



BUDAPESTI ÉRTÉKTŐZSDE
BUDAPEST STOCK EXCHANGE

ANNUAL REPORT 2004



**BUDAPEST STOCK EXCHANGE
INFORMATION CENTRE**

H-1052 Budapest, Deák Ferenc u. 5.

Phone: (+36 1) 429-6857

Fax: (+36 1) 429-6899

Internet: www.bse.hu

E-mail: info@bse.hu

TABLE OF CONTENTS

Executive Summary	4
The Year 2004 in Figures for the BSE	7
Event Calendar	10
Organizational Structure	11
Listed Products	12
List of Issuers	15
Club of Quotables	16
Section Membership	17
Trading System	19
BSE Corporate Governance Recommendations	21
Settlement of Stock Exchange Transactions	22
Data Provision and Other Information Services	24
The Indexes of the BSE	26
The Business Performance of the BSE	30
Independent Auditors' Report	32

EXECUTIVE SUMMARY

The year 2004 was, for several reasons, a milestone in the life of the domestic capital market and of the Budapest Stock Exchange Company Limited (BSE). With Hungary's accession to the EU, our market joined a unifying European capital market, which has already had a very positive effect on the situation of the securities markets.



Attila Szalay-Berzeviczy | Chairman

At the same time, EU accession meant that the Budapest Stock Exchange, like the exchanges of the other nine accession countries, became a full member of FESE, the Federation of European Securities Exchanges.

With respect to the performance of the decisive market of the Exchange, the equity market, we can safely state that the last year was a year of records. Prices climbed to all time highs and this sent the BUX index to new peaks. Over the course of the year, the index rose nearly 60 percent in forint (HUF) terms, or 70 percent in euro terms (taking into account the strengthening of the forint during the year). Thus, the BSE was one of the best-performing equity markets in the world. As a result of the steady rise in prices, equity market capitalisation increased to 5,200 billion forints, a record in the history of the BSE.

The reasons behind this strengthening were mainly an increase in foreign investors' interest, which occurred in connection with the EU accession, and the exceptionally good performance of the issuers, which not only drove prices upwards but significantly improved the liquidity of the market as well. Thanks to all this, the turnover of the BSE increased by about 40 percent compared to the previous year, and the average daily turnover, exceeding 11 billion forints, returned to the record turnover figures of the late 90s.

In addition to the cash market, we should not forget about the derivatives market, another segment of the BSE that showed spectacular development. In 2004, the volume of trading in derivatives was in line with the turnover on the cash market, even exceeding it on several occasions. Considering the year as a whole, the

turnover on the derivatives market was more than three-quarters of the cash market turnover. Parallel to the liquid, equity-index based futures products, futures products based on individual equities are becoming increasingly popular; the BSE was first not only in the region, but also among the exchanges in the world to launch such products. In addition to equity-based instruments, currency-based futures contracts should be also mentioned, the popularity of which has again increased lately. Total market transactions in derivatives included more than 4 billion contracts in 2004.

All of these developments confirm that the BSE and the domestic capital market have been following the right path in recent years. We are pleased to announce that during the last 14 years, the Hungarian securities market was successful in overcoming its gap of nearly half a century and closing in on the world's major markets, meanwhile becoming one of Central and Eastern Europe's dominant performers.

In respect of domestic and international, as well as vertical and horizontal integration, the year 2004 saw some defining moments. A major restructuring took place in the ownership structure of the BSE, involving the purchase of majority stake in the Exchange by strong Austrian banks and their Hungarian subsidiaries, together with the Wiener Börse and Österreichische Kontrollbank AG. Thus, the BSE has taken the first step on the long road to international integration. At the same time, the presence of strategic investors in the ownership structure of the Exchange means a long-term guarantee for the stable operation of an independent domestic securities market.

In 2004, major progress was also made in the field of integration within the domestic capital market. The plans for the integration of the Budapest Commodity Exchange have been worked out. The long-anticipated merger of the two markets might take place in the second half of 2005. The synergies stemming from the merger of these two markets will be felt primarily in the

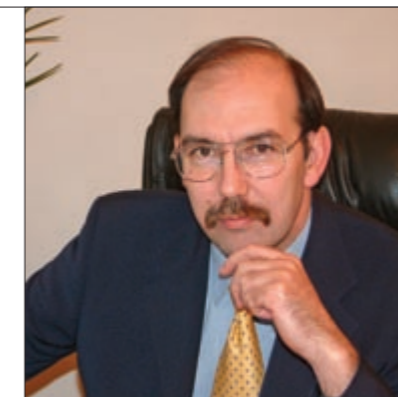
derivatives market, and through the economies of scale, the operation of the market will also become more efficient.

Domestic integration will be completed by the purchase of the shares of the Central Clearing House and Depository Ltd. (KELER Ltd.), the preparations for which have also begun in 2004. With the full-scale integration of the clearing house and the exchanges, the development of the value chain of the capital market will be implemented, which could mean a significant contribution to an increase in market efficiency and the maintenance of our international competitiveness.

With accession to the EU, our country, and specifically the Hungarian capital market, definitively became a part of the European market. The accession itself meant just the final elimination of certain legal obstacles, since accession had already taken place earlier from the point of view of business and institutional background. Since 1998, the Exchange has been using – first on the cash market and later on the derivatives market – an exceptionally reliable electronic trading system, MMTS. It allows traders to access the market from anywhere in the world securely, efficiently, and flexibly through an open interface.

In addition to developing connections to the international market, a key element of BSE strategy is the contribution to the development of the domestic capital market, (i.e. an expansion of the local issuer base, an expansion of the investment opportunities offered by the Exchange for investors, and the strengthening of interest from local institutions and private investors).

Because of the special structure of the Hungarian economy, the BSE has until now focused primarily on ensuring the secondary market of large, privatised domestic companies. For the time being, the small and medium sized companies representing a large potential have been missing from the "trading floor", even though these will become the engine for market growth in the long run. To facilitate the presence of



Zsolt Horváth | Chief Executive Officer

such companies on the Exchange and in the marketplace, the Exchange established the Club of Quotable Companies in the spring of 2003. The Club currently has nearly 30 members. Possibly the best proof of the Club's success is that the first listing on the Exchange from among Club members took place in September 2004, with FreeSoft Plc.

In order to support the market of medium-sized companies, the BSE established the BUMIX index, which tracks the price developments of small and medium capitalisation companies. This new index, as an aggregate indicator, increases the transparency of the market and should become an important source of information for investors. Following the successful launch of the index, BUMIX-based futures contract also appeared on the futures market as of September 2004, further expanding the range of derivative market products.

Investor confidence is the basic principle in strengthening the investor base as well as solidifying the investor-issuer relationship. A major step forward occurred with the publication of the Corporate Governance Recommendations, applying the best practice of the most developed markets to the Hungarian market as well. The Recommendations were published by the Exchange in February 2004. The Recommendations are binding for all companies listed in category "A", already in respect of the year 2004. Starting next year, this obligation shall also apply to securities listed in category "B".

In an effort to promote ongoing development and review, as well as the continued harmonisation with international rules and practices, the BSE Board decided at its October 4, 2004 meeting to set up a Corporate Governance Committee, which includes representation from key market participants and recognised experts of the field.

THE YEAR 2004 IN FIGURES FOR THE BSE

Increased market activity by domestic investors can reduce the domestic market's dependency on global market trends, potentially adding liquidity to trading in listed securities. At the same time, such a strategy goes beyond just the exchange markets, because the promotion of an advanced financial culture and the establishment of financial savings awareness are beneficial to the national economy. A campaign was launched upon the BSE's initiation, with wide-scale cooperation from market participants, to develop the financial culture of the domestic population. The coordination of the campaign has been carried out by the Financial Self-Reliance Foundation, set up by the BSE.



The BSE's new website, revamped in February 2004, serves to improve investor relations. The new interface, expanded features, and user-friendly structure have gained popularity among its visitors.

