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Continuing the efforts started in the preceding years in the history of the Budapest Stock Exchange, year 2000 enters the records as the year when significant earlier developments and capital expenditure projects reached maturity and came to fruition and when new projects were launched. The scope and quality of capital market services offered by the Exchange have reached the level typical of developed capital markets. The structure and work processes of the Exchange organization have also undergone the changes that epitomize a business-oriented firm. The Exchange stands prepared for demutualization and is looking forward to the creation of the supporting legislative framework the follow international tendencies.

Most of the larger and more unexpected challenges the Exchange faced last year had external roots, including the poor performance of international capital markets, which affected the domestic market adversely both in terms of turnover and market price. The – mostly negative – factors affecting large Hungarian companies (disputed regulations by authorities, take-over battles) and the new taxation rules that were detrimental mainly for retail investors also put downward

pressure on turnover at the Exchange and stock prices. Naturally the BSE 'went out of its way' to meet the aforementioned challenges and continues to do so by treating them as tasks of strategic importance, whilst ensuring that the 'daily chores' of maintaining calm and relaxed trading conditions are performed.

Turnover at the BSE market of standardized options, a newcomer derivative product in the Hungarian capital market has not yet reached the expected level since trading started on February 18, 2000, but the every existence of the new market indicates that the Exchange has successfully completed the development of the fundamental functions of a full-scale market by offering opportunities to trade in all the major product groups that exist in developed markets. The latest result of market development at the Budapest Stock Exchange involves a new service delivered to capital market participants since March 5, 2001. Using the opportunities presented by MMTS, the Exchange has opened its electronic floor for trading in securities issued in a foreign country and listed in the official market of a recognized exchange. The only asset the Budapest Stock Exchange makes available for

the purpose to market participants is the trading platform, thus the new segment does not qualify as a recognized market of securities and the deals concluded there are not classified as exchange transactions.

MMTS II, the trading system developed especially to support the market of derivatives, was launched on October 25, 2000. The functional advantages of the new system include, first of all, spread transactions, customer level position monitoring and RFQ based trading. Real time data transfer between the Exchange and the clearing house, KELER, has brought substantial improvements in risk management and settlement techniques in the derivatives market. The conversion to an advanced system of remote electronic trading gives first priority to information technology in the life of the Exchange. Another project called broker-house liberalization is in its final stages and will bring a quantum leap in trading activities by connecting trader workplaces with the back office systems at broker firms.

The BSE looks upon ensuring the transparency of exchange trading as one of its top priority strategic goals, and higher efficiency in that domain has called for the improvement of technical conditions.

The new arrangements introduced in providing or selling information through vendor firms walk arm in arm with the emphasis on the service provider role of the Exchange and on developing profit driven operations and increased the number of vendors substantially during the year.

In 2000, there was heavy focus on marketing and PR efforts, which – in addition to traditional responsibilities – also covered the events organized in connection with the 10th anniversary of the BSE, road-shows organized to attract foreign institutional investors, promoting new products and markets as well as motivating potential issuers to go public. The review of the status of the BSE at the International Federation of Securities Exchanges (FIBV) will hopefully culminate in the award of full membership soon. Despite rare rumors that crop up in the international media, in turnover terms, the BSE remained the most liquid market of the region in the year 2000.

The Exchange has aspired to fostering efficient relationships with the institutions that may influence the Hungarian capital market in their regulatory or supervisory role, including first of all the Hungarian Financial Supervisory Authority, the National Bank

of Hungary and the Ministry of Finance. Long years of efforts coordinated by the Ministry of Finance and aimed at a comprehensive reform of capital market regulations are nearing conclusion and will hopefully soon produce new legal provisions. In response

to intensive communication with the government, the Ministry of Economic Affairs has established an Exchange Development Committee and made it responsible for designing and getting approval for a package of programs that could give new momentum to capital market development.

The BSE management is optimistic that the Exchange will continue to develop and grow in importance and trusts that its successful internal projects, if coupled with more favorable effects than recently, will increase the number of companies intending to go public and will fulfill the general desire of higher turnover and higher market prices.



Mr. András Simor

the Chairman of the Stock Exchange Council

Dr. Mária Dunavölgyi

the CEO of the BSE

Major Events in 2000

2000

**February 18:**

BSE options market starts on TTO trading platform.

**March 10:**

BUX reaches historical high at 10,479.91 points.

**May 18:**

FISD recognizes BSE Vendor Agreement as most transparent.

**March 21:**

Euromoney Investor Conference is organized in Budapest with BSE as main sponsor.

**June 1:**

BSE offers vendors the opportunity to make exchange data available to potential end users free of charge for a month.

**June 13:**

A conference celebrating the 10th Anniversary of the BSE is organized jointly by Bank és Tőzsde and the Exchange at the Hungarian Academy of Sciences.

**June 21:**

BSE web site goes live.

**June 21:**

BSE's options dice game wins "Most Exhibit Spectacle" prize at FOW Conference in London.

**October 25:**

Developed to support derivatives markets, MMTS II is launched.

**October 25:**

Summary of Exposures of exchange members is published for the first time.

**November 22:**

BSE Road Show in London.

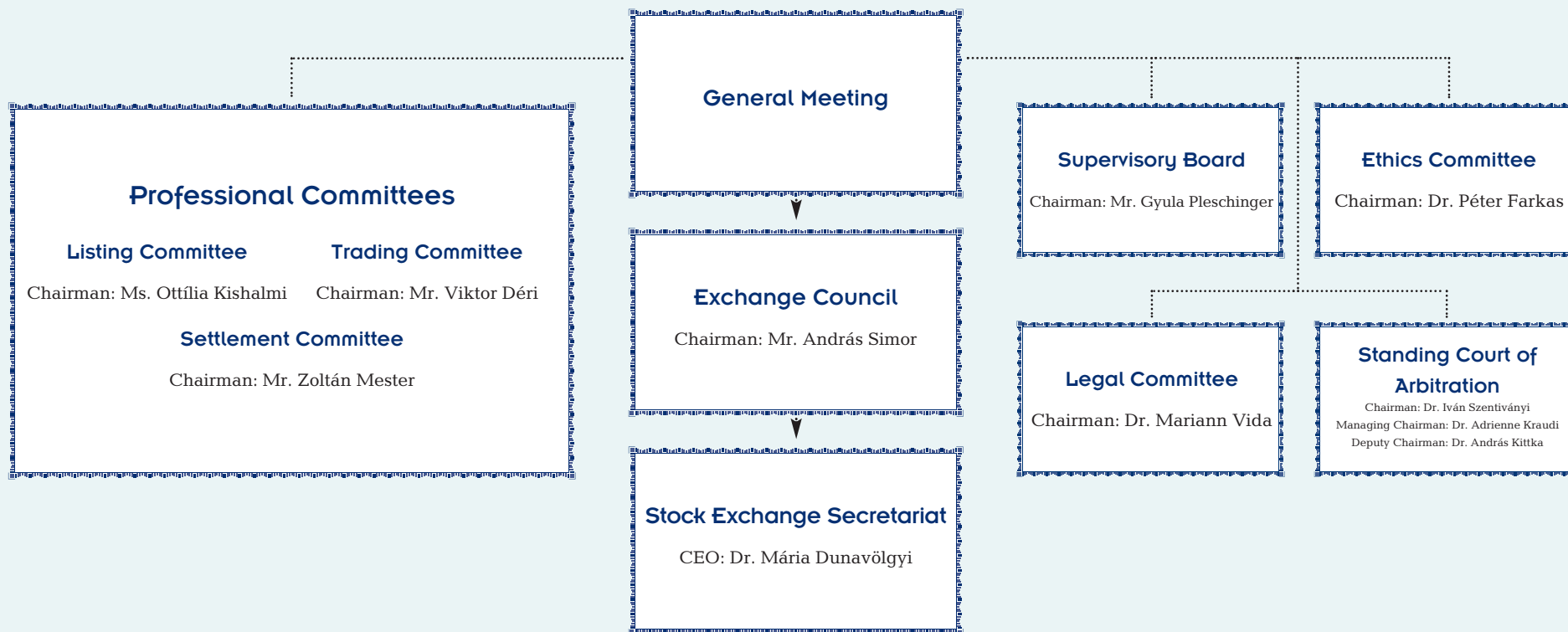
**December 4:**

Physical security dematerialized for the first time.

**December 7:**

Conference for potential issuers entitled "Road to the Exchange".





Cooperating closely with international exchange organizations has remained a top priority for the Budapest Stock Exchange. The BSE has been an associated member of the Federation of European Stock Exchanges (FESE) since 1999. The Exchange is invited to the meetings of the Federation, has consultative rights and has direct access to important information. The good relations developed with the managers of member exchanges offers the BSE the opportunity to become familiar with the opinion of other securities markets about topical development issues, international practices, which helps the domestic market progress in line with EU standards.

The BSE advanced from corresponding member to associated status in the Federation of International

Stock Exchanges (FIBV) in 1998. Granting full membership is on the agenda at the FIBV, which started its membership due diligence of BSE operations and the market environment at large in 2000 and culminated in the preparation of a comprehensive report. The FIBV General Meeting of 2001 will pass a resolution on granting full membership.

The BSE has been cooperating with the exchanges in the region – Warsaw, Prague, Bratislava and Ljubljana – for years. Associated through CESI, the exchanges have set up committees with oversight in several issues (IT, membership, issuance, PR & Marketing, derivative markets) to promote closer cooperation. Regular committee meetings offer a forum for exchanging ideas and experiences on an ongoing basis and

for discussing future opportunities for cooperation.

In 1998, the Budapest Stock Exchange acquired associated membership in the International Securities Market Association (ISMA). The guidelines of this association serve as models for the development of the regulations that govern the domestic securities market and for other related legislative moves.

The BSE is a member of Financial Information Services Division/Information Industry Association (FISD/IIA). The main principles and policies of the Association helped the BSE develop its new vendor agreement and the Association has been available ever since for consultation in issues related to vending information.

