

# ANNUAL REPORT 1997



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PRAGUE STOCK EXCHANGE



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## INTRODUCTION BY CHAIRMAN OF THE PSE CHAMBER



A look back at the events which took place in the Czech capital market during 1997 indicates certain changes embodying positive impulses for further development of the capital market. Early in the reviewed period the Czech economy demonstrated a certain decline in its performance and the Exchange reacted by reducing values of its indicators. In addition to the domestic reasons, the problems disturbing the economic development reflected also a strong turbulence persisting in international financial and capital markets. The gradual intensity of the political tension in the end of the last year resulted in substantial changes in the Government's Cabinet, hence permanently influencing also stability of the Czech capital market. That extreme climate was hardly a constructive element of the changes inevitable to reach the essential turning point in the development of our securities market. Despite that it is apparent that it was exactly the year 1997 that has made the achievement of the strategic turning point possible. Following extensive

efforts a mutual willingness has finally been accorded aimed at further standardisation of conditions and at the creation of prerequisites facilitating the gradual integration of this country into the advanced European environment.

The principal assurance of the mutual endeavour targeted at the change in the existing state of affairs in the market was the fact that a regulatory authority was created to exercise supervision over the developments in the Czech capital market. After a time consuming and difficult work, the Parliament finally approved the Securities Commission Act although the starting position of the Securities Commission (SECOM) is far from ideal. The Commission has not been authorised to create the necessary by-law standards intended to operatively respond to the current changes in the capital-driven environment which has effectively put certain limits to the SECOM's powers. But the substantial aspect is its very establishment and the fact that it can start to exercise its influence over the developments in the domestic market so much stigmatised by the previous unfair practices leading to a serious damage of its credit both at home and abroad. Investors were gradually losing their interests in risky securities, hence seeking security primarily in bank deposits. That development was detrimental to Czech issuers, since neither in 1997 they were given the opportunity to finance their development through capital market, taking into account both the development trends in the market and fear of unfriendly take-overs. The growing non-confidence of investors in shares was remarkably reflected in further strengthening of their interests in securities bearing fixed earnings. The Exchange played a significant role in the endeavour which has resulted in the establishment of the SECOM, since it had enabled the operation of the preparatory team which, later on, submitted to the Government a complete SECOM project, including the articulated draft of the SECOM Act. Also being prepared for the Commission were Take-over and Merger Rules intended to substantially increase protection of investors and especially issuers against unfriendly take-overs. Intensive work was also dedicated to a wide-scope amendment concerning the Investment Companies and Investment Funds Act intended to restore confidence of investors in collective investing.

Transparency of the exchange market has substantially increased by reducing the initial number of marketable securities. In four consecutive waves during the year, the Exchange excommunicated over 1,300 share issues and unit issues recording minimum liquidity and offering effectively a zero-level information activity. Simultaneously with a higher pressure put on a better compliance with the information

## INTRODUCTION BY CHAIRMAN OF THE PSE CHAMBER

disclosure obligation by companies registered in the Exchange's Main and Secondary Markets this has been an expression of the efforts to radically pursue further improvement in the systemic transparency of the market and completion of its achievement as one of the key requirements for the creation of standard conditions within the Czech capital environment. Therefore, the Exchange has strictly increased the supervision over the compliance with statutory regulations and standards in relation to both issuers and its members. This was done by launching a period in which no wrong-doings will be tolerated any longer and if required, in the case where such legal standards are violated, it can also apply unpopular sanctions.

The crucial mission assigned to the Exchange in the Czech economy has primarily been its pricing role. In that respect, the Exchange has been searching for an efficient concept of its trading system which would allow pricing based on maximisation of transaction value. By having changed the Rules Governing the Exchange Fees and given advantage to the Central Market, the Exchange put more emphasis and put across the strengthening of exactly this trading segment. With the same objective in mind, it has also committed its members to exclusively trade company issues listed in the Main and Secondary Markets only at the Exchange. It has also made a great progress in the preparation for the Trading in Shares and Bonds Supporting System (SPAD). This new segment is intended to further promote the role of the Exchange's pricing tools through market makers. Year 1997 was the period when profile of the SPAD was completed and its preparation progressed so much that, by mid-1998, it could become a regular, efficient component of the exchange trading. In its efforts to get even closer to the level of international standards, the Exchange also continued the preparation for derivatives trading.

In the future, the principal interest of the Exchange will be focused on the key, perspective task which will be the preparation for the anticipated integration of the Czech Republic into the existing European structures. Not only this objective but in particular the mission of the capital market and that of the Exchange within the market require completion of legislation and its compatibility with legal standards prevailing within the European Union, development of links with trading systems of the EU countries and completion of a liquid and transparent securities market allowing an efficient pricing and turning into a significant capital allocation place.



Tomáš Ježek





### **The Exchange under the Czech Capital Market Environment**

The fifth year of trading at the Prague Exchange was marked by several impressive features well profiling the growing potentials of this key institution for the Czech capital market. It was the year during which the political climate was significantly changed in favour of both further development of our capital market and solution of its dragging ailments. It was the year that has precisely generated the requirements for and direction of urgent solutions for a number of problems related to the approaching integration of the Czech Republic into a wider European context. It was the year in which the Exchange, despite the existing limits, served both as the indicator of economic development of the country and barometer of the ongoing changes.

What was especially confirmed by the experience of 1997 was primarily the need to strengthen the pricing role of the Exchange. Without that role it would be unthinkable to achieve full functionality and growth of the Exchange's domestic and foreign reputation based namely on credible steps leading to development of a standard market. In order to strengthen the pricing function of the Exchange, a whole number of steps has been taken - technical, technological, taking form of modernisation and upgrading of the automated trading system, including adjustments to the fees collected for transactions which was intended to give advantage to trades carried out in the Central Market, and a very extensive cleaning of the market through exclusion of non-liquid share issues failing, on a long-term basis, to meet the minimum trade value requirement set for the Central Market and thus failing to create the objective market prices.

A more detailed look at the development of trades in 1997 indicates also, to a certain extent, the objective factors showing that investors significantly inclined to trading in securities with guaranteed earnings. That was the reason why bonds recorded the increase higher than 200 % on a year-to-year comparison basis, while shares and units did about 1.5 % decline for the same period. The Exchange sensitively registered that the worse economic results reflecting the decline in performance of the Czech economy were also reflected in a decline of interests in shares and where the interest persisted, it was primarily focused on the most liquid issues traded mostly as direct transactions.

