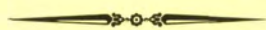


PRAGUE STOCK EXCHANGE



ANNUAL REPORT [1998]





PRAGUE STOCK

Selected Indicators	2
Introduction by the Chairman of the Exchange Chamber	4
Key Events in the History of the Exchange	6
Interview with the General Secretary	8
The Exchange in 1998	10
Membership	12
Structure of the Securities Market	14
Trading	16
Preparations for Derivatives Trading	20
The Exchange's Information and Trading System	21
Effective Management	22
Marketing	23
Prospects	24
Exchange Bodies	25
Report of the Supervisory Board	28
Auditor's Report	29
Financial Statements	30
Resolution of the General Meeting	33
The Exchange's Shareholders and Members	34
Abbreviations and Terms Used	35
Contact Information	36

BURZA CENNÝCH PAPIRŮ PRAHA, A. S. (THE PRAGUE STOCK EXCHANGE, FURTHER REFERRED TO AS THE PSE, OR THE EXCHANGE) WAS FOUNDED IN NOVEMBER 1992. IT IS THE LEADING ORGANISER OF SECURITIES MARKETS IN THE CZECH REPUBLIC. IT IS BASED ON THE MEMBERSHIP PRINCIPLE, WHICH MEANS THAT ALL TRADING ON THE EXCHANGE IS CARRIED OUT THROUGH MEMBER COMPANIES.

EXCHANGE

THE PSE IS A MAJOR INSTRUMENT IN DIRECTING AVAILABLE FINANCIAL RESOURCES TO THE MARKET AND, AS ITS REGULATOR, IT ENABLES SURPLUS CAPITAL TO BE DEPLOYED TO WHERE IT IS IN MOST DEMAND ECONOMICALLY.

IT PUBLISHES THE RESULTS OF TRADING ON THE EXCHANGE IN THE DAILY PRESS, ON THE INTERNET AND THROUGH INFORMATION AGENCIES.

IT ALSO OFFERS COURSES AND CONSULTING SERVICES TO THOSE INVOLVED IN THE CAPITAL MARKET.

SELECTED [I N

FINANCIAL INDICATORS AT DECEMBER 31

IN CZK MIL.	1998	1997	1996	1995	1994
Revenues	258	267	309	213	105
Costs	244	288	295	199	104
Income tax	4	4	2	8	-
Profit before taxation	18	- 21	14	14	1
Profit after taxation	14	- 25	12	6	1
Shareholders' equity	429	414	440	429	191

Costs
(in CZK mil.)



Revenues
(in CZK mil.)



DI C A T O R S]

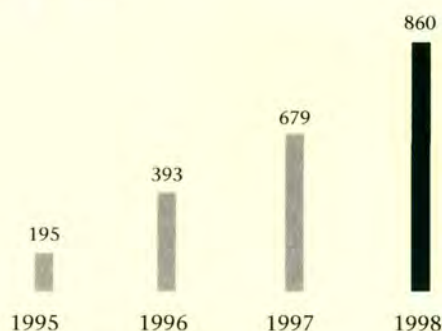
BASIC TRADING DATA AT DECEMBER 31

	1998	1997	1996	1995	1994
Total value of trades (in CZK mil.)	860,192	679,537	393,200	195,407	62,026
Average daily value of trades (in CZK mil.)	3,427	2,718	1,579	835	385
PX 50 Index	394.2	495.3	539.6	425.9	557.2
Market capitalisation of shares and units (trust units) (in CZK mil.)	416,202	495,681	539,242	478,634	353,103
No. of share and unit issues on the main market	10	45	44	62	34
No. of share and unit issues on the secondary market *)	96	58	52	6	-
No. of share and unit issues on the free market	198	217	1,574	1,648	994
Market capitalisation of bonds (in CZK mil.)	198,107	174,005	136,918	87,832	50,004
No. of bond issues on the main market	33	33	26	20	13
No. of bond issues on the secondary market *)	3	2	1	0	-
No. of bond issues on the free market	62	57	53	28	14

*) The secondary market opened in 1995

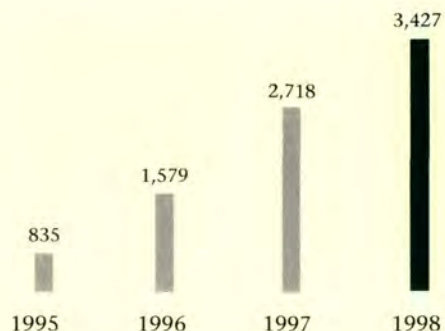
Annual value of trades

(in CZK bn)

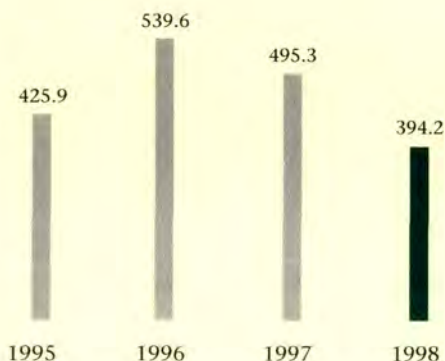


Daily value of trades

(in CZK mil.)

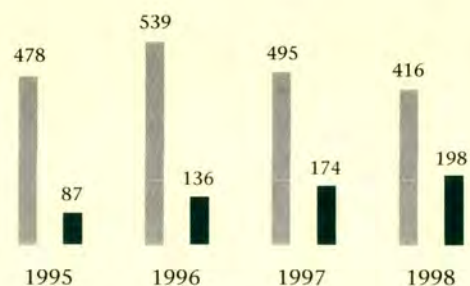


PX 50 Index (at Dec. 31)



Market capitalisation of shares + units and bonds (at Dec. 31)

(in CZK bn)



■ Shares + Units ■ Bonds

I N T R O D U C T

BY THE CHAIRMAN OF THE EXCHANGE CHAMBER

1998 WAS A WATERSHED YEAR FOR THE CZECH CAPITAL MARKET: MAJOR CHANGES TOOK PLACE WHICH OPENED THE WAY TO BRINGING IT INTO LINE WITH ACCEPTED STANDARDS. ALTHOUGH THE CZECH ECONOMY DID NOT DEVELOP AS EXPECTED AND THERE WAS A DOWNTURN IN A NUMBER OF KEY AREAS, THE YEAR BROUGHT IMPORTANT CHANGES ON THE CAPITAL MARKET WHICH CONTRIBUTED TO GREATER TRANSPARENCY IN CAPITAL OPERATIONS.

MAJOR CHANGES ALSO OCCURRED ON THE EXCHANGE, WHICH CONSOLIDATED ITS POSITION ON THE CZECH CAPITAL MARKET. TRANSACTIONS WERE MORE TRANSPARENT, AND A START WAS MADE ON EXPLORING POSSIBLE LINKS WITH THE GLOBALISATION PROCESSES TAKING PLACE IN EUROPE.

[STEPS TO REVIVE THE CZECH CAPITAL MARKET

Clearly, the most important step in improving the situation and restoring the confidence of domestic and foreign investors in the Czech capital market was the launch of the Securities Commission, which since early April has taken responsibility for supervision of capital market operations. As a necessary instrument in supervising and regulating the capital market, the Securities Commission should help to make operations on the capital market more transparent, give more protection to investors, and create the kind of conditions which are standard on foreign markets. The Commission is also helping to prepare new legislation regulating the capital market.

A very important aspect of the Commission's activities is determining the conditions under which entities operating on the capital market can renew their licences. This can only assist the recovery of our market.

The law on investment funds and investment companies has undergone extensive changes. The amendments approved in June 1998 are certainly playing their part in boosting the confidence of our own and foreign investors in collective investment in the Czech Republic. They have also increased the transparency of investment company operations, strictly regulated the opening of mutual funds and reducing the maximum limit on their holdings in companies.

[CHANGES IN THE EXCHANGE'S SYSTEM OF OPERATION

1998 saw the Exchange introduce a great many changes in its method of operation. It solved the problem of the low volume of pricing transactions and its pricing function was strengthened by the introduction of the new SPAD trading segment, which is price-driven and uses the services of market makers. Trading in this new segment allows for transfer of trades

in the most liquid share issues to the pricing framework of the Exchange's market. Stricter conditions for Exchange members and issuers also contributed to greater transparency in trading. The Exchange also strengthened its preventive role and made every effort to introduce measures to eliminate possible breaches of the law. Following mounting calls for transparency, ethical conduct on the capital market and greater market regulation, the Exchange amended a number of existing regulations and introduced a range of new ones applying to the new products and services on offer. Discussion focused in particular on amendment of the membership regulations, the principles of inspection, and the rules for publishing information about trading transactions.

The use of the capital market as an alternative source of financing for enterprises is a longer-term problem which the Exchange would want to help solve. At the moment, legislative obstacles, the situation and lack of preparedness at enterprise level, and low investor interest are preventing the successful launch of Initial Public Offering (IPO).

[THE PRAGUE EXCHANGE IN THE EUROPEAN CONTEXT

1998 signalled the opening of globalisation processes on the capital markets of Europe. The Prague Exchange also intends to extend its links with the European securities market as part of its efforts to preserve its important role at home.

The Exchange has set itself two strategic priorities in the coming period. The first is taking an active role in harmonising Czech legislation with European Union legislation. The second, just as important, is creating the best possible trading conditions, which will benefit investors looking for globalised markets.

The Exchange's aim is to give members comfortable and easy access to the newly-emerging alliance on the European Union's



capital market, where the most liquid securities can be traded. At the same time, it wants to consolidate its domestic role by giving members easy access to the European market and opening up the Czech market to foreign investors through the European system. The Exchange's strategy for the immediate future also includes co-operation with the major capital markets of central and eastern Europe, especially the exchanges in Warsaw, Budapest, Bratislava and Ljubljana.

The Exchange's main aim, however, continues to be completing the creation of a transparent environment with a liquid pricing market, which will allow the Exchange to best fulfil its unique role in the Czech economy and help increase the confidence of local and foreign investors in the Czech capital market. Nevertheless, trends in the Czech capital market as a whole depend above all on the state of the Czech economy, and the Exchange is only a barometer of the overall situation.

