastewater in Prague.

There was no overstepping of the parameters monitored under Regulation No 293/2002, as amended, which lays down the rules for calculating the charges for the release of wastewater into surface water.

In 2011, PVK's laboratories processed **14,703** samples. Of the total number of samples, **9,311** wastewater, sludge, liquid waste and biogas samples were processed for the CWWTP and **2,338** wastewater and sludge samples for BWWTP; 716 samples collected at industrial customers, **344** samples from the sewerage network, **120** samples from cesspit emptiers at drainage points and **83** samples of wastewater from water treatment plants were processed.

CUSTOMERS

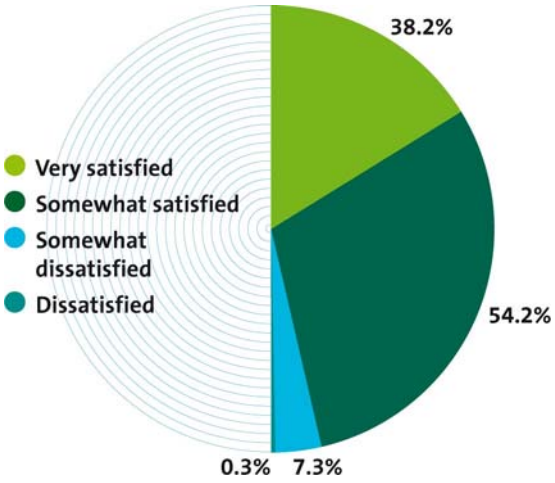
PVK seeks to make all information about water supply and sewage collection increasingly accessible. This means in practice that the company posts more and more information on **PVK's website**. In 2011, an application showing **accidents and planned water supply interruptions in maps** was launched at www.pvk.cz. Consumers can find their own locality directly in the map or by the address. On the website, customers can also find their personal account. The personal customer accounts provide customers with continuous access to information and control over their expenses.

Thanks to the secured **personal account**, customers had information about their water consumption, bills, and readings of water meters in their properties, and also the opportunity to report changes in contract details, the amount of advances paid, their own readings of the water meters, etc. Via the website, customers can also **book a meeting** at a customer care centre to arrange their contractual

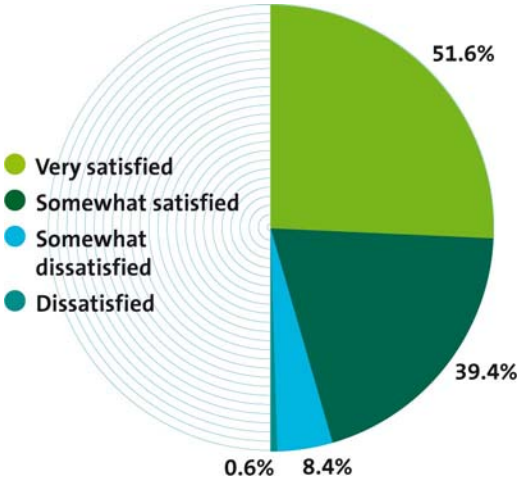
matters. This service was launched in 2011 and in 2012 it will be extended to include meetings at the technical departments of customer centres. Important and sought-after information also includes complete water analyses that the company posts monthly. **The number of visitors to the website has long been more than 20,000 per month.**

In 2011, we continued to observe the **Customer Service Commitments,** which helped to improve our customer services. These commitments resulted in a reduction in the time taken to handle customer's requests and enquiries. One of the other improvements is that the company itself warns customers of increased water consumption (in the case of an increase in water consumption by more than 50% or by 50 m^3 of water) and helps customers in difficult situations. Observance of the commitments was also reflected in the high level of customer satisfaction in the periodical **satisfaction survey**, conducted in October and November 2011 by International Business and Research Services (IBRS). Of the 1,200 polled respondents in Prague, **92.4% answered that they were generally satisfied with PVK's services.** These high numbers are a commitment for PVK, and the company's objective is to continue to improve its services. **91% of the respondents were satisfied with the quality of supplied water**. In reply to the question of whether they drink tap water, 87.1% of the respondents answered yes, which was almost 2% more people than in 2010. Although the Prague water supply network is being progressively modernised and repaired, **98.2% of respondents are satisfied with the continuity of water supply**. The survey was conducted for the eighth time. The poll was conducted by telephone. Three target groups were identified for the survey: individual customers, managers of residential buildings, and companies.

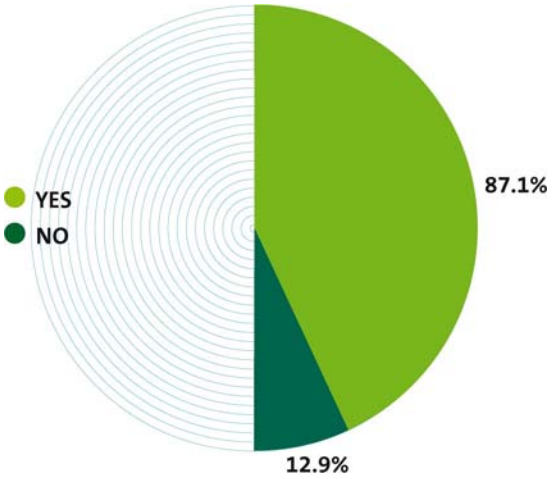
How satisfied are you in general with the level of the services provided by your drinking water supplier?