The number of exchange members kept decreasing in 2000 with a drop from 52 registered members a year before to 42 at December 31, 2000. Two typical processes deserve highlighting from among the events affecting membership: on the one hand, 10 exchange members terminated membership by winding up their investment services business and transferring their customer portfolio to another exchange member, on the other hand, 4 universal banks acquired membership in the Exchange by inheriting the customer portfolio of a broker subsidiary and thereby coming to offer comprehensive investment services to clients. Furthermore, two member firms merged and a new member acquired a seat on the Exchange. In addition, several broker firms transferred its primary government securities dealership function to their parent banks, which in turn acquired the right to trade in the Government Securities Section as a section member without a seat on the Exchange.

The membership related events outlined above had brought the number of members to forty in the Equities section, to twenty-four in the Government

Securities Section and to twenty-nine in the futures market and twenty-seven in the options market of the Derivatives Section by December 31, 2000.

In 2000, the Membership Regulations of the BSE were modified substantially in response first of all to the entry of universal banks as members, and secondly to capital market changes, to the changes in the nature of exchange trading, to amendments to the BSE Charter, to the entry into force of the Code of Trading and to the modifications affecting the Connection Server in the Regulations of the Operation and Use of Remote Trading.

The substantial amendments included changes to the scope of documents to be submitted to the Exchange and the procedure upon corporate actions (merger, de-merger) affecting exchange members, and clarifications have been inserted into the rules governing the registration and administration of traders and assistant traders. Furthermore, modifications have been made to the scope of documents applicants are required to file upon acquiring membership and to the disclosure requirements members are subject to.

As the first step taken towards demutualization, the Exchange calculated the size of the exchange quota held by each of its members as at December 31, 1999, and has developed a mechanism for selling and purchasing exchange quotas by formulating the "Regulations on the Transfer and Registration of Quotas Held in the Exchange". In 2000, thirteen holders of a quota in the Exchange embarked upon an auction procedure, ten of which were completed successfully.

An important membership related event in 2000 involved the adoption by the Exchange Council of the concept of public disclosure of membership data and the publication of a report entitled "Quarterly Balance Sheet and Summary of Exposures", which had been used effectively by members of BVSZ (Association of Investment Businesses).

The Summary of Exposures, including information about 32 member firms, was first published on October 25, 2000, and interested parties have ever since had the opportunity to access the most important business and exposure related information concerning exchange members on a quarterly basis.



## List of Members and Section Members without a Seat (December 31, 2000)

### Members

*ABN AMRO Equities (Hungary) Securities Trading Ltd.*  
*AEGON Hungary Securities Ltd.*  
*Általános Értékforgalmi Bank Ltd.*  
*Biztonság Invest Investment and Security Inc.*  
*BNP Paribas Hungary Bank Co.*  
*Buda-Cash Brokerhouse Ltd.*  
*Budapest Credit and Development Bank Ltd.*  
*Cashline Securities Inc.*  
*CIB Securities Co.*  
*Citibank Investment and Securities (Hungary) Ltd.*  
*Concorde Securities Ltd.*  
*CAIB Securities Ltd.*  
*Credit Suisse First Boston (Budapest) Ltd.*  
*DAEWOO Bank (Hungary) Ltd.*  
*DH Univerzum Broker Co.*

*Dunainvest Stock Brokers Co.*  
*Eastbrokers Investment Bank plc.*  
*ERSTE Bank Investment Hungary Ltd.*  
*Equilor Investment Co.*  
*Equitas Broker Ltd.*  
*Garmond Capital Co.*  
*Generalbroker Securities Co.*  
*Hanwha Capital Budapest Co.*  
*ING Baring Securities (Hungary) Ltd.*  
*IE-New York Broker Investment Ltd.*  
*Investpoint Securities Ltd.*  
*Királybroker Ltd.*  
*K & H Investment Co.*  
*National Bank of Hungary*  
*Microbroker Ltd.*  
*MKB Securities Co.*  
*German Investment Co.*

*Nomura Securities Hungary Ltd.*  
*OTP Securities Ltd.*  
*Postabank Securities Ltd.*  
*QUAESTOR Securities Ltd.*  
*Raiffeisen Securities and Investment Ltd.*  
*SWAP Ltd.*  
*Takarék Broker Ltd.*  
*Westdeutsche Landesbank (Hungaria) Ltd.*  
*Wintrust Securities Ltd.*  
*Wood & Company Ltd.*

### Section Members without a Seat:

*ABN AMRO (Hungary) Bank Ltd.*  
*Citibank Ltd.*  
*Deutsche Bank Ltd.*  
*Kereskedelmi és Hitelbank Ltd.*  
*Postabank and Savings Bank Corporation*

## MMTS I

Equities and debt securities listed on the Budapest Stock Exchange have been traded in an automatic remote trading system which – when introduced – revived the trading technology of the whole Exchange, and has also been the largest single capital expenditure project of the Budapest Stock Exchange. MMTS I, the trading system of the cash market was implemented first to offer full-scale trading services and support to trading firms active in the Equities and Debt Securities Sections of the Exchange. Trading hours are matched to those in London and New York and the trading platform is up and live to accommodate transactions by continuous order matching according to price and time priorities between 10:00 a.m. and 16:30. In addition, participants may place orders in the equity

market before that time each day, which in turn will be processed, matched into trades and published by another algorithm of the system based on equilibrium price at 10:00 a.m. The BSE publishes each equilibrium price as the opening price of the corresponding equity.

Also, the system supports trading in a market maker system; this function is exploited by specialist section members in the Debt Securities Section of the BSE who ensure a liquid market for the securities by maintaining continuous quotes for government securities and a few corporate bonds during periods of the trading day announced in advance.

MMTS I also includes primary auction module used by the Government Debt Management Agency Ltd. for many years to issue government securities to the

primary market. This module also allows parties to sell share packages of larger value in the Equities Section under the rules provided in the Code of Trading.

To accommodate surveillance functions, the trading system offers a somewhat different user interface from that appearing on Trader Workplaces and grants different permissions for information access for Exchange users to act as a speaker or to monitor the market. In order to keep ensure compliance in trading and to avoid any violation of investor interests, a Market Surveillance Terminal of the system is also active at the Hungarian Financial Supervisory Authority and allows the specialized members of that organization to monitor the market in real time mode during trading hours.

## MMTS II

With due consideration to the requirements of market participants and international tendencies, MMTS II, a system of trading in derivatives modeled to replicate the specialized equity and governments securities market functions of MMTS I, was launched in October 2000 and crowned the MMTS project, which spanned almost 4 years at the BSE.

With MMTS II in place, the Exchange could consistently apply a more secure and more controlled trading technique in the futures and options markets as well. Furthermore, new technical solutions of trading in derivatives have also been added, including Request for Quote, advanced market maker functions, spread trading (synthetic orders and direct use of spread orders), real time position management and customer and house account level position monitoring, functions developed to manage risks such as the "Close out" sta-

tus and the feature by which order rules are configured at instrument level, each of which support higher transparency and flexibility in trading.

Trading hours in the futures and options markets match those in the cash market to allow the two activities to run concurrently. In these two markets, trading on equilibrium price also precedes the free period of trading, which starts at 10 a.m., by which time the system has generated an opening price from the orders queued in the system and the algorithm uses that price to match trades. Section members may apply the same technique to enter a closing session in the futures and options markets once trading in the cash market has closed.

Real time and continuous data transfer between the BSE and KELER enables the derivatives market to continue trading without suspension when a firm

fails to have proper margins, as it is sufficient to modify the trading permissions of the firm that suffers from the shortage of funds.

MMTS (I and II) has technical features that withstand international comparison. One of the most important system features is its robustness, meaning there are at least two copies or sometimes even more of each software and hardware component of the system. Whenever an error occurs the system automatically switches to the components that function correctly. Another advantage involved scalability: if the number of users increases (by even a factor of five), only new hardware components need to be purchased. And last but not least, system speed deserves attention as MMTS is capable of processing incoming orders at 50-450 transactions/second.

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 functions of physical delivery of securities and the financial settlement of securities transactions.

## The Clearing and Settlement of Cash Transactions

The method of clearing and settlement of cash transactions at the BSE is DVP using multilateral netting on a rolling basis

- *with a settlement cycle of T+5 days for securities in the equities section (T being transaction day). This type of settlement is exclusive to the members of the Exchange. The securities leg of multi-net clearing has been separated into two classes – house and customer – when the first dematerialized security was listed in the equities section, which triggered mandatory segregation as a result of in response to the mandatory segregation;*
- *with a shorter settlement cycle of T+2 days for securities featuring in the government securities section, relying on a two-tier clearing system which is independent from Exchange membership (with General and Individual Clearing Members). An automatic government securities lending system and the system of trade elimination.*

In order to support the security of settling the transactions on the Exchange, KELER operates a multi-tier system of guarantees, including:

- *collective guarantee funds (Exchange Settlement Fund and Government Securities Exchange Settlement Fund) – to which members have to effect payment each week based on the average weekly turnover during the most recent period of 10 or 4 weeks, respectively;*
- *the system of individual cover, which requires members to generate a daily margin to be used as cover, which is calculated on the basis of the net position on day T+1.*

Negotiated deals and auction transactions are separated from the remainder of exchange trades and are settled DVP on a gross basis.

In 2000 the automatic and triparty securities lending system was introduced for all securities and the first physical security was converted into its dematerialized counterpart.

## The Clearing and Settlement of Standardized Futures Transactions

KELER is responsible for settling the futures and – since February – the options transactions concluded on the BSE. Except for products with a single underlying share, which are settled by physical delivery, all other contracts traded on the BSE call for cash settlement. In order to ensure the security of futures trans-

actions, KELER operates a unique system of guarantees also in this market.

The major component of the system is KELER's performance guarantee for derivative transactions.

