ANNUAL REPORT ON DEBT MANAGEMENT

2004

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FOREWORD

The most important political and economic event for Hungary in 2004 was its accession to the European Union on the 1st of May. This move had been long awaited by both domestic and international investors, and priced accordingly into the yields of government bonds in the course of the convergence process. Though this process was temporarily slowed down by the volatile money and capital market developments in 2003, the year 2004 brought stabilisation and consolidation in the domestic government securities market.

In 2004 the budget deficit continued to decline similarly to the trend observed during the last few years, but still exceeded the plans. At the same time, as a consequence of the increased net foreign currency issuance – a shift that was welcomed by market participants – the reduced net domestic issuance helped to consolidate the government securities market. The traditional flexible reaction of ÁKK Rt. to excess market demand at the auctions, leading to the build-up of liquid cash reserves, also supported the stabilisation of the government securities market.

The modification of the debt management strategy – that came as a result of several years of professional preparation – was also an important development in 2004. The new benchmark portfolio model helped to elaborate a debt management strategy, as well as a set of benchmarks that incorporates the objectives specified for public debt management and correspond better to market challenges.

Ferenc Szarvas
Chief Executive Officer

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I. THE INSTITUTIONAL FRAMEWORK AND OBJECTIVES OF GOVERNMENT DEBT MANAGEMENT

The main legal framework of government debt management is set by Act XXXVIII of 1992 on Public Finances (hereinafter: Public Finances Act). This law authorises the Minister of Finance to ensure implementation of the budget, the financing of the deficit, the continuous solvency of the state budget, registration of the debt and debt service of the central budget and repayment of interest and debts. The annual Budget Acts specify this authorisation by assigning the duties of financing and debt management in the current year to the Minister's scope of authority. The Minister of Finance performs these tasks through the Government Debt Management Agency Ltd. (ÁKK Rt.) based on the provisions of the Public Finances Act.[1]

Since March 1, 2001, following an amendment of the Public Finances Act, ÁKK Rt., the legal successor to the budgetary institution that had operated before, is responsible for government debt management. ÁKK Rt. is a company limited by shares, where the sole shareholder is the Hungarian State and the owner's rights are exercised by the Minister of Finance. The operation of ÁKK Rt. as a company is governed by the general corporate law regulations. The company is managed by the Board of Directors, while control over operation is provided by the Supervisory Board and the auditor pursuant to the corporate status. In addition to these internal management and audit mechanisms, the process of debt management is regularly audited by the State Audit Office.

According to the rules, the government debt management strategy, the annual financing plan and the benchmarks that are prepared by ÁKK Rt. are first submitted to the Board of Directors then to the Minister of Finance for approval.

ÁKK RT.`S TASKS

According to the Public Finances Act, ÁKK Rt.'s activities – among others – include the following major tasks:

- Elaboration of a long-term financing strategy in line with the economic policy, which determines the purpose of debt management and the means of its implementation.
- Preparation of the annual and medium-term financing plans based on the annual Budget Act and in line with the strategy.
- Performing the required financing operations, i.e. organising and implementing both domestic and international government securities issuance and raising of foreign currency loans.
- Handling and managing the temporarily free cash funds of the state (liquidity management).
- Effecting debt redemptions and interest payments.
- Organisation and continuous development of the government securities market (the primary dealer system, sales channels, secondary market etc.).
- Co-operation in determining the financial terms and conditions of borrowings with a state guarantee; on request, organisation of transactions with individual guarantees; keeping a secondary database of the state guarantees (the Hungarian State Treasury is primary registrar of such guarantees).

In 2004, new activities were included, liquidity management operations (see Chapter VIII), and hedging transactions. Since July 1, 2004 ÁKK Rt. has been concluding cross-currency and interest rate swap transactions on its own, without the participation of the National Bank of Hungary (NBH). These swaps are concluded on the basis of an ISDA framework agreement and the ISDA Mark-to-market agreement between ÁKK Rt. and eligible counterparties.

[1] *The legislation in force at the end of 2004 concerning deficit financing, government debt management and the role of ÁKK Rt. can be found in section 4 of the Annex.*

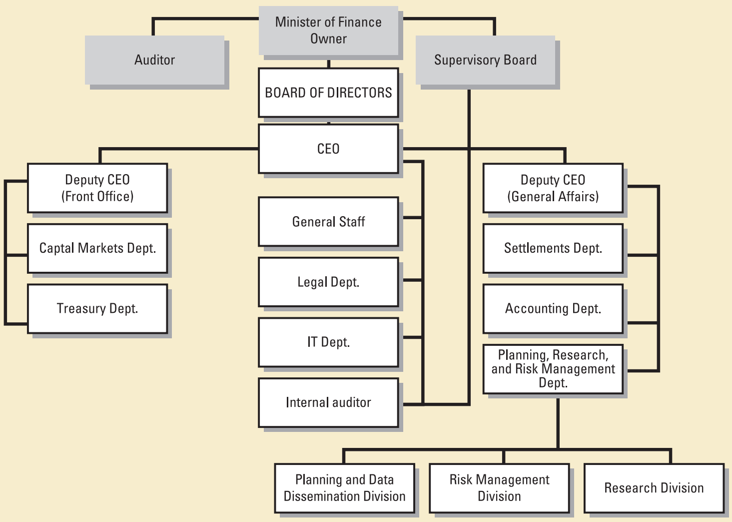
ESTABLISHMENT AND ORGANISATIONAL STRUCTURE OF ÁKK RT.

Government Debt Management Agency Ltd. was founded on March 1, 2001 as the general legal successor to the budgetary institution Government Debt Management Agency (ÁKK) of the Hungarian State Treasury.

ÁKK started its operation in May 1995. The amendment to the Public Finances Act in 2000 assigned the task of government debt management to a market organisation that is able to respond quickly if required. The purpose of setting up a separate institution was to fulfil the strategic debt management objectives in an unambiguous decision-making, responsibility and accountability framework. Strategic decisions are now made by the Minister of Finance as owner and by the Board of Directors.

The company's organisational structure is similar to that of banks and investment banks, i.e. market operations are performed by the Front Office, while settlement is done by the Back Office; planning, risk management and research are the tasks of a department separated from these two areas (Middle Office).

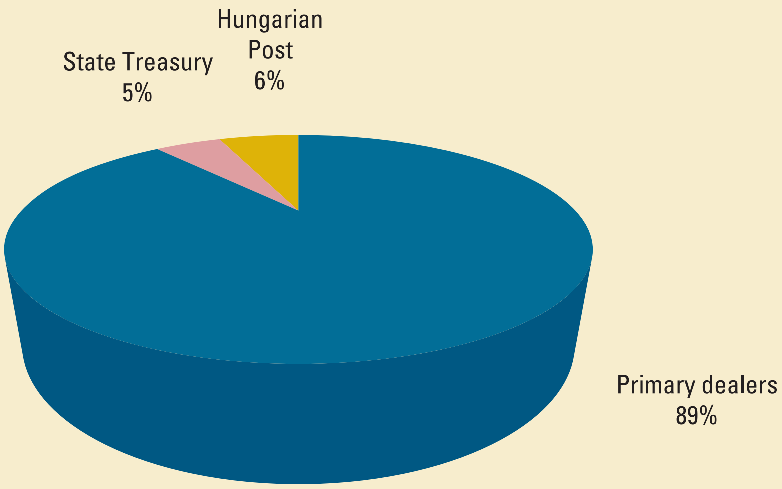
Organisational structure of ÁKK Rt.



II. THE ORGANISATIONAL SYSTEM OF GOVERNMENT SECURITIES ISSUANCE

ÁKK Rt. sells government securities through intermediaries. In the domestic market the majority of HUF government securities are sold via the primary dealers.

Intermediaries of domestic government securities issuance in 2004



THE PRIMARY DEALER SYSTEM

The system of government securities primary dealers was set up in January 1996 in order to improve the transparency and liquidity of the issuance and trading of government securities.

Since May 1, 2004, any investment bank or credit institution that has its seat in any European Union member state, meets the contractual terms and conditions and concludes a primary dealer contract with ÁKK Rt. may become a primary dealer for Hungarian government securities. Naturally, in addition to the numerous obligations, the primary dealer status also grants exclusive rights to those who sign the contract.

THE GROUP OF PRIMARY DEALERS AT THE END OF 2004

CIB Bank Rt.
Citibank Rt.
Deutsche Bank Rt.
Dresdner Bank (Hungaria) Rt.
Erste Bank Befektetési Magyarország Rt.
HVB Bank Hungary Rt.
ING Bank (Magyarország) Rt.
Kereskedelmi és Hitelbank Rt.
Magyar Külkereskedelmi Bank Rt.
Magyar Takarékszövetkezeti Bank Rt.
Országos Takarékpénztár és Kereskedelmi Bank Rt.

One of the tasks and at the same time an exclusive right of the primary dealers is to participate in the auctions of government bonds and discount Treasury bills; in this respect, ÁKK Rt. requires the primary dealers to reach a minimum share of the auctioned amounts.

Another important task of primary dealers is to quote two-way (bid and ask) prices for government securities, thereby ensuring liquidity and transparency both on the stock exchange and in the OTC (over-the-counter) market and continuous access to government securities for investors. The obligation to quote prices applies to publicly issued government bonds and discount Treasury bills with a term-to-maturity of at least 90 days. Primary dealers have to report on their turnover in government securities and provide information about their financial position to ÁKK Rt.

Primary dealers have an exclusive right to

1. Submit bids directly at the government bond and discount Treasury bill auctions organised by ÁKK Rt. as well as at government bond buy-back auctions;
2. Submit non-competitive bids directly at auctions;
3. Make use of the stand-by repo facility provided by ÁKK Rt.;
4. Participate in the consultations organised by ÁKK Rt.;
5. Use the title "primary dealer".

Investors can submit bids at auctions indirectly, through a primary dealer.

Furthermore, primary dealers who have a broad distribution network may conclude a separate agreement with ÁKK Rt. in respect of issuance and trading of Interest Bearing Treasury Bills, a type of retail securities[2].

In addition to primary dealers, ÁKK Rt. also uses the branch network of the Hungarian State Treasury and the Hungarian Post for selling certain government securities to households.

THE HUNGARIAN STATE TREASURY`S BRANCH NETWORK

In the branches of the State Treasury retail investors have access to government bonds and discount Treasury bills sold on tap and to Interest Bearing Treasury Bills sold by subscription. Daily bid and ask prices are quoted for bonds and discount T-bills and bid prices for retail government securities.

THE BRANCH NETWORK OF THE HUNGARIAN POST

The Hungarian Post participates in the sale and redemption of Treasury Saving Bills. These retail securities with a tenor of one or two years are available in printed form, and can be bought and redeemed in over 2,800 post offices throughout the country.

INTERNATIONAL BOND ISSUES

There is no established group of dealers of the Republic's foreign currency bond issues either in the primary or in the secondary market. Investment banks and/or credit institutions are selected in competition as lead managers for each transaction and they organize the syndicate group of dealers who take part in the issue.

IN 2004 THE LEAD MANAGERS FOR THE INTERNATIONAL ISSUES OF THE REPUBLIC WERE*:

BNP Paribas, Citigroup, Daiwa Securities SMBC, Deutsche Bank Dresdner Kleinwort Wasserstein, HSBC, JP Morgan, Lehman Brothers, Morgan Stanley and Nomura Securities

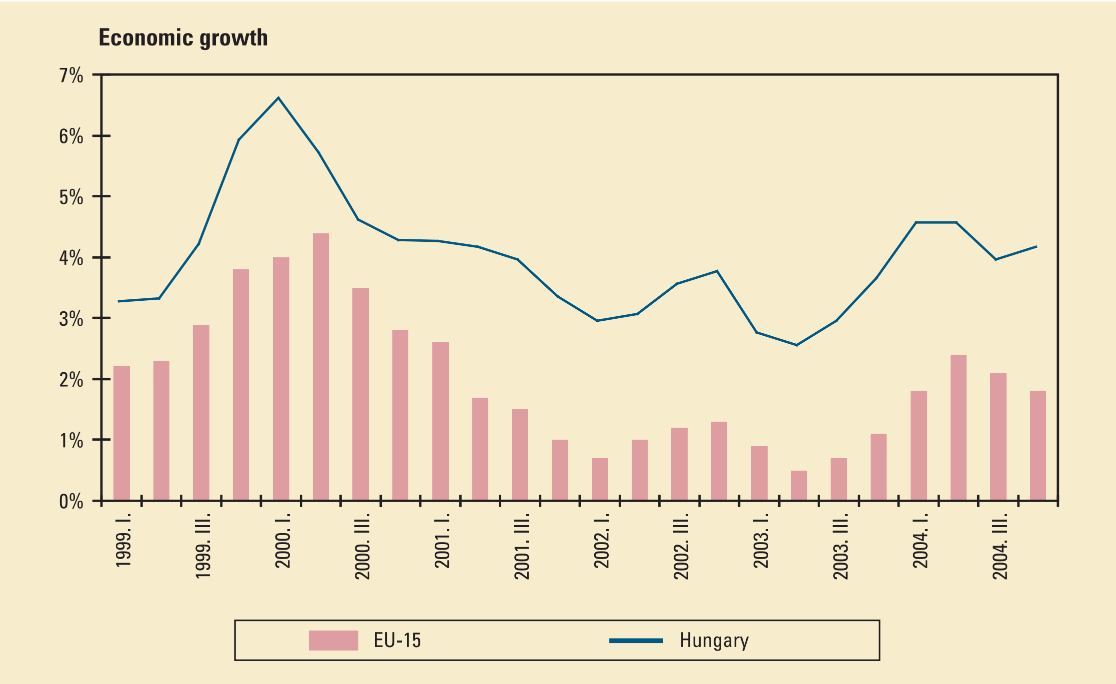
** In 2004, there were 5 international bond issues, with 2 lead managers for each transaction.*

[2] Retail securities are continuously available government debt instruments developed for and sold specifically to small investors (Interest Bearing Treasury Bill and Treasury Saving Bills).

III. MACRO-ECONOMIC DEVELOPMENTS IN 2004

THE ECONOMY

In 2004, the Hungarian economy showed robust growth. The GDP increased by 4.2%, at a rate exceeding both the 2.9% seen in 2003 and the average growth rate in the EU15. The main drivers were exports and investments.



Source: Central Statistical Office (CSO), Eurostat

At the same time household consumption grew only by 2.8%, the lowest figure since 1997. This resulted from the slowing dynamics of wages and reduced household borrowing. The boom in investments was promoted by motorway and housing constructions. Thus, total domestic consumption increased by 3.3% over the year.

The acceleration of economic growth in 2004 was brought about mainly by strong external demand, as a result of the improvement in the global economic environment. The volume of export and import increased dynamically at a rate of 16-20% in the first half of 2004, however, their growth declined to about 10% in the second half of the year, as growth in the economies of the European Union – Hungary's major trade partners – slowed down.

MONETARY DEVELOPMENTS

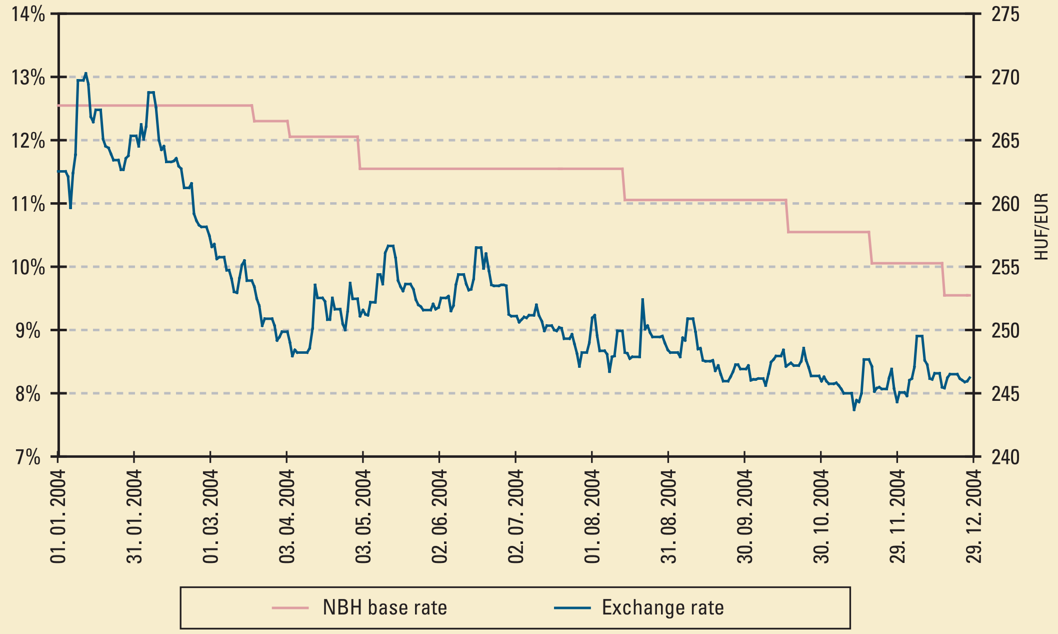
Similarly to the previous year the net financing requirement of the government was high in 2004[3]. However, the net borrowing position of households gradually improved throughout the year and thus helped to finance the budget deficit. At the same time, the net financing requirement of the corporate sector – as a consequence of the increase in investments – doubled compared to the year 2003. The consolidated financing requirement of domestic sectors reached 8.5% of GDP, which resulted in a higher current account deficit. All together the financing of the higher current account

[3] *Components of the net financing requirement are presented in detail in chapter V.*

deficit improved, as long-term foreign investments (FDI, re-invested corporate profit) had increased considerably as compared to the previous year and approached 50% of the external financing requirement.