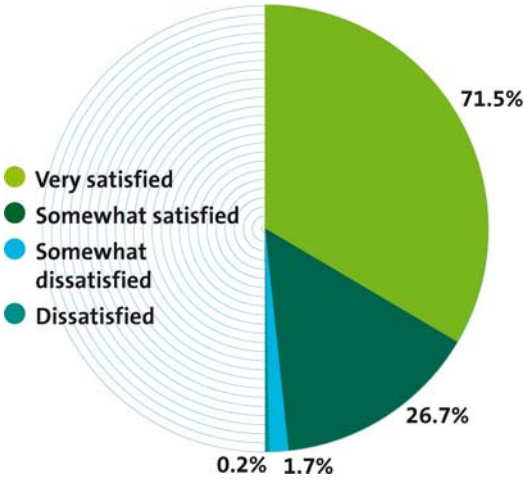
How satisfied are you with the drinking water quality?



Do you drink tap water?



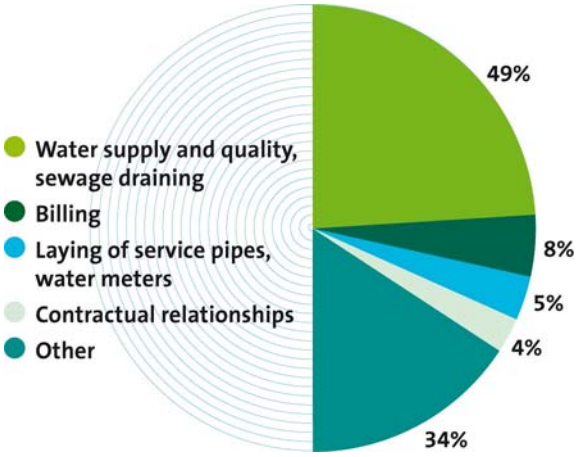
How satisfied are you with water supply continuity?



Call Centre

In 2011, PVK's call centre handled **84,684 enquiries, i.e. 5,622 more calls than in 2010.** Of these, for example, 41,664 enquiries concerned drinking water supplies and quality and sewage draining, 6,603 concerned billing, 3,981 related to service pipes and water meters, and 3,415 questions regarded contractual relationships. The service level was almost 88%. In 2011, the call centre also provided telephone services for customers of 1. SčV, a.s. and for those of Moravská vodárenská, a.s. In 2011, the centre's operators also offered, and registered customers for, the SMS INFO service and offered the distribution of e-bills.

Questions received over the customer service line



The customer care centre in Dykova Street was visited by **40,834 customers;** of these, 34,543 arrived to discuss contractual relationships and 6,291 called on PVK about technical matters. Customers also had an opportunity to pay their water and sewerage charges directly at the cash counter at the customer centre. More than CZK 41 million was collected in this way. At the customer centre, the visitors could arrange everything related to contractual relationships, and also deal with all technical requirements, including technical documentation. Contractual and technical matters can be arranged from Monday to Thursday from 8 a.m. to 6 p.m. Friday opening hours are from 8 a.m. to 3 p.m.

On 1 November 2011, the project for the **regionalisation of customer care centres of the Central Bohemian companies of the Veolia Voda Česká republika** Group was launched. Its purpose is to make it possible for customers of Pražské vodovody a kanalizace, Středočeské vodárny and 1. SčV to use, in the Central Bohemian Region, all customer and call centres of each of the companies regardless which water company operates a particular centre. At the first stage, the customer centres offer customers the opportunity to execute an agreement on water supply and sewage drainage, accept applications for payment schedules or register and escalate claims and complaints.

Number of contract customers	**86,510**
Number of water meters for billing	**110,943**
Number of bills sent out	**262,468**
Number of justifiable complaints and claims	**313**

Other Services

2011 was the first year that saw the fully-fledged operation of the new project of **Services beyond the Water Meter, and More.** PVK offers emergency assistance for water supply pipes and sewage drain pipes inside house distributions, and also their repair. The greatest demand was for emergency assistance, while the demand for extensive repair was weaker. In 2012, PVK will continue to mainly offer emergency services.

Another service offered by PVK is **bills sent via electronic mail.** The bill, in the pdf format, is transmitted to the specified electronic mail address as an attachment to an e-mail message. In 2011, payments via the terminals of SAZKA [a lottery company] were discontinued because of the situation in SAZKA. This service is expected to be resumed in the second quarter of 2012.

The demand for the **SMS INFO** service, i.e., text messages with information about water supplies, accidents, and water supply interruptions, including the expected date of service resumption, increased in 2011. As many as 15,412 Prague residents signed up for this service, which PVK had been offering since late 2007. Registered customers receive, free of charge, important information about water via text messages transmitted to their handsets. Last year, 128,529 text messages were distributed and altogether 466,244 text messages have been distributed since the launch of this service. In 2012, the dates of water meter readings and replacements will also be sent via text messages. Customers also used the option of withdrawing cash through their Komerční banka payment cards. The cash back service was set up at the Prague customer centre in December 2009.

Information Brochures and Magazines

During the year, PVK produced a range of information material and brochures for customers, for example, *Kapka po kapce* [*Drop by Drop*], a brochure in which future and current customers can find all the information they need, brochures informing about PVK's commitments to customers and about the services beyond the water meter, and also information fliers on water quality, laying of service pipes, etc. A new addition was, in June, an **electronic newsletter for customers**, which was distributed to provide information about all the services on offer. In December, the ***Voda pro Vás*** **[*Water for You*] customer magazine** was published and distributed together with all the major daily newspapers. PR campaigns in daily newspapers, advertising and periodical communication with the media also helped to promote PVK's services.