The additional elements of the guarantee system include

- *initial margin,*
- *financial collateral and*
- *the collective guarantee fund.*

A complex margining system (SPAN) is operated to support the trade in futures and options. Also, a sophisticated system of clearing membership capable of supporting the derivative markets and with functions to calculate and monitor capital based and market based position limits has been launched.

The new clearing system, which is also capable of intraday position monitoring, was started in November 2000. At the same time, the method of keeping track of and evaluating positions also changed: the new system, which adds flexibility to clearing house services to market participants, has capabilities to manage covered positions.

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 secure the system of clearing and settlement is in both markets.

It was in 1999 that the Budapest Stock Exchange thought that the time had come for it to become a market that charges fees. The BSE wished to set up a vendor datafeed function that matches international standards and fulfils investor expectations in data content and relies on high quality technical background.

The favorable developments justified expectations. In 2000, the BSE had as many as 23 vendors, including 10 with contracts for providing data real-time. Income for the Exchange from datafeed service to vendors almost tripled in 2000 in contrast with the year before.

It is a great honor for the BSE that the Financial Information Services Division (FISD), the international organization of vendors, exchanges and institutional investors recognized the BSE Vendor Agreement and one of the most transparent contracts of this kind.

The Exchange intends to keep widening the scope of data delivered to its vendors by bringing the technical infrastructure of the service in line with modern technological requirements at the same time.

#### **Hungarian Vendors of the BSE: real-time data**

*Fornax Rt. (best five price level)*

*MTI-ECO Kft. (best price level)*

*Net Média Rt. (best price level)*

*Teledatacast Kft. (best five price level)*

#### **delayed data**

*Concorde Direct Internet Bróker Kft.*

*Duna TV*

*econet.hu Informatikai Rt.*

*Internet Securities Magyarország Kft.*

*MTM-SBS Televízió Rt.*

*Pannon GSM Telekommunikációs Rt.*

*Westel Mobil Távközlési Rt.*

#### **International Vendors of the BSE:**

##### **real-time data**

*Bloomberg LP. (best five price level)*

*Bridge Information Systems International Inc.  
(best five price level)*

*ILX Systems, a division of Thomson Information  
Services Inc. (best price level)*

*Primark Data Company (best five price level)*

*Reuters Ltd. (best five price level)*

*Telekurs Finanzinformationen AG (best price level)*

##### **delayed data**

*Brunswick Direct, secondary name to E. Öhmann J.:  
or Fondkommission AB*

*Bluebull AG*

*Dow Jones Reuters Business Interactive Ltd. Reg.*

*ecetra Central European e-Finance AG*

*UBS AG London Branch acting it's business group*

*UBS Warburg*

##### **end-of-day data**

*Exshare Financial Ltd.*



### Equities Market

The year 2000 started off with a substantial rise in market prices triggered by the optimistic sentiment in foreign markets – and mainly by the swelling balloon in the US technology sector. Although price increases had started back in December 1999, they reached full momentum in the first months of the new year.

The boom drove the BUX index break a series of historical records up until March 10 when it reached 10,471.91 points. That brought a turnaround in the marketplace as the trend started to reverse and the remainder of the year was characterized by falling prices and a few minor adjustments. The index hit rock bottom on December 1, when it had fallen to 6,684.74 points by the end of the day. The gradual decline was the market response to the sharp fall in international technology stock prices as well as to the growing uncertainty and diminishing bullish sentiment among investors in the wake of government measures that were not completely market-friendly.

Total turnover in the equities market (including shares, corporate bonds, investment notes and compensation coupons) was HUF 3469 billion, which is identical to that in 1999, with share transactions making up 99 per cent leaving a marginal share for all other instruments. The turnover of HUF 3417 billion in shares corresponds to roughly 25% of GDP, which was slightly higher in 1999 (0.42%) or HUF 3431 billion in absolute terms.

Daily market turnover was HUF 13.6 billion in 2000. The peak in daily turnover came on October 18, 2000, when the market turned around HUF 32.1 billion. The bare minimum was HUF 2.7 billion on August 21, 2000.

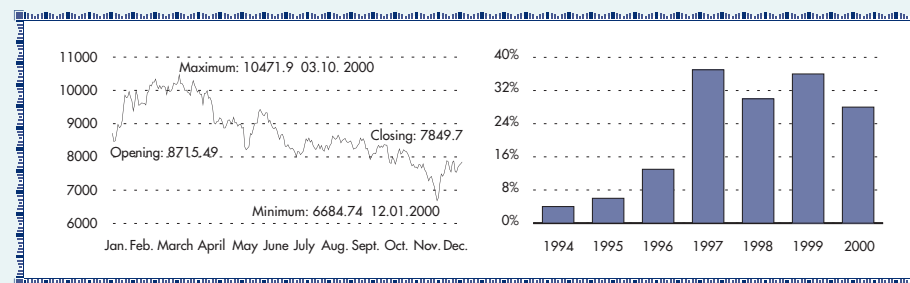
The number of trades came to 1,612,482, which was 10 per cent higher than in 1999. Transaction size averaged at HUF 2.12 million in contrast with HUF 2.35 million a year earlier. The reduction was owing mainly to foreign investors refraining from purchases and their willingness to go only for transactions of smaller volume.

There was a significant modification in the structure of turnover. MOL, the security that led the market in 1999 ended up as runner up behind MATÁV, with the

market share of the latter rising from 14 per cent to 26 per cent. OTP shares retained third position. The concentration of turnover was slightly lower, the six equities with the largest turnover represented 82.5% of total volume in contrast with 86% a year before. Most of the reduction came in the last quarter when there was a substantial reduction in interest in the major chemical industry stocks (TVK, Borsodchem) as the earlier take-over battle phased out.

Equity market capitalization trends correlated closely with market price changes. There was a single new listing throughout the year (Graphisoft) and the quantity of the newcomer compensated for the loss of capitalization resulting from the removal of a number of smaller companies from the trading list. Falling market prices are seen as the major reason behind the 8% drop in capitalization expressed as a percentage of the GDP from the year before.

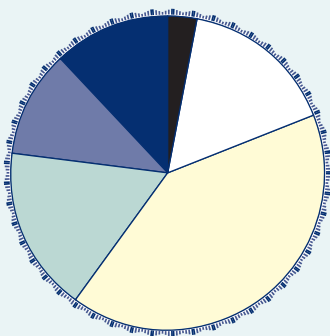
**BUX index and BSE Equity Market Capitalization as a Percentage of GDP**



### Government Securities Market

The relocation of trade in government securities to the OTC market has continued. Government bonds represented HUF 634 million worth of exchange turnover, which was way short of HUF 3,254 billion in 1999. Treasury bills were traded at HUF 153 billion, which is also very much lower than what the figure was a year before (HUF 1,279 billion).

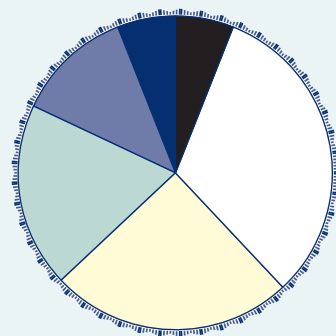
The rate as of 29.12.2000. was: 284.73 HUF/USD



Volume Distribution of the Six Shares with the Largest Turnover

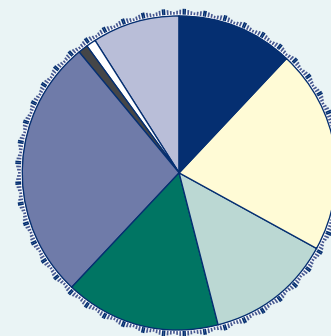
in 1999

- 3% BorsodChem
- 16% Matáv
- 41% MOL
- 17% OTP
- 11% Richter
- 12% TVK



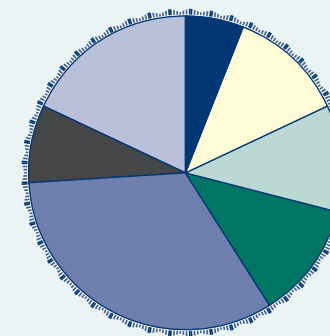
in 2000

- 6% BorsodChem
- 32% Matáv
- 25% MOL
- 19% OTP
- 12% Richter
- 6% TVK



Division of Turnover by Sector, 2000

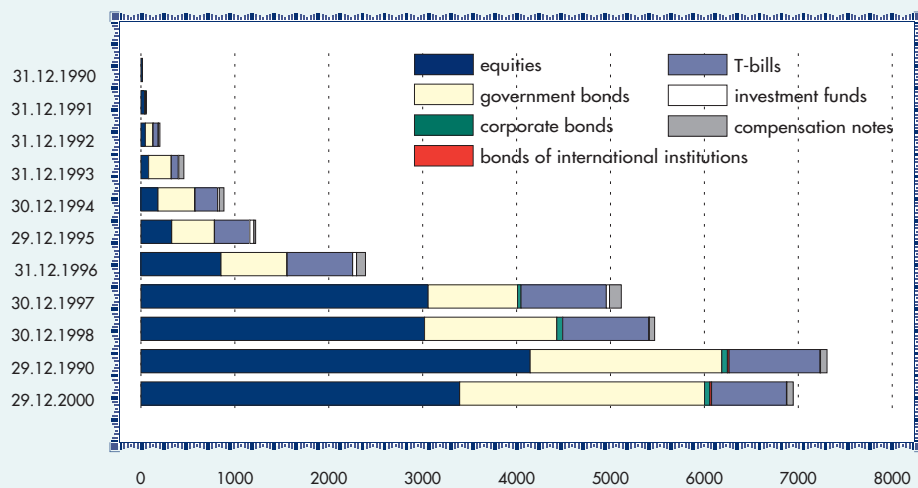
- 12% Chemicals
- 21% Oil processing
- 13% Banks
- 16% Pharmaceutical
- 27% Telecom
- 1% Power Supply
- 1% Computer Technique
- 9% Others



