



1997 1998 1999 2000 2001 **2002**

Berliner Effektengesellschaft AG Annual Report 2002

RESULTS AND STRATEGIES



AT A GLANCE

December 31, 2002	
Stock capital	16,797,016 € = 16,797,016 individual stocks
Free float	20.0%, 3,359,403 individual stocks
Balance sheet total	96,154,661.84 €
Stockholders' equity	93,382,126.94 €
Stock price at the close of the year	6.00 €
Group result	- 25,343,843.24 €
Company result	- 22,450,215.13 €
Proposed dividend	-
Number of employees in the Group	92



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PREFACE

Dear shareholders, business partners and friends of the Berliner Effektengesellschaft AG

Economists had agreed that 2002 was going to be a positive year for the German economy. The economists of the OECD expected 2.4% growth and those of the Rheinisch-Westfälisches Institut für Wirtschaftsforschung (Rhine-Westphalia Institute for Economic Research) even put the figure at 2.8%.

Instead, "Deutschland AG" has become Europe's taillight, a redevelopment case par excellence, not only for the economic situation but also for the stock exchanges: the fall in the DAX of 44.0% last year was the worst setback since 1948, thereby topping the list of losers of all major international stock market indices. The bigger decrease in stock prices, compared with other stock exchanges, represents risk reductions due to a lack of trust, trust that especially foreign investors have lost. During the last year, financial markets have well anticipated what is becoming more and more obvious throughout economy: meanwhile, Germany is considered to be the next Japan, structurally unable to free itself from its misery.

An ever growing number of international corporations, US-American in particular, is downgrading Germany's importance in global strategies – not least due to political tensions. It seems inevitable that the

relationship between the German economy and the USA will be unsettled for some time to come. A development that has not left the Berliner Effektengesellschaft AG unscathed. In these times, it seems to be almost unthinkable to take any action without observing politics and the current economic situation first. This became especially evident in 2002, since last year was mainly dominated by the effort to find one or more strategic investors for the 53.0% stake that Consors Discount-Broker AG holds in our company which, in turn, is now indirectly owned by the large French bank BNP Paribas S.A.

However, up until now this has not happened and so the words of the 2001 review, printed here last year, remain also valid for this time's reporting period: the year 2002 didn't exactly spoil us. But, what also remains is our motto: "The fact that something is difficult, should actually only be all the more reason to roll up one's sleeves." We believe in the company, and so we have put the time spent expecting the changes in our shareholder structure to good use by taking decisive, right steps on the operative side of the business – for there's no better preparation for the future than the appropriate use of the present.



The Board of the
Berliner Effektengesellschaft AG:
Dr. Jörg Franke, Holger Timm

We are strengthening and expanding our operative core business of market making – in two ways: firstly, with TradeGate® we are operating Europe's most successful and most up-to-date ECN, an off-floor trading platform, established and extended from our own resources since 1999 and which has an excellent rate of acceptance. Secondly, we are providing Nasdaq Deutschland with new concepts, as co-founders of this initiative for a new stock exchange, so to speak. For the role of the market maker there, our wholly owned subsidiary Berliner Freiverkehr (Aktien) AG provides an enormous competitive advantage: many years of experience in a tight market environment, acting as a market maker rather than a stockbroker, has been ideal preparation.

We have created the Genius Loci – however, we are not very optimistic about the stock markets. Germany is in the midst of a recession, although a poor economic constitution does not necessarily imply that trade volumes or the markets will decline further. The years of 1975, 1982 and 1993 are testimony to this.

Whatever development the financial markets undergo, one thing is important: although we would rather not have them, but years like 2002, with a closing loss of

1.3 million € in operative business, we may endure for a long time. We have a stockholders' equity of almost 93.4 million €, our stockholders' equity ratio of 97.1%, which has hardly changed since last year, is way above the German corporate average of 18.0%.

We are sure that we will come out of this all in all critical market environment stronger than before and we thank you for sharing this trust with us.

Yours sincerely

Berliner Effektengesellschaft AG

The Board

Berlin, April 2003

“Money is lost, nothing is lost.
Trust is lost, everything is lost.”
Robert Bosch,
German entrepreneur
(1861-1942)

TRUST IN ITS CRISIS

With sheer horror many investors have turned away from stocks as an investment during the last year, some of them probably forever. To the defiance of most prognoses, the dramatic decline in stock prices, which had started in the spring of 2000, continued and eventually, even the most optimistic have been forced into resignation. A feeling of demise caused many investors, fearing further panic and forced sales, to dispose of the remainder of their stock: a self-intensifying process. In 2002, 1,200 billion US-\$ of market value was destroyed, and for the last three years of landslide the sum amounts to five times as much: 6,000 billion US-\$. The longest lasting and worst market-low of the postwar period has created global losses in stock market value equivalent to 45.0% of the world's income. Meanwhile, all over the world assets of private households have decreased to the level of the mid-1990s.

Everything appeared to be so simple during boom-times, private and even inexperienced investors had little difficulty in tasting success. Losses in stock price were hardly imaginable, on the contrary: the probability of choosing stock that would show a significant rise in stock price only a few weeks after purchase was very high. Everyone was spoiled by the feeling of being a true stock investment professional. The situation appeared to be under control, and trust in the quality of the chosen stocks increased. Naturally, supposed risks could convincingly be managed by investors – an illusion that was expressed by a completely distorted awareness of any kind of risk and an overwhelming optimism. Warnings such as those of a German entrepreneur that the “New Economy” might only be an attempt “to make the principles of betting shops, gambling and chain letters appear valid and applicable throughout economy” were ignored. And even today you can still hear nostalgic sighs reminiscent of the glorious times of the “Neuer Markt.” The Massai have a saying, “It's always very quiet, when a large bull dies.”