PETR BUDINSKY

KEY EVENTS IN T

4 Nov. 1992

[PSE FOUNDED

6 April 1993

[TRADING OPENED
IN 7 SECURITIES ISSUES

22 June 1993

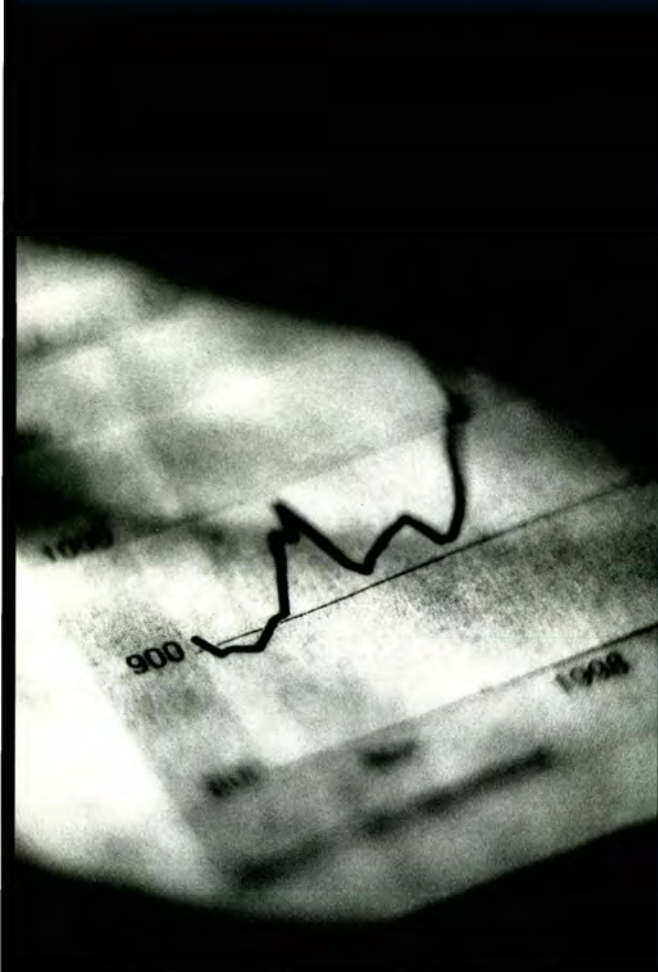
[622 ISSUES OF SHARES
FROM THE FIRST WAVE OF COUPON
PRIVATISATION INTRODUCED
ON THE MARKET

13 July 1993

[333 ISSUES OF SHARES
FROM THE FIRST WAVE OF COUPON
PRIVATISATION INTRODUCED
ON THE MARKET

5 April 1994

[LAUNCH OF THE EXCHANGE'S OFFICIAL
PX 50 INDEX



HISTORY OF THE EXCHANGE

1 March 1995 1997

[674 ISSUES OF SHARES
FROM THE SECOND WAVE
OF COUPON PRIVATISATION

[1,301 NON-LIQUID SHARE ISSUES
EXCLUDED FROM THE EXCHANGE'S
FREE MARKET

6 April 1995

[LAUNCH OF THE PX-GLOB
AND PXL GENERAL INDICES
AND 19 SECTORAL INDICES

25 May 1998

[SPAD SYSTEM TRADING OPENED.

TRANSFER OF ALL SHARE AND UNIT
ISSUES OF CLOSED MUTUAL FUNDS FROM
THE MAIN AND SECONDARY MARKETS TO
THE KOBOS SYSTEM TRADING

1 Sept. 1995

[OPENING OF THE MAIN AND SECONDARY
MARKETS (ORIGINALLY THE LISTED
SECURITIES MARKET) AND THE FREE
MARKET (ORIGINALLY THE UNLISTED
SECURITIES MARKET)

15 March 1996

[KOBOS SYSTEM TRADING OPENED
IN 5 SHARE AND 2 BOND ISSUES



[INTERV

IN 1998 THE PRAGUE STOCK EXCHANGE COMPLETED ITS SIXTH YEAR OF TRADING. THE YEAR BROUGHT AN IMPROVEMENT IN THE INSTITUTIONAL FRAMEWORK AND TRANSPARENCY OF THE CZECH CAPITAL MARKET.

The Exchange's General Secretary, **Pavel Hollmann**, answers questions about its developments in 1998 and future prospects.

[HOW IS THE EXCHANGE PLANNING TO IMPROVE ITS SERVICES?

Last year saw continuing modernisation of the trading system. Our main task was to complete software support for the new SPAD trading segment, which is based on continuous price quotations by market makers. The aim of this fully automatic system was to increase the liquidity of trading and this was accomplished. After SPAD trading opened in May 1998, the average monthly value of share trading on the central market rose sevenfold. The share of the eight most liquid issues traded in this segment in all transactions on the Exchange's central market was more than 90%.

[WHAT WERE THE TRENDS IN TRADING ON THE EXCHANGE LAST YEAR?

Influenced by many domestic and international factors, the share prices dropped. This was reflected in the official PX 50 index, which fell by 20.4%. By contrast, the total value of trades for 1998 grew by 26.6%.

[HOW DID THE EXCHANGE HELP TO RESTORE INVESTOR CONFIDENCE IN CZECH CAPITAL MARKETS?

The Exchange monitored compliance with its regulations more closely, both by member firms and issuers. It takes every necessary step to ensure that all those active on the capital market fulfil their duties.

Since January 1999, amended *Stock Exchange Membership Regulations* have been in force. These introduced new requirements which are standard practice on capital markets in the advanced European states. They make new demands on member firms and widen the general conditions of membership by fixing

I E W] WITH THE GENERAL SECRETARY

a minimum level of cash resources, which assists member firms in meeting their obligations to clients.

The new rules also regulate the conduct of members towards clients much more widely and specifically, defining the principles underlying respect for the interests of the client. Also important is the fact that manipulation of market has been defined and banned.

[WHAT ABOUT MEMBERSHIP? WHAT IS THE EXCHANGE DOING TO INCREASE TRANSPARENCY?

There has been a fall in the number of members, not only as a result of the new membership rules but especially because of the checks the Securities Commission is running on individual members of the Exchange, which have led in essence to a significant improvement in the quality of the members of the Exchange. In the coming period only companies which fulfil the demanding conditions insisted on by the Exchange's inspection body will be allowed to remain on the market.

We also make much greater demands on the issues traded on the Exchange's prestigious main market. Since January 1999, stricter criteria have applied to the launching of issues on the main market. In the coming period, there will be an attempt to increase the number of titles traded on the Exchange's prestigious markets and to raise the transparency of all the Exchange's markets. The amendment we are proposing to *The Requirements for Admission of a Security to Trading at the Stock Exchange* should result in stricter standard information duties for those wanting to launch issues on the Exchange's main and secondary markets.

Following the fall in the number of issues on the free market, the Exchange is preparing to exclude other illiquid issues from the pricing trading.

[WHAT HAS BEEN EXCHANGE'S CONTRIBUTION TO FURTHER DEVELOPING THE CZECH CAPITAL MARKET?

The Exchange is de facto technically and organisationally ready to open trading in derivatives. In December 1998 a new index PX-D was agreed which will become one of the underlying assets for derivatives trading.

We are also working on plans for a new trading segment, which will support trading in bonds on the Exchange's central market.

In addition, we are working very hard on our proposals for amendments to the laws regulating the capital market. Nor are we neglecting the need for support for IPO, where our aim is to help improve the conditions under which they are launched.

As far as international relations are concerned, one of the Exchange's priorities remains establishing closer links with international organisations, in line with the irreversible trend towards globalisation of capital markets.

[WHAT ABOUT THE COST OF TRANSACTIONS ON THE EXCHANGE LAST YEAR?

One of the crucial aims of the Exchange is obviously to keep the cost of transactions low. We implemented a series of internal measures which reduced the cost of operations while at the same time offering a wider range of services. Because of the highly efficient character of the Exchange's activities, these measures did not lead to an increase in the Exchange's fees, which have also remained at the same level in 1999.

THE EXCHA

5 January

[35 COMPANIES WERE TRANSFERRED FROM THE MAIN TO THE SECONDARY MARKET FOR FAILING TO HAVE THE REQUIRED AMOUNT OF LIQUIDITY ON THE CENTRAL MARKET.

16 March

[BASED ON THE EXCHANGE'S NEW TIME SCHEDULE, THE TRADING PERIOD WAS EXTENDED UNTIL 4 P.M. AND PUBLICATION OF THE DAY'S RESULTS MOVED FROM 4 P.M. TO 5 P.M.

1 April

[THE SECURITIES COMMISSION LAW CAME INTO FORCE, AUTHORIZING THIS NEW BODY TO SUPERVISE ACTIVITIES ON THE CAPITAL MARKET.

30 April

[AT THE EXCHANGE'S 6TH ORDINARY GENERAL MEETING, A NEW EXCHANGE CHAMBER AND SUPERVISORY BOARD WERE ELECTED AND THE EXCHANGE'S GENERAL SECRETARY, JIRÍ FRANČEK, RESIGNED.

7 May

[PETR BUDINSKÝ WAS ELECTED AS THE NEW CHAIRMAN OF THE EXCHANGE CHAMBER AND JOSEF KOTRBA AS ITS VICE-CHAIRMAN. PAVEL HOLLMANN BECAME THE EXCHANGE'S GENERAL SECRETARY.

25 May

[TRADING IN THE SPAD SEGMENT BEGAN WITH KOMERČNÍ BANKA'S SHARE ISSUE.

ALL ISSUES OF SHARE AND UNIT OF CLOSED-END MUTUAL FUNDS WERE TRANSFERRED FROM THE MAIN AND SECONDARY MARKETS FOR TRADING IN THE KOBOS SYSTEM.

28 May

[THE UNIPETROL SHARE ISSUE WAS INCLUDED IN THE SPAD SEGMENT.



N G E] IN 1998

4 June

[THE SPT TELECOM AND ČEZ SHARE ISSUES WERE INCLUDED IN THE SPAD SEGMENT.

26 June

[REPRESENTATIVES OF THE EXCHANGE AND THE SUPPLIES COMPANY PROM PARTNERS, S. R. O., SIGNED A PROTOCOL ON THE DELIVERY OF A DERIVATIVES TRADING SYSTEM.

