
ANNUAL REPORT 2002



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Management evaluation

The Budapest Stock Exchange transformed into a joint stock company on July 1, 2002. The new Board of Directors identified **five main strategic goals**: widening the product range by bringing new companies to the market; strengthening the domestic investor base; more direct focus on international relations; increased communication with the government that can also result in the development of the whole capital market; and finally, further integration of the services of the exchange and the settlement system in co-operation with KELER with a view to creating more added value in the process of trading.

The BSE, as a **service company**, is to supply both its direct and indirect partners such as section members, listed companies, as well as institutional and retail investors.

The Exchange looks upon **listed companies** as the major source for widening its product range. For that reason, the BSE focuses strongly on maintaining its relationship with companies whose securities are already listed and on convincing new companies to go public.

Guided by its aspiration to foster issuer relations, the BSE organized a successful Road Show in London in summer 2002 with a view to offering Hungarian issuers the opportunity to promote their firms and to meet investors at an event featuring the presence and the speeches of prominent participants of the national economy headed by the Minister of Finance.

The year 2002 was dominated by the issuers of debt securities as manifested by the surge in the number of mortgage bond and commercial paper issues and the lack of new equities. In an attempt to boost the number of equity issues and to have new companies make their debut on the exchange, the BSE Ltd. started to organize a club for companies seeking to get listed, known as the Club of Quotable Companies (CQC), in late 2002. CQC is a forum for providing information to and preparing the companies that look upon raising funds at the exchange as a realistic opportunity.

Strengthening demand and making the exchange attractive for investors are at least as important as are the moves designed to ensure that there is adequate supply.



György Jaksity

The level of sophistication of financial infrastructure and financial services and the weight they carry in the economy as a whole are much lower in the Hungarian economy than in the member states of the EU. This handicap is also captured by the indices of the relatively developed banking sector and is even more clearly reflected by the drastic backlog of capital market savings and investments.

Realising these deficiencies, the BSE set out to increase domestic savings as one of its main strategic priorities and united forces with other Hungarian financial institutions and government agencies to embark on a joint program geared to restructuring savings in Hungary.

The Exchange went on to organizing an awareness raising campaign assisted by leading participants of the domestic money and capital market.

The objectives of the campaign call for changing the attitude of the Hungarians towards savings and investments by increasing confidence in money and capital markets and, secondly, for communicating information to ensure that people in all segments of the population are better informed in general about finances and capital markets, and thirdly for making long term assets and forms

Management evaluation



Zsolt Horváth

of investment more popular through convincing people that saving a part of their income now can make their lives easier in the long run. The BSE invited a tender for the implementation of the campaign and set up a fund, known as **'Self-Sufficiency – For the Culture of Finance and Investment'** for handling the related financial resources.

One of the key issues in providing proper services to traders and investors involves tailoring the range of products to their needs. To ensure that, the BSE has kept widening the range of tradable contract in the market of derivatives in addition to the steps it took to bring new issuers to the market. These innovative solutions included the launch of new futures contracts based on a single underlying equity and cross contracts in foreign currencies.

The year 2002 brought the most far-reaching change in the history of the BSE, as the Exchange demutualized in keeping with statutory provisions and with capital market challenges to operate as a joint stock company starting July 1, 2002.

The new organisation required the revision of the stock exchange regulations and the bylaws of operation.

Demutualization also brought with it the cancellation of the exchange membership. Functioning as a joint stock company, the Exchange has become the terrain for section members with the right to trade. Trading firms made up 71 % of the shareholders on the first day of corporate operation.

The transformed BSE continues to keep interest advocacy in focus by maintaining its former professional committees (trading, listing) and by operating other professional bodies such as the settlement and index committees. The Exchange also provides the framework for interest advocacy by elected representatives of investor organizations.

MMTS I-II, the internationally competitive trading system of the BSE, which supports both the cash and the derivative markets, continued to operate reliably. The parameters of the system are such that make it capable of managing trade flows of much higher volume and greatly diversified product range without capacity limitations in the long run.

In April 2002, the BSE took transfer of the responsibility for the first line support of the system from an independent service provider and succeeded in operating it more effectively and efficiently.

The BSE continued to lobby in **government circles** to assert the interests of the Exchange and capital market participants in 2002. The relationship with these agencies improved substantially and culminated in friendlier economic policy attitudes towards the capital market and more positive communication by the government. The step with the largest impact this year involved the amendment of the tax treatment of income from capital market operations, which came into force on January 1, 2003. The rate of personal income tax on capital gains made on all exchange transactions has been reduced to 0 %, whilst corporate taxpayers may subtract 50 % of the income remaining from exchange transactions after charging the related expenses to profit before tax

After the serious recession in 2001, the **turnover of the BSE**, started to increase in 2002. The turnover of the equity market was 10 % higher than in the preceding year. The year on year HUF value of BUX, the official stock

Management evaluation

index of the BSE, was also up 9 %, whilst in US dollar terms the increase reached 35 %, which ranked the performance of the BSE 4th internationally.

Increasing turnover and strict cost management resulted in a profit of HUF 59 million and stable cash-flow for the BSE in 2002 in contrast with a loss of HUF 71.8 a year earlier and the originally budgeted loss for 2002.

Realising the intensified competition globally and the problem of economies of scale, the BSE has been actively searching for different forms of **potential international co-operation** since late 2001, as manifested in its strategy. Although the spectacular wave of integration seemed to subside in 2002, the efforts at establishing international ties took new momentum at the BSE. One of the outcomes of those endeavours involved the formulation of the technical connection to Xetra, the German trading system, in the spirit of strengthening relations with Deutsche Börse, at the end of 2002 and the actual linkage is expected for the second quarter of 2003. This connection is the first of its kind in that it allows Hungarian investors to access foreign markets with the BSE acting as a profit driven mediator. As this solution covers only a part of an investor's potential targets, the BSE intends to engage in similar negotiations for networking with other markets in the future.

Another objective of the BSE, namely the one that envisages the international integration of the Hungarian market of securities, also foresees the likelihood of getting connected to international networks as an alternative to traditional co-operation among exchanges. In addition to providing Hungarian investors access to numerous markets, these networks are beneficial in that they bring the Hungarian market to the fingertips of a wide range of foreign investors.

The BSE is active in managing its relations with international exchange organizations. It is in this token that firm ties have by now been forged with the Federation of European Securities Exchanges (FESE) and the BSE is a regular invitee at the professional forums and workshops organized by the Federation, where it participates as an associate member with consultative rights.

The BSE is also an associate member in the International Federation of Stock Exchanges (FIBV) and furnishes that organization with monthly statistics and announcements so BSE data continuously feature in FIBV publications. The organization renamed itself as World Federation of Exchanges (WFE) in 2002.

The changes implemented in 2002 served to enhance the quality and to improve the competitiveness of the chain of services offered jointly by the BSE and KELER. In May 2002, KELER enlarged the scope of its Central Counterparty (CCP) service to cover the cash market in addition to the futures market, which serves to diminish the risks associated with the market even further. Shortening the settlement cycle in the Equities Section from T+5 days to T+3 days as of November 18, 2002 was another significant step.

The process of demutualization and the strong focus on efficiency coupled with **changes in organization**.

The structure of governance was streamlined and the decision making process was simplified, which also called for curtailing the number of senior managers. In 2002, headcount reductions continued along the path that started years ago. The average official headcount was 64, including 60 members of the BSE staff proper.

The **new communications strategy of the BSE** aims at retaining the former practice of providing credible, transparent and high quality information and requires that the BSE have an active Hungarian media presence, taking the initiative by supplying the public with clear-cut information, in an attempt to reshape the past image of the BSE and to bring the exchange closer to the public. All that harmonizes with the goal that the BSE should convince new issuers and private investors of the advantages of going public.

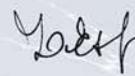
The new responsibilities imposed the need to remodel and strengthen the PR, marketing and communications activities of the BSE. After restructuring the organization, these responsibilities are now handled by the new Business Development and Communications Division.

Management evaluation

An independent consultant has been procured to assist the implementation of the new medium-term communications strategy adopted by the BSE for the next three years, which hinges on transparency, messages in plain language and playing an active role.

Despite the recession of the global capital markets, the year 2002 is reckoned to have been successful for the

Exchange. The moves the BSE made helped boost its competitiveness, improve the quality of its services and whilst making great advances in profitability.



Mr. György Jaksity
Chairman of Board



Mr. Zsolt Horváth
General Manager



Major Events in 2002

January 1, 2002: The new „Capital Market Act” came into force.

January 2, 2002: The CETOP20 index started to be calculated.

January 8, 2002: Extraordinary General Meeting which prepared the decision about the transformation into joint stock company.

January 16, 2002: New contract was established on the derivative market. The 5 years benchmark bond future contract was introduced.

January 25, 2002: „The Bests of the BSE-2001” award ceremony in the Museum of Applied Arts.

February 1, 2002: New product on the MMTS free market: QQQ

April 2, 2002: New content of the BUX basket. The new basket contains the following companies: Antenna Hungaria, BorsodChem, Danobius, DÉMÁSZ, ÉGIS, MATÁV, MOL, NABI, OTP, Pannonplast, Pick, Rába, Richter Gedeon, Synergon, TVK

April 30, 2002: The annual general meeting of the BSE which returned a verdict about the transformation into joint stock company.

May 13, 2002: The KELER Ltd. introduced the institution of the Central Counterparty (CCP) for transactions on the cash market.

May 18, 2002: The East-West Management Institute (EWMI) with the BSE professional support gave a seminar for the listed companies and also for the potential ones titled Best Practices for Investor Relations Professional in Budapest.

May 15, 2002: New product on the future market. 10 cross contracts were introduced among the 5 most important currencies of the world.

June 17, 2002: The BSE kept a roadshow in London, in which the Minister of Finance, Csaba László, also participated.

July 1, 2002: The Budapest Stock Exchange operates as a Joint Stock Company.

September 6, 2002: 4 new Equity Future contracts in the Category "B" (ECONET, ÉMÁSZ, PANNONFLAX, PHYLAXIA)

September 17 and 18, 2002: The Investor Relation Magazine had a conference in Budapest. The sponsor and host of the event was the BSE.

The issuers of the BSE received awards listed below :

- Award for the excellent investor relations: **MATÁV Ltd.**
- The best person who responsible for investor relations: **Mr. György Fenyő - OTP Bank Ltd.**
- The best website which realize investor relations: **MOL Ltd.**

September 27-29, 2002: 9th Sports Events of Central European Exchanges hosted by BSE.