Wisdom has come at a very high price, the illusion of control has been replaced by a complete loss of control. “All of a sudden” every kind of stock investment rendered negative returns and, contrary to the ever hoped for further rise on the stock market, the

downward trend did not come to a halt. Only at a very late stage did many remember Hans Christian Andersen's fairytale “The Emperor's New Clothes” and realized that they had followed false prophets.

The foundations of the “New German Stock Culture” have been shaken, and it's not just the eternal question of when is the bull going to expel the bear. Especially during the last twelve months shareholders have had a difficult time of it. A term has captured the financial and economic sections of the media that was rarely mentioned during the better days: trust. Its connotation is, without exception, negative. Loss of trust is talked about, its misuse, its undermining – even about its crisis. Many executives have discredited

Index	As at the end of 2001	As at the end of 2002	Change
Dow Jones	10,021	8,341	- 16.8%
Hang Seng	11,397	9,321	- 18.2%
Nikkei 225	10,542	8,578	- 18.6%
S&P 500	1,148	879	- 23.4%
FTSE 100	5,217	3,940	- 24.5%
Nasdaq Composite	1,950	1,335	- 31.5%
CAC 40	4,624	3,063	- 33.8%
DAX	5,160	2,892	- 43.9%
NEMAX 50	1,150	358	- 68.8%

themselves by their awkward conduct, but more frightful: by their lack of etiquette and ethics. The “honourable merchant,” which was widely referred to as an example of generally acceptable conduct by the merchants of Hamburg 485 years ago, and for whom the “word of a man” was considered reliable, has obviously disappeared. Incompetence alone would be alarming, but immorality is far worse. Greed and excess led many managers to enrich themselves indecently – sometimes barely within the limits of the law, in many cases beyond: bad practice and deliberately misleading the public were at the top of the agenda, reliability came last. Fraud and manipulation, corruption and scandals of misuse are the main topics in the daily news. The ironic “advice” given by Johann Wolfgang von Goethe was translated into action perfectly, “Are we allowed to deceive the people? I say,

“Economy and citizens are like a patient who has been diagnosed with a severe illness at an advanced early stage. At that point, an in fact painful but comparatively simple treatment would provide a high chance of a lasting cure. But the physician does not insist for he wrongfully believes that he is more likely to remain in the patient’s favour without the necessary operation. And the patient does not act either, as nothing really hurts yet.”

From the speech of a Frankfurt/Main banker in 1982 – not in 2002



no! But if you want to lie to them, don't do it in a nice way.” The latest opinion polls indicate that trust in executives has further declined in 2002, only 23.0% of interviewees considered them reliable; most of the persons asked consider honesty, foresightedness and professional experience as important – but associate managers with breach of contract, selfishness and arrogance.

Others who have also forfeited trust are those who were supposed to keep an eye on the executives: the analysts of the banks and rating agencies, the accountants of the advisory and auditing companies. Balance sheet forgery and clever use of the weak spots in accounting principles were either not detected or, despite being detected, not revealed by the external monitoring institutions.

“TRUTH IS SOMETHING SO PRECIOUS, THAT POLITICIANS ARE VERY THRIFTY WITH IT.”

**Mark Twain,
US-American author
(1835-1910)**

Loss of trust in the financial markets might be less of a tragedy if it could be compensated for in other areas. Wishful thinking. Politics is not able to fill the vacuum of trust – quite the opposite: disappointment, uncertainty and sullenness on all sides. With an eye on the oncoming state elections, the then leader of

the Federal State of Lower Saxony, Sigmar Gabriel, audibly declared in early 2003, “Actually, people do not believe in politics anymore. That is a major problem, since the democratic process will only work if there is a kind of basic trust.” Doubts in the ability and willingness of politicians to solve problems, as well as their unwillingness to accept responsibility create tremendous pessimism for the future. In early 2000, when stock markets had reached their zenith, Federal Chancellor Gerhard Schröder considered it as being directly correlated to the political course of action of the red-green government: “Since the change in government in 1998 alone, the DAX has increased by more than 50.0%, which of you would have expected that (...)? The government’s political course of action is not the sole reason for this, but it is one (...). I think I may self-confidently say that the Federal Government has contributed to the positive atmosphere on the stock markets.” Back then, Mr. Schröder proposed a “question of trust,” but, no comparable statement to the opposite effect has been read of up to date. These days, government officials are more likely to deny that they have restrained forces for economic growth by an accumulation and escalation of fatal mistakes. On an international scale, Germany is holding the red “lantern of pessimism.” What a surprise, alarm bells are ringing on all fronts: within Europe, Germany is bringing up the rear in economic growth, saved only by its export figures. An unprecedented flood of almost 40,000 insolvencies marks the German economy,



unemployment rates have reached new, unbearable heights. Germany was the country which had called most enthusiastically for strict stability criteria within Europe, and now its own excessive state budgets are close to breaching the constitution. The social security system is in danger of final collapse.

Thus, the economic situation suffers most from lack of trust. As we all know, economic upswing is initiated in the mind, but the same goes for stagnation and downturn, too. Investment decisions require long-term calculability. If this is lacking, companies act cautiously – the beginning of a downward spiral, additionally nurtured by cost-saving programs introduced as counter-measures against further declining stock prices. At the same time, the allocation of loans is reduced, the embodiment of a business based on trust. Thus, investments, as a possible driving force of the economy, is negatively influenced on several sides: trust is lacking, expenses shall be reduced, financing becomes more difficult. The acquisition of stockholders' equity via the stock exchange becomes unthinkable.