In 2005, in preparation for its 15th anniversary, the BSE created an award named after the first Chairman of the Exchange, Frigyes Kochmeister, for higher education students. The award can be applied for with the submission of a high-quality study report dealing with the current issues of capital markets. The primary objective of the award is to create an opportunity for youth to present their professional skills and

to create incentives for acquiring in-depth knowledge of the capital markets.

The Exchange organizes events that are excellent communication tools, including a "ringing of the bell" ceremony to begin the day's trading once a month, and Stock Exchange Open Days in some of the country's larger cities. The latter allows local investors to familiarise themselves with trading on the Exchange, the services provided by the Exchange, and the participants of the capital market. Last year, we organised Open Days in Győr, Miskolc, Sopron, Budapest, and Székesfehérvár.

In recent years, the stock markets have managed to overcome the lurch caused by the global recession, and they are once again on the path towards growth. Strong market performance has brought about an improvement in the BSE as a business entity. The organisational transformation and cost-cutting measures implemented in 2001-2002 have seen results and, in line with the rise of the markets, the BSE closed the most successful year of its history in 2004 with profits exceeding 1 billion forints, laying the foundations for the implementation of its strategic plans and the conditions for the further development of the market.

*Attila Szalay-Berzeviczy | Chairman
Zsolt Horváth | Chief Executive Officer*

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. In 2004, the annual turnover of the BSE equities market came close to 2,600 billion forints, that is 40 percent more than the year before. The whole of the cash market turnover was 2,912 billion forints, i.e. 31.3 percent more than in 2003.

In the equities and debt securities sections, in addition to the turnover, market capitalisation also increased. In the case of equities, this came mainly from an increase in prices. In September 2004, with Freesoft being listed, a new share was added to the equities market. The total market capitalisation of the stock exchange at the end of 2004 was 13,991 billion forints, of which the share of the capitalisation of the equities market was more than 37 percent (5,188.9 billion forints). By the end of 2004, overall market capitalisation had increased by 34.5 percent over the previous year.

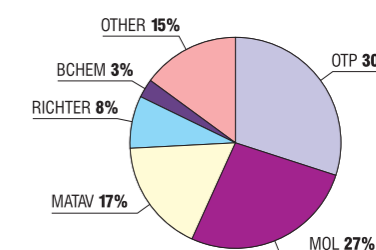
In addition to the cash market, major changes took place in the derivatives market as well, where the foreign currency market caught up with the already successful derivative instruments based on the index and on individual equities. Here, in addition to the traditional relations against the forint, cross currency contracts launched in 2002 brought a boost in the expansion of liquidity in 2004.

CASH MARKET

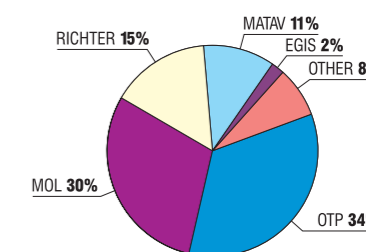
Out of the two cash market sections of the BSE, the equities section continues to provide the decisive portion of the turnover. The equities market turnover for the year 2004 amounted to 2,590 billion forints, i.e. 40 percent more than a year earlier. The weight of the debt securities section decreased from 16.4 percent a year ago to 11.0 percent. The average daily turnover increased from 8.8 billion forints in the year 2003 to 11.6 billion forints in 2004. The most active month was November, during which the total value of transactions on BSE cash markets amounted to 379 billion forints. On the equities market, a total of 875 230 061 shares exchanged hands in 2004.

From among the different types of securities, equities were again in the focus of attention: 89 percent of the turnover was administered in these securities. In terms of market capitalisation, however, the situation was far more balanced. This was mainly due to the considerable stock of government securities (consisting of bonds and discount treasury bills), representing more than 60 percent of the market capitalisation on the exchange. From the point of view of the turnover, the most dynamic increase was observed in corporate bonds, where the turnover in 2004 exceeded the value for 2003 by almost 50 percent. As to market capitalisation, the most significant increase was observed with investment notes, which started from a low base equal to 12 billion forints in 2003, where (after an increase of 363 percent) their capitalisation amounted to 43.6 billion forints in December 2004. A dynamic expansion in market capitalisation continued on the mortgage bond market, but in terms of the turnover, a drop was observed after the previous year's explosive gain.

BREAKDOWN OF CAPITALIZATION 2004.



TURNOVER BREAKDOWN 2004.

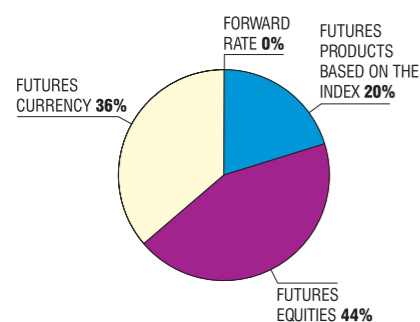


Source: BSE

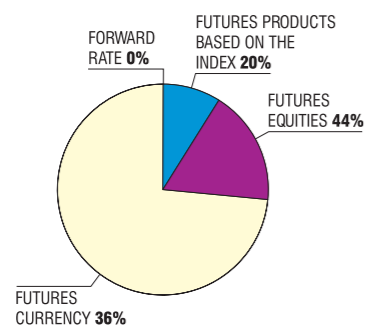
Equities market

Similarly to previous years, the market was dominated by half a dozen blue chips in terms of market capitalisation, and particularly in terms of turnover. The five most traded shares accounted for 81 percent of the market on the basis of market capitalisation, while their turnover represented 91.5 percent of the total equities turnover. This means that in 2004 there was some reduction in the concentration of the market, as the weight of the five most liquid shares was, one year earlier, 93.4 percent in the total turnover.

BREAKDOWN OF THE FUTURES TURNOVER BY MARKET VALUE



BREAKDOWN OF THE FUTURES TURNOVER BY NUMBER OF CONTRACTS



Source: BSE

List of the liquid securities in the 4th quarter of 2004:

- MOL Rt. ordinary share
- OTP Bank Rt. ordinary share
- Richter Gedeon Rt. ordinary share
- Hungarian Telecom Rt. ordinary share
- BorsodChem Rt. ordinary share
- EGIS Rt. ordinary share
- Antenna Hungária Rt. ordinary share
- FHB Rt. ordinary share
- OJB11/1 mortgage bond
- MKB/2 bond
- MFB07/A bond

The only change that occurred was in the rankings, as OTP and MOL continue to keep the first and second places in terms of the turnover and of market capitalisation, but Matáv, with a 7.8 percent drop in its weight, changed places with Richter, while the latter maintained its share in the turnover.

Debt securities market

In 2004, internal restructuring continued on the debt securities 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, (7,750 billion forints, representing 90.5 percent of the market capitalisation of the debt securities section), the turnover shows a much more balanced picture.

In 2004, a dynamic rise continued on the mortgage bonds market, and, as a result, the stock of the previous year had almost doubled, even though the turnover in this type of security diminished by almost thirty percent during the year, after an expansion of 400 percent in the year 2003. The most significant increase took place in the turnover of corporate bonds which, following an almost 50 percent increase, amounted to 102 billion forints. This is only slightly lower than the turnover of 106.4 billion for government securities.

DERIVATIVES MARKET

A revival in turnover was apparent not only on the cash markets, but on the derivatives market as well. The total value of the deals in 2004 was 2,207 billion forints, i.e. 57 percent more than one year earlier. The only time a higher turnover had occurred on the derivatives market was in 1998. The year 2004 was the year of the derivatives market on the Budapest Stock Exchange. This was due to a number of factors. The most important was probably a boost on the foreign exchange markets that started in 2003, which could take place due to the increase in the volatility of the forint on the one hand and as a result of more advantageous 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.

As a result, the market was able to maintain the monthly level of contracts established in 2003 and in August, turnover soared again, reaching a peak in October when almost 560,000 contracts were made on the futures market. Thus, on the whole, more than 4 million contracts exchanged hands by the end of 2004, more than one and a half times the volume of the previous year. Within this, 2.9 million contracts were traded on the currency market.

The stock of open positions on the futures market increased in 2004, with dynamics similar to the rates observed with the turnover. At the end of 2004, the quantity of open positions was close to 199,000 contracts, of which 165,000 were open on the currency market, 3,100 on the index-based market, and 29,000 contracts on the market of products based on individual equities.