October-November, 2002: The Hungarian Financial Supervisory Authority made a 1 month long on-site audit on the BSE. They examined the operation of the BSE from 2000 until the end of November 2002. Finished the audit neither deficiencies nor infractions of regulations were identified by the Supervisory Authority.

November 18, 2002: The settlement cycle of the transactions made on the BSE's Equities Section, shortened from T+5 days to T+3 days.

November 20, 2002: The first event of a series of presentations by Mr. György Jaksity. The series runs under the name „Misconceptions and Facts about the equity investments”.

December 4, 2002: For the invitation of the BSE the leaders of the most important banks, brokerage companies, insurance companies and other financial institutions participated at a conference.

December 18, 2002: „The Bests of the BSE-2002” award ceremony in the YBL Palace.

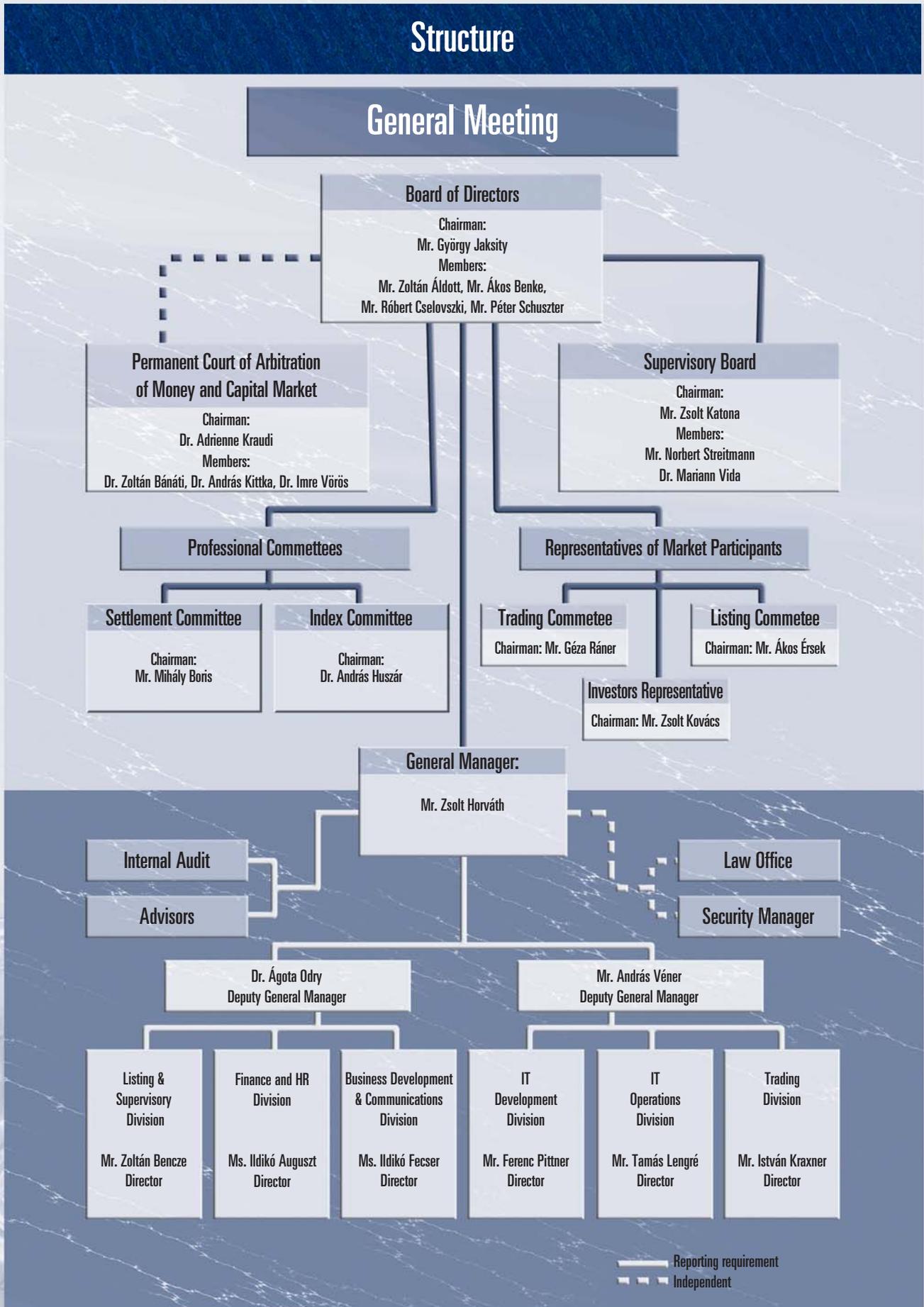
The following results were announced in seven categories:

- Best investment service provider of the year: **ConCorde Securities Ltd.**
- Best issuer of the year: **OTP Bank Ltd.**
- Best issuer of debt securities in the year: **FHB Land Credit and Mortgage Bank Ltd.**
- Best professional press organ of the year: **Portfolio.hu**
- Best journalist of the year: **Mr. Balázs Sándorfi**
- Best vendor of the year: **Bloomberg LP**
- The 'Man of the Exchange': **Mr. György Jaksity**



OVERVIEW OF THE BSE

Structure



Products on the BSE – Securities

Securities

The market of debt securities dynamically widened in 2002. While the total amount of mortgage bonds was three in 2001, by the end of 2002 this amount increased to 14. In 2002 the mortgage bonds of FHB Land Credit and Mortgage Bank Ltd. were listed monthly. Until the end of the year seven new series and their tap issues were listed at a total face value more than HUF 68,5 billion with a total capitalization of more than 100 billion HUF. In December 2002 a new mortgage bond issuer came to the market, the OTP Mortgage Bank Ltd. They listed four series at a value of HUF 40 billion.

In 2002 six corporate bonds were listed, while there were two de-listings of bonds because of their expiry. The total capitalization of the corporate bond market (including the bonds of the international companies) was 177,6 billion, meaning an increase of 61 % compared to the end of 2001.

The Government Debt Management Agency Ltd. kept its position among the issuers of the Exchange and remained the biggest issuer in 2002.

In 2002 there was no new company coming to the market, but the amount of de-listed companies was eight (nine series of equities).

No investment notes were listed and no notes were de-listed in 2002 (on the 10th of January 2003, a new investment note was issued), and the number of government securities moved in line with the pattern seen in previous years.

As development on the cash market the issue of the first ETF (Exchange Traded Funds) the QQQ can be mentioned that is listed on the OTC market of the MMTS. Since then the Hungarian investors have had the possibility to trade with one of the most liquid security of the world through the BSE.

Listing and maintenance conditions

On the BSE trading is possible on the Official Market and on the Free Market (OTC market) operated through the trading system of the BSEO.

Listing has become much easier since the amendment of the listing requirements of the BSE in August 2002. In addition to the general listing terms, the Exchange does not

Changes in the total amount and face value of Exchange Listed Securities in 2002

	2001		2002	
	pieces	face value billion HUF	pieces	face value billion HUF
Total amount of Listed Securities	112	5 272,0	120	6 022,7
Stocks	56	645,1	49	626,6
Government bonds	28	3 334,8	26	4 204,0
Corporate and International institutional bonds	11	110,0	15	165,0
Mortgage bonds	3	15,0	14	123,5
Discounted T-bills	10	1 021,5	10	758,0
Investment notes	3	5,9	5	5,9
Compensation notes	1	139,7	1	139,7

Products on the BSE – Securities

impose any quantifiable requirements related to other features of the securities series (number of shareholders, free float, market capitalisation). The additional requirements are restricted to stocks listed in Equities Category „A” and a few special securities (warrants, foreign securities).

The listing must be authorised by the Hungarian Financial Supervisory Authority (HFSA), then the director of the BSE decides on the listing.

In order to simplify the listing procedure, the Exchange only requires compliance with minimum disclosure requirements and the attachment of statements specified in the Regulations as conditions precedent to listing on the Exchange.

Fees - The payment of the maintenance fee is also a listing requirement. The detailed fee structure of the BSE can be found in the order by the Budapest Stock Exchange Ltd. on the schedule of fees applied by the exchange. The order is accessible on the web site of the Exchange (www.bse.hu).

Disclosure Obligations - Among other rules, the provisions of the CMA include the disclosure obligations of public companies and contain the detailed requirements of regular and extraordinary disclosures by issuers. Although the bylaws of the Exchange are based on identical principals to the Act, and are designed to ensure appropriate notification of and protection for investors (hence the two sets of provisions are quite similar), the Exchange rules are more stringent in certain cases and are more detailed as regards the information issuers are obliged to publish.

Annual Report - audited annual report, detailed, in 120 days after closing

Quick Reports - Within 45 days after the period under review. Quick reports have to be prepared quarterly for Equities Category „A” and semi-annually for Equities

Category „B”, and for bond issuers. Quick reports must contain a full and consolidated balance sheet and a profit and loss account, explanation of major changes in the period under review, other data typical of the company, changes in the company, a summary of information to support the evaluation of the company.

Extraordinary Disclosure - Issuers that become aware of any information on any past or ongoing change in the management of their businesses that could affect, directly or indirectly, the value of or the yield on the securities are subject to extraordinary reporting requirement.

Other Disclosure Requirements - In addition to the above, issuers must provide information about every event of significance in the life of their company, for instance: the convocation of a general meeting, press conferences, amendments to articles, changing the contact person responsible for the Exchange and investors.

In order to concentrate exchange information in a single location and to ensure that the provision of information to market participants is the fastest, cheapest and most comprehensive, from May 2002 the Exchange has decided to make the Exchange Web Site (www.bet.hu) the official site of exchange-related announcements, hence issuers on the Exchange are also obliged to publish their disclosures there. Disclosing information at the Exchange Web Site as required by the Exchange is regardless of the announcement obligations set forth in the CMA.

Quick reports must be published on the trading day after submission. The Exchange publishes extraordinary disclosures, made during trading hours, at its web site within an hour after receipt, and it also makes sure that extraordinary disclosures, received outside trading hours, get published as soon as possible but at least half an hour before the next trading session begins. There are no special requirements regarding the publication of other disclosures at the web site, as such disclosures do not influence market rates.

Products on the BSE – Securities

Trading Categories - The system of categories on the Exchange is primarily designed to inform investors of distinctions between listed companies according to certain investment criteria.

At present, there are two categories of listed equities. The Exchange intends to ensure the simplest possible method of having public companies listed, which is why the conditions of listing in Category „B” are practically identical to the legal requirements of public offering and the terms of listing equities in Category „A”, while over and above the general requirements, are not especially rigorous. The different listing terms of the two categories are subject to different sets of regular disclosure requirements.