CORPORATE SOCIAL RESPONSIBILITY

Pražské vodovody a kanalizace, a.s. pursues its activities as a CSR company, which means that its corporate strategy includes such working procedures and attitudes that contribute to sustainable development and support overall improvements of the communities in which PVK operates.

We are very particular about maintaining good relationships with all customers and also with our suppliers and shareholders. The ethical framework for the conduct of all of the company's employees is laid down in the Ethics, Commitment and Responsibility Code.

Employees

The company puts in place above-standard conditions and services for its employees. It regards social dialogue and co-operation with the trade union organisation as the basic prerequisite for open communication with the employees. In 2005, companies in the Veolia Voda v České republice Group founded an association of employers, called Malá voda [Small Water], which has become the partner for Odborový svaz pracovníků dřevozpracujících odvětví, lesního a vodního hospodářství [Trade Union of Workers in the Woodworking Industry, Forestry and Water Management] in respect of collective bargaining for higher-level Collective Agreements. The co-operation between the association of Veolia Voda Group employers and the trade union results in well-balanced working and social benefits for the employees.

The situation in PVK's **human resources** stabilised in 2011. As at 31 December 2011, the company had 1,040 employees. During the year, a total of 71 employees left the company, while 74 employees joined it. The overall number of employees increased by 0.3%, i.e. 3 employees. This slight headcount rise was caused by the formation of a new unit for project outsourcing, staffed with 9 employees, which is in charge, among others, of the contract for the operation of water facilities for some of ČEZ's power stations. Employee turnover was therefore 7%. Due to organisational changes, employment of 4 employees was terminated.

In 2011, the average employee age stayed at 47 years; going forward, the aging of the workforce will be a major aspect which the company will be compelled to address, in particular with regard to the transfer of operating know-how.

The headcount as at 31 December 2011 was 1,040 employees, of whom 749 were men (72%) and 291 women (28%). The company employed 19 people with changed capacity for work (2%).

Despite the very tight financial results, the wage-related covenants in the Collective Agreement were honoured. In 2011, the average wage rose 5%, which was attributable to the payout of the 13th and 14th wages amounting to 50% of the average wage in addition to a 2.5% increase in the base wages under the Collective Agreement.

CZK 6 million went to social expenses in 2011; the largest part of these funds was dedicated to contributions to the trade union's activities: from these funds, the trade union contributed to children's recreation, CZK 1.8 million, sport, culture and rehabilitation, CZK 1.3 million, and to personal and professional anniversaries, CZK 0.8 million. Funds were also provided for social assistance, CZK 0.25 million. Employee loans of CZK 1.7 million absorbed the balance of the social fund from previous years.

Personal pension schemes are a major employee benefit and are used by 85% employees. With an average monthly contribution of CZK 847 paid by the employer, the company spent CZK 10.5 million on these schemes. At the end of the year the range of employee benefits was extended to include the option of **employees' life assurance**, which is provided in co-operation with MARSH brokerage firm and the insurance company Kooperativa. This offer has been accepted by 200 employees to date.

The company's long-term effort is to be a good employer also in communication. **Internal communication** influences the entire company's functioning. Employees receive sufficient information via various communication channels and tools such as internal magazines, intranet, employees' get-

togethers at various social events, sport games, events for children, and periodical training sessions and meetings at all levels.

One of the fastest communication channels is **intranet,** which posts news in real time, supporting employees' immediate responses. In early 2011 intranet was migrated to a new Sharepoint release, which supports faster searches and logical connections between columns.

The ***Pévékáčko*** **in-house magazine** brings information to employees five times a year. Employees are kept posted about the current developments in the company and in the Veolia Voda Group thanks to our other periodicals such as ***Voda je život*** **[*Water is Life*],** ***Planeta Veolia*** **[*The Veolia Planet*]** and ***La Lettre*****.**

Employee Training

PVK has long focused on improving its employees' skills and on their training. It is an inseparable part of the corporate culture. Employee education is mainly provided by its own institute, **Institut environmentálních služeb, a.s**. (IES) with its broad-ranging offering of courses and training programmes, many of which are accredited with the Ministry of Education (MŠMT): general courses, seminars and practical training, including a number of special periodical training sessions; tertiary and secondary education programmes; and vocational training.

Training costs at PVK totalled CZK 5.3 million. The largest share, 65%, of these expenses was spent on increasing professional qualifications, 12% was earmarked for mandatory training and special skills training, and 23% was spent on improving the employees' language skills.

The most important training projects provided by IES include a bachelor's course in water management at Moravská vysoká škola Olomouc [Moravian College Olomouc]. In 2011, seven PVK employees successfully completed their course in Company Economics and Management and another 22 employees were enrolled in tertiary education courses while working, which helped to increase the share of employees with higher education to 15.3%. The share of employees with secondary education was 41%.

Occupational Health and Safety

Together with employee education, occupational health and safety is the second strategic point in employee care. The key rules of OHS contained in the Labour Code and ISO standards are explained to employees in the company's internal **Occupational Safety Charter.**

Since January 2007, the company has held an occupational health and safety certificate under the ČSN OHSAS 18001 standard, and in 2009 PVK was successfully recertified under the ČSN OHSAS 18001:2008 standard for the subsequent period. In November 2011, the company successfully defended its integrated management system certificates in a surveillance audit.

Reducing the number of occupational injuries is one of the long-term objectives in the OHS area. In addition to technical training, employees also take courses in first aid. Two of our employees have used the first aid basics from these courses to save human lives in recent years.

