

BUDAPESTI  ÉRTÉKTŐZSDE  
BUDAPEST STOCK EXCHANGE

# ANNUAL REPORT 2003



## Contents

■ Executive Summary	2
■ Event Calendar	5
■ Organisational Structure	6
■ Listed Products	7
■ Equities and Fixed Income Section	7
■ Derivatives Section	9
■ List of Issuers	10
■ Club of Quotables	11
■ Section Membership	12
■ Trading System	14
■ New Service – Trading on Xetra	15
■ Settlement of Stock Exchange Transactions	16
■ Data Provision and Other Information Services	18
■ The Official Share Index of the BSE (BUX)	19
■ Official Indexes of the BSE	20
■ The Year 2003 in Figures for the BSE	23
■ The Business Performance of the BSE	25
■ Balance Sheet and Income Statement	26
■ Independent Auditor's Report	28

## Executive Summary

In the year behind us, the markets of the Budapest Stock Exchange (BSE) have performed outstandingly well. Investors were able to achieve high returns on the domestic capital markets. The increase in share prices even exceeded the level observed in the year 2002: the BUX index rose in a manner not seen in a long time. It was again proven that the BSE is one of the most liquid and transparent markets in the region. All this had a favourable effect on the profitability of the Stock Exchange as well.

But the BSE is not content merely to enjoy the results achieved until now. In accordance with the long-term strategy adopted at the time when the transformation into corporate form took place, it responds to the ever-newer challenges of a quickly changing world. The strategy



György Jaksity, Chairman of the BSE Board

includes a permanent expansion of the range of the issuers and investors, the continuous development of the stock exchange service chain, and the linking of the domestic market to the major international capital markets.

New securities appeared in the autumn of 2003 on the virtual trading floor of the BSE. In connection with the privatisation process, the shares of Forrás Rt., a company established for the utilisation of compensation notes, were listed in September 2003, and in November, the shares of the Land Credit and Mortgage Bank Rt. (FHB) emerged to rapidly become one of the hit products of the market.

In addition to the equities market, a growing role has been played by the fixed income market, within which trading in mortgage securities was outstanding. Since their appearance in 2001, mortgage bonds represent one of the most dynamic segments of the Hungarian capital market: from year to year, both their volume listed on the stock exchange and their turnover have multiplied.

In addition to the developments seen on the cash market, 2003 was also the year of the futures market, where parallel to the equity-based and equity index-based products, the exponential growth of the currency market turnover should be stressed. The increase in activity became possible primarily due to the product development policy of the BSE, on the basis of which the scope of tradable instruments multiplied in recent years.

Thanks to an agreement reached between the BSE and Deutsche Börse AG, Hungarian investment service providers, relying on the information technology support of the BSE, can now connect directly to the Xetra trading system at a low cost. Thus, more than ten thousand foreign securities became easily accessible to local investors. Since the launch of the new service in August 2003, five trading companies made use of this possibility and applied for membership at Deutsche Börse. Their cumulative turnover, up to the end of February 2004, amounted to almost 100 million euro.

In addition to the move towards international integration, integration within the country and the strengthening of the stock exchange service chain are of strategic importance. The most important step in this respect is the integration of the Budapest Stock Exchange with the Budapest Commodity Exchange, which, after a lengthy period of preparatory work, is expected to be completed in 2004. Its impact will be perceptible chiefly on the derivatives market where, as a result of the merger of partially-overlapping product ranges, a major improvement in efficiency and liquidity is forecast. Furthermore, the advantages originating from the economies of scale and the elimination of parallel redundancies should lead to a reduction in the operating costs of the market.

The expansion of the domestic issuers' community is a key issue in the strategy; therefore, the BSE is committed to playing an active role in this respect. In order to aid the decisionmaking of potential issuers and provide support for companies preparing for their presence on the stock exchange, the BSE set up the Club of Quotables (CoQ) in the spring of 2003, which already operates with 25 members, (including, according to current records, RTL Klub, the Wallis Group, Stollwerck Budapest Kft., Syntumex Kft., Plusssz Vitamin Kft., rEvolution Software, FTC Rt., InterCom International Cultural Services Rt., Karsai Plastics Technologies Holding Rt., the KFKI Group, Fast Ventures B.V., Morgan Hill Consulting Rt., ComGenex Rt., the Waberer's Corporate Group, AITIA Information Technology Rt. and Duna Electronics Rt.). The continuously expanding membership of the Club is proof of the emergence of corporate entities which can ensure the gradual long-term expansion of the equities market in Hungary.

A major step forward in the area of maintaining contact between issuers and investors was the approval of the Corporate Governance Recommendations, which applies the practices of the most developed markets to the Hungarian market. This was also approved by the issuers, and it was published by the BSE in February 2004. However, the adaptation of the EU legal framework to the local environment could not be completed yet, since the capital market regulations in the Union are still being finalised.

Increasing investors' awareness is also the primary focus of the BSE's new communications strategy, introduced in 2003. Its purpose is to let the Stock Exchange be seen as an active player and an initiator in the media. By expanding the already authentic, transparent, and high quality professional information available, the BSE will provide the public with more, readily-understandable information. This should contribute to increasing confidence in capital markets. For this reason, we opened the BSE Media Centre. Since January 2003, the BSE Media Centre has been publishing monthly analytical reports for the media on stock exchange activities and the operation of the international capital markets.

A permanent presence in the media is ensured by the symbolic opening bell ceremony at regular intervals, noted personalities of the economic and political spheres symbolically open trading. Personalities held in high public esteem who agree to ring the bell are also championing the bourse, a modern institution contributing to growth and savings.

Guaranteeing the transparency and the integrity of the market is a fundamental condition for winning investor confidence. With its system of providing data on trading and the publication of issuers' information, the BSE has been able to compete with the practices of the most developed markets for years now. A further fine-tuning of this service is represented by the development of the new BSE website ([www.bse.hu](http://www.bse.hu)). The renewed portal was launched in February 2004. The new look and the expanded content have won the approval of market players.



Zsolt Horváth, Chief Executive Officer

There is still much to do towards expanding the investor base, primarily involving information provided for local private and institutional investors. The format of personal household savings has been struggling against its structural backwardness for a long time.

The high proportion (from the point of view of international standards) of cash and bank deposits as well as the lack of advanced, securities-based investments imply serious losses for households and the whole of the national economy. In 2004, a campaign initiated by the BSE and with the large-scale involvement of capital market players was launched for the development of the financial cul-

ture of the general population. The main common goal is to help people make conscious financial decisions regarding their own future. The coordination of the campaign is carried out by the Foundation for Financial Self-Reliance.

In addition to all of the above, the BSE has been holding presentations about stock exchange investments for local private investors through a series of events in the major towns of the country. The high attendance rate of the Open Days organised in 2003 and 2004 proved (first in Budapest, then later in Debrecen, Pécs, Győr and Miskolc) that there is an actual demand for information on and a desire to use the investment opportunities of the capital market.

In May 2003, the trading hours were again lengthened, thus conforming with the opening hours of the developed EU markets. The 9 a.m. start was justified, since it can be assumed that the increase in turnover is partly a result of this.

The coming EU accession and, subsequent accession to the EMU will provide objective, official recognition of the development of the domestic capital market over the past nearly fifteen years. Looking back on the events of the past years, we can safely say that the background for the operation of a developed market is ensured from the point of view of information technology, settlements, and legal issues. In recent years, the BSE (based on its developed infrastructure and the liquidity of the market) became one of the leading bourses in the region. With the implementation of the long-term strategy of the Budapest Stock Exchange, we can be confident that we will also be able to keep this auspicious position within the European Union – and we might even improve on it.