Communication with Issuers - Issuers business federation

The main responsibilities of the BSE involves the maintaining of the uninterrupted relations with the issuer companies. This is accomplished through regular meetings as annual conferences and events are organised. Starting early 2001, issuers have received regular monthly newsletters about events concerned to them and about the major Exchange and Capital Market developments. The BSE inform the issuers on all regulatory matters affecting them and on other projects either. The Exchange also seeks for their opinion regarding the rules under developments. Moreover, there is a Listing Committee, consisted of the representatives of the listed companies.

Listing Requirements

	Category 'A' rules*	Category 'B' rules
Stock series for listed	Minimum market value of HUF 2.5 billion.	None
Free float	At least 25 % of the series to be listed; or at least HUF 2 billion worth of the market value of the series to be listed; or the series should be held by at least 500 shareholders when listed.	Only notification should be given to the Exchange.
Shareholders	At least 100	Only notification should be given to the Exchange.
Business year	Three full completed and audited years.	None
Security class	Registered only.**	None

* Ranking is revised semi-annually.

** Dematerialized bearer stocks and bearer certificates of deposit issued against stocks may also get listed in Equities Category 'A' if the securities comply with all other requirements.

Products on the BSE - Derivatives

Derivatives

New derivatives in 2002

The Derivative Section of the BSE increased by 15 new products on the future market where only two de-listings took place. By the end of 2002, 49 future contracts and four option contracts were on the market of the BSE.

In January 2002, the market of interest based products widened by the 5 years reference bond contract.

From May 2002 trading has been possible for new cross currency contracts also on the currency market. The 10 new cross currency contracts were novelties in the trading of the BSE as these are the first instruments where the currency of the trading is not HUF.

Preceding the leader Exchanges of the world, the BSE further widened its product range on the derivative market. The amount of the equity based future contracts were increased by 4 more equities of the Category „B” in 2002 September.

Changes in the total amount of derivatives

	2001	2002
Futures	36	49
Currencies	5	15
Interests	5	6
Equities and index	26	28
Options	4	4
Equities and index	4	4



List of issuers (December 31, 2002)

Equity Issuers:

1. Agrimill-Agrimpex Grain Processing and Grain Trading Co., Ltd.
2. "Antenna Hungária" Hungarian Radiocommunications Corporation
3. BorsodChem Rt.*
4. Budapesti Ingatlan Hasznosítási és Fejlesztési Rt.*
5. Brau Union Hungária Breweries company limited by Shares
6. Csepel Holding Ltd.*
7. Danubius Hotel and Spa Rt.
8. South-West Hungarian Electricity Supply Company Limited by Shares (DÉDÁSZ Co. Ltd.)
9. DÉMÁSZ South Hungarian Electricity Supply Co.Ltd.
10. Domus Kereskedelmi Ltd.*
11. econet.hu Information Technologies Ltd.
12. EGIS Pharmaceuticals Ltd. Co.
13. Budapest Electricity plc.
14. EHEP Első Hazai Energia-portfolió Rt.*
15. North Hungarian Electricity Supply Company Ltd.
16. North-West Electricity Supply Company Ltd.
17. FOTEX First American Hungarian Photo Servicing Company Limited by Share
18. Gardenia Lace Curtain Factory PLC
19. Globus Canning Industry plc.
20. GRAPHISOFT N.V.
21. HUMET Trade, Research and Development Company Limited by Shares
22. Hungagent Trading Company Limited by Shares
23. Inter-Európa Bank Company Limited by Shares
24. Kartonpack Rt.*
25. KONZUM Trading and Industrial Company Limited
26. Hungarian Telecommunications Company Ltd. (HTC Ltd.)
27. Mezőgép Autóipari és Gépgyártó Rt.*
28. Milton Apartman Ingatlanforgalmazó- és hasznosító Rt.*
29. MOL Hungarian Oil and Gas Public Limited Company
30. NABI Bus Industries Rt.
31. Novotrade Investment Company Limited
32. National Savings and Commercial Bank Ltd. Hungary
33. PANNON-FLAX Rt.*

34. PANNONPLAST Műanyagipari Rt.*
35. PANNON-VÁLTÓ Vagyonkezelő és Kereskedelmi Rt.*
36. PHYLAXIA PHARMA Drugs, Vaccines and Agrobiological Preparations Manufacturing and Distributing Company Limited by Shares
37. Prímagáz Hungária Industrial and Commercial Co. Ltd.*
38. QUAESTOR Értékpapírkereskedelmi és Befektetési Rt.*
39. RÁBA Automotive Holding PLC.
40. Chemical Works of Gedeon Richter Ltd.
41. Skoglund Holding Befektetési Rt.*
42. Styl Garment Factory Company Limited by Shares
43. Synergon Information Systems Ltd.
44. Székesfehérvári Hűtőipari Rt.*
45. Tisza Chemical Group Company Limited by Shares (TVK Ltd.)
46. East Hungarian Electricity Supply Company Ltd.
47. Zalakerámia Limited
48. Zwack Unicum Liqueur Industry and Trading Company Ltd. (Zwack Unicum Co. Ltd)

Bond Issuers:

1. Government Debt Management Agency Ltd.
2. Central-European International Bank Ltd.
3. European Investment Bank Ltd.
4. Erste Bank Hungary Ltd.
5. Hungarian Development Bank Ltd
6. Hungarian Foreign Trade Bank Ltd.
7. Hungarian Telecommunications Company Ltd. (HTC Ltd.)
8. MOL Hungarian Oil and Gas Public Limited Company
9. Raiffeisen Bank Ltd. Co.

Mortgage Bond Issuers:

1. FHB Land Credit and Mortgage Bank Ltd.
2. OTP Mortgage Bank Ltd.

Fund Managers:

1. Prudent-Invest Investments Trust Manager Ltd.
2. Quaestor Investments Trust Manager Ltd.

*No official English name specified in Statutes

Members of the BSE

Changes in 2002

The year of 2002 brought determinative changes not only in the life of the BSE but also for those investment service provider companies, who have the right to trade on the market of the Budapest Stock Exchange. As the BSE converted into a Joint Stock Company, the status of its members also changed. As a result of the change, the Exchange members (owners) received shares of the Exchange according to their quote of wealth in it and they became share owners of the BSE. Today we distinguish between the owners of the BSE's shares and the section members who have the right to trade on the market.

After the transformation into a Joint Stock Company, the traders became the clients of the BSE and the supplying of their demand is one of the main strategical objectives of the company. The most important duty of the Exchange still remained the ensuring of the transparency of the trading and the stability of the market, this requires strict regulation and control regarding the activity of the section members. The regulatory institutions are the Exchange itself and the Financial Supervisory Authority.

On the 1st of January 2002, 34 Exchange members and 4 non Exchange members without seat on the exchange had the right to trade on the BSE. Until the transformation 5 members acquired their membership. Three of them continued the trading activity on the BSE as a bank, they just simply transferred the investments service providing activity of their subsidiaries. The other 2 bank merged with their brokerage companies. As a result of these, the transformed BSE had 36 section members (from which 33 were also owner of the BSE) this number contains those who were section members without seat before. At the end of 2002 the number of section members were 33 from which 15 were banks.

Regulations on the section members

On the markets of the Budapest Stock Exchange only section members can have the right to trade. The conditions of having the section membership are defined in the „Regulations by the Budapest Stock Exchange Ltd. on Section Membership”

Section members can be:

- investment businesses and banks in the Equities Section, in the Debt Securities Section and in the Futures and Options Markets of the Derivatives Section;
- locals in the Futures and Options Markets of the Derivatives Section.

Section membership is granted by concluding a section membership agreement between the Exchange and the Section Member. The Exchange will conclude a section membership agreement with an applicant in case the following conditions are fulfilled:

- applicants shall have a license issued by the Supervision for trading in the particular Section;
- applicants shall fulfill the conflict of interest requirements set under law and accept and conform the Exchange Rules and the KELER Rules;
- applicants shall pay the initial fee for joining.

For the trading in the sections, there is a membership fee paid only once, at the time of receiving the membership and an annual minimum fee. This annual fee can be redeemed by the transaction fees, calculated on the basis of the turnover.

Act CXX of 2001 on the Capital Market (CMA) provides the rule that the Financial Supervisory Authority can only give permission for investment service providers registered in Hungary. As a result of this, the section membership is narrowed down to the Hungarian investment service providers.

An exception of that rule is, if there is a valid and effective international co-operation agreement based on mutual recognition of Supervisory Authorities which covers the supervision of licensed exchange dealers between the Commission and the Supervisory Authority competent for the place where the foreign company is registered. In that case the foreign company can also have the right to trade on the market of the Budapest Stock Exchange.

The provisions above will be extinguished on the effective date of the act proclaiming the ratification of the international agreement on Hungary's accession to the European Union.

The „Regulations by the Budapest Stock Exchange Ltd. on Section Membership” regulates the process of having the

Members of the BSE

right to trade, but above this, the rights and responsibilities of the section members, the suspension of their right to trade, their reporting and accounting obligations, the sanctions towards them and the procedure of acquiring section membership are also regulated (the order can be found on the www.bse.hu web site).

Ensuring the transparency of the trading procedure is one of the most important activities of the BSE. The continuous monitoring of the trading is to identify the unfair price influence, tradings that are based on confidential information and other activities by which the clearness of the market can be affected. During the process of monitoring the BSE screens the unusual deals through several levels.

Control of the section members

To ensure the transparency of the trading, the BSE examined the section members unusual deals 116 times. In 11 cases the BSE raised the member's attention onto the elimination and prevention of their deficiencies and 10 cases were sent to the Supervisory Authority.

Corporate representation of the section members

Despite the distinguishment between the owners of the BSE's shares and the section members who have the right to trade, the traders still have the possibility to represent their interests through the Trading Committee, composed of the representatives of the section members.