The intensive search for the recipe intended to strengthen the pricing role led to a systemic preparation of the new trading segment known as SPAD. This system is to use market makers in order to initially concentrate liquidity of several selected issues and thus to assure an impressive increase in the value of the pricing transactions. The SPAD segment has been developed by the Exchange's own forces, while capitalising from benefits of the existing trading system.

Work on derivatives trading system was also continuing intensively, since this segment is going to become an important part of the services to be offered by the Exchange to investors and traders operating within the Czech capital market. In this case too the year 1997 meant a process of search for the optimum variant fitting the needs of derivatives trading, a system tuning, as well as harmonisation of work on a complex preparation for its start.





Despite the significant year-to-year increase in trade value, the Exchange had to gradually apply some economies in the middle of the year doing so namely through corrective adjustments to fees. The reduction in revenues led to the measures thanks to which the Exchange itself became slimmer, while its decisive function was retained and new development programmes implemented.

The development of the exchange trades reflects the global status of the Czech capital market. The problems of the market which have been resulting from insufficient regulation and lack of legislation, less developed transparency and insufficient enforcement of law and directives, are hindering any further development of the market and causing its participants considerable difficulties. The Exchange can see its future in an effective development of a standard environment under leadership of the Securities Commission whose creation, authority and powers it was pushing through with a significant dedication. What we have in mind is a more global view of the general evolution, more intensive development based on a perspective solution.

For the five years of its existence the Exchange has managed to handle its essential requirements and developed a strong technological base enabling its unusual boom. From a simple trading system whose selection was primarily motivated by objectives of the recent voucher privatisation, the Exchange has gradually developed a structured trading and information system capable, to a decisive extent, to satisfy the needs of both the market and its participants. The permanent growth of the trade value demonstrates that the Exchange has acquired a key position in the Czech capital market and that it concentrates a significant value of trades. As the only securities market organiser operating in the Czech environment, it has created and, in 1997, also significantly advanced a well elaborated listing system able to guarantee investors a good flow of information on joint stock companies.

### **Structure of the Market for Securities**

In 1997, securities were traded in the following three PSE markets: Main, Secondary, and Free. At the early beginning of the year, 1,750 securities issues were registered at the Exchange in all, of which 44 share issues and unit issues supplemented with 26 bond issues in the Main Market. The Secondary Market of the Exchange had listed 52 share issues and unit issues; bond issues were only represented by one single issue. Altogether 1,574 share issues and unit issues and 53 bond issues were registered by the Exchange in its Free Market.

Admission to the Main and Secondary Markets continued to be conditioned by strict listing proceedings. Company could have applied for admission to this "elite club" through some of the Exchange members. One of the basic requirements to be met by each security issue before its admission to the trading in the Main Market of the Exchange has been "public offer" with the current required amount set at CZK 200 million. This rule applies to classic joint stock companies and banks; investment companies and unit trust funds are subject to requirement for issuer's minimum registered capital of CZK 500 million. As an admission criterium applicable to the Main Market of the Exchange, which had to be met by companies, was also liquidity requirement set for the amount of CZK 300 thousand of the average per day trade value reached in the Central Market in the last 12 months before the application was filed. Simultaneously with the admission to the most important exchange market the issuer undertakes to comply with the information disclosure obligations and with publication of quarterly income statements as well as with disclosure of any information or facts which may have an impact on pricing of securities in the given issue.

### Trade Value by Market and Security Type

Market	Bonds		Shares		Units		Total		
	Value (CZK bil.)	Volume ( '000 pcs)	Value (CZK bil.)	Volume ( '000 pcs)	Value (CZK bil.)	Volume ( '000 pcs)	Value (CZK bil.)	Volume ( '000 pcs)	
<b>Main market</b>	CM	0.016	2	13.804	17,590	0.342	1,420	14.162	19,011
	DT	366.565	35,955	182.560	158,621	0.735	3,194	549.860	197,770
	BT	0.000	0	0.502	397	0.003	12	0.505	410
	<b>Total</b>	<b>366.581</b>	<b>35,956</b>	<b>196.866</b>	<b>176,608</b>	<b>1.080</b>	<b>4,627</b>	<b>564.527</b>	<b>217,191</b>
<b>Secondary market</b>	CM	0.003	0	1.540	4,286	0.380	473	1.923	4,759
	DT	2.130	154	15.473	48,614	1.201	1,370	18.804	50,138
	BT	0.000	0	0.491	727	0.011	12	0.502	740
	<b>Total</b>	<b>2.133</b>	<b>155</b>	<b>17.504</b>	<b>53,627</b>	<b>1.591</b>	<b>1,855</b>	<b>21.229</b>	<b>55,637</b>
<b>Free market</b>	CM	0.032	2	4.882	17,928	1.083	6,106	5.997	24,036
	DT	64.465	5,445	21.617	43,104	0.636	4,016	86.717	52,565
	BT	0.024	3	1.029	3,689	0.014	94	1.067	3,785
	<b>Total</b>	<b>64.521</b>	<b>5,451</b>	<b>27.527</b>	<b>64,721</b>	<b>1.733</b>	<b>10,215</b>	<b>93.781</b>	<b>80,387</b>
<b>Total</b>	CM	0.051	4	20.225	39,804	1.805	7,998	22.082	47,806
	DT	433.160	41,554	219.650	250,339	2.571	8,580	655.381	300,473
	BT	0.024	3	2.023	4,813	0.028	118	2.075	4,935
	<b>Total</b>	<b>433.236</b>	<b>41,562</b>	<b>241.898</b>	<b>294,956</b>	<b>4.404</b>	<b>16,697</b>	<b>679.537</b>	<b>353,214</b>

CM = Central Market

DT = Direct Trades

BT = Block Trades

## REPORT OF THE GENERAL SECRETARY

During 1997, the Exchange Listing Committee admitted 3 new companies and 12 bond issues to the trading in the Main Market.