György Jaksity

Chairman of the BSE Board

Zsolt Horváth

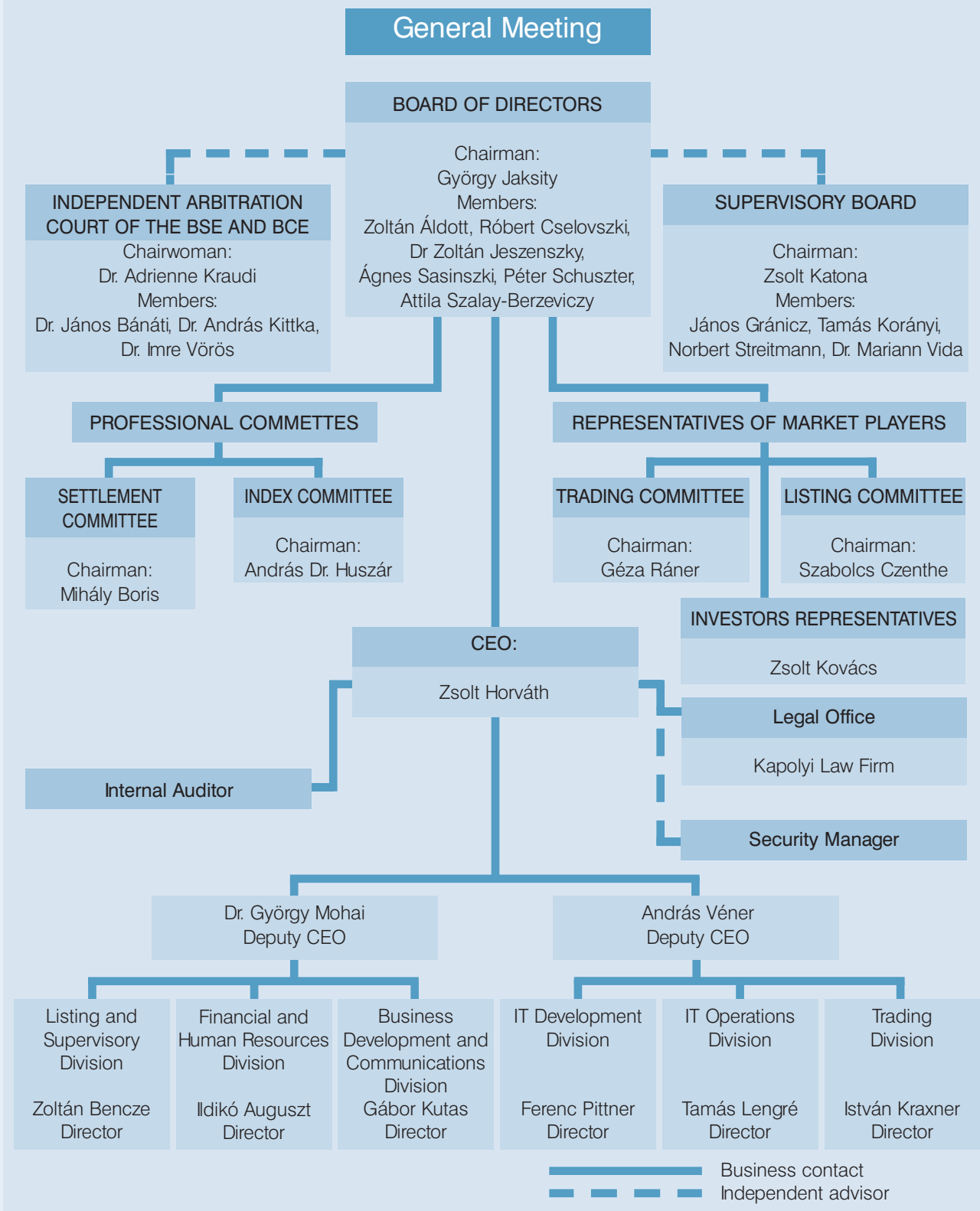
Chief Executive Officer

Hungary's accession to the European Union is also a milestone in the history of the domestic capital market. Vast opportunities, and at the same time, major challenges on the common market await both the investment service providers and the BSE. In order to maintain our competitiveness, it is important to keep pace with the rhythm of the international capital markets and continuously align ourselves with EU standards. The operation of the domestic market can already be considered to conform to EU requirements. Issuers publish their financial statements according to international financial standards, and the transparency of the market meets all requirements.

## Event Calendar

- **January 19, 2003** The BSE signs an agreement with Deutsche Börse AG to establish a technical connection from the Hungarian stock exchange to the Xetra trading platform.
- **February 26, 2003** BSE Road show in London.
- **February 27, 2003** BSE Road show in New York.
- **March 4, 2003** A tradition is established when János Kornai, Professor of Economics, is the first to open stock exchange trading with the symbolic opening bell ceremony.
- **March 12, 2003** Upon a BSE initiative, the Club of Quotables is set up.
- **April 7, 2003** Ambassador Jürgen Köppen, Head of the Delegation of the European Commission to Hungary, opens stock exchange trading with the opening bell ceremony.
- **April 16, 2003** New products are added to the range of currency contracts tradable on the futures market. To meet market demand, the BSE launches trading in another ten cross currency contracts and two currency/HUF contracts.
- **April 28, 2003** The Budapest Stock Exchange holds its annual general meeting of shareholders.
- **May 6, 2003** The BSE holds an Open Day for Private Investors at the Budapest University of Economic Sciences and Public Administration.
- **May 7, 2003** Gábor Demszky, the Mayor of Budapest, conducts the opening bell ceremony.
- **May 26, 2003** The start of trading hours in the equities and derivatives section is modified from 10:00 a.m. to 9:00 a.m.
- **June 10, 2003** Péter Medgyessy, Prime Minister of Hungary, conducts the opening bell ceremony on the 13th anniversary of the BSE reopening.
- **August 12, 2003** Péter Ákos Bod, Professor of Economics and former president of the National Bank of Hungary, conducts the opening bell ceremony.
- **August 13, 2003** The BSE establishes a technical connection to Xetra, the Deutsche Börse electronic trading platform, thus allowing interested traders to engage in direct remote trading.
- **August 15, 2003** The first day of trading in the shares of FORRÁS Rt.
- **August 28, 2003** The first local Institutional Investors' Conference is held in Budapest, at the International Training Centre for Bankers.
- **September 22, 2003** The European Federation of Financial Analysts Societies (EFFAS) holds an executive meeting at the BSE.
- **September 24, 2003** The Budapest Stock Exchange promotes issuer companies in Frankfurt.
- **September 29, 2003** Student Loan bonds are listed.
- **September 30, 2003** In a cooperative effort involving the BSE and Zöld Újság Publishing, the "Equities on the Budapest Stock Exchange, 2003" handbook is published in Hungarian and English.
- **October 2, 2003** The Stock Exchange's Open Day at the University of Debrecen.
- **November 6, 2003** Following the Debrecen event, the Open Day series of the Budapest Stock Exchange continues in Pécs.
- **November 24, 2003** Simultaneously with the listing of FHB Rt. shares, individual equity futures contracts based on FHB shares are also listed.
- **November 28, 2003** The BSE organises an Issuers Conference in Budapest, with the participation of the companies listed on the stock exchange. Representatives of the stock exchange issuers are provided with information on the process of dematerialisation, the EU provisions applicable to the Hungarian capital market, and the coming introduction of the Corporate Governance Recommendations.
- **December 11, 2003** The BSE holds presentations on listed companies in Brussels and Luxembourg.
- **December 16, 2003** The BSE end-of-year reception is held in the Ceremonial Hall of the Hungarian Academy of Sciences. The best market performers in 2003 received prizes for their accomplishments.
- **February 9, 2004** In order to strengthen investor confidence, the Budapest Stock Exchange, in cooperation with the domestic listed companies, publishes the Corporate Governance Recommendations.

# Organisational Structure



## Listed Products

### Equities and Fixed Income Section

The number of shares listed on the Stock Exchange increased in 2003, similarly to the previous year. The product palette of the stock exchange was supplemented by two new shares, those of FHB Rt. and Forrás Co. As to delistings, one company – Prímagáz Rt. – left the trading floor of the stock exchange.

The circle of issuers of stock exchange-traded corporate bonds further expanded in 2003 when the bond series of the Diákhitel Központ Részvénytársaság (DHK) became listed on September 29, 2003. In addition to the DHK bonds and additional issues of already-listed series, another four new series of bonds were listed.

The number of mortgage bonds listed on the stock exchange stood at 27 at the end of 2003, compared to 14 series of mortgage bonds in the previous year. The growth in the stock of mortgage bonds and the increase in the number of series listed was due to the fact

that in addition to FHB, two new mortgage bond issuers emerged in 2003 – OTP Mortgage Ltd., which issued its first series on December 17, 2002, and HVB Mortgage Bank, which appeared among issuers with their first series issued on April 18, 2003. The increase in the number of issuers, as well as last year's booming mortgage bond market also resulted in an increase in the volumes of the series listed on the stock exchange.

The Government Debt Management Agency Ltd. kept its market leading position; it continues to be the largest issuers. The trend in the listing and, due to their maturity, delisting of the government securities was similar to that observed in previous years.

In 2003, a favourable change occurred in the investment notes market: a new member was added to the circle of issuers. Three investment funds from K&H Investment Fund Management Ltd. became listed (K&H Fix Plusz Investment Fund, K&H Fix Plusz 2 Investment Fund and K&H Fix Plusz 3 Investment Fund). Due to their expiring maturity, securities from the Quaestor Investment Fund and from the Pillér 2 Property Investment Fund were delisted.

### Change in the number and face value of securities listed on the stock exchange in the year 2003

	December 31, 2002		December 31, 2003	
	no.	nominal val. HUF bn	no.	nominal val. HUF bn
<b>Number of listed securities</b>	<b>120</b>	<b>6 022,7</b>	<b>132</b>	<b>8 119,9</b>
Equities	49	626,6	53	638,1
Government bonds	26	4 204,0	14	5 376,5
Corporate and international institutional bonds	15	165,0	14	205,7
Mortgage bonds	14	123,5	27	314,1
Treasury bills	10	758,0	10	1 433,0
Investment notes	5	5,9	4	12,8
Compensation notes*		139,7		139,7

\*Data not adjusted for withdrawn compensation notes



### Conditions for listing and continued trading of securities

On the BSE, trading takes place on the official stock exchange market and on the over-the-counter market operated through the stock exchange's trading system ("MMTS").

Listing on the official stock market was made much easier by amendments to the BSE listing requirements implemented in August 2002. The Stock Exchange does not provide for exact requirements linked to the other characteristics of a series (number of owners, free float, size of the series) in addition to the general listing requirements, with the exception of Equities Category "A" and in the case of some special securities (warrants, foreign securities).

