



Hungarian Central Statistical Office  
Deputy President

Iktatószám: 400-10/2006.

**Mr Laurs Norlund**  
**Director**

**Eurostat**

**Dear Mr. Norlund,**

Before the compilation of the April 2006 EDP notification, the Hungarian statistical authorities need further clarification on certain methodological issues that were raised and discussed during the 2005 EDP missions and follow-up.

1) Claims on bad loans against foreign governments

Hungarian statistical authorities provided detailed information on the development of outstanding claims on loans against foreign governments, generated mainly by deliveries of Hungarian corporation in goods and services under agreements between governments. Previously an exchange of letters between Eurostat and Hungarian statistical authorities tried to identify key methodological problems of these claims and provided a set of public accounting data illustrating the size of the issue. The set of data, among others, included the stock of claims that are not accepted by the partner governments, broken down by original amount of capital and accumulated late interest.

We would like to ask your opinion of the correct treatment of these items.

2) Privatization of Budapest Airport

Hungarian statistical authorities sent a description on the procedure of privatization of Budapest Airport in September attached to the Comments of Notification.

Meanwhile the privatization contracts were signed and the payment was fulfilled.

The actual components of the privatization package are the following:



60 HUFbn for 75 % -1 shares of the Budapest Airport Co., the amount was received by ÁPV (privatization agency) by exercising the state ownership rights;  
389,5 HUFbn for rights for use of infrastructure assets and operation of Budapest Airport for 75 year,  
15 HUFbn for purchase of certain fixed assets.

Please find attached in Annex 1 the detailed description of the transaction made by the Hungarian Privatization Agency. Annex 2 contains the balance sheet and profit and loss statement of Budapest Airport Rt. for 2003-2004.

The Hungarian statistical authorities raise the question on the treatment of the components mentioned above.

Looking forward to your opinion on these pending issues.

Yours sincerely,

Dr. Bagó Eszter

Budapest, 3rd February 2006

ANNEX 1-2



ANNEX 1

## HUNGARIAN PRIVATISATION AND STATE HOLDING COMPANY

<http://www.apvrt.hu/english/m3.html>

The privatisation of Budapest Airport Rt has been completed

### CURRENT PRESS RELEASES

The privatisation of Budapest Airport Rt has been completed

22nd December 2005

BAA International Holdings Ltd has today completed all immediate payment commitments undertaken in relation to its purchase of a 75%-1 vote stake in Budapest Airport Rt.

As part of the completion of the transaction, all transaction documents have been duly signed and exchanged.

### CURRENT PRESS RELEASES

ÁPV Rt. and BAA (International Holdings) Ltd. have signed the privatization contract for Budapest Airport Rt.

18th December 2005

**ÁPV Rt. and BAA (International Holdings) Ltd. have signed the privatization contract for Budapest Airport Rt.**

**BAA (International Holdings) Ltd, the winning bidder of the privatization tender for a 75%-1 vote share of Budapest Airport Rt. (BA Rt.) and ÁPV Rt. have today concluded the technical finalization of the privatization contracts. Further to the authorization by the Board of Directors, the CEO of APV Rt. and the CEO of BAA (International Holdings) Ltd. have signed the sale and purchase agreement in relation to the shares sold by APV Rt. in BA Rt. and a shareholders' agreement between the new majority shareholder and the now minority shareholder APV Rt. in the course of a public press conference.**

The financial closing of the transaction is expected to take place on 23 December 2005.

APV Rt. is delighted with the results of the privatization of BA Rt. Firstly, the transaction ensures that Budapest Ferihegy International Airport will benefit from the professional competence, commitment and financial resources of the world's largest and one of the most successful airport operators – while maintaining the real estate assets of the airport in state ownership. Secondly, the privatization of BA Rt. results in the largest privatization revenue in any single transaction in Hungary to date.

While many details of the transaction remained confidential until the signing of the sale and purchase agreement, ÁPV Rt. is now in the position to provide the public with a detailed overview of the privatization process.

Press releases issued during the privatization process can be found in Hungarian and English languages on ÁPV Rt.'s website ([www.apvrt.hu](http://www.apvrt.hu)).

## **1. A chronological overview of the privatisation of Budapest Airport Rt.**

On 6 November 2004 ÁPV Rt. initiated a negotiated public procurement procedure to select a privatisation advisor with an announcement in the official publication of the EU. This procedure was won by Credit Suisse First Boston (Europe) Limited and the engagement contract was signed on 28 February 2005, with the tasks of the privatisation advisor including the preparation of both a scoping study on the recommended privatisation technique as well as conducting the privatisation process itself. Credit Suisse First Boston (Europe) Limited was supported by Concorde Corporate Finance and Clifford Chance as subcontractors.