A prerequisite of admission to the Secondary Market of the Exchange used to be the compliance with the public offer of CZK 100 million for securities issued by corporations and banks and the minimum registered capital requirement of CZK 250 million for investment funds and unit trusts. Issuers registered in the Secondary Market are subject to the same information disclosure obligations as issuers admitted to the Main Market, but no condition of liquidity achievement has been set. Eight share issues and bond issues of 2 companies were admitted in all to the Secondary Market.

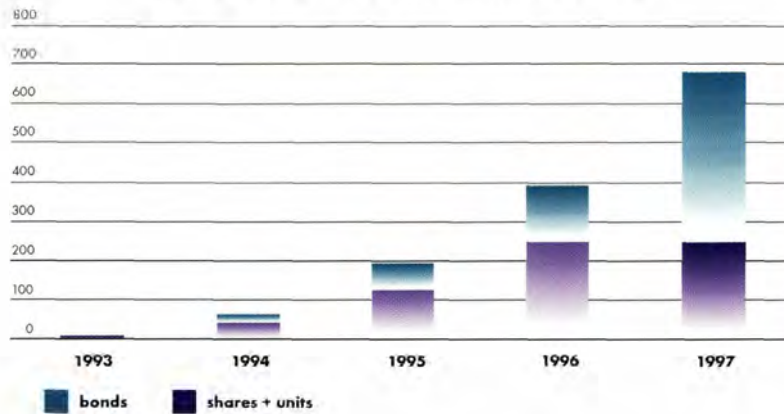
In the course of the year, the Listing Committee analysed again the importance of liquidity from viewpoint of the exchange market's structure. The Committee had emphasised the importance of liquidity and set new criteria for this parameter as applicable to the Main Market of the Exchange. It decided that, effective January 1998, admitted to the Main Market may only be companies which have been achieving average per day trade value of at least CZK 1 million in the Central Market during the last 12 months. This is the reason why, since the beginning of 1998, share and unit issues with average daily trade value in the Central Market lower than the set limit have been reassigned from the Main Market to the Secondary Market. Simultaneously with that decision the Exchange Listing Committee issued a statement confirming that companies in the Main and Secondary Markets were fully equal as to information disclosure duties and they only varied by the rate required for liquidity. That change meant that, in the beginning of 1998, there were 10 share issues and 33 bond issues in the Main Market of the Exchange, and 93 issues of joint stock companies supplemented by 2 bond issues in the Secondary Market.

As a recommendation to the Exchange, the Listing Committee prepared also standards for shares and units. The standards are applicable to all issues traded at the Exchange and, effective the beginning of 1999, they will be binding for all companies listed in the Main and Secondary Markets. An important novelty has become the partial amendment to the exchange regulation "Requirements for Admission of a Security to Exchange Trading". The amendment further specifies the schedule for compliance by issuers with their obligations and duties and reaffirms the Exchange's interest to continue in making its prestigious markets more transparent.

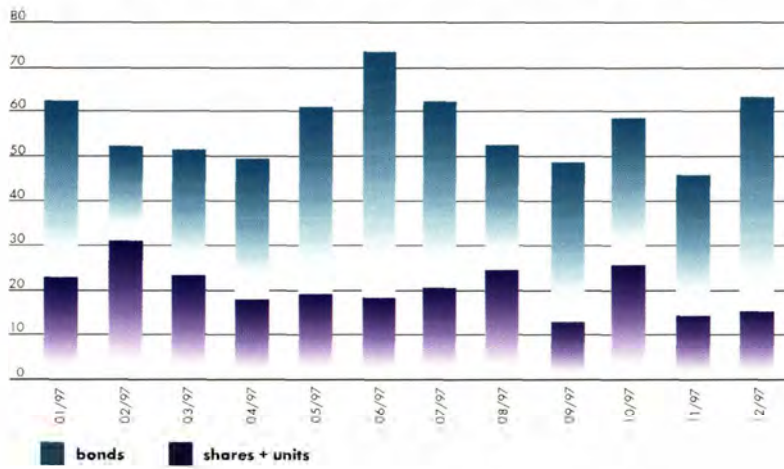
The pressure for higher transparency of the Exchange has also reflected in the introduction of stricter quality requirements in the Free Market. This process resulted in 1997 in a radical elimination of illiquid companies. Altogether 1,301 security issues failing to meet the requirements set by General Secretary for their further retention in the Free Market left gradually the Exchange in four consecutive stages. The reason for cancellation of their registration was primarily the low trade value in the Central Market, insufficient amount of registered capital, and minimum number of exchange sessions during which the securities were traded in the Central Market of the Exchange. According to these criteria, 100 companies were excluded from the Free Market as at March 20, 1997 and 391 issues as at April 1, 1997, with 509 more issues excommunicated as at June 2, 1997 and 301 illiquid share issues as at October 1, 1997. Following those exclusions, there were only 274 security issues registered in the Free Market of the Exchange and altogether 412 security issues were traded at the Exchange.

It continues to apply that, according to the exchange regulation "Requirements for Registration of a Security for Trading in the Free Market of the Exchange", the issuer or some of the Exchange members can apply for registration of the given security for trading in the Free Market of the Exchange. Such application is subject to the decision of General Secretary of the Exchange and no disclosure obli-

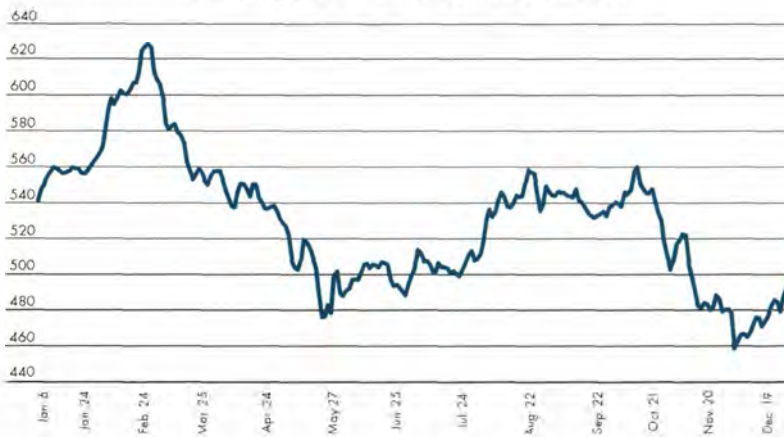
### Yearly Trade Value Development in bil. CZK



### 1997 Monthly Trade Value Development in bil. CZK



### Development of PX 50 Index in 1997



gations imply therefrom for the issuer. Nevertheless, by registration of securities in the Free Market the Exchange neither assumes any obligations arising from such securities nor can it be born liable for any damage / loss whatsoever occurred as a consequence of not having provided information on important facts.