Subsequent to the legal amendments in force since January 1, 2003, listing on the stock exchange is subject to authorisation by the



Hungarian Financial Supervisory Authority (HFSA), after which the BSE makes its decision regarding an actual listing through a resolution by the CEO.

In order to simplify listing on the stock exchange, the BSE requires only a minimal amount of additional information at the time of an initial listing (in addition to the submission of the prospectus prepared for the public offering), and the submission of the statements specified in the Regulations as a precondition for listing.

The conditions for listing on the stock exchange and the rules of continued trading are outlined in the "Regulations of the Budapest Stock Exchange for Listing, Continued Trading and Disclosure". The fees payable to the stock exchange are outlined in detail in the document "Notification by the Budapest Stock Exchange. Regarding the Schedule of Fees Applied by the Exchange".

The "Bylaws of the Budapest Stock Exchange Ltd. on Exchange Regulation Procedures and on the Rules of Official Publication" summarises information regarding announcements published. Announcements from stock exchange issuers can be uploaded to the BSE website through the Issuers' Information System (ISSUERINFO). The system publishes news according to the stock exchange rules applicable to disclosure.

The regulations mentioned above can be downloaded from the Budapest Stock Exchange website ([www.bet.hu](http://www.bet.hu)).

### Equity categories

The prime purpose of the category system at the stock exchange is to provide investors with some basic information on the differentiation among the listed companies according to certain investor criteria.

Currently, the listing of shares may take place in two categories. With public limited companies, the BSE wishes to ensure the possibility of listing in the simplest way possible. Therefore, in the case of the "Equities B" category, the listing requirements are practically identical with the legal requirements for public issuance. In the "Equities A" category, however, the requirements for the category's stock exchange share issuers are somewhat stricter than found in the "Equities B" category. In addition to the difference in listing requirements, the obligations to provide regular information are also different.

A review of the categorisation of the shares takes place semi-annually. Deposit certificates of bearer shares and of dematerialised bearer shares can be listed in the "Equities A" category if the security meets the other requirements.

Listing requirements		
Series of shares to be listed	Category "A" at least 2.5 billion HUF at market value	Category "B" no requirements
Free float	– at least 25 percent of the series to be listed is free float; or – at market prices, shares to the value of at least two billion HUF are free float; or – the series of shares is, at the time of the listing, in the possession of at least 500 owners.	provide free float information to the Stock Exchange
Owners	at least 100 owners	provide ownership information to the Stock Exchange
Business year	three full, completed, audited years	no requirements
Type of security	registered only	no requirements

### Derivatives Section

BSE product development in the derivatives market added 14 new products to the supply range of the futures market, while the concurrent delisting of Prímagáz shares resulted in the elimination of its futures product. Thus, at the end of 2003, there were 62 futures and six options contracts on the BSE market.

In November 2003, FHB shares and the related futures product were listed on the BSE. In addition to three new currency futures instruments, the range of the cross currency contracts tradable since May 2002 continued to expand. With the listing of ten new cross currency contracts, the number of currency futures products increased to 28.

Parallel to this, a new foreign exchange segment was set up on the options market. Since May 2003, options have been available in two currencies.

### Change in the number of derivatives products

	2002	2003
<b>Futures products</b>	<b>49</b>	<b>62</b>
Currency	15	28
Interest rate	6	6
Equity and index	28	28
<b>Options products</b>	<b>4</b>	<b>6</b>
Currency	0	2
Equity and index	4	4

# List of Issuers

(December 31, 2003)

## Equity issuers

1. Agrimill-Agrimpex Grain Processing and Grain Trading Co.
2. "ANTENNA HUNGARIA" Hungarian Radiocommunications Corporation
3. BorsodChem Rt.
4. BRAU UNION HUNGÁRIA BREWERIES COMPANY LIMITED BY SHARES
5. Budapest Electricity plc.
6. Budapest Ingatlan Hasznosítási és Fejlesztési Rt.
7. Chemical Work of Gedeon Richter Ltd.
8. Csepel Holding Részvénytársaság
9. Danubius Hotel and Spa Rt.
10. Délmagyarországi Áramszolgáltató Részvénytársaság
11. DOMUS Kereskedelmi Részvénytársaság
12. East Hungarian Electricity Supply Company Ltd.
13. econet.hu Information Technologies Ltd.
14. EGIS Pharmaceuticals Limited Company
15. Első hazai Energia-portfólió Részvénytársaság
16. FHB Land Credit and Mortgage Bank Co Plc
17. FORRÁS Trust and Investment Company
18. FOTEX First American Hungarian Photo Servicing Company Limited by Share
19. Gardenia Lace Curtain Factory PLC
20. GLOBUS Canning Industry plc.
21. Graphisoft N.V.
22. HUMET Trade, Research and Development Company Limited by Shares
23. HUNGAGENT Trading Company Limited by Shares
24. Hungarian Telecommunications Company Ltd.
25. INTER-EURÓPA BANK Company Limited by Shares
26. KARTONPACK Doboziipari Részvénytársaság
27. KONZUM Trading and Industrial Company Limited
28. Linamar Hungary Autóipari és Gépgyártó Részvénytársaság
29. MILTON APARTMAN Ingatlanforgalmazó és – hasznosító Részvénytársaság
30. MOL Hungarian Oil and Gas Public Limited Company
31. NABI Bus Industries Rt.
32. National Savings and Commercial Bank Ltd. Hungary
33. North Hungarian Electricity Supply Company Ltd.
34. North-West Electricity Supply Company Ltd.
35. Novotrade Investment Company Limited
36. PANNON-FLAX Győri Lenzőví Részvénytársaság

37. PANNONPLAST Műanyagipari Részvénytársaság
38. PANNON-VÁLTÓ Vagyonkezelő és Kereskedelmi Részvénytársaság
39. PHYLAXIA PHARMA Drugs, Vaccines and Agrobiological Preparations Manufacturing and Distributing Company Limited by Shares
40. QUAESTOR Értékpapír-kereskedelmi és Befektetési Részvénytársaság
41. RÁBA Automotive Holding PLC.
42. Skoglund Holding Befektetési Részvénytársaság
43. South-West Hungarian Electricity Supply Company Limited by Shares
44. STYL GARMENT FACTORY COMPANY LIMITED BY SHARES
45. Synergon Information Systems Ltd.
46. Székesfehérvári Hűtőipari Részvénytársaság
47. Tiszai Chemical Group Company Limited by Shares
48. ZALAKERÁMIA Limited
49. Zwack Unicum Liqueur Industry and Trading Company Ltd.

## Bond issuers

1. CIB Central-European International Bank Ltd.
2. Diákhitel Központ Részvénytársaság
3. ERSTE Bank Hungary Rt.
4. European Investment Bank (EIB)
5. General Banking and Trust Co. Ltd.
6. Hungarian Development Bank Ltd.
7. Hungarian Foreign Trade Bank Ltd.
8. MOL Hungarian Oil and Gas Public Limited Company
9. Raiffeisen Bank Rt.

## Mortgage bond issuers

1. FHB Land Credit and Mortgage Bank Co Plc.
2. HVB Mortgage Bank
3. OTP Mortgage Ltd.

## Investment funds

1. K&H Fix Plusz 2 Derivatives Closed-End Securities Investment Fund
2. K&H Fix Plusz 3 Derivatives Closed-End Securities Investment Fund
3. K&H Fix PLUSZ Funds Closed-End Securities Investment Fund
4. PILLÉR First and PILLÉR 2. Second Property Investment Fund

## Club of Quotables

The most important function of the Budapest Stock Exchange (BSE) in the business world is to provide a flow of funds among market players. It is on the stock exchange that companies in need of resources “meet” investors holding savings. The larger the supply of securities, the more likely it is that investors will find the corporate security most appropriate for them. Thus, the turnover of the stock exchange expands and companies have access to sources of financing.

The BSE Board considers an increase in the number of issuers and the listing of new companies on the market its most important priorities. The Club of Quotables (CoQ) was set up to promote this. The Club of Quotables is a forum that provides information and helps prepare firms that consider raising capital through the stock exchange a realistic alternative. In addition to providing support towards preparing for a stock exchange listing, the BSE has created a forum for club members to hold meetings with each other as well as with other market players, (traders, analysts, institutional investors and issuers of the stock exchange), where they can obtain information regarding the advantages and challenges of being listed. The members of the club are also invited to road shows and various other events organised by the Budapest Stock Exchange within and outside the country.

Any company can become a member of the club upon declaring that if in the near future the company needs to raise capital or an offering of the shares by the existing owners will take place, they consider a listing on the stock exchange as a realistic alternative. Membership in the Club commences with the signature of a written declaration following an agreement with the BSE. From a legal point of view, being a member does not imply any commitment, but it is a signal for the actors on the capital markets that these companies are ready to list their shares on the stock exchange in a favourable market environment. The BSE created this Club to reflect its intention to support an increase in the number of companies that might attract the

attention of domestic investors. Of course, membership in the Club is not a precondition for being listed, rather it is a tool that aids decisions about a listing on the stock exchange and the preparations for such a listing.