The Board of Directors of ÁPV Rt. debated the scoping study on 5 May 2005 and in its Board Resolution No. 238/2005. (5 May) authorized the elaboration of the call for tender, stating that the tender should be a two round tender for strategic investors preceded by a prequalification phase. Also, the tender was to be drafted in a way that would allow the sale of the entire state owned shareholding should an amendment of the Act on Privatisation permit this. As an annex to the above resolution the Board of Directors of ÁPV Rt. also submitted to the Minister of Finance a Government proposal,.

Subject to the decision of the Government in the issue, Board Resolution No. 313/2005 (6 June) authorised the announcement of the call for tender. The privatisation process was formally started with Government Resolution No. 2104/2005. (6 June). ÁPV Rt. published the call for tender on 6 June 2005 in two daily newspapers with national coverage and in the Financial Times.

The results of the pre-qualification phase of the tender process were approved by Board Resolution No. 357/2005. (11 July), whereby the Board of Directors of ÁPV Rt invited 10 out of the 11 bidders who had submitted a letters of intent to participate in the first round of the tender. The consortium of Corporacion America SA and Stellaria Kft was found not to comply with the professional requirements laid out in the call for tender and was therefore not invited. The deadline for submitting the indicative offers for the first round was set as 9 August 2005.

The fair value of Budapest Airport Rt's share package before the payment of any up-front asset management fees was determined by CIB Bank, which was selected for the task in a public procurement procedure. The valuation was performed using four approaches: a DCF (Discounted Cash-Flow) valuation, an EVA (Economic Value Added) based valuation, an analysis based on the trading multiples of comparable quoted companies, and an itemized asset valuation. The valuation was finalised on 19 August 2005, i.e. before the price envelopes were opened on 22 August 2005 in the presence of a notary public. The valuation report estimated the fair value of the Immediate Transaction Proceeds at HUF 152.3 bn assuming a 100% stake was being sold and at HUF 114.2 bn assuming a 75% minus 1 vote stake was being sold.

The result of the first round of the two round tender process – the list of bidders to be invited to submit a binding offer in the second round – was decided on by the Board of Directors of ÁPV Rt in Board Resolution No. 414/2005. (26 August). The resolution ranked the bids as follows:

<b>Bidder</b>	<b>Score</b>	<b>Ranking</b>
BAA (International Holdings) Ltd.	87.69	<b>1.</b>
HOCHTIEF Airport GmbH and HOCHTIEF AirPort Capital GmbH	84.50	<b>2.</b>
Fraport AG Frankfurt Airport Services Worldwide	82.86	<b>3.</b>
Macquarie Airports Holdings (Bermuda) Ltd.	80.25	<b>4.</b>
Copenhagen Airports A/S	79.57	<b>5.</b>
Abertis Infraestructuras, S.A.	63.48	<b>6.</b>
Ferrovial Aeropuertos S.A., Ferrovial Infraestructuras S.A. and Goldman Sachs International	60.93	<b>7.</b>
Euroinvest Central European Investment Ltd., TriGránit Development Ltd., Aeroporto di Venezia Marco Polo S.p.A., National Savings and Commercial Bank Ltd., and MOL Hungarian Oil and Gas Industry Plc.	53.25	<b>8.</b>
TAV TEPE-AKFEN-VIE	51.44	<b>9.</b>

The Board of Directors invited the following 5 bidders (who placed top 5 both in terms of total score and in terms of industry score) to participate in the second round of the tender:

- BAA (International Holdings) Ltd.,
- Copenhagen Airports A/S,
- Fraport AG Frankfurt Airport Services Worldwide,
- HOCHTIEF Airport GmbH and HOCHTIEF Airport Capital GmbH,
- Macquarie Airports Holdings (Bermuda) Ltd.

All five bidders began the business, legal and accounting due diligence of Budapest Airport Rt on 2 September 2005.

In light of the legally binding ruling of the Budapest Metropolitan Court (59.Mpkvt.630.044/2005), the Board of Directors of ÁPV Rt. cancelled the public, two-round, pre-qualificational tender procedure of Budapest Airport Rt with Board Resolution No. 485/2005. (20 October) and informed the participants of this move in writing.