The central bank followed a cautious interest rate policy in 2004. In the spring of 2004 the strengthening of the HUF made it possible for the NBH to start gradually reducing the base rate from the level of 12.5%. Holding rates stable between May-July, the central bank continued to decrease them in small steps from mid-August, encouraged by the benign inflation figures and the strength of the HUF, as well as by favourable international market developments. By the end of the year, the central bank reduced the base rate to 9.5%, without weakening the currency.

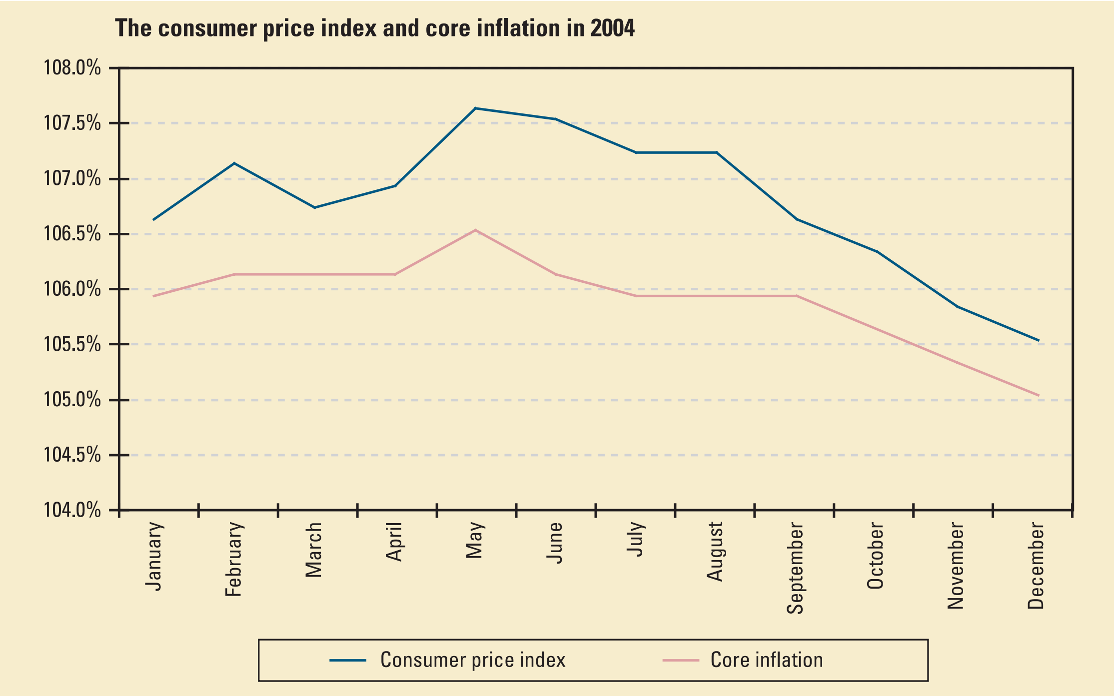
Monetary conditions in 2004



Source: NBH

The situation in the domestic money market was stabilised in 2004. The volatility of exchange rates and yields declined as compared to the highly turbulent previous year while the yield premia of HUF debt instruments decreased considerably. In 2004 the central bank cut its base rate by a total of 300 basis points (three percentage points) while the Hungarian Forint strengthened by 6%. This stabilisation can be attributed primarily to the significant difference between the international and domestic interest rate levels and the favourable attitude of investors.

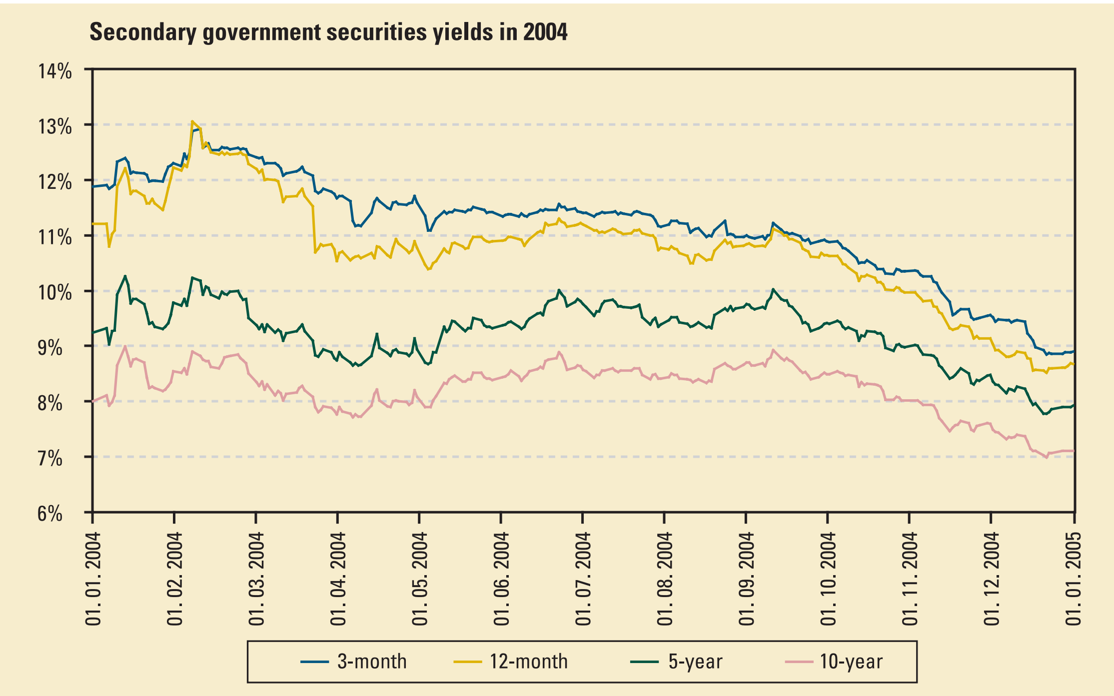
In the first half of 2004, due to increasing oil prices, increase in regulated prices and changes in taxation (VAT and excise), there was a temporary pick-up in inflation. Yearly average annual inflation in 2004 was 6.8%, in comparison with the 4.7% in 2003. However, the second half of the year saw a deceleration in inflation, and the 12-month price index fell to 5.5% by December. The strong disinflation in the second half of the year was partly the result of the strengthening of the exchange rate, and partly of increased competition brought about by Hungary's accession to the EU. The controlled increase in wages and household consumption also proved to be important anti-inflationary factors.



Source: CSO

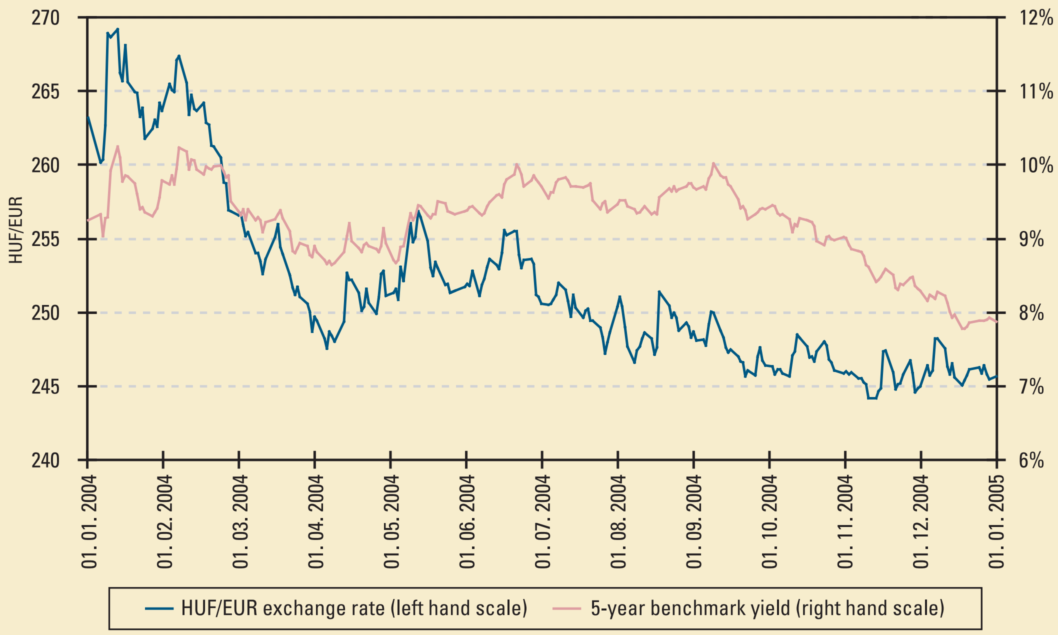
DEVELOPMENTS IN THE GOVERNMENT SECURITIES MARKET

There was a significant decrease in government securities yields in the course of the year 2004. At the end of the year, short-term benchmark yields – having trailed the interest rate cuts by the central bank – were 253-303 basis points lower than a year before. The decline in bond yields was more moderate, yet a decrease of 90 basis points was seen in the case of the 10-year maturity.



In the money market, yields reflect primarily the impact of the interest rate measures of the central bank, while long-term yields mainly reflect changes in international monetary developments and the evaluation of the Hungarian economy. Thus, long-term yields often move parallel with the exchange rate.

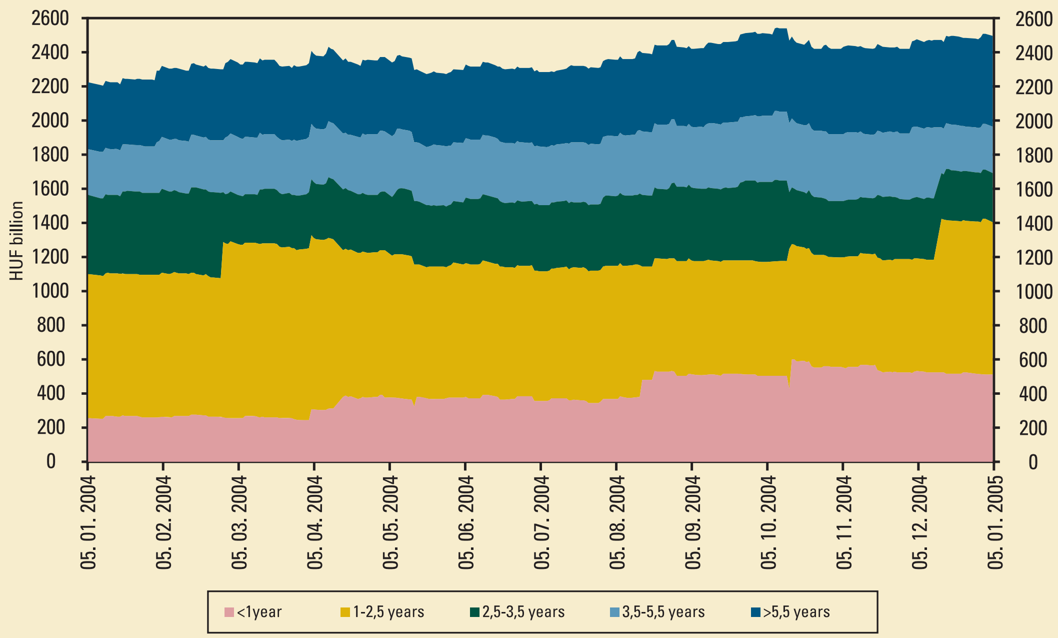
Government securities yields and the exchange rate



Source: NBH, ÁKK Rt.

The Hungarian bond market performed well in 2004: the value of the MAX Composite index reflecting the price changes of government bonds and discount Treasury bills increased by 13.4% compared to the end of the previous year. The fall in yields was the result of the strong demand of non-resident investors in the domestic government securities market despite the weakness of economic fundamentals (budget and current account deficits). In 2004, the volume of HUF government securities held by non-residents increased by HUF 287 billion, and reached HUF 2,510 billion (EUR 10.2 billion) at the end of the year.

Breakdown of non-resident holdings of HUF government securities by term-to-maturity

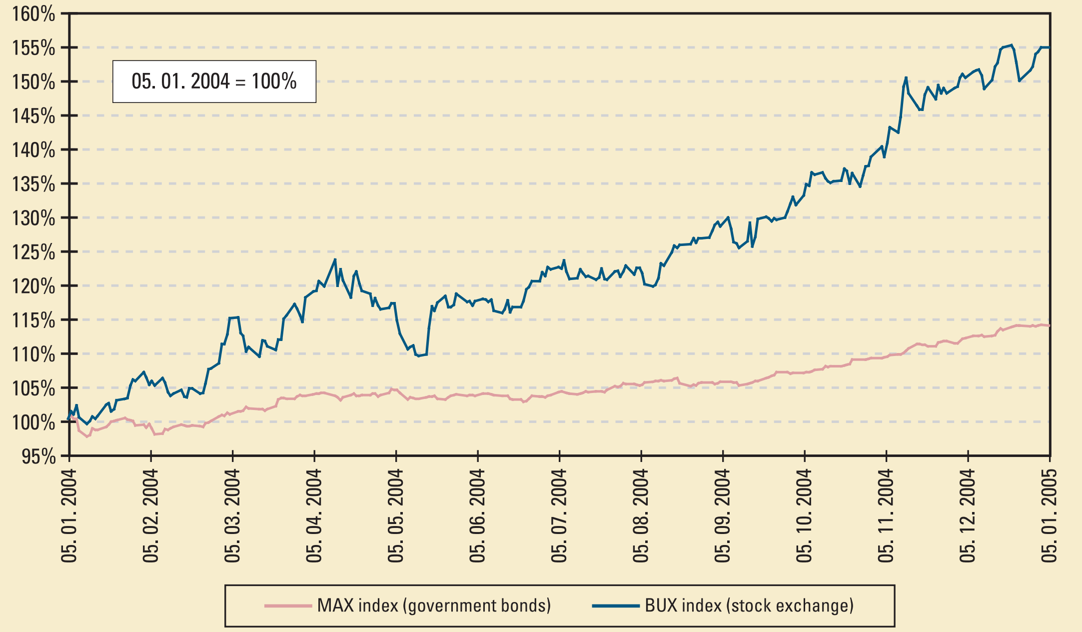


Source: Central Clearing House and Depository (Budapest) Ltd. (KELER)

STOCK MARKET

In 2004, the Hungarian stock market performed extremely well. After the EU accession, the capital markets of the CEE region became quite popular with large amounts of foreign capital flowing into the Hungarian stock exchange as well.

The performance of government bond and equity indices in 2004



Source: ÁKK Rt., Bloomberg

In addition to the considerable inflow of capital leading to a rally of share prices, the BUX, the primary index of the Budapest Stock Exchange was also supported by the good performance of the industry sector and the outstanding profits of the finance sector. In the last quarter, the BUX rose to historical highs of nearly 15,000 points, yielding an annualised 57%.

IV. THE DEBT MANAGEMENT STRATEGY FOR 2004

ÁKK Rt.'s public debt and cash management activities are based on its debt management strategy.

ÁKK Rt.'s task is to meet the borrowing requirements of the central government in an integrated manner at the lowest possible costs in the long term while running acceptable risks. For ÁKK Rt., the size of public debt is basically an external factor determined by the fiscal policy, similarly to the financing requirement of the budget. ÁKK Rt. cannot influence the deficit substantially; the selection of the actual cost-risk profile of the debt may have only a minimal effect on that. Due to the trade-off between costs and risks, the objective is to develop a debt structure where the cost-risk ratio is the most favourable in the long run.

THE MOST IMPORTANT RISK FACTORS ARE:

- Renewal or refinancing risk arises out of renewal of maturing debt and meeting the net financing requirements. In extreme cases, the refinancing risk means liquidity (insolvency) risk, otherwise it translates to interest rate risk.
- The interest rate risk is associated with the change in the level of government securities yields.
- The liquidity risk appears in the fluctuation of the cash-flows of the central government and in the volatility of the money market operations of debt management.
- The exchange rate risk arises out of changes in the exchange rates of the HUF and the euro and in the cross exchange rate of various other foreign currencies.
- Starting from 2004, credit risk, i.e. counterparty risk became an important risk factor in case of hedging operations concluded directly with partners in the international capital market and repo activity in the HUF market.