Section members on the Budapest stock Exchange (December 31, 2002)

	Equity Section	Debt Security Section	Derivative Section Future market	Derivative Section Option market
AEGON Hungary Securities Limited by Shares	X	X	X	X
Bank of Hungarian Savings Cooperatives Ltd.	X	-	-	-
BIZTONSAG Invest Investment and Security Inc.	X	-	-	-
BNP PARIBAS HUNGARIA Ltd.	X	X	-	-
BUDA-CASH Brokerhouse Ltd.	X	-	X	X
CA-IB Securities Ltd.	X	X	X	X
Cashline Securities Inc.	X	-	X	X
Central-European International Bank Ltd.	-	X	-	-
Citibank Ltd.	X	X	X	X
ConCorde Securities Ltd.	X	X	X	X
Daewoo Bank (Hungary) Ltd.	X	-	X	X
Deutsche Bank Ltd.	-	X	-	-
EASTBROKERS Investment Bank Plc.	F	-	F	F
EQUILOR Investment Co. Ltd.	X	-	-	-
EQUITAS Broker Ltd.	X	-	X	X
ERSTE Bank Investment Hungary Ltd.	X	X	X	X
General Banking and Trust Company Ltd.	X	-	-	-
HAMILTON International Brokerage Company Ltd.	X	X	X	-
Hungarian Foreign Trade Bank Ltd.	X	X	X	X
ING Bank (Hungary) Ltd. Co.	X	-	X	F
INTER-EURÓPA BANK COMPANY LIMITED By SHARES	-	X	-	-
K&H Equities (Hungary) Securities Trading Ltd.	X	-	X	-
Kereskedelmi és Hitelbank Rt.*	X	X	X	X
Királybroker Ltd.*	-	X	-	-
National Bank of Hungary	X	X	X	X
National Savings and Commercial Bank Ltd. Hungary	X	X	X	X
Postabank and Savings Bank Corporation	-	X	-	-
Postabank Securities Ltd.	X	-	X	X
QUAESTOR Securities Trading and Investment Co.	X	-	X	X
RAIFFEISEN Securities and Investments Ltd.	X	X	X	X
REÁLSZISZTEMA Securities Trading and Investment Ltd.	X	-	-	-
SWAP Brokerage House Inc.	X	-	X	F
WestLB Hungaria Bank Ltd.	X	-	X	-
Total	28	17	22	19

* No official English name specified in Statutes

X: Trading right
F: Suspension in trading right

Trading System

Owing to years of experience with automated remote trading based on the Multi-Market Trading System (MMS I-II.), the Budapest Stock Exchange (BSE) compares favorably with exchanges that pride themselves in the developed trading techniques they use. It was years ago and at the right time that the BSE recognized the need to follow international trends of seeking to “swap” traditional floor trading for a more modern technique that removes geographical obstacles to trading and even allows an exchange to pursue cross-border operations without physical limits.

The MMS trading system has been offering comprehensive trading services to companies trading in the equities, debt securities and the derivatives sections of the BSE for several years now. Remote trading workstations provide trading access to section members from their premises for more than 6 hours a day, and deliver the full product portfolio of the exchange to the fingertips of investors.

The MMS trading system provides platforms for both the public order book type trading and the extra-order book type order matching. More than 95 % of the exchange turnover is generated through public order books. In the trading system trades are generated by matching the orders entered into the public order book. This can be done using a variety of trading techniques. The majority of trades are executed in the free (normal) trading session using a continuous order matching algorithm where the orders are ranked according to time and price priority. The system uses also the equilibrium price algorithm (in the opening and closing sessions), and the multiple-price matching algorithm (in case of auctions). Besides the order book based trading the system provides means for entering the so-called negotiated deals created upon an agreement by and with the participation of two parties only. In the case of the negotiated deals the specific broker orders do not get into the normal order book which is public for the whole market, but instead these are displayed only for the two parties participating in the given agreed trade.

If there is a need, the fundamental order book based trading technique may be complemented with market making, which in essence is designed to ensure liquidity in a certain security by certain section members making the market by maintaining bids and asks or continuous price quotations in

the security. This technique is currently in use in the debt securities section of the Exchange for trading government securities and certain corporate bonds. On the derivatives market the system gives the possibility to rely on a RFQ (Request for Quote) function, which allows any of the traders to ask a market maker or another user of the system to quote prices in a given security.

The Exchange operates a separate auction board within the trading system for selling and buying securities in bulk. Government securities (bonds and T-bills) have been offered for sale through this board ever since the start of the MMS trading system and the launching of mortgage bonds has also been organized on this auction board since their introduction at the BSE.

While trading is in progress, brokers are kept continuously informed about the positions they take on the given trading day, and traders in the derivatives market may also view gross short and long as well as net positions on house and individual customer accounts as a result of data transfer with KELLER.

One of the most important technical features of MMS is that the system imposes practically no capacity limitations, i.e. in case the number of users happens to grow at a rate in the future that might render the present configuration of the system incapable of providing service to the users, there will still be no need to replace the system as a whole, expanding hardware elements will be sufficient to ensure smooth services to even a multiple of the present number of users without any technical hitch.

The system is remarkably robust and resilient. The developing company optimized uninterrupted operation even at times of defect by setting up second copies of the most important software and hardware components that stand by to ensure that the system can automatically switch to the properly functioning component if an error occurs.

The most pressing issue and the international tendency of our time involve the compatibility of trading systems, i.e. they should interconnect and be interoperable, if the need arises.

When MMS was launched, the remote trading system operated in a closed network without any physical connection with other networks. Since that time, it has become common

Trading System

knowledge that „opening” the trading system should be one of the top priorities in systems development, or in other words the closed system between the Exchange and section member broker firms should be liberalized without giving up a notch of the security of systems operation. Opening the system was completed during the past year and as part of the project the Exchange supported and cooperated in creating a solution whereby trading firms can establish direct data connections with the hub of the trading system and their „back office” systems. The technical solution commonly known as the Exchange Connection Server (CS) allows section member broker firms to process trading data as desired, to use other developed applications besides the Trader Workplace user interface provided by the Exchange. It also sets the order entry to fully automatic mode, which also meets the requirements of Internet based electronic trading through direct links between broker order processing systems and the hub of the Exchange, which reduces the cycle time of order entry substantially.

Operating the CS also allows the Exchange to find technical support for embarking on cooperation with a partner

exchange, because broker firms associated with exchanges abroad tend to use methods similar to CS for trading (and not via a single application provided by the Exchange and similar in form to the Trader Workplace software).

Another international tendency involves that exchanges do not provide trading software to brokers, who only get a technical interface which allows connections to be made to the central system of the exchange, whilst broker firms themselves cater for their own trading interface even by purchasing any third party software.

In 2002 several financial service companies started the developments to be able to connect to the CS. In October 2002 one of them already connected to the server and two other companies are expected to be connected in the first quarter of 2003.

As an important step of the EU harmonization procedure the yield/price calculation algorithms for bonds and T-bills have been modified on the initiative of the Government Debt Management Agency Ltd.



Clearing and Settlement

The **Central Clearing House and Depository (Budapest) Ltd. (KELER Rt.)** was incorporated by the National Bank of Hungary (50 %), the Budapest Stock Exchange and the Budapest Commodity Exchange (25-25 %) on October 12, 1993 to act as a depository and as a house of clearing and settlement. When KELER Rt. was established, the BSE transferred to it the responsibility for the physical delivery of securities and the financial settlement of securities transactions.

The Clearing and Settlement of Cash Transactions

The direct participants of clearing are known as clearing members (which are broker firms and banks that comply with KELER requirements and are also section members) a member may only participate in trading in a section of the exchange after depositing certain collateral amounts (minimum maintenance charge and individual margins) and in case the member complies with the margining requirements of clearing membership on a permanent basis.

KELER clears and settles transactions on securities and limited cash accounts managed for the members (as accounts that keep track of exchange turnover).

The capital market act requires the Clearing House to segregate a broker's own securities and those held for a customer, which is why KELER keeps a subsidiary securities clearing account marked H (house) to record the securities held by a member and a subsidiary securities clearing account marked C (customer) to record securities held by clients to ensure that the securities side of settling transactions on the exchange exists. Brokers have to enter information about whether a transaction is on house or on customer account whenever they conclude an exchange deal.

For cash delivery purposes, KELER keeps cash accounts for broker firms and in the case of a banking broker, it uses the cash account held by the bank with the National Bank of Hungary.

Settlement is based on the delivery versus payment (DVP) principle. This principle makes payment and the delivery of securities interdependent in that the failure of one will trigger the failure of the other side.

Trades in the Equities and Debt Securities Sections (except for negotiated deals and auction transactions) are cleared and settled on a rolling basis, in a cycle of T+3 days from 18th of November 2002 in the Equities Section and with multilateral netting in a cycle of T+2 days in the Debt Securities Section. (T marks transaction date and the days correspond to the number of business days.)

KELER was one of the first clearing houses in Europe that introduced the institution of the Central Counterparty (CCP) for transactions on the cash market in May, 2002. The idea behind the CCP system is that KELER guarantees the performance of transactions and acts as a seller vis-a-vis a buyer, and vice-versa in case of a default and hence guarantees delivery under accepted transactions as if it were the party to a contract to be performed. In the event of non-payment by a party to a transaction, KELER will have to perform the liabilities arising from the deal even if it has to use its own equity.

The Clearing and Settlement of Derivatives Transactions

KELER Rt. is responsible for clearing the futures and options transactions concluded on the BSE. Except for products with a single underlying stock, which are settled by physical delivery, all other contracts traded on the BSE call for cash settlement.

The System of Guarantees

In order to ensure the security of transactions and to reduce its own risks KELER Rt operates a system of guarantees that comprises multiple tiers:

Clearing and Settlement

Clearing Member Guarantees

- The **minimum maintenance requirement** is a fixed amount KELER requires members trading in a particular market to keep on a permanent basis.
- The **variation margin** is designed to cover past price movements. KELER calculates notional losses (or gains) daily after transaction date. As opposed to the derivatives market, members are not obliged to settle the value of the variation in cash. If the variance is negative KELER issues a margin call to clearing members. The variance corresponds to a shift in price in 5 or 2 days, depending on the settlement cycle of the given product. However, KELER does not calculate variance for positions that mature the next day, i.e. it actually takes into account the price movement of 4 days and 1 day. Variance gains and losses can only be offset for trades and positions in the same product maturing on different dates.
- The **initial margin** is calculated for open positions before maturity as a flat amount determined by a single day's normal price movement. As opposed to the variation margin, this is designed to cover against the risk of future shifts in price and hence is a primary component of the system of guarantees. Just as in the case of derivative transactions, it is calculated separately for each product on a portfolio basis with the SPAN[®] (Standardized Portfolio Analysis of Risk) software. Although the positions always refer to the next 5 or 2 days in the settlement cycle of 5 and 2 days, respectively, open positions do not include items that mature on the day after calculation, which is a form of margin allowance. Additionally, KELER grants spread margin allowance for shares showing the greatest liquidity between delivery dates.

In the event a member blocks some of the deliverable securities on settlement date and associates the blocked securities with a selling position, no initial margin requirement is created with regard to the covered positions.

- **Additional financial cover:** This is designed to give KELER a means of sanctioning members whose risk it judges to be too high. This collateral defaults to zero.