### **Basic Data on the Trading for 1997**

In the course of 250 exchange days, trades in securities amounting to the total value of CZK 679.5 billion ('000 million) were concluded through the Exchange, which was an increase of 72.8 % in comparison with the preceding year. The average per day trade value reached CZK 2.718 billion, that is a 72.1 % increment on a year-to-year basis. The decisive share in the increase of the value indicator was taken by bond transactions which recorded a growth of 202.3 %. On the contrary, value of operations in shares and units dropped by 1.4 % on a year-to-year basis. Thus an impressive move occurred in the structure of the exchange trades, since the percentage of bonds of the yearly exchange balance increased from 36.4 % in 1996 to 63.8 %. Also the shares of the Main and Secondary Markets in the total trade value rose from 76.6 % to 86.2 %.

Trades in the pricing Central Market left behind the expectation. Their value reached CZK 22.082 billion which shows a decline of 23.3 % against CZK 28.772 billion in the previous year. The share of this market segment in the total exchange balance dropped from 7.3 % in 1996 to 3.2 % in the reviewed period. However, this figure was mostly influenced by the fact that it was exactly bonds, practically not traded in the Central Market, that took the decisive share in the impressive growth of the total trade value. The overwhelming part of the value summed for exchange transactions took the form of direct transactions and their percentage reached 96.4 %. Block trades retreated significantly having only contributed to the Exchange's balance with a negligible share of 0.3 %.

The most successful sector in the Central Market became investment funds, just like in the previous year, taking a 28.4 % share in the trade value. The share of the banking sector in the Central Market total results was 16.8 %, power generation 9.6 %, with issues of transport and communications sector taking 9.4 %. The ranking in the top four places has not changed in comparison with 1996. Taking into account the total trade value and considering also the sector classification, the attention of investors in the market for shares and units focused on transport and communications (23.4 % thereof), followed by the banking sector (19.4 %), power generation (18.6 %), and investment funds (9.1 %). The highest annual trade values were recorded by issues of SPT Telecom (CZK 52.4 billion), followed by issues of Komerční banka (CZK 40.6 billion), and ČEZ (CZK 32.9 billion). The share of those three issues in the total trade value for shares and units reached 51.1 %.

Majority of exchange indicators have stated losses for 1997 on a year-to-year basis. The principal exchange index PX 50 closed the year at the value of 495.3 points and lost 8.2 % on a year-to-year basis. The maximum value of the Index was reached on February 25 - 629.0 points, and it splashed down to the yearly minimum of 458.5 points on December 1. The summary index PX-GLOB, which is monitoring the entire spectrum of the market for shares, recorded a decline of 8.6 % in 1997. The dominating descending tendency in the market has also been demonstrated by the fact that 14 of the total number of 19 sector indices suffered losses. The most dramatic collapse had to be faced by agriculture whose indicator lost 59.8 % and by the team of companies from the trade sector with its index down by 41.6 %. An impressive loss of 37.1 % was also suffered by index of the banking sector. On the other



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hand, just contrary to that, sector 19 - others, gained 38.1 % as did investment funds - by 11.3 %, with index for extraction and processing of minerals and ores up by 9.9 %.

Market capitalisation for shares and units decreased from CZK 539.2 billion, as at Dec. 31, 1996, to CZK 495.7 billion, at Dec. 30, 1997, which meant a decline by 8.1 %. That result was not only affected by the overwhelming decline in the market, although it had the decisive impact on the decline of the market capitalisation, but it was also stigmatised by the fact that 130 issues of insufficiently liquid companies left the market during the year. Share of the Main and Secondary Markets in the market capitalisation for shares and units reached 82.4 %. The same parameter for bonds, on a year-to-year basis, climbed from CZK 136.9 billion to CZK 174.0 billion, whilst the number of issues increased from 80 to 92.

From chronological point of view when looking at the trading development in more detail, it is apparent that activity of investors at the beginning of 1997 followed the dynamic trend of the previous years, but it was obviously decreasing during the year.

In the interest of a higher transparency in concluded trades, information disclosure obligation arose for the Exchange members effective April 1, 1997. Subject to this obligation are trades in securities of one single issue marketable at the Exchange if the trades in such issue exceed the value limit of CZK 200 thousand. Since mid-April, changes took place as far as trading in blocks of securities is concerned, since the system of bails and confirmations was cancelled. Newly introduced was compensation to the benefit of the counter-party in the case of failure to meet the obligations arising from concluded trade. Such compensation can reach up to 10 % of the trade's value, but the minimum is CZK 1 million.

For the purpose of strengthening the pricing transactions, effective the beginning of August, the Exchange Chamber committed the member firms to exclusively trade in public markets all securities coming from the Main and Secondary Markets. The adjustments made to the "Rules Governing the Fees" which were intended to give advantage to the trades effected through the Central Market constituted part of that intention.

### **New Products of the Exchange and Support of the Trading**

Year 1997 was the year of modernisation (upgrading) of the Exchange's Automated Trading System (MAOS). This process was ensured by the Exchange's own capacities. The following objectives were set for the process:

- to modernise the automated trading system (AOS), as far as technology is concerned,
- to modernise the communication environment for communication between the Exchange and its members,
- to create a new and to update the existing trading functions and parameters of the AOS,
- to integrate the AOS with the members' systems.

When making concept for the MAOS project, the Exchange had chosen the cooperation with the creators of the software systems employed by member firms. The Exchange itself took care of the server and communication part of the system's modernisation, creators of the members' software products did the client-related part of the application. Over 80 percent of members use systems supplied by four software firms, the others develop the needed product by their own force.





## REPORT OF THE GENERAL SECRETARY

The growing requirements for the Exchange's data processing system using the on-line connection for information agencies, backup in real time and the new communication system, as implying from the development of both the Exchange's and UNIVYC's applications, have required the modernisation of all three AS/400 computers.