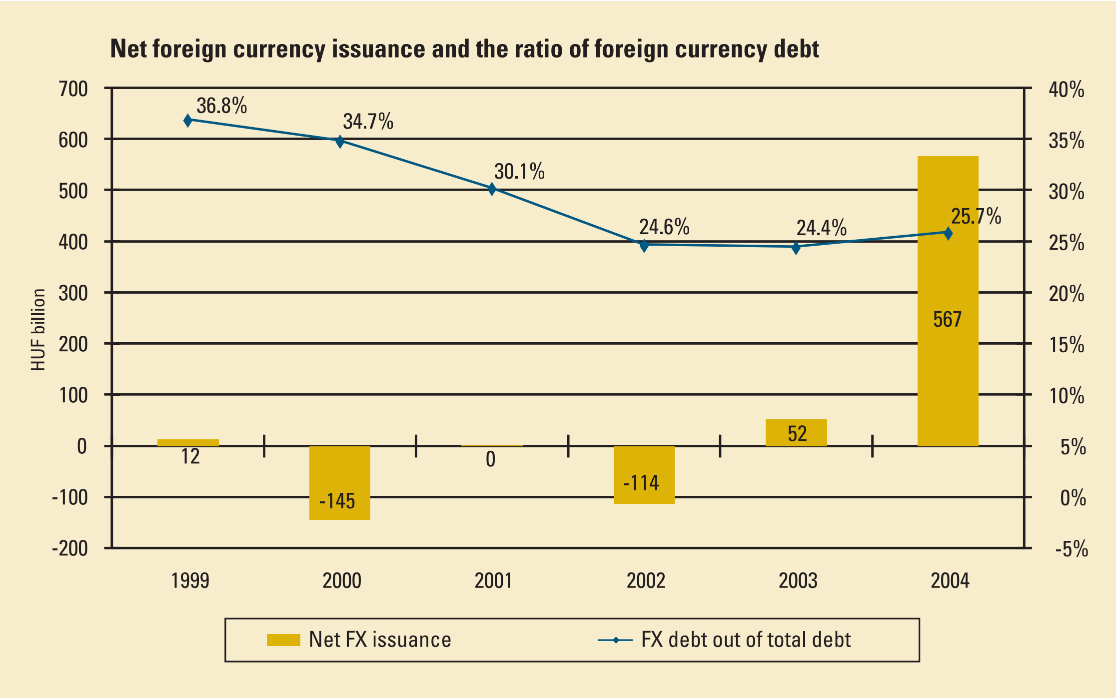
Between certain risks there is a trade-off, i.e. the increase of one type of risk leads to the decrease of an other (e.g. interest and exchange risk), or certain risk types can move in tandem, meaning that if one risk increases, the other risk also increases (for instance, between financing and interest risk). ÁKK Rt. developed benchmarks reflecting its strategic objectives for certain segments of its activities by taking into account risks and costs together. Benchmarks also help to quantify strategic objectives, i.e. they formulate intermediate targets.

In December 2004, ÁKK Rt. revised the debt management strategy based on (1) the change in investment environment and (2) a new optimum portfolio model developed in ÁKK Rt., and made the necessary steps to bring the central government debt in conformity with these requirements by the end of 2004.

1. RATIO OF HUF / FX DEBT

During the period between 1997-2003, ÁKK Rt.'s objective was to maintain the foreign currency debt in nominal terms. That meant that foreign currency redemptions were financed by foreign currency issuances and all other borrowing requirements were met in the domestic market, taking economic policy considerations into account. However, there has been deviation from this strategy in a number of years, e.g. in 2000, when FX issuance was lower than specified by the strategy, or in 2002, when with the exception of project financing loans, all financing needs were met in HUF.

In 2004 the Minister of Finance decided to increase financing from the international capital markets to EUR 3 billion (meaning net EUR 2 billion financing) in order to stabilise the domestic market after the volatility seen in 2003.



As a result, the ratio of foreign currency debt constituted 25.7% at the end of 2004, still being at the lower end of the targeted 25-32% benchmark approved in December 2004.

2. CURRENCY BREAKDOWN OF THE FOREIGN EXCHANGE DEBT PORTFOLIO

In order to mitigate exchange rate risk, ÁKK Rt. defined the currency composition of the FX debt portfolio to correspond to the composition of the currency basket of the Hungarian Forint, i.e. 100% EUR. This way, only the HUF/EUR exchange rate affects the HUF value of the debt, cross exchange rates do not. If the Republic raises funds in a currency other than EUR, they are converted into euro using cross-currency swaps. At the end of 2004, 100% of FX debt was in EUR, in accordance with the benchmark.

3. FIXED/FLOATING RATE COMPOSITION OF THE FX DEBT

The objective of the benchmark for the fixed/floating rate ratio of the FX debt portfolio was to reach an optimum between cost and risk, since floating rate debt is associated with low costs but higher interest rate risk, while fixed rate debt reduces interest rate risks but usually means higher interest expenditure. ÁKK Rt. uses interest rate swaps to set the appropriate interest rate mix of the FX debt, comprising of 66% fixed and 34% floating rate instruments. The composition of the actual debt portfolio at the end of 2004 complied with this benchmark.

4. FIXED/FLOATING RATE COMPOSITION OF THE HUF DEBT

The benchmark for the fixed/floating rate breakdown of the HUF portfolio was defined for the first time in December 2004: the fixed rate elements within the HUF debt should be between 61-83%. (Short-term instruments with a maturity of up to one year are also considered floating rate debt.) As there is weak demand for floating rate bonds and the use of swaps is also limited in the domestic market, ÁKK Rt. is able to influence the fixed/floating rate mix of the HUF portfolio primarily by changing the weight of short- and long-term instruments. The 66.7% proportion of fixed-rate HUF debt at the end of 2004 was in conformity with this benchmark.

5. DURATION OBJECTIVES

The average term-to-maturity of government debt is important in two aspects: on one hand, a large amount of debt maturing in a short period of time carries financing (renewal) risk; on the other hand, duration, the weighted average term-to-maturity indicates the re-pricing of debt and its sensitivity to interest rate changes. Short term-to-maturity and floating interest rate result in yield changes appearing sooner in interest expenditure, so higher interest rate volatility considerably increases the fluctuation of interest expenditure of the budget. Lengthening the duration reduces the interest rate sensitivity of the budget, so it may support the stability of fiscal policy. The strategic objective is to keep the duration of the HUF debt portfolio in the range of 2.5 +/- 0.5 years. At the end of 2004 the duration was 2.28 years.

6. OPTIMAL BALANCE OF THE SINGLE TREASURY ACCOUNT (STA)

The strategy provides for maintaining a liquidity reserve on the STA, while liquidity management had been included into ÁKK Rt.'s activities as a new element. As the optimal balance of the STA is set, the objective is to keep the end-of-the-day actual balance within the range of +/- HUF 50 billion around the optimal level. (Liquidity management is presented in detail in Chapter VIII.)

7. PRINCIPLES

ÁKK Rt. uses financing instruments and sales techniques that meet the principles of simplicity, transparency and liquidity.

In the framework of simplicity and transparency, ÁKK Rt. issues a small number of instruments having plain vanilla and easy to handle structures in a transparent and market conform way.

As regards liquidity, ÁKK Rt. aims to maintain a liquid secondary market of government bonds. The establishment of the primary dealer system also served this purpose. Using the two-way price quotations of the primary dealers with a maximised spread, investors are able to buy and sell government securities continuously at real market prices during the trading session. ÁKK Rt. promotes appropriate liquidity also by building up large volume series of individual government securities. In order to achieve this, ÁKK Rt. re-opens series of bonds and discount Treasury bills that are fungible with already outstanding securities, until the volume reaches HUF 250-400 billion, corresponding to about EUR 1-1.5 billion.

In order to ensure transparency, ÁKK Rt. sells HUF bonds and discount Treasury bills at multiple-price auctions, based on an annual issuance schedule (calendar), fixed and published in advance for the current year.

V. PLANNED AND ACTUAL FINANCING REQUIREMENTS

ÁKK Rt. made its strategy and financing plan public in its Debt Management Outlook – 2004, which was based on the financing plan prepared and approved by the Minister of Finance in January 2004. The following two chapters summarise the outturn of these plans.

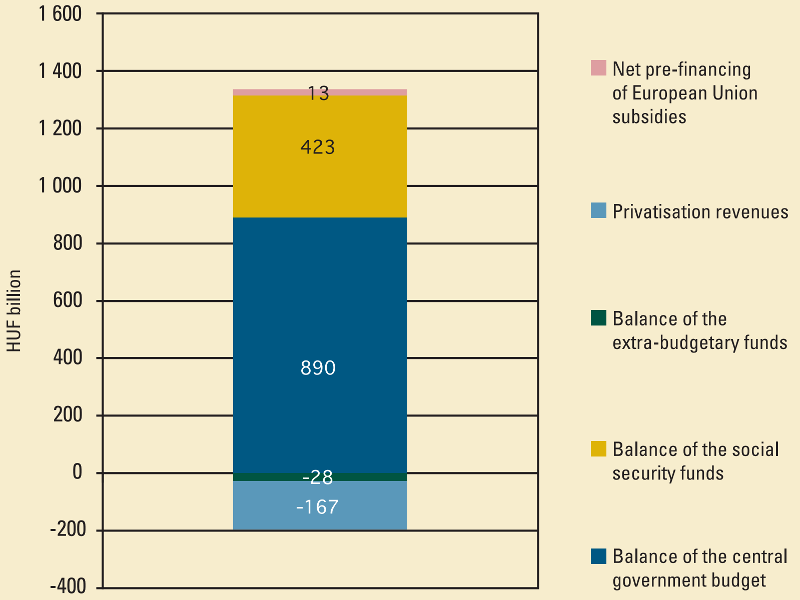
COMPONENTS OF THE FINANCING REQUIREMENT

The Budget Act for the year 2004 planned a deficit of HUF 996.3 billion of the central government for 2004 on a cash basis. The balance of the central government consists of the consolidated balance of the central government budget, the social security funds and the extrabudgetary funds.

ÁKK Rt. is responsible for financing the deficit of the central government, excluding the financing of the local governments, as municipalities are responsible for their own budget, financing and debt management.

The total annual net financing requirement is made up of the balance of the central government and other payments and receipts like privatisation revenues, transfers to the central bank, EU funds etc. The total gross financing requirements, in addition, include renewal of maturing debt, which make up the largest item as a consequence of renewal of short-term debt (T-Bills).

Components of the total net financing requirement in 2004



For financing purposes, cash-flow based deficit figures are relevant, as they show the actual financing requirements and these figures determine primarily the nominal growth of the government debt in the year. At the same time, given Hungary's EU-membership, accrual-based deficit figures calculated according to the ESA'95 methodology are also presented. Accrual based data provide a better picture on the fiscal policy for economic analysis.

CASH-BASED AND ACCRUAL-BASED ACCOUNTING

Expenditures and revenues on a cash basis are accounted for in the period when they are actually paid or received, regardless of which period the economic contents of the transactions relate to. On the other hand, on accrual basis, the amount of an expenditure or revenue item that concerns several periods is divided pro rata among the periods.

From a debt management point of view, interest expenditures are the most important figures that are generally calculated according to these two methods. In the case of a bond with annual coupon payment, the total interest expenditure for the year on cash basis is stated for the year in which it was actually paid. On accrual basis, however, the interest is divided into two parts, and is charged to both years involved depending on the proportion of the interest period falling on one year and on the other.

Both deficit and debt figures are considered to be preliminary until the Parliament approves the Act on Final Accounts, i.e. the implementation of the annual budget for the year in question. This typically takes place in the fourth quarter of the following year. At the time of preparing this publication, figures for 2004 officially are all considered to be preliminary.

In 2004 the financing requirements on a cash basis were as follows:

Cash-flow based borrowing requirements in 2000-2004

HUF billion

	2000	2001	2002	2003	2004
Balance of the central government budget*	-367.8	-402.9	-957.7	-733.6	-890.0
Balance of the social security funds	-81.9	-28.8	-100.9	-342.9	-422.9
Balance of the extra-budgetary funds	2.1	-2.3	1.4	18.8	27.9
Balance of the central government	**-447.6**	**-434.1**	**-1057.1**	**-1057.7**	**-1285.1**
Funds covering the exchange rate losses of the NBH	0.0	0.0	-250.2	-82.9	0.0
Privatisation revenues	0.9	0.0	0.0	42.0	166.5
Net pre-financing of European Union subsidies	0.0	0.0	0.0	0.0	-12.8
Total net borrowing requirement	**-446.7**	**-434.1**	**-1307.3**	**-1098.6**	**-1131.3**
Redemption of Treasury bills	-2024.0	-2004.5	-2888.6	-3635.2	-4277.7
Redemption of long-term debt	-984.2	-990.9	-1053.4	-1809.6	-1253.2
Total gross borrowing requirement	**-3454.8**	**-3429.4**	**-5249.3**	**-6543.4**	**-6662.2**

*Does not include debt assumptions and bond transfers in December 2002, worth HUF 512 billion

The total cash-flow based deficit of the central government in 2004 – including debt assumptions – amounted to HUF 1,285.1 billion (which was 6.3% of GDP according to preliminary figures), while the total net financing requirement accounted to HUF 1,131.3 billion due to privatisation revenues. However, taking into account the payments related to the funded 2nd pillar of the pension system, the consolidated deficit of the public sector[4] in 2004 amounted to 4.4% of GDP.

Finally, in 2004, the actual net financing requirement on a cash basis was some 7.8% higher than the plan, while the total gross financing requirement was as planned, as a result of lower volume of redemptions of Treasury bills.

[4] *As allowed by the decision of the Ecofin, these contributions can be taken into account until 2009, to a diminishing degree.*

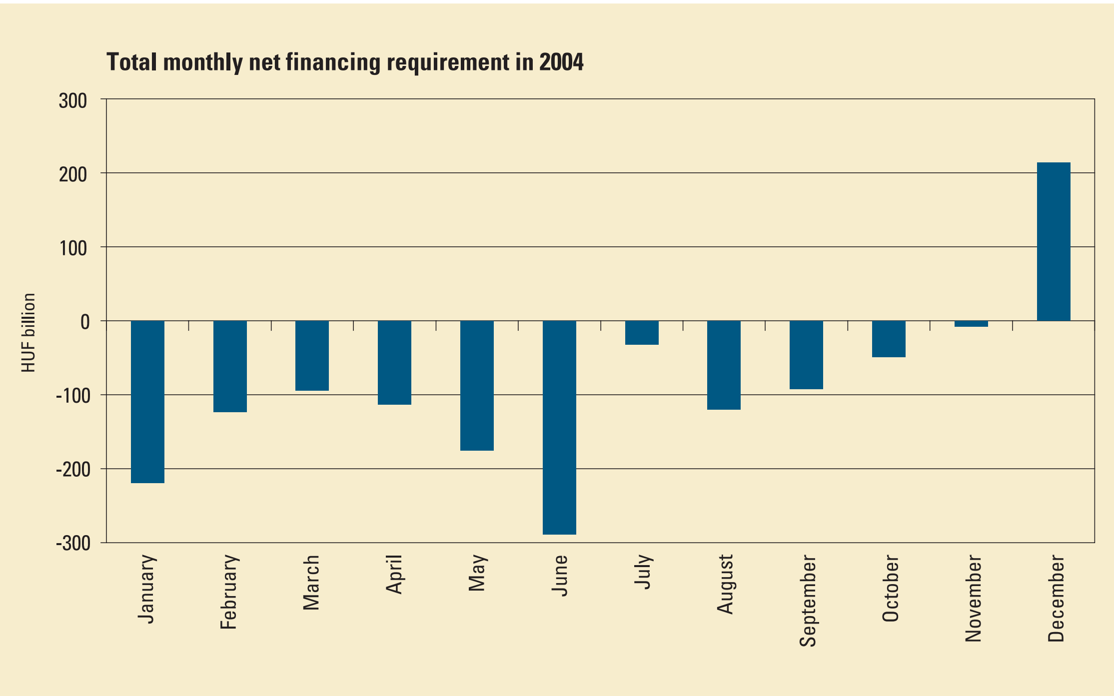
Cash-flow based borrowing requirements for 2004 - projections in January 2004 and outturn

	Projection in January 2004 (HUF bn)	Outturn - fact figures for 2004 (HUF bn)	Changes compared to plans
Balance of the central government budget	-874.3	-890.0	101.8%
Balance of the social security funds	-321.8	-422.9	131.4%
Balance of the extra-budgetary funds	17.5	27.9	159.5%
Balance of the central government	**-1178.6**	**-1285.1**	**109.0%**
Privatisation revenues	146.2	166.5	113.9%
Net pre-financing of European Union subsidies	-17.2	-12.8	74.3%
Total net borrowing requirement	**-1049.6**	**-1131.3**	**107.8%**
Redemption of Treasury bills	-4413.6	-4277.7	96.9%
Redemption of long-term debt	-1206.1	-1253.2	103.9%
Total gross borrowing requirement	**-6669.2**	**-6662.2**	**99.9%**

The deficit of the central government budget was realised practically as planned; the overshooting of the projected central government deficit was caused by the increased financing requirement of the social security funds.