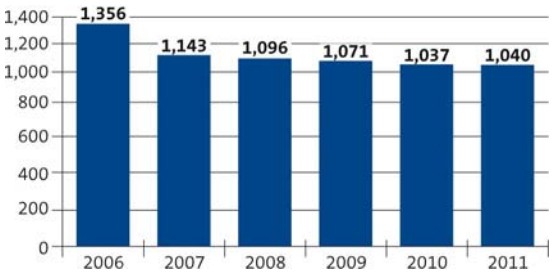
The criteria for the **prevention of occupational injuries** and for the protection of employees' health are assessed on a regular basis. As a result, the company has maintained a respectable occupational injury rate. In 2011, eight less serious occupational injuries occurred, resulting in a total of 367 days of incapacity for work. None of these injuries required long-term hospitalisation. Compared with the previous year, this is two fewer occupational injuries.

PVK provides for medical examinations of its employees over and above the mandatory checks. In co-operation with a contract partner, Salubra, admission and preventive checks were arranged for

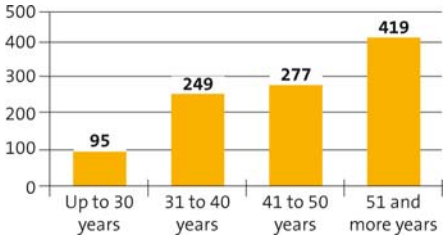
employees, including the vaccinations set out in the Collective Agreement, and other statutory examinations. In late 2011, a general practitioner's office was opened for employees and their family members in the Hostivař precincts.

The sickness rate remained very low, accounting for 2.2% of working time, which is comparable with the previous year.

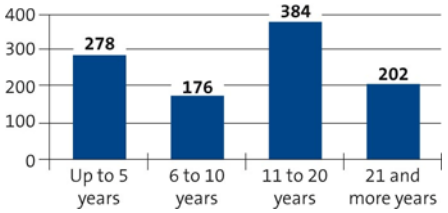
Number of employees by year



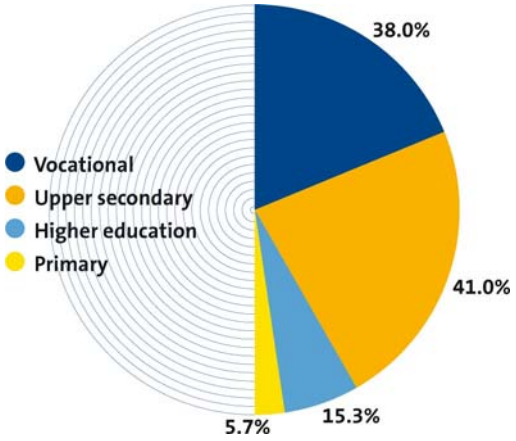
Employee structure by length of service at PVK



PVK employee age structure



Employment structure by level of education



Environmental Education

We encourage the public, our customers and, in particular, children, to protect the environment and to behave in a environmentally responsible manner through our own educational and training schemes. We organise **educational and training competitions** for primary school students. In 2011, we held a competition called *The Adventures of Lucas the Salmon*, where children were asked to create comics on the journey of young salmon Lucas down the river Labe to the German national border. We distribute to schools a free teaching aid, **the *Secret of Water* suitcase**, which explains water and its properties to children in a playful way. We organise **Klub vodních strážců [Water Guards Club]**, which brings together children aged 6 to 16 who are interested in water and nature. For club members we publish a magazine, organise events and operate a website at www.vodnistrazci.cz full of tests, quizzes and games.

PVK communicates with the general public on the protection of water resources, nature conservation, and water quality and savings.

Drinking water production for Prague residents, and also the history of the water industry, is explained to visitors of the Podolí water treatment plant as part of **Incentive Tourism.** Part of the circuit is Muzeum pražského vodárenství [Prague Waterworks Museum], water pumping station and the hall with clarifier tanks and the water tower. Last year, 804 visitors saw the Podolí water plant. In addition, tours of the **Prague Waterworks Museum** continued; in 2011, 8,176 visitors from both the Czech Republic and from all other continents saw it. Eighty percent of them were school children. Most of the visitors come to the museum on **Open Days**, which are held in the spring and autumn of every year. Last year, the museum received 5 new exhibits and a new multimedia audio guide was installed to inform visitors about the history and the whole process of water production, distribution, drainage and treatment in Prague.

During various events for the public, the company uses a **water bar**, at which visitors can refresh themselves with fresh tap water and where they also receive a lot of information about water quality and services on offer.

The **Čerstvá kohoutková? Stačí říct! ["Fresh Tap Water? Just Ask!"]** project of the Veolia Voda Group's companies supports tap water drinking in restaurants. Under this project we inform the public about the quality of tap water and the benefits of this drink for a healthy lifestyle and appeal to them to reduce plastic bottle waste. The project's website at www.kohoutkova.cz offers information about the project and posts a list of registered restaurants. There are currently almost 250 of them in Prague alone. For iPhone users, an application has been prepared, which will direct them to the nearest restaurant offering tap water. In 2010, the project received an award from the Montréal-based International Water Association (IWA) and in 2011 is placed second in the TOP RESPONSIBLE COMPANY in the Responsible Product and Marketing category.

Drinking fountains for schools – we also support tap water drinking at schools, and therefore drinking fountains for tap water were installed in 50 primary schools in Prague.