The MAOS project is designed for three stages. The first stage, finished on November 3, 1997, involved the upgrading of the system's technology, communication environment for the connection of the Exchange with its members, and the upgrading of the Exchange's data processing system. The MAOS has integrated the main trading functions - trading at fixed price, continual trading at fixed price, and continual trading at variable price.

Integral part of the MAOS's first stage was also the creation and development of a sub-system for trading in units issued by open unit trust funds. This system allows to buy and sell units in booked form and in certificated form. The objective of the project was to expand services offered by the Exchange and to enable the trading in units of open unit trusts through the Exchange's trading system. The project was launched on May 26, 1997.

During the same period, the Exchange prepared a project for the programme support of the market for bonds. The objective of the project is to make a positive contribution to the standardisation of the bond market, introduction of individual trading rules, support of the market making, and precise definition of the method applicable to the fixing of prices and to their dissemination. This involves the creation of the optimum conditions necessary for the overall revival of the exchange market for bonds. The solution allows collection of reference prices for bonds from market makers and the subsequent determination of the average reference price for bonds and its distribution.

The second stage of the MAOS project started in September 1997. It was focused on the expansion of the system's trading functions. In the course of the stage, a new trading segment is being prepared, its task being the support of the market for shares and bonds (known as SPAD), including mail. Direct trades will be simultaneously transferred to the MAOS. Conclusion of the second stage is scheduled for the first half of 1998 and then the third stage will follow under which the remaining functions of the existing AOS will be transferred to the MAOS.

Integral part of the MAOS will be also the securities loaning project the objective of which is the creation and development of infrastructure for the loaning system as an organised mechanism functioning on the basis of accepted and adopted rules and restrictions implying from the offer-driven loaning principle. The securities loaning system will help avoid the chaining of unsettled trades, will support activity of market makers by potential coverage of short position and will reduce financial costs in case of an erroneous settlement. The project itself will be launched in the first quarter of 1998. Thus will be met one of the basic requirements for starting the trading in SPAD as will also be for derivatives trading.

Preparation of the derivatives trading has reached the final closing stage. In the course of the year, majority of the procedural regulations applicable to the derivatives market was prepared, drafted and approved in cooperation with the Ministry of Finance of the Czech Republic and further details of the conditions applicable to the granting of the permission to trade in derivatives were further elaborated. Regarding the technical and technological aspects, the equipment on the Exchange's side was prepared and installed, and tests of the system in the contractor's environment were accomplished.

The new technological solutions have significantly facilitated the further development of the Exchange

especially as quality improvement and expansion of trading services and has created the necessary prerequisites for introduction of new products in 1998.

### **Settlement of the Exchange Trades**

Settlement of exchange trades continues to be ensured by the Exchange through its subsidiary joint stock company UNIVYC. In the year under this review, transfers amounting almost to CZK 688 billion were effected through settlement of all exchange trades. The number of operations cleared under the exchange trades represented 1.07 million transfers, direct trade transfers inclusive. In addition to the exchange transactions, UNIVYC also provided settlement of OTC operations accounting for 42.8 thousand transfers in total value of CZK 221 billion. Apart from this principal activities, UNIVYC acted as a safe custodian for lot of securities, as well as manager for assets associated in the Guarantee Fund of the Exchange, mediated a series of services of the Securities Centre (SC), administered bails related to block trades, and organised regular periodical training courses for member firms.

Settlement of trades in booked securities was carried on by UNIVYC through the Securities Centre. The on-line connection with the SC resulted in a steep rise in the volume of dispatching services. The volume has increased more than four-times in comparison with year 1996. Using this line, participants in settlement had the opportunity to transmit services to the SC in the course of the whole day, while the overall time for the transmitting of those services was extended. Financial part of settlement for trades in securities was assured by UNIVYC through sending payment orders to the Clearing Centre of the Czech National Bank.

Transfers of certificated securities related to settlement were carried on by their processing in the UNIVYC's own database. These certificated securities were deposited with the Central Depository of the Komerční banka where about 1,005 deposits and 653 withdrawals took place during the year under this review. Major activities of UNIVYC included also its participation in the tender organised in 1997 for creation and development of a Universal Clearing Centre for Settlement of Capital Market Operations. When the final results of the tender were announced, UNIVYC was designated as a guarantor of the project, together with two more entities.

In May, UNIVYC expanded its services upon inclusion of settlement for units issued by open unit trust funds and, as of August, it also made possible the settlement for non-commercial transfers associated with activities such as custody of securities, securities loaning and REPO operations effected among settlement participants. During the year, UNIVYC took active part in preparation of a project for trading and settlement of options and futures contracts. A new service allowing to register issues for the purpose of their settlement in UNIVYC has been thus made available for settlement participants and issuers since September, while this service also applies to registration of primary issues that is to be done through UNIVYC. In the end of the year, the work related to the introduction and implementation of the service commonly known as "booked loaning of securities" was finalised and, simultaneously, a series of specialist seminars was organised on this topic for settlement participants. Based on the decision of the UNIVYC's Board of Directors, six companies, non-members of the Exchange, were granted status of UNIVYC member during the year.

### Dissemination of the Exchange Information

In 1997, the Exchange expanded the range of information products offered and, apart from already functioning exchange information dissemination systems, teletext, BBS, and on-line connections to the Exchange's existing information system, FTP service, and new Internet server of the Exchange, were added in the middle of the year. Contrary to acquisition of data via BBS, when those interested in this service are dependent on telephone connection with the Exchange, the FTP service uses global network of the Internet. This type of connection is not only more economical, hence more advantageous for user, but it also increases many-times the number of users that are allowed to acquire the data simultaneously which makes the exchange information more accessible.

Another improvement in the Exchange's information service, and a very substantial one, has become the fact that access was made possible to the Exchange's own www server with the Exchange's new official pages (<http://www.pse.cz>). On these pages, those interested can not only find background information on the Exchange, trading results, information about issuers, data on the Exchange members, messages on the most important topical events taking place at the Exchange, terms and conditions regarding the access to information charged for, exchange regulations and other information on capital market sphere. There are also available pages designed for foreigners interested in the Czech capital market, since English version has been processed on the www pages in parallel to Czech version.