Products based on individual equities and on indexes

Traditionally, one of the most popular product of the BSE futures market is the BUX index contract, and there was no change in this respect in 2004. In fact, the turnover of the instrument at market prices increased by 38 percent over the previous year. The product range was widened in September 2004 with the addition of an index futures contract for small and medium cap companies: the BUMIX index.

The market of products based on individual equities shows a picture that is similar to the cash market. Here as well, the four most liquid shares are the focus of interest (OTP, MOL, MATÁV, Richter), representing more than 92 percent of the total turnover.

Foreign 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. In 2004, even the turnover of the previous year was exceeded. At market value, the turnover expanded 98-percent compared to the year 2003. A similar flurry on the foreign currency market was last registered on the futures market of the Budapest Stock Exchange in 1998.

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

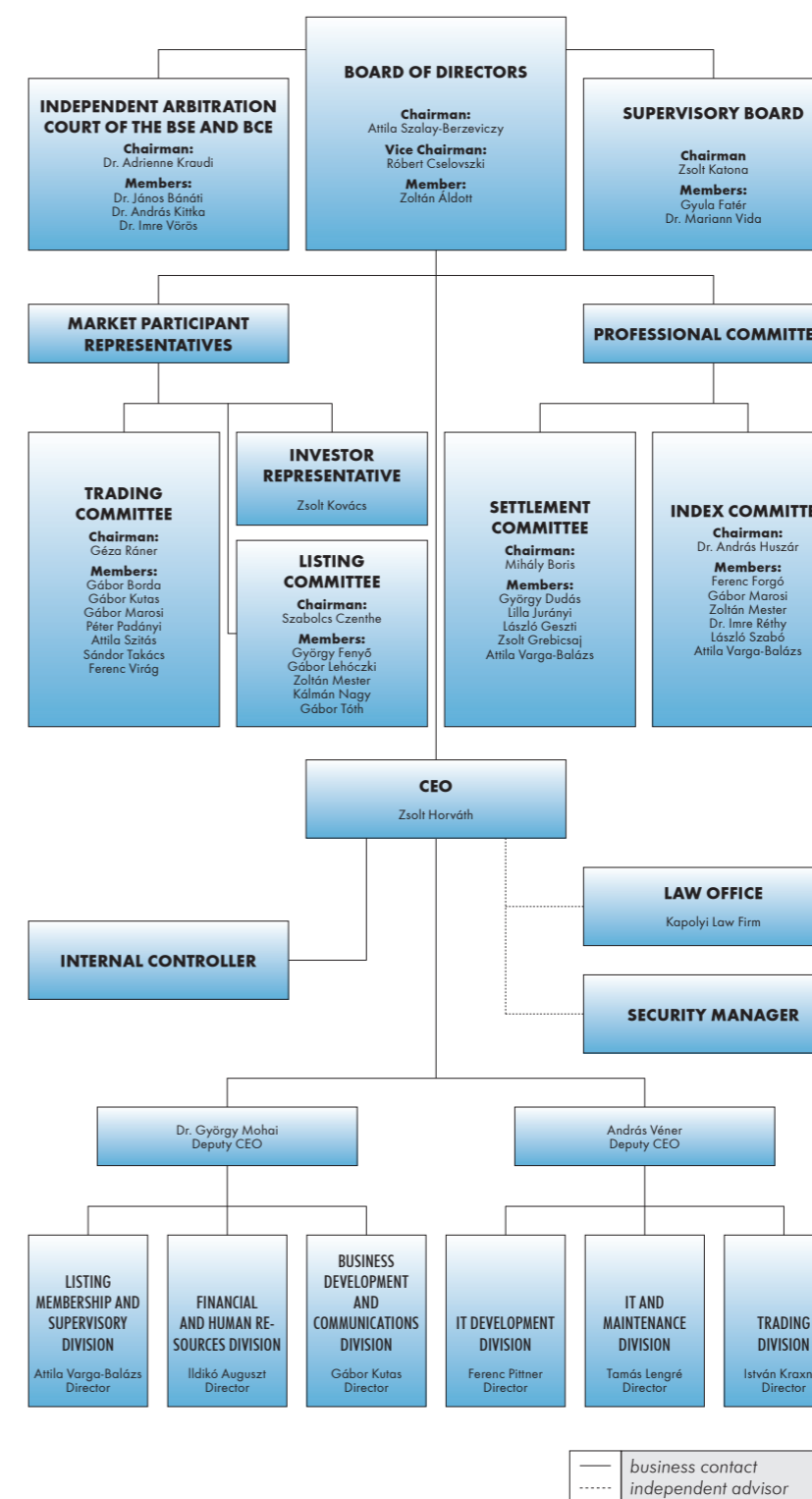
Options market

A milestone occurred in the summer of 2004, when a foreign currency option was transacted for the first time on the BSE. In the period since then, transactions concluded in this product range exceeded the turnover in option deals for individual shares both in terms of value (12 billion forints) and in terms of the number of the contracts (49,000).

EVENT CALENDAR | 2004.

- January 21** "140 Years of the Commodity and Stock Exchanges", conference in Budapest, organised by Napi Gazdaság
- February 5** Opening bell ceremony on the BSE, the guest is Paul Arlman, General Secretary of FESE
- February 9** Corporate Governance Recommendations are published by the BSE
- February 11** Hungarograin Brokerage Services Co. Ltd. becomes a section member of the BSE
- February 19** Extraordinary general meeting of the BSE
- February 20** Finance Minister Tibor Draskovics, in the first week after his inauguration, visits and gives a press conference on the BSE.
- March 4** An open day of the Exchange in Győr
- March 10** Opening bell ceremony on the BSE, the guest is George H. Walker, Ambassador of the United States of America to Hungary
- March 16** Hans-Gert Pöttering, Fraction Leader of the European People's Party and Ibolya Dávid (MDF) visit the Budapest Stock Exchange, where they hold talks with the managers of the BSE
- April 13** Opening bell ceremony on the BSE, the guest is István Csillag, Minister of Economic Affairs
- April 21** Open day of the Exchange in Miskolc
- April 28** Annual General Meeting of the BSE
- May 5** Open day of the Exchange at the Budapest University of Economics and State Administration
- May 20** HVB Bank Hungary Ltd. and Wiener Börse AG hold a press conference on the new ownership structure of the Budapest Stock Exchange
- May 27** FreeSoft gives a presentation in the Club of Quotables and announces to seek listing on the BSE in 2004
- June 1** BSE becomes a full members of the Federation of European Securities Exchanges (FESE)
- June 1** Start of the continuous calculation and publication of the BUMIX index on the BSE
- June 2** European Capital Markets Meeting of the Federation of European Exchanges (FESE) in Frankfurt
- June 10-11** Vendor days on the Exchange
- June 29** Extraordinary general meeting of the BSE: the new Chairman of the BSE is Attila Szalay-Berzeviczy, the Vice Chairman is Róbert Cselovszki
- July 6** Opening bell ceremony on the BSE, the guest is Alderman Robert Finch, the Mayor of the City of London
- August 11** Opening bell ceremony on the BSE, the guests are Wieslaw Rozlucki, Chairman and CEO of the Warsaw Stock Exchange, and Stefan Zapotocky, the CEO of Wiener Börse AG
- August 26** The second Meeting of the Domestic Institutional Investors of the BSE in the International Training Centre for Bankers
- September 1** Extraordinary general meeting of the BSE, the shareholders elect new members to the Supervisory Board
- September 22** FreeSoft shares are listed on the BSE
- September 23** A meeting of the European Union exchanges (FESE) in Budapest
- September 24** Managers of the BSE and of the Vienna Stock Exchange hold a joint press conference in Vienna, on the future cooperation of the two exchanges
- October 7** The BSE establishes a prize in commemoration of Frigyes Kochmeister, the first Chairman of the Exchange
- October 19** The Hungarian and in English language publication of "Equities on the Budapest Stock Exchange, 2004" a joint effort by the BSE and Zöld Újság Rt.
- October 26** Open day of the Exchange in Sopron
- October 28** The Corporate Governance Committee is set up on the BSE
- November 24** Open day of the Exchange at Székesfehérvár
- November 25** One-day conference organised in Sopron under the title "Why are household savings important?" by the Foundation for Financial Self-Reliance, the Budapest Stock Exchange, and the Association of Hungarian Capital Market Professionals
- November 29** Start of a three-month online exchange trading simulation game, the Bourse Magician, organised by Equitas Broker Ltd., TeleDataCast Kft., and the BSE. There are 11,000 participants in the game.
- November 30** Issuers' conference on the BSE.
- December 14** BSE end-of-year reception in the Ceremony Hall of the Academy Club; the prizes for the best players of the capital markets are awarded. The event is attended by Prime Minister Ferenc Gyurcsány, Finance Minister Tibor Draskovics, and Minister of Economic Affairs János Kóka.
- December 29** Press conference on the review of the year on the BSE

ORGANIZATIONAL STRUCTURE | DECEMBER 31., 2004.