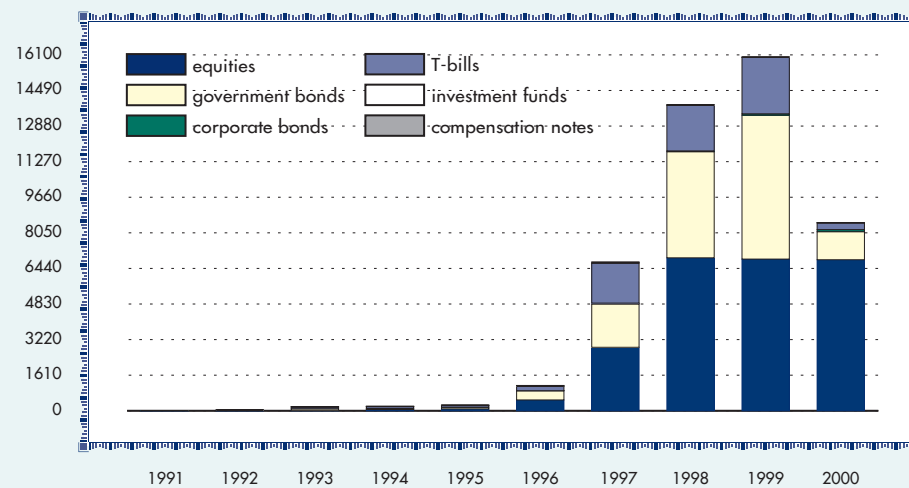
Division of Capitalization by Sector, 2000

- 6% Chemicals
- 12% Oil processing
- 12% Banks
- 11% Pharmaceutical
- 33% Telecom
- 8% Power Supply
- 0% Computer Technique
- 18% Others

Capitalization of the BSE (HUF bn)



Cash Turnover of the BSE (HUF bn)





## Main Figures of the Budapest Stock Exchange (31 December 1990 – 29 December 2000)

	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.
<b>Number of BSE members</b>	42	48	48	47	51	56	57	63	60	52	42
Brokerage firms	21	31	41	46	50	55	56	62	59	51	36
Banks	21	17	7	1	1	1	1	1	1	1	6
<b>Number of securities admitted to the BSE</b>	6	22	40	62	120	166	167	149	144	135	112
equities	6	20	23	28	40	42	45	49	55	66	60
government bonds		1	4	16	25	34	36	28	30	30	29
corporate bonds		1	1	1	3	3	2	7	8	8	7
bonds of international institutions										2	2
T-bills			10	10	31	50	50	44	42	23	10
investment funds			1	6	20	36	33	20	8	5	3
compensation notes			1	1	1	1	1	1	1	1	1
<b>Securities admitted to the BSE at nominal value (HUFbn)</b>	6.1	33.3	189.9	441.8	856.3	1,217.8	1,833.6	2,467.1	3,020.4	3,894.6	4,276.1
equities	6.1	18.2	28.8	38.3	79.8	211.7	286.1	398.2	526.3	670.9	653.1
government bonds		15.0	80.0	237.0	374.2	418.4	616.2	903.5	1,328.1	1,988.6	2,570.9
corporate bonds		0.1	0.1	0.3	1.6	1.6	1.2	37.0	51.0	59.3	56.1
bonds of international institutions										17.5	17.5
T-bills			59.3	76.9	256.6	413.5	750.1	961.7	967.1	1,012.0	833.0
investment funds			1.7	9.0	23.8	43.0	40.4	27.0	8.2	6.5	5.9
compensation notes			20.0	80.3	120.3	129.7	139.7	139.7	139.7	139.7	139.7
<b>Total capitalization of the BSE in % of GDP</b>					20.40%	22.32%	36.06%	61.29%	53.71%	68.26%*	57.80%*
<b>Equities capitalization of the BSE in % of GDP</b>					4.19%	5.99%	12.86%	36.64%	29.65%	38.72%*	28.25%*
<b>Capitalization on the BSE (HUFbn)</b>	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
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
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
corporate bonds		0.1	0.1	0.3	1.8	1.7	1.3	37.1	63.1	59.7	56.4
bonds of international institutions										18.4	18.4
T-bills			54.4	74.0	239.6	376.3	697.2	908.4	917.4	968.4	797.3
investment funds			1.9	5.5	19.3	42.8	41.6	33.8	5.7	5.0	4.6
compensation notes			16.0	53.8	48.7	18.7	95.0	125.7	55.7	69.2	67.1

\*Preliminary

The rate as of 29.12.2000. was: 284.73 HUF/USD

### Turnover of the Budapest Stock Exchange (December 1990 – December 2000)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Cash turnover at market value (HUFbn, double counted)	6.12	10.11	33.67	185.69	211.23	253.18	1,145.44	6,736.31	13,847.33	16,005.83	8,513.27
equities	6.12	9.81	6.01	18.26	57.11	87.27	490.53	2,872.71	6,920.71	6,862.66	6,834.08
government bonds		0.30	12.36	73.38	53.89	77.16	418.21	1,959.44	4,800.16	6,508.59	1,268.13
corporate bonds		0.00	0.00	0.00	0.01	0.05	0.57	39.13	35.77	64.06	95.34
bonds of international institution										6.47	2.04
T-bills			15.06	85.00	81.22	81.11	206.33	1,817.74	2,070.70	2,558.56	306.52
investment funds			0.03	0.10	0.26	3.43	8.88	2.33	1.64	0.93	1.14
compensation notes			0.21	8.95	18.74	4.16	20.93	44.97	18.35	4.56	6.02
<b>Number of transactions</b>	<b>4,255</b>	<b>13,676</b>	<b>8,145</b>	<b>21,185</b>	<b>70,744</b>	<b>71,240</b>	<b>170,956</b>	<b>504,879</b>	<b>1,026,646</b>	<b>1,474,083</b>	<b>1,627,033</b>
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
government bonds		31	875	693	715	418	910	2,210	3,946	3,158	2,385
corporate bonds		8	4	3	9	12	3	192	200	650	765
bonds of international institution										28	17
T-bills			392	866	1,062	1,412	1,022	3,031	2,522	1,873	547
investment funds			76	612	981	2,265	2,128	1,597	790	1,106	2,855
compensation notes			83	4,728	10,123	6,282	12,956	19,613	7,674	5,786	7,982
<b>Average daily number of transactions</b>	<b>24</b>	<b>54</b>	<b>32</b>	<b>84</b>	<b>281</b>	<b>286</b>	<b>689</b>	<b>2,044</b>	<b>4,140</b>	<b>5,896</b>	<b>6,482</b>
<b>Average daily turnover (HUFm)</b>	<b>33.8</b>	<b>40.1</b>	<b>133.6</b>	<b>736.9</b>	<b>838.2</b>	<b>1,016.8</b>	<b>4,618.7</b>	<b>27,272.5</b>	<b>55,836.0</b>	<b>64,023.3</b>	<b>33,917.4</b>
<b>Turnover/transaction (HUFm)</b>	<b>1.4</b>	<b>0.7</b>	<b>4.1</b>	<b>8.8</b>	<b>3.0</b>	<b>3.6</b>	<b>6.7</b>	<b>13.3</b>	<b>13.5</b>	<b>10.9</b>	<b>5.2</b>
<b>Number of working days</b>	<b>181</b>	<b>252</b>	<b>252</b>	<b>252</b>	<b>252</b>	<b>249</b>	<b>248</b>	<b>247</b>	<b>248</b>	<b>250</b>	<b>251</b>
<b>Futures turnover at market value (HUFbn, single)</b>						1995. Apr.-Dec.	1996	1997	1998	1999	2000
T-bills						10.16	190.94	1,415.97	2,934.47	1,289.30	1,353.71
BUX						0.53	49.15	1,004.17	1,782.36	1,118.97	882.13
Currencies						3.72	111.61	336.84	973.96	22.76	28.54
Shares									51.34	135.26	441.18
Interest rates							0.95	1.64	7.65	12.31	1.87
<b>Number of transactions</b>						1,444	19,444	87,011	148,013	168,009	191,712

The rate as of 29.12.2000. was: 284.73 HUF/USD

Calculated at market value, turnover in the futures market of the Budapest Stock Exchange came to HUF 1,354 billion in 2000, which corresponds to a 5 per cent increase on turnover in 1999. 1.48 million contract were traded in 192 thousand transactions in contrast with the turnover of 1.85 million contracts in 168 thousand trades in 1999. The figures reveal an increase of 14 per cent in the number of trades and a corresponding drop of 20 per cent in the number of contracts traded.

The reduction of the number of traded contracts originates in a major shift in the structure of turnover in the futures market. Although trading in BUX is still a clear leader with a 65% share of total turnover in futures, the ratio of products with a single underlying equity has increased heavily. In contrast with share slightly over 10% of total futures market turnover in 1999, equity futures represented close to 33% of the total in 2000. The change in the share of turnover of foreign exchange and interest futures is insignificant.

Liquidity concentration was clearly visible in 2000. December was the most liquid month with turnover at HUF 173 billion, whilst the market was on summer vacation when activities hit the lowest point July with turnover calculated at market value remaining below HUF 64 billion. In contrast, December 1999 – also the most liquid month that year – brought HUF 165 billion worth of turnover, with the other extreme – August – down to a minimum of HUF 75 billion.

The concentration of market participants continued, as there were only 29 members of the Derivatives section in late 2000, which is 4 fewer than at December 31, 1999.

### **BUX Futures contract – concentrating market**

The futures contract with the official stock index of the Exchange as its underlying, BUX futures remained the most popular product of the BSE derivatives market. A total of 938 thousand contracts were traded throughout the year, including 882 thousand contracts (94%) maturing in December 2000, the most liquid maturity. An additional 5% of the turnover occurred in the December 2001 maturity, which turned active at the end of the year as the former December maturity ex-

pired. There is a growing tendency that contracts with a single underlying stock take a bigger share of total turnover and divert trading away from BUX contracts – as the former are easier to cover. Turnover in 2000 was down substantially from 1.59 million traded contracts recorded for 1999. Trading was most active in January with 128 thousand contracts turned over, but average monthly turnover had dropped to below 50 thousand contracts by the end of the year.