PVK is heavily involved in welfare, especially through its **Veolia Foundation**, established in 2003 by the parent company, Veolia Voda Česká republika, a.s. The foundation carried out its own projects with a social and environmental focus and supports similarly geared schemes run by other entities. Recent years' most important project is **MiNiGRANTS** – a scheme supporting publicly beneficial projects in which employees themselves participate as volunteers in their leisure time. The scheme is mainly intended for disadvantaged social groups. The project is also abundantly used by PVK employees; in 2011 they received CZK 370,000 under this scheme.

For the second year, PVK cooperated with the Veolia Foundation in the **Water for Africa** project**.** Sales of water carafes help to raise funds for building and repairing water resources in Ethiopia. This Ethiopian project is run by Člověk v tísni [Man in Need]. The proceeds from the sale of second edition carafes amounted to CZK 385,000 and will be used for repairing the water well in the village of Lower Lenda in Ethiopia. Last year's proceeds from the project, CZK 450,000, were used for building and repairing water resources in Ethiopian schools.

Pétanque fields not only for senior citizens: in 2011 PVK built a pétanque field near the Uhříněves home for seniors. It was the sixth such field that was built in co-operation with the Veolia Foundation. This project supports an active lifestyle for senior citizens.

PVK as a partner for the city and Prague residents: PVK supports a number of events for Prague residents, and cooperates with the Municipality of Prague and the various municipal districts. For example, PVK contributed to cultural events - Letní Letná, Bohemia Jazz and Ladronka fest; sport events – the Orvis cup, the *Primátorky* [Mayoralty] international rowing races, the ice rink in Ovocný trh in Praha 1; and to other events. In 2011, the refurbishment of the toll collection houses on the Legií Bridge near the National Theatre, to which PVK had contributed, was completed.

Corporate Volunteering

Being a responsible supplier of water management services, PVK seeks to improve the quality of life in the locations where it operates. A major activity in recent years has been support for employees' volunteering. For all employees having a chance to join depending on their opportunities and abilities, there are two basic ways in which they can be beneficial for their communities. Events when the company releases employees in the working hours for providing help to the needy are organised as teamwork. In this way, our company joined the European Year of Volunteering 2011. Many employees took up the opportunity to join corporate volunteering and in 2011 helped two organisations: in August, it was Design Help, whose aim is to improve the ambience in hospitals, and the Cesta domů civic association. Altogether 21 employees helped to create products through the sale of which the organisations raised funds.

Environmental Protection

Our company's business is closely related to the environment, and the environmental strategy is therefore one of the pillars of our social responsibility. We seek to minimise the impact of our operations on the environment, thereby protecting it.

PVK is certified under the ISO 14001 standard, with a focus on the impacts of our business on the environment. A surveillance audit in the area of waste management has shown that the waste management processes we have in place comply with the law on wastes. The company observes an environmental code, which lays down the key principles of the company's environmental conduct. It covers areas such as waste sorting, document printing, travelling, and water and electricity consumption.

Waste Management

In waste management, we were able to **reduce the proportion of hazardous wastes** in PVK's overall waste production. In 2011, PVK produced almost 153,000 tonnes of waste, of which **only 0.03% was hazardous waste.** In 2010, the figure was 1.9%.

At PVK, acceptance of scrapped electrical instruments, fluorescent lamps, batteries and accumulators has proved its worth and we will continue to maintain and promote this co-operation.

In co-operation with Pražská vodohospodářská společnost, a.s. and following successful consultations with the Municipality of Prague, the permits for the **buyout of liquid biodegradable waste** by the Prague CWWTP, the Čertousy BWWTP and the Kbely BWWTP were renewed. The services for our contract partners, related to the purchase of wastes, will therefore continue to be offered at these operations in full for the next 4 years.

The tendering procedure for a partner who would take the wastes produced by PVK in the wastewater treatment process was completed by the execution of an agreement on the acceptance of the waste with the winning bidder, Marius Pedersen, a member of Veolia Environnement.

In 2011, random physical checks of the disposal of PVK's wastes at this customer, Marius Pedersen, a.s., and at its contract partners, who take waste from the wastewater treatment process, were carried out. The checks confirmed compliance with the agreement in place and with the rules laid down in the law on wastes.

In 2011, members of the Veolia Voda Group also cooperated at the level of laboratories of PVK and Severočeské vodovody a kanalizace, a.s. (SčVK) as part of a pilot project. SčVK therefore becomes the exclusive provider of services related to the sampling of the wastes produced by PVK, as the waste producer, and subsequent analysis thereof. This co-operation will continue next year.

Quality of Wastewater Released into the River Vltava

In 2011, great **improvement in environmental impacts was achieved at the Central Waste Water Treatment Plant (CWWTP)**, which treats more than 92% of all wastewater in Prague.

There was no overstepping of the parameters monitored under Regulation No 293/2002, as amended, which lays down the rules for calculating the charge for the release of wastewater into surface water.

In terms of COD, the average quality of wastewater released into the river Vltava in 2011 was 35 mg/l, which was the best result in the plant's history. None of the other parameters set for the quality of treated wastewater was exceeded during the year even once, and the regulatory authorities did not therefore impose any penalties on the Prague CWWTP and the plant does not have to pay any charges for pollutant emissions.

In co-operation with the Municipality of Prague, our company focused on **identifying and eliminating sources of groundwater pollution,** which occurs due to incorrect connection of drain pipes to the sewers of the rainwater drainage system. These pollution sources are identified by means of inspections, colour tests, camera surveys of inaccessible sewers and hydrochemical examination – wastewater sampling and evaluation.

Since the end of 2008, 61 sources of surface water pollution with sewage and industrial effluent have been found in the basin under review, and 52 of them have been eliminated to date. Eight pollution sources were eliminated in 2011.