LISTED PRODUCTS

EQUITIES AND DEBT SECURITIES SECTION

The performance of Hungarian shares was exceptional in 2004, in both regional and global comparative terms. In addition to a new issue on the equities market, new products emerged on the derivatives market and - taking into consideration the needs of the market players - some new opportunities were also provided in the debt securities section.

In 2004, only one new equity was listed on the BSE, FreeSoft Rt. With its shares of 1,435 million forints at nominal, trading started on September 22, 2004. During the year, the shares of four companies were delisted from the trading floor. Milton Rt. left the exchange effective January 1, 2004 and, from among the electricity distributors, subsequent to a public bid offer, the shares of three companies were delisted (those of Titász Rt. on October 14, 2004, Dédász Rt. on November 26, 2004, and Édász Rt. on December 18, 2004).

In 2004, the trend in the listing of the series of mortgage bonds continued both in the case of follow-up issues and in the case of new series, with most of the 42 listings initiated by OTP Mortgage Bank. In addition, several listings were made in respect of HVB mortgage bonds as well. In 2004, in respect of the mortgage bonds of FHB Mortgage Bank, only one listing took place.

The change in the number of corporate bonds was minimal, there were three new series listed on the exchange, and four series were deleted from the product list of the exchange due to the expiry of their maturity.

The favourable changes that took place in 2003 on the market of the investment notes persisted in 2004 as well; as a result, the investment notes of 13 new investment funds became listed.

The State Debt Management Centre (ÁKK) is already traditionally one of the most important issuers of the BSE. The trend in the listing and, due to their maturity, delisting of the government securities was similar to that observed in previous years.

Conditions for listing and continued trading of securities

At 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 unregulated market system").

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 State Supervisor of Financial Institutions (PSZÁF), after which the BSE makes its decision regarding an actual listing via 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 on Listing and Continued Trading". 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 summary of the "Regulations of the

Budapest Stock Exchange on the Setting of Stock Exchange Rules and the Rules of Official Disclosures" provides information in connection with announcements published on the BSE website. The issuers of the exchange use the Issuers' Information System (ISSUERINFO) to put their disclosures on the BSE website, and the system publishes the news in accordance with exchange regulations regarding disclosures.

The above regulations can be downloaded from the Budapest Stock Exchange website (www.bse.hu).

Equity categories

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

Currently, the listing of shares can 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 set out in the Capital Market Law for going public. "Equities A" presents stricter requirements to issuers of the exchange wishing to fit in this category. In addition to the difference in listing requirements, the obligations to provide regular information are also different.

Change in the number and face value of securities listed on the stock exchange in the year 2004				
	december 31, 2003		december 31, 2004	
	number	face value (HUF bn)	number	face value (HUF bn)
Securities listed	132	8 119.9	160	9 195.4
Equities	53	638.1	47	541.7
Government bonds	14	5 376.5	24	6 306.8
Corporate and international institutional bonds	14	205.7	13	222.3
Mortgage bonds	27	314.1	47	566.0
Treasury bills	10	1 433.0	10	1 390.5
Investment notes	4	12.8	18	28.4
Compensation notes*		139.7	1	139.7

*Data not adjusted for withdrawn compensation notes

Listing requirements		
	Category „A”	Category „B”
Series of shares to be listed	at least HUF 2.5bn HUF at market value	no requirements
Free float	<ul style="list-style-type: none"> at least 25 percent of the series to be listed is free float; or at market prices, shares to the value of at least HUF 2bn 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 free float information to the S. E.
Business year	three full, completed, audited years	no requirements
Type of security	registered only	no requirements

LIST OF ISSUERS | DECEMBER 31, 2004.

Disclosure requirements

A public listed company is obliged to disclose regular information (annual report, interim reports on a quarterly basis for issuers in category "A", on a semi-annual basis in the category B) and shall make extraordinary announcements.

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.

DERIVATIVES SECTION

By the end of 2004, product development of the BSE derivatives market had added two new products to the derivatives market supply; that is, at the end of 2004, there were 64 futures and six options contracts on the BSE's market.

Following the BUX, our second index, BUMIX, was launched on the cash market in June, and trading opened for its futures products as well in September. In the year 2004, no further options were listed. A more serious transformation of the BSE, in connection with the integration of its derivatives market with the Commodity Exchange, has been scheduled and prepared for the year 2005.

Change in the number of derivatives products		
	2003	2004
Futures products	62	64
Currency	28	28
Interest rate	6	6
Equity and index	28	30
Options products	6	6
Currency	2	2
Equity and index	4	4

EQUITY ISSUERS:

1. Agrimill-Agrimex Grain Processing and Grain Trading Ltd.
2. Antenna Hungária Hungarian Radicommunications Corporation
3. BorsodChem Rt.
4. Budapesti Ingatlanhasznosítási és Fejlesztési Rt.
5. Brau Union Hungaria Breweries Company Ltd.
6. Csepel Holding Rt.
7. Danubius Hotels and Spa Rt.
8. South Hungarian Electricity Supply Co. Ltd.
9. Domus Kereskedelmi Rt.
10. Econet.hu Information Technologies Ltd.
11. EGIS Pharmaceuticals Ltd.
12. Budapest Electricity plc.
13. Első Hazai Energia-Portfolió Rt.
14. North Hungarian Electricity Supply Co. Ltd.
15. FHB Land Credit and Mortgage Bank Co. Plc.
16. FOTEX First American Hungarian Photo Servicing Ltd.
17. Forras Trust and Investment Company
18. FreeSoft Szoftverfejlesztő és Számítástechnikai Szolgáltató Rt.
19. Gardenia Lace Curtain Factory PLC
20. Globus Canning Industry Plc.
21. GRAPHISOFT N.V.
22. Humet Trade, Research and Development Ltd.
23. Hungagent Trading Company Ltd.
24. Inter-Európa Bank Ltd.
25. Kartonpack Doboziipari Rt.
26. Konzum Trading and Industrial Company Ltd.
27. Linamar Hungary Autóipari és Gépgyártó Rt.
28. Magyar Telecom Ltd.
29. MOL Hungarian Oil and Gas Public Ltd. Co.
30. NABI BUS Industries Rt.
31. Novotrade Investment Company Limited
32. National Savings and Commercial Bank Ltd. Hungary
33. PANNON-FLAX Győri Lenszövő Rt.
34. Pannonplast Műanyagipari Rt.
35. Pannon-Váltó Asset Management and Trading Rt.
36. PHYLAXIA-PHARMA Drugs, Vaccines and Agrobiological Preparations Manufacturing and Distributing Ltd.
37. Quaestor Értékpapír-kereskedelmi és Befektetési Rt.
38. Rába Automotive Holding PLC
39. Chemical Works of Gedeon Richter Ltd.
40. Skoglund Holding Befektetési Rt.
41. Styl Garment Factory Ltd.
42. Székesfehérvári Hűtőipari Rt.