20 July

[THE SHARE ISSUES OF ČESKÁ SPORITELNA AND RIF WERE INCLUDED IN THE SPAD SEGMENT.

28 August

[A RECORD VALUE OF TRADES WORTH CZK 1,995.1 MILLION WAS ACHIEVED ON THE CENTRAL MARKET. TRADING IN THE NEW SPAD SEGMENT ACCOUNTED FOR 97% OF THESE.

23 September

[GEORG JEDLIČKA OF EXPANDIA FINANCE WAS ELECTED AS THE EXCHANGE CHAMBER'S VICE-CHAIRMAN. HE REPLACED JOSEF KOTRBA, WHO HAD RESIGNED.

8 October

[THE PX 50 INDEX FELL TO 316 POINTS, ITS LOWEST LEVEL SINCE IT OPENED ON 5 APRIL 1994.

21 October

[PAVEL HOLLMANN WAS APPOINTED AS THE EXCHANGE'S GENERAL SECRETARY AFTER A SELECTION PROCEDURE.

26 October

[THE SHARE ISSUES OF IPS AND ČESKÉ RADIOKOMUNIKACE WERE INCLUDED IN THE SPAD SEGMENT.

16 December

[CANCELLATION OF AUTOMATED TRADES IN BLOCKS OF SECURITIES WAS APPROVED WITH EFFECT FROM 1 JANUARY 1999.

AMENDMENTS TO THE EXCHANGE MEMBERSHIP REGULATIONS WERE APPROVED, INTRODUCING MORE DETAILED GENERAL MEMBERSHIP CONDITIONS THAN THE PREVIOUS VERSION AND A NUMBER OF IMPORTANT NEW PROVISIONS.

APPROVAL WAS GIVEN TO A NEW PX-D INDEX, WHICH WAS DESIGNED AS THE UNDERLYING ASSET BASE FOR DERIVATIVES TRADING ON THE EXCHANGE.

[M E M B E R S]

[STRICTER CONDITIONS

In 1998 there was a significant tightening of the conditions of membership, with members now having to satisfy the more exacting requirements of two regulations, which have had an important effect on the transparency of trading.

The requirement of higher transparency of members' activities led to the draft changes in Rules for Recording Trades, Non-Commercial Transfers and Securities. The draft was approved by the Exchange Chamber in March 1998.

Long-prepared amendments to the *Exchange's Membership Regulations*, adopted by the Exchange Chamber in December, specify more detailed general conditions. One of the major changes is the duty of a member to maintain CZK 5 million in liquid cash resources. It also significantly extends the duty of member companies to provide information, and requires the documenting of trades (contracts and instructions) and new principles to be followed in dealings with clients.

After wide discussion, restrictions were imposed on trading by employees of Exchange members and an explanation given of what manipulation of the market involves. The Regulations govern the status of an Exchange member whose membership is suspended by the Exchange Chamber and impose a duty on members to cancel orders where membership has been suspended or withdrawn.

By adopting these changes, members of the Exchange undertook to create an environment for clients in which the services provided to them will be of the normally expected standard, including guarantees that their instructions will be carried out.

[ONGOING SUPERVISION

Supervision of the activities of members was increased, as were the sanctions imposed for proven violations of the Stock Exchange Law and the Exchange's regulations. By repeated checks, the Exchange ensured that shortcomings found were corrected. It also strengthened the Exchange's preventive role, drawing the attention of members to possible violations of legal regulations, discussing with them what remedial measures need to be taken, and in the light of this formulating proposals for amendment of the Exchange's regulations.

[FEWER MEMBERS

As a result of the stricter conditions of membership and the Securities Commission's licence renewals, but also under the influence of the current economic situation, there has been a fall in the number of members. During the year one new member was accepted and a second applicant was promoted to full membership in place of another member. Mostly at the end of the year, 12 companies terminated their membership at their own request. Four companies had their membership terminated as a result of failing to fulfil the conditions of membership. The number of members fell from 88 at 31 December 1997 to 71 at 31 December 1998.

[SHAREHOLDERS

There was no substantial change in the structure of the Exchange's shareholders during 1998. One important development which should be noted was the transfer of 17,388 shares - 4.52% — from Agrobanka Praha, a. s., to GE Capital Bank, a. s., which is not a trading member of the Exchange. In all, 4.8% of shares changed hands. At the end of 1998, the Exchange had 58 shareholders, of which 19 were not its members.

H I P]

[CHANGES IN MEMBERSHIP IN 1998

NEW MEMBERS ACCEPTED

- From 23 March BENET GROUP, a. s.
From 30 July C.S. Brokers burzovní, a. s.
- membership transferred from
Zvěřina a Bělohávek, s. r. o.

TERMINATION OF MEMBERSHIP AT OWN REQUEST

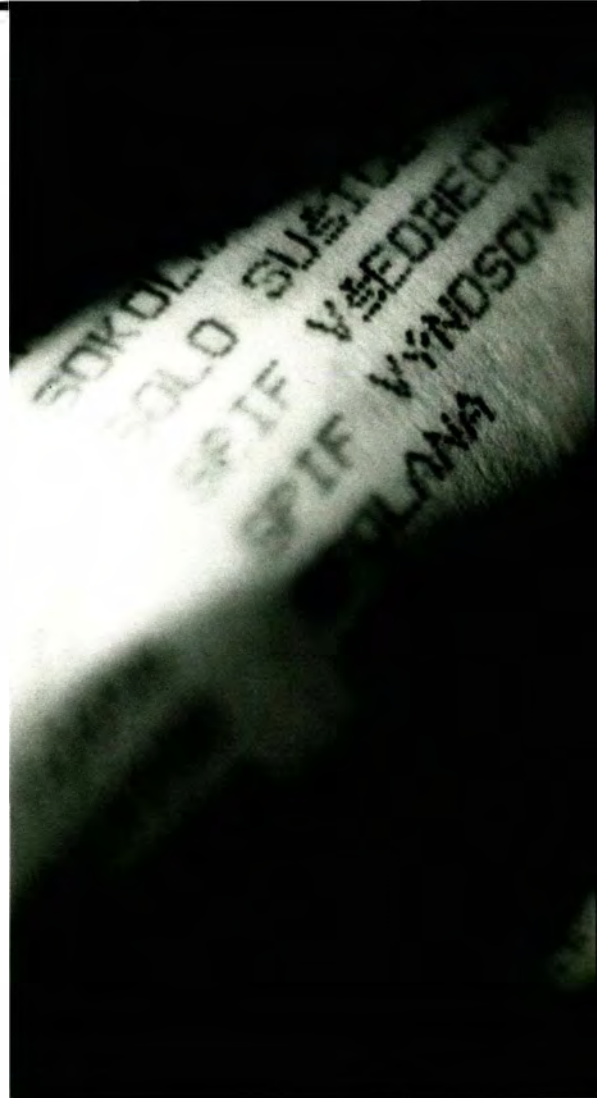
- On 29 January BURZOVNÍ SPOLEČNOST EGRETTA, s. r. o.
On 31 January IB Austria Securities Praha, a. s.
On 12 March Zvěřina a Bělohávek, s. r. o.
- membership transferred to C.S. Brokers
burzovní, a. s.
On 1 April ICEBERG, a. s.
On 14 April Merx, a. s.
On 20 April C.S. Brokers burzovní, a. s.
On 30 April TEG, a. s.
On 24 June Agrobanka Praha, a. s.
On 30 June Silas Broker, s. r. o.
On 15 August CIMEX TRADING, a. s.
On 13 October KOMERO, s. r. o.
On 9 November EB Brokers, a. s.
On 15 November Procap Securities, a. s.
On 26 November RH FIN, a. s.
On 14 December CZECHONA, s. r. o.
On 30 December Expandia Finance, a. s.
On 31 December AKRO CAPITAL, a. s.
HYPO-BANK CZ, a. s.
Katnek Securities, a. s.
NEWTON STOCK INVESTMENT, a. s.
PROSPER FINANCE, a. s.

TERMINATION OF MEMBERSHIP

- On 24 October
Pragobanka, a. s. - banking licence
withdrawn

PERMANENT EXCLUSION FROM TRADING

- On 10 January
Velkomoravská banka, a. s.
On 19 January
COOP BANKA, a. s.



[S T R U C T U R

IN 1998 SECURITIES WERE TRADED ON THE PRAGUE STOCK EXCHANGE ON THREE MARKETS: THE MAIN MARKET, THE SECONDARY MARKET AND THE FREE MARKET.

[THE MAIN AND SECONDARY MARKETS

Securities admitted to trading by the Exchange Listing Committee and satisfying the *Requirements for Admission of a Security to Trading at the Exchange* were traded on the main and secondary markets. Enterprise and bank securities were issued in the necessary minimum value on the basis of a public offer, while the securities of investment and mutual funds were backed by the necessary minimum of share capital.

In 1998 the Listing Committee made trading on the Exchange's main market conditional on liquidity of CZK 1 million of the average daily value on the central market for the 12 months under review. There was no condition of liquidity on the secondary market. After being accepted on the main and secondary markets, issuers had a duty to provide the Exchange with quarterly economic information. They must continuously provide information about facts which could affect the price of their securities.

On the basis of a decision by the Exchange Listing Committee, since the beginning of 5 January 1998 35 issues of shares and units whose average daily value of trades on the central market was lower than CZK 1 million have been transferred from the main to the secondary market. During the year, four issues of state bonds and one issue of bank bonds were accepted for trading on the main market. 6 issues of shares and one issue of bonds were accepted on the secondary market.

During the year, the Listing Committee closely monitored fulfilment of the information duties by companies trading on the main and secondary markets. Companies which did not comply were subject to sanctions imposed by the Exchange Chamber. Five non-public reprimands were given to companies trading on the main market and 27 more to companies trading on the secondary market. Three public reprimands were given by the Exchange Chamber on the recommendation of the Listing Committee. One company was excluded from the secondary market as a result of repeated non-fulfilment of its duty.

No. of issues traded on the main and secondary markets (at 31 December)



OF THE SECURITIES MARKET

[FREE MARKET

Registration of securities on the free market is considered on the basis of an application, which a member of the Exchange is entitled to submit in accordance with the *Requirements for Registration of a Security to Trading in the Free Market of the Exchange*. The Exchange's General Secretary decides on whether or not to grant the application, and no duties are incurred by the issuer as a result of registration. The Exchange takes on no commitments when securities are registered for the free market, and it is not liable for any kind of damages as a result of information provided by the traders.