Improved surface water quality results in enhanced aesthetic and hygienic values of green zones and water bodies in urban areas and also, above all, a better environment for rare aqueous organisms and their gradual return to their original habitats in Prague.

PVK cooperates with the City of Prague on **flood control.** In 2011, PVK won a public contract for the safekeeping, maintenance and operation of mobile and stationary pumps and their accessories and the related equipment for the "Flood Control Measures for the Protection of Prague" project. The agreement with Prague was signed for five years. In addition to flood gates in the sewerage network, PVK also carries out maintenance and should floods arrive, deploys pumps to ensure that the sewerage network is operable.

Carbon Footprint

At the global level, the parent company, Veolia Water, is the leader among companies that allow assessment of their operations using the carbon footprint method. The company has a complete assessment, carried out using this methodology, of the water technologies that it supplies. In this respect, PVK evaluates its own operations on an annual basis and beginning in 2012 it will set specific targets for further improvements. The analysis focuses on, separately, drinking water production and distribution processes and wastewater collection and treatment processes. On the basis of the first annual analysis, certain measures have been adopted in the process parts of some of the installations.

PVK monitors, among others, CO_2 emissions related to the volume of water produced. These are emissions actually produced only in connection with drinking water production. They amounted to 175 g CO_2/m^3 of produced water in 2011.

In wastewater treatment plants, energy consumption is the main cause of CO_2 emissions. These emissions are proportionally reduced by in-house combined heat & power generation from biogas, which does not contribute fossil emissions to the atmosphere. Additional emissions originate from the collection and disposal of wastes and from chemicals. In 2011, CO_2 emissions per m^3 of treated wastewater amounted to 205 g CO_2/m^3. In 2011, there was a decrease of 9 g CO_2 compared with 2010.

In 2011, emissions related to population equivalent (PE) amounted to 21 g CO_2/p.e., which is 3 g CO_2 lower than in 2010.

Biodiversity Protection

PVK supports environmental projects that make it possible for its employees raise funds for the organisations that they help. These **BioGrants** are organised in all companies of the Veolia Voda ČR Group. In 2011, PVK employees raised CZK 100,000 for their environmental projects.

Through the Veolia Foundation, PVK also contributes to some other environmental projects. In 2011 it launched, in co-operation with angler Jakub Vágner, a five-year **project called The Trout's Path** with a view to saving the populations of common trout and grayling in our waters. The company also supports a scheme called **Návrat přírody do škol [Nature Returns to Schools]**, the gist of which is the organisation of lectures with Jakub Vágner on nature conservation at primary schools throughout the Czech Republic. The **Ukliďme svět!** (**Clean up the World!**) campaign, coordinated by Český svaz ochránců přírody [Czech Union for Nature Conservation], was supported for the fourth year.

INNOVATION

PVK focuses on new opportunities and solutions that make it possible for the company to maintain and enhance its performance and efficiency in all respects. It looks for potential to be tapped, and carries out a number of measures for energy savings. Capital projects and refurbishments help to upgrade the technologies with a view to enhancing customer services.

IDEO - Veolia Water's global project for continuous innovation and progress

At the end of 2010 and the beginning of 2011, the Czech Republic, including PVK, joined the IDEO programme that encourages innovation. PVK employees had an opportunity to propose an innovation of any activity or working procedure in the company. The entered projects are evaluated by an expert panel and the author or team of authors receive a financial reward for a successfully accepted proposal. At the international level, innovations are shared through a dedicated internet portal. At PVK, successful proposals include a project for the optimisation of the processes of raw wastewater treatment at the CWWTP in Prague.

Vladimír Todt: Optimisation of raw wastewater treatment processes at the CWWTP in Prague

To improve the efficiency of the settling tanks, and, in turn, reduce the load on the biological stage caused by organic substances, the correct doses of chemicals must be used at the CWWTP in Prague. Dosing was earlier based on the conventional approach, depending on the volume of inflowing wastewater. However, the inflow concentrations at the CWWTP vary in a broad range from 200 mg/l COD in the morning to 1,200 mg/l COD in the evening (COD: chemical oxygen demand, means the amount of oxygen that corresponds to the amount of organic substances in water when they are oxidised) and the conventional dosing, used in water management, is not efficient. In the mornings, chemicals were overdosed, while in the diurnal peak hours they were under-dosed. Technologist Vladimír Todt has proposed the installation of 2 online transducers in wastewater inflow, from which the control system receives on-line concentrations of the total COD of the inflowing raw wastewater and the chemicals are therefore dosed per kilogramme of inflowing COD, i.e. by the actual load in the inflow. The main benefit consists in a reduction in chemicals consumption by about 25%. The efficiency of the settling tank being equal, annual savings in chemicals are more than CZK 4 million. Depending on the local conditions, this approach will also be applied at some other wastewater treatment plants not only in the Czech Republic but also in other countries in the future.

Co-operation with ČEZ

In early 2011, PVK set up a new project outsourcing department whose projects focused on, among others, optimising production processes at partners and reducing operating costs while taking into account the binding legislative requirements and environmental protection requirements.

At present, the project outsourcing department centres on co-operation with ČEZ, a.s., an electricity producer and supplier, for which it **arranges repair and maintenance of water and sludge management systems at its conventional power stations.** Delivery of services for such an important customer is a highly valuable reference, thanks to which additional investment contracts can be won.