Year 1997 meant a breaking point in the Exchange's systemic approach towards the information dissemination which reflected in the Exchange's relationship with exchange information customers. A universal information policy was elaborated and, based thereon, new contracts were made with data users. The unification of the contractual conditions, these are equal today for all data providers and their end users, made it possible to apply a new approach towards solution of many a serious issue. The Exchange has become more open to the public, has made the communication more efficient for those interested in the data and has thus made a great contribution to the efforts aimed at the achievement of a better transparency of the Czech capital environment. The Exchange's new information policy is based on principles established by other exchanges operating in standard economies. As one of the most important novelties, the Exchange has offered a comprehensive and complete market supporting information system, since, after 12:00 PM, it provides exchange data free of charge to all those interested in them. The official exchange price-list is published in the daily newspapers *Hospodářské noviny* instead of the periodical BURZA.

The objective of the Exchange has been to make access to the maximum possible amount of information for the maximum possible range of those interested therein. It is the Centre of Exchange Information that effectively serves the direct contact with the public. The Centre is located in the passage of the Exchange Palace. The Exchange also communicates through specialist print-media with market participants and those interested in what is going on in the capital market. Each year it publishes a Fact Book providing a comprehensive review of the annual balance covering the exchange trades and publishes periodically a monthly review of statistics summarising results on transactions carried out at the Exchange. The Exchange is also very active in the field of educational activities and its lectures, excursions and professionally-oriented seminars are targeted at those interested therein, regardless of whether these come from the inland or from abroad. In 1997, the Exchange widely presented the whole spectrum of its services at the international financial fair FIBEX, it also issues a specialist weekly devoted to capital issues and, for those interested, offered professional publications which can provide a thorough picture of the Exchange's activities and of its future objectives and intentions.

## **Principal Perspectives of the Future Development**

By launching the process of modernisation of the automated trading system in 1997, the Exchange has created suitable conditions for further improvements in quality of the trading system and in the communication environment and, simultaneously, has prepared a platform for a further development of new exchange products. Its objective remains to be the creation of a transparent, liquid market for securities, and the systemic solutions that are being prepared in the area of exchange services, are expected to make a positive contribution in that respect.

The primary task before the Exchange for the first half of 1998 would be the opening of the trading in the new segment SPAD designed, at the initial stage, for the most liquid issues and expected to make a great contribution regarding both the further increase in the weighting of the pricing market and transparency of exchange trades. Contrary to all the previous trading methods, trading in the new segment is a price-driven one, using the function of market makers for continual quotation of bid and ask prices.

A significant novelty in the Exchange's activities in the next year will become the trading in derivatives. This segment constitutes a natural and integral part of the market for securities as it is functioning in stable market economies. By putting the options and futures contracts into operation, the Exchange will make another addition to the structure of its trading products in such a way as to provide the market participants with a comprehensive package of tools necessary for an operative, efficient and comfortable trading.

Year 1998 will become a turning point also for other reasons. The professional community is expecting that a significant break will occur in the development of the Czech capital market. The hopes set on the Securities Commission reflect the need for the removal of the chronic ailments that have been accompanying trades in securities since the very beginning. What is primarily involved is the definition of the further development towards standard conditions corresponding to the advanced Europe and development of efficient mechanisms capable to eliminate the unfair practices in the Czech capital market. With the same efforts the Exchange was pushing through the establishment of the Commission, it is also intending to continue its general support targeted at the formation of a modern and efficient capital environment.

In the next year, the Exchange will have to make a strategic decision creating a platform for a good perspective in the integration processes which will integrate the Czech Republic into the existing European structures. Both the reality of the European capital market globalisation and intensively developing integration trends require that the right solution for the Czech capital market as a whole is found quickly.

### THE EXCHANGE CHAMBER

#### Chairman

Tomáš JEŽEK

#### Vice-Chairman

Pavel KAVÁNEK, ČSOB, a.s. - shareholder's representative

Zdenek BAKALA, Patria Finance, a.s.

Aleš BARABAS, Živnostenská banka, a.s.

Marie BEDNÁŘOVÁ, solicitor

Petr BUDINSKÝ, Komerční banka, a.s. - shareholder's representative (member of the Exchange Chamber since January 13, 1997)

Jaroslav DAŇHEL, University of Economics

Jaroslav KLAPAL, Česká spořitelna, a.s. - shareholder's representative

Josef KOTRBA, Česká spořitelna, a.s. (member of the Exchange Chamber since June 26, 1997)

Miroslav KUČERA, FINITY, a.s.

Luděk NIEDERMAYER, Česká národní banka (member of the Exchange Chamber since June 26, 1997)

Libor PROCHÁZKA, Investiční a Poštovní banka, a.s. - shareholder's representative

Lubomír PUŽEJ, Harvardská burzovní společnost, a.s. - shareholder's representative

Richard SALZMANN, Komerční banka, a.s. (member of the Exchange Chamber since June 26, 1997)

Michal VĚTROVSKÝ, Česká pojišťovna, a.s.

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

#### Ended membership of the Exchange Chamber

Vladislav PAVLÁT, Iceberg, a.s. (membership ended on June 26, 1997)



## **SUPERVISORY BOARD**

### **Chairman**

František VEJMOLA, Komerční banka, a.s.

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.