### Events at the Club of Quotables

- **March 12, 2003** The Club of Quotables is created upon an initiative by the BSE.
- **March 18, 2003** RTL Klub and the Wallis Group hold introductory presentations at the Club of Quotables.
- **April 2, 2003** Stollwerck and Syntumex in the Club of Quotables.
- **April 22, 2003** Plusssz Vitamin Kft. and rEVOLUTION Software introductory presentations in the Club of Quotables.
- **April 24, 2003** Event organised by the BSE under the title of “Preparations for the listing on the Stock Exchange: the daily life of listed companies” for the members of the CoQ.
- **May 5, 2003** At an informal meeting from Scottish Widows Kim Catechis informs members of the CoQ of his investment experiences in Eastern Europe.
- **May 13, 2003** FTC Rt. and InterCom International Cultural Services Rt. in the Club of Quotables.
- **May 16, 2003** The BSE organises a full-day training course “Capital markets overview” for CoQ members at the International Training Centre for Bankers.
- **July 1, 2003** Karsai Plastics Technology Holding Rt. and the KFKI Group make their presentations at the Club of Quotables.
- **July 4, 2003** English-language panel meeting under the title “Corporate Governance in Transitional Economies”, organised by the BSE for CoQ members.
- **July 22, 2003** Fast Ventures B. V. and Morgan Hill Consulting Rt. in the Club of Quotables.
- **September 9, 2003** ComGenex Rt. and the Waberer's Company Group in the Club of Quotables.
- **October 7, 2003** AITIA Informatics Rt. and Duna Electronics make introductory presentations in the Club of Quotables.

## Section Membership

### Changes during 2003

The number of section members of the Budapest Stock Exchange was a total of 33 (including 16 banks) as at December 31, 2003, identical to the number of section members one year earlier. Dresdner Bank (Hungary) Rt. is a new section member, having acquired trading rights in 2003, and the section membership of EASTBROKERS Investment Rt. was terminated. At the end of 2003, there were 27 members in the Equities Section, 18 members in the Fixed Income Section, and 21 members in the derivatives section (21 members for the futures market and 18 members for the options market) held trading rights.

### Rules applicable to section members

Only companies that are members in a section can obtain trading rights for the markets of the Budapest Stock Exchange, the terms thereof being determined by the "Regulations of the Budapest Stock Exchange on Section Membership".

Section membership can be obtained by:

- an investment service provider or a bank for the Equities and Fixed Income Section, as well as for the futures and options markets of the Derivatives Section,
- an individual trader for the futures and options markets of the Derivatives Section.

A section membership is created by the signing of a section membership contract between the BSE and the section member, with the following terms:

- the section member must hold a HFSA license for trading in that section,
- the member must meet the other legal requirements, as well as accept and apply the rules of the Budapest Stock Exchange and of KELER Rt.,
- the member must fulfil its payment obligations.

In order to trade in the different sections, section members must pay an annual minimum fee (in addition to the one-off joining fee payable

when the section membership was acquired), but the section member can "offset" the amount of the annual section membership fee through the transaction costs calculated on the basis of the stock exchange turnover.

Amendments to the Capital Market Act will simplify the requirements for foreign investment service providers active in Hungary. On the one hand, an investment service provider headquartered in an EU member state can provide cross border services. On the other hand, enterprises with headquarters in an EU member state and authorised to carry out trading or commissioning activities in securities may, (independently from the specification above), have trading rights on the stock exchange.

In addition to the process of obtaining membership and trading rights, the "Regulations of the Budapest Stock Exchange" standardises the rights and duties of members, the suspension of the trading rights of section members, the obligation to provide data and information, the system of sanctions against section members, and the termination of membership, among other things. (The regulations – together with all other bylaws of the BSE – can be found on the Stock Exchange website at [www.bet.hu](http://www.bet.hu).) In order to ensure the transparency of trading, the BSE monitors (by way of an enhanced, multi-level control system) improper price manipulation, trading based on insider information, and other activities representing a threat to clear market operation.

### Monitoring of section members

For the sake of clear, transparent trading on the stock exchange, the BSE carried out investigations in connection with unusual deals at section members on 92 occasions in 2003. Based on the documents available at the stock exchange and obtained from the section members, members were called to eliminate or prevent deficiencies in 2 cases. In a further 5 cases, in the absence of adequate legal competence the matter was transferred to HFSA for further examination, out of which 3 cases led to a reprimand by the Supervisor.

## Section Members of the Budapest Stock Exchange as at December 31, 2003

	Equities Section	Fixed Income Section	Derivatives Section	
			Futures market	Options market
AEGON Hungary Securities Limited by Shares	X	X	X	F
Bank of Hungarian Savings Cooperative Ltd.	X	X	X	X
Biztonság Invest Investment and Security Inc.	X	–	–	–
BNP PARIBAS Hungary Bank Rt.	X	X	–	–
BUDA-CASH Brokerhouse Co. Ltd.	X	–	X	X
CA~IB Securities Ltd.	X	X	X	X
Cashline Securities Ltd.	X	–	X	X
Central-European International Bank Ltd.	X	X	X	X
Citibank Rt.	–	X	–	–
CONCORDE Securities Limited	X	X	X	X
Deutsche Bank Ltd.	–	X	–	–
Dresdner Bank (Hungaria) Rt.	–	X	–	–
EQUILOR Investment Co. Ltd.	X	–	–	–
EQUITAS Broker Ltd.	X	–	X	X
ERSTE Bank Investment Hungary Limited	X	X	X	X
General Banking and Trust Company Ltd.	X	–	–	–
HAMILTON International Brokerage Company Ltd	X	–	–	–
Hungarian Foreign Trade Bank Ltd.	X	X	X	F
ING Bank (Hungary) Co. Ltd.	X	X	X	–
INTER-EURÓPA Bank Company Limited by Shares	X	X	X	X
KDB Bank (Hungary) Ltd.	X	–	X	X
K & H Equities (Hungary) Security Trading Ltd.	X	–	X	F
Kereskedelmi és Hitelbank Rt.	–	X	–	–
Királybróker Ltd.	X	–	X	–
National Bank of Hungary	–	X	–	–
National Savings and Commercial Bank Ltd.	X	X	X	X
Postabank and Savings Bank Corporation	–	X	–	–
Post Bank Securities Selling and Investment Company Limited by Shares	X	–	X	X
QUAESTOR Securities and Investment Limited by Shares	X	–	X	X
RAIFFEISEN Securities and Investment Ltd.	X	X	X	X
REÁLSZISZTÉMA Securities Trading and Investment Ltd.	X	–	–	–
SWAP Rt.	X	–	X	F
WestLB Hungaria Bank Rt.	X	–	X	–
<b>Total</b>	<b>27</b>	<b>18</b>	<b>21</b>	<b>18</b>

Remarks:

(-) the company does not have a trading licence in this section or market

(X) the company has a trading licence in this section or market

(F) the trading licence of the company is suspended

## Trading System

The MMTS I-II system, the automated remote trading system of the Budapest Stock Exchange, is in line with international standards. The BSE recognised years ago, in due time, that in accordance with international practice, there will be a shift from the traditional trading floor's open outcry system to a more modern trading technique, eliminating the geographical borders of trading.

The MMTS I-II system has for a number of years been providing full-scale trading services for companies trading in the equities, fixed income and derivatives sections of the BSE. Participation in continuous trading is ensured for section members through the delegated remote trading workstations for seven and half hours per day, and the full product scale of the Stock Exchange is offered to investors.



The trading system provides an opportunity for the conclusion of deals in and outside of the order book. (More than 95% of the stock exchange turnover is realised in the order book.) The system also provides an opportunity to conclude a "fixed deal", the essential feature of which is that, (as opposed to the previously described deals), the offer is not entered into the order book that is public for the whole of the market, but only the two parties involved in the deal can see it. In this system, the trading technique of the order book can be expanded by a "price-maker" activity, the essence of which is that the liquidity in a security is ensured by the continuous selling and

buying orders of the section members providing the price-maker services, that is, by quoting prices. This technique is applied at present in the fixed income section of the BSE, in the trading of government securities and some corporate bonds. On the derivatives market, the activity of the price makers may also be supported by a request for quote (RFQ), where any trader can indicate to the price makers or other users their request for an offer.

A separate auction module operates within the trading system of the BSE, a tool for the sale or purchase of large volumes of securities. Since the start of the MMTS, this has been how the public issuing of government securities (bonds and discount treasury bills) takes place and this has been the vehicle for the public offering of most of the mortgage securities since they were launched.

The most important technical characteristic of the MMTS I-II system is that it is practically free from capacity limitations. Even if the number of users increases in the future at such a rate that the system proves incapable of providing services under its current design, there would be no need to replace the system since only the hardware elements would need to be expanded. The developer company optimised the continuous operation of the system so that secondary copies of the most important software and hardware elements were built in, ensuring that in the case of a defect, the system will automatically switch over to the properly operating element.

Nowadays, one of the most important issues is the compatibility of the various trading systems, that is, their capacity to be connected to each other and, if need be, to be operationally interconnected. When the MMTS I-II trading system was launched it operated in a closed network, that is, there were no physical connections between other networks and the system of remote trading. Since that time, it has become obvious that one of the priorities of system development should be an "opening" of the trading system – that is, a freeing-up of the closed network between the Stock Exchange and the section member trading companies – without a drop in the operational security of the system.