This outsourcing project covers the Dětmarovice, Počerady, Mělník, Tisová, Hodonín, Poříčí and Dvůr Králové sites. The provided services include operations related to the maintenance and repair of installations serving for raw water supply to the power stations and for water treatment to the required quality for the needs of other process equipment. Water so treated is then used in the cooling loop, for producing demineralised or softened water and for treating effluent and sewage.

On the basis of the positive assessment of this co-operation, an extension of the range of activities to include investment contracts or additional power stations operated by ČEZ, a.s. can be expected.

Water Treatment Plants and Refurbishment

In 2011, the replacement of rinse water pumps for filtering unit 1 was completed at the **Želivka WTP**. The new pumps are controlled by frequency converters and only one pump works in a rinsing cycle, which helps to achieve electricity savings. August saw the repair of cracks in the concrete walling of the penstock, which was preceded by a number of measures to arrange for supplying Prague with drinking water. The repair consisted of securing the structural strength of the cracked concrete walling with the help of stainless frames; some 20 metres of the penstock was refurbished in this way. The project required substitute supplies of drinking water for Prague from the Podolí water treatment plant, ensuring that the drinking water supply for Prague residents would remain unchanged.

At the Káraný WTP, specifically the Sojovice WTP, the refurbishment of the filtering unit and pumping station was started. This refurbishment consists of changing the draining system of 6 filters and also replacing the filtering charge from a single-layer to a double-layer charge (sand + anthracite). There will also be new rinsing and filtered water pumps and turbo blowers. Following the completion of this capital project in 2012, the Sojovice WTP will be able to reliably treat lower-quality raw water before infiltration, thereby smoothing out the operation of the entire artificial infiltration and improving drinking water quality.

The upgrade of the automated control system at the **Podolí WTP** was completed in 2011. The system will now have the capacity to control other pieces of process equipment directly from the main control room, and control of the whole plant will therefore be clearer.

Improvements at the Central Waste Water Treatment Plant (CWWTP)

Among others, two quite important capital projects were carried out at the Prague CWWTP in 2011; these projects ensure that the required quality of the wastewater treatment process and sludge processing is maintained. They were the **refurbishment of the sludge pipe,** diameter 1,200 mm, from the regeneration tank to the aeration stage and the **laying of new surplus sludge pipes** from new secondary settling tanks.

Sludge processing was continuous and without any major problems. Overall, 72,226 tonnes of dewatered digested sludge was exported from the CWWTP for further processing, i.e., primarily composting, in 2011. At the same time, the digesters produced 18,528,538 m^3 of biogas, which was used for energy generation.

In-house electricity generation from biogas totalled 34,822 MWh; all of this electricity was consumed directly at the CWWTP. An additional 9,899 MWh was bought from the public grid. The CWWTP therefore **achieved a self-sufficiency of 77.9% in electricity demand.** Both the quantity of electricity generated and the rate of self-sufficiency in electricity demand were the highest in the plant's history. As regards process and operating heat, the Prague CWWTP has been fully self-sufficient for a long time.

Metrology and Remote Monitoring of the Water Supply Network

In some cases, the development of metrology and on-line remote monitoring of the water supply network is limited by the absence of a stable power supply source at the points of metering and data transmission. For these situations, 2011 saw the purchase of an **e-Power micro turbine**, which offers an innovative solution for supplying electricity to metering points and for the further development of metrology and remote monitoring of the water supply network. PVK is the first water management company in the Czech Republic to use an e-Power micro turbine.

The turbine was installed in the existing water metering shaft on a backbone water main that supplies one of the major centres of consumption in Prague. It substituted for a low voltage power connection from the electricity distribution network, which could not be laid there, and made it possible to install new measuring instruments and a fully-fledged radio telemetry station for on-line data transmission to PVK's central control room.

The turbine met the expectations. It made possible the installation of modern meters at a point that is vital for the operation of PVK's water supply network **and on-line remote monitoring of this point.** Benefits also include the much lower capital costs compared with a power supply line and the use of hydro energy – green operation without periodical charges.

Surveys and Metering in the Sewerage Network

Two new permanent measuring sites in the Prague sewerage network, in Evropská and Maďarská Streets (two metering points) were completed in 2011. Thus, 11 permanent measuring sites equipped with modern **flow meters with telemetry data transmission to the central control room** and 5 permanent measuring sites equipped with level indicators were in operation in the Prague sewerage network at the end of 2011. This has helped to improve and increase the accuracy and reliability of wastewater flow metering.

The hydrological situation in the catchment of the Prague sewerage network is monitored by 23 stationary rain gauging stations with telemetry data transmission to the central control room. All data recorded at these permanent measurement networks help to optimise operations and effectively plan the development of the sewerage network.

The sewerage network is also surveyed using a TV inspection system. In 2011, the company bought a truck for the TV inspection system, which makes it possible to inspect sewer pipes from a diameter of 150 mm.

New Water Consumption Metering Technologies

In 2011, PVK tested new technologies for water consumption metering, and also **smart metering,** for example, it trialled an UFR (Unmeasured Flow Reducer) product, the VODOSTOP equipment and a system of on-line water meter reading in a wireless fixed data collection network with presentation through the CEM online application. New developments include the rapidly evolving Smart Metering project and a portfolio of services related to remote water meter readings, presented at the WATENVI international trade fair in Brno.

Refurbishment of Pumping Stations (PS) and Branch Waste Water Treatment Plants (BWWTP)

The following major changes took place in the operation of PS and BWWTP in 2011.

Drinking water pumping stations and reservoirs: the overhaul of the Malvazinky and Bruska distribution pumping stations and the low-pressure section of the Kozinec pumping station was completed. Obsolete equipment was replaced with new, achieving a higher reliability and efficiency of drinking water pumping.