Peaking above 41 thousand contracts, open interest had fallen to under 14 thousand contracts by late 2000. In addition to the expiry of the December 2000 maturity, the tendency was to a limited degree due to the modification of the KELER system of clearing futures (new position accounting) and the conversion to real-time risk management.

Market makers took on a role in managing the trade in the BUX futures maturing in December 2000, December 2001 and the shortest, one-month maturity, and hence made their contribution to maintaining a liquid market.

**Changes in Futures Turnover (HUF bn)**

Products:	1999	2000	Rate of growth (%)
BUX	1 119.0	882.1	21.17%
Equities	135.3	441.2	226.09%
Currencies	22.8	28.5	25.00%
Interest Rates	12.3	1.8	-85.37%
Total	1 289.3	1 353.7	4.99%

### **Successful futures contracts with a single underlying share**

2000 was a truly successful year for products with a single underlying share. Turnover in equity futures rose from 182 thousand contracts in 1999 to 430 thousand contracts. The distribution turnover across the year was even, expecting December, although there were wild swings from month to month. In December alone, 87

thousand contracts were traded. July happened to be the poorest month, when the number of traded contracts fell below 16 thousand. Open interest staggered around a mere 7 thousand early in the year to jump above 23 thousand as the year closed.

In terms of contracts traded, MOL was a clear leader with 181 thousand contracts, which represented 42% of the total turnover in equity futures. The runner up behind MOL was MATÁV with 36%, followed by OTP with 9%. In terms of market value, the difference in contract size propelled MATÁV to the leading position with 54%, with MOL taking a share of 20% and OTP grabbing 13% of total turnover.

An analysis of open interest at the end of 2000 shows places MATÁV first (9362 contracts, representing slightly more than 41% of open interest total). MOL was second with 7133 contracts worth of open interest, followed by OTP with 3102 contracts.

A look at maturity months shows far lower concentration of turnover than in the market of the BUX index. Even the most actively traded contract (51,084 contracts in the June 2000 maturity of MOL) made up only 28% of the total trade in MOL futures.

One of the reasons of the success of products with a single underlying share must have been physical delivery used as the method of settlement starting the December 1999 maturity (in contrast with the earlier cash settlement), which reduced the risk market participants associated with settlement price at maturity and cash settlement.

In equity futures, market makers participated in quoting the nearest maturity of MOL.

#### Foreign exchange contracts – on the rise but turnover is still relatively low

Although the number of contracts traded in the market of foreign exchange futures increased by more than 40 thousand contracts or above 63%, it was still short of to-

tal turnover in 1998, which was fivefold. The high yielding basket transactions, which had fuelled liquidity in the market of foreign exchange futures up until 1998, have disappeared and turnover has stabilized at a substantially lower level ever since.

Transactions against the US dollar made up 73% of the market value of trades in foreign exchange futures, while Euro deals represented 21%. Trading in other currencies was insignificant. The share of Swiss francs was 4%, whilst GDP took 2% of the total turnover of HUF 28.5 billion, calculated at market value.

At around 18 thousand contracts when the year started, open interest rose above 25 thousand contracts in the course of the year, only to fall to slightly above 3500 contracts by the end of the year.

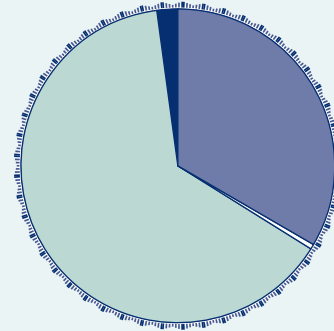
#### Interest based products – subdued performance

No turnover changes of real significance have occurred in this smallest segment of the Exchange futures market: it kept falling in 2000 with only a total of 1800 contracts traded.

All this seems to prove that BUBOR and discounted Treasury bill based futures are not suitable any more for meeting investor requirements as capital and money market circumstances have changed. Not unlike in 1999, there was not a single trade in any of these contracts.

The only contract that showed some appreciable turnover in the interest-linked market was the 3 year Hungarian government bond, which was also owing to the market makers responsible certain maturity months. The future success of the contract depends – among other factors – on favorable changes in the legal and regulatory environment.

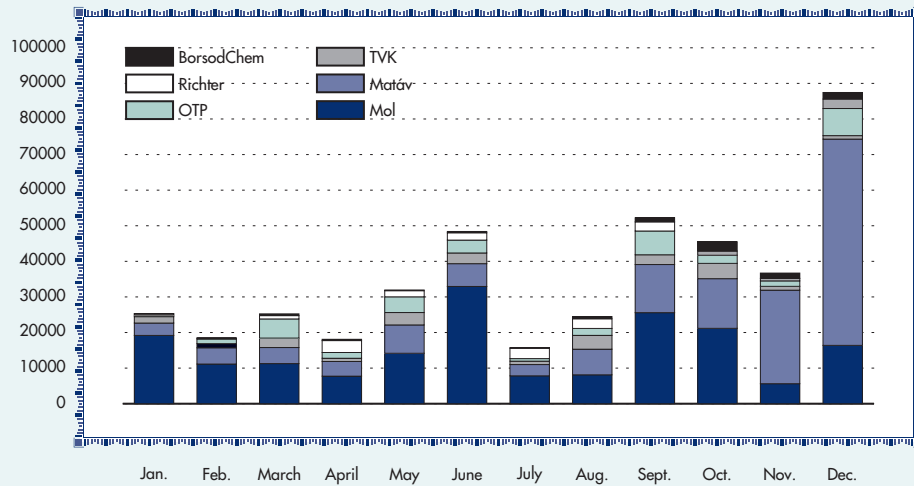
The rate as of 29.12.2000. was: 284.73 HUF/USD



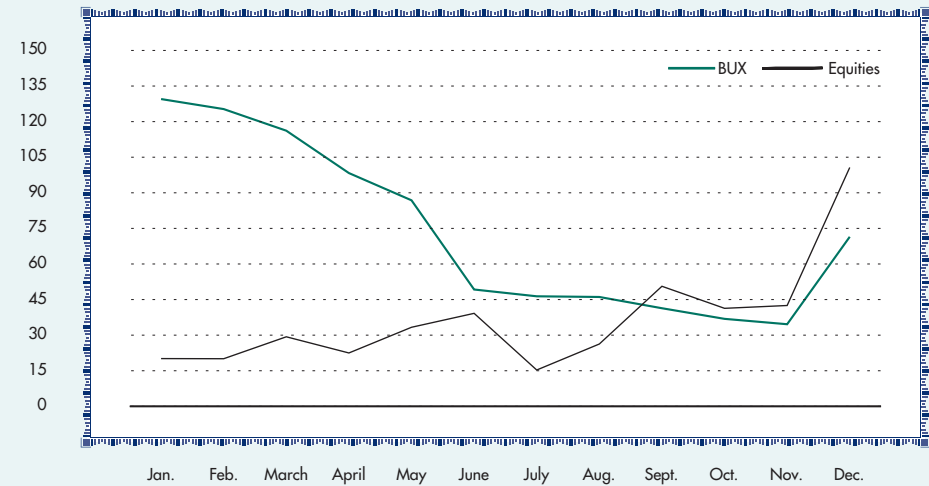
Turnover Ratios by Product Groups, 2000

- 2.1% Currencies
- 0.1% Interest rates
- 32.6% Shares
- 65.2% BUX

Monthly Breakdown of 2000 Turnover in Equities Futures (contracts)



2000 Turnover of the BUX and Equities Contracts (HUF bn)



Trading in standardized options products in the Derivatives Section of the Budapest Stock Exchange started on February 18, 2000. Trading started in European type BUX based index options and in 3 American type stock options with a single underlying (MATÁV, MOL, OTP).

A total of 9747 contracts had been traded before the end of 2000, including 8516 contracts in BUX index options and 1231 contracts in options with a single underlying stock. The year was fairly balanced in terms of open interest, which fluctuated on average around 300 contracts, which – normally – dropped below 100 contracts as positions were closed at year end.

The distribution of turnover by time was rather varied, most of the activity occurred in the June maturity where 1994 contracts were traded and the lowest turnover was recorded in December, when the number of traded contracts was only 38. An analysis of the distribution of trade across options maturing at different dates shows a clear preference for the nearest dates.

Market makers are active in certain strikes of BUX, MOL and MATÁV contracts.

### Development, Training, Marketing

The early part of the year was characterized by feverish market and product development activities, mainly with a focus on preparing the launch of the options market.

The lecture series entitled "Derivative Nights" and a conference invited market participants to become familiar with the opportunities presented by options contracts, which were complemented by publications (shorter leaflets and longer booklets with deeper and more professional information) to introduce new products. Attendees received responses to queries about options, settlement and tax treatment in a training course comprising two lectures in November.

The marketing materials prepared by the BSE were extremely successful at the FOW 2000 Conference held in London, the "options game of dice", for instance, was awarded a prize for being "The Most Spectacular Exhibit".

The rate as of 29.12.2000. was: 284.73 HUF/USD

### The Stock Index of the Budapest Stock Exchange

Founded in 1990, the Budapest Stock Exchange considered it necessary to create the proprietary index of the Exchange in the first year of operating to offer better and easy-to-understand information to investors. The immediate objective was to create a ratio the value of which would change to reflect actual market circumstances as well as the degree and size of prevailing price movements. The Budapest Stock Exchange has been calculating and publishing its stock index since 1991. The official name of the index is Budapest Stock Index (BUX).