The Stock Exchange supported, from a technical point of view, and contributed to the establishment of a solution that allows a direct data connection between the central part of the trading system and the internal network of the trading companies. This system became known as the Connection Provider (K2).

The system ensures a high-capacity, real-time connection between the MMTS trading system and the properly adapted users' (remote trader back office) systems. It allows the adapted systems to have access to the data stored in and originating from MMTS and to carry out transactions in the stock exchange trading system. Through this system, most of functions that are manually available from a traditional trading workstation are accessible in real-time, in a programmed format, for the linked systems.

At present, 5 section members are using the system, but the number of users is continuously expanding.

The launch of K2 provides, from a technical point of view, an opportunity for the Stock Exchange to implement a cooperative relationship with a partner stock exchange, since the investment service provider companies with connections to foreign stock exchanges mostly use methods similar to K2 for their trading.

## New Service – Trading on Xetra

Within the framework of an agreement between the Budapest Stock Exchange (BSE) and Deutsche Börse AG, the BSE ensures, as a so-called Multi-Member Service Provider, direct technical access to the Xetra® trading system.

Parallel to the establishment of the technical parameters for trading, the establishment of the settlement service was also important. The Central Clearing House and Depository (Budapest) Rt. (KELER), with support from the Frankfurt-based Clearstream clearing house and Citibank, provides a solution for

### Information on Xetra

The Xetra® trading system currently has over 307 members from 16 countries.

More than 8000 securities are available on the Xetra® system, (of this, about 5800 are shares, the others are "certificates" and warrants). Xetra® is the prime market for German securities. The most important among the products available are the blue-chip shares included in the DAX index. In addition to these, the securities of many European and overseas countries can be accessed, including the leading shares of the European Union (among others, the securities figuring in the Dow Jones Euro STOXX 50 index family), the most important American shares (the shares in the DJIA, S&P 100, Nasdaq 100, DJ Global Titans 50 indexes), as well as the funds traded on the stock exchange (ETFs).



Trading in shares and warrants is open on trading days from 9:00 to 17:30.

Trading starts with an opening auction (opening period with fixing). After that, trading with the continuous matching of orders is interrupted for short periods by two auctions per day. The day's trading is followed by another period with fixing.

The settlement of the deals struck takes place on day T+2. The Central Contracting Party (CCP) service, available on the Hungarian market since May 2002, was introduced for German securities on the Xetra® system in the second quarter of 2003.



the settlement of transactions made on Xetra. Cooperation between KELER and the BSE made it possible for Hungarian investment service providers to have cost-efficient access to the Xetra system. This BSE service began on August 13, 2003, with five contractual traders making use of the information technology service of the Budapest Stock Exchange as full members of Xetra.

The value of the transactions flowing through the infrastructure of the BSE shows an upward trend. This expansion is demonstrated by the ten-fold increase of the daily average turnover from the starting figure of 130 thousand euro.

By the end of February 2004, more than 3100 deals had been made on Xetra by the companies using this service. The demand for foreign securities is demonstrated by the fact that deals were made for more than 80 securities and the cumulative turnover reached almost



100 million euro by the end of February 2004. It is expected that the five initial companies will be joined by others in 2004.

## Settlement of Stock Exchange Transactions

The Central Clearing House and Depository (Budapest) Rt. (KELER Rt.) was founded in 1993 by the National Bank of Hungary (50%), the Budapest Stock Exchange and the Budapest Commodity Exchange (25-25%), for the profile

of custody, clearing, and settlement. KELER provides "quasi-wholesale" services and provides the infrastructure for the players and intermediaries of the Hungarian capital market. Its direct partners are the investment service providers, the brokerage firms, the banks, and the companies that have issued securities. The clearing house allows the risk-free, quick, and efficient settlement of securities trading transactions made by market players, that is, it allows monies and securities to exchange hands. At the time of its foundation, KELER Rt. took over the settlement of the physical deliveries and financial administration of deals in securities from BSE.

### Settlement of Cash Market Transactions

The direct participants of a settlement are the clearing members (banks and brokerage firms with section membership and complying with the requirements established by KELER). The settlement of the deals made in the equities section and the fixed income section (with the exception of fixed and auction deals) takes place simultaneously, on a roll-over basis, using a T+3-day cycle since November 18, 2002 in the equities section, and a T+2 cycle in the fixed income section, based on the principle of multilateral off-setting. (T stands for the day of the trade, with days understood as working days.) The settlement of transactions takes place on the KELER securities accounts and on the cash accounts run by KELER (in case of brokerage companies) or the Central bank (in case of banks).

### Settlement of Futures and Options Transactions

The settlement of futures and options deals concluded on the BSE is ensured and guaranteed by KELER Rt. In the case of products based on individual equities and government securities, settlement takes place with physical delivery, in the case of other contracts traded on the BSE, settlement takes place against cash.

KELER operates the institution of the Central Contracting Party (CCP) both on the cash and the derivative markets. The essence of CCP is that KELER undertakes a guarantee for the execution of the deals. In case non-execution occurs, it acts as the seller in respect of the

buyer, and as a buyer in respect of the seller, thus guaranteeing that the transactions are accepted, that is, it acts in the quality of a contractual partner for their delivery. If one of the parties fails to deliver, KELER is obliged to meet the obligations originating from the transactions of the party that failed to deliver, even if it must meet this obligation from its own net assets.

### Guarantee system

A member can participate in the settlement of the stock exchange turnover of the various markets and sections only if the amount of the respective minimum collaterals (Stock Exchange Settlement Fund and individual collaterals) are paid and if in the course of trading it continuously complies with the respective requirements of providing collaterals, in connection with its clearing membership.

In the case of both markets, in order to ensure the security of the completion of transactions and to reduce its own risks, KELER Rt. operates a special guarantee system.

### Clearing membership guarantee elements

- The **basic financial collateral** is a fixed amount specified by KELER for each market, to be continuously maintained by the members trading on that market.
- The **price differential** is set to cover past price changes.
- The **basic collateral** is calculated on the positions not yet due to be delivered, to the extent of the usual daily price change, as a fixed amount.
- The function of the **additional financial collateral** is to allow KELER to manage the risks of its members with increased risks (e.g. due to an outstandingly high open position). Therefore, its value in a standard case is zero.

### Collective guarantee element

The **TEA** (Tőzsdei Elszámolási Alap, or Exchange Settlement Fund) is a cash fund in joint ownership, created to support the cash market. Its purpose is to reduce the risk originating from a delay or failure to deliver in the mutual stock

exchange transactions of the clearing members, acting as a pledge serving as collateral for joint and several guarantees. The contribution to TEA also serves as a pledge for the receivables of KELER from the clearing members, up to the amount of said receivables. The clearing members are obliged to pay a set amount into TEA, calculated weekly by KELER.

The **KGA** (Kollektív Garancia Alap, or Collective Guarantee Fund) is a cash fund in joint ownership, created to increase the safety of the derivatives market. Its purpose is to reduce the risk originating from a delay or failure of the payment obligations in connection with the settlement of futures and options transactions, acting as a pledge serving as collateral for joint and several guarantees. The KGA contribution and the amount collected also serves as a pledge for the receivables of KELER from the clearing members, up to the amount of said receivables. The size of the KGA contribution is determined monthly.



The security of the settlement system is demonstrated by the fact that in spite of hectic market movements and major price drops realised by market players last year, none of these represented a threat to the settlement of exchange operations, and all deals struck on the stock exchange have been settled since the establishment of KELER.

## Data Provision and Other Information Services

### Data Provision

The Budapest Stock Exchange pays special attention to the service of providing trading data, issuer data, and stock exchange information.

Real-time, delayed, and end-of-day stock exchange trading data are sold by the Budapest Stock Exchange directly to its official data service providers, the vendors. Through the data service provider companies, information reaches domestic and foreign end-users: institutional and private investors, analysts, and representatives of the media. The Budapest Stock Exchange signs standard "Vendor Agreements" with the data service companies, under uniform terms and conditions.



At present, contracts for the following data packages are available to vendors:

- Real-Time Best 5 Price Levels Service
- Real-Time Best Price Level Service
- Delayed Best 5 Price Levels Service
- Delayed Best Price Level Service
- End-of-Day Data Service
- BUX Package Date Service

The individual packages apply to all stock exchange products, without differentiation according to market.

In the first quarter of 2003, the BSE launched four "Service Packages for Non-Professional Use", with data content identical to the "Real-Time Best 5 Price Levels Service" and "Real-Time Best Price Level Service", but at more favourable monthly terminal fees. These new service packages (called private investor packages) make it possible for vendor companies to provide stock exchange data for Hungarian private investors, against an additional annual fee but at a substantially lower per-unit terminal fees.

In addition to the private investor packages, the BSE strives to reach the domestic investor community by way of various communications tools and the organisation of events (road shows, open days). The vendors of the BSE also participate actively in the organisation of these events.