A condition for membership of the free market was a minimum securities issue of CZK 50 million. During 1998, five new issues of shares and units and 15 bond issues were registered on the free market. The General Secretary decided to cancel registration of securities issues if their public tradability was ended, or if other conditions imposed by generally binding regulations or the Exchange's own regulations ceased to be fulfilled. A total of 25 securities issues were affected.

By the end of the year, 402 issues of securities were being traded on the Exchange - 43 of them on the main market (10 issues of shares and units and 33 bond issues) and 99 issues on the secondary market (96 issues of shares and units and 3 bond issues).

[KEY CHANGES ON THE LISTED MARKETS IN 1998

5 January

35 companies were transferred from the main market to the secondary market following the adoption of new regulations regarding liquidity on the central market.

15 January

The Centex share issue was transferred from the free market to the secondary market.

26 February

Hotel Forum shares were permanently excluded from trading on the Exchange because of the issuers repeated failure to fulfil its duty to provide information.

28 May

Trading opened in KOB VAR/05 bond on the main market.

4 June

KVANTO IPF investment fund shares were transferred from the free market to the secondary market.

25 June

Trading in the shares of Teplárny Brno on the secondary market was terminated at the issuer's own request, and the issue was transferred to the free market.

1 July

2. SPIF shares were transferred from the free market to the secondary market.

9 July

Shares of Keramika Horní Bříza were transferred from the free market to the secondary market.

6 August

The ŠKODA PRAHA share issue was transferred from the free market to the secondary market.

13 August

Trading opened in the new D.S. LEASING VAR/00 bond issue.

5 October

ČKD PRAHA HOLDING shares were transferred from the free market to the secondary market.

19 October

Trading in the shares of Assidomän Sepap on the secondary market was terminated.

I N G]

the Securities Commission, contribute to greater transparency on the capital market as a whole.

In 1998 trades could be concluded on the Exchange in the following segments:

- trading at a fixed price (fixing)
- continuous trading at variable prices (KOBOS)
- continuous trading at a fixed price (additional orders)
- SPAD (based on continuous price quotations by market makers)

The Exchange's system also allowed for trades to be closed by direct trading in blocks of securities on the main, secondary and free markets, except for securities traded in the SPAD segment. Direct trades are not tied to current prices.

Because of minimum use of automatised trades in blocks of securities (block trading), which were previously used mostly by the National Property Fund during the privatisation process, this segment was closed down on 31 December.

[ASSESSMENT OF THE 1998 TRADING RESULTS

The total annual value of trades reached CZK 860.2 billion. In comparison with 1997, this represented an increase of 26.6%. While the value of trades on the bond market (CZK 687.6 billion) rose year-on-year by 58.7%, the value of trades on the market in shares and units at CZK 172.6 billion represented a fall of 29.9%. The percentage of shares and units in the total value of trades fell as a result from 36.25% in 1997 to 20.1% in 1998.

A record daily value of trades on the central market, CZK 1.995 billion, was recorded on 28 August. The official PX 50 index reached its lowest level of 316 points on 8 October.

THE MARKET IN SHARES AND UNITS

At CZK 72.019 billion, the value of trades on the pricing central market increased year-on-year by 226.9%. SPAD trading accounted for CZK 60.442 billion of this. The value of KOBOS trades (CZK 6.059 billion) fell year-on-year by

7.9% and the value of trades at a fixed price (CZK 5.518 billion) by 64.3%. The structure of trades in shares and units changed favourably. Its percentage of the overall value of trades on the central market rose from 8.9% in 1997 to 41.7% in 1998. The value of direct and block trades at CZK 100.575 billion fell on the year by 55.2%.

The official PX 50 index finished 1998 at 394.2 points, a fall on the previous year of 20.4%. The PX-GLOBAL index had also lost 20.2% of its value by the end of 1997. Evidence of the negative trend is the fact that 16 of the 19 sectoral indices showed a fall. Because of the decline in prices, market capitalisation was reduced by 16% (from CZK 495.7 billion at 30 December 1997 to CZK 416.2 billion at 30 December 1998). The share of the main and secondary markets in this total was 83.8%.

THE BONDS MARKET

Of the total value of trades of CZK 687.6 billion, bank bonds accounted for 41.4%, state bonds 33.1% and corporate bonds 24.7%. Municipal bonds accounted for 0.5% and mortgage debentures for 0.4% of the value for the year.

Against the previous year market capitalisation increased by 13.9% from CZK 174 billion at the end of 1997 to CZK 198.1 billion as at 30 December 1998. The main and secondary markets accounted for 72.9% of this amount.

[SETTLEMENT OF EXCHANGE TRADES

Settlement of trades on the Exchange has been organised from its very inception by its subsidiary UNIVYC, a. s.

During 1998, Univyc settled 867,000 transfers of securities with a total value of CZK 1,404 billion. 486,000 of these transfers, worth CZK 711 billion, were the result of trades on the Exchange, including direct trades. UNIVYC also organised 58,000 off-market transactions for Exchange members worth a total of CZK 693 billion.

UNIVYC arranged settlement of securities trades

[T R A D I N G]

by issuing payment instructions for financial transfers to the Czech National Bank's Clearing Centre.

In the case of book-entered securities, UNIVYC arranged changes in the ownership of securities by issuing transfer instructions to the Securities Centre. UNIVYC recorded all settlements of transfers of certificated securities in its own records. Securities were physically deposited in UNIVYC's contractual depository, Komerční banka, a. s.

During the year, UNIVYC arranged for the payment of yields on 20 securities issues in a total value of more than CZK 1.417 billion. Traders in two primary bond issues used UNIVYC's registration and settlement service for primary bond issues.

UNIVYC also managed the Exchange's Guarantee Fund on behalf of the Exchange's members. When SPAD trading began at the end of May, the Fund was divided into a fund for fixing and KOBOS and a SPAD fund.

LENDING OF SECURITIES

The lending of securities, begun in March, was another of Univyc's major undertakings in 1998. At the start of the period, it was possible through Univyc to borrow six securities issues, which were deposited for the borrower in a pool. By the end of the year, this number had risen to 10. All the share issues in question were from the Exchange's main market. Average monthly drawings of the reserved securities rose from 2.62% in March to 20.1% in December 1998, the average duration of the loan being nine days. By the end of the year, 24 borrowers and 42 lenders had applied to join the system.

Values of trades by type of market and security

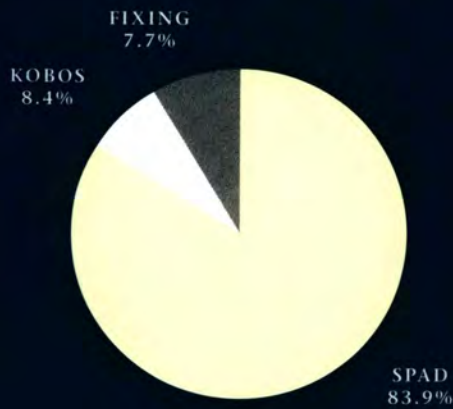
		Bonds		Shares		Units		Total	
		value (CZK bn)	no. (000)	value (CZK bn)	no. (000)	value (CZK bn)	no. (000)	value (CZK bn)	no. (000)
Main market	CM	0.018	2	66.043	207,413	-	-	66.061	207,415
	DT	598.151	62,226	56.420	120,360	-	-	654.571	182,586
	BT	0.021	2	1.158	746	-	-	1.179	748
	Total	598.190	62,230	123.621	328,519	-	-	721.811	390,750
Secondary market	CT	0.001	0	3.255	7,885	0.223	992	3.479	8,877
	DT	2.196	219	28.382	54,364	1.024	4,961	31.602	59,544
	BO	-	-	0.395	636	-	-	0.395	636
	Total	2.197	219	32.033	62,885	1.246	5,953	35.476	69,058
Free market	CT	0.021	2	1.938	7,074	0.560	2,186	2.519	9,261
	DT	87.180	8,107	11.279	16,404	1.572	5,003	100.031	29,515
	BT	0.010	1	0.343	707	0.002	3	0.356	711
	Total	87.211	8,110	13.560	24,185	2.134	7,192	102.905	39,487
Total	CT	0.040	4	71.236	222,372	0.783	3,178	72.059	225,553
	DT	687.527	70,553	96.081	191,128	2.595	9,964	786.204	271,645
	BT	0.031	3	1.896	2,089	0.002	3	1.929	2,095
	Total	687.598	70,560	169.214	415,589	3.380	13,145	860.192	499,294

CM - central market DT - direct trades BT - block trades

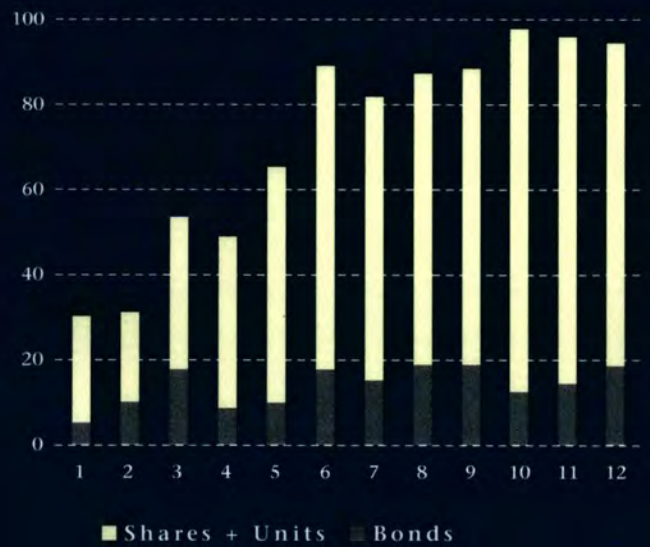
PX 50 Index in 1998



Composition of trades on the CM in 1998



Monthly values of trades in 1998 (shares + units and bonds) (in CZK bn)



[PREPARATIONS] FOR DERIVATIVES TRADING

IN 1998 SIGNIFICANT PROGRESS WAS MADE IN PREPARATIONS FOR DERIVATIVES TRADING.