## **GENERAL SECRETARY**

Jiří FRANC

## **EXCHANGE COMMITTEES**

### **Stock Exchange Membership Committee**

Chairman

Jaroslav KLAPAL

### **Stock Exchange Listing Committee**

Chairman

Aleš BARABAS

### **Stock Exchange Committee on Exchange Trades**

Chairman

Petr BUDINSKÝ

### **Stock Exchange Derivatives Trading Committee**

Chairman

Zdenek BAKALA

## LIST OF SHAREHOLDERS AND MEMBERS

### SHAREHOLDERS AS AT DEC. 31, 1997

AB BANKA, a.s., under liquidation (non-member of PSE)  
Agrobanka Praha, a.s.  
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. (non-member of PSE)  
BRNO BROKER GROUP, a.s.  
BVV DIVES - kapitálový trh, a.s.  
CA IB Securities, a.s.  
CIMEX TRADING, a.s.  
CITICORP SECURITIES (CR), s.r.o.  
COOP BANKA, a.s.  
Credit Suisse First Boston (Praha), a.s.  
ČESKÁ POJIŠŤOVNA, a.s. (non-member of PSE)  
Česká spořitelna, a.s.  
Československá obchodní banka, a.s.  
EASTBROKERS, a.s.  
EB Brokers, a.s.  
EFEKTA FINANCE, a.s. (non-member of PSE)  
EXPANDIA BANKA, a.s.  
Expandia Finance, a.s.  
FIO, burzovní společnost, a.s.  
Fond národního majetku České republiky (National Property Fund)  
GES INVEST, a.s.  
Global Brokers, spol. s r.o.  
GOLDIES, a.s.  
Harvardská burzovní společnost, a.s.  
HYPO-BANK CZ, a.s.  
ICEBERG, a.s.  
imAGe 1, a.s.  
ING Baring Capital Markets (C.R.), a.s.  
Interbanka, a.s.  
INVESTIČNÍ A POŠTOVNÍ BANKA, a.s.  
INVESTKONZULT, a.s.  
Kapitálová investiční společnost České pojišťovny, a.s. (non-member of PSE)  
Katnek Securities, a.s.  
Komerční banka, a.s.



## LIST OF SHAREHOLDERS AND MEMBERS

KOMERO, s.r.o.  
LIFOX, a.s. (non-member of PSE)  
Merx, a.s.  
Moravia banka, a.s.  
Moravskočeská burzovní, a.s. (non-member of PSE)  
NEWTON STOCK INVESTMENT, a.s.  
Oesterreicher a spol., s.r.o.  
Patria Finance, a.s.  
Pragobanka, a.s.  
Pražská brokerská, a.s. (non-member of PSE)  
Procap Securities, spol. s r.o.  
Sati, spol. s r.o.  
SLOVENSKÁ SPORITEĽŇA, a.s. (non-member of PSE)  
SOCIÉTÉ GÉNÉRALE BANKA Praha, a.s. (non-member of PSE)  
Stratego Invest, a.s.  
Středoevropská burzovní, a.s. (non-member of PSE)  
TEG, a.s.  
Union banka, a.s.  
UNIVERSAL BANKA, a.s.  
Všeobecná úverová banka, a.s.  
Zvěřina & Bělohávek, s.r.o.  
Živnostenská banka, a.s.

### **OTHER MEMBERS AS AT DEC. 31, 1997**

ABN AMRO Bank N.V.  
Ballmaier & Schultz CZ, a.s.  
BURZOVNÍ SPOLEČNOST EGRETTA, s.r.o.  
Burzovní společnost pro kapitálový trh, a.s.  
CAPITAL PARTNERS, a.s.  
CAUTUS FINANCE, s.r.o.  
CONSEQ FINANCE, s.r.o.  
C.S. Brokers, a.s.  
CZECHONA, spol. s r.o.  
ČESKÁ NÁRODNÍ BANKA (Czech National Bank)  
Českomoravská záruční a rozvojová banka, a.s.  
DELTA SECURITIES, a.s.  
Deutsche Bank AG  
DYNAMIC CAPITAL INVEST, a.s.  
EPIC Securities, a.s.  
FINNEX Securities, a.s.

## LIST OF SHAREHOLDERS AND MEMBERS

Girocredit-Sparkassen Banka Praha, a.s.  
GUTMANN & CIE Praha, a.s.  
I.M.C. Burzovní společnost, a.s.  
IB Austria Securities Praha, a.s.  
J & T SECURITIES, s.r.o.  
J.F. WORLD BROKERS, s.r.o.  
OFT BROKERS, spol. s r.o.  
P&P Brokers, a.s.  
Plzeňská kapitálová společnost, a.s.  
PPF burzovní společnost, a.s.  
Prague International Securities, s.r.o.  
PROSPER FINANCE, a.s.  
První městská banka, a.s.  
Raiffeisen Capital and Investment Praha, s.r.o.  
RH FIN, a.s.  
Severní brokerská společnost, s r.o.  
Silas Broker, s.r.o.  
SOCIÉTÉ GÉNÉRALE SA  
TIPAINVESTING, spol. s r.o.  
Velkomoravská banka, a.s.  
Vereinsbank (CZ), a.s.  
WOOD AND CO., s.r.o.

As at December 31, 1997, the Prague Stock Exchange had registered 88 members of which 51 were its shareholders and 10 more shareholders were not members of the Exchange.

In the course of 1997, three new members were admitted to the membership of the Exchange. The Exchange Chamber approved 6 cases where membership was ceded. Membership for 8 companies was terminated at their request; membership for 4 member firms expired, and membership for 9 member firms was cancelled on the basis of the decision made by the Exchange Chamber.

## REPORT OF THE SUPERVISORY BOARD

During 1997, the Supervisory Board (SB) discussed its subject matters at 11 meetings, in all, while two of those were extraordinary. In exercising its controlling functions, it followed the relevant provisions of the law, by-laws of the Exchange, directives and resolutions of the General Meeting of the Exchange's Shareholders.

At its meetings, the Board periodically discussed financial position of the Exchange and state of its assets, made familiar itself with the decisions both being prepared and already adopted by the Exchange Chamber, as well as with new exchange regulations. The SB also discussed suggestions received from the Exchange Chamber, shareholders and Exchange members, Exchange Commissioner and from other persons. Within that activities, it paid a special attention primarily to rationalisation of the activities performed by the Exchange Chamber, to internal relationship between individual units of the Exchange's administrative apparatus, relationship between the Exchange and its subsidiaries and, last but not least, to the necessity of a more detailed specification of the Exchange's development strategy in conjunction with the ongoing process of globalisation that is taking place within the exchange sector in Europe under the existing integration of the European Union.

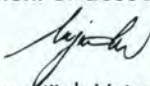
In addition to the aforementioned, the Board frequently discussed possibilities of cost-saving related to the common Exchange's operation, including reductions in the number of its staff, hence in payroll cost development for the Exchange's overall management and administrative apparatus, and examined whether, no mistake was made on part of the Exchange's management in conjunction with the preparation for derivatives trading, or whether some of the measures taken by the Exchange Chamber were ignored. The Board stated that the Management of the Exchange had proceeded in full compliance with the conclusions and measures discussed by the Exchange Chamber.

The Supervisory Board also advised the Exchange Chamber of the unbalanced risk diversification in the case the project on the Universal Clearing Centre would be implemented. At the beginning of 1998, when the 1997 closing income statement was being prepared by the Exchange, the Supervisory Board exercised a random check on documents supporting the budgetary items overdrawn, contracts made and invoices paid.