Collective Guarantees

The Exchange Settlement Fund (ESF) is a collective fund designed to reduce the risk associated with the delay or omission by clearing members to perform under a transaction they conclude with other clearing members on the exchange and is used as collateral bail to guarantee cash payment. Contributions to the Fund are also used as bail by KELER to meet any claims on clearing members.

Clearing members are obliged to make weekly contributions to the Fund as calculated by KELER. Immediate contributions to the Fund by a member are calculated as follows:

- 2.5 % (at present 3 %) of average equity market turnover in the past 10 weeks,
- plus 3 % of the average value of the member's open positions in the government securities market in the past 4 weeks, but at least HUF 1 million and a maximum of HUF 125 million.

The fact that despite the hectic twists of the market and the substantial reductions in price participants had to realize last year, the settlement of exchange transactions was not endangered even once and all the transactions concluded on the exchange were settled shows how the system of clearing and settlement is secure.

Data and Information Dissemination

Data dissemination

The Budapest Stock Exchange Ltd. disseminates trading data as well as corporate and other exchange information.

The BSE sells real-time and delayed exchange trading data directly to data vendors, who in turn provide these data to end-users. The contractual relationship between the BSE and its data vendors is realised along standardised conditions, through standard Vendor Agreements. In 2000, this Vendor Agreement was classified as one of the most transparent vendor agreements by FISD, an international organisation for companies and institutions functioning on the market of financial information.

The BSE currently offers its vendors the following data packages*:

- Real-time Best 5 Price Levels Service Package**
- Real-time Best Price Level Service Package**
- Delayed Best 5 Price Levels Service Package
- Delayed Best Price Level Service Package
- End-of-Day Data-feed
- BUX Package Data-feed

The new „Service packages for Non-Professional Use”, developed during the year of 2002 and introduced in the first quarter of 2003, makes it possible that vendors, by paying the BSE an additional annual licence fee, may disseminate BSE data towards their end-users at much reduced terminal prices.

* The Budapest Stock Exchange does not apply a differentiation according to market segments, i.e. the Service Packages contain data on all the securities on the BSE.

** The BSE also offers two “Service Packages for Non-Professional Use” for each of the two marked Service Packages, with the same data content but at more favourable monthly terminal fees.



Data and Information Dissemination

Hungarian Vendors of the BSE (as of 31st December, 2002):

real-time data

- TeleDataCast Kft. (Best 5 Price Levels)*
- MTI-ECO Kft. (Best Price Level)
- Net Média Rt. (Best Price Level)*

delayed data

- econet.hu Informatikai Rt.
- Westel Mobil Távközlési Rt.

end-of-day data

- Internet Securities Magyarország Kft.**

International Vendors of the BSE (December 31, 2002):

real-time data

- Bloomberg LP. (Best 5 Price Levels)
- Moneyline Telerate (Best 5 Price Levels)
- Reuters Ltd. (Best 5 Price Levels)
- Thomson Financial Inc. (Best 5 Price Levels)
- FT Interactive Data (Europe) Ltd. (Best Price Level)
- ILX Systems, a division of Thomson Information Services Inc. (Best Price Level)****
- Telekurs Finanzinformationen AG (Best Price Level)

delayed data

- Dow Jones Reuters Business Interactive Ltd. Reg.
- Ecetra Internet Services AG
- UBS AG London Branch acting through it's business group UBS Warburg****

* The data vendors marked with * also provide data through a "Service package for Non-Professional Use".

** The Vendor Agreement with Internet Securities was terminated as of 31st January 2003.

*** The Vendor Agreement with ILX Systems was terminated as of 31st December 2002, due to the merger of Thomson Financial Inc. and ILX Systems.

**** As from 1st April 2003, UBS AG buys End-of-Day Data-feed.

Dissemination of other information

Special requests on historic data are fulfilled by the BSE's **Information Centre**. Delayed trading data and corporate information are partially available on the BSE's official website (www.bse.hu). The BSE's official announcements and the periodic and extraordinary announcements of the listed companies are also published through the BSE's website.

The contacted users of the BSE's IKSZ system have access to the announcements published by the BSE and the listed companies in an electronic file sent to them directly via e-mail.



The official equity index of the BSE (BUX)

The official index of the Budapest Stock Exchange is the BUX Index, calculated at every five seconds, using actual market prices.

In October 1999, among the first exchanges on the world, BSE began to use the free-float adjusted capitalisation at the calculation of basket weights that shows the real marketable amount of securities. As BUX serves as a performance index it takes dividend payments into account by assuming that investors recycle the dividends received into the stocks of the same company.

The immediate objective for creating the index was to create a ratio the value change of which would reflect the actual market circumstances as well as the degree and size of prevailing price movements. An important aspect was to create an index accepted by the investors and the media as a reliable indicator of the whole market. This would make justified to create such a portfolio that contains a big amount of the traded securities. On the other the Exchange set up a system of criteria to create a tradable index, the portfolio of which can be easily followed. Finding the balance between the two contradictory basic principles was a great challenge, but the perfect result can be proved by the great success of the future contract of BUX index.

There is a maximum of 25 equities may be included in the index basket on the basis of specific criteria. The basket is reviewed twice a year on March and September.

To become eligible for inclusion, stock series must satisfy at least 5 of 7 criteria (the owner's equity in the most recent financial statement published before review date, the market value of the series, turnover in terms of number of trades and at market value, velocity of turnover, cross trades and days traded). Only equity series that have been traded on the BSE for at least three weeks are eligible for inclusion in the basket.

In order to avoid extreme influence by a change in the market price of a single stock on the value of the index, the BSE is endeavouring to limit the weight of individual series in the basket with a simple regressive calculation method.

On the basis of the system of criteria, an index committee, appointed by the Board of Director, has the competence to propose the composition of the basket about which the General Manager decides. To ensure the stability of the index basket, the Exchange keeps the right to have an influence on the changing of the basket (e.g: Getting into the index, the stock series must satisfy the criteria on two followings reviews).



The official equity index of the BSE (BUX)

BUX Calendar of Events

January 2, 1991: The basis of the index is set at 1000 points, indicating the state of affairs at January 2, 1991. The number of stocks in the BUX basket was at a bare minimum of 6 equities.

May 14, 1993: BUX closes at a historical low of 717.75 points.

January 1, 1995: BUX takes its final form and becomes the official stock index of the BSE. To be eligible for inclusion in the index basket, stocks must meet 3 out of 5 criteria. Official daily index value is calculated from daily price averages.

April 1, 1995: Trading starts in a derivative product of the BUX index – BUX futures contracts are listed.

September 30, 1996: The number of BUX basket stocks reaches the maximum – the basket contains 25 securities.

April 1, 1997: Continuous intra-day index calculation is introduced, and the value of the index is recalculated every five seconds. The official BUX value for any given day is calculated from closing prices. Real time index calculation starts in the 11th minute and continues until trading closes in the free period.

February 1, 1998: The exchange adds 3 new criteria to the existing 5 requirements of eligibility to the index basket. Eligible series must satisfy at least 6 criteria.

November 20, 1998: The calculation of BUX is integrated into MMTS as the new trading system starts up and allows the calculation of opening BUX values from equilibrium prices established in the opening period, whilst real time BUX values continue to get calculated every 5 seconds during the free period of trading.

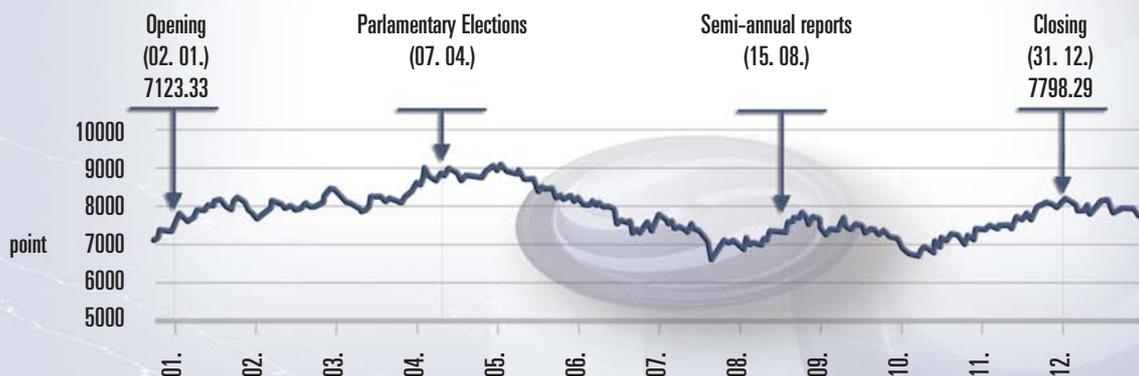
September 1, 1999: The first review when exchange capitalization is weighted with free float as calculated from the most recent publication of shareholders and their holdings for the purposes of determining the basket quantity of BUX stocks. In case of equities with a determinant weight, a simple decreasing mechanism is used.

March 10, 2000: BUX closes at a historical record of 10417.91 points.

December 1, 2000: The BUX Manual is modified to reduce the number of eligibility criteria from 8 to 7, of which stocks need to satisfy at least 5.