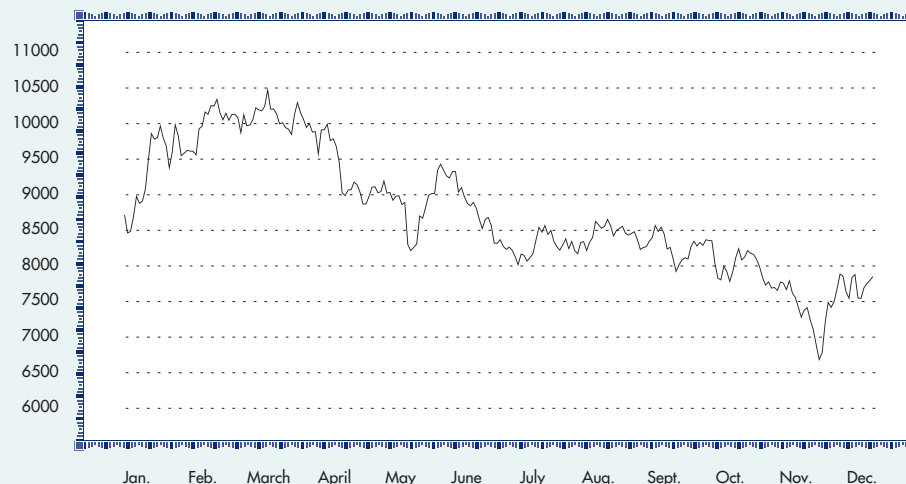
The basis of the index is 1000 points reflecting its status on January 2, 1991. The index took its final shape on January 1, 1995 and became the official stock index of the BSE. At the outset, the index was calculated on the basis of the daily average market price of eq-

uities in the BUX basket but since the BSE started to calculate the index at every five seconds on April 1, 1997, the value of BUX has been calculated using daily closing prices. An index committee appointed by the Exchange Council has the power to propose the composition of the basket and any modifications in line with the provisions of the

Budapest Stock Index (BUX) Manual. The basket is reviewed twice a year (on March 1 and September 1). BUX belongs to the group of capital value type indices, i.e. the weight of equities in the index is fundamentally determined by the size (exchange capitalization) of the issuing company. A resolution by the Exchange Council in May 1999 made the

system a little more sophisticated. The capitalization of the equities included in the BUX basket was adjusted with the public ownership ratio (established according to the most recent publication of verified shareholders) for the first time when the basket was reviewed in October 1999 and the method has been in use ever since. The BSE includes all stock in the public ownership ratio other than stock held by the company, its senior officers or employees, public sector agencies, international development institutions or by investors holding a package of more than 5 per cent. In order to avoid extreme influence by a change in the market price of a single equity on the value of the index, the BSE is endeavoring to limit the weight of individual series in the basket. As of the October 1999 review, relatively simple algorithm designed to reduce the ratio of papers with extreme weight has been used to calculate the proportions of bas-

**Values of the BUX index (January 2000 – December 2000)**



ket equities to each other using the percentage relationship of the capitalization of each equity after adjustment with the public ownership ratio.

A maximum of 25 equities may be included in the index basket on the basis of specific criteria. Stock series making up the index basket must comply with at least 5 out of 7 ratios (the owner's equity in the latest financial report published before review date, the market

value of the series, turnover expressed as the number of trades and in terms of traded value, velocity of turnover, number of cross trades and number of days when the series traded). Only equity series that have been traded on the BSE for at least three weeks are eligible for inclusion in the basket.

Under an Exchange Council resolution, the BUX basket contained the following 20 stock series as of October 2000:

Antenna, BorsodChem, Danubius, Dé-mász, Egis, Fotex, Graboplast, Matáv, Mezőgép, MOL, Nabi, OTP, Pannoplast, Pick, Primagáz, Rába, Richter, Synergon, TVK, Zalakerámia.

**Members of the BUX Committee:**

*Ms. Ildikó Fecser*

*Budapest Stock Exchange*

*Mr. András Huszár*

*Investel Ltd.*

*Mr. Attila Kovács*

*CA-IB Securities Ltd.*

*Mr. Gábor Marosi*

*Takarék Broker Ltd.*

*Mr. Ferenc Forgó*

*Európa Alapkezelő Ltd.*

*Mr. Zoltán Mester*

*Coldwell Ltd.*

*Mr. László Szabó*

*Concorde Securities Ltd.*

*dr. Imre Réthy*

*Bankár Holding Ltd.*



### Central European Stock Index

With foreign investors, mutual and pension funds entering the market and showing increasing interest, equities have shown tremendous expansion in terms of turnover and market price in Central European exchanges since late 1993. These changes have been reflected by the movements of the indices of individual exchanges, which have moved along very similar trends in recent years. Foreign investors started to treat the exchanges in the region as a unified regional market of Central Europe. Motivated by the above, the Budapest Stock Exchange decided that in addition to the indices published by the individual exchanges of their own markets it should calculate and publish its Central European Stock Index (CESI) based on the securities markets in the region and to reflect general movements of price there. The Budapest Stock Exchange first published CESI officially on February 1, 1996 and initially the index basket included specif-

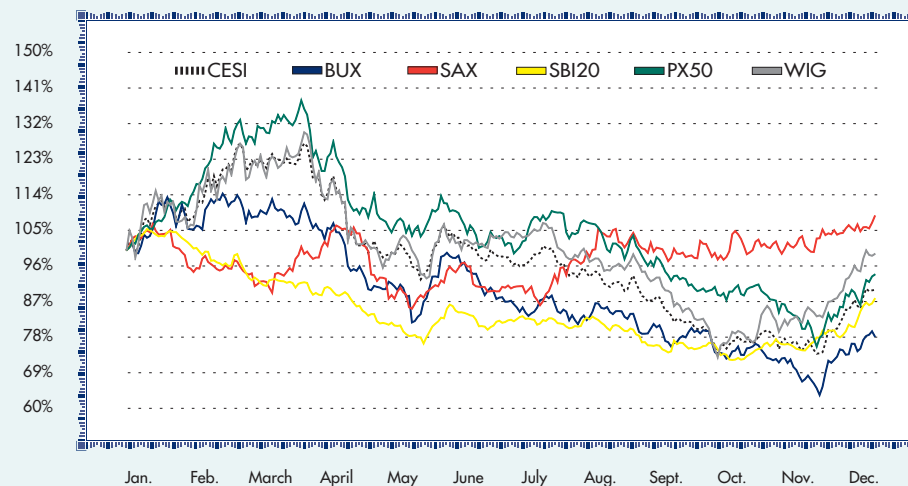
ic equities selected – according to certain criteria – from the official equities markets of only three Central European stock exchanges (Budapest, Prague and Warsaw). On October 31, 1996 the index was expanded to include corporations selected from the Ljubljana and the Bratislava exchanges.

CESI is a USD based equity index weighted with capitalization, with a basis of 1,000 points on June 30, 1995.

(The BSE calculated the historical values of CESI to that date retrospectively.) The CESI basket may only include companies which are listed in an official category of one of the exchanges (Budapest, Ljubljana, Bratislava, Prague, Warsaw), which show the largest capitalization and liquidity and whose stock is available for purchase by foreign investors. Unlike with BUX, the effect of dividend payment is not tak-

en into account when CESI is calculated. As CESI is a USD based index, the market prices of basket equities expressed in the currency of the participant country are converted into USD at the buying rate published by Reuters (at 4.00 p.m.) on the particular day. The calculation of the index uses daily average market prices for Budapest, Ljubljana and Bratislava and the daily fixing rate for Warsaw. The only exception is the continuous market at the Prague exchange, which supplies closing prices for the index. The basket is modified twice a year on April 30 and October 31. If the review is automatic – i.e. it obviously follows from a provision of the manual – the modifications are approved by the Chief Executive Officer of the BSE on the basis of a recommendation by the CESI committee made up of the representatives of the affected exchanges. In other cases, the approval of the BSE Exchange Council is required. Reviews must be performed in respect of the status as at a month

**Values of the indices in Central Europe and the CESI index in 2000**



before modification (March 31 and September 30). The basket weight of each national market is determined by how the total capitalization of the markets relate to each other at that date. The total share of no equities from a single country may be higher than 50% of the combined capital value of the basket but – in order to ensure the representative nature of CESI – the equities from a particular national market taken together must represent at least 60% of the capitalization of their official marketplace. All basket equities must take a share of at least one per cent from the turnover in the respective equities markets during the six month before basket review. Filling the quota of a market starts with the equities with the highest capitalization, but the weight of no equity series in the basket may exceed 12%.

The index basket includes 48 equities after the review in October 2000.

**Budapest** (5): Egis, Matáv, MOL, OTP, Richter Gedeon. **Ljubljana** (8): Krka

Novo Mesto, LEK Ljubljana, Luka Koper, Mercator Ljubljana, Petrol Ljubljana, Sava Kranj, Pivovarna Lasko, Pivovarna Union. **Bratislava** (3): NAFTA, Slovakofarma, Slovnaft. **Prague** (4): CEZ, C. Radiokomunikace, Cesky Telekom, Unipetrol. **Warsaw** (28): Agora, BRE, BSK, Budimex, Comarch, Computerland, Debica, Efl, Elektrim, Exbud, Handlowy, KGHM, Kable Holding, Kogeneracja, Mostostal Export, Mostostal

Zabrze, Orbis, Optimus, PBK, PKN Orlen, Prokom, Pekao, Softbank, Swiecie, Stalexport, Stomil Olsztyn, TPSA, WBK.