Following the court ruling cited above ÁPV Rt conducted a consultation process according to the Labour Law with the Workers' Council and the representative trade unions operating at BA Rt. Once these consultations were concluded and based on Government Resolution No. 2231/2005. (26 October), the Board of Directors of ÁPV Rt. passed Board Resolution No. 504/2005. (27 October): In this resolution ÁPV Rt initiated a closed, invitational tender for the sale of a 75% minus 1 vote stake in BA Rt, to which it invited leading international airport operators with suitable operational references and financial strength or consortia of investors formed with a significant participation of such strategic investors. Although no agreement was signed at the end of the consultation process with the employees' representatives, as a unilateral gesture the Board of Directors of ÁPV Rt. incorporated several of the employees' demands into the new call for tender. Accordingly undertakings relating to the employees were given a separate weight among the evaluation criteria and certain commitments related to the employees' rights – such as adherence to the collective agreement, maintaining of the current level of non-wage allowances, cooperation with the unions, and maintenance of the current rights of the BA Rt.'s employees even if certain businesses are outsourced – were identified as mandatory elements of the bids.

ÁPV Rt. invited the following strategic investors to the closed tender:

- BAA (International Holdings) Ltd.,
- Copenhagen Airports A/S,
- Fraport AG Frankfurt Airport Services Worldwide,
- HOCHTIEF Airport GmbH and HOCHTIEF Airport Capital GmbH,
- Macquarie Airports Holdings (Bermuda) Ltd.

The invited parties were allowed to form consortia with prior approval from ÁPV Rt.

The Board of Directors of ÁPV Rt set the submission deadline for 14 November 2005: In accordance with Paragraph 2 of Government Resolution No. 2231/2005. (26 October) the time between the posting of the detailed call for tender and the submission of the bids was set at less than 30 days. This decision of the Board of Directors of ÁPV Rt. is in line with Paragraph 11.2 of the Tender Rules of ÁPV Rt and the decision was supported by a two thirds majority of the board members.

The closed tender was announced on October 28 2005. During the bidding period, Macquarie Airport Holdings (Bermuda) Ltd made a public takeover offer for Copenhagen Airports A/S, as a result of which first Copenhagen Airports A/S, then Macquarie Airports Holdings (Bermuda) Ltd withdrew from the privatisation tender of Budapest Airport Rt.

The following three bidders submitted legally binding offers on 14 November 2005.

1) BAA (International Holdings) Limited (United Kingdom)

BAA bid through the special purpose vehicle BUD Holding Property Management Zrt, which is 99.5% owned by BAA International Holdings Ltd. (a 100 % subsidiary of BAA plc.) and 0.5% owned by BAA plc. itself (representing one share in the company). The ownership structure of the special purpose vehicle was approved by ÁPV Rt. in writing prior to the submission of the bid, after verifying that the ownership structure fully complies with the requirements of the tender, namely that the special purpose vehicle must be under „100 % control” of the Bidder, and that the above structure complies with the requirement of the Corporations Act that a one-person company may not own another one-person company.

2) The consortium of Hochtief Airports GmbH (Germany), Hochtief Airports Capital GmbH (Germany) and Caisse de dépôt et placement du Québec (Canada)

The consortium bid through the special purpose vehicle Airport Partners Hungary Consulting Ltd., which is 49.67% owned by Hochtief Airport GmbH., 10.33% by Hochtief Airport Capital GmbH. and 40% by Caisse de depot et placement du Quebec. The composition of the consortium was approved by ÁPV Rt. in writing prior to the submission of the bid.

3) The consortium of Fraport AG (Germany) and HAH Limited (United Kingdom)

The consortium bid through the special purpose vehicle BA Partners Property Management Ltd., which is 51% owned by Fraport Airport Services Worldwide AG and 49% by HAH Limited (itself a 100% subsidiary of Deutsche Bank AG). The composition of the consortium was approved by ÁPV Rt. in writing prior to the submission of the bid.

On the same day, and as required by the Labour Law ÁPV Rt. and BA Rt. initiated a new round of consultation with the Workers' Council and the representative trade unions at BA Rt. with respect to the scoring of the employee related sections of the bids and the finalisation of the sections of the sale and purchase agreement containing undertakings with respects to employees' rights. This time only the Workers' Council took up the offer for consultation. The discussions took place between 1-7 December 2005 and again closed without an

agreement being signed. In contrast with standard practice ÁPV Rt. invited the employees' representatives to participate in the work of the Evaluation Committee with consultative rights subject to certain conditions being met. The employees' representatives did not take up this offer, nevertheless the Chairman of the Workers' Council did express his opinion on the employee related issues as a guest speaker at the Evaluation Committee meeting of 29 November 2005.