43. Tisza Chemical Group Ltd.
44. Zalakerámia Ltd.
45. Zwack Unicum Liqueur Industry and Trading Ltd.

BOND ISSUERS:

1. State Debt Management Centre Rt.
2. CIB Central European International Bank Rt.
3. European Investment Bank (EIB)
4. ERSTE Bank Hungary Rt.
5. Hungarian Development Bank Rt.
6. Hungarian Foreign Trade Bank Rt.
7. MOL Hungarian Oil and Gas Industry Rt.
8. Raiffeisen Bank Rt.
9. General Banking and Trust Co. Ltd.
10. Diákhitel Központ Rt.

MORTGAGE BOND ISSUERS:

1. Government Debt Management Agency Ltd.
2. FHB Land Credit and Mortgage Bank Rt.
3. OTP Mortgage Bank Rt.
4. HVB Mortgage Bank Rt.

FUND MANAGERS:

1. Prudent-Invest Investment Fund Management Rt.
2. K&H Securities Investment Fund Management Rt.
3. CA IB Securities Investment Fund Management Rt.

INVESTMENT FUNDS:

1. Budapest Guaranteed*
2. CA Capital Guarantee Fund
3. CA Capital Guarantee Fund 2
4. FUTUREAL 1. Property Investment Fund
5. K&H Dollar Fix*
6. K&H Dollar Fix 2*
7. K&H Euro Fix*
8. K&H Euro Fix 2*
9. K&H Euro Fix 3*
10. K&H FIX PLUS Funds**
11. K&H Fix Plus 2*
12. K&H Fix Plus 3*
13. K&H Fix Plus 5*
14. K&H Fix Plus 6*
15. K&H Fix Plus 7*
16. K&H Fix Plus Extra*
17. OTP Fantasy***
18. PILLÉR First Property Investment Fund

* Derivatives Closed-Ended Securities Investment Fund
** Closed-Ended Securities Investment Fund
*** Guaranteed Closed-Ended Derivatives Equity 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 suitable to 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 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 stock exchange issuers), where they can obtain information regarding the advantages and disadvantages of being listed and on the status 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 they consider a listing on the stock exchange as a realistic alternative if in the near future the company needs to raise capital or an offering of the shares by the existing owners will take place. 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 players on the capital markets that these companies are ready to list their shares on the stock exchange under a favourable market environment. The BSE's intention in creating the Club is to support the inclusion of more companies representing an interest for the local investors to the Exchange. 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.

Public members of the Club of Quotables

Firm	Website
AITIA Informatikai Inc.	www.aitia.hu
ComGenex Inc.	www.comgenex.hu
Duna Elektronika Inc.	www.dunaelektronika.hu
FastVentures Ltd.	www.fast-ventures.com
Hungarocamion Inc.	www.hungarocamion.hu
InterCom International Communications Services Ltd.	www.intercom.hu
KFKI Group	www.kfki.hu
Karsai Plastics Holding Plc.	www.karsai.hu
Magyar RTL Televízió Rt.	www.rtlklub.hu
Morgan Hill Consulting Gazdasági Tanácsadó Rt.	www.morganhillconsulting.hu
Plusssz Vitamin Kft.	www.plusssz.hu
Stollwerck Budapest Kft.	www.stollwerck.hu
Syntumex Kft.	–
TvNetWork Telekommunikációs Szolgáltató Rt.	www.tvnetwork.hu
Wallis Investment, Consulting and Asset Management Inc.	www.wallis.hu
rEVOLUTION Software Kft.	www.revolution.hu

SECTION MEMBERSHIP

Rules for 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". From 2004, section members with a registered seat in one of the Member States of the European Union and authorised to carry out trading and commissioning operations with securities have an opportunity, in line with the provisions of the law, to obtain a section membership as a member of the EU section. A cross section membership can be obtained, in line with the provisions of the law, by a member with trading rights on an exchange registered in a foreign country if it complies with the stipulations of the law where that exchange has a cross membership agreement in effect with the Budapest Stock Exchange Co. Ltd.

Section membership can be obtained by:

- an investment company, a bank, or an EU section member in the equities section, in the debt securities section, and in the derivatives section with respect to the futures market and the options market;
- an individual trader in the derivatives section, with respect to the futures market and the options market;
- a cross member in the sections within the scope of the given cross membership agreement.

Section membership is created with the conclusion of a section membership contract between the BSE and the section member, with the following conditions for the section member:

- the member must hold a PSZÁF 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.

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. (These regulations, together with all the BSE regulations are available at www.bse.hu.)

In order to ensure the transparency of trading, the BSE monitors unfair price manipulation, trading based on insider information, and other activities representing a disturbance for the fairness of the market applying a control system consisting of several stages; if necessary, the BSE prepares evaluations and applies sanctions.

CHANGES IN MEMBERSHIP DURING 2004

The number of section members of the Budapest Stock Exchange Co. Ltd. totalled 31 as at December 31, 2004 (within this figure, there were 18 banks). New section members joining the BSE in 2004 were Hungarograin Exchange Brokerage Services Rt., Raiffeisen Bank Rt., and SPB Investment Rt. The section membership of Postabank Securities Trading and Investments Rt., of Postabank and Savings Bank Rt., of Raiffeisen Securities and Investments Rt. and of Aegon Hungary Securities Rt. has been terminated. At the end of 2004, 24 members in the equities section, 16 members in the debt securities section, and 19 members in the derivatives section (derivatives market - 19 members, options market - 16 members) had trading rights.

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 58 occasions in 2004. The BSE, on the basis of the available exchange membership and section membership documents called the attention of a member to eliminate or prevent deficiencies in 3 cases and it transferred the matter to PSZÁF for further investigation in a further 3 cases.

TRADING SYSTEM

Section Members of the Budapest Stock Exchange (as at December 31, 2004)

Firm	Website	Equities section	Fixed income section	Derivatives section	
				Futures market	Options market
Bank of Hungarian Savings Cooperatives Ltd.	www.takarekbank.hu	x	x	x	x
Biztonság-Invest Investment and Security Inc.	www.biztonsag.hu	x	-	-	-
BNP PARIBAS Hungária Bank Rt.	www.bnpparibas.com	x	x	-	-
BUDA-CASH Brokerhouse Co. Ltd.	www.budacash.hu	x	-	x	x
CASHLINE Securities Inc.	www.cashline.hu	x	-	x	x
CIB Central European International Bank Ltd.	www.cib.hu	x	x	x	x
Citibank Rt.	www.citibank.hu	-	x	-	-
CONCORDE Securities Ltd.	www.con.hu	x	x	x	x
Deutsche Bank Ltd.	www.deutschebank.hu	-	x	-	-
Dresdner Bank (Hungaria) Rt.	www.dresdner.hu	-	x	-	-
EQUILOR Investment Co. Ltd.	www.equilor.hu	x	-	-	-
EQUITAS BROKER Ltd.	www.equitas.hu	x	-	x	x
ERSTE Bank Investment Hungary Ltd.	www.erstebank.hu	x	x	x	x
General Banking and Trust Company Ltd.	www.aeb.hu	x	x	-	-
HAMILTON International Brokerage Company Ltd.	www.hamilton.hu	x	-	-	-
Hungarian Foreign Trade Bank Ltd.	www.mkb.hu	x	x	x	x
Hungarograin Rt.	www.hungarograin.hu	-	-	x	x
HVB Bank Hungary Ltd.	www.hvb.hu	x	x	x	x
ING Bank (Hungary) Ltd.	www.ing.hu	x	x	x	-
INTER-EURÓPA Bank Company Ltd.	www.ieb.hu	x	x	x	x
K&H Equities (Hungary) Securities Trading Ltd.	www.khb.hu	x	-	x	F
KDB Bank (Hungary) Co.	www.kdb.hu	x	-	x	x
Kereskedelmi és Hitelbank Rt.	www.khb.hu	-	x	-	-
National Bank of Hungary	www.mnb.hu	-	x	-	-
National Savings and Commercial Bank Ltd.	www.otp.hu	x	x	x	x
QUAESTOR Securities Trading and Investments Co.	www.quaestor.hu	x	-	x	x
RAIFFEISEN Bank Rt.	www.raiffeisen.hu	x	x	x	-
REÁLSZISZTÉMA Securities Trading and Investments Co.	www.realszisztema.hu	x	-	-	-
SPB Befektetési Rt.	www.spbinvest.hu	-	-	-	-
SWAP Tőzsdeügynöki Rt.	-	x	-	x	F
WestLB Hungaria Bank Rt.	www.westlb.com	x	-	x	-
Total		24	16	19	14

(-) the company does not have a trading licence in this section or market
(x) the company has trading licence in this section or market
(F) the trading licence of the company is suspended

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 trends, 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, debt securities, and derivatives sections of the BSE. Participation in continuous trading is ensured for section members through the delegated remote trading workstations for seven hours per day, and the full product range 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.) In this system, the trading technique of the order book can be expanded by "price-maker" activities, 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 debt securities section of the BSE, as well as 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 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.