**Members of the CESI Committee:**

*Ms. Ildikó Fecser*  
 Director of Business Development Department, Budapest Stock Exchange  
*Mr. Arkadiusz Szymanek*  
 Deputy Director of Information and Marketing Department, Warsaw Stock Exchange

*Mr. Jiri Opletal*  
 Director and Deputy Secretar General, Prague Stock Exchange

*Mr. Darko Torkar*  
 Advisor to the Management, Ljubljana Stock Exchange

*Ms. Olga Dlugopolska*  
 Head of Trading and Analysis Department, Bratislava Stock Exchange

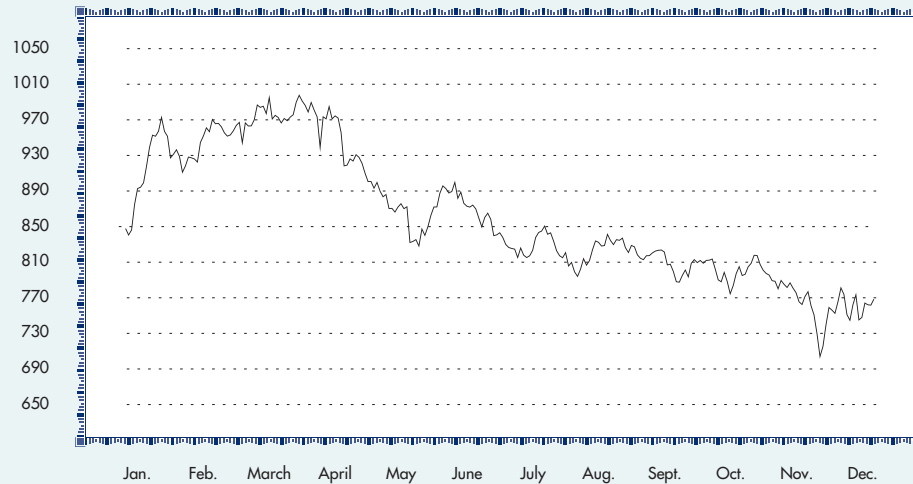
**The CESI basket**

MARKET as of 29 September 2000	No. of Co. in*		Capitalization		Market/	CESI/	CESI/
	CESI basket	Total	Total	CESI	Market Total	CESI Total	Total
			USD	USD	%	%	%
BUDAPEST	5	61	12,267,699,258	7,901,938,755	26.38%	26.54%	64.41%
BRATISLAVA	3	7	383,373,200	316,656,117	0.82%	1.06%	82.60%
LJUBLJANA	8	34	1,984,145,299	1,283,988,186	4.27%	4.31%	64.71%
PRAGUE	4	63	9,629,517,864	6,097,070,619	20.71%	20.48%	63.32%
WARSAW	28	208	22,232,854,585	14,176,465,708	47.82%	47.61%	63.76%
TOTAL:	48	373	46,497,590,206	29,776,119,385	100.00%	100%	64.04%

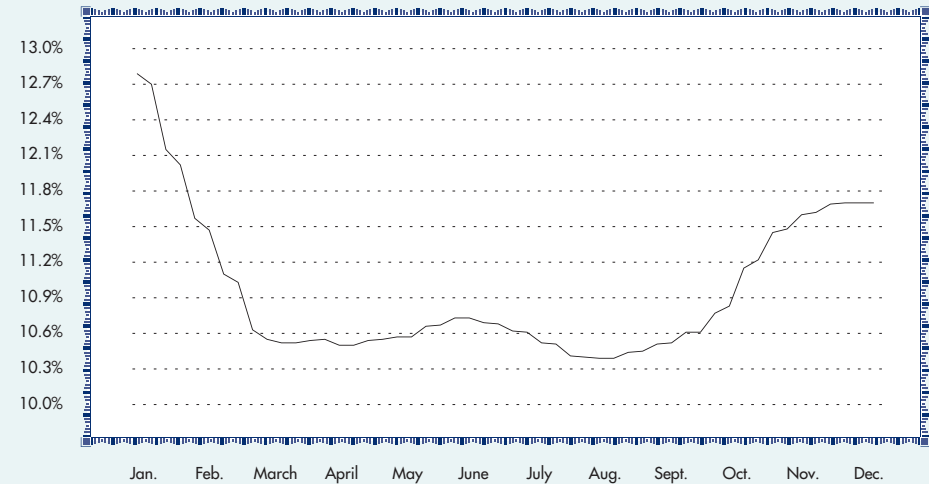
\*only companies listed in official exchange categories

The rate as of 29.12.2000. was: 284.73 HUF/USD

**Values of the RAX index (January 2000 – December 2000)**



**Values of the DWIX index (January 2000 – December 2000)**



**BAMOSZ Equity Investment Fund Portfolio Index (RAX)**

The objective in setting up the BAMOSZ Equity Investment Fund Portfolio Index (RAX), which was developed by the Hungarian Association of Investment Fund Managers and has been officially calculated by the BSE since February 15, 1999 was to create a ‘benchmark’ for measuring the performance of investment funds as the existing indices of the equity market ignored the statutory restrictions investment funds are subject to and failed therefore to satisfy this objective. The basis of the index, reflecting the status as at January 7, 1998, is a 1000 points.

The composition of the index is reviewed after trading closes on the last trading day of each month.

The following stock were included in the basket at the review in December

2000: BorsodChem, Danubius, Démász, Egis, Fotex, Graboplast, Matáv, MOL, OTP, Pick, Pannonplast, Rába, Richter, Synergon, TVK, Zalakerámia

**Daiwa-MKB Treasury Yield Index (DWIX)**

It was in November 1992 that Daiwa-MKB Securities and Investment Co. first published an index of the yield on short term government securities.

The first day of calculating the index was June 26, 1992, as the first primary auction of 6 month T-bills was held on April 30, 1992. The value of the index changes week after week after the primary auctions of T-bills are evaluated.

As of May 11, 1998, DAIWA transferred all its rights and obligations associated with DWIX to the BSE, which has become the sole proprietor of the index.



## Issuers

# Listing Requirements

2000

The BSE Regulations for Listing, Continued Trading and Disclosure ("Regulations") establishes two categories of listing terms: general terms and specific requirements, which depend on the type of the security series to be listed. In addition, there are different listing requirements in each category of equity series.

Listing a security is subject first of all to initial public offering, which should precede transactions (whilst for foreign securities a license issued by the Supervision for trading in the securities in Hungary is sufficient). The eligibility for listing on the Exchange is limited to the securities of companies which are not under liquidation or bankruptcy at the time they apply for listing and which have effected payment on each occasion of all their liabilities in the period of two years up to the listing.

Before listing, the articles of the issuer must be reconciled with Hungarian laws and BSE regulations. The Charter shall ensure that the shares are freely transferable and marketable, i.e. disposal of the securities may not be fully restricted. A listed company must clearly specify its major lines of business. Also, the rights associated with the securities to be listed must be clearly defined.

Listing requirements at the BSE relate to the size of the listed series (market value) and the shareholders (number of holders). From among the categories, Category 'A' is the one that imposes more stringent terms and sets – in addition to the above – a free float requirement and a minimum period of corporate operation (at least three years). The essential difference between the two categories does not lie in the conditions precedent to listing, it takes shape in the requirements set for continued trading. An issuer of Category "A" securities must file quarterly quick reports, while semi-annual stock exchange reports are sufficient for Category "B" shares.

The Chief Executive Officer of the Budapest Stock Exchange has the power to approve listing within thirty days of receipt of the listing application and may seek the professional opinion of the Issuing Committee in support of the decision. If the Issuing Committee and the Exchange happen to assume contradicting positions in respect of application for listing, the CEO of the Exchange must submit the application to the Exchange Council for a resolution. The Exchange Council may deviate from the requirements of listing and the provisions in the rules of procedure in particularly justified (extraordinary) cases upon due consideration of the features of each unique case. The Exchange Council decides on cases belonging to its competence within 60 days after the submission of the application.

If at least 10% of Exchange members think it is necessary, the evaluation of applications to have new securities listed includes a hearing of the issuer of the series of securities. Journalists may also participate in the hearing with approval from the issuer. Any of the participants of the hearing may address questions about the listing to the representative of the issuer, who must respond to such questions within at least 3 business days. The CEO of the Exchange has the power to specify the date of listing and the first day of trading (upon due consideration of the related request of the issuer), provided that the earliest possible date of the first day of trading may be the trading day after the public announcement of the decision on listing. No more than 45 days may elapse between the day of listing and the first day of trading.

The regulations of the BSE also allow a special listing procedure which requires an issuer to submit a listing application and a prospectus to the Exchange. As some of the information may not be available at the time, the Exchange will only decide

on eligibility by setting a period of 60 days for submitting a missing documents (the scope of which is specified in the Regulations).

Listing on the Exchange is also subject to payment by the issuer to the BSE of a pro rata portion of the maintenance fee. The BSE charges no listing fee for floatation.

### Disclosure Requirements

The issuers of securities listed on the BSE are subject to certain regular and extraordinary disclosure requirements under the Securities Act and the regulations of the Exchange.

The obligation to make regular disclosures requires that issuers submit to the BSE their audited annual report drawn up under Hungarian accounting standards by April 30 each year and their consolidated annual report by no later than September 30, each year.

The required regular disclosures include a quarterly or a semi-annual quick report to be filed, respectively, by the issuers of Category "A" and Category "B" shares. Quick reports must be submitted to the BSE at least 45 days after the period in question. In addition to financial information about the past period (balance

sheet, profit and loss statement) quick reports must also include a written explanation of the activities of the company.

Any information on any past or ongoing change in the management of an issuer's business that could affect directly the value of or the yield on its securities is subject to the extraordinary reporting requirement. The scope of information covered by extraordinary disclosure cannot be specified precisely. Issuers must make their disclosures to the Exchange within a short period of time. Any such information that issuers learn between 8 a.m. and the close of trading shall be disclosed by the particular issuer to the Stock Exchange within 30 minutes such information is learnt. Issuers shall disclose to the Exchange any such information learnt between the close of trade and 8 a.m. the next day by 08:30 hours before trading starts. Issuers may not disclose to third parties the extraordinary written report for an hour after it is dispatched to the Exchange.

Also issuers must make disclosures to the Exchange about each important event in the life of their company (even if such events have no direct impact upon the price of the securities): convocation of general meetings, press conferences, amendments to the articles, change in staff acting as contact person with the exchange or investors.