Certain items that influence the total net financing requirement are accounted for outside the central budget. In the second half of 2004, the pre-financing of transfers from the European Agricultural Guidance and Guarantee Fund (EAGGF) was added to these items. In 2004, privatisation revenues were remarkably high compared to previous years and were slightly higher than planned.

The net financing requirement was distributed unevenly over the year, as in the first half of the year each month closed with a considerable deficit. In the second half of the year, monthly financing requirements were much lower, and December saw a surplus of over HUF 200 billion.

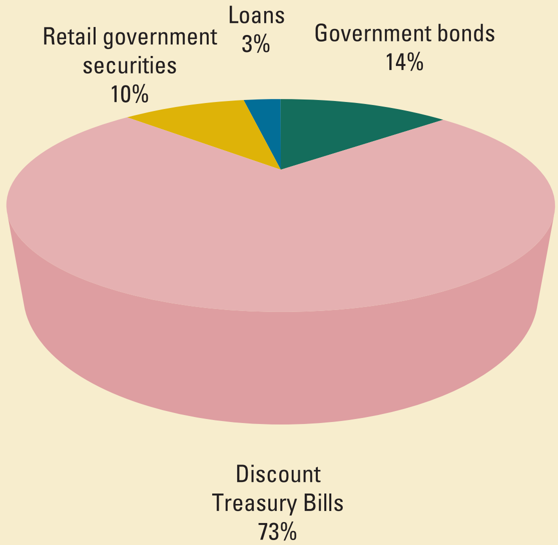


REDEMPTIONS

Gross redemptions depend mostly on the type of debt issued earlier, especially on the issuance of short-term debt with a maturity of less than a year.

Within the domestic currency denominated debt, similarly to earlier years, discount Treasury bills that are renewed several times a year, accounted to about three-quarters of the repayments of HUF 5,197 billion, while other instruments had a much lower proportion.

Composition of HUF debt redemptions in 2004



In 2004, all redemptions were lower than planned, with the exception of loans.

Government debt redemption in 2004

HUF billion

	2003	Projection in January 2004	Outturn - fact figures for 2004
Repayments of HUF debt	**4,775.9**	**5,361.4**	**5,196.6**
Government bonds	838.7	795.9	741.0
Discount Treasury bills	3,118.5	3,900.6	3,792.2
Retail government securities	583.2	553.5	534.9
Loans	235.4	111.5	128.5
Repayments of foreign currency debt	**668.9**	**258.2**	**333.1**
Government bonds	0.0	130.0	127.0
Loans	668.9	128.2	206.1
Total redemption	**5,444.8**	**5,619.6**	**5,529.7**

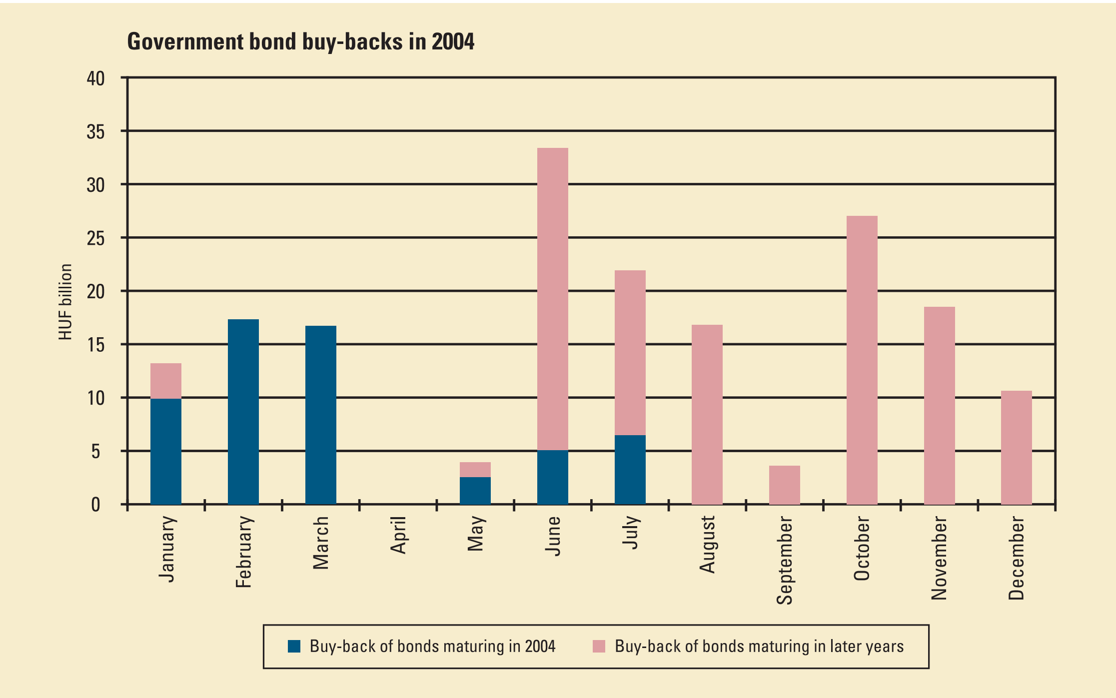
The fact that repayment of government bonds was lower than planned was primarily the result of bond buy-backs remaining below plans. What concerns discount Treasury bills, ÁKK Rt. issued less of the so-called liquidity discount Treasury bills than planned earlier, resulting in total discount T-bill redemption lower during the year than projected.

Out of the total HUF 333.1 billion of foreign currency debt redemption, a EUR 500 million (HUF 127 billion) bond and a EUR 400 million (HUF 100 billion) syndicated loan were the largest items. Repayment of the foreign currency loans from the National Bank of Hungary including prepayments (see next page) amounted to HUF 82 billion, well above the original plans.

To some extent ÁKK Rt. through its risk and liquidity management activities is able to manage actively debt repayments in the given year. ÁKK Rt. used both buy-backs in case of bonds and prepayments in case of loans, in 2004 as well.

BOND BUY-BACKS

Large bond series maturing in a lump sum represent high renewal risk. A partial solution to diminish this renewal risk is buying back some of the bonds of the given series at a time when there is surplus liquidity. This way, redemptions are not concentrated on one day but in a longer time period before maturity. In 2004, as a part of its liquidity management activities, ÁKK Rt. conducted much more bond buy-backs than in previous years. While in 2003 ÁKK Rt. organized 11 reverse auctions held in an amount of about HUF 87 billion, it bought back bonds at 20 reverse auctions in a total amount of HUF 183 billion in 2004. 68% of the buy-backs involved bonds maturing after 2004, thus evening out repayments between years.



Bonds bought back in 2004 included the so-called gas utility bonds in an amount of HUF 6 billion, in line with legal obligations.

LOAN PREPAYMENTS

Most loan agreements include the possibility of prepayment, which ÁKK Rt. uses primarily for cost saving purposes. In case of surplus liquidity, prepayment of loans is easier than bond buy-backs, because their amount is certain (decided by ÁKK Rt.), in contrast with bond buy-back auctions where the amount accepted depends on the bids submitted.

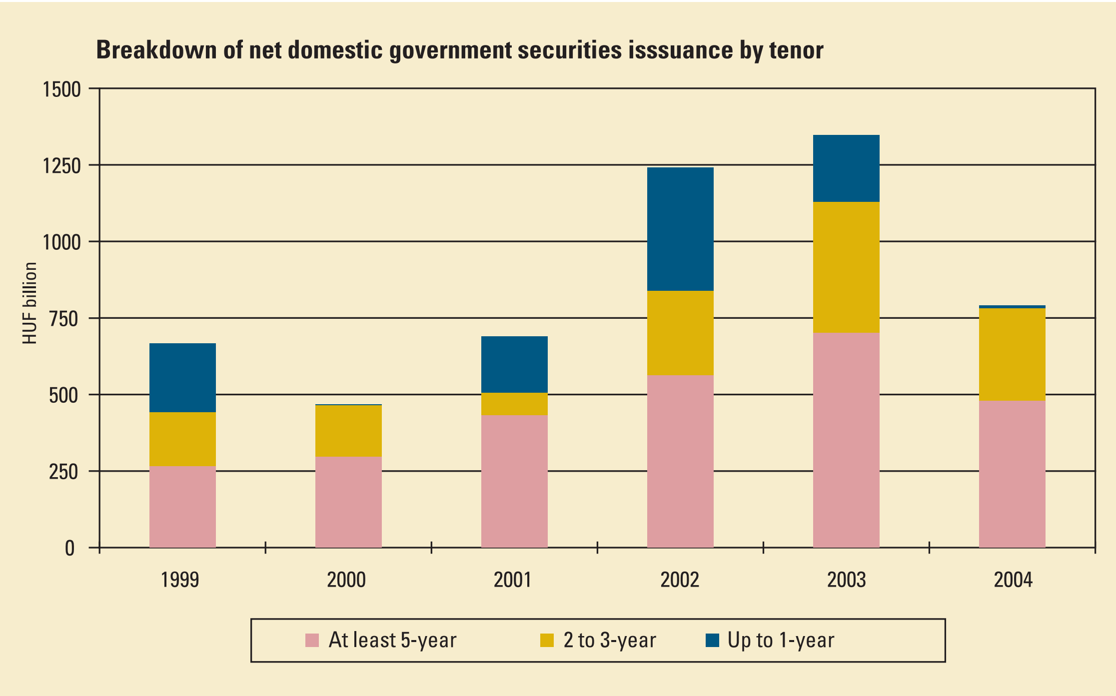
In December 2004 the STA balance showed a significant liquidity surplus, which ÁKK Rt. partly spent on reducing government debt. In this month HUF 65 billion of the loan owed to the central bank since 1997 was prepaid, reducing the volume of redemptions in 2005. Furthermore, prepayment of HUF loans amounted to HUF 83.8 billion in the last month of the year. As a result of prepayments, the amount of NBH HUF loans was paid back entirely.

VI. FINANCING

The issuance of government securities and the raising of loans were planned and implemented according to the approved debt management strategy and benchmarks. However, debt management activities were influenced by both macro-economic and market developments.

As a consequence of the high proportion of foreign currency financing, net issuance in the domestic market was much lower than the total net borrowing requirement.

Similarly to previous years, the main instruments in financing were government bonds, both in the domestic and international markets. Retail securities also played an important part, as it is one of ÁKK Rt.'s strategic objectives to maintain the outstanding amount of these securities. The use of retail securities reduces the financing risk, the particular features of which connection is presented later on in detail. There was a small negative net sale of discount Treasury bills, meaning that these instrument – used primarily for liquidity management purpose – did not take part in financing the deficit.



The volume of both HUF and foreign currency loans decreased; ÁKK Rt. has not raised loans for financing purposes for a long time, with the only exception of loans granted by international financing institutions contributing to certain projects (e.g. financing public investments like flood protection). The volume of loans in the public debt portfolio increased also due to loan assumptions amounting to HUF 31.6 billion in 2004.

In the course of 2004, ÁKK Rt. issued a total of HUF 5,858.6 billion in HUF debt and raised foreign currency debt in an amount of HUF 901.1 billion (excluding loan assumptions). Subtracting repayments from these figures, net HUF financing amounted to HUF 661.9 billion, while the net foreign currency issuance was HUF 566.7 billion, i.e. the total net issuance amounted to HUF 1,228.6 billion.

PLANNED AND ACTUAL GROSS AND NET DOMESTIC FINANCING

While the total amount of gross HUF issuance was in line with the January plan, the proportion of HUF bonds issuance was slightly higher, and the sales of retail securities remained slightly below the plan. At the same time, redemption of both bonds and discount Treasury bills was lower than projected. As a result of this, total net HUF issuance was one-third over the January projection (HUF 498.7 billion).

Gross government debt issuance in 2004

HUF billion

	2003	Projection in January 2004	Outturn - fact figures for 2004
Issuance of HUF government securities	**5,828.0**	**5,860.1**	**5,858.6**
Government bonds	2,048.0	1,484.8	1,515.1
Discount Treasury bills	3,224.2	3,722.5	3,713.5
Retail government securities	555.7	652.8	629.9
Issuance of foreign currency debt	**720.6**	**882.2**	**901.1**
Government bonds	497.74	780.0	813.5
Loans	222.84	102.2	87.6
Total issuance	**6,548.5**	**6,742.2**	**6,759.7**

GOVERNMENT BONDS

Following the pattern of previous years, in 2004 ÁKK Rt. issued government bonds with 3, 5, 10 and 15-year tenor. Bond auctions were held every second week. A total of HUF 1,486 billion of bonds were sold via auctions. Inclusive the capital adjustment of inflation-linked bonds and the sales of the Treasury network, the total issuance of government bonds amounted to HUF 1,515 billion. Discounting the maturing HUF 741 billion of government bonds, the net HUF bond issuance amounted to HUF 774 billion (figures are rounded).

These quantities demonstrate that due to the increased international activity of ÁKK Rt. the volume of both gross and net domestic bond sales were reduced in 2004 in comparison with gross bond issuance of HUF 2,048 billion and net bond issuance of HUF 1,209 billion in 2003.

In 2004, ÁKK Rt. sold two series of 3-, 5- and 10-year bonds, and only one series of the 15-year bonds. As a result of the lower domestic issuance, bond series were smaller than before, but still on a scale that ensured appropriate liquidity in the secondary market. According to the strategy, the size of individual series of bonds was at about HUF 250-400 billion (ca. EUR 1-1.5 billion). At the end of 2004, the volume of five government bond series reached HUF 400 billion.

Government bond series under issuance in 2004; in HUF billion

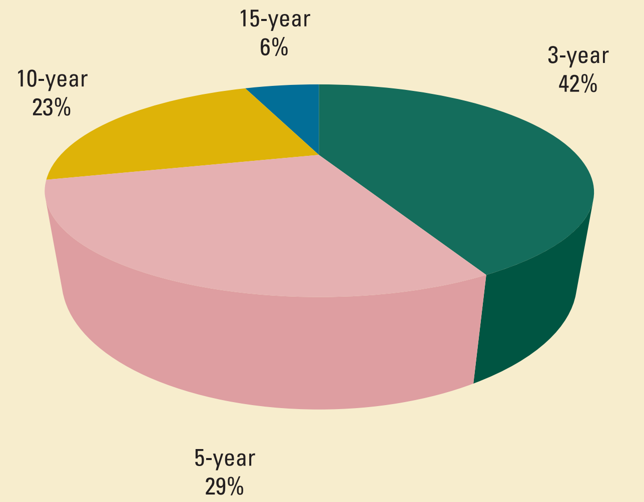
	Tenor	Number of auctions	Total issuance at auctions in the year	Outstanding volume series at the and of the year*
2007/F	3 years	6	290	298
2007/G	3 years	7	350	353
2009/C	5 years	5	167	302
2009/D	5 years	8	259	259
2014/C	10 years	6	155	400
2015/A	10 years	7	180	181
2020/A	15 years	6	85	85

*Without repos

ÁKK Rt. sold altogether HUF 16 billion more bonds at auctions than planned, i.e. practically the auctioned quantities. The volume of series were in line with the January plans.

The structure of gross bond issuance by tenor corresponded to that of the previous year, i.e. the reduction of total sales volumes was realised evenly among the different maturities.

Breakdown of gross domestic bond issuance by tenor in 2004

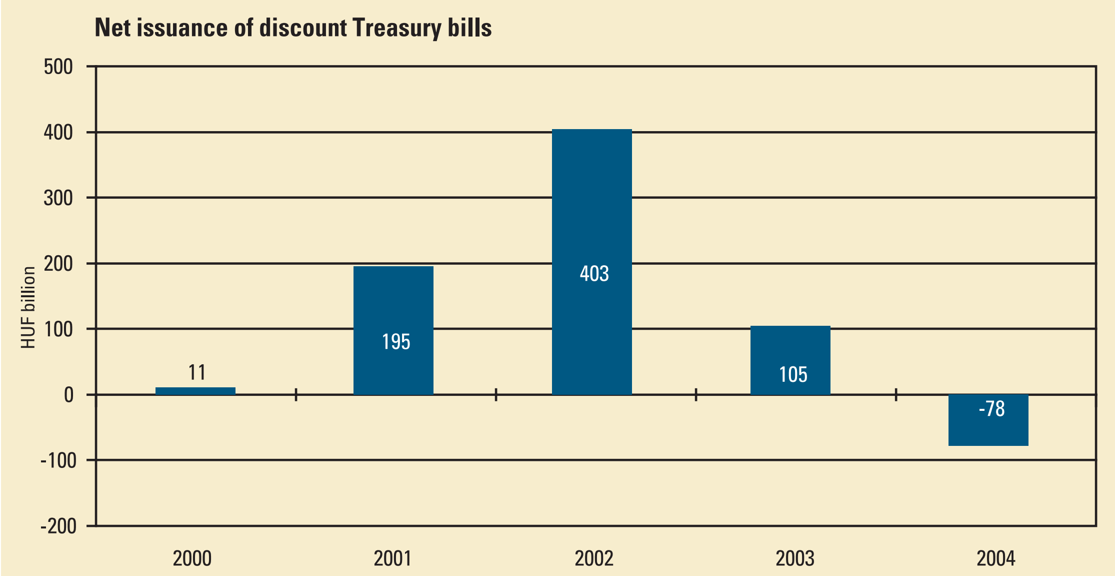


DISCOUNT TREASURY BILLS

Discount Treasury bills with 3, 6 and 12-month tenor are short-term instruments serving primarily liquidity management purposes. Accordingly, the strategy called for the active adjustment of the quantity of such securities issued, and introduced the so-called liquidity discount Treasury bill with a typical maturity of 6 weeks. The characteristics of this new instrument are described in Chapter VIII.