April 01, 2002: The BUX basket contains 13 equities: Antenna Hungária, BorsodChem, Danubius, DÉMÁSZ, EGIS, MATÁV, MOL, OTP, Pannonplast, Rába, Richter Gedeon, Synergon, TVK

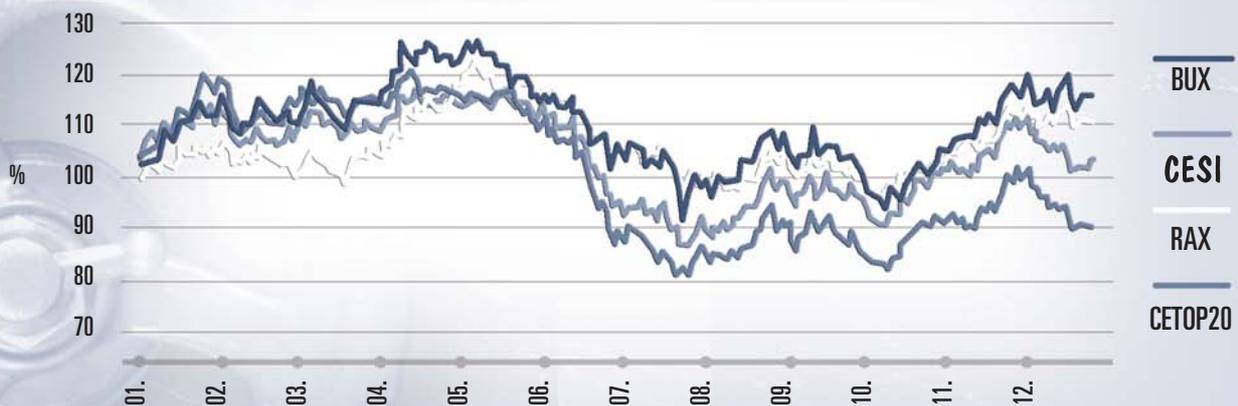
BUX index (2002)



The official indices of the BSE

Index	BUX	CESI	CETOP20	RAX	DWIX
Full name	Budapest Stock Index	Central European Stock Index	Central European Blue Chip Index	BAMOSZ Equity Investment Fund Portfolio Index	Daiwa-MKB Treasury Yield Index
Purpose	Indicates price fluctuations in domestic stock market	Indicates price fluctuations in the equity markets of 5 exchanges in the region (Budapest, Ljubljana, Bratislava, Prague, Warsaw)	Indicates price fluctuations of blue chip stocks at the exchanges in the region (Budapest, Ljubljana, Prague, Warsaw, Bratislava, Zagrebe)	Benchmark of performance of domestic equity investment funds	Indicates short term risk free yield conditions until maturity (for 3, 6 and 12 month discount T-bills)
Type	Capitalization weighted stock index reflecting dividend payments, corrected with Free-Float, calculated in HUF	Capitalization weighted stock index calculated in USD (in EURO from January 2003) ignoring dividend payments	Capitalization weighted stock index calculated in EURO, reflecting dividend payments	Capitalization weighted stock index reflecting dividend payments, corrected with Free-Float, calculated in HUF	Yield index that is the weighted average of the accepted average yields and accepted quantities set at primary auctions
Composition	Contains a maximum of 25 stocks that correspond to at least 5 of 7 criteriaratios	Includes 50 % of official stock market capitalization at each exchange. The maximum weight of a single exchange is 50 %, that of a single stock is 12 %.	20 basket stocks with the number of stocks included simultaneously from an exchange limited to 7.	13 stocks with weights equalling 12,5 %, 12,5 %, 12,5 %, 8,5 %, 8 %, 7,5 %, 7 %, 6,5 %, 6 %, 5,5 %, 5 %, 4,5 % and 4 %-of the portfolio	Assigns weights of 8, 3 and 1, respectively, to the results of auctions in the most recent, the penultimate and the antepenultimate month.
Review	Twice a year (March, September), new basket on first trading day of April and October	Twice a year (April, October), new basket on first trading day of May and November	Twice a year (April, October), new basket on first trading day of May and November	Semi-annual review and monthly reassignment of stock weights	Modified if necessary
Tick frequency	Every 5 seconds	Once a day at 16.30	Once a day at 17.00	Once a day at 16.30	Once a week on Thursday
Ticker codes	Reuters: .BUXBloomberg: BUX<INDEX><GO>	Reuters: .CESIBloomberg: CESI<INDEX><GO>	Reuters: .CETOP20Bloomberg: CETOP20<INDEX><GO>	Reuters: .RAXBloomberg: RAX<INDEX><GO>	Reuters: .DWIXBloomberg: DWIX<INDEX><GO>
Reference value	1000 points on January 1, 1991.	1000 points on June 30, 1995.	1000 points on January 1, 2001.	1000 points on January 7, 1998.	

Relative performance of BSE indices (2002)





MARKET ACTIVITY

Cash Market

Equity Market

In 2002, turning the trend of 2001 the turnover increased by 9 percent in the equity market. The average number of trades in a single day dropped from 3683 to 2923. The equity market started with an increase in market price, and this trend remained until the general election. The summer brought smaller turnovers and negative international sentiment, which caused most of the equities prices to suffer losses. In the last quarter of the year the mood changed and day by day the market was featured with rising prices and turnover.

The BUX index reached its annual peak at 8948,87 after the general election on May 8 and plugged to its annual bottom in the summer at 6589,76 points. The index had a similarly low value at the beginning of October, but this month the trend had changed, and after continuous growth, the BUX index finished the year at 7798,29 points. Comparing this value to the closing rate in 2001, this performance means 667,16 points absolute and 9,36 percent relative growth.

The single counted turnover of the whole Equities Section (equities, investment funds, compensation notes) was HUF 1517,57 billion. It was 9,43 percent more than in the previous year. This accession was caused by the 9% growth in equities which are the most significant part of this section, and also by the 975% growth in the less influential compensation notes' turnover.

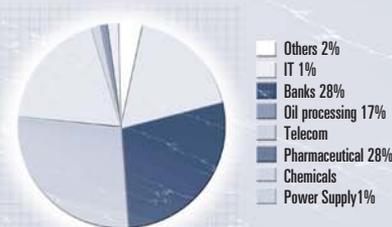
In addition, the GDP growth in 2002 was 3,3 percent, while the equities turnover as a percentage of the GDP was 19,93, which was 1 percent higher than in the previous year.

The average daily turnover amounted to HUF 6,07 billion in 2002. Daily turnover peaked at HUF 24,45 billion on the last day of the year, which was also the day for the largest single trade, concluded for OTP stocks worth HUF 3,145 billion.

The number of trades concluded in the cash market was 730 822, which is 19 percent short of the same value in 2001. Average transaction size came to HUF 2,07 million as opposed to HUF 1,53 million a year earlier. The structure of the turnover did not differ so much from the two previous years. Essentially the first three leading equities just changed positions with each other, so OTP took the first place from MATÁV which held this position for years. The telecommu-

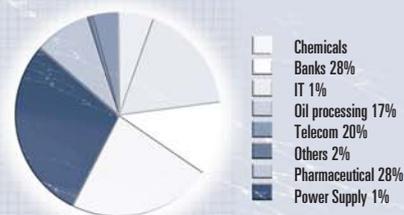
nication equity took the second rank, and MOL had the third biggest volume (in 2002 ANTENNA participated in the top ten). The concentration of turnover remained high - similarly to 2001. The first six in the volume rank gave 94 percent of the total turnover.

Division of Turnover by Sector (2002)



The capitalisation of the equity market rose to HUF 2947,2 billion. It is 3,45 percent higher than the 2001 value. This accession refers to the increase in prices, because 8 equities got delisted and no new one was introduced in 2002.

Division of capitalization by Sector (December 31, 2002)



Debt Securities Market

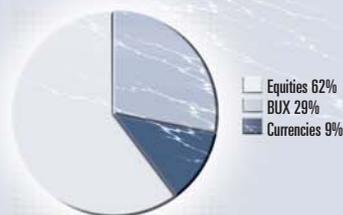
The turnover of the government securities rose determinatively. The turnover of the government bonds grew by 21 percent and reached HUF 192,7 billion. In the treasury bills market this accession was 32 percent and this meant HUF 49,2 billion total turnover. The turnover of the international bonds, that were one of the most successful securities in 2001, decreased by 87 percent, and their single counted turnover was HUF 735 million. With 623 percent record growth, the turnover of the mortgage bonds which were first listed for trading in April of 2001 exceeded HUF 20 billion. The interest was 78 percent higher for the corporate bonds, and their turnover was HUF 63,5 billion.

Futures and the Options Markets

Futures market

In 2002, the market value in the turnover on the futures market of BSE was HUF 843.21 billion which is a 12 percent growth from last year. There were 1.089.494 million trades totalling 887 658 contracts opposed to 126.568 contracts in 2001. The figures above reveal a 5 percent increase in the number of trades and a 22.73 per cent rise of in the number of contracts. The increase was stimulated by the currency market, the equity based derivatives were also ascending while the BUX futures market was dropping. The market value in turnover surpassed HUF 843 billion which was 12 percent higher than last year.

Futures turnover of 2002



The Equity Futures - The equities confirmed their leading roll on the futures market, with their 452 638 contracts. In 2002 the 3 percent growth in turnover was partly generated by some new launch equities futures product in the B category on 6th of September. Out of these future products, Pannonflax and Philaxia even exceeded the yearly turnover of some equities in the A category. Since there introduction the total sum of the futures contracts based on the B-category equities were 1545.

The greatest part of the total trades was brought by products of leading equities. The leading equity's futures products aggregated the greatest part in the total number of trades, out of these OTP (115 766 contracts) and MOL (114 869 contracts) were the most notable, their sum of trades numbered 50 percent. Matav with 76 892 contracts and Richter with 60353 contracts were also in the lime light.

The number of open interests was growing with greater pace than the growth of trades, in 2002, the average open interests were 30 percent higher compared to last year.

Currency market - In 2002 the expansion of future turnover was triggered by the currency products. The activity increased by 396 percent compared to 2000 and with their 327 800 contracts exceeded the future index market turnover.

The most attention was paid to dollar and euro, though the Swiss frank was also popular. The newly listed cross contracts were successful too, among them with its 5400 contracts the EUR/USD was the most auspicious.

The average open interest increased most spectacularly on the currency market, from a low value it became 23 times more.

Index Market - Last year the BUX futures total turnover decreased by 19 percent and the made up to 309 056 contracts. The continuous declining trend of previous years seems to be slowing down and this tendency is hoped to turning in 2003.

The most thought after product was one of the BUX index maturities, which shows the popularity of the index's futures market. Out of BUX0212 302191 contracts were sold which made 97,7 percent of index contracts.

In terms of opened interest there was a marginal decline on the BUX market. In 2002 the growth of average opened interest dropped by 9 % from 23 059 in 2001 to 20 946.

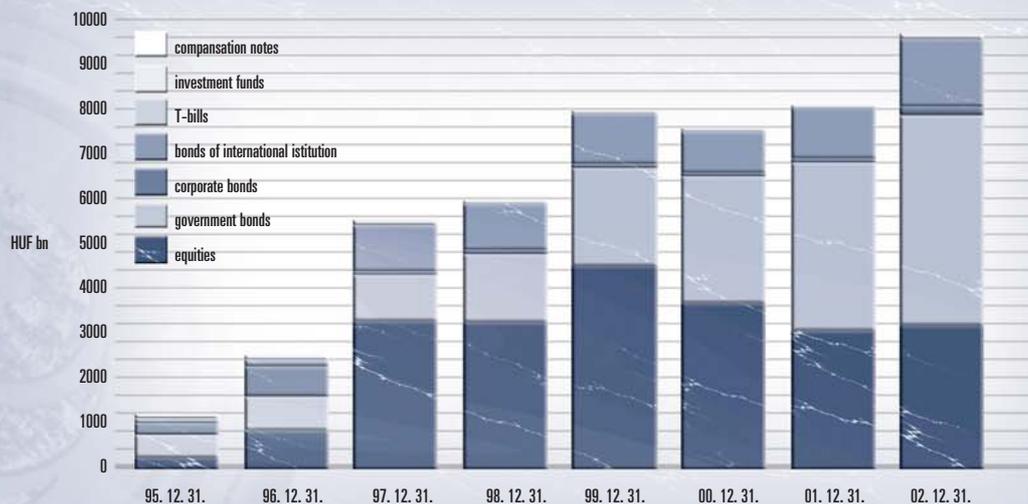
Options market

In 2002, 1040 contracts were traded. In contrast to last year, when BUX index options gave 80 percent of this derivative market turnover, this year there was no trade on them. This sum was bound on the MOL equity based options in 19 contracts.