### Official data vendors of the Stock Exchange (as at December 31, 2003):

Company name in full	Web address
<b>Vendors of real-time data</b>	
Bloomberg L. P.	<a href="http://www.bloomberg.com">www.bloomberg.com</a>
HUF Interactive Data	<a href="http://www.HUFInteractiveData.com">www.HUFInteractiveData.com</a>
Magyar Távirati Iroda Rt (MTI)	<a href="http://www.mtieco.hu">www.mtieco.hu</a>
Moneyline Telerate Ltd.	<a href="http://www.moneyline.com">www.moneyline.com</a>
Net Média Rt.	<a href="http://www.portfolio.hu">www.portfolio.hu</a>
Reuters Group PLC	<a href="http://www.about.reuters.com">www.about.reuters.com</a>
TeleDataCast Kft.	<a href="http://www.tdc.hu">www.tdc.hu</a>
Telekurs Financial Information Ltd.	<a href="http://www.telekurs-financial.com">www.telekurs-financial.com</a>
Thomson Financial Inc.	<a href="http://www.thomsonfinancial.com">www.thomsonfinancial.com</a>
<b>Vendors of delayed data</b>	
Dow Jones Reuters Business Interactive Ltd.	<a href="http://www.factiva.com">www.factiva.com</a>
ecetra Central European e-Finance AG	<a href="http://www.brokerjet.com">www.brokerjet.com</a>
econet.hu Informatikai Rt.	<a href="http://www.econet.hu">www.econet.hu</a>
Westel Mobil Távközlési Rt.	<a href="http://www.westel.hu">www.westel.hu</a>

### Other Information Services

Queries in historic data series are handled by the staff of the BSE **Information Centre** upon individual request.

Budapest Stock Exchange Ltd.  
Information Centre

H-1052 Budapest, Deák Ferenc u. 5.  
Tel.: (36 1) 429-6857 Fax: (36 1) 429-6899  
Internet: www.bet.hu E-mail: info@bse.hu

Delayed trading data, as well as information on issuers with listings on the stock exchange are available on the official BSE website. The website of the Budapest Stock Exchange was revamped in February 2004, both in terms of its look and content. The portal offers an opportunity to view the intraday trading data delayed by 15 minutes. Registered users can set the equities and bonds of which they would like to follow the price changes over the day. The download of historical data is available for the period until January 1, 1998, both for individual securities and for daily, monthly or annual data on the turnover and prices, aggregated by sections. Furthermore, the full transaction list of any specific day is available simply by sending a premium SMS. Users can prepare historical and comparison charts for the products of the equities, fixed income, and derivatives sections.

The BSE's official announcements as well as the regular and extraordinary announcements of the stock exchange issuers are published on the BSE website. The contractual users of the Issuer Information System of the Budapest Stock Exchange (ISSUERINFO) can also access the stock exchange and issuer reports in electronic format, sent directly via email.

## The Official Share Index of the Budapest Stock Exchange (BUX)

The official share index of the Budapest Stock Exchange is the BUX index, calculated realtime, every five seconds, on the basis of current market prices. The purpose behind the establishment of the index was the creation of an indicator whose value changes make it possible to follow the current situation of the market, as well as the dominant trends in price movements and their extent. The base of the index is January 2, 1991, when the index stood at 1000 points.

The BSE was among the first in the world to switch from pure market capitalisation weighting to weighting based on a free float for the determination of the weights of the shares to be included in



the basket of the index (a method that better apprehends the actual stock traded on the market). When calculating the stock of the securities traded on the market, the method only takes non-strategic investors into account, considering only the quantities held by owners with a stake below five percent. The BUX index is a performance index. Accordingly, the amount of the dividends paid is recapitalised into a given share upon the dividend payout of the shares included in the basket.

In the construction of the index, the target was to ensure a simple calculation and a basket that was easy to reproduce. Transparency is indispensable in order for the BUX, as a tradable index, to become

an underlying product for decent trading on the futures market. This has been perfectly implemented in the case of the BUX, which is proven by the fact that the BUX index-based futures contract became one of the most successful products of the futures market of the Stock Exchange.

At least 12, but not more than 25, shares may be included in the basket of the index. Their selection (the revision of the basket) takes place twice a year (in March and September). The system of criteria for being included in the basket examines the following seven issues:

- net assets recognised in the latest financial statements published prior to the day of the revision,
- the market value of the series of shares,
- turnover in terms of the number of deals and at market value,
- velocity of the turnover,
- number of cross agency deals,
- number of days traded.



Out of the above criteria, normally at least five must be sufficiently met in order to remain in the basket. A basic condition for being included in the basket is that the share must have been traded in stock exchange trading for at least three weeks prior to the revision. In order to avoid price changes of a single share having an exaggerated impact on the value of the index, the mutual proportions of the shares included in the basket are set by a so-called digression procedure that reduces the proportion of the shares with an extremely high weight.

On the basis of the above criteria, the Index Committee, nominated by the Board, prepares a proposal for the structure of the basket, to be decided in a resolution by the CEO. As a result of compliance or non-compliance with the above criteria, the Budapest Stock Exchange reserves the right to ensure that no automatic change in the index basket takes place, in order to maintain the stability of the index basket.

The main events relating to the history of the BUX index are outlined in the event calendar below:

## BUX Event Calendar

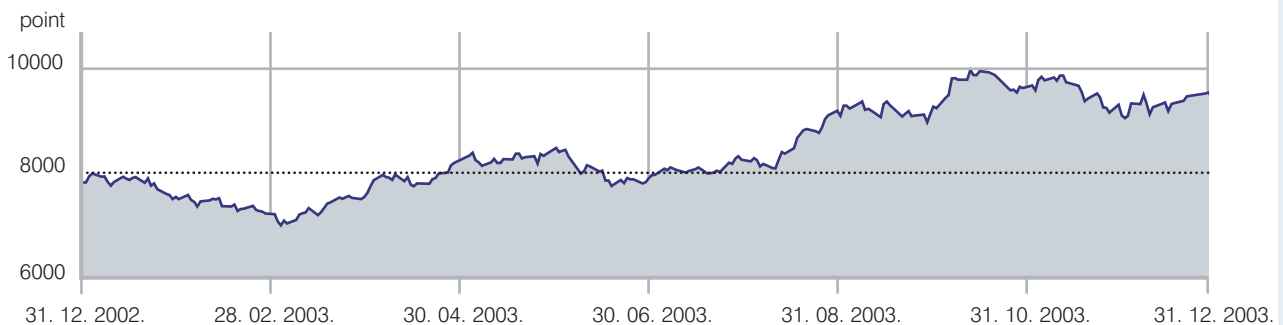
- **January 2, 1991** The base of the index is set at 1000 points, indicating the situation as at January 2, 1991. The number of shares in the BUX basket at that time was at its minimum (6 shares).
- **May 14, 1993** The BUX closes the day at 717.75 points, this is the historic low for the index.
- **January 1, 1995** The BUX obtains its final form and becomes the official share index of the BSE. In order to be included in the index basket, a share must meet at least three out of five criteria. The official daily index value is calculated from the daily average prices.
- **April 1, 1995** An index-based derivative product is launched – the BUX futures contract is listed.
- **September 30, 1996** The number of share series in the BUX basket reaches the maximum – the basket consists of 25 securities.
- **April 1, 1997** The intraday continuous index calculation is introduced, that is, the value of the index is re-calculated every 5 seconds. From this time onwards, the official daily index value is the BUX calculated on the basis of the closing prices. The real-time calculation of the index starts from the 11th minute of the free period trading and lasts until the end of the free period trading.
- **February 1, 1998** In addition to the previous five criteria, the BSE verifies three new criteria when the inclusion of the series of shares to be included into the basket is revised. At least six criteria must now be met.
- **November 20, 1998** The MMTS trading system is introduced, and the calculation of the BUX is integrated into this system. As a result, the opening BUX value calculated on the

basis of the theoretical opening prices is displayed, and during the entire free period of the trading, the real-time BUX value is calculated.

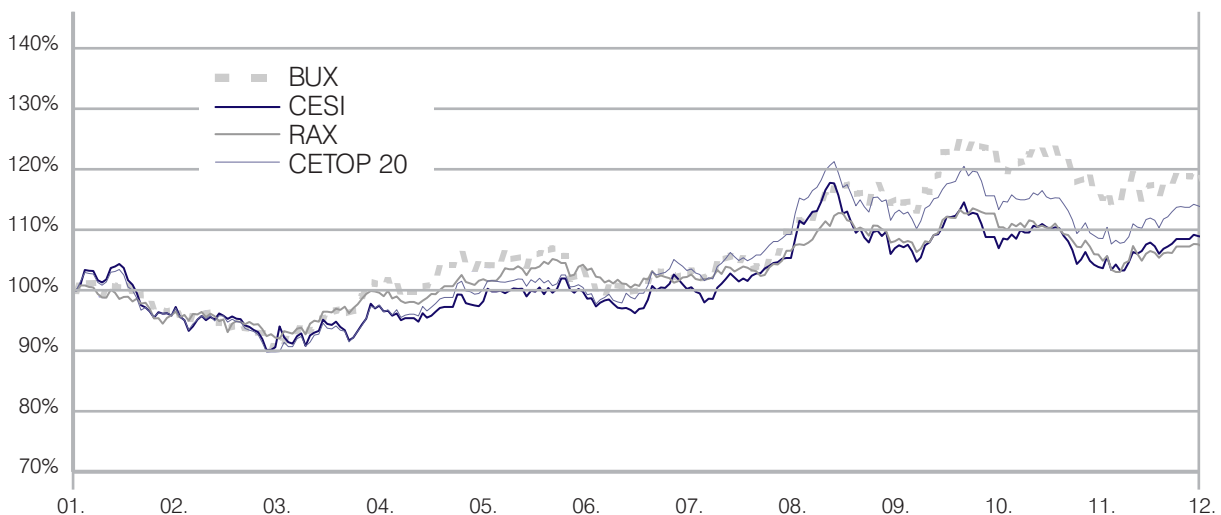
- **September 1, 1999** From the current revision of the basket onwards, when determining the quantities of shares covered by the BUX to be included in the basket, the market capitalisation is corrected for the free float, established on the basis of the last published share register update.
- **December 1, 2000** The BUX Manual is modified so that instead of the previous eight criteria, the number of criteria for being included in the basket is changed to seven. Successful shares must meet at least five of these.