IN MID-YEAR THE EXCHANGE TOOK RECEIPT OF A DERIVATIVES TRADING AND SETTLEMENT SYSTEM SUPPLIED BY AN OUTSIDE CONTRACTOR.

AFTER CERTAIN ADJUSTMENTS AND ADAPTATIONS TO SUIT THE CONDITIONS AND DEMANDS OF THE CZECH CAPITAL MARKET, IT IS NOW FULLY READY TO BEGIN OPERATIONS.

TRIAL OPERATION

After installation, the system for derivatives trading was tested at the Exchange. This internal testing was followed by a pilot operation which began in December 1998 and involved 13 member companies. It confirmed that both the Exchange and its members were ready for the derivatives trading.

LEGAL ENVIRONMENT

The creation of new legal standards for derivatives trading was an important part of preparations. The Exchange prepared a number of regulations relating to derivatives trading, settlement and safeguards against risks. The Exchange worked with the Ministry of Finance on the preparation and publication of the accounting procedures for derivatives.

WHAT WILL BE TRADED?

In co-operation with member firms, products were selected for trading on the Exchange. They are three-month interest-bearing futures (PRIBOR) and futures and European options from the PX-D index, which has been created especially for this purpose.



THE EXCHANGE'S INFORMATION AND TRADING SYSTEM

[WHAT IS MAOS?]

In 1998 work continued on further developing the modernised automated trading system MAOS, with the aim of extending the Exchange's trading capacity and stabilizing its technological base.

As part of the second stage of the MAOS project, which was begun at the end of 1997, Exchange members were able from 10 April 1998 to register direct trades and non-trading transfers in the MAOS system and send news by interactive e-mail. MAOS's second stage culminated in the creation of the new SPAD trading segment. With completion of this stage of the project, the modernised MAOS system formed the basis of members' activities. Their original AOS (automated trading system) terminals are now used only for some supporting functions.

The aim of the third stage of the project is to transfer the remaining supporting functions to MAOS and to complete the technological modernisation of the Exchange's trading and information system. As part of this stage, on 1 November 1998 MAOS was adapted to cope with applications supporting securities loans, intervention purchases, double automatised forwarding of batches of SPAD and direct trades to the Securities Centre for settlement, and automatic monitoring of all the Exchange's trading segments. At the end of 1998, applications were introduced for the ongoing calculation and circulation of the PX 50 and PX-D indices.

Apart from the MAOS project, other important projects were begun in the second half of 1998 which widened the range and improved the quality of the Exchange's services. These involved projects for safe communication with the Securities Centre, increased support for bond trading, support for trading in opened mutual fund units (PLOPF), full automatised of the derivatives trading system, a new method of reporting to the Securities Commission and

simplification of the whole trading system as part of the one-book ordering project. These projects will gradually be completed in 1999 on the basis of the approved plan.

[AUTOMATIC INFORMATION FLOWS]

On the basis of a general concept and the successful introduction of a new trading system, the Exchange has, with the help of the creators of software systems and its members, developed a modern system which supports a fully automatic flow of reciprocal information between investors, traders and the Exchange.

As far as its communications system is concerned, the Exchange agreed in the second quarter of 1998 to simplify it, with the aim of reducing the cost to members of communicating with the Exchange.

A new system was introduced which makes it possible to acquire data and information from issuers electronically on an ongoing basis. The system is open 24 hours a day and the Exchange distributes the information to members and information agencies, after it has been verified and compiled. In this way the Exchange contributes to greater market transparency.

["Y2K"]

The Exchange regards solving the problem of Year 2000 as a priority task. In July 1998, a team of experts was formed on the Exchange and at Univyc to coordinate work on the transition to Year 2000. In January 1998, the Exchange and Univyc trading and settlement system was thoroughly tested. The test showed that the transition to Year 2000 had been fully prepared for. Minor problems involving applications had been solved by the end of 1998. Other operational applications and systems either support the transition to Year 2000 or will be modernised or replaced by the end of the first half of 1999. The Exchange plans to carry out a final test in the second quarter, to ensure that all systems are fully prepared by mid-1999.

[EFFECTIVE] MANAGEMENT

[PERSONNEL AND STRUCTURAL CHANGES

1998 saw changes in the staffing of the Exchange's management bodies. On March 31, Tomáš Ježek resigned from his post as Chairman of the Exchange Chamber after becoming a member of the Presidium of the Securities Commission. At its ordinary General Meeting on April 30, the new Exchange Chamber was elected and chose Petr Budinský to replace him. The Exchange's General Secretary, Jiří Franc, who had held the post since the Exchange opened in 1993, also resigned at the General Meeting in April. At its May meeting, the Exchange Chamber appointed Pavel Hollmann as acting General Secretary. He too has worked on the Exchange since its opening, holding several managerial posts. On October 21, the Exchange Chamber appointed Pavel Hollmann as General Secretary.

During the year the Exchange's organisation also underwent changes. Certain departments were abolished and two new departments were set up - the Department of Development and Management and the Department of External Relations. The Director of the Department of Trading Management was also changed.

In the area of staff education, the Exchange's priority was raising the level expertise and language skills of its employees. Classes in English were organised for 40

employees, with one-to-one teaching for departmental directors. The Exchange also provided substantial support for the staff catering service and the health care of individual employees.

[FINANCIAL RESULTS

In 1998, the Exchange made a profit before tax of CZK 18,265,000. The tax due is CZK 2,238,000, while deferred tax rose to CZK 1,426,000. Net profit for the accounting profit was CZK 14,601,000.

The level of profit was favourably influenced by lower costs, on the one hand, and by the favourable trend in revenues and yields, on the other.

In comparison with preceding years, revenues and yields fell, especially as a result of the continuing decline in income from Exchange charges, which represent about 80% of all income. This trend reflects trends on the Czech capital market in 1998.

In connection with the assumed trend in revenues and yields, measures were taken during the year to protect the company's activity and ensure that services of the same quality were provided at minimal costs. The Exchange's total (tax-free) running costs were CZK 239,961,000, the lowest since 1996.

This compares favourably with results in previous years

Indicator	Budget 1998 CZK 000	Actual 1998 CZK 000	Actual 1997 CZK 000	Actual 1996 CZK 000	Actual 1995 CZK 000
Profit before taxation	14,070	18,265	- 21,039	14,392	14,541
- operating	44,920	47,922	10,489	29,960	38,306
- financial	- 30,850	- 32,337	- 31,782	- 16,042	- 23,424
- special	-	2,680	254	474	- 341
Income tax	1,500	3,664	4,460	2,328	8,115
- paid	1,500	2,238	2,242	3,743	-
- deferred	-	1,426	2,218	- 1,415	8,115
Profit after taxation	12,570	14,601	- 25,499	12,064	6,426

[MARKETING]

[NEWS ABOUT THE EXCHANGE]

The Exchange provides a comprehensive range of information about trading results, issues traded, issuers on the main and secondary markets, the Exchange's operation, legislation affecting the Exchange, and other activities involving the Exchange. It also informs the media about the Exchange's results, and they publish lists of prices, articles and commentaries. The Exchange's official price lists are published by *Hospodářské noviny*. The wider investing public is given basic information about the Exchange and trading results through the ČT1 television channel's teletext service and the Exchange's internet home page on www.pse.cz.

The Exchange provides paid FTP internet service to investors which need information in a form suitable for further computer processing. Information about the Exchange can also be obtained from information agencies, which can provide clients with information in real time, if the agencies are directly linked to the Exchange's system. Since the beginning of 1999, the Exchange has operated a new service which allows information to be provided about issuers in real time.

[TRAINING, SEMINARS AND PRESENTATIONS]

Marketing activity in 1999 was especially linked to the Exchange's new products launched or prepared during the year. The most important of these was the start of SPAD trading, the success of which was helped by the training which the Exchange organised for representatives of member firms and presentations on the new system for representatives of the press.

Marketing activity was very much apparent in the preparations for derivatives trading. From mid-April, the Exchange organised in a series of three seminars for representatives of member firms. Linked to these was training for representatives of major institutional investors and specialists working for major corporations. The aim was to familiarise them with standard derivative products suitable for risk-running financial operations. The Exchange also prepared a course for the wider investing public under the title *Mr. Derivator*. It was launched at the end of November 1998 on the Exchange's

Internet pages and deals with the problems attached to derivatives products, the character of derivatives and their use in practice. The course contains a great deal of information and includes other Internet cross-references. The course also features simulated derivatives trading, which enables participants to try their hand, using shares traded on the Exchange and the PX 50 index. This attracted considerable interest, and by the end of 1998 more than 400 people had taken part in simulations of derivatives trading.

The Exchange also promoted its services on the Internet. The Exchange's official pages, which contain basic information about the Exchange and its activities, trading results and current news of events on the Exchange and the Czech capital market, were expanded to include a more detailed review of the Exchange's final results, a Derivatives section and the *Mr. Derivator* educational programme.

As for the financial trade fairs, exhibitions and conferences held in 1998, the Exchange took part in a number of fringe events at the FIBEX trade fair. It organised its own seminar, as which representatives of the Exchange acquainted visitors with new products and services. The Exchange was also one of the guarantors of the 2nd year of the *Investor's Podium*.

The Exchange's public relations work focused on both the expert and lay public. During the year there was a change in the approach to publication of information and significantly more open communication between the Exchange and the public through the media. The Exchange extended its database of media contacts, and they began to inform the public regularly about all major events on the Exchange. A series of articles and interviews clarifying the position of the Exchange and explaining its strategic plans appeared in a four-page *Hospodářské noviny* supplement entirely devoted to the Exchange.

As far as external relations are concerned, priority was given to building closer links between the Exchange and international organisations, reflecting the irreversible trend towards globalisation of capital markets. Efforts to join the world and European stock exchange federations - FIBV and FESE - also continued.