Main Figures of the Budapest Stock Exchange (31.12.1990-31.12.2002.)

	1990. 31. Dec.	1991. 31. Dec.	1992. 31. Dec.	1993. 31. Dec.	1994. 30. Dec.	1995. 29. Dec.	1996. 31. Dec.	1997. 30. Dec.	1998. 30. Dec.	1999. 29. Dec.	2000. 29. Dec.	2001. 28. Dec.	2002. 31. Dec.
Number of BSE members	42	48	48	47	51	56	57	63	60	52	42	34	34
Brokerage firms	21	31	41	46	50	55	56	62	59	51	36	26	18
Banks	21	17	7	1	1	1	1	1	1	1	6	8	15
Number of securities admitted to the BSE	6	22	40	62	120	166	167	149	144	135	112	112	120
equities	6	20	23	28	40	42	45	49	55	66	60	56	49
government bonds		1	4	16	25	34	36	28	30	30	29	28	26
corporate bonds		1	1	1	3	3	2	7	8	8	7	7	13
bonds of international institution										2	2	4	2
mortgage bonds												3	14
T-bills			10	10	31	50	50	44	42	23	10	10	10
investment funds			1	6	20	36	33	20	8	5	3	3	5
compensation notes			1	1	1	1	1	1	1	1	1	1	1
*From 2002 each securities are calculate separate													
Total capitalization of the BSE in % of GDP					20,40 %	22,32 %	36,06 %	61,29 %	54,20 %	63,53 %	57,80 %*	50,51 %*	59,10 %
Equities capitalization of the BSE in % of GDP					4,19 %	5,99 %	12,86 %	36,64 %	29,90 %	36,05 %	28,25 %*	19,38 %*	19,40 %
Capitalization on the BSE (HUF bn)	16,4	53,6	201,9	457,0	883,8	1 221,3	2 390,9	5 115,2	5 470,0	7 305,8	6 945,4	7 425,7	8 975,3
equities	16,4	38,2	47,2	81,7	181,5	327,8	852,5	3 058,4	3 020,1	4 144,9	3 393,9	2 848,8	2 947,2
government bonds		15,3	82,3	241,7	392,9	454,0	703,4	951,8	1 408,0	2 040,3	2 607,8	3 406,9	4 273,4
corporate bonds		0,1	0,1	0,3	1,8	1,7	1,3	37,1	63,1	59,7	56,4	77,9	159,7
bonds of international institution										18,4	18,4	32,4	17,9
mortgage bonds												15,7	126,9
T-bills			54,4	74,0	239,6	376,3	697,2	908,4	917,4	968,4	797,3	983,0	1 317,7
investment funds			1,9	5,5	19,3	42,8	41,6	33,8	5,7	5,0	4,6	4,8	5,4
compensation notes			16,0	53,8	48,7	18,7	95,0	125,7	55,7	69,2	67,1	56,3	127,1
Futures Market of the BSE													
Open interest (HUF bn)						3,4	18,2	92,6	35,8	31,8	38,1	50,3	93,6
BUX						0,2	4,4	46,6	30,1	19,6	13,8	3,4	3,4
Currencies						1,6	12,2	44,4	2,7	2,5	0,9	0,2	22,8
Equities						0,0	0,0	0,0	1,5	6,9	23,2	46,7	67,4
Interest rates						1,7	1,6	1,6	1,5	2,8	0,1	0,0	0,0
Number of contracts admitted to the BSE						5	8	8	13	17	16	37	50

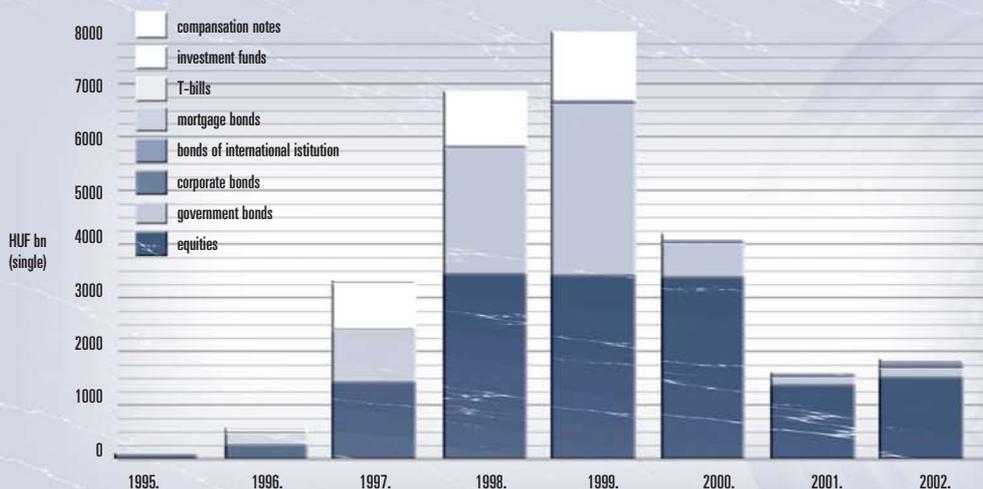
Capitalization of the BSE (12.31.1995 - 31.12.2002.)



Turnover of the Budapest Stock Exchange (31.12.1990-31.12.2002.)

	1990.	1991.	1992.	1993.	1994.	1995.	1996.	1997.	1998.	1999.	2000.	2001.	2002.
Cash turnover at market value (HUF bn, single counted)	3,06	5,06	16,84	92,85	105,62	126,59	572,75	3 368,15	6 923,66	8 002,91	4 256,63	1 627,19	1 844,22
equities	3,06	4,91	3,01	9,13	28,56	43,64	245,26	1 436,35	3 460,36	3 431,33	3 417,04	1 385,68	1 513,72
government bonds	0,00	0,15	6,18	36,69	26,95	38,58	209,10	979,72	2 400,08	3 254,30	634,06	158,86	192,73
corporate bonds					0,01	0,02	0,29	19,56	17,88	32,03	47,67	35,86	63,71
bonds of international institution										3,23	1,02	5,55	0,74
mortgage bonds												2,80	20,20
T-bills			7,53	42,50	40,61	40,56	103,16	908,87	1 035,35	1 279,28	153,26	37,38	49,28
investment funds			0,02	0,05	0,13	1,71	4,44	1,16	0,82	0,47	0,57	0,75	0,39
compensation notes			0,11	4,48	9,37	2,08	10,46	22,48	9,17	2,28	3,01	0,32	3,46
Number of transactions	4 255	13 676	8 145	21 185	70 744	71 240	170 956	504 879	1 026 646	1 474 083	1 627 033	911 697	741 703
equities	4 255	13 637	6 715	14 283	57 854	60 851	153 937	478 236	1 011 514	1 461 482	1 612 482	902 381	730 822
government bonds		31	875	693	715	418	910	2 210	3 946	3 158	2 385	632	816
corporate bonds		8	4	3	9	12	3	192	200	650	765	1 166	1 793
bonds of international institution										28	17	42	11
mortgage bonds												80	365
T-bills			392	866	1 062	1 412	1 022	3 031	2 522	1 873	547	89	216
investment funds			76	612	981	2 265	2 128	1 597	790	1 106	2 855	4 694	1 134
compensation notes			83	4 728	10 123	6 282	12 956	19 613	7 674	5 786	7 982	2 613	6 546
Average daily number of transactions	24	54	32	84	281	286	689	2044	4 140	5 896	6 482	3 721	2 967
Average daily turnover (HUF m)	27	20	67	368	419	508	2 309	13 676	27 918	32 012	16 959	6 642	7 377
Turnover/transaction (HUF m)	0,7	0,4	2,1	4,4	1,5	1,8	3,4	6,7	6,7	5,4	2,6	1,8	2,5
Number of working days	181	252	252	252	252	249	248	247	248	250	251	245	250
Futures turnover at market value (HUF bn, single)						1995.	1996.	1997.	1998.	1999.	2000.	2001.	2002.
BUX						10,16	190,94	1 415,97	2 934,47	1 289,30	1 353,71	750,26	843,21
Currencies						1	49	1 004	1 782	1 119	882	283	246,2
Equities						4	112	337	974	23	29	19	74,0
Interest rates						6	30	75	127	12	2	0	0,0
Number of transactions						1 444	19 444	87 011	148 013	168 009	191 712	126 568	132 873
Average daily number of transaction						8	78	352	597	672	764	517	531
Average daily turnover (HUF m)						54,0	770	5 733	11 833	5 157	5 393	3 062	3 373
Turnover/transaction (HUF m)						7,0	9,8	16,3	19,8	7,7	7,1	5,9	6,3

Cash Turnover of the BSE (1995-2002)



Top of 2002

Equities' turnover million HUF (single counted)

1.	OTP	427 286
2.	MATÁV	355 570
3.	MOL	341 579
4.	RICHTER	244 252
5.	EGIS	43 836
6.	RÁBA	10 451
7.	TVK	10 450
8.	SYNERGON	9 386
9.	ANTENNA	7 473
10.	PPLAST	7 072

Equities' capitalization (31. 12. 2002.) million HUF

1.	MATÁV	849 891
2.	OTP	618 800
3.	MOL	516 108
4.	RICHTER	276 597
5.	EGIS	108 221
6.	TVK	95 485
7.	ELMÜ	68 034
8.	BCHEM	62 894
9.	ÉDÁSZ	58 650
10.	DÉMÁSZ	41 843

Equities with the highest pricemovement

	closing price (HUF) 02.01.2002.	closing price (HUF) 31.12.2002.	changing	
1.	KPACK	301	1250	315,28 %
2.	IEB	952	1670	75,42 %
3.	PRÍMAGÁZ	1250	2091	67,28 %
4.	BRAU	3365	5400	60,48 %
5.	ARAGO*	433	600	38,57 %
6.	OTP**	1650	2210	33,94 %
7.	EGIS	10600	13900	31,13 %
8.	TVK	3190	3940	23,51 %
9.	ERAVIS	4815	5820	20,87 %
10.	DÉMÁSZ	9580	11300	17,95 %