In 2004, ÁKK Rt. sold discount Treasury bills in a total amount of HUF 3,713.5 billion; HUF 3,512.9 billion of which were issued at auctions, HUF 184.7 billion were sold in the Treasury network, while the remaining HUF 15.9 billion consisted of technical trade related to benchmark quotations.

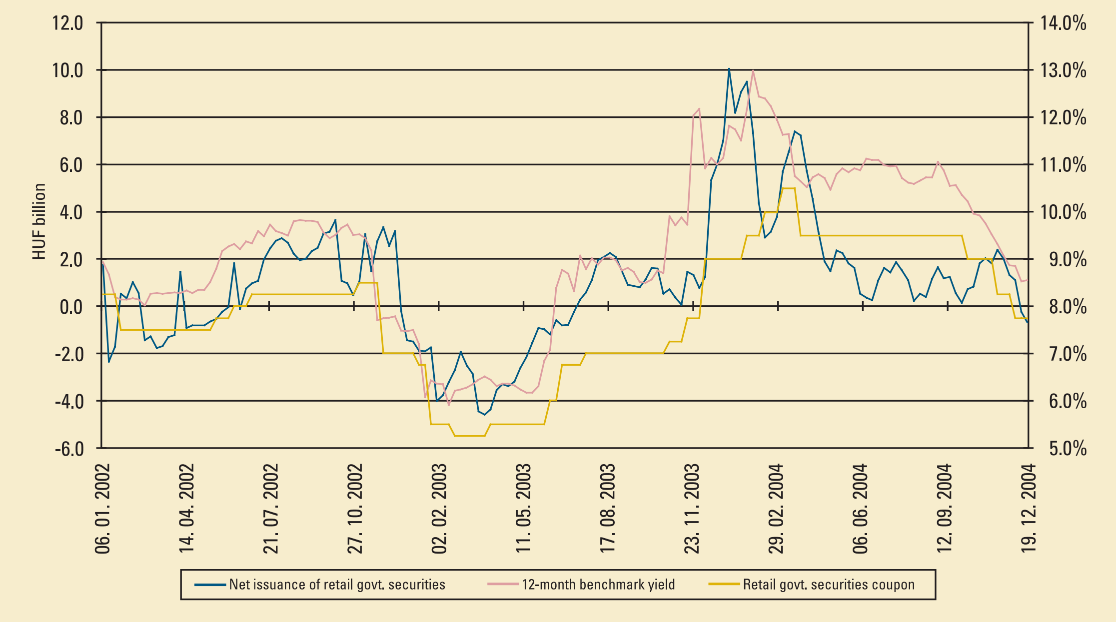
Due to their short tenor discount Treasury bills are renewed several times over the year, making net sale figures more useful for analysis than gross issuance. According to the original financing plan, the portfolio of discount Treasury bills was to be reduced by HUF 178 billion (net sales), while their end-2004 volume was finally lower by HUF 78 billion. Nevertheless, in contrast with previous years, discount Treasury bills did not participate in actual financing in 2004 and merely financed their own repayments.



RETAIL SECURITIES

Issuing retail securities for retail investors is one of ÁKK Rt.'s strategic objectives. With the help of these instruments, households can be involved more easily in financing than via wholesale securities (government bonds, discount Treasury bills), thus offering an alternative market for ÁKK Rt. Using a special distribution network, retail securities are easily accessible all over the country.

According to past experience, retail securities have strategic importance because demand for such securities moves opposite the demand for wholesale government securities. When yields start to increase, institutional investors usually become more cautious, resulting in lower than typical demand at auctions. At the same time, retail investors who are sensitive to nominal interest rates, increase their demand for retail securities. When yields decline, their behaviour is just the opposite. Therefore, the combined use of the two different markets makes financing more balanced.



Development of the market yields, retail government securities coupons and the moving average of net retail government securities issuance

In the period between 2000-2004, the highest increase in the volume of retail securities (HUF 95 billion) happened in 2004, when ÁKK Rt. sold HUF 283.3 billion of Interest Bearing Treasury Bills and HUF 346.6 billion of Treasury Savings Bills. In 2003, volatility of yields (particularly the sharp decrease in the first half of the year) had a negative impact on the sales of retail securities, but the high interest rates in early 2004 had a positive effect. Total net sales were in line with the original plans.

PLANNED AND ACTUAL GROSS AND NET FOREIGN CURRENCY FINANCING

In 2004, net foreign currency issuance, excluding loan assumptions, amounted to HUF 566.7 billion (about EUR 2 billion), lower than the HUF 624 billion planned in January. The lower net issuance was the consequence of less draw-downs of project financing loans and higher loan prepayments at the end of the year.

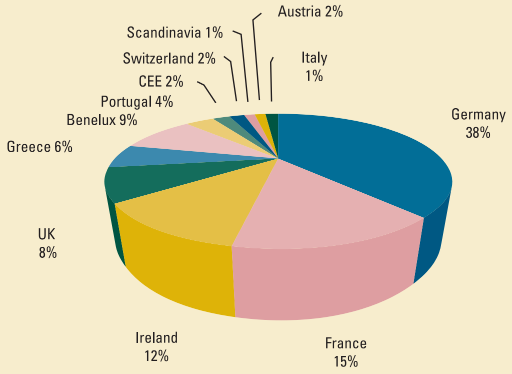
In the course of 2004, ÁKK Rt. on behalf of the Republic of Hungary issued five bonds in the international capital markets raising a total of HUF 813.5 billion equivalent.

Foreign currency bonds issued by the Republic of Hungary in 2004

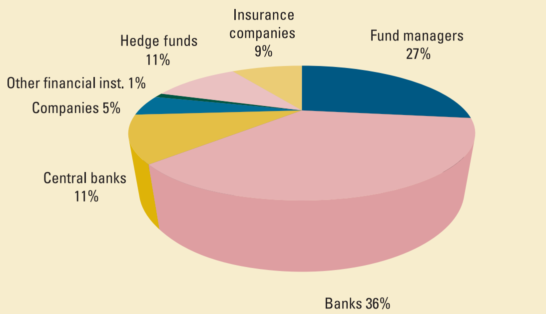
Original currency	Original amount	Date of issuance	Maturity	Tenor (years)	Coupon
EUR	1,000,000,000	29.01.2004	29.01.2014	10	4.5%
GBP	500,000,000	06.05.2004	06.05.2014	10	5.5%
JPY	50,000,000,000	18.06.2004	18.06.2009	5	1.09%
EUR	1,000,000,000	28.10.2004	28.10.2011	7	3.625%
USD	100,000,000	15.12.2004	15.12.2006	2	3-month USD LIBOR +0,03%

The strategic objective of ÁKK Rt. is to broaden its investors base both geographically and institutionally. One way to acquire new investors is to issue securities in a currency and in a market other than the main currency and market for the Republic's FX issues, which is the euro. This objective was promoted by the issuances in the GBP and JPY markets in 2004.

Distribution by geography of the 2014 EUR bond issue - after allocation



Distribution by investor of the 2014 GBP bond issue - after allocation



In order to achieve the benchmark (100% euro) for the currency composition of the foreign currency portfolio ÁKK Rt. concluded cross-currency swaps for the non-euro denominated bonds.

Foreign currency bond issues amounted to EUR 3.2 billion in 2004. As a result of redemptions reaching EUR 1.2 billion (including prepayments), net issuance amounted to EUR 2.0 billion. The possibility of prepayments of HUF 65 billion to the NBH was allowed by the favourable liquidity situation at the end of the year.

Project financing loans from international financing institutions totalled HUF 87.6 billion (EUR 354 million) in 2004. Plans were higher in January at about HUF 102 billion (EUR 390 million). The loans from the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) were aimed at financing projects for the railway and public road infrastructure, flood protection etc. Net borrowing from international financing institutions amounted to HUF 71.0 billion (about EUR 285 million).

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VII. THE DEVELOPMENT OF GOVERNMENT DEBT IN 2004

ÁKK Rt. manages the debt of the central government. Since the extrabudgetary funds have a surplus and the deficit of social security funds is automatically financed by the central government budget as provided for by law, the debt managed is the debt of the central government (hereinafter: government debt, debt).

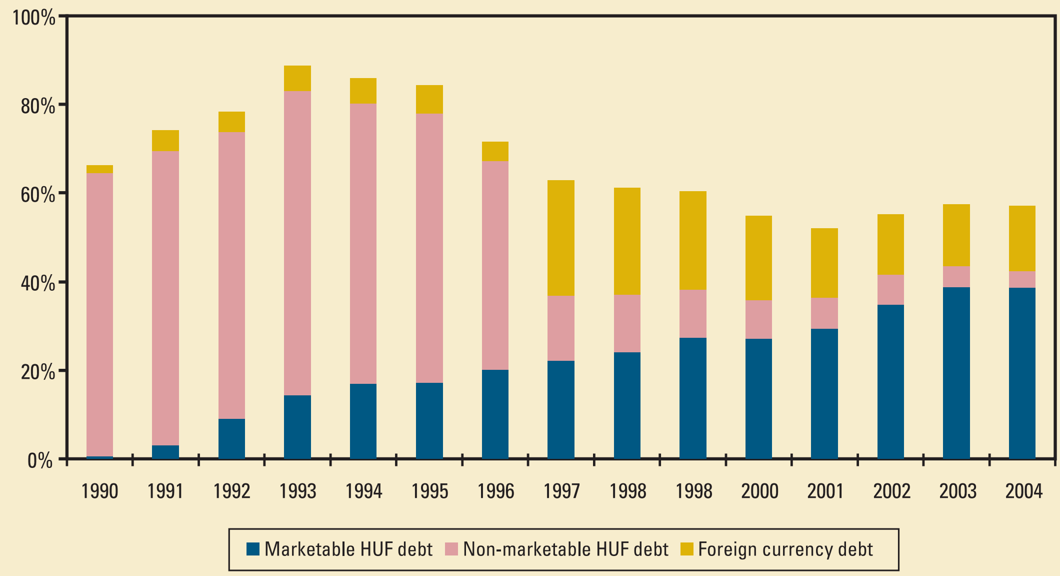
THE HUNGARIAN METHODOLOGY FOR CALCULATING GOVERNMENT DEBT

ÁKK Rt. records government debt on the basis of Hungarian accounting regulations, the principles of which can be summarised as follows:

- Government bonds and retail securities are recorded at nominal value and the inflation-linked bonds (2005/D) are recorded with the capital adjustment.
- Discount Treasury bills are recorded at the average sales price – basically at discount value –, which is calculated daily, after the transactions.
- Active and passive repo transactions actually reduce or increase government debt.
- Foreign currency debt is presented after cross-currency swap transactions and converted to HUF at the official NBH exchange rate at the end of the month/year.
- The debt calculated by ÁKK Rt. covers the debt of the central government (i.e. it excludes that of municipalities) and is not consolidated (i.e. it does not include the debts of different state-owned enterprises).

The debt statistics published by ÁKK Rt. are based on the Hungarian and international accounting rules and differ from those of the European Union, due to differences in methodology. Debt figures according to the ESA '95 principles are calculated and published by the Ministry of Finance, the Hungarian Central Statistical Office (HCSO) and the NBH jointly, relying partly on ÁKK Rt.'s figures.

The public debt/GDP ratio and its breakdown between 1990-2004



The debt /GDP ratio (debt ratio), which expresses the economic burden of public debt in comparison to the country's economic performance, reached its peak in 1993, and went into a strong decline after the economic policy stabilisation in the middle of the 1990s. In 2004, the debt/GDP ratio decreased to 57.0% in 2004 from the 57.5% at the end of 2003[5].

By the end of 2004, government debt amounted to HUF 11,592.4 billion, which was less than the HUF 11,715 billion planned in January. In comparison with the end of 2003 – including debt assumptions and repos – government debt increased by HUF 1,004.7 billion (9.5%), while the total net financing requirement including loan assumptions and privatisation revenues was higher than that, at HUF 1,131.3 billion. The size of government debt is influenced by repayments, issuances, exchange rate movements and other items such as debts assumed, outstanding repo transactions etc. The difference between the annual financing requirement and the actual financing is reflected in the changes in the balance of the STA.

Central government gross debt; in HUF billion

	2003		2004		Change
HUF debt	**8,008.7**	**75.6%**	**8,608.8**	**74.3%**	**600.2**
Loans	117.9	1.1%	4.7	0.0%	-113.3
Government bonds	5,815.9	54.9%	6,512.5	56.2%	696.7
Discount Treasury bills	1,541.4	14.6%	1,463.3	12.6%	-78.1
Retail government securities	533.5	5.0%	628.4	5.4%	94.9
Foreign currency debt	**2,579.0**	**24.4%**	**2,983.5**	**25.7%**	**404.5**
Loans	1,084.1	10.2%	916.8	7.9%	-167.4
Government bonds	1,494.9	14.1%	2,066.8	17.8%	571.9
Total	**10,587.7**	**100.0%**	**11,592.4**	**100.0%**	**1,004.7**

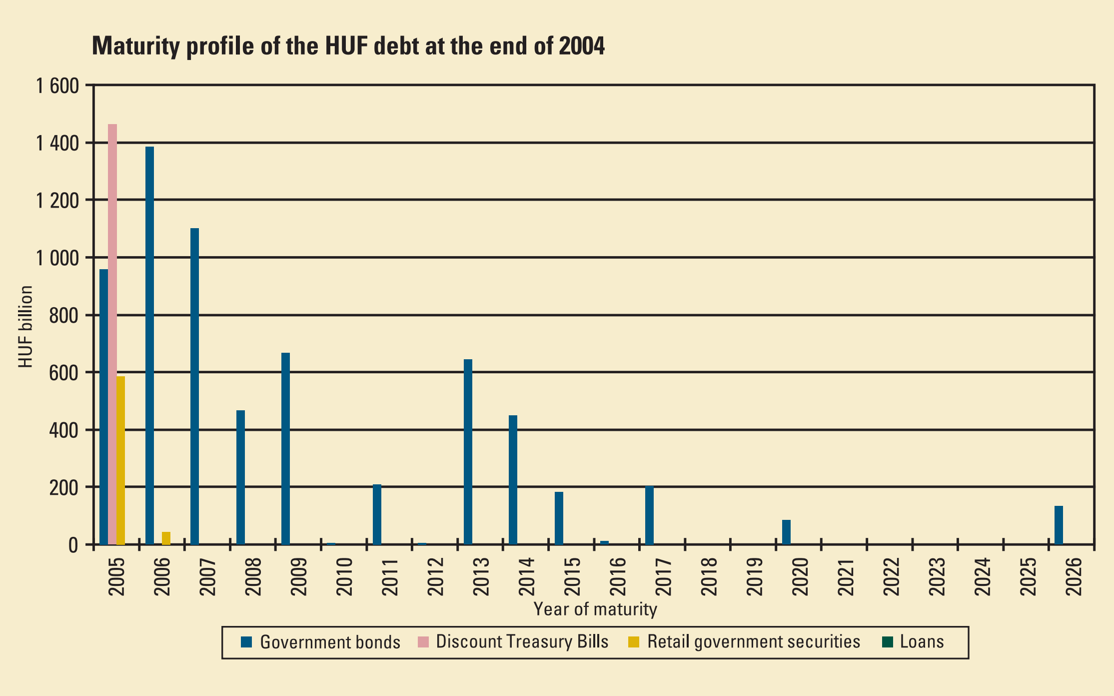
CHARACTERISTICS OF THE HUF DEBT

The HUF debt portfolio, which amounted to nearly three-quarters of government debt, increased by HUF 600.2 billion (7.5%) to HUF 8,608.8 billion in 2004. Over 75% of HUF debt consisted of HUF government bonds at the end of 2004. During 2004 this type of securities experienced the highest increase of almost HUF 700 billion. The volume of discount Treasury bills and their weight within HUF debt decreased in 2004. The volume of retail securities increased.

The so-called non-marketable HUF debt continued to decrease both in terms of amount and proportion in 2004. Non-marketable bonds amounted to HUF 743.6 billion, together with a small amount of HUF loans they made up a mere 8.7% of the total HUF debt at the end of the year.