During the year 2004, a system-development process was initiated to prepare the BSE trading system to support open outcry and automated trading in

commodity exchange products. The project is expected to be completed with the launch of trading in commodities during the year 2005.

The most important technical characteristic of MMTS I-II 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 still 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, thus in the case of a defect, the system will automatically switch over to the properly operating element.

One of the most important issues nowadays is the compatibility of various trading systems, that is, their ability 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 within 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 portion of the trading system and the internal networks of trading companies. This system became known as the Connection Provider (K2).

The Connection Provider (K2) 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 access data stored in or originating from MMTS and to carry out transactions in the stock exchange trading system. Through this system, most 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, there are 7 section members making use of the system (CONCORDE Securities Ltd., ERSTE Bank Investment Ltd., EQUITAS BRÓKER Ltd., INTER-EURÓPA BANK Ltd., OTP Bank Ltd., QUAESTOR Securities Trading and Investment Bank Ltd., and Raiffeisen Centrobank AG), but the number of users is constantly 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.

The BSE is expanding the service functions of the K2 connection on a continuous basis. In addition to security enhancements, market making functions were

added in 2004. This allowed for the market makers to trade through the K2 connection service provider.

Through the design of the repurchase auction, it became possible for issuers or large investors to administer the purchase of larger blocks within the framework of auctions. This implies a major advantage in that the player on the buy side can determine, (within the framework of the rules and on the basis of the selling offers), the quantities to be repurchased and the price(s).

In 2004, the whole of the central server park was modernised. Speed on the new, more modern and faster hardware increased about fourfold over the previous levels. The BSE has built up its secondary central system as well, the role of which is to ensure the possibility of trading under certain emergency or disaster situations.



BSE CORPORATE GOVERNANCE RECOMMENDATIONS

The institutions with a definitive importance for the operation of the capital markets (supervising authorities, bourses) and the major international institutions and organisations (World Bank, OECD, EU) give prime attention to the study of corporate governance problems and to drawing up recommendations thereto. The public opinion of the professional community and investors increasingly expect public companies to state what the basic principles of their operation are (national codes, OECD guidelines, etc.) and how far they comply therewith.

The purpose of the application of corporate governance principles is to promote the transparent and efficient operation of the market, to support the implementation and materialisation of the legislation, especially in terms of shareholders' rights and ownership functions, and to coordinate the interests of the company and of the investors with the interests of the company's environment. An important objective of the recommendations is to assist with the validation of the rights of private investors, the handling of business partnerships and information, and the determination of the tasks of Board and their fulfilment. The application of the guidelines enhances the efficiency of a company's operation, taking into account, to a maximum extent, the interests of shareholders, compliance with the letter and the intentions of the law, as well as compliance with the lawful interests of persons and organisations connected with the given company.

The drawing up of the Corporate Governance Recommendations ("Recommendations") at the Budapest Stock Exchange started in 2002 for equity issuers, and the Recommendations were published by the BSE in January 2004.

The Recommendations, in line with international practice, cover four major themes:

- The composition and competences of the boards of the companies, covering their tasks, suggestions regarding membership, and the independence of the members; the issue of remuneration of top officers and management; the question of setting up committees within the boards; the principles of establishing a system of internal controls.

- In addition to the formulation of the general principles regarding the information policy of companies, the BSE also formulated the disclosure recommendations in connection with corporate governance. The document makes suggestions mostly regarding the disclosure of information not regulated by the law or the provisions of the Exchange.
- Determination of the general principles in order to ensure the exercise of shareholders' rights. The Recommendations are supplemented by a summary on the organisation of the general meetings of the BSE.
- Determination of general principles in connection with the company and its external environment.

The stock exchange issuers belonging to the "Equities A" category must submit a statement, for the first time in 2005 (or in 2006 for those in the "Equities B" category), regarding whether they comply with the contents of the Recommendations. The Exchange requires from its issuers the information on corporate governance on the basis of the "comply or explain" principle. The issuer shall indicate from among the primary general principles of the Recommendations the ones it does not comply with. This may originate from the fact that the method of its operation or its ownership structure do not allow the application of a given point, or that the company, even though it finds the application of the suggested items necessary, needs some time for preparations. The issuers statements that have already been published can be consulted on the Exchange website.

The Exchange, in order to maintain and develop the Recommendations, established the Corporate Governance Committee in the summer of 2004. The primary goal of the panel is to further develop the Recommendations on the basis of international developments and domestic experiences, as well as to popularise the idea of corporate governance and strengthen investor confidence.

SETTLEMENT OF STOCK EXCHANGE TRANSACTIONS

The Central Clearing House and Depository (Budapest) Ltd. (KELER) was founded in 1993 by the National Bank of Hungary, the Budapest Stock Exchange, and the Budapest Commodity Exchange, with a clearing and settlement house profile. KELER 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 money and securities to exchange hands. At the time of its foundation, KELER 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 the requirements established by KELER). The settlement of the deals made in the equities section and the debt securities section (with the exception of fixed and auction deals) takes place simultaneously, on a roll-over basis, using (since November 18, 2002) a T+3-day cycle in the equities section, and a T+2 cycle in the debt securities section, based on the principle of multilateral offsetting. (T stands for the day of the transaction, with days understood as working days.) The settlement of transactions takes place on the securities and restricted cash management (stock exchange turnover) accounts run by KELER for the members, as well as on the cash management accounts run by the NBH.

Settlement of Futures and Options Transactions

The settlement of futures and options transactions concluded on the BSE is also ensured by KELER. In the case of products based on individual equities and government bonds, settlement takes place in the form of physical delivery, in the case of other contracts traded on the BSE, settlement takes place in the form of delivery versus payment.

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 financial 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 required 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 trade and settlement of the stock exchange turnover of the various markets and sections only if the amount of the respective 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 collateral in connection with its clearing membership.

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

Clearing membership guarantee elements

- The initial financial collateral is a fixed amount specified by KELER for each market, to be continuously maintained by the members trading on that market
- The variation margin is set to cover past price changes
- The initial margin 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** (Tozsdei Elszámolási Alap or Exchange Settlement Fund) is a cash fund under 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 the TEA, calculated weekly by KELER.

The **KGA** (Kollektív Garancia Alap or Collective Guarantee Fund) is a cash fund under 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 in previous years, none of these represented a threat to the settlement of exchange operations, and all deals struck on the stock exchange since the establishment of KELER have been settled.

KELER completed its preparation for its transformation into the form of a specialised credit institution and it was successfully implemented with effect from January 1, 2004. One of the strengths of the Hungarian securities market continues to be the securely operating settlement system, one of the best in Europe from the point of view of regulations and information technology. However, EU accession made KELER face new challenges, as according to the requirements of the EU, the company must be equipped for a further expansion of cross-border services with foreign clearing members joining the system. In addition to the expected service developments, the integration of the BSE and the BCE, expected in 2005, is a priority project.



CENTRAL CLEARING HOUSE AND DEPOSITORY (BUDAPEST) LTD.
(KELER LTD.)

H-1075 Budapest, Asbóth u. 9-11.

Tel.: (+36 1) 483-6100

Fax: (+36 1) 342-3539

Internet: www.keler.hu

E-mail: keler@keler.hu

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,
- Index Package Data Service.