Unfortunately, there was only one new issuer of shares at the Exchange in 2000. Floatation of Graphisoft Rt. stock started on the BSE on May 16, 2000. The reverse of this process was stronger, as there were eight companies that filed delisting their stock in 2000: CUG, MIZO-Baranyatej, Dunaholding, Cofinec, ÉP-TEK, BÁV, Konzumbank, HUMAN. Some of these securities included stock series first quoted in 1999 under the forced floatation rule, whilst others were removed from the trading list in connection with a bid.

Three bonds have been retired and removed from the trading list (Pannon GSM "A", MOL 2000/A, AXON "J") and there were two new corporate bond issues (MATÁV 2003/A, AXON "K").

In 2000, no investment notes were listed or delisted, whilst the changes in the number of government securities floated followed the pattern seen in preceding years.

#### Amendments to the Regulations on Listing, Continued Trading and Disclosure

In 2000, the BSE made several modifications to the Regulation for Listing, Continued Trading and Disclosure. The experiences gathered since the intro-

New listings		Qty	Face value (HUF million)	Delistings		Qty
Equities	New listing	1	531 583,70	Equities		8
	Capital increase	15	5 623	Bonds		3
	<b>Total</b>	<b>16</b>		Investment funds		0
Bonds		2	10 300	Government securities		29
Investment notes	Securities	0		<b>Securities at 12/ 29/2000</b>		
	Real property	0		Equities		62
	<b>Total</b>	<b>0</b>		Bonds		9
Foreign securities	Government bonds	60	1 112 900	Investment funds		3
Government securities	Discount T-bills	72	1 204 500	Government securities		68
	<b>Total</b>	<b>132</b>	<b>2 317 400</b>	<b>Total</b>		<b>142</b>
Compensation notes		0				

\* Listed quantity includes tap sales of the same security in addition to new listings.

duction of far reaching conceptual changes in new Company Act, which took effect in 1998, were inserted. Provisions were included to cover cases that were not fully treated in the regulations (e.g. merger between exchange listed companies, delisting triggered by reduction of equity capital). The mandatory con-

tent of quick reports was specified and the Exchange developed the uniform set of fundamental data. The rules of listing warrants were also modified.

The BSE gave due consideration to the opinion of issuers before making amendments to the regulations. Several issuer meetings have been organized for the

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purpose and the amendment of the Regulations was one of the major agenda items at the regular annual issuers' conference. Issuers received a report containing detailed written explanation of each amendment.

The most far-reaching modifications doubtlessly involved the restructuring of equity categories, including the following essential elements:

– *The new system comprises two categories, where the division line between the two is drawn by the frequency of mandatory disclosures (the higher category (Category "A") requires quarterly, the lower one (Category "B") calls for semi-annual stock exchange reports).*

– *Classification reviews continue to apply to the new lower category with low requirements.*

– *A new "T" Section has been created – in principle – to allow the differentiation of "new economy" securities. The securities of "new economy" issuers (i.e. technological or telecom companies) are differentiated upon the issuer's request in addition to classification into one of the categories.*

The minimum requirements of going public (i.e. the terms at which listing in the lower of the two categories may occur) have not changed, whilst the terms

### Listing requirements

	Rules governing Category A	Rules governing Category B
Equity series to be listed	Only complete series	Only complete series
Equity series to be listed	A minimum of HUF 2.5 billion at market value	A minimum of HUF 100 million at market value
Public holding ratio	Either a min. of 25%, or a min. of HUF 2 bn at market value; or at least 500 shareholders	-
Shareholders	Minimum 100	Minimum 25*
Business year	3 full completed and audited years	-
Type of securities	-	-
Quick reports	quarterly	semi annual

\*Considering the specifics of an application for listing, the Exchange Council may grant exemption from this rule.

and conditions of getting listed in the new higher category are half way between the criteria applied in the former Categories "A" and "B". The new category system took effect on April 1, 2001.

### Communication with Issuers

One of the major responsibilities of the Budapest Stock Exchange is to maintain relations with issuing companies, which takes the form of regular discus-

sions, annual conferences and various events. Since early 2001, issuer have received regular monthly newsletters containing information about events of concern and major developments at the Exchange and in the capital market.

The annual conference for issuers has been organized for the eighth occasion in 2000 and provided a forum for discussing topical professional issues (dematerialization, information vending).



In November, the BSE organized another "road-show" abroad (London) and cooperated with a few issuers at the BSE to introduce the Hungarian capital market to UK investors.

The most significant event in the stream of communicating with issuers came when the conference entitled "Road to the Exchange" was organized in December last year, which allowed us to inform potential issuers of the terms of getting listed and on

the advantages of being a listed company. Also called "Road to the Exchange", the first two parts of a series of publications introducing the advantages of being a public company were prepared for the conference. The first part focuses on the possible advantages and benefits of going public and quotes issuing companies and analysts about the question. It also contains the results of a questionnaire based survey of issuers on why it was important, what it meant

and how much it cost for them to get their securities listed. Part two of the series introduces the reader to the steps of an initial public offering and exchange listing, it also helps make the decision to go ahead with listing and contains advice about organizing and managing the process.

The Budapest Stock Exchange continues to look forward to be of assistance to potential issuers and existing exchange listed companies.



## Financial Statements

# Balance Sheet and Financial Report

2000

Assets		Prior year (HUF thousand)	Current year (HUF thousand)
1.	<b>A. Fixed assets (lines 2, 4 and 6)</b>	1,679,124	1,838,718
2.	I. INTANGIBLE ASSETS	1,020,856	1,337,097
3.	(of line 2: Revaluation of intangible assets)		
4.	II. TANGIBLE FIXED ASSETS	522,253	369,417
5.	(of line 4: Revaluation of tangible fixed assets)		
6.	III. FINANCIAL INVESTMENTS	136,015	132,204
7.	(of line 6: Revaluation of financial investments)		
8.	<b>B. Current assets (lines 9-12)</b>	723,819	946,906
9.	I. INVENTORY	12,457	12,083
10.	II. RECEIVABLES	162,291	444,388
11.	III. SECURITIES	369,213	204,999
12.	IV. CASH	179,858	285,436
13.	<b>C. Prepayments and accrued income</b>	18,158	84,064
14.	<b>TOTAL ASSETS (sum of lines 1, 8 and 13)</b>	<b>2,421,101</b>	<b>2,869,688</b>
Liabilities			
15.	<b>D. Equity (lines 16-21)</b>	2,071,140	2,394,002
16.	I. SHARE CAPITAL	524,600	544,600
17.	II. CAPITAL RESERVE	323,104	323,104
18.	III. RETAINED EARNINGS	986,837	1,223,436
19.	IV. REVALUATION RESERVE		
20.	V. LOSSES CARRIED FORWARD		
21.	VI. RESULT FOR THE YEAR	236,599	302,862
22.	<b>E. Provisions</b>	13,093	13,690
23.	<b>F. Liabilities (lines 24-25)</b>	140,786	231,272
24.	I. LONG TERM LIABILITIES		
25.	II. CURRENT LIABILITIES	140,786	231,272
26.	<b>G. Accrued expenses and deferred income</b>	196,082	230,724
27.	<b>TOTAL LIABILITIES AND EQUITY (sum of lines 15, 22, 23 and 26)</b>	<b>2,421,101</b>	<b>2,869,688</b>

The rate as of 29.12.2000. was: 284.73 HUF/USD

# Balance Sheet and Financial Report

2000

Profit & Loss Statement		Prior year (HUF thousand)	Current year (HUF thousand)
I.	Revenue from stock exchange operations	1,761,864	1,903,612
II.	Other revenue	124,853	54,593
III.	Capitalised costs of own performance		
IV.	Expenses of material nature	159,061	160,804
V.	Personnel expenses	728,202	704,129
VI.	Depreciation	475,088	545,953
VII.	Other costs	307,173	299,096
VIII.	Other expenditure	66,597	61,614
A.	<b>RESULT OF STOCK EXCHANGE OPERATIONS (I+II+-III-IV-V-VI-VII-VIII)</b>	150,596	186,609
IX.	Financial income	44,923	121,485
X.	Financial expenses	2,820	5,232
B.	<b>FINANCIAL RESULT (IX-X)</b>	42,103	116,253
C.	<b>RESULT OF THE EXCHANGE (+-A+-B)</b>	192,699	302,862
XI.	Exceptional income	94,827	
XII.	Exceptional expenses	50,927	
D.	<b>EXCEPTIONAL RESULT (XI-XII)</b>	43,900	0
E.	<b>RESULT BEFORE TAXATION (+-C+-D)</b>	236,599	302,862
XIII.	Taxation		
F.	<b>RESULT AFTER TAXATION (+-E-XIII)</b>	236,599	302,862
G.	<b>RESULT FOR THE YEAR</b>	236,599	302,862

The rate as of 29.12.2000. was: 284.73 HUF/USD



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### Independent Auditors' Report

To the members of the Budapest Stock Exchange

We have audited the accompanying balance sheet of the Budapest Stock Exchange as at 31 December, 2000, which shows total assets of THUF 2.869.688 and a profit for the year of THUF 302.862, the related profit and loss account for the year then ended and the supplement included in the 2000 simplified annual financial statements of the stock exchange. The simplified annual financial statements are the responsibility of the management. These simplified annual financial statements have been prepared for the consideration of members at the forthcoming Members' Meeting and do not reflect the effects, if any, of resolutions that might be adopted at the meeting. Our responsibility is to express an opinion on the simplified annual financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing 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 believe that our audit provides a reasonable basis for our opinion.

In our opinion, the simplified annual financial statements have been prepared in accordance with the provisions of the Act on Accounting and with accounting principles generally accepted in Hungary and give a true and fair view of the financial position of the Budapest Stock Exchange as at 31 December, 2000 and of the results of.

Budapest, 14 March, 2001.

Partner  
Ernst & Young Kft.  
Registration No. 001165

Fekete Imréné  
Registered Auditor  
Registration No. 003201



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