- **August 1, 2003** The minimum number of shares in the basket of the BUX index is set at 12 by the BSE, with the simultaneous amendment of the Index Manual.
- **September 10, 2003** After the latest revision of the index, the following 13 shares comprise the basket of the BUX index: Antenna, Borsodchem, Danubius, DÉMÁSZ, Egis, MATÁV, MOL, OTP, Pannonplast, Rába, Richter, Synergon, TVK.
- **April 13, 2004**. The BUX closes at a historic high of 11 760.77.

Performance of the BUX Index (2003)



Relative performance of the indexes (2003)



	The share indexes of the BSE				The BSE Yield Index
Index	BUX	CESI	CETOP20	RAX	DWIX
<b>Full name</b>	The Blue Chip Share Index of the Budapest Stock Exchange	Central European Share Index	Central European Blue Chip Index	BAMOSZ Equities Investment Fund Portfolio Index	Daiwa-MKB Treasury Bill Yield Index
<b>Purpose</b>	An indicator of the share price movements on the domestic market.	An indicator to reflect the price movements on 5 stock exchanges in the region (Budapest, Ljubljana, Bratislava, Prague, Warsaw).	An indicator to reflect the price movements of blue chips on 5 stock exchanges in the region (Budapest, Ljubljana, Bratislava, Prague, Warsaw).	Serves as a benchmark to measure the performance of local equity investment funds.	Shows the short-term ( 3, 6, and 12 months' discount treasury bills), risk-free yield conditions to maturity.
<b>Type</b>	Market capitalisation weighted, corrected for free float, reflecting dividend payouts, HUFbased share index.	Euro-based share index with market capitalisation weighting, ignoring dividend payouts.	Euro-based share index with market capitalisation weighting, taking account of dividend payouts.	HUF-based share index, weighted by market capitalisation corrected for free float, taking account of dividend payouts.	Yield index, volume weighted average of the yields accepted on auctions.
<b>Structure</b>	Consists of a variable number of shares, (up to a maximum of 25), that meet 5 out of 7 of the given criteria.	Consists of a variable number of shares, representing 50% of the official equities market capitalisation of the stock exchange concerned in the basket. The weight of any stock exchange may be a max. of 50%, the weight of any share may be a max. of 12%.	Consists of 20 equities, from any stock exchange, no more than 7 shares may be included in the basket.	13 equities, with weights of 12,5%, 12,5%, 12,5%, 8,5%, 8%, 7,5%, 7%, 6,5%, 6%, 5,5%, 5%, 4,5% and 4% in the portfolio.	Auctions of the last month are taken into account with a weight multiplied by 8, the month before that: multiplied by 3, the month before that: multiplied by 1.
<b>Revision</b>	Twice a year (March and September); new basket from the first trading day of April and October.	Twice a year (April and October); new basket from the first trading day of May and November.	Twice a year (April, October); new basket from the first trading day of May and November.	Semi-annually (February, August), new basket from the first trading day of September. Reweighting of the shares each month.	Modified as required.
<b>Frequency of the calculation</b>	Continuous, every five seconds.	Once a day, at 16:30.	Once a day, at 17:00.	Once a day, at 16:30.	Once a week, on Thursday, after the treasury bill auctions.
<b>Ticker codes</b>	Reuters: .BUX Bloomberg: BUX<INDEX><GO>	Reuters: .CESI Bloomberg: CESI<INDEX><GO>	Reuters: .CETOP20 Bloomberg: CETOP20<INDEX><GO>	Reuters: .RAX Bloomberg: RAX<INDEX><GO>	Reuters: .DWIX Bloomberg: DWIX<INDEX><GO>
<b>Base value</b>	January 1, 1991 = 1000 pont	June 30, 1995 = 1000 pont	January 1, 2001 = 1000 pont	January 7, 1998 = 1000 pont	

## The Year 2003 in Figures for the BSE

An eventful year is now over at the Budapest Stock Exchange. The rise that began in the previous year gathered speed and brought spectacular results, both in terms of turnover and prices. By the end of the year, the turnover of the BSE equities market came close to 1,900 billion HUF annualised, i.e. 22 percent more than for the full period of the year before. And the overall stock exchange turnover was 2,219 billion HUF, 20,3 percent more than in 2002.

In addition to the turnover, the stock traded also increased, both in the equities and the fixed income sections. In the case of equities, this was due partially to an increase in prices and partially to a re-launch in the listings, since in the autumn of 2003, two new shares, Forrás Rt. and FHB, appeared on the trading floor as new issuers. The total market capitalisation of the stock exchange at the end of 2003 was 10,400.6 billion HUF, of which the share of the capitalisation of the equities market was more than 33 percent (3,469.9 billion HUF). By the end of the year 2003, overall market capitalisation increased by 15.8 percent over the previous year.

In addition to the cash market, major changes also took place on the derivatives market, where the currency market caught up to the index-based and individual equity-based futures instruments that were so successful in previous years. Here, in addition to the traditional products relating to the HUF, cross currency contracts also appeared, and these brought a soaring expansion in liquidity.

### Cash Market

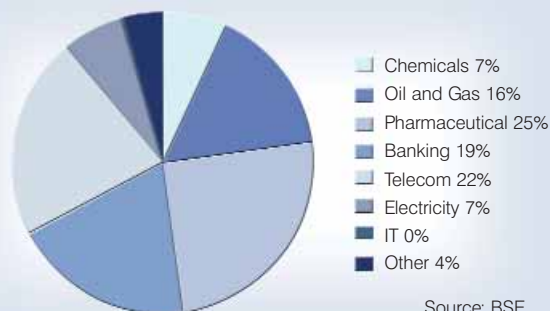
Out of the two cash market sections of the BSE, the equities section continues to provide the decisive portion of the turnover. The weight of the fixed income section decreased from 17.7 percent a year ago to 16.7 percent. The daily average turnover increased from 7.4 billion HUF in 2002 to 8.8 billion HUF in 2003. The most active month was June, when the total value of transactions on BSE cash markets amounted to 272 billion HUF.

From among the different types of securities, equities were again in the focus of attention: 83 percent of the turnover was administered in these securities. In terms of market capitalisation, the situation was much more balanced – due to the important stock of government securities (bonds and discount treasury bills) – representing more than 60 percent of total stock exchange market capitalisation. The most dynamic development was doubtless that seen by mortgage bonds: their turnover increased from 20 billion HUF in 2002 to 102 billion, while their market stock (thanks to three sources of issuance, FHB, OTP and HVB,) increased 2.35-fold and came close to 300 billion HUF.

### Equities Market

Similarly to previous years, the market was dominated by half a dozen blue chips in terms of market capitalisation and, particularly in terms of the

#### Breakdown of capitalisation by sector, 2003



Source: BSE

turnover. On the basis of market capitalisation, the share of the five companies with the highest turnovers was 81.5 percent, while their turnover accounts for 93.4 percent of the total trade in equities. This means that in 2003 there was no change in the concentration of the market, since the five most liquid shares represented a similar weight (93.4%) one year earlier.

The only change that took place was in their ranking, as MOL increased its share by about 4 percentage points while Matáv lost the same. Thus, the two securities replaced each other in the rankings.

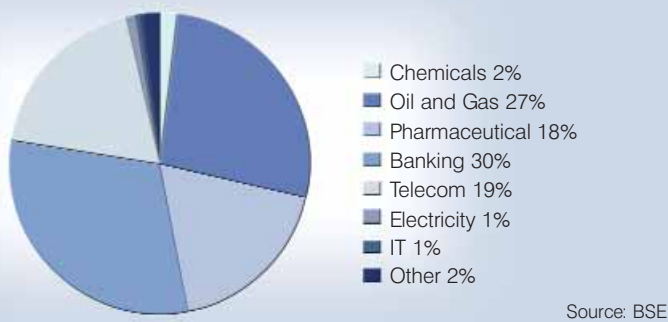


### Fixed income Market

In 2003, internal restructuring continued on the fixed income market: there was a further increase in the importance of securities issued by non-governmental issuers. While government securities continued to provide a decisive portion of the market capitalisation, (6,344 billion HUF, representing 92 percent of the market capitalisation of the fixed income section), the turnover shows a much more balanced picture.