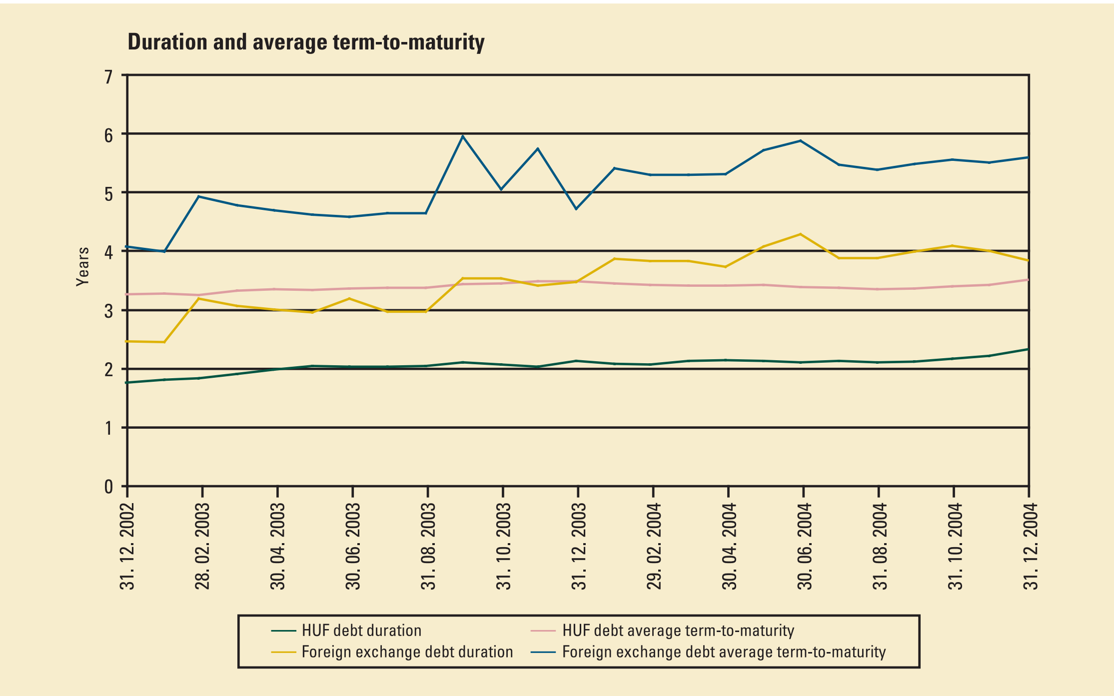
35% of the HUF debt portfolio at the end of 2004 was due within one year, another 16.6% had a term-to-maturity of 2 years, and nearly one-third (30.2%) was due in at least five years.

[5] *In the calculations according to the Maastricht methodology, certain other factors modify the value of the debt ratio; however, the scale of the Maastricht indicator was nearly the same as the Hungarian debt ratio both in 2003 and in 2004, with pension fund contributions adjusted.*



At the end of 2004, the proportion of fixed-rate securities within HUF government securities was in line with the benchmark: the proportion of fixed-rate elements was 66.7% and that of variable-interest elements 33.3%; the corresponding proportions at the end of 2003 were 62.6% and 37.4 %, respectively.

In the course of the year, the duration of the total HUF debt portfolio increased from 2.09 years to 2.28 years by the end of December 2004, while its average term-to-maturity did not change (3.46 years from 3.44 a year before).



At the end of 2004, there were 46 bond series outstanding (HUF 6,512.5 billion) accounting for about three-quarters of the total HUF debt. While the average bond series had a volume of HUF 142 billion, 12 series had a volume of more than HUF 250 billion (EUR 1 billion). For comparison, the portfolio of bonds, amounting to HUF 5,815.5 billion one year earlier, consisted of 50 series with an average size of HUF 116 billion and only 9 series exceeded HUF 250 billion. At the end of 2004, there were 20 series of discount Treasury bills outstanding, with an average size of HUF 73 billion. The intention of increasing liquidity also relates to discount Treasury bills, as 8 series exceeded HUF 100 billion.

CHARACTERISTICS OF THE FOREIGN CURRENCY DEBT

The HUF value of the central government's foreign currency debt portfolio increased by HUF 404.5 billion in 2004 and amounted to HUF 2,983.5 billion (EUR 12.1 billion) at the end of the year. Thus, the proportion of foreign currency debt constituted 25.7% of the total government debt i.e. it was within the benchmark range.

The increase in foreign currency debt was primarily due to the high net foreign currency issuance, as the HUF 813.5 billion issuance was much higher than the amount of total repayments. The foreign currency loan assumptions in 2004 amounted to and increased the debt by HUF 16.4 billion.

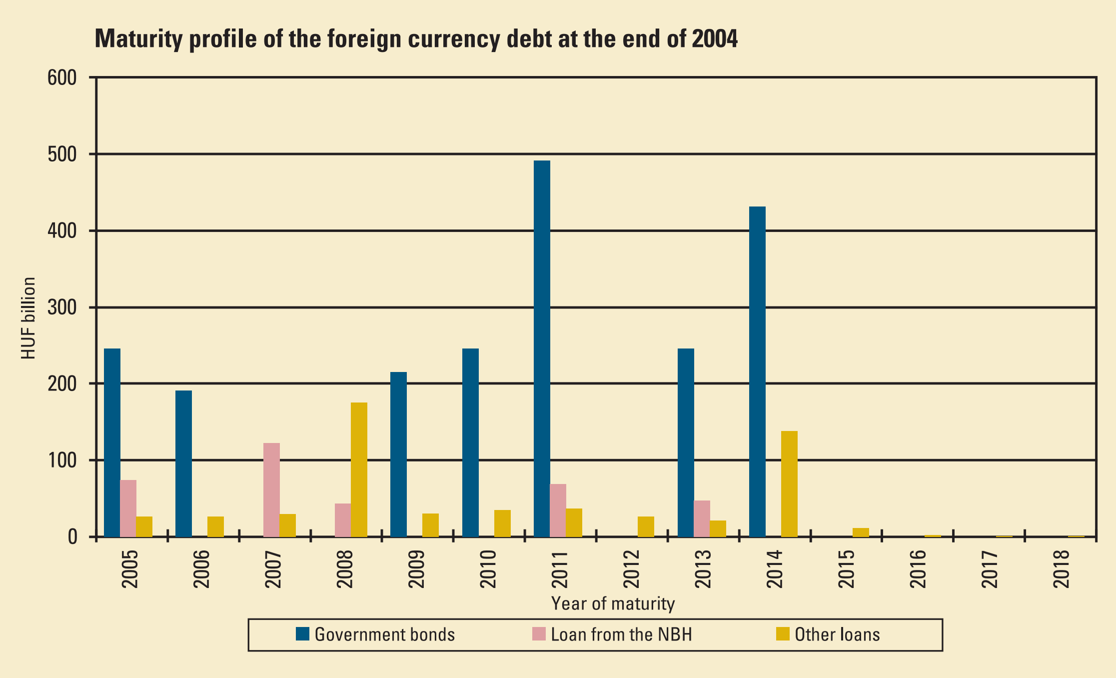
As a consequence of the strengthening of the exchange rate of the HUF, the value of the foreign currency debt expressed in Hungarian Forint was HUF 178.5 billion lower at the end of 2004 than on 31 December 2003.

Foreign currency bonds amounted to HUF 2,066.8 billion at the end of the year, and their weight within the foreign currency debt increased from 58% to 69.3% in 2004. On 31 December 2004, the portfolio of foreign currency bonds consisted of 11 bonds, 7 of which were denominated in euro, 2 in USD, one in GBP and one in Japanese yen.

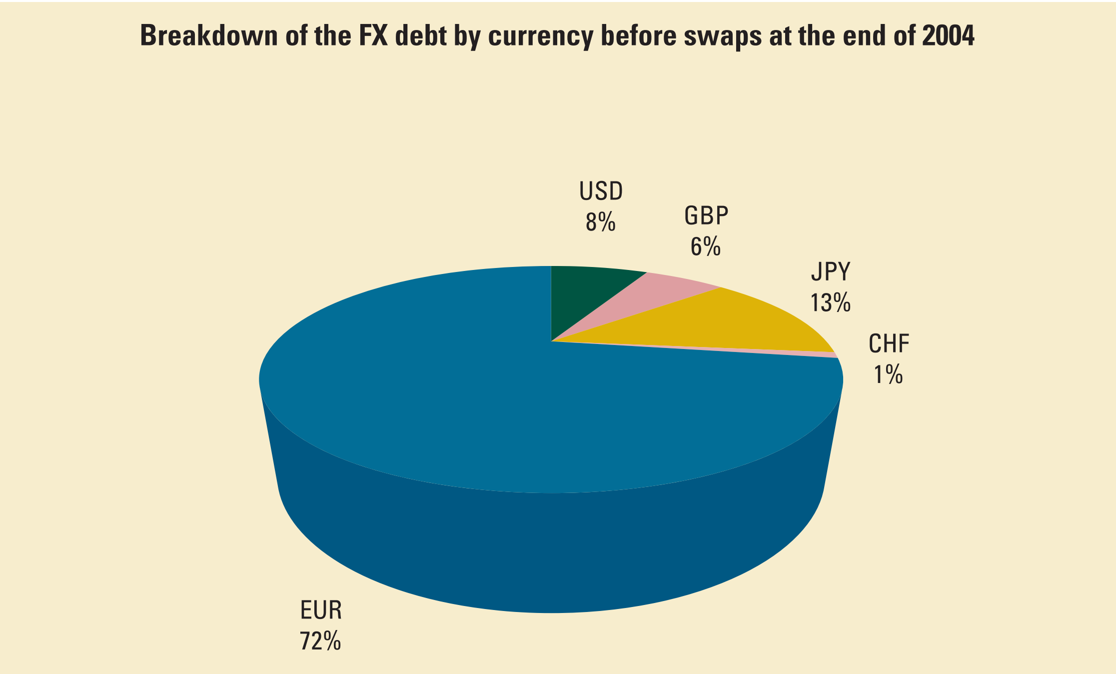
The foreign exchange loan from the National Bank of Hungary in 1997 makes up a constantly decreasing proportion of foreign currency debt. At the end of 2004, this debt component – after swaps – amounted to HUF 355.7 billion, that is, 11.9% of the foreign currency debt.

The proportion of foreign currency loans within the foreign currency debt decreased from 23.9% to 18.8% in 2004 primarily due to the maturity of a EUR 400 million syndicated loan.

For liquidity management purposes ÁKK Rt. had a EUR 500 million revolving stand-by credit facility agreement in place, which did not have an outstanding amount at the end of 2004.



At the end of 2004 the foreign currency portfolio, in accordance with the currency composition benchmark, consisted of euro (after swaps), the proportion of other currencies (USD, GBP) was negligible.

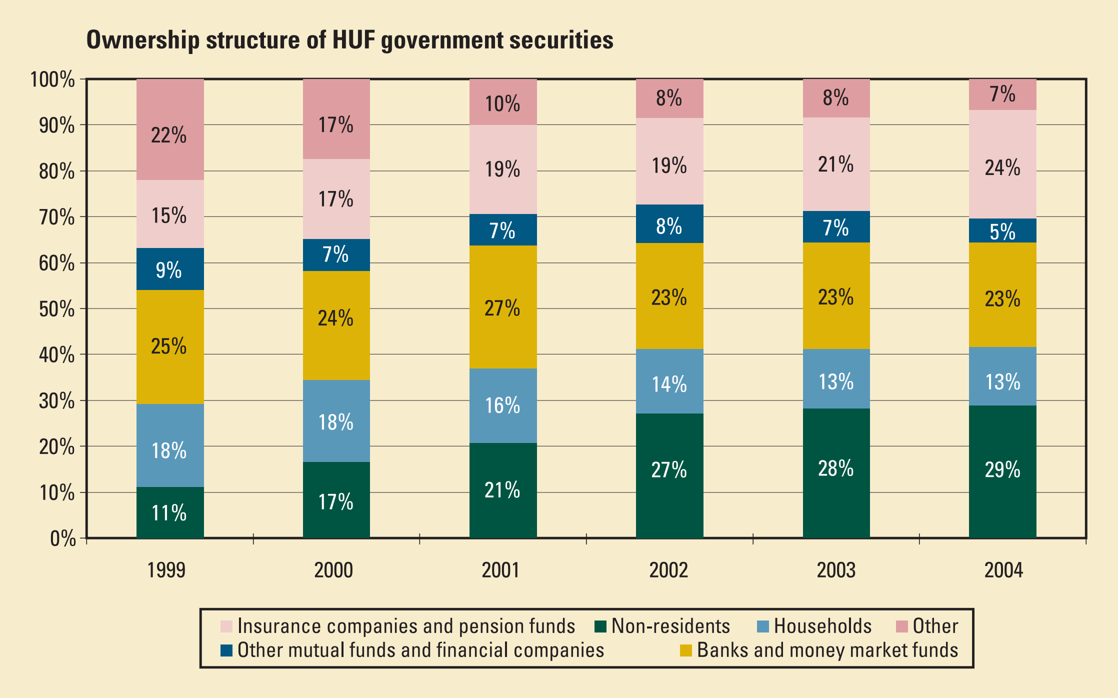


ÁKK Rt. uses swap transactions not only to set the composition of foreign currency debt, but also to optimise the interest rate structure of the foreign currency debt portfolio. After these swaps, the total foreign currency debt was 65% fixed-rate and 35% floating rate at the end of 2004, fully corresponding to the benchmark. There was a considerable increase in the proportion of floating rate debt compared to the proportions of 73.6% of fixed-rate and 26.4% of floating rate foreign currency debt at the end of 2003.

Similarly to the HUF portfolio, the duration of the foreign currency portfolio also increased in 2004 – mostly due to the high net foreign currency issuance – from 3.4 to 3.8 years, while the average term-to-maturity rose from 4.8 years at the beginning to 5.6 years at the end of the year.

THE OWNERSHIP STRUCTURE OF THE DOMESTIC GOVERNMENT DEBT

Non-residents continue to hold the largest proportion of domestic government securities, followed by insurance companies and pension funds, credit institutions and money market funds. In contrast with the earlier decreasing tendency, the share of retail investors remained unchanged in 2004, so that they continue to be the fourth largest group of government securities holders.



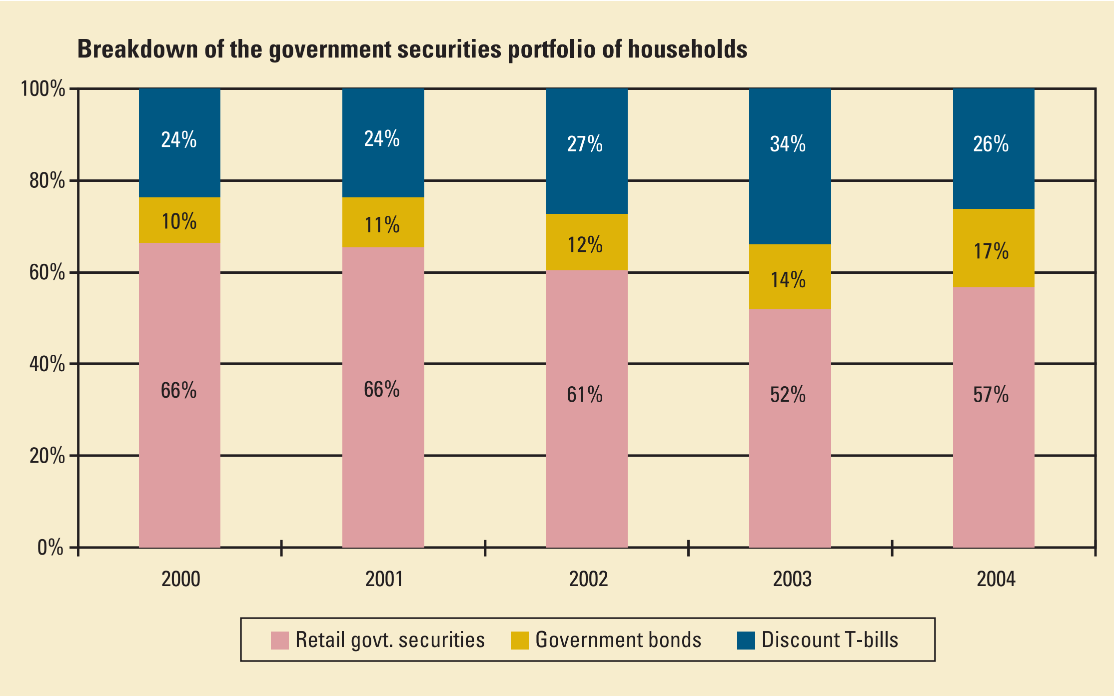
Source: NBH, KELER

In the course of 2004, the non-resident holdings of domestic securities increased by HUF 286.5 billion (about EUR 1.2 billion) to HUF 2,509.9 billion (ca. EUR 10.2 billion). The duration of non-resident holdings decreased from 3.02 years at the end of the 2003 to 2.80 years, and the average term-to-maturity decreased from 3.66 years to 3.54 years in 2004; however, these figures still exceed the corresponding indicators for the total marketable HUF debt.