The pendulum has swung too far, the situation is critical. In unison, more trust is demanded, wished for, even implored. The Davos World Economic Forum, which provides a summary of the current global concerns each year, used the motto "Building Trust" on its banners for 2003 and discussed the ethical combination of modern, labor-dividing industrial

societies. Evidently, trust is only then a prominent topic if it is either no longer there, in insufficient supply and has become fragile: only then it becomes visible. The more it seems to be absent, the greater the crisis, the more it is talked about. A phenomenon: the reasons for existing trust are rarely questioned, it is considered natural and is experienced without the need of proof – indeed, it would be rather difficult to deliver. However, justification for mistrust is searched for attentively and only if trust is betrayed exactly this comes to our attention.

HOMO CONFIDENS

But what is trust? First of all a commonly used, everyday word, hardly determinable. The Großer Duden dictionary provides us with "the firm belief in the reliability and dependability of a person or a thing." The Indo-Germanic linguistic origin goes back to "deru" standing for "oak, tree," clearly showing the affiliation to the depiction of being "strong, firm as a tree."

We grant an "advance of trust," "give" confidence or – more cautiously – "take somebody into one's confidence." In return we would like to "win" the trust of others or want to "earn" it – by "trust-building" measures, as they are usually called.

Empirically "trust" is difficult to access, sometimes fuzzy and full of paradoxicalness. In opinion polls



trustworthy people are associated with more emotional characteristics: “honest,” “frank,” “able to listen,” “discreet,” “reliable” and “cooperative.” Is trust therefore an emotion, or rather a moral attitude, an out-dated idea of ethics, an irrational, romantic conviction or simply a fashionable term? If not everything and all, obviously at least much can be summed up under this apparently common term: a mixture of credibility, predictability, forthrightness, honesty, reliability and steadfastness. Is trust therefore basically something good, of high moral value? Is it a requirement or a result, an attitude or an action? Or can one be considered naive, if one is “credulous” and trusts “blindly?”

Everyone knows for himself: without a modicum of basic trust, life is difficult to handle for the individual. Archetypes of this are the regular evening certainties that the sun will rise again next morning and that autumn is followed by winter. We are confident that we will get to work without any hindrances and that we will be capable of the day’s challenges. When we ask for directions in a foreign city, we trust that we will be guided the right way. The experiences that we have gained throughout our life provide us with certainty.

In the past, people relied on rituals and religion to a greater extent than they do today. When the shaman called on the demons it would become spring. In

medieval times, people took the permanent threat of starvation and natural disasters, plagues and violence as divine providence. Within the Christian Occident, with the humanism of the renaissance and the enlightenment one relied more on common sense, logic and knowledge and new values such as democracy, the constitutional state or social responsibility – a change towards trust in institutions, orientating to them in order to stabilize personal identity. A quest for positive role models to promote common ideals by acting reasonably and transparently.

Ever since, the task of making the unpredictable and uncontrollable predictable and controllable has been of importance to humans, and still is today. A “collective crisis of being” is being discussed, opinion polls find that “the lack of predictability, controllability and calculability of humans and situations” is an ever growing worry. Every human is looking for trust, but at the same time is sceptical and full of doubt. Every definition of trust goes back to a human mechanism to limit the principal uncertainty of future situations. Belief and hope are related ideals, but both attempting to eliminate possible disappointment. Trust is, therefore, rather a state of expectation under the premises of uncertainty and a lack of stability.

In the social sciences, trust is seen as an expectation which is directed towards future actions of another party, the stability of a situation or the reliability of a



relationship. In most cases, the person trusting holds rather only incomplete knowledge about the probability and timing of the sometimes even later occurring incidents and cannot, or only to a limited extent, control them. The one who knows does not need to trust, the one who does not know cannot trust. Furthermore, a feature of trust is that it also bears relevance to the actions taken by the person trusting and, what is of importance regarding the economic context, that the fulfillment or non-fulfillment of an expectation, cherished in the sense of trust, has concrete consequences for the person trusting, thus, carrying a certain risk. The question of whether the threatening loss that comes with a disappointment of trust has to be greater than the profit rewarding affirmed trust, leads us, for a final definition, into the realms of philosophy.

“HE WHO FEARS ANY LOSS MAY NOT GAIN ANYTHING.”

**George Soros,
US-American investor**

Trust is explained by its role: it is an investment in risk reduction, the act of trusting is an invitation to make just that investment. If it “pays” to trust, recording a yield to maturity and benefits, the person will be willing to repeat the investment in the future. These measures to stabilize unclear expectations or uncertainty and social complexity are not without risk themselves. But

trust is always then a pragmatic mechanism when the acquisition of decision-relevant information is not possible, or only at disproportionately high cost. And: it is indispensable. Both in daily and in economic life not all the various kinds of opportunistic behaviour imaginable – in the sense of taking a chance – can be ruled out completely by contracts or threat of sanctions. Trust as an “internal” contract reinforces the “external” one, replacing the external with an inner security, thereby becoming a prominent resource of economic development – thus, a high degree of trust lowers transaction costs. David Friedman, himself an US-American professor of Law and Economy and son of the well-known monetarist Milton Friedman: “It is reasonable to remain uninformed, if information costs more than it’s worth.” Someone who does not assume he will be betrayed by others, relying rather on a good reputation, might save himself the laborious efforts of verifying his opposite’s integrity, does not have to capture every detail contractually or to cover legally, avoiding in many cases the payment of expensive insurance premiums. Recently, a Swiss businessman summarized this in an interview like this: “A deal is a deal. If you can trust a person, a contract is not necessary, and if you can’t trust her, a contract is useless, anyway.” An opinion also shared by US-American oil industrialist and multi-billionaire Jean Paul Getty, before.