It was on the mortgage bond market that 2003's most spectacular, most dynamic increase in the whole of stock exchange trading occurred, where there was a major jump both in the market stock and in the turnover. The market capitalisation of mortgage bonds climbed by 135 percent and reached 299 billion HUF by the end of the year. Their turnover was 101,98 billion HUF. This is only slightly lower than the turnover of 149.54 billion for

Turnover breakdown by sector, 2003



government securities. Stock exchange trading in these latter securities continued to diminish, as one year earlier, the total value of the transactions was 196 billion HUF.

There was no change in the turnover of corporate bonds, and a monthly average of about HUF 5 billion worth of these exchanged hands.

### Derivatives Market

For the BSE, the year 2003 was the year of the futures market. This applies primarily to the climb of the currency market at rates not seen in a long time, which might have been a conse-

quence of an increase in the volatility of the HUF on the one hand, and of more favourable taxation rules on the other. At the same time, a major role was played by the continuously widening product palette of the BSE, to which cross currency contracts were added in the autumn of 2002. By the end of 2003, the number of contracts traded on the futures market exceeded 2.6 million, more than double the volume for the previous year. Within this, 1,627,000 contracts were traded on the currency market.

A similar trend can be observed in terms of the turnover at market value: the total value of transactions in 2003 amounted to 1,404 million HUF, 67 percent higher than a year earlier.

The stock of open positions on the futures market increased in 2003, with dynamics similar to the rates observed with the turnover. At the end of 2003, the volume of open positions was close to 215,000 contracts, of which 170,000 concerned the currency market, 3,500 concerned the BUX index market, and 39,000 were open contracts on the market of products based on individual equities.

### Products based on individual equities and the BUX index

Traditionally, the most popular product of the BSE futures market is the BUX index contract, and there was no change in this respect in 2003. In fact, the turnover of the instrument at market prices increased by 29 percent over the previous year.

The market of products based on individual equities showed a similar picture to that of the cash market; the focus of attention here is also on the four most liquid shares (OTP, MOL, MATÁV, Richter), accounting for more than 80 percent of the total turnover.

### Currency Market

The currency market woke up from a long sleep by the end of 2002, and by 2003 there was an exponential upswing in the market. At market value, the turnover expanded 5.4-fold compared to the year 2002. A signifi-

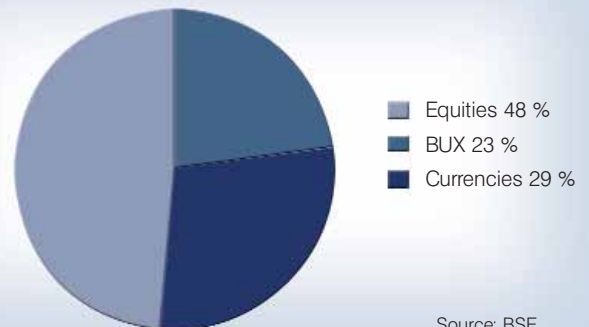
cant role in the increase in turnover was played by the widening of the stock exchange product range, in particular the launch of cross currency contracts.

The most popular product was the HUF/EUR contract. Also, the HUF/CHF was outstanding among the traditional products relating to the HUF, while in terms of cross currency contracts, the attention of investors was particularly attracted by USD/EUR and JPY/USD.

## The Business Performance of the Budapest Stock Exchange

The profitability of the Budapest Stock Exchange, which was transformed into corporate form in the summer of 2002, over the first full calendar year of its operations exceeded expectations. After a profit of 59 million HUF realised in 2002, the profit after taxation in 2003 was 128.8 million HUF and after the dividends approved the retained earnings were HUF 0. The source of the profit after taxation increase was mainly an increase in turnover fee income, exceeding the level of the previous year by about 116 million HUF. This was only partially offset by an increase in costs (chiefly depreciation charges).

*Breakdown of the futures turnover, 2003*



The improvement in the profit outlook of stock exchange activities resulted in increasingly active trading in the company's shares; about 40 percent of the shares is now held by financial investors who do not have trading rights.

## BALANCE SHEET

Serial no.	BALANCE SHEET	Previous year Datas in 1000 HUF 31/12/2002	Current year Datas in 1000 HUF 31/12/2003
<b>1.</b>	<b>A. LONG-TERM ASSETS</b>	<b>3 126 078</b>	<b>2 555 785</b>
2.	I. Intangible assets	559 998	15 764
3.	II. Tangible assets	192 512	166 249
4.	III. Investments	2 373 568	2 373 772
<b>5.</b>	<b>B. CURRENT ASSETS</b>	<b>1 582 325</b>	<b>2 267 547</b>
6.	I. Inventories	7 246	4 547
7.	II. Accounts receivable	83 935	91 524
8.	III. Securities	1 417 294	2 147 574
9.	IV. Liquid assets	73 850	23 902
<b>10.</b>	<b>C. ACCRUED INCOME AND DEFERRED EXPENSES</b>	<b>114 674</b>	<b>93 569</b>
<b>11.</b>	<b>ASSETS (APPLICATIONS), TOTAL (Lines 1.+5.+10.)</b>	<b>4 823 077</b>	<b>4 916 901</b>
<b>12.</b>	<b>D. SHAREHOLDERS' FUND</b>	<b>4 571 635</b>	<b>4 348 552</b>
13.	I. ISSUED CAPITAL	550 000	541 348
14.	II. CALLED UP, BUT NOT PAID CAPITAL	0	
15.	III. CAPITAL RESERVE	2 567 704	2 576 356
16.	IV. PROFIT RESERVE	1 517 208	1 230 848
17.	V. RESERVES IN DEPOSIT	0	0
18.	VI. REVALUATION RESERVE	0	0
19.	VII. RETAINED EARNINGS FOR THE YEAR	-63 277*	0
<b>20.</b>	<b>E. PROVISIONS</b>	<b>0</b>	<b>0</b>
<b>21.</b>	<b>F. LIABILITIES</b>	<b>151 624</b>	<b>457 056</b>
22.	I. Deferred liabilities	0	0
23.	II. Long-term liabilities	0	0
24.	III. Short-term liabilities	151 624	457 056
<b>25.</b>	<b>G. ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>99 818</b>	<b>111 293</b>
<b>26.</b>	<b>SOURCES (LIABILITIES), TOTAL (Lines 12.+20 + 21.+25)</b>	<b>4 823 077</b>	<b>4 916 901</b>
	<b>AVERAGE STATISTICAL HEADCOUNT</b>		
	(Active staff, without absentees)	65 persons	62 persons

\*Subsequent to the transformation, second-half 2002.

## INCOME STATEMENT

Serial number	Denomination of the item	Previous year	Current year
		Datas in 1000 HUF 31/12/2002	Datas in 1000 HUF 31/12/2003
I.	Revenues and other income from stock exchange activities	1 384 838	1 529 586
	Other income	40 892	28 159
II	Operating costs and expenses	1 539 669	1 655 064
A.	<b>PROFIT/LOSS ON STOCK EXCHANGE ACTIVITIES (I.-II.)</b>	<b>-113 939</b>	<b>-97 319</b>
III.	Income from financial operations	192 805	247 687
IV.	Expenses of financial operations	19 929	21 318
B.	<b>PROFIT/LOSS OF FINANCIAL OPERATIONS (III.-IV.)</b>	<b>172 876</b>	<b>226 369</b>
C.	<b>ORDINARY PROFIT/LOSS (+-A.+ -B.)</b>	<b>58 937</b>	<b>129 050</b>
V.	Extraordinary income	0	0
VI.	Extraordinary expenses	0	257
D.	<b>Extraordinary profit/ loss (V.-VI.)</b>	<b>0</b>	<b>-257</b>
E.	<b>Profit before taxation (+-C.+ -D.)</b>	<b>58 937*</b>	<b>128 793</b>
VII.	Tax liability		
F.	<b>PROFIT/ LOSS AFTER TAXATION (+-E.-XII.)</b>	<b>58 937</b>	<b>128 793</b>
VIII.	Use of profit reserve for dividend and profit sharing	59 548	223 083
IX.	Dividend, profit sharing approved	59 548	351 876
G.	<b>RETAINED EARNINGS (+-F+VIII.-IX.)</b>	<b>58 937</b>	<b>0</b>

\*Whole year

# Auditors' report



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

To the Shareholders of Budapesti Értéktőzsde Részvénytársaság

We have audited the accompanying balance sheet of Budapesti Értéktőzsde Részvénytársaság as at 31 December 2003, which shows a balance sheet total of THUF 4.916.901 and a profit for the year of THUF 0, the related profit and loss account for the year then ended and the notes included in the Company's 2003 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 28 April 2003 on the Company's annual financial statements as at 31 December 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 Részvénytársaság 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 Részvénytársaság as at 31 December 2003 and of the results of its operations for the year then ended. The business report corresponds to the disclosures in the financial statements.

Budapest, 05 March 2004.

Except for the effect, if any, of the resolution of the shareholders relating to the year (ended 31 December 2003.), which is dated 28 April 2004.

Ernst & Young Kft.  
Registration No. 001165

Szilágyi Judit  
Registered Auditor  
Chamber membership No.: 001368