[PROSPECTS]

THE BASIC TASK OF THE EXCHANGE IN 1999 IS TO MAKE TRADING AND SETTLEMENT MORE COMFORTABLE AND TO IMPROVE THE ACCESS OF FOREIGN INVESTORS TO CZECH SECURITIES. TO THIS END, THE EXCHANGE IS TO DRAFT A PROPOSAL ON HOW BEST TO SUPPORT MEMBERS WANTING DIRECT ACCESS TO SECURITIES TRADED ON THE LINKED ALL-EUROPEAN MARKET. THE EXCHANGE WILL WORK ON ITS OWN INITIATIVE TO RAISE THE REQUIREMENTS FOR MEMBERSHIP AND VET APPLICANTS FOR MEMBERSHIP, SO THAT IT CAN BECOME AN ACCEPTABLE PARTNER ABROAD, AS WELL AS ATTRACTING A PARTICULAR SEGMENT OF THE GLOBAL MARKET.

IN CONNECTION WITH INTERNATIONALISATION OF STOCK EXCHANGE TRADING, IT IS NECESSARY TO IMPROVE SETTLEMENT AND COVER THE RISKS INVOLVED. IT WILL BE VERY IMPORTANT IN THE COMING PERIOD TO MAKE SETTLEMENT MORE COMFORTABLE, SINCE TRANSNATIONAL TRADES HAVE TO BE SETTLED QUICKLY AND WITHOUT ERROR AT ACCEPTABLE TRANSACTION COSTS.

INNOVATIONS TO BE INTRODUCED IN 1999 WILL AIM ESPECIALLY AT SUPPORTING BOND TRADING AND SETTLEMENT, TRADING IN OPENED MUTUAL FUND UNITS, NEW SHARE ISSUES, AND AT THE SAME TIME THE ELIMINATION OF SECURITIES WHICH ARE NOT LIQUID ENOUGH FROM THE PRICING MARKET.

WITH THE CO-OPERATION OF THE MINISTRY OF FINANCE AND THE SECURITIES COMMISSION, THE EXCHANGE WILL TAKE STEPS TO GRADUALLY HARMONISE CZECH LEGISLATION WITH THAT OF EUROPE. THE INTENTION IS TO PLAY AN ACTIVE ROLE IN CHANGING CZECH LEGISLATION WHICH RELATES TO THE CAPITAL MARKET - FOR EXAMPLE, THE STOCK EXCHANGE LAW, THE SECURITIES LAW, THE COMMERCIAL CODE, THE LAW ON STATE-CONTRIBUTORY PENSION INSURANCE AND OTHERS.



EXCHANGE

[BODIES]

[THE EXCHANGE CHAMBER

The Exchange Chamber is the Exchange's statutory body, which directs its activity and acts in its name. As envisaged in its plan of activity, the Exchange Chamber met at a total of 16 ordinary and extraordinary meetings during 1998.

COMPOSITION OF THE EXCHANGE CHAMBER UNTIL 30 APRIL 1998 (when the 6th Ordinary General Meeting was held)

Chairman

Tomáš Ježek
(resigned on 31 March 1998)

Vice-Chairman

Pavel Kavánek, *Československá obchodní banka, a. s. - shareholder representative*

Members

Zdenek Bakala, *Patria Finance, a. s.*
Aleš Barabas, *Živnostenská banka, a. s.*
Marie Bednářová, *attorney*
Petr Budinský, *Komerční banka, a. s. - shareholder representative*
Jaroslav Daňhel, *University of Economics*
Jaroslav Klapal, *Česká spořitelna, a. s. - shareholder representative*
Josef Kotrba, *Česká spořitelna, a. s.*
Miroslav Kučera, *FINITY, a. s.*
Luděk Niedermayer, *Czech National Bank*
Libor Procházka, *Investiční a poštovní banka, a. s. - shareholder representative*
Lubomír Pužej, *Harvardská burzovní společnost, a. s. - shareholder representative*
Richard Salzmann, *Komerční banka, a. s. (resigned on 23 March 1998)*
Michal Větrovský, *Česká pojišťovna, a. s.*
Petra Wendelová, *Credit Suisse First Boston (Praha), a. s.*

COMPOSITION OF THE EXCHANGE CHAMBER SINCE 30 APRIL 1998 (when the 6th Ordinary General Meeting was held)

Chairman

PETR BUDINSKÝ
Komerční banka, a. s. - shareholder representative
Date of birth: 8 May 1960
Education: Faculty of Mathematics and Physics, Charles University
Current post: Vice-chairman of the Board of Directors and Deputy General Director

Vice-Chairman

GEORGE JEDLIČKA
Expandia Finance, a. s. (since 23 September 1998)
Date of birth: 13 January 1951
Education: St. John's University
Current post: Chairman of the Board of Directors

Members

ZDENEK BAKALA
Patria Finance, a. s.
Date of birth: 7 February 1961
Education: University of California
Current post: Chairman of the Board of Directors
DUŠAN BARAN
Česká spořitelna, a. s. - shareholder representative (since 23 September 1998)
Date of birth: 6 April 1965
Education: Faculty of Mathematics and Physics, Charles University, GSBC University of Colorado
Current post: Chairman of the Board of Directors and General Director
LADISLAV BARTONÍČEK
Česká pojišťovna, a. s.
Date of birth: 27 May 1964
Education: Faculty of Electrical Engineering, Czech Technical University and Rochester Institute of Technology
Current post: Vice-chairman of the Board of Directors and General Director

EXCHANGE [BODIES]

PETR BODNAR

Body International Brokers, a. s. - shareholder representative

Date of birth: 12 September 1954

Education: University of Economics

Current post: Chairman of the Board of Directors

JIRÍ FRANČ

ALFA Říčany, a. s.

Date of birth: 24 July 1948

Education: University of Economics

Current post: Managing Director

JOSEF KOTRBA

Česká spořitelna, a. s. - shareholder representative (resigned on 1 September 1998, until 1 September 1998 Vice-Chairman of the Exchange Chamber)

TOMÁŠ NOVÁK

Československá obchodní banka, a. s.

Date of birth: 27 July 1965

Education: University of Economics

Current post: Director, Department of Monetary and Foreign Exchange Transactions

LUBOMÍR PUŽEJ

Harvardská burzovní společnost, a. s. - shareholder representative

Date of birth: 11 October 1961

Education: Faculty of Mechanical Engineering, Czech Technical University

Current post: Chairman of the Board of Directors and Executive Director

LIBOR PROCHÁZKA

Investiční a poštovní banka, a. s. - shareholder representative

Date of birth: 18 October 1958

Education: University of Economics

Current post: Vice-chairman of the Board of Directors and Deputy General Director

JAN VINTER

Všeobecná úverová banka, a. s. - shareholder representative

Date of birth: 11 March 1940

Education: Faculty of Law, Charles University

Current post: Director, Prague branch

PETRA WENDELOVÁ

Credit Suisse First Boston (Praha), a. s.

Date of birth: 3 June 1962

Education: University of Economics

Current post: Vice President

TOMÁŠ ZRALÝ

Živnostenská banka, a. s. - shareholder representative

Date of birth: 15 July 1951

Education: University of Economics, Prague

Current post: member of the Board of Directors and Deputy General Director

[SUPERVISORY BOARD

The Supervisory Board has five members, elected for a period of three years. The Board oversees the performance of the Exchange Chamber and the Exchange's activities.

COMPOSITION OF THE SUPERVISORY BOARD UNTIL 30 APRIL 1998

(when the 6th Ordinary General Meeting was held)

Chairman

František Vejmla, *Komerční banka, a. s.*

Members

Martin Kryl, *Živnostenská banka, a. s.*

Vladimír Hoffmann, *Delta Securities, a. s.*

Radko Resch, *Harvardská burzovní společnost, a. s.*

Jan Struž, *ING Baring Capital Markets (C.R.), a. s.*

COMPOSITION OF THE SUPERVISORY BOARD SINCE 30 APRIL 1998

(after the 6th Ordinary General Meeting was held)

Chairman

FRANTIŠEK VEJMOLA

Komerční banka, a. s.

Date of birth: 23 September 1936

Education: University of Economics

Current post: banking expert at the Head Office

Members

JIRÍ KLUMPAR

GE Capital Bank, a. s.

Date of birth: 9 May 1956

Education: Faculty of Nuclear Sciences and Physical Engineering, Czech Technical University

Current post: Senior Director, Compliance Division

LUMÍR NOVÁČEK

Investiční společnost Union, a. s.

Date of birth: 30 April 1965

Education: Faculty of Engineering, Technical University Brno

Current post: Director

RADKO RESCH

Harvardská burzovní společnost, a. s.

Date of birth: 27 September 1953

Education: Law Faculty of Charles University

Current post: member of the Board of Directors

JAN STRUŽ

ING Baring Capital Markets (C.R.), a. s.

Date of birth: 5 May 1949

Education: University of Economics

Current post: General Director

[GENERAL SECRETARY

PAVEL HOLLMANN

Date of birth: 27 April 1948

Education: Faculty of Mechanical Engineering, Czech Technical University

[THE EXCHANGE'S COMMITTEES

EXCHANGE MEMBERSHIP COMMITTEE

Chairman

Jaroslav Klopal (*until 7 May 1998*)

Ladislav Bartoniček (*since 7 May 1998*)

The Membership Committee met eleven times in 1998. It concerned itself particularly with checking on fulfilment by Exchange members of their responsibilities and preparation of regulations changing the conditions of membership of the Exchange. The Committee also concerned itself with developments in the Exchange's membership and shareholder structure.

EXCHANGE COMMITTEE ON EXCHANGE TRADES

Chairman

Petr Budinský

During the year the Committee met regularly every fortnight, except in the holiday period, and discussed matters relating to trading, organisation of trades and preparations for the opening of the derivatives market.

In the first half of 1998 the Committee discussed the new SPAD trading segment, especially preparations for new regulations governing SPAD trading and settlements. The regulations approved were sent to the Exchange Chamber for discussion.

Also discussed and adopted were regulations to solve problems in trading and acceptance of securities on the Exchange's market.

At the start of the second half of 1998 the Committee's remit was broadened to include matters relating to derivatives trading.

At its autumn meetings, apart from matters relating to the prompt market, the Committee concerned itself with the rules of trading and settlement of option and term contracts and the problem of derivatives trading.

EXCHANGE LISTING COMMITTEE

Chairman

Aleš Barabas (*until 7 May 1998*)

George Jedlička (*since 7 May 1998*)

At its regular monthly meetings in 1998, the Committee discussed and approved applications for admission of securities for trading on the Exchange's main and secondary markets. It also carried out regular checks on the fulfilment of their responsibilities by issuers whose securities had been admitted for trading on these prestigious markets, discussed how to help issuers of primary securities, and prepared a Listing campaign targeted at small and medium-size companies.