The Supervisory Board monitored on a continuous basis the preparation of the Report on Business Operation and Status of Assets of the Exchange, discussed the final version of the Report as submitted for discussion and approval by the GM of the Exchange's Shareholders. In principle, the Supervisory Board had no comments on the Report and, therefore, recommended its approval by the GM.

In compliance with Article 33 of Articles of Foundation of the Prague Stock Exchange, the Board had examined its audited closing statement of accounts and made familiar itself with the Auditor's Report it had consulted in advance with the Auditor. The Board had also examined the proposal of the Exchange Chamber for settlement of the loss stated and was in full agreement with the Chamber's decision made on settlement of the loss.

The Supervisory Board is in agreement with the closing statement of accounts prepared for the Prague Stock Exchange and with the decision to settle the loss. It recommends that, in compliance with the aforementioned, the General Meeting approves the annual statement of accounts and the decision on settlement of the loss stated for 1997.

  
František Vejmla  
Chairman of the Supervisory Board



## FINANCIAL SECTION

### BALANCE SHEET - ASSETS (CZK '000)

	Jan. 1, 1997	Dec. 31, 1997
<b>Receivables for equity subscriptions</b>	<b>0</b>	<b>0</b>
<b>Fixed assets</b>	<b>582,648</b>	<b>598,506</b>
Intangible fixed assets	29,204	24,104
Tangible fixed assets	550,544	572,117
Financial investments	2,900	2,285
<b>Current assets</b>	<b>106,863</b>	<b>80,895</b>
Inventory stock	198	181
Long-term receivables	9,475	8,475
Short-term receivables	35,307	25,723
Financial assets	61,883	46,516
<b>Other assets</b>	<b>2,433</b>	<b>2,021</b>
<b>Total assets</b>	<b>691,944</b>	<b>681,422</b>

### BALANCE SHEET - LIABILITIES (CZK '000)

	Jan. 1, 1997	Dec. 31, 1997
<b>Equity</b>	<b>440,385</b>	<b>414,398</b>
Registered capital	384,948	384,948
Capital funds	35,948	35,948
Legal reserve fund	1,799	2,799
Profit of previous years	5,738	16,202
Profit (Loss) of current accounting period	11,952	(25,499)
<b>External liabilities</b>	<b>249,319</b>	<b>261,530</b>
Other reserves	3,912	3,912
Short-term liabilities	47,399	38,636
Bank credits and assistance	198,000	218,971
<b>Other liabilities</b>	<b>2,240</b>	<b>5,494</b>
<b>Total liabilities</b>	<b>691,944</b>	<b>681,422</b>

## FINANCIAL SECTION

### PROFIT AND LOSS STATEMENT as at Dec. 31, 1997 (CZK '000)

Revenues from sales of goods	28
Expenses on sales of goods	17
Revenues from sales of own services	196,030
Sales-related consumption	110,748
Added value	85,293
Personnel expenses	69,165
Taxes and levies	197
Depreciation (amortisation) of tangible and intangible fixed assets	56,749
Accounting for reserves, accruals and adjustments to revenues	58
Revenues from sales of fixed assets and material	1,062
Residual cost of sold fixed assets and material	1,552
Accounting for adjustments to operating revenues	2,052
Accounting for adjustments to operating expenses	2,660
Other operating revenues	54,055
Other operating expenses	1,644
<b>Operating profit</b>	<b>10,489</b>
Financial revenues	12,954
Financial expenses	36,118
Accounting for reserves and adjustments to financial revenues	8
Creation of reserves and adjustments to financial expenses	8,626
<b>Loss from financial operations</b>	<b>(31,782)</b>
Income tax on ordinary activities	4,460
- due	2,242
- deferred	2,218
<b>Ordinary loss</b>	<b>(25,753)</b>
Extraordinary revenues	681
Extraordinary expenses	427
<b>Extraordinary profit</b>	<b>254</b>
<b>Loss of current accounting period</b>	<b>(25,499)</b>
<b>Loss before tax</b>	<b>(21,039)</b>

#### DECISION ON THE LOSS COVERAGE METHOD

Financial result stated by the Prague Stock Exchange for the audited accounting period of 1997 is a loss of CZK 25,499 thousand.

It was approved by the General Meeting that the loss should be covered from undistributed profit of previous years and from profit of years to come.

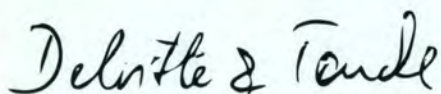
## AUDITOR'S REPORT FOR SHAREHOLDERS OF THE PRAGUE STOCK EXCHANGE

We have audited the enclosed closing statements of accounts prepared for the Prague Stock Exchange as at December 1997. The Company Management is accountable to the Exchange Chamber for compilation of the statements and for book-keeping maintained in accordance with the valid law and regulations. Our responsibility is to give opinion on the statement of accounts as a whole based on the exercised audit.

We have audited the relevant financial statements in accordance with the Auditors and Auditors' Chamber of the Czech Republic Act, No. 524/1992, Coll., and with the Auditor's Directives issues by the Auditors' Chamber. These Directives require that we plan and exercise the audit with the aim to acquire a reasonable degree of assurance that the financial statements contain no major irregularities. Exercised on a selective basis, the audit includes verification of accounting records and other information proving the data stated in the statements. The audit also includes evaluation of the accounting procedures and important estimates applied by the Company to the compilation of the statements, as it also does the assessment of the overall presentation of the statements. We believe that the audit, as exercised, can provide a reasonable platform for our final statement given below regarding the closing statements.

In our opinion, the financial statements concerned give a true and fair view of the Prague Stock Exchange's assets, liabilities, equity and of its financial results achieved in 1997 in all the substantial aspects examined in full compliance with the Accounting Act, No. 563/1991, Coll., and with the relevant accounting regulations.

In Prague, on March 20, 1998



Auditor's Company:  
Deloitte & Touche, s. r. o.  
Licence No. 79



Auditor in Charge:  
Karel Hampl  
Certificate No. 0005

Published: © Prague Stock Exchange  
Rybná 14, 110 05 Prague 1, Czech Republic  
in 1998

Design and illustration: © Varvažovský David  
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