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

Official data vendors of the Stock Exchange (as at December 31, 2004)	
Full company name	Website
Vendors of real time data	
Bloomberg L. P.	www.bloomberg.com
FT Interactive Data	www.FTInteractiveData.com
Moneyline Telerate Ltd.	www.moneyline.com
Net Média Rt.	www.portfolio.hu
Reuters Group PLC	www.about.reuters.com
TeleDataCast Kft.	www.tdc.hu
Telekurs Financial Information Ltd.	www.telekurs-financial.com
Thomson Financial Inc.	www.thomsonfinancial.com
Vendors of delayed or end-of-day data	
Dow Jones Reuters Business Interactive Ltd.	www.factiva.com
ecetra Central European e-Finance AG	www.brokerjet.com
econet.hu Informatikai Rt.	www.econet.hu
FININFO SA	groupe.fininfo.fr
T-Mobile Magyarország Távközlési Rt.*	www.t-mobile.hu

* The data vending agreement with T-Mobile was active until December 31, 2004.

In 2004, based on consultations with vendors and other international market players, the BSE developed a new strategy for information vending and, as a result, a new vendor agreement was born, profoundly different from the old version both in structure and approach. Under the aegis of the new contract introduced from January 1, 2005, the BSE is in a position to react in a far more flexible way to the market developments and the quickly changing needs of market players. The legal framework system will, according to our hopes, contribute to the availability of BSE trading data to an increasingly wide community of investors and interested people.

The BSE attempts to address domestic investors with the use of different communication tools and the organisation of events (such as the open days of the Exchange, free training courses, etc.). BSE vendors also participate actively in the organisation and administration of these events.

OTHER INFORMATION SERVICES

In order to provide services primarily to domestic private investors, the BSE has for years operated an Information Centre, where our colleagues undertake to query historical data series as well.

Delayed trading data and information regarding issuer companies of the Exchange can be accessed through the official website of the BSE.

The image and contents of the website of the Budapest Stock Exchange were renewed in February 2004. The portal offers an opportunity to download the intraday trading data, delayed by 15 minutes, and 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 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, debt securities, and derivatives sections.

The BSE publishes its official announcements on the website, and stock exchange issuers also publish their regular and extraordinary announcements on the 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 form, sent directly via email.

BUDAPEST STOCK EXCHANGE INFORMATION CENTRE

H-1052 Budapest, Deák Ferenc u. 5.

Phone: (+36 1) 429-6857

Fax: (+36 1) 429-6899

Internet: www.bse.hu

E-mail: info@bse.hu

THE INDEXES OF THE BSE

BUX INDEX

The official blue-chip share index of the Budapest Stock Exchange is the BUX index, calculated by the BSE every five seconds in real-time, on the basis of current market prices. The Budapest Stock Exchange was among the first in the world to switch from pure market capitalisation weighting to a 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). 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.

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 criteria for inclusion in the basket covers 7 conditions: the net asset value in the last financial statements published prior to the revision date, the market value of the series of shares, the turnover in terms of deal numbers and at market value, the turnover velocity, the number of cross agency transactions, and the number of traded days. Compliance is required in at least five of these. 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 having the price

Composition of BUX index (as at December 31, 2004)	
Share	Weight on the basket
Antenna	0.37%
BorsodChem	0.61%
Danubius	0.90%
DÉMÁSZ	1.13%
Egis	2.14%
FHB	1.66%
Fotex	0.25%
Matáv	15.91%
MOL	28.35%
OTP	33.11%
Pannonplast	0.21%
Richter	14.35%
TVK	0.99%
Total	100.00%

changes of a single share exert 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 shares with an extremely high weight.

On the basis of the above criteria, the Index Committee, independent experts appointed by the BSE Board, prepares a proposal for the composition of the basket and the CEO of the Exchange passes a decision regarding said composition. In order to maintain the stability of the index basket, the Budapest Stock Exchange Co. Ltd. reserves the right to prevent an automatic change in the basket depending on compliance or non-compliance with the above criteria (for instance, in order to be included in the basket, it is necessary to comply with the criteria in two consecutive revisions).

2004 was a record year from the point of view of share prices on the exchange, and this was of course reflected in the BUX index as well. In the first month of the year, the index again crossed the magic 10,000 point border, previously reached in 2000. After this, further records were broken and, by the end of the year, the index closed at 14,742.57 points, representing an increase of more than 57 percent compared with December of the previous year.

BUMIX INDEX

The Budapest Stock Exchange Co. Ltd. has been calculating the BUMIX index on a continuous basis since June 1, 2004; the index aggregates listed companies with small and medium capitalisation. The official name of the index is: Budapest Stock Exchange Mid- and SmallCap Share Index, and the official abbreviation is BUMIX. The basis of the index was set on January 5, 2004, with an initial value of 1000 points. BUMIX is, similarly to BUX, a performance index weighted with free float, that is, dividend payments also play a role in its assessment.

The creation of the BUMIX index was motivated by a desire to reach a number of important goals. The BUX is highly concentrated; the four leading shares have a robust impact on the development of the index, with only minor influence from the other stocks due to their smaller portion in the index. However, the BUMIX provides a realistic chance for inclusion into an index for shares that, because of their size, cannot be included in the BUX basket.

A presence in the index is important for stock exchange issuers, since index membership is a precondition for investment according to many potential investors. In recent years, it has been increasingly common for large foreign institutional investors and fund managers setting up their portfolios to use an investment approach that follows indexes. Index membership draws attention to the given company, enhances demand for its shares, and provides a certain marketing value. Investor

interest can be further boosted by the fact that analysts also prefer to do research on companies figuring in the index, and thus these companies are normally easier to evaluate. The BUMIX index also offers a realistic future alternative for companies that become listed on the stock exchange whereby they can be included in a stock exchange index.

There is an overlap between the basket of the index and the BUX index basket. Only those series of shares can be admitted to the BUMIX basket where the market capitalisation adjusted for free float does not exceed 100 billion forints. Furthermore, in order to be admitted to the basket, it is necessary for the market-value turnover of the series of shares over the last six months to have reached 1,250 million forints, while the number of deals concluded for the given series of shares must be at least 1,250 (in number). Due to the condition regarding the market capitalisation, the shares of MOL, OTP, Matáv, and Richter were not included into the BUMIX basket.

Composition of the BUMIX index (as at December 31, 2004)	
Share	Weight on the basket
Antenna Hungária Rt.	5.42%
BorsodChem	6.84%
Danubius	10.44%
DÉMÁSZ Rt.	12.23%
Econet	0.51%
Egis	14.87%
Elmű	6.29%
FHB	14.70%
Fotex	3.76%
Globus	0.94%
Graphisoft	3.70%
NABI	0.63%
Pannonplast	3.07%
RÁBA Rt.	4.09%
Synergon Informatikai Rt.	1.64%
TVK	10.86%
Total	100.00%

For the establishment of the ranking of the securities included in the basket, the three above criteria (capitalisation, turnover at market prices, and number of transactions) were considered with the respective weights of 40%, 30%, and 30%.

For the weighting of the shares, the digression method also used with the BUX index is applied, but in a stronger form: above 5%, only half of the capitalisation, above 10% only a quarter of the capitalisation is considered.