It was in 1972, when the US-American economist and

In 2002, stocks became 400 years old – not a year for celebrations

On March 20, 1602, seventeen rich Dutch merchants, the “Heren XVII,” founded the Verenigde Oostindische Compagnie (V.O.C.) – (Dutch East India Company) in Amsterdam. For the financing of the fleet they sold shares which entitled their owners to receive a portion of the goods that the V.O.C. ships brought back from their overseas expeditions to the amount of the nominal amount paid in. These “Actien” (stocks), as they were called by the Amsterdam merchants, promised excellent revenues, since the trade goods brought back sold like hot cakes. It paid to be a V.O.C. shareholder, even though in the vernacular you were called a “pepper sack” – as the ample dividends in kind were paid in the form of rough diamonds, silk bolts, ginger tubers and, of course, pepper sacks.

The V.O.C. shares rapidly turned into sought after securities, with trade eventually being focused in one place in 1609: the Amsterdam Stock Exchange. From there, the triumphal procession made its way to the New World, to the then young Nieuw Amsterdam, today’s New York.



later Nobel Prize winner in the field of economy, Kenneth Arrow, declared: “Almost every commercial transaction contains an element of trust, but certainly any transaction that requires a longer period of time. It can be reasonably argued that economic backwardness, to a large extent, can be explained by the lack of mutual trust. Trust is an important lubricant for the system’s mechanism.” Goods of trust determine our everyday life, trust determines economic success, provides stability. In former times, when most things were regulated by norms, religious rules and rigid hierarchies, trust didn’t matter that much. For our modern societies, often regulated by market relationships, it is a completely different story. Francis Fukuyama, professor of International Political Economy at Italian Bologna’s John Hopkins University, even considers wealth and competitiveness to be determined by the amount of trust available within a society and, thereby, raises its importance above the presence of natural resources. Both Arrow and Fukuyama are confirmed by a further Nobel Prize winner, namely Albert Schweitzer: “For all ventures trust is the business capital required for every profitable deed. In all fields it creates the conditions for prosperous occurrences.” No growth without trust, without growth no trust. Looking at Germany these days, confirms this thesis. Let’s go to economically divided Italy: the economists Luigi Guiso, Paola Sapienza and Luigi Zingales point out that the private households of the prosperous North own more stocks

and sign more checks and that it is the banks that grant loans. It is a completely different story in the South: here, cash is stockpiled, loans are rather given by friends and relatives. Trust only exists within a familiar and restricted circle, breaking it would make vulnerable, powerless and uninfluential: who can really guarantee that the other will not abuse the trust granted in his own favour? It’s the same in India: in the small village of Palampur, over years and years none of the peasants wanted to be the first to sow, fearing the birds could pounce upon his seeds first. With everyone waiting for the other, no one trusting in the others’ trust, the fields were regularly sown too late and the harvest was far smaller than it could have been. The peasants couldn’t manage to sow their fields collectively at the proper point in time. They mistrusted each other too much, sacrificing certainty didn’t seem to be compensated for by a risk premium.

This thought pattern leads to a dead-end in today’s economic world. The traditional direct and personal contact between acting persons has become a rare one. Today, the rapid progress of communication and information technology creates deals on a rather “virtual” basis, with business partners located in different countries or on continents, not knowing each other. It is almost impossible to either verify their behaviour by own notion or to control it, negotiating partners have to have an interest in being able to trust in fairness, steadfastness and reliability. Here, only



trust can play the decisive role, it has to compensate for the lack of knowledge about the other and his behavioural pattern. Today, trust can no longer be developed gradually by the subjective interpretation of familiar situations, experiences gained and repeated. Economic course and processes of change are becoming more complex, the more distinctly one realizes their incalculability, set off by intensity and speed, the more one has to inevitably trust in experts, technical instruments and abstract systems.

HOMO OECONOMICUS

That is always a risky investment. From an economic point of view, continuous investment leads to the formation of capital, defined as accumulated work – in our case social capital, a kind of “economic conscience.” The expression “I have his trust” may support the role of trust as an inventory figure and as an accumulatable factor of production. “A group whose members are trustworthy and have great mutual trust, will be able to achieve much more than a comparable group lacking in trustworthiness and trust” – so both economists’ and sociologists’ conviction. How much, in this role, trust can influence the economic growth of a country, is seen vice versa, proven in the consequences of its lack in the former socialist planned economies, systems of permanent suspicion, control and mutual mistrust. Therefore, the Schumpeterian entrepreneur is needed, willing to take repeated risks,

to commit himself to new markets, new situations, processes or products. Who is radical in thinking and who develops goods and services that cannot yet be demanded for, since they are new. Only this attitude of not knowing whether his vision will be profitable provides the scope of activity necessary. For him, trust and risk go hand in hand, both are not in competition. Trust turns into a special form of “venture capital.” It is also a mutual loan relationship, without the trust of the other in me, my own trust in the other is of less worth in the long run. With both parties relying on trust instead of guarantees, they each reduce their own risk – as long as both can expect the same “return.”

The symposium of experts of the Deutscher Betriebswirtschaftertag (German Business Management Forum) 2001 has determined intangible assets as to be the factors capable of increasing the long-term value of a company – defined as such were knowledge, linked skills, the brand and: trust. Whether venture capital, loan or intangible assets – it is distinctive of every term of trust, that it possesses the potential for write-offs and that it is exactly not a free resource one can arbitrarily fall back upon, let alone multiply. If someone “misuses trust,” “gambles away trust,” “proves to be unworthy of trust” or one “loses” the trust of the other, trust capital can be destroyed rapidly, possibly requiring a total write-off. Partial “value adjustments” give rise to no longer “completely” or to only limitedly trust in the opposite. Therefore, trust is not a matter



of “all-or-nothing” or “either-or,” but does have its reasonable limits.