[R E P O R T] OF THE SUPERVISORY BOARD

Throughout 1998 and up to the General Meeting held on 27 May 1999, the Supervisory Board met seven times. In carrying out its functions, the Board adhered to the relevant legal provisions, the Exchange's Articles of Association, and the instructions and decisions of the general meetings of shareholders.

At its meetings, the Board regularly discussed the Exchange's financial situation and the state of its assets. It familiarised itself with the Exchange Chamber's resolutions - as drafted and adopted - and the new Exchange regulations. The Board also discussed proposals submitted by the Exchange Chamber, shareholders and Exchange members, the Exchange's inspector and other persons. Particular attention was paid to increasing the effectiveness of the Exchange Chamber, its internal apparatus and its relations with subsidiaries. Last but not least, it concerned itself with the need for precise definition of the Exchange's development strategy in connection with continuing globalisation of the European exchange sector.

The Supervisory Board has also discussed ways of cutting the Exchange's operating costs, including the number of employees and their salaries. At the beginning of the year, as part of its preparation for the closing of the 1998 accounts, the Board carried out random checks of documents relating to drawings from selected accounts, contracts concluded and invoices paid. No discrepancies were found in the documents submitted. In carrying out its duties, the Board consistently acted in the interest of shareholders.

The Supervisory Board regularly monitored work on The Report on the Exchange's Business Activities and the State of its Assets. At its meeting on 15 April 1999, it reviewed the report's final draft for discussion and approval by the General Meeting of Shareholders. The Board has no comments on matters of fact relating to the report and recommends the General Meeting to approve it.

In compliance with Article 33 of the Exchange's Articles of Association, the Supervisory Board reviewed the audited financial statements of the Prague Stock Exchange and familiarised itself with the Auditor's Report. The Board also examined the Exchange Chamber's proposal for the distribution of profit and recommends the General Meeting to approve both the annual financial statements and the proposal for distribution of the 1998 profit, in line with the above.

Prague, 15 April 1999



FRANTIŠEK VEJMOLA
CHAIRMAN OF THE SUPERVISORY BOARD

[AUDITORS]

REPORT

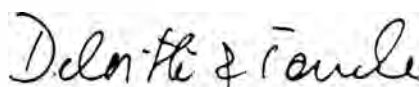
[AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE PRAGUE STOCK EXCHANGE

We have audited the financial statements of Burza cenných papírů Praha, a. s. for the year ended 31 December 1998, prepared in accordance with Act No. 563/1991 Coll. on Accounting and relevant accounting regulations. We conducted our audit in accordance with Act No. 524/1992 Coll. on Auditors and the Chamber of Auditors of the Czech Republic, and the auditing standards issued by the Chamber of Auditors. The summarised financial statements included in this document for 1998 have been prepared on the basis of the audited financial statements, to which we issued an unqualified audit report dated 1 April 1999.

In our opinion, the attached summarised financial statements are, in all material respects, consistent with the financial statements from which they were derived.

For better understanding of the financial situation and results of operations of Burza cenných papírů Praha, a. s. and scope of our audit these financial statements must be read in relation with the full version of the financial statements and audit report thereon.

Prague, 1 June 1999



AUDITING FIRM:
DELOITTE & TOUCHE, S.R.O.
LICENCE NO. 79

Note: Official Notes to the Financial Statements are available at the company's registered office and are contained in the Czech version of this Annual Report.

[FINANCIAL]

STATEMENTS

[BALANCE SHEET (IN FULL FORMAT) AS AT 31 DECEMBER

CZK 000	1998	1997
TOTAL ASSETS	626,148	681,422
Amounts receivable for subscribed capital	0	0
Fixed assets	555,408	598,506
Intangible fixed assets	38,969	24,104
Establishment costs	0	0
Research and development	0	0
Software	38,926	5,547
Valuable rights (patents, licences, know-how)	0	0
Other intangible fixed assets	37	57
Intangible fixed assets not-in-use	6	0
Prepayments for intangible fixed assets	0	18,500
Tangible fixed assets	514,154	572,117
Land	71,856	71,856
Buildings, halls and structures	346,047	353,574
Machinery, tools and equipment, vehicles and fixtures	96,126	145,305
Perennial crops	0	0
Breeding and draught animals	0	0
Other tangible fixed assets	0	0
Tangible fixed assets not-in-use	75	0
Prepayments for tangible fixed assets	50	1,382
Adjustments to acquired assets (goodwill)	0	0
Financial investments	2,285	2,285
Shares and ownership interests in subsidiaries	100	100
Shares and ownership interests in associates	2,185	2,185
Other securities and ownership interests	0	0
Intercompany loans	0	0
Other financial investments	0	0
Current assets	68,775	80,895
Stocks	0	181
Materials	0	0
Work-in-progress and semi-finished products	0	0
Finished products	0	0
Livestock	0	0
Purchased goods for resale	0	181
Advance payments for stocks	0	0
Long-term debtors	8,475	8,475
Trade debtors	0	0
Receivable from partners and consortium members	0	0
Amounts receivable from subsidiaries	0	0
Amounts receivable from associates	0	0
Other debtors	8,475	8,475
Short-term debtors	27,211	25,723
Trade debtors	23,584	23,545
Receivables from partners and consortium members	0	0
Social security	0	0
Taxes receivable	3,579	1,871
Deferred tax receivable	0	0
Amounts receivable from subsidiaries	0	0
Amounts receivable from associates	0	0
Other debtors	48	307
Cash and investments	33,089	46,516
Cash in hand	31	47
Cash at bank	33,058	46,469
Short-term investments	0	0
Other assets - temporary accounts	1,965	2,021
Accruals and deferrals	1,958	1,206
Deferred expenses	1,916	1,179
Accrued income	36	16
Exchange rate losses	6	11
Estimated assets	7	815

[BALANCE SHEET (CONTINUED)

CZK 000	1998	1997
LIABILITIES AND EQUITY	626,148	681,422
Equity	428,999	414,398
Registered capital	384,948	384,948
Registered capital	384,948	384,948
Reacquired shares	0	0
Capital funds	35,948	35,948
Share premium	22,769	22,769
Other capital funds	13,179	13,179
Gains or losses from revaluation of assets	0	0
Gains or losses from investments	0	0
Funds created from profits	2,799	2,799
Legal reserve fund	2,799	2,799
Non-distributable fund	0	0
Statutory and other funds	0	0
Retained profit (loss) from prior years	-9,297	16,202
Retained earnings from previous years	0	16,202
Accumulated losses from previous years	-9,297	0
Profit (loss) of current year	14,601	-25,499
Liabilities	189,016	261,530
Reserves	4,882	3,923
Legal reserves	0	0
Reserve for foreign exchange losses	6	11
Other reserves	4,876	3,912
Long-term liabilities	2,062	0
Long-term payables to subsidiaries	0	0
Long-term payables to associates	0	0
Long-term advances received	0	0
Bonds issued	0	0
Long-term bills of exchange to be paid	0	0
Other long-term payables	2,062	0
Short-term liabilities	23,101	38,636
Trade creditors	6,093	12,769
Payables to partners and consortium members	0	5,600
Payables to employees	1,793	3,514
Social security	1,242	2,447
Taxes payable and subsidies	3,413	5,388
Deferred tax	10,344	8,918
Payables to subsidiaries	0	0
Payables to associates	0	0
Other creditors	216	0
Bank loans and borrowings	158,971	218,971
Long-term bank loans	158,971	218,971
Short-term bank loans	0	0
Short-term borrowings	0	0
Other liabilities - temporary accounts	8,133	5,494
Accruals and deferrals	2,202	1,856
Accrued expenses	2,017	1,716
Deferred income	180	125
Exchange rate gains	5	15
Estimated liabilities	5,931	3,638

[FINANCIAL STATEMENTS]

[PROFIT AND LOSS ACCOUNT (IN FULL FORMAT) FOR THE YEAR ENDED 31 DECEMBER

CZK 000	1998	1997
Sales of goods purchased for resale	0	28
Cost of goods sold	0	17
Gross margin	0	11
Production	238,044	196,030
Sale of own products or services	238,044	196,030
Change in finished goods and work-in-progress	0	0
Own work capitalised	0	0
Purchased consumables and services	69,890	110,748
Consumables	1,759	2,111
Services	68,131	108,637
Added value	168,154	85,293
Staff costs	59,660	69,165
Wages and salaries	41,090	48,094
Remuneration of board members	2,380	1,356
Social insurance	14,154	17,237
Social benefits	2,036	2,478
Taxes and charges	206	197
Depreciation of intangible and tangible fixed assets	59,712	56,749
Sale of fixed assets and material	2,059	1,062
Net book value of fixed assets and material sold	2,703	1,552
Drawing of reserves, additions to complex deferred expenses	36	0
Additions to reserves, settlement of complex deferred expenses	1,000	0
Drawing of provisions and depreciation of negative goodwill	112	2,052
Creation of provisions and depreciation of goodwill	3,933	2,666
Other operating income	5,001	54,055
Other operating expenses	226	1,644
Transfer of operating income	0	0
Transfer of operating expenses	0	0
Operating profit (loss)	47,922	10,489
Proceeds from sale of securities and ownership interests	0	0
Cost of securities and ownership interests sold	0	0
Income from investments	0	0
Income from intercompany securities and ownership interests	0	0
Income from other securities and ownership interests	0	0
Income from other investments	0	0
Income from short-term investments	0	0
Drawing of financial reserves	11	8
Additions to financial reserves	6	11
Settlement of adjustments	0	0
Additions to adjustments	0	8,615
Interest income	3,356	3,798
Interest expense	30,901	26,587
Other financial income	6,836	9,156
Other financial expenses	11,633	9,531
Transfer of financial income	0	0
Transfer of financial expenses	0	0
Financial profit (loss)	- 32,337	- 31,782
Income tax on ordinary activities	3,664	4,460
- due	2,238	2,242
- deferred	1,426	2,218
Profit (loss) from ordinary activities	11,921	- 25,753
Extraordinary income	2,771	681
Extraordinary expenses	91	427
Income tax on extraordinary activities	0	0
- due	0	0
- deferred	0	0
Extraordinary profit (loss)	2,680	254
Transfer of shares on profit (loss) of partnership to partners	0	0
Profit (loss) of current year	14,601	- 25,499
Profit (loss) of current year before taxation	18,265	- 21,039

[RESOLUTION]

OF THE GENERAL MEETING

On the 7th ordinary General Meeting of the Prague Stock Exchange held on 27 May 1999, the shareholders discussed and approved:

1. A Report on the Exchange's Business Activities and its Assets for the Year 1998

2. The 1998 Financial Statements and a Decision on the Distribution of Profit

The 7th ordinary General Meeting approved the company's financial statements for 1998 and the proposal for distribution of profit. In 1998, the Prague Stock Exchange generated an after-tax profit of CZK 14,601,000.