Non-resident holdings of HUF government bonds and discount Treasury bills increased to 31.5% in 2004, from 30.2% at the end of 2003.

Behind non-residents, insurance companies and pension funds are the second largest investor group in the domestic government securities market; their share had been increasing continuously and the securities held by them exceeded HUF 2,000 billion. Both insurance companies and pension funds traditionally hold a considerable part of their portfolios in government securities. By the end of 2004, about 73% of the assets of pension funds and about 80% of investments of insurance companies were in government securities.

Since 2002, retail investors have been increasing their portfolio of government securities by HUF 80-100 billion per year. Retail securities had the largest share within their portfolios, but significant amounts of discount Treasury bills and government bonds are also owned by retail investors.



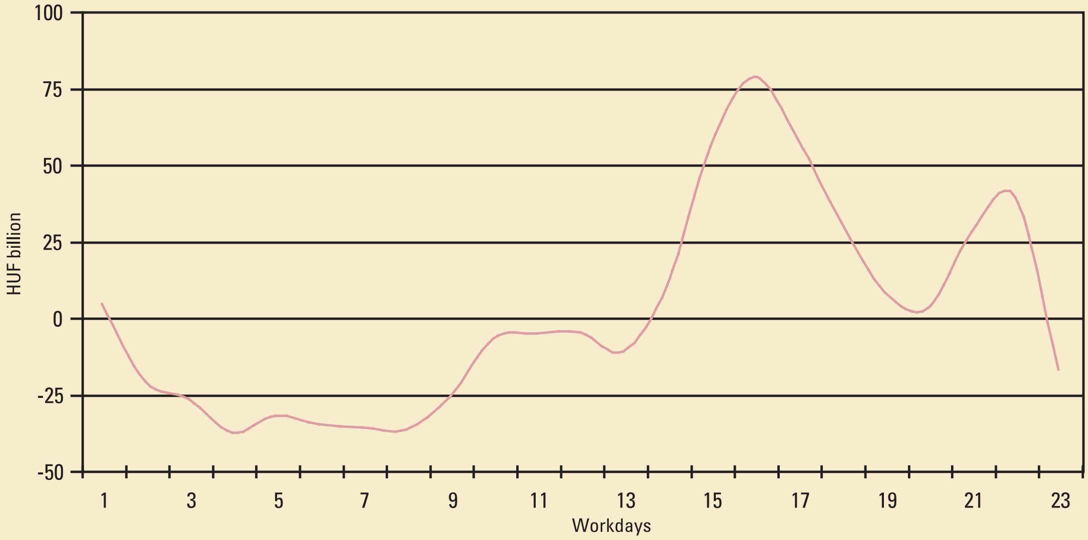
VIII. A NEW TASK IN 2004 – LIQUIDITY MANAGEMENT

The 2003 amendment to the Public Finances Act assigned the task of liquidity management of the central government to ÁKK Rt. and made the necessary instruments, such as repos, available for this purpose. ÁKK Rt. started this activity at the beginning of 2004.

THE OBJECTIVES OF LIQUIDITY MANAGEMENT

Due to the cyclic nature of budget revenues, expenditures and debt transactions, the daily balance of the Single Treasury Account (STA) shows substantial daily fluctuation (in some cases as high as HUF 100 billion).[6]

Monthly development of the STA balance compared to the average balance in 2000-2004, excluding debt transactions



This fluctuation has a considerable effect on the liquidity of the banking system as well. It is particularly important to reduce this fluctuation from the point of view of financing. Stable and predictable liquidity in the money market enhances the security of financing the budget, and by stabilizing short-term interest rates the costs of financing may be reduced as well. In practice, the relationship between overnight money market interest rate levels and the STA balance is strong especially at the time of Treasury payments at the beginning of the month and tax receipts in the second half of the month. When taxes are paid to the budget, free liquidity in the banking system is reduced while the STA balance increases, and as a result of liquidity shortage, overnight interest rates also increase. Thus, active liquidity management can reduce both the volatility of the STA and that of the money market.

Placing excess cash reserves at the end of the day in the money market in order to reduce volatility is a common practice in a number of Eurozone member countries. Keeping low amounts of cash on the STA is only a medium-term objective for ÁKK Rt. In 2004 – the first year of active cash management – the interim target of cash management was to ensure

[6] *The task of harmonising primary budget expenditures and revenues and forecasting their consolidated daily balance lies with the Hungarian State Treasury.*

that the end-of-day balance of the STA reached the specified optimum level, or, it was in a relatively narrow range around this benchmark. In order to keep to the target range, cash funds above the upper limit are placed in the money market, and if additional funds are required for reaching the lower limit, ÁKK Rt. borrows them from the money market.

THE SET OF LIQUIDITY MANAGEMENT INSTRUMENTS

As one of ÁKK Rt.'s benchmarks the target range was specified at +/- HUF 50 billion (ca. EUR 200 million) around the optimum STA balance, which represented a considerable reduction of the fluctuations experienced in earlier years. However, in determining the target band, the effect of certain debt operations must be taken into account, such as foreign currency funding or transactions with the NBH, which increase the balance of the STA, yet do not have the corresponding influence on the liquidity of the banking sector.

Currently, in order to manage the fluctuations caused by debt operations and to tailor the end-of-day STA balance into the target range, ÁKK Rt. uses the following instruments:

- More active use of bond buy-backs (reverse auctions), now with the same settlement date as that of the auctions;
- More active adjustment of the volume of the 3-month and 6-month discount Treasury bills;
- The introduction of the so-called liquidity discount Treasury bill auctions, i.e. reopening of T-Bill series with a remaining term-to-maturity of typically 6 weeks, issued as required;
- Active and passive repo transactions with government securities (so-called liquidity repos, to distinguish them from the stand-by repo facility);
- A foreign currency stand-by facility.

These instruments have different time horizons in liquidity management. Bond buy-backs and 3-month and 6-month government securities are useful for smoothening fluctuations in the longer run, while liquidity discount Treasury bills are efficient for adjustments within a quarter. ÁKK Rt. uses repo transactions to achieve very short-term goals (namely, to keep the end-of-day STA balance within the target range). If the balance is above the upper limit, ÁKK Rt. concludes active repo transactions and if the volume is expected to be below the lower limit, it concludes passive repo transactions. The repo transactions have usually a tenor of one day (tom-next, spot-next) or a week.

Draw-downs from the standby facility serve mainly the purpose of bridging the time gap between foreign currency outflows and inflows on the STA, e.g. funds paid to and received from the European Union.

These instruments were introduced gradually in 2004.

Liquidity discount Treasury bills are issued by re-opening an outstanding series of 3-month discount Treasury bills. They are not sold according to a predefined auction calendar as other discount T-bills are; ÁKK Rt. merely reserves the right to make a public offering of liquidity discount Treasury bills in any week if the liquidity situation requires. Auctions are typically held on Mondays with settlement on Wednesdays. The tenor of liquidity discount Treasury bills is not fixed, it is generally six weeks but may vary. The first liquidity discount Treasury bill auction was held in January 2004.

In 2004, ÁKK Rt. organized bond buy-backs more frequently than in previous years, and as of this year, bond buy-back auctions and issuances are settled on the same day. Before, these two transactions were settled on two subsequent days, meaning that the STA balance decreased on the one day and increased on the next. This fluctuation is reduced by the use of the same day settlement.

ÁKK Rt.'s entry into the repo market required substantial preparation but represented a breakthrough in the Hungarian money market in several aspects. One of the most important of these was the creation of a uniform legal background and documentation for repo transactions. Taking into account international market standards, ÁKK Rt. decided to apply the European Master Agreement (EMA) elaborated and supported by the Banking Federation of the European Union, and arranged for its translation into Hungarian and the licensing of its use together with the Hungarian Banking Association. Only those of ÁKK Rt.'s partners may make use of the stand-by repo facility provided by ÁKK Rt. or conclude repo transactions with ÁKK Rt. who have signed the EMA Agreement. Repo transactions gained momentum slowly in the first half of 2004 because the market partners met this requirement only gradually. Therefore, in addition to primary dealers of government securities, ÁKK Rt. accepted other eligible financial institutions as repo partners so as to promote the liquidity of the repo market.

RESULTS AND EXPERIENCE

In 2004, ÁKK Rt. sold liquidity discount Treasury bills at 17 auctions in a amount totalling HUF 388 billion.

The major tool for fine-tuning the STA balance into the target range is the liquidity repo. Repo tenders were concluded on 112 occasions in a total amount of HUF 2,209 billion (EUR 9 billion) in 2004.

When assessing the experience of liquidity management in 2004, it should not be disregarded that this was the first year of these activities, in which ÁKK Rt. could only gradually increase the range of its repo partners; there were initially 4-5 partners, but they increased to 11 by the end of the year.

The analysis of the repo tenders shows that ÁKK Rt.'s repo intentions were in line with the trend of overnight interest rates, with offers of cash placements in the case of high interest rates and vice versa. The amounts placed or borrowed via repos, however, were often below plans, due to the hindering factors already mentioned.

All in all, ÁKK Rt.'s entry into the domestic repo market was successful: already in the first year of its repo activity it more than doubled the size of the domestic repo market (measured by daily average repo turnover), and by concluding repos the volatility of the STA balance was reduced, the end-of-day balance was within the target range on more occasions than would have been without repos.

Based on the experience of liquidity management activities in 2004, ÁKK Rt. considers the further development of the market in order to improve the efficiency of repo transactions and to reach its objectives to a fuller extent, primarily by opening up to non-resident partners and pursuing a more regular (daily) repo activity.

IX. THE SECONDARY MARKET OF GOVERNMENT SECURITIES

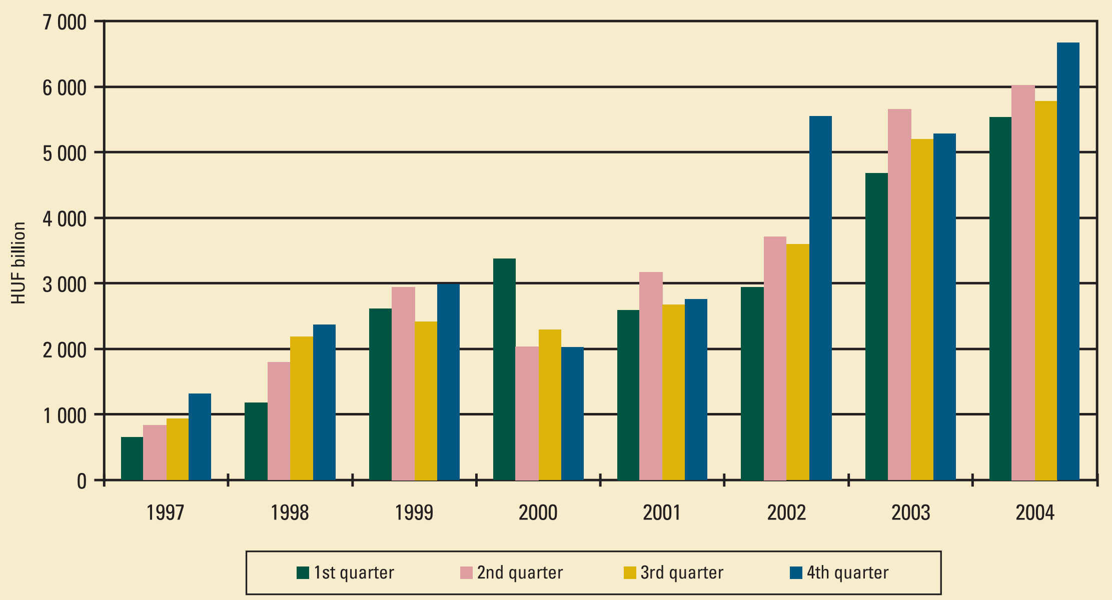
THE SECONDARY MARKET OF HUF GOVERNMENT SECURITIES

TURNOVER

Primary dealers quote two-way prices both in the Budapest Stock Exchange's trading system (MMTS) and directly to investors in the over-the-counter (OTC) market, and conclude government securities transactions on these markets.

Similarly to previous years, the vast majority of secondary trade in government securities in 2004 took place in the OTC market. Total OTC turnover of government securities amounted to HUF 23,874 billion, with government bonds accounting for 82% and discount Treasury bills for 18%. OTC turnover in 2004 was 16% higher than in the preceding year. Government securities were traded at a much lower amount (ca. HUF 145 billion) on the Budapest Stock Exchange (BSE).

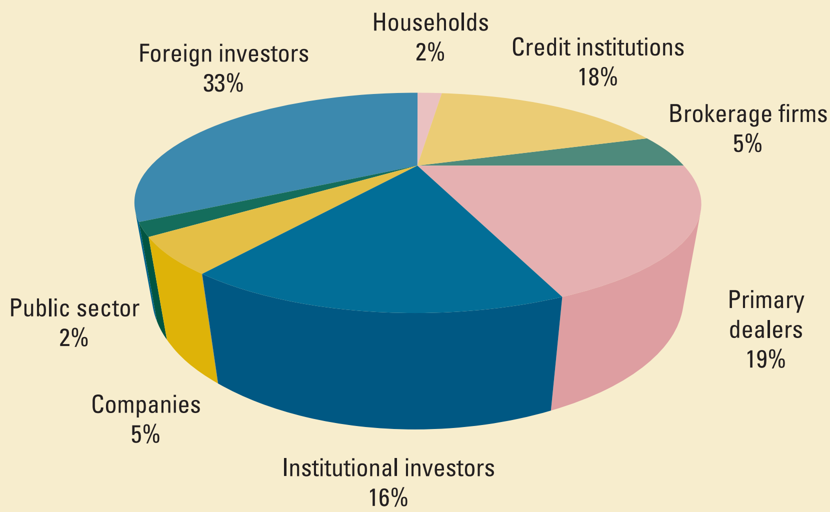
Secondary market trading of government securities in Hungary (OTC and Stock Exchange)



Source: KELER, BSE

Primary dealers made a turnover of HUF 21,564 billion in Hungarian government securities. About 33% of their government securities turnover involved non-resident investors, which was a considerable increase compared to the 25% in 2003.

Breakdown of primary dealers' secondary market turnover in government securities by investor groups in 2004



The average size of primary dealers' secondary market deals – excluding those with retail investors – was HUF 283 million in 2004. Non-resident investors had the largest average deal size, with HUF 561 million per deal.

In the course of the year, the 5-year 2009/C bond had the largest turnover with HUF 1,372 billion, followed by the 3-year 2007/F bond and the 10-year 2014/C bond. Out of these, the 2014/C was the largest bond series at the end of the year, with HUF 400 billion (EUR 1.6 billion).

In February 2005, ÁKK Rt. published the ranking of the primary dealers and its repo partners based on their activities in 2004. The list can be found on ÁKK Rt.'s website under "Press releases". ÁKK Rt. awarded prizes in the following categories: the primary dealer with the largest market share in the primary market of Hungarian government bonds and that of discount Treasury bills; the primary dealer with the highest secondary market share, ÁKK Rt.'s repo partner with the largest repo turnover; and the primary dealer that increased its primary market share the most dynamically. The „Primary dealer of the year" prize was awarded for the first time, based on the rankings achieved in each category; for 2004, the prize went to ING Bank Rt.

MARKET DEVELOPMENT

ÁKK Rt. started to use repo transactions in 2004 not only for liquidity management purposes, but also introduced a stand-by repo facility to support primary dealers' price quotation and to promote smooth settlement in order to develop the market. If a primary dealer needs government securities subject to price quotation but can not obtain them in the market or can obtain them only at an unreasonable cost, it may turn to ÁKK Rt. in the case of having signed the repo master agreement, and ÁKK Rt. will make available the given government securities in a one-week repo transaction.

The stand-by repo facility was a success already in its first year; in the 11 months after the first deal at the end of January 2004, these repo transactions were concluded at a value of HUF 64.2 billion, in about 300 transactions. Feedback from market actors was also positive on the matter. This type of support from ÁKK Rt.'s side is an important precondition for the further development of price quotation, as well as for narrowing the spread between bid and ask prices and for raising the volumes for which prices are quoted.

THE SECONDARY MARKET OF GOVERNMENT SECURITIES ISSUED IN FOREIGN CURRENCY

As mentioned before, there is no special group of dealers in the secondary market for foreign currency bonds of the Republic of Hungary, unlike the primary dealers of HUF government securities.

Similarly to the domestic market, ÁKK Rt.'s objective is to issue series that are considered to be liquid in the given foreign capital market. The minimum size of a bond series in the euro market from the aspect of secondary market liquidity is EUR 1 billion, but large issuers prefer series that exceed EUR 5 billion. The latter volume is also the minimum requirement for sovereign European issuers to participate in the Pan-European electronic trading system, the EuroMTS. Given that the 10 new EU Member States, which acceded in 2004, are not able to meet this requirement easily, the NewEuroMTS platform had been launched for them. Here euro-denominated bonds of sovereign issuers issued not more than two years earlier and with a size of at least EUR 1 billion are listed.