Loss of trust becomes evident also in a reduced tendency towards taking risks in other fields. At the moment this is the domestic state of mind, the atmosphere of mistrust appears insuperable, it is trust in the negative state of experiences. Mistrust develops in an ever downward spiral: if I am permanently doubtful, at some point I will find the situation where my misapprehensions are confirmed, delivering positive evidence that I was right to mistrust. Almost inevitably, my mistrust is bound to be confirmed positively because I am always expecting to be disappointed, betrayed or cheated, thus, starting out from a single incident, one leaves the place of its origin and generalizes from that moment on. It says that, “Who can one trust at all?”

“BOTH TOO MUCH AND TOO LITTLE TRUST ARE CHILDREN NEXT DOOR.”

**Wilhelm Busch,
German humorist
(1832-1908)**

This is especially true of the stock markets, leaving many with the feeling of having invested too much, not only in (single) stocks but also in trust as a kind of social capital that can be raised, increased but also reduced again. The more injured and excessive the

reaction, the more capital, in the true sense of the word, has been in the game for a person. False election promises, a “committee of lies,” the ever increasing burden of taxes – it all fits the picture: Francis Fukuyama knew already back in 1995, “Mistrust within a society puts a kind of tax on all manifestations of economic action, that is dropped in societies with a high degree of trust.” And yet, an increased formation of trustworthy relations could easily promote economic upswing, mobilizing powers with the will to take risks.

Only last year it was proven: it is easier to convert trust into mistrust than vice versa. However, whether trust can be granted depends to a great extent on the, mainly “own” concepts the parties concerned are working to – what their vision is, how they and others come to the decision to grant trust, what evidence enables them to assess the trustworthiness of others, which actual incidences they interpret as proof or breach of trust, what they themselves consider as a disappointment of expectations and what they define as a breach of trust. If someone is of the conviction that a word once given should never be broken, and the other conducts his business accordingly, then that person will always appear trustworthy to him no matter what it was he gave his word for. Trust researcher Niklas Luhmann empirically investigated which social structures or behavioural patterns deserve trust and to what degree, finding out that “the



environmental structure, especially social hierarchy, is quite of significance in the question of if and how trust can grow.”

You can neither buy trust nor teach or learn it. It does not grow by itself, it is not an obligation and it does not develop by sheer declaration of intention. Talking about it does not initiate trust, and requests like “Trust me!” reveal that it is obviously missing and is more likely to keep the opposite from following willingly. What used to be self-evident is undermined. Bearing this in mind and well used as a vehicle for times of reconstruction of trust, Lenin’s words are quite often bothered: “Trust is good, control is better.” In 2002, the Deutscher Juristentag (German Jurist Forum) chose the motto, “The capital markets must win back trust,” perceiving “deficits of capital market law” within the scope of the crisis of trust and demanding “improved preventive measures of control” in addition to an “improvement of the protection of the individual.” Two scientists founded an expert committee in order to “strengthen trust in the German capital market.” However, in the USA, the land of unbridled corporate and stock exchange scandals, the compulsion for action is still the greatest. There, the Sarbanes Oxley Act is expected to provide a way out of the crisis of trust – a tongue-twister that binds executives to affirm the balance sheets by oath, official regulatory statutes to cure the symptoms, but not the cause.

TRUST AND CONTROL TWO SIDES OF A MEDAL?

Control itself contains the logic that the controllable can be controlled, but not so the uncontrollable. A work process can be under control by monitoring or supervising, control of a car can be lost, if one cannot handle it any longer. Monitoring, supervising, auditing, scrutinizing, directing and ruling can only work as terms if one is able to compare the target with present-values. Control serving as a substitute for trust is not new: once, more than a little number of generals did not rely exclusively on loyalty and patriotism amongst their troops. They led their soldiers over a bridge, let them build formations on the other side of it, burned it down to finally declare that there was no escape other than to attack the enemy. Or just think of Henry Ford: his employees were not only monitored regarding the fulfillment of their quota of work – control reached far into privacy, his “Ford Sociology Department” became a center of espionage, making sure that workers were not drinking alcohol at home or not joining any trade unions.

Such detailed and exaggerated control does not allow much scope for proving one’s trustworthiness, even worse: sayings like, “The more bureaucracy there is, the more creative the accounting will be” do not exist without reason. Not everything is controllable or manageable. The complexity of unpredictable incidents cannot be reduced by control, norms, planning or

“The best and most pleasant of all is that you can get rich at no risk. The business I operate is a mysterious one and it is the most respectable and noble throughout Europe, and the most bogus and shameful in the world. The truth of this paradox becomes understandable when we see that the business has necessarily turned into a game and the merchants into speculators. Had they just turned into speculators, the damage would be tolerable, but it is worse, as a number of these stock market folks have become cheats and despite seeing the blossom they still lose the fruit.”

From Don Joseph de la Vega’s book “Confusion of the Confusions,” published in 1688



contracts. Control does not bring back honesty and does not absorb loss of trust, it is expensive and often too much of a restraint. The other will find it rather important to demonstrate his degree of freedom to make decisions and to take action, and he will consider anything legitimate as long it remains undiscovered, probably even searching for “gaps in the system.” Likely in the end, no norm can be configured in such way that it cannot be circumvented in one way or another, even if only partly.

However, that trust and control are not necessarily mutually exclusive has been proven by the latest results of Russian linguists revising the translation of Lenin’s citation towards: “Trust, but control as well.” Trust is more than no control at all. Also control is not just the opposite of trust, both have to be merged in a reasonable manner in order to complement each other.

Thereby, stocks don’t become a gilt-edged investment, there is no comprehensive insurance covering either losses in stock price or any kind of betrayal. Without the freedom and the insoluble opportunity of the other to breach faith, trust, as a means, would not be necessary. The latest measures of control and sanctioning fulfill a basic requirement for trust to rise (again). Indian economist Partha Dasgupta: “Firstly, the penalties to be expected after a breach of agreement have to be appropriately high in order to be effective. Secondly, the threat and the ability to

execute punishment have to be believable.” Therefore, trust only becomes possible through the effectiveness of norms and behavioural guidelines.