The equipment of the valve chamber at the Havlín reservoir was overhauled, including new electrical wiring. The capacity of the Slivenec pumping station was increased by adding one pump to the pumping station. To enhance the interchangeability of capacities, technical adjustments were made at the Ládví I pumping station, making it possible to pump over the drinking water produced in the Káraný water treatment plant into the Jesenice I reservoir. At the Lhotka and Slivenec pumping stations, transformer stations and MV substations were refurbished.

Wastewater pumping stations: The Nad Parkem and Zbraslav pumping stations were refurbished.

The Klánovice BWWTP: the overhaul was completed. Following a check, all BWWTP facilities were outfitted with mechanical and electronic security elements to improve their protection against attacks.

Helios Green improves performance

In 2011, a new **project for the computerisation of document circulation** was launched in the centralised Helios Green ERP system with a view to boosting the efficiency and transparency of the working procedures related to document circulation in the company. This move also helped to cut the costs of document printing and of the circulation of hardcopy documents, which is organisationally and logistically demanding.

Most of the commercial and accounting documents were converted into electronic form and stored in the Helios Green system. Subsequently, document circulation takes place on an electronic basis only. This system is mainly used for approving and recording incoming invoices, for creating and transmitting documents required for issuing outgoing invoices, for approving and sending purchase orders, and also for contract circulation.

The **computerisation** of documents project is also interesting from the customers' and trading partners' point of view, because beginning in 2012, PVK will be able to offer them the distribution of commercial documents (invoices, purchase orders etc.) in electronic form to their e-mail addresses or data mailboxes. Considerable cost and time savings are also achieved by the subsequent electronic document archiving, which has replaced the current archiving of paper documents. Archived documents are therefore continuously accessible on-line for the company's employees concerned and also for supervisory authorities.

Preparations were also under way under the project for the **implementation of the Technical Information System as part of the Helios Green ERP system.** This project will result, as early as next year, in a significantly broadened range of options and also more efficient working procedures in accident management, and in the monitoring of the structure of operated assets and, at the same time, the planning of asset maintenance and investments in assets, including the evaluation thereof.

New IT

In 2011, the company continued to promote its co-operation with Veolia Voda's subsidiary company Solutions and Services, a.s., which provides PVK with IT services.

The recently implemented information technologies make employees' work more efficient, reduce energy intensity and, thanks to their new functionalities, also improve customer services. The **Accident Management module from the new Technical Information System** has significantly improved work in areas related to the management of accidents and related operations. The centralised HelpDesk makes the users' life substantially easier when they seek solutions for their IT requirements.

The functionality of e-bill reception and delivery continued to be developed; not only does it help to cut postage costs, but it is also more environmentally friendly (similarly as the introduction of centralised printouts) because the bills don't need to be printed. The year also saw the **centralisation of PVK's mail server** (electronic mail) at Veolia Voda's shared data centre. Its advantages include a further cost reduction and better availability of e-mail services.

For PVK's customers, a free application, **Zobrazení havárií a výluk v mapě [Display of Accidents and Interruptions in a Map],** which shows current accidents and planned outages in a clear and simple way, was launched at www.pvk.cz.

Institute of Environmental Services ("IES")

Shareholders:
Campus Veolia Environnement France: 40%; Pražské vodovody a kanalizace, a.s.: 30%; Dalkia Česká republika, a.s.: 20%; Veolia Transport Česká republika, a.s.: 10%.

Turnover: CZK 37,392,000
Number of employees: 14
Number of educational events held: 1,292
Number of participants in educational events: 13,052

There was an increase in all parameters of the output of Institut environmentálních služeb (IES) under review in 2011. IES's sales increased by 127% compared with 2010.

IES was able to continuously **expand its services** in terms of their content, quantity and geography. The activities of the various educational centres and IES's offices in Prague, Ostrava, Banská Bystrica and Teplice developed successfully.

Provision of comprehensive services in the form of outsourcing, including the personnel agenda in education, proved its worth again. This required innovation of IES's educational products. 2011 saw **development programmes in cooperation with Charles University** (Personnel Management II, Marketing Communication and PR), and a programme called Water and Sewage System Operator in co-operation with The Vysoké Mýto VOŠS a SŠS [a civil engineering higher education college and secondary school]. A fifth study group was put together for the Economy and Management bachelor's programme in co-operation with **Moravská vysoká škola Olomouc** [**Moravian College Olomouc**]. In 2011, **new development programmes** were prepared and included in the range on offer for 2012: Financial Management in co-operation with Charles University, Technology – Water – Environment in co-operation with ČVUT, and The OHS Academy in co-operation with VŠB–Technical University in Ostrava.

The range offered by eCampus (IES's educational portal) was extended to include a number of new e-learning courses such as Induction Training, Sustainable Development, Man and His World of Money, and 12 new IT courses.

IES was also successful in the open markets. For example, IES won a tendering process for a CZK 4 million contract for the training of Sdružení vodovodů a kanalizací (SOVAK, Water Supply and Sewerage Association of the Czech Republic) member companies' employees. In 2011, IES also devoted great attention to enhancing the efficiency of its internal processes and to cost cutting. It was preparing a new IES information system, to be tested in late February 2012.

The IES Pedagogy Council, the members of which are mostly HR managers from the various divisions of Veolia Environnement (VE), started its activity in 2011. IES's educational centre in Prague also organised a number of events for VE's international customers in 2011. Thus, 2011 was the most successful year in IES's ten-year history.