By the end of 2004, four bonds of the Republic of Hungary, three of Poland, and one each of the Czech Republic, Lithuania and Slovakia were available in NewEuroMTS. Trading of Hungarian Eurobonds on the platform amounted to EUR 4.4 billion over the year.

X. INFORMATION SERVICE OF ÁKK RT.

The Public Finances Act makes ÁKK Rt. responsible for informing the general public about the developments of government debt and the government securities market. Therefore, ÁKK Rt. publishes up-to-date, daily data on its Internet website and via other electronic communication systems.

ÁKK RT.`S INTERNET WEBSITE

As of 1 March 2004, the Government Debt Management Agency Ltd. developed its www.akk.hu website, giving it a new structure and renewing its contents. ÁKK Rt.'s goal was to make sure that the most important data could be found easily on the home page, including the latest news, the volume of public debt, information on the most recent and upcoming auctions and the daily price quotations.

Other pages include information on ÁKK Rt., the characteristics of government securities; a separate section is devoted to retail securities, and there is detailed information on the issuance and trading of government securities.

The „Government securities" section includes the cash flows of all outstanding government securities, and the most recent public offers of new issues. The „Market information" menu contains the issuance calendar for the current year; the results of auctions and a wide range of secondary market information. Since the website operates with data bases, historical data and data series can be queried on most of these pages.

ÁKK Rt.'s publications in electronic (PDF) format are available in the „Analyses, statistics" menu, together with a number of statistical data series and the public analyses prepared by ÁKK Rt.

A newsletter service is offered to the registered users of the website. By email newsletters users either receive certain contents attached as soon as they are published on the website, or they get a notification about the publication of the given contents. Registration on the website and newsletters are free of charge.

OTHER ELECTRONIC PLATFORMS

In addition to its website, ÁKK Rt. publishes auction and price quotation data also on the information pages of Bloomberg, Moneyline-Telerate and Reuters.

PRESS CONFERENCES, PUBLISHING IN THE PRESS

ÁKK Rt. also holds press conferences about annual financing, the ranking of primary dealers and other special topics. The promotion of retail securities sales is done by general marketing activities, and PR articles are published for informing non-resident investors.

PUBLICATIONS

ÁKK Rt. also informs interested readers regularly in publications free of charge. The following publications are available in hard copy or can be downloaded from the website:

- Annual reports (from the middle of the year that follows the given year)
- Debt Management Outlook publications (from the beginning of the given year)
- Quarterly reports (from the second month after the given quarter)
- Desktop issuance calendar (from December of the year preceding the given year)

Monthly publications are accessible only in electronic form as of 2004; they can be viewed and downloaded from ÁKK Rt.'s website.

For further information concerning the publications, please contact:

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ANNEX

1. CENTRAL GOVERNMENT DEBT

Components of the central government gross debt at the end of 2004 (in HUF million)

HUF debt

Hungarian Government Bonds	Maturity	Coupon	Outstanding amount
2005/A	20.12.2005	19.00%	221.02
2005/C	11.08.2005	Floating rate	1,126.66
2005/D	12.03.2005	Floating rate	26,575.60
2005/E	12.05.2005	9.25%	215,516.68
2005/F	24.08.2005	Floating rate	46,332.40
2005/G	12.04.2005	7.75%	203,787.25
2005/H	12.08.2005	7.00%	222,859.98
2005/I	12.10.2005	8.50%	316,342.50
2006/A	28.02.2006	Floating rate	38,572.57
2006/B	24.01.2006	Floating rate	77,968.17
2006/C	24.07.2006	Floating rate	77,968.18
2006/D	12.08.2006	Floating rate	2,210.20
2006/E	12.05.2006	8.50%	336,177.63
2006/F	12.04.2006	7.00%	457,976.24
2006/G	24.08.2006	6.50%	385,334.81
2007/A	31.12.2007	8.40%	12,000.00
2007/B	12.12.2007	Floating rate	13,888.66
2007/C	12.08.2007	Floating rate	2,265.72
2007/D	12.06.2007	6.25%	407,688.18
2007/E	12.08.2007	Floating rate	4,119.07
2007/F	12.04.2007	9.00%	298,061.51
2007/G	12.10.2007	9.25%	353,428.07
2008/A	24.10.2008	Floating rate	55,022.33
2008/B	12.08.2008	Floating rate	2,415.18
2008/C	12.06.2008	6.25%	403,872.53
2009/A	12.08.2009	Floating rate	2,469.97
2009/B	12.02.2009	9.50%	97,526.12
2009/C	24.06.2009	7.00%	302,213.67
2009/D	12.10.2009	8.25%	260,165.72
2010/A	12.08.2010	Floating rate	2,468.51
2011/A	12.02.2011	7.50%	208,475.85
2012/A	31.12.2012	8.40%	7,132.15
2013/A	20.03.2013	Floating rate	58,208.28
2013/C	20.12.2013	Floating rate	79,416.65
2013/D	12.02.2013	6.75%	434,991.30
2014/A	02.05.2014	Floating rate	27,580.28
2014/B	20.12.2014	Floating rate	16,612.00
2014/C	12.02.2014	5.50%	400,201.22
2015/A	12.02.2015	8.00%	180,530.14
2016/A	31.12.2016	Floating rate	40,080.00
2016/B	02.01.2016	Floating rate	9,000.00
2017/A	24.11.2017	6.75%	202,936.22
2020/A	12.11.2020	7.50%	85,481.73
2026/A	28.02.2026	Floating rate	51,165.00
2026/B	24.04.2026	Floating rate	80,000.00
2026/C	24.10.2026	Floating rate	3,975.04
Total:			6,512,493.33
Of which: repos outstanding			-77,257.16
Discount Treasury Bills			1,463,272.24
Interest Bearing Treasury Bills			282,717.03
Treasury Savings Bills (1-year)			270,961.79
Treasury Savings Bills (2-year)			74,699.15
Loans			4,662.37
Other			25.15

Foreign exchange debt	Outstanding amount in HUF million	Outstanding amount in EUR million
Syndicated loan	122,965.00	500.00
Loans granted by international financing institutions (EIB, Council of Europe Development Bank etc.)*	326,698.42	1,328.42
Loans assumed from the market*	111,435.97	453.12

Government bonds issued since 1999*

Code	Original currency	Maturity	Original tenor (years)	Coupon	Outstanding amount in HUF million	Outstanding amount in EUR million
105	EUR	16.02.2009	10	4.375%	122,965.00	500.00
109	USD	19.04.2006	7	6.50%	172,180.94	700.12
111	EUR	10.11.2005	6	3-month EUR LIBOR+0,5%	245,930.00	1,000.00
112	EUR	27.06.2011	10	5.625%	245,930.00	1,000.00
113	EUR	06.02.2013	10	4.50%	245,930.00	1,000.00
114	EUR	27.09.2010	7	4.00%	245,930.00	1,000.00
115	EUR	29.01.2014	10	4.50%	245,930.00	1,000.00
116	GBP	06.05.2014	10	5.50%	185,234.48	753.20
117	JPY	18.06.2009	5	1.09%	92,223.75	375.00
118	EUR	28.10.2011	7	3.625%	245,930.00	1,000.00
119	USD	15.12.2006	2	3-month USD LIBOR +0,03%	18,496.40	75.21
Total:					2,066,680.56	8,403.53
Of which: cross-currency swaps					53,054.06	

Loan from the NBH as a result of the debt swap in 1997*	355,658.07	
Of which: cross-currency swaps	24,188.87	
Kingdom of Hungary 1924 bond issues	83.98	
Total central government gross debt	**11,592,353.07**	

**Including cross-currency swaps*

2. CREDIT RATING HISTORY OF THE REPUBLIC OF HUNGARY

Long-term foreign currency debt

Date of change	Moody's	Standard and Poor's	Fitch Ratings
20.04.1992	-	BB+	-
27.12.1993	Ba1	BB+	-
25.04.1996	Ba1	BB+	BBB-
28.10.1996	Ba1	BBB-	BBB-
19.12.1996	Baa3	BBB-	BBB-
24.06.1997	Baa3	BBB-	BBB
08.05.1998	Baa2	BBB-	BBB
11.12.1998	Baa2	BBB	BBB
25.06.1999	Baa1	BBB	BBB
29.10.1999	Baa1	BBB	BBB+
02.02.2000	Baa1	BBB+	BBB+
14.11.2000	A3	BBB+	BBB+
29.11.2000	A3	BBB+	A-
19.12.2000	A3	A-	A-
12.11.2002	A1	A-	A-

Fitch Ratings maintained a negative rating outlook throughout the year 2004, the outlook of the other two agencies was stable.

Long-term domestic currency debt

Date of change	Moody's	Standard and Poor's	Fitch Ratings
25.04.1996	-	-	BBB+
28.10.1996	-	A-	BBB+
24.06.1997	-	A-	A-
22.06.1998	A1	A-	A-
02.07.1998	A1	A-	A
11.12.1998	A1	A	A
29.11.2000	A1	A	A+
19.12.2000	A1	A+	A+
19.11.2002	A1	A	A+

All three agencies maintained a stable outlook in 2004.

3. THE RELEVANT LEGISLATION GOVERNING ÁKK RT. AND GOVERNMENT DEBT MANAGEMENT[7]

ACT NO. XXXVIII OF 1992 ON PUBLIC FINANCES

(…)

18/F. § (1) The Government Debt Management Agency Ltd. (hereinafter: „ÁKK Rt.") is a single shareholder company (limited by shares). The company's shares are registered and non-negotiable securities.

(2) The Founder of ÁKK Rt. is the Minister of Finance.

(3) The establishment and operation of ÁKK Rt. - unless otherwise provided by the Act on Public Finances - are governed by the Companies Act (Act No. CXLIV of 1997).

(4) The shareholder's rights are exercised by the Minister of Finance, with the difference, that the shareholder is not entitled to withhold the rights of the Board of Directors.

(5) State officials as specified in the Act on the Status and Responsibilities of the Members of the Government and State Secretaries (Act No. LXXIX of 1997) may hold positions in ÁKK Rt.'s Board of Directors and Supervisory Board.

18/G. § (1) ÁKK Rt. manages its assets autonomously within the framework of the applicable laws and regulations, the decisions of the shareholder and the decisions of the Board of Directors.

(2) The revenues of ÁKK Rt. are:

a) The appropriation assigned for this purpose in relation with government debt management in the Annual Budget Act, which is to be placed at the disposal of the company in equal monthly instalments;

b) Other revenues.

(3)

(4) The interests, costs, fees and other payments associated with government debt management are booked and paid by ÁKK Rt. to the debit of the government debt chapter of the current Budget.

(5) ÁKK Rt. is the general legal successor of the Hungarian State Treasury Government Debt Management Agency as regards all rights and liabilities.

(6) ÁKK Rt. holds a current bank account at the National Bank of Hungary (hereinafter: „NBH") for its operations specified in paragraphs (1)-(3).

(7) ÁKK Rt. holds securities a securities custody account and a securities account at the Central Clearing House and Depository (Budapest) Ltd. (hereinafter: „KELER") for its operations specified in section 113/A of the Act on Public Finances.

(8) ÁKK Rt. may open a foreign currency current account at the NBH for its operations specified in section 113/A of the Act on Public Finances.

(…)

110. § All such payment liabilities based on credit relationship that are payable by any subsystem of the general government are considered to be government debt.

111. § The subsystems of the general government are responsible themselves for recording, managing and effecting the liabilities deriving from their debts.

112. § (1) The government debt is to be recorded and presented to the Parliament as per divided to each subsystem of the general government.

(2) The government debt payable by the budgetary central government within total government debt is to be managed and recorded in an integrated manner, after having executed the provisions rendered by paragraph (3) of section 124.

(3) The relationship and connection between the government debt of the subsystems of the general government and the public sector debt as specified by the Excessive Deficit Procedure of the European Union (Maastricht debt ratio) is to be presented.

113. § The subsystems of the general government have to manage and record their debts separately.

[7] *The translation serves information purposes, the structure of the original Hungarian text has been preserved. Regulations in effect at the end of 2004.*

113/A. § (1) The Minister of Finance through the ÁKK Rt.

a) Ensures the solvency of the so-called state budget on the basis of the annual Budget Act and by taking into account the forecast rendered in subsection p) of paragraph (1) of section 18/B;

b) Ensures that the central government deficit and debt redemptions are financed and the government debt and the temporarily free cash-funds of the state are properly managed;

c) Records the central government debt.

(2) In executing the above duties, the ÁKK Rt.:

a) Elaborates the annual and medium-term financing plan of the central government, develops the government debt financing strategy;

b) Issues government securities and raises loans in compliance with the annual Budget Act, and organises debt-assumptions from public institutions to the State;

c) Ensures that the government debt services are duly paid;

d) Organises the secondary market of government securities;

e) Executes secondary market security operations, sells, buys and lends government securities, executes repo transactions; in performing debt management duties concludes spot, forward and hedging transactions to reduce exchange rate and interest rate risks, and executes custodial and other security tasks;

f) Analyses the tendencies of the government debt service and the government securities market;

g) Provides information on the government debt and on the tendencies in the government securities market;

h) Is entitled to perform tasks related to the issuance and management of government guaranteed debt securities and loans;

i) Expresses opinions on the terms and conditions of government guaranteed debt securities and loans;

j) Performs loan and deposit operations.

(3) ÁKK Rt. may create debt securities on the separated sub-accounts of the accounts specified in paragraph (6) of section 18/G without outright issuance and underlying financial claims, which may become objects of transactions specified in subsection e) of paragraph (2).

(4) Related to the debt securities issued or guaranteed by the state, the ÁKK Rt. and the Treasury may trade them on client and own account, may participate in administering their placement, and may provide services related to the placement, custody, security deposit account keeping, security account keeping, client's cash account keeping and lending of these securities. The provisions of Act CXX of 2001 on the Capital Markets shall mutatis mutandis apply to the ÁKK Rt.'s and the Treasury's scope of activities in this regard.

SECTION 7 (1) OF ACT NO. CXVI OF 2003 ON THE BUDGET OF THE REPUBLIC OF HUNGARY FOR THE YEAR 2004 AND ON THE THREE YEAR TIME-FRAME OF PUBLIC FINANCES

(1) The Minister of Finance shall be entitled by the Parliament to finance the deficit referred to in Paragraph c) of Section 5, to ensure continuously the liquidity of the „STA"[8] and to manage the debt of the central budget and the assets thereof administered by the Treasury.[9]

[8] *The Single Treasury Account*
[9] *The Hungarian State Treasury*

4. THE FINANCIAL STATEMENTS OF ÁKK RT. AND THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

I. BALANCE SHEET

in HUF thousand

	Assets	2003	2004
	A) Fixed assets	134 779	111 889
I.	Intangible assets	81 909	49 259
II.	Tangible assets	47 660	54 020
III.	Financial assets	5 210	8 610
	B) Current assets	326 886	308 061
I.	Inventories	0	0
II.	Receivables	4 784	5 719
III.	Securities	0	0
IV.	Cash and cash equivalents	322 102	302 342
	C) Assets of accruals	7 419	7 029
	Total assets	**469 084**	**426 979**

	Liabilities	2003	2004
	D) Capital and reserves	300 000	300 000
I.	Subscribed capital	300 000	300 000
	E) Provisions	0	0
	F) Liabilities	160 858	118 462
I.	Subordinated liabilities	0	0
II.	Long-term liabilities	0	0
III.	Short-term liabilities	160 858	118 462
	G) Liabilities of accruals	8 226	8 517
	Total liabilities	**469 084**	**426 979**

II. PROFIT AND LOSS ACCOUNT

in HUF thousand

		2003	2004
I.	Net sales revenues	819 000	773 000
III.	Other incomes	1 786	2 691
IV.	Material expenses	187 918	172 860
V.	Personnel expenses	524 237	521 238
VI.	Depreciation and amortization	73 188	65 526
VII.	Other expenses	153	6 825
A)	Operating profit or loss	35 290	9 242
B)	Profit or loss from financial transactions	29 644	38 180
C)	Profit or loss on ordinary activities	64 934	47 422
D)	Extraordinary profit or loss	-158	
E)	Profit or loss before taxation	64 776	47 422
XII.	Tax payable	12 508	7 587
F)	Profit or loss after taxation	52 268	39 835
23	Approved dividends	52 268	39 835
G)	Balance sheet profit or loss	0	0

MEMBERS OF ÁKK RT.'S BOARD OF DIRECTORS AND SUPERVISORY BOARD AT THE END OF 2004

Board of Directors:

Dr. György Radnai chairman
Dr. Elemér Terták
Ferenc Pichler
Álmos Kovács
Péter Király
Ferenc Szarvas
Dr. László András Borbély

Supervisory Board:

Zoltán Sághy chairman
Balázs Romhányi
Dr. Béla Jónás
Dr. István Várfalvi

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