“WHAT WOULD LIFE BE LIKE IF WE HADN’T THE COURAGE TO RISK SOMETHING.”

**Vincent van Gogh,
Dutch painter
(1853-1890)**

Admittedly, relying on that would probably be too simple – and too passive. The domains of wide mistrust are best challenged actively: every single investor might personally take control and make up his mind to trust again, to decide to make trust a conscious strategy, competence and committed attitude. Certainly, one “cannot grant trust without having a clue, or without calling on previous experience. But trust is not a consequence of the past, it rather covers the information it has gained from the past and risks a determination of the future.” Niklas Luhmann makes optimistic. A rational player designs his world in such manner, that the past is only of importance to the extent that it can tell him something about anticipated developments of the future. Otherwise, what’s over, is over. Only tomorrow matters.

Perfect markets are defined by a large number of participants, the absence of time and of complete knowledge. If one of these factors is not working



properly, then Adam Smith's "invisible hand" which directs the markets, regulates imbalances and punishes defective development, can only hardly reach a satisfying result for all involved.

Both complete knowledge and symmetrically distributed information as such is, by its very nature, difficult to attain. However, every investor can inform himself thoroughly prior to getting involved in an investment. Times have gone when the power of "old authorities" was often only based on information solely available to them.

Modern communication technology has closed this gap. Nowadays, information is not, in itself, of economical relevance, not until it is interpreted in a certain way – within a framework where actions are covered in accordance with one's own evaluations.

This also includes relying on one's own ability to correctly evaluate the circumstances in which companies and those responsible whom one trusts, are acting. Be careful, whom you trust. Providing the other party is "in full possession of their senses," one can try to make predictions and calculations about their structure of motives according to one's own assumptions. Therefore, Niklas Luhmann considers trust as the "generalized expectation that the other will handle his freedom (...) according to his personality," keeping to agreements and

arrangements. Although we are still waiting for Platon's "good man" today, there is well no choice but to assume the other's benevolence and trustworthiness, thus to expect a behaviour appropriate to the situation within the scope of judgment of the person one trusts. Despite the risk of a breach of trust, the individual benefit involved is larger than following a strategy of mistrust, as suspicion can cause one to miss out on opportunities where trust would have provided far greater advantages. Mistrust can turn out to be pretty expensive.

Trust appears to be sensible, especially if everyone has the same problem to solve in times of crisis like today, where everyone is challenged and all are caught "in the same boat." In complex societies, the fact that the economic players have a certain amount of trust in the system and its institutions, above all money and law, facilitates the realization of economic transactions. Companies and their executives must have an interest in being involved in this kind of trust in institutions again. They have to encourage the investor's decision to let himself in on trust as a strategy. This can be achieved if they themselves are convinced that by applying trust and cooperation they gain the greatest benefit, and convey that to their investors in a credible and straight forward manner. If one wants to earn the other's trust, it matters to close up to his unfamiliar expectations and to integrate them into one's own self-presentation. Trust can only be acquired by



providing the opportunity of making one's intentions continuously clear and therefore calculable, through open communication. This message comes prior to the actual "content," what's more, it regulates as a filter whether the content reaches the recipient and – above all – whether it is accepted.

Trust always remains a hazardous business, not unlike a slow and careful investment strategy, especially if it needs to be renewed. "The best treatment for reluctance is to get oneself moving," former Federal President Richard Freiherr (Baron) von Weizsäcker advised. This then turns into practical encouragement, if one weighs the losses caused by disappointed trust against the revenues gained from confirmed trust, the odds are in favour of an active strategy of trust. As it were starting with a prior concession of the more powerful, one may begin with a small service rendered which is not excessively expensive but large enough to display a certain vulnerability, thus serving a dual purpose: vulnerability acts as a bait, since the unilateral exploiting means an advantage for the other, and, as a risky service rendered in advance, in order to influence the other's structure of motives.

However, his motives may vary in nature. The times have gone when blatant "loud-speaker" made promises accompanied by vigorous words and bold visions, promises which could not be held and therefore not worth trusting. Within corporations a proper

"management of reputation and honesty" needs to be installed, a return to the former code of honour of faith and belief. Only he who communicates dutifully and seriously and who actually does what he says will be capable to appeal to the free-will of investors to once again engage in the risk of the speculative investment named trust.

Steadfastness is called for, credibility turns into a factor of competition. Investors are looking for objective clues as to whether trust is justified or not. While the vernacular has the saying that, "In life you always meet twice," sociology has the "Luhmann Law of meeting again," where social interrelations play a basic role for relations built on trust. A good soil for trust is created if relations are marked by a certain longevity, alternating dependencies and a moment of unpredictability. "The Law of meeting again rules. The parties involved have to be able to look each other in the eye, again and again." That is the essence of an obligation, a binding moment. The more you trust someone, the more the opposite is obliged to act appropriately. Marie Freifrau (Baroness) von Ebner-Eschenbach: "Trust is something so wonderful, that even the worst betrayer can't resist paying a certain kind of respect to the person who trusts him." A person who is trusted generally wants "to pay off this psychological loan," wants to return in kind and does not want to disappoint the expectations directed towards him. During the times of exaggeration on the stock markets, these human



reflexes of conscience were not in use frequently, meanwhile especially the corporations realize the importance of the new acquisition of social capital and its judicious evaluation – the economy of trust.

TRUST IS RISKY: NO DESTINY BUT CONSCIOUS CHOICE

Let's decide to get something positive out of the current situation. A crisis always presents an opportunity to be productive, although on several occasions the bitter taste of a catastrophe has to be removed first. Perhaps one day, retrospectively today's mistrust will turn out to be as much exaggerated as the euphoria on the stock markets a few years ago. Thus, what remains is the conclusion for a reconstruction of a culture of trust that can hardly be better expressed than by Astrid Lindgren, the Swedish author of children's books, deceased in 2002: "It is better to be betrayed occasionally than no more trusting anyone at all." An atmosphere of trust as a social, political and economic quality holds far more advantages than disadvantages – in our own interest.