The Business Performance of the BUX index | 2004



The Business Performance of the BUMIX index | 2004



Source: BSE

Index	The share indexes of the BSE					The BSE Yield Index
	BUX	BUMIX	CESI	CETOP20	RAX	DWIX
Full name	The Share Index of the Budapest Stock Exchange Co. Ltd.	Budapest Stock Exchange Mid- and SmallCap Share Index	Central European Share Index	Central European Blue Chip Index	BAMOSZ Equities Investment Fund Portfolio Index	Daiwa-MKB Treasury Bill Yield Index
Purpose	An indicator of the share price movements on the domestic market	An indicator of the share price movements of equities with medium and small capitalisation	An indicator to reflect the price movements on five 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-month discount treasury bills), risk-free yields to maturity
Type	Forint-based share index, with market capitalisation weighting corrected for free float, taking account of dividend payouts	Forint-based share index, with market capitalisation weighting corrected for free float, taking account of dividend payouts	Euro-based share index with market capitalisation weighting, ignoring dividend payouts	Share index with market capitalisation weighting, taking account of dividend payouts	Forint-based share index, with market capitalisation weighting corrected for free float, taking account of dividend payouts	Yield index, volume-weighted average of the yields accepted on auctions
Structure	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 (up to a maximum of 25) that meet the 3 prescribed criteria	Consists of a variable number of shares, representing 50% of the official equities market capitalisation in the basket. The weight of any exchange can be a maximum of 50%, the weight of any shares can be a maximum of 12%	Consists of twenty shares from any of the exchanges, a maximum of 7 shares can be included in the basket for the same period	Thirteen shares, 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%, respectively in the portfolio	The results of the auctions in the last month are considered with an eight-fold weight, those of the previous month with a three-fold weight, and those of the month previous to that with a normal weight
Revision	Twice a year (March, September), the new basket is introduced on the first trading day of each April and October	Twice a year (March, September), the new basket is introduced on the first trading day of each April and October	Twice a year (April, October), the new basket is introduced on the first trading day of each May and November	Twice a year (April, October), the new basket is introduced on the first trading day of each May and November	Semi-annually (February, August), the new basket is introduced on the first trading day of March and September. The shares are weighted again each month	Modifications are carried out, if necessary
Frequency of calculation	Continuous, every five seconds	Continuous, every five seconds	Once per day, at 16:30	Once per day, at 17:00	Once per day, at 16:30	Once per week, on Thursdays, after the TB-auctions
Ticker codes	Reuters: BUX Bloomberg: BUX<INDEX><GO>	Reuters: BUMIX Bloomberg: BUMIX<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>
Base value	January 1, 1991=1000 points	January 5, 2004=1000 points	June 30, 1995=1000 points	January 1, 2001=1000 points	January 7, 1998=1000 points	

THE BUSINESS PERFORMANCE OF THE BSE

The post-tax profit of the BSE for the year 2004 was 1,038.3 million forints, exceeding the previous year's level by 910 million forints. The improved profit was due to higher trading fee income and higher interest income originating from term deposits of the increased cash stock, as well as from the full depreciation of the MMTS trading system in 2003, and the consequent drop in the depreciation costs from 602 million forints in 2003 to 65 million forints in 2004.

The retained profit for the year was due to a major improvement in stock exchange activities. The loss on operations in 2003 was still 98 million forints, but the company was again profitable in 2004 with an increase of 821 million forints.

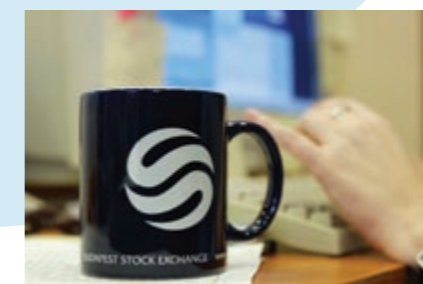
The increase in the revenues from stock exchange activities was caused partially by an increase in fee income from trading (a decisive factor in the equities section was that the average daily turnover increased from 6.1 billion forints in 2003 to 10.3 billion forints in 2004), and partially from the drop in depreciation costs.

As a result of efficient cost management, our costs, ignoring depreciation, were approximately equal for both years, in spite of inflation of 6.8% in the year 2004.

As a result of interest income from investments of the increasing cash stock in government securities in the presence of declining yields, the profit of 315 million forints on financial operations exceeded the 2003 level by 89 million forints.

BALANCE SHEET (Data in 1000 HUF)			
serial no.	Balance sheet	Previous year (31/12/2003)	Current year (31/12/2004)
1	A. LONG TERM ASSETS (Lines 2.+3.+4.)	2 555 785	2 789 593
2	I. Intangible assets	15 764	20 224
3	II. Tangible assets	166 249	199 538
4	III. Investments	2 373 772	2 569 831
5	B. CURRENT ASSETS (Lines 6.+7.+8.+9.)	2 267 547	2 722 624
6	I. Inventories	4 547	9 392
7	II. Accounts receivable	91 524	112 120
8	III. Securities	2 147 574	1 870 711
9	IV. Liquid assets	23 902	730 401
10	C. ACCRUED INCOME AND DEFERRED EXPENSES	93 569	98 942
11	ASSETS (APPLICATIONS) TOTAL (LINES 1.+5.+10.)	4 916 901	5 611 159
12	D. SHAREHOLDERS' FUND (Lines 13.-20.)	4 348 552	5 386 899
13	I. ISSUED CAPITAL	541 348	541 348
14		0	0
15	II. CALLED UP, BUT NOT PAID CAPITAL	0	0
16	III. CAPITAL RESERVE	2 576 356	2 576 356
17	IV. PROFIT RESERVE	1 230 848	1 230 848
18	V. RESERVES IN DEPOSIT	0	0
19	VI. REVALUATION RESERVE	0	0
20	VII. RETAINED EARNINGS FOR THE YEAR	0	1 038 347
21	E. PROVISIONS	0	0
22	F. LIABILITIES (Lines 23.+24.+25.)	457 056	81 282
23	I. Deferred liabilities	0	0
24	II. Long-term liabilities	0	0
25	III. Short-term liabilities	457 056	81 282
26	G. ACCRUED EXPENSES AND DEFERRED INCOME	111 293	142 978
27	SOURCES (LIABILITIES), TOTAL (LINES 12.+20.+22.+25. sor)	4 916 901	5 611 159
	AVERAGE STATISTICAL HEADCOUNT (Active staff, without absentees)	62 persons	63 persons

INCOME STATEMENT (Data in 1000 HUF)			
serial no.	Denominator of the item	Previous year (31/12/2003)	Current year expected (31/12/2004)
I.	Revenues and other income from stock exchange activities	1 529 586	1 850 722
II.	Operating costs and expenses	0	3 703
III.	Other income	28 159	17 192
IV.	Expenses of material nature	379 084	394 253
V.	Personal expenses	577 984	611 560
VI.	Depreciation	602 656	64 971
VII.	Other expenses	95 340	77 307
A.	PROFIT/LOSS ON STOCK EXCHANGE (I.+II.+III.-IV.-V.-VI.-VII.)	-97 319	723 526
VIII.	Income from financial operations	247 687	324 645
IX.	Expenses of financial operations	21 318	9 744
B.	PROFIT/LOSS OF FINANCIAL OPERATIONS (VIII.-IX.)	226 369	314 901
C.	ORDINARY PROFIT/LOSS (+A.+B.)	129 050	1 038 427
X.	Extraordinary income		
XI.	Extraordinary expenses	257	80
D.	Extraordinary profit/loss (X.-XI.)	-257	-80
E.	Profit before taxation (+C.+D.)	128 793	1 038 347
XII.	Tax liability		
F.	PROFIT/LOSS AFTER TAXATION (+E.-XII.)	128 793	1 038 347
1	Use of profit reserve for dividend and profit sharing	223 083	0
2	Dividend, profit sharing approved	351 876	0
G.	RETAINED EARNINGS (+F+1-2)	0	1 038 347





INDEPENDENT AUDITORS' REPORT

'05 06/02 THU 11:10 FAX +36 1 429 6822

BUDAPESTI ÉRTÉKTŐZSDE

001



Ernst & Young Kft.
11-1132 Budapest, Váci út 20.
1399 Budapest 62 Pf. 632
Hungary

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

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of Budapesti Értéktőzsde Részvénytársaság

We have audited the accompanying balance sheet of Budapesti Értéktőzsde Részvénytársaság as at 31 December 2004, which shows a balance sheet total of HUF 5,611,159 thousand and a profit for the year of HUF thousand 1,038,347, the related profit and loss account for the year then ended and the notes included in the Company's 2004 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 2004 on the Company's annual financial statements as at 31 December 2003.

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 2004 and of the results of its operations for the year then ended. The business report corresponds to the disclosures in the financial statements.

Budapest, 25 February 2005

Ernst & Young Kft.
Registration No. 001165

Szilágyi Judit
Registered Auditor
Chamber membership No.: 001368