On 30 November 2005, following standard ÁPV Rt. practice the Evaluation Committee scored the non-financial aspects of the bids and sealed the results in an envelope in the presence of a notary public. Only then were the financial offer envelopes opened, which had been placed and sealed in a safe in a locked room upon their submission, again in the presence of a notary public. The final scores for the employee related section were determined only after the consultation process ended and in light of the opinion of the Workers' Council of the relevant sections of the bids. The scores relating to the individual sub-sections were summed at a meeting of the Evaluation Committee on 7 December 2005 which was held in the presence of a notary public. The Board of Directors decided on the final scores and the ranking of the bidders in Board Resolution No. 594/2005 (8 December). Based on the report and recommendation of the Evaluation Committee, the Board of Directors deemed all three bids valid, pronounced the tender successful, and ranked the bids as follows:

<b>Applicant</b>	<b>BAA (International Holdings) Ltd.</b>	<b>HOCHTIEF Airport GmbH consortium</b>	<b>Fraport AG consortium</b>
Immediate Transaction Value (HUF bn)	464.535	406.000	350.000
Immediate Transaction Value scores (max. 70 %)	70.00	61.18	52.74
Total of other professional scores  (max. 30 %)*	23.50	20.72	19.25
<b>Total score</b>	<b>93.50</b>	<b>81.80</b>	<b>71.99</b>
<b>Ranking</b>	<b>1.</b>	<b>2.</b>	<b>3.</b>

\*Composition of other professional scores: Quality of strategic plan and related development commitments (10%), Certainty, clarity and unconditionality of bids (10 %), Undertakings related to the employees (5%), Ongoing financial impacts to the Hungarian state (5%)

BAA (International Holdings) Ltd. placed first not only on the basis of total score, but also when viewed separately on the basis of financial and professional scores.

The Board of Directors of ÁPV Rt. also authorised ÁPV's CEO to proceed with finalizing the transaction documentation in close collaboration with the Treasury Property Directorate, with the condition that the winning bidder be informed of the opinion the Workers' Council of BA Rt expressed in the course of the consultation process and that ÁPV's CEO should make every effort to have these comments reflected in the final version of the contracts.

Following this, the Board of Directors of ÁPV Rt suspended its meeting, and with reference to Clause 2 of Article 12 of the Privatisation Law asked its Chairman to demand the persons exercising the shareholders' rights to request a stand from the Government with respect to ÁPV's decision regarding the evaluation of the bids and the results of the tender.

As authorised by Government Resolution No. 2283/2005. (15 December), the Board of Directors of ÁPV Rt approved in Board Resolution No. 641/2005 (18 December) the draft contracts to be signed with the winning bidder and authorized ÁPV Rt's CEO to sign the documents. Much to ÁPV Rt.'s delight, BAA (International

Holdings) Ltd. was willing to incorporate a number of additional commitments regarding employees required by the Workers' Council into the share purchase agreement.

## **2. The privatisation structure of Budapest Airport Rt.**

The land and buildings of Budapest Ferihegy International Airport continue to remain in the exclusive ownership of the Hungarian State.

ÁPV Rt. is selling a 75% -1 vote stake in Budapest Airport Rt., the company operating the airport. Through the asset management agreement signed with Treasury Property Directorate, Budapest Airport Rt. has the right and obligation to operate and develop the airport as an international airport.

The existing asset management contract of Budapest Airport Rt. will be amended, with the current indefinite term being replaced with a fixed 75 year term in order to incentive Budapest Airport Rt. and its new owner to carry out long term developments (airport infrastructure investments having an extremely long return period).

The long duration of the contract is in line with international practice, where generally either the land is sold or long term „lease contracts” (concession, asset management, lease etc) are concluded. Examples include:

- a) Transactions (including ongoing transactions) involving the sale of land
  - BAA (several airports in the United Kingdom, among others London Heathrow, Gatwick and Stansted)
  - Fraport (Frankfurt Airport in Germany)
  - Aeroports de Paris (Charles de Gaulle and Orly airports in France)
  - Amsterdam Schiphol (the Netherlands)
- b) Transactions involving concession (asset management) agreements with fixed terms
  - Rome (50 years)
  - London Luton (35 years)
  - Australian airports (Sydney, Perth, Brisbane, Melbourne and further 14 airports; 50 years + an option for an additional 49 years free of charge = 99 years)
  - Mexico (50 years + an option for an additional 50 years free of charge = 100 years)
  - India (30 years + an option for an additional 30 years free of charge = 60 years)

During the term of the asset management contract of Budapest Airport Rt. all property investments (buildings and eventually any land purchased) will come under the asset management contract, and as such will automatically become the property of the Hungarian State.