IT'S ALL A MATTER OF HONOUR – CORPORATE GOVERNANCE



Why not gain something positive from the crisis and take it for what it practically is, regarding its linguistic origin: a situation for making decisions, a turning point. Thus, it loses some of its paralysing horror and facilitates the first steps towards a “new” trust.

Nevertheless, the decision of the individual to trust again needs to be accompanied by additional supportive measures. In order to categorize their origins correctly, let's throw a short glance backwards – based on something said by Dieter Hildebrandt: “Again and again, I scaredly realize that I've forgotten to suppress a few things.”

It were men like Bernard J. Ebbers, executives of rather large listed companies, who, for a longer period of time, had succeeded in deceiving both shareholders and the public, about the actual business development. Even worse: personal assets were multiplied in an unparalleled self-enriching manner, all at the company's expense. The executives' business code of conduct declined even more rapidly and more epidemically than did the value of the companies they directed – as if greed and fraudulent machinations were management competences or maxims for entrepreneurial action.

The performances of these “black sheep” has put the worldwide stock exchange scenery under a general suspicion of betrayal and manipulation – a condition that has led to an expensive loss of trust, a crisis which

shows that urgent need of reform, which was blotted out by euphoria during the boom-times.

Everyone is invited to join the imminent “renovation job” of the capital markets, everyone from A to Z, from analysts to zero bond issuers. The causes for the defective developments must be eradicated, not just their effects – a true endurance test.

An inalienable resource of a sound price building process in a market economy is, first of all, genuine information. As a premise this is especially valid for the capital markets, thus, in its latest annual report, the Bank for International Settlements considers it the “life elixir of the stock exchanges.” Obviously, this “cure-all” requires a new framework of action based on solidity, integrity and transparency.

Frankness in corporate communication, respect for shareholders' concerns, efficient cooperation between the Board and the Supervisory Board as well as principles of transparent accounting are all fundamental facets of what is nowadays considered “Corporate Governance,” the responsible management and supervision of listed companies aiming at long-term creation in value. The Chairman of the in these parts appointed Government Commission German Corporate Governance Code outlined the claim of the behavioural guidelines as follows: “Companies have to explain why they do something, what they do, when and how; they have to disclose their strategies and



figures regardless of analysts' whims and fancies. For what is valid for all entrepreneurial decisions is: what you can't stand for and elucidate in public, you should not do at all." Transparency and communication as two sides of the same medal and Corporate Governance as a reference number for evaluating the Do's and Don't's of listed companies.

Merely action in the consciousness of the fact that the shareholders are providing the company with the required stockholders' equity and are carrying the entrepreneurial risk can bring back trust. Of course, this is not the perfect safety net either: first of all, every shareholder is individually responsible for his own investment, for the evaluation of those information which, in accordance with the central idea of Corporate Governance, is disclosed by companies frankly, without delay and simultaneously accessible to all capital market participants. Only when both meet, the Federal Minister of Justice, incumbent at the presentation of the principles in February 2002, will be proven right: "The fact that the self-obligation of the Corporate Governance Code is also valid for German companies now, (...) will boost trust (...)."

The recommendations of the Government Commission German Corporate Governance Code which were presented to legislature are as such, not yet of a legally binding character, but are already partly reflected in the "Act on the further Reform of the Stock and Balancing Rules, for Transparency and Disclosure," in

brief "Transparency and Disclosure Law" or "TransPuG," effective since July 2002.

Legislature, however, pursues this with vigour, placing each listed company under the obligation to submit a so-called Declaration of Conformity, a statement on the extent to which the recommendations of the Government Commission German Corporate Governance Code were followed during the business year, and how they will be followed in the future. Thereby, the Federal Government promotes the companies' self-obligation as a coordinating mechanism of the stock exchanges, quasi trusting in the binding effect of trust and in the case of doubt, "on the sanctions the market itself applies," as it then was put forth in an official statement of the Federal Ministry of Justice.

But not without means of control: the Government Commission will even remain in place "after completing its work," to further pursue the development of Corporate Governance in German legislation and practice and to review, at least once a year, whether the Code needs to be adjusted. Recurring annually, also the companies themselves, their Boards and Supervisory Boards have to deal with the recommendations of the Government Commission German Corporate Governance Code as regards content, its suggestions for responsible corporate management and control and to renew or adjust the Declaration of Conformity respectively.



BERLINER EFFEKTINGESELLSCHAFT

AKTIENGESELLSCHAFT

As Berliner Effektengesellschaft AG we do not consider this as an annoying burden, but see Corporate Governance rather as a continuous process, as our contribution to the rebuilding of trust on the capital markets and their return to greater efficiency.

In the future, we too will be reporting on the implementation of the recommendations of the Government Commission German Corporate Governance Code.



BERLINER EFFEKTENGESELLSCHAFT
AKTIENGESELLSCHAFT

**Declaration of the Board and the Supervisory Board
of the Berliner Effektengesellschaft AG
on the recommendations of the
Government Commission German Corporate Governance Code,
pursuant to Section 161 Aktiengesetz (AktG) – (Stock Corporation Act)**

The Board and the Supervisory Board of the Berliner Effektengesellschaft AG declare that the company complies with the 59 nominal recommendations of the Government Commission German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the elektronischer Bundesanzeiger (electronic Federal Gazette), except for the following four items:

Item 4.2.1 of the Code recommends that the Board should be comprised of several persons and have a Speaker or Chairman.