The following distribution of profit was approved:

compensation of the losses of previous years	CZK 9,297,000
allocation to the reserve fund	CZK 1,000,000
retained earnings of the current year	CZK 4,304,000

3. Principles of the Exchange's Activities in 1998

The General Meeting approved strategic aims for the next three to five years. The main aims are:

- to maintain and consolidate the Exchange's position on the domestic market
- to facilitate a convenient parallel approach by Exchange members to the European securities market
- to play an active part in harmonizing Czech capital market and Exchange legislation with European standards
- to create conditions for the (to) support of foreign investors' entry to Czech investment instruments

4. Principles of the Exchange's 1999 Business Operations

5. Changes in the Exchange Rules

With effect from 1 August 1999, the General Meeting approved changes in the Exchange Rules.

6. Changes in the Exchange Chamber

The General Meeting approved Dušan Baran, General Director of Česká spořitelna, a. s. as a substitute member of the Exchange Chamber. He was co-opted as member of the Exchange Chamber in September 1998.

The General Meeting approved the following change: Since 27 May 1999, Ladislav Bartoníček, an Exchange Chamber member who was elected on 30 April 1998, has been considered as a shareholder representative of Česká pojišťovna, a. s.

The General Meeting elected two new members of the Exchange Chamber:

- Miroslav Fučík of Union banka, a. s.
- Jan Sýkora of Wood & Company, s. r. o.

[THE EXCHANGE'S]

SHAREHOLDERS AND MEMBERS

[THE PRAGUE STOCK EXCHANGE'S SHAREHOLDERS AT 31 DECEMBER 1998

Shareholder

AB Banka, a.s. - v likvidaci
 (not a member of the PSE)
AKRO CAPITAL, a.s.
ATLANTA SAFE, a.s.
ATLANTIK finanční trhy, s.r.o.
BH Securities, a.s.
BODY INTERNATIONAL BROKERS, a.s.
Brněnská obchodní, a.s.
 (not a member of the PSE)
BRNO BROKER GROUP, a.s.
BVV DIVES - kapitálový trh, a.s.
CA IB Securities, a.s.
CITICORP SECURITIES (CR), s.r.o.
COOP BANKA, a.s., in liquidation
 (not a member of the PSE)
Credit Suisse First Boston (Praha), a.s.
C.S. Brokers burzovní, a.s.
Česká pojišťovna, a.s.
 (not a member of the PSE)
Česká spořitelna, a.s.
Československá obchodní banka, a.s.
Dynamic Capital Invest, a.s.
EASTBROKERS, akciová společnost
EB Brokers, a.s.
 (not a member of the PSE)
EXPANDIA BANKA, a.s.
Expandia Finance, a.s.
 (not a member of the PSE)
FIO, burzovní společnost, a.s.
Fond národního majetku České republiky
GE Capital Bank, a.s.
 (not a member of the PSE)
GES INVEST, a.s.
Global Brokers, spol. s r.o.
Harvardská burzovní společnost, a.s.
HYPO-BANK CZ, a.s.
ICEBERG a.s.
 (not a member of the PSE)
imAge 1, a.s.
ING Baring Capital Markets (C.R.) a.s.
Interbanka, akciová společnost
INVESTIČNÍ A POŠTOVNÍ BANKA, a.s.
INVESTKONZULT, a.s.
**K I S a.s. the capital investment company
of Česká pojišťovna**
 (not a member of the PSE)
Komerční banka, a.s.
KOMERIO, brokerský dům Konečný, a.s.
KOMERO, s.r.o.
 (not a member of the PSE)
LIFOX a.s.
 (not a member of the PSE)
Merx a.s.
 (not a member of the PSE)
Moravia Banka, a.s.
Moravskočeská burzovní, a.s.
 (not a member of the PSE)
NEWTON STOCK INVESTMENT, a.s.
ÖSTERREICHER & spol., s.r.o.
Patria Finance, a.s.
Plzeňská kapitálová společnost, a.s.

Pragobanka, a.s. - v konkurzu
 (not a member of the PSE)
Pražská brokerská, a.s.
 (not a member of the PSE)
Procap Securities, a.s.
 (not a member of the PSE)
Sati, spol. s r.o.
SLOVENSKÁ SPORITELŇA, a.s.
 (not a member of the PSE)
SOCIETE GENERALE BANKA, a.s.
Stratego Invest a.s.
Union banka, a.s.
UNIVERSAL BANKA, a.s.
Všeobecná úverová banka, a.s., pobočka Praha
Živnostenská banka, a.s.

Note: "Not a member of the PSE" relates to the position at 31 December 1998

[OTHER MEMBERS OF THE PRAGUE STOCK EXCHANGE AT 31 DECEMBER 1998

ABN AMRO Bank N.V.
Baader Securities, a.s.
BENET GROUP, a.s.
Burzovní společnost pro kapitálový trh, a.s.
CAPITAL PARTNERS, a.s.
CAUTUS FINANCE, s.r.o.
CONSEQ Finance, spol. s r.o.
ČESKÁ NÁRODNÍ BANKA
Českomoravská záruční a rozvojová banka, a.s.
DELTA SECURITIES, a.s.
Deutsche Bank AG
EPIC Securities, a.s.
Erste Bank Sparkassen (ČR), a.s.
FINNEX Securities, a.s.
GUTMANN & CIE Praha, a.s.
I.M.C. Burzovní společnost, a.s.
J & T Securities, s.r.o.
J.F. WORLD BROKERS, s.r.o.
KATNEK Securities, a.s.
OFT BROKERS, spol. s r.o.
PROSPER FINANCE, a.s.
P&P Brokers, a.s.
PPF burzovní společnost, a.s.
PRAGUE SECURITIES, s.r.o.
První městská banka, a.s.
Raiffeisen Capital and Investment Praha, s.r.o.
Severní brokerská společnost s.r.o.
TIPAINVESTING, spol. s r.o.
Vereinsbank CZ a.s.
Wood & Company, s.r.o.

[ABBREVIATIONS]

AND TERMS USED

Central market (CM)	A pricing market, it includes the results of trading from fixing, additional orders, KOBOS and SPAD
Financial derivatives	Term contracts concluded on various financial asset bases
Fixing	Trading at fixed prices - a trading segment based on the processing of purchase and sale orders at a determined time
Financial options	A contract between two parties, closed through a stock exchange, which gives the purchaser a right, and the seller a duty, to buy or sell on a determined date, agreed in advance, an amount of asset bases at a price agreed in advance
Futures	A contract between two parties, closed through a stock exchange, which gives them the right, and simultaneously the duty, to buy or sell on a determined date, agreed in advance, an amount of asset bases at a price agreed in advance
Issuer	A company which has issued securities
KOBOS	Continuous trading at variable prices (in Czech, "Kontinuální burzovní obchodní systém")
MAOS	Modernised automatic trading system (in Czech, "Modernizovaný automatizovaný obchodní systém")
Market maker	An Exchange member who has closed a contract with the Exchange authorizing him to act as a market maker and who must, on a continuous basis, quote prices on all the securities for which he acts as a market maker
Prompt market	A securities market in which securities are supplied for payment, and which is counterbalanced by the derivatives market
PX-D Index	An index formed on the basis of SPAD issues, which will also serve as the underlying asset for derivatives trading
PX- GLOB Index	A global index based on all registered issues of shares, including those issued by investment funds, and units, where the price was fixed no later than at the preceding session
PX 50 Index	The Exchange's official index, which is based on 50 issues selected on the basis of market capitalisation and liquidity and takes into account their sectoral classification, but excludes investment fund issues
SCP	The Securities Centre (in Czech, "Středisko cenných papírů")
SPAD	A share and bond market trading system - a trading segment based on the prices quoted by market makers
Underlying asset	Shares, bonds and exchange indices on which options and futures are based
UNIVYC	Universal Settlement Centre - a subsidiary of the Exchange

[CONTACT] INFORMATION

[ADDRESS

Rybná 14
P. O. BOX 49
110 05 Prague 1
Czech Republic

WWW server
<http://www.pse.cz>

FTP server
<ftp://ftp.pse.cz>

Company Registration No. (IČO): 47115629
Tax Registration No. (DIČ): 001-47115629
Bank: Komerční banka, a. s., Prague branch, A/c No. 57008-011/0100

[MANAGEMENT

PAVEL HOLLMANN
General Secretary
Tel.: ++420/2/2183 2204
Fax: ++420/2/2183 3040

VLADIMÍR EZR
Deputy General Secretary
Tel.: ++420/2/2183 2133
Fax: ++420/2/2183 3036

JIRÍ OPLETAL
Director of the Trading Department
Tel.: ++420/2/2183 2135
Fax: ++420/2/2183 3010

MIROSLAV PROKES
Director of the IT Department
Tel.: ++420/2/2183 2815
Fax: ++420/2/2183 3040

MILAN ŠIMÁČEK
Director of the Derivatives Department
Tel.: ++420/2/2183 2203
Fax: ++420/2/2481 6831

JANA MARCOVÁ
Director of the External Relations Department
Tel.: ++420/2/2183 2260
Fax: ++420/2/2183 3040

ZDENĚK KOŘÍNEK
Director of the Economics and Finance
Department
Tel.: ++420/2/2183 2811
Fax: ++420/2/2183 3031

VLADIMÍR SKALNÝ
Director of the Inspection Department
Tel.: ++420/2/2183 2198
Fax: ++420/2/2183 3036