In addition to the above, the modified asset management contract and the other transaction documents set out the expectations of the Hungarian State regarding the quality service to be provided and also the operation standards to be met by the Company.

Financial elements of the winning bid:



	<b>Item</b>	<b>Amount</b> <b>(bn HUF)</b>
Components of the Immediate Transaction Proceeds		
	Purchase price of shares	60.000
	Fee relating to the amendment of the asset management contract	389.535
	Purchase price of movable assets	15.000
	Total	464.535
Additional payment obligations		
	Minimum amount of development commitment (2006-2011)	65.488
	Dividend advance to be paid to ÁPV Rt. at closing (to be funded by the bidder)	10.068
	Repayment of outstanding debt guaranteed by the State (estimate)	20.117
	Total	95.673
Other financial obligations		
	Parent company guarantee for the development commitment	18.818
	Starting value of the put option* for the Hungarian State's remaining 25%+1 vote shareholding in BA Rt. (increases with 11.5% annually)	20.000
	Total	38.818
Grand total	599.026	

\*The Hungarian State has a unilateral put option until 2011, however an amendment of the Privatisation Act is needed to exercise this option.

In addition to the above BA Rt. will pay an ongoing asset management fee equal to 0.5% of its annual revenues to the Hungarian State (to the Treasury Property Directorate) and as per the 20 June 2005 amendment of the Air Traffic Act, a supervisory fee of HUF 25 per passenger (to the Civil Aviation Authority (capped at HUF 160m a year) which increases from 2006 with the official inflation rate published by the Central Statistical Office. These two items are expected to amount to around HUF 400 m in 2006.

### **3. Regulation of the air traffic revenues of Budapest Airport Rt.**

The air traffic charges collectible by Budapest Airport Rt. are to be regulated as a result of the privatization. As per the joint decree of the Minister of Economy and Transportation and the Minister of Finance published on 10 November 2005 (i.e. prior to the submission of the binding bids) the air traffic revenues per passenger of Budapest Airport Rt. must decrease by approximately 20% in real terms between 2006 and 2011. Beyond 2011, any increase in the air traffic revenues per passenger cannot exceed the inflation rate.

Per passenger charges will decrease as a result of the efficiency gains expected from increased passenger volumes. Such efficiency gains will have to be shared with passengers and airlines. This regulation will also incentivise the airport operator to follow a more transparent pricing policy, to maintain dialogue with the airlines and to continue to improve service quality.

With the decrease in airport charges the regional competitiveness of Budapest as an airline destination will increase, and the cost of flying to the general public will decrease .

All three bidders submitted their binding bid in knowledge and acceptance of the decree.

### **4. Comprehensive agreement between Budapest Airport Rt. and Malév Rt.**

One of the most significant achievements associated with the privatisation of BA Rt is that the old and non-commercial terms between the airport operator and the national airline have been replaced with market based terms which stand up to all competition tests.

Based on the term sheet signed on October 1 2005 and following the necessary preparations and assets valuations, the CEOs of Malév Rt. and BA Rt. signed a contractual package with the following key elements:

- Malév sold its 100% subsidiary Repülőtéri Üzemanyag Kiszolgáló Kft. (RÜK Kft.) to BA Rt for a consideration equal to the fair market value of HUF 7.02 bn of the business. The fair market value was determined by an independent appraisal company mandated jointly by Malév and BA Rt.
- The accumulated debts of Malév Rt. to BA Rt. were settled by offsetting these from the purchase price paid for RÜK Kft.
- A comprehensive property lease agreement was concluded between Malév and BA Rt. with conditions similar to those between BA Rt and other airport tenants.
- The two companies agreed on the conditions of Malév's ground handling activities at the airport (check-in desk rental, access fees for ground handling activities, etc.).
- Malév Rt. and BA Rt. agreed to terminate Malév's exclusive use of Terminal 2A and on the process whereby BA Rt will gradually take over the allocation of Terminal 2A capacity.