Equities with the lowest pricemovement

	price (HUF) 02.01.2002.	price (HUF) 31.12.2002.	changing	
1.	SKOGLUND	1000	225	-77,50 %
2.	HUMET***	690	169	-75,51 %
3.	STYL	1000	250	-75,00 %
4.	ECONET	247	63	-74,49 %
5.	GAREX	425	164	-61,41 %
6.	EHEP	1000	400	-60,00 %
7.	GRAPHI	1399	598	-57,26 %
8.	PPLAST	2640	1210	-54,17 %
9.	MILTON	260	125	-51,92 %
10.	PHYLAXIA	109	65	-40,37 %

Highest daily turnover million HUF (single counted)

1.	31. 12. 2002.	29 463
2.	11. 04. 2002.	15 399
3.	11. 10. 2002.	15 119
4.	11. 01. 2002.	14 703
5.	08. 04. 2002.	14 529
6.	05. 03. 2002.	13 509
7.	31. 01. 2002.	13 240
8.	18. 12. 2002.	12 315
9.	22. 03. 2002.	11 939
10.	10. 01. 2002.	11 916

Highest deals million HUF (single counted)

1.	OTP	31. 12. 2002.	3 146
2.	MOL	31. 12. 2002.	2 679
3.	MATÁV	31. 12. 2002.	2 035
4.	RICHTER	31. 12. 2002.	1 533
5.	MOL	29. 01. 2002.	1 189
6.	OTP	10. 06. 2002.	1 159
7.	DANUBIUS	26. 04. 2002.	786
8.	MATÁV	05. 03. 2002.	771
9.	MOL	04. 10. 2002.	735
10.	OTP	05. 03. 2002.	733

Futures contracts' turnover million HUF (single counted)

1.	BUX0212	240 326
2.	OTPO309	84 978
3.	OTPO306	52 936
4.	OTPO303	29 324
5.	OTPO212	21 790
6.	EURO306	16 910
7.	RCHO309	16 237
8.	RCHO212	15 107
9.	RCHO306	13 934
10.	OTPO209	12 765

Futures contracts' turnover number of contracts (single counted)

1.	BUX0212	302 191
2.	EURO306	67 500
3.	CHFO309	49 050
4.	USDO212	47 101
5.	OTPO309	35 640
6.	USDO306	26 800
7.	USDO209	24 024
8.	OTPO306	23 143
9.	MOL0212	18 693
10.	USDO301	14 400

* The last closing price of the ARGO share was the 7th of June.

** On the 1st of January the closing price of OTP was corrigated.

*** On the 1st of January the closing price of HUMET was corrigated.



FINANCIAL STATEMENT

The economic results of the BSE

Due to the favourable market situation and the strict cost management the BSE closed the year 2002 with a profit of 59 million HUF. Compared to the loss of 72 million HUF in 2001 and the planned 224 million HUF loss this profit can be valued as a quite a good result.

The positive result for the year came from the 114 million HUF loss of the stock exchange operations and the 173 million HUF profit of the financial activities of the BSE.

The 114 million HUF loss of the stock exchange operations remained below the 168 million HUF loss in the year of 2001. Both the increased incomes and the reduced costs contributed to the improvement.

The high income from the stock exchange operations mainly came from the increased trading fees, as the extremely low turnover of 2001 increased and in 2002 reached the 6.1 billion HUF daily average.

The incomes from the listing operations also went up thanks to the new listings of the mortgage bonds and corporate bonds. On the other hand the income generated from the information vending, comparing to the previous year, decreased.

The low expense of material nature is another indicator that shows the result of the effective cost control. Mainly the costs for maintenance, communications and software rental fees could be reduced.

The growth of personnel expenses was caused by the raise in wages, the paid honorarium for the officers, the extras after these and the educational contribution paid after the transformation into a joint stock company.

The 173 million HUF profit from financial activities exceeded by 77 million HUF the figure of the previous year because of the first dividend payment of the KELER Ltd. from which the BSE received 59 million HUF. However the rates of interest decreased the BSE could generate a somewhat higher interest income on the higher money stock invested into government papers.

On the 28th of April 2003, the general meeting of the BSE shareholders passed a resolution on a dividend payment of 59,5 million HUF from the yearly result, meaning a dividend of 11 HUF per shares.

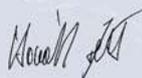


Budapest Stock Exchange Ltd. Balance sheet and financial report

number	Assets	Prior year 31.12.2001.	BSE 30.06.2002.	BSE Ltd. 01.07.-31.12.
1.	A. Fixed assets (Lines 2.+3.)	1 336 988	3 448 688	3 126 078
2.	I. Intangible assets	979 349	869 471	559 998
3.	II. Tangible assets	227 890	204 431	192 512
4.	III. Financial investments	129 749	2 374 786	2 373 568
5.	B. Currents assets (Lines 6.+ 7.+8.+9.)	1 113 376	1 565 708	1 582 325
6.	I. Inventory	8 071	6 989	7 246
7.	II. Receivables	59 759	61 578	83 935
8.	III. Securities	929 969	1 284 873	1 417 294
9.	IV. Cash	115 577	212 268	73 850
10.	C. Prepayments and accrued income	87 080	131 402	114 674
11.	Total assets (Lines 1.+5.+10.)	2 537 444	5 145 798	4 823 077
12.	D. Equity (Lines 13.-20.)	2 327 247	4 694 460	4 571 635
13.	I. Share capital	549 600	550 000	550 000
14.	From which bought back ownership share on a nominal value	0	0	0
15.	II. Share but not paid capital	0	0	0
16.	III. Capital reserve	323 104	2 567 704	2 567 704
17.	IV Retained earnings	1 526 298	1 454 542	1 517 208
18.	V. Locked-up reserve	0	0	0
19.	VI. Revaluation reserve	0	0	0
20.	VII. Result for the year	-71 755	122 214	-63 277
21.	E. Provisions	0	0	0
22.	F. Liabilities (Lines 23. - 25.)	79 768	142 099	151 624
23.	I. Relegated liabilities	0	0	0
24.	II. Long term liabilities	0	0	0
25.	III. Current liabilities	79 768	142 099	151 624
26.	G. Accrued expenses and deferred income	130 429	309 239	99 818
27.	Total liabilities and equity(Lines 12.+21.+22.+26.)	2 537 444	5 145 798	4 823 077

number	Profit & Loss Statement	Prior year	BSE 31.06.2002.	BSE Ltd. 01.07.-31.12.	BSE-BSE Ltd. 2002. total
I.	Revenue from Stock Exchange operations	1 354 973	697 640	687 198	1 384 838
II.	Capitalised costs of own performance	0	0	0	0
III.	Other revenue	32 766	16 323	24 569	40 892
IV.	Expenses of material nature (Lines 5.-9.)	337 602	170 253	155 868	326 121
V.	Personnel expenses	519 104	266 761	299 672	566 433
VI.	Depreciation	618 584	242 043	338 500	580 543
VII.	Other expenditure	80 183	25 674	40 898	66 572
A.	Result of Stock Exchange operations (I.+II.+III.-IV.-V.-VI.-VII.)	-167 734	9 232	-123 171	-113 939
VIII.	Financial income	99 086	122 392	70 413	192 805
IX.	Financial expenses	3 107	9 410	10 519	19 929
B.	Financial results (VIII.-IX.)	95 979	112 982	59 894	172 876
C.	Result of the Exchange (+-A.+-B.)	-71 755	122 214	-63 277	58 937
X.	Exceptional income	0	0	0	0
XI.	Exceptional expenses	0	0	0	0
D.	Exceptional result (X.-XI.)	0	0	0	0
E.	Result before taxation (+-C.+-D.)	-71 755	122 214	-63 277	58 937
XII.	Taxation				
F.	Result after taxation (+-E.-XII.)	-71 755	122 214	-63 277	58 937
1.	Retained earnings used for dividend payment			59 548	59 548
2.	Dividends			59 548	59 548
G.	Result for the year (F.+1.-2.)	-71 755	122 214	-63 277	58 937

Budapest, 28 April, 2003


Mr. Zsolt Horváth
general manager


Ms. Agota Odry
deputy general manager

Auditors' Report



■ Ernst & Young Kft.
H-1132 Budapest, Váci út 20.
1399 Budapest 62 Pf. 632
Hungary

■ Tel: +36 1 451-8100
Fax: +36 1 451-8199
E-mail: mailbox.ey@hu.eyi.com
www.ey.com
Cg. 01-09-267553

**This is a translation of the Hungarian Report
Independent Auditors' Report**

To the Shareholders of
Budapesti Értéktőzsde Rt.

We have audited the accompanying balance sheet of Budapesti Értéktőzsde Rt. as at 31 December 2002, which shows a balance sheet total of 4,823,077 THUF and a loss for the year of 63,277 THUF, the related profit and loss account for the year then ended and the notes included in the Company's 2002 annual financial statements. The annual financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the financial statements based on the audit and to assess whether the business report is consistent with that presented in the financial statements.

We issued an unqualified opinion on the Company's annual abbreviated financial statements as at 20 February 2002.

We conducted our audit in accordance with Hungarian National Audit Standards and with applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have audited the elements of and disclosures in the annual financial statements, along with underlying records and supporting documentation, of Budapesti Értéktőzsde Rt. in accordance with national audit standards and have gained sufficient and appropriate evidence that the annual financial statements have been prepared in accordance with the accounting law and with generally accepted accounting principles. In our opinion, the annual financial statements give a true and fair view of the equity and financial position of Budapesti Értéktőzsde Rt. as at 31 December 2002 and of the results of its operations for the year then ended. The business report corresponds to the disclosures in the financial statements.

Budapest, 28 February 2003,

except for the effect of the resolution of the shareholders of 28 April 2003 on paying dividends of THUF 59,548 for the year ended 31 December 2002 from retained earnings.

Ernst & Young Kft.
Registration No. 001165

Fekete Imréné
Registered Auditor
Chamber membership No.: 003201



CONTACTS

Contacts

Budapest Stock Exchange Ltd.

Address: 1052 Budapest, Deák Ferenc u. 5.

Phone: (36 1) 429-6700, Fax: (36 1) 429-6800

Internet: www.bse.hu

Information Center

Phone: (36 1) 429-6857

Fax: (36 1) 429-6899

E-mail: info@bse.hu

Media Center

Phone: (36 1) 429-6866

Fax: (36 1) 429-6899

E-mail: media@bse.hu