The Board of the Berliner Effektengesellschaft AG currently consists of two persons, both are Speakers of the Board, too.

Explanation: If the Board of the company is comprised of two equal members only, a differentiation between Chairman or Speaker and the other member of the Board is not appropriate.

Item 5.1.2 of the Code recommends in its last sentence that an age limit for the members of the Board should be specified.

A general age limit is not currently considered appropriate at the Berliner Effektengesellschaft AG.

Explanation: The terms of the Board members' contracts are negotiated by the Supervisory Board on an individual basis, oriented on the needs of the company. A basic age limit is neither required nor appropriate, considering the size and the structure of the Berliner Effektengesellschaft AG.

Item 5.4.5 of the Code recommends that the members of the Supervisory Board should receive performance-related as well as fixed compensation.

A performance-related compensation element is not provided for in the current remuneration plan for the Supervisory Board of the Berliner Effektengesellschaft AG.

Explanation: A performance-related compensation component is currently not provided for in the company's articles of association. However, the Board and the Supervisory Board will suggest a corresponding change of the articles of association to the forthcoming shareholders' meeting.

Item 7.1.1 of the Code recommends, among other things, that the consolidated financial statements and interim reports should be prepared under observance of internationally accepted accounting principles.

The Berliner Effektengesellschaft AG currently prepares its consolidated financial statements and interim reports in accordance with the national provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code).

Explanation: For 2003, it is planned to prepare pro-forma IAS-figures as well as HGB-figures, in order to balance in accordance with IAS in 2004 for the first time, thus providing the necessary comparable figures. Thereby, the company can be saved the considerable effort of preparing comparable IAS-figures retrospectively.

Berlin, December 6, 2002

For the Supervisory Board

Wolfgang Hermanni
Chairman of the Supervisory Board

Dr. Jörg Franke Holger Timm
Speaker of the Board

The Board and the Supervisory Board of the Berliner Effektengesellschaft AG submitted the Declaration of Conformity in accordance with Section 161 AktG on December 6, 2002, and, on the same day, made it permanently accessible to the shareholders on the company's internet site.

OUR COMPANY

Beyond the “question of trust” and Corporate Governance there is a time to talk and a time to be silent. There are some things which one can talk about and others which one cannot talk about. In the past year, much has happened that we weren’t able to communicate to the outside world at the time. That too is responsible corporate management.

However, now is the time to revue the past and put things into perspective:

OWNERSHIP STRUCTURE

“The only people who keep a diary are those who find the present important.” In the light of Johann Wolfgang von Goethe’s words, let’s first take a look back: ever since May 2000, Consors Discount-Broker AG has held 53.0% of our stocks. In autumn 2001, the SchmidtBank KGaA, in turn the majority shareholder of Consors Discount-Broker AG, suddenly stood on the brink of collapse and was taken over by a lifeboat, consisting of a banking consortium. Part of the instituted restructuring to recapitalize the Franconian private bank was the obligation to sell the Consors package of 66.43%, the majority shareholding of the Berliner Effektengesellschaft AG included.

The process got underway in the form of an open tender behind which stood an opportune offer from France’s biggest bank, BNP Paribas S.A. – to be more specific: with their 98.18% owned subsidiary Cortal S.A. the way into the important German market was wide open. Cortal S.A. is well known by our French neighbours for its sales and marketing of passive or intermediary products, be it savings plans or insurance. However, as part of our joint business model of vertical integration, Consors Discount-Broker AG and we give customers who are actively trading in securities the necessary tools for their job.

These two alignments do not necessarily go together. Thus, the general framework for a split between BNP Paribas S.A./Cortal S.A. and the Berliner Effektengesellschaft AG was set: the SchmidtBank KGaA should have the right until December 31, 2002, to sell the Consors Discount-Broker AG’s 53.0% majority share of our company optimally, partly or in full, and would be awarded any surplus proceeds. At any time, we

gave our full attention to the work of the appointed investment bank, keeping in mind however, that our main aim was to create a shareholder structure which would have a positive effect on our company. Unfortunately, success was limited even though efforts continued past the deadline: in view of the ubiquitous banking crisis, the companies are currently afraid of making strategic investments. Banks acting as order flow providers to continue our business model of vertical integration would be ideal candidates – if they weren’t all having difficulties surviving at the moment, finding themselves in the middle of the worst crisis of the postwar period. Bankruptcies, debt shortfalls, value adjustments of billions, the collapse of stock prices on top of everything has soured the potential earnings on the stock market. One day after the Federal Parliamentary Elections in 2002, a large US-American investment bank published a study with the title “Turning Japanese” – a swan song for German banking in two words. The Deutsche Bundesbank (Federal Bank of Germany) was of the opinion that the German banking crisis must not necessarily reach the dimensions of that in the Far East at the beginning of the 1990s and preferred to give a milder statement at the end of last year: “In the German financial system we see an increase in problem cases and a massive downturn in performance.”

A tricky business – the search for shareholders, the more so since we would like to include the former Berliner Effektenbank AG in the negotiations at the same time, as we are the only sensible partnership option for them in the current round of business partners. The investment banking arm of the now Consors Capital Bank AG in Frankfurt/Main was closed down in September 2002, private banking has traditionally always been run from Berlin since the foundation of the bank in 1998. Since ex employees returned their stocks, Consors Discount-Broker AG currently receives 84.7% and the Berliner Effektengesellschaft AG the remaining 15.3%.

Considering the general tone of this Annual Report, the British saying, “There are no problems, only opportunities,” may seem a little too “trusting” for dealing with unsettled business politics, but it is, in essence, correct. We have used the time expecting the changes in shareholder structure wisely, by further

advancing our company and our core business field of market making in readiness for a hopefully speedy return to an attractive capital market environment.

OPERATIVE BUSINESS

TradeGate®

Looking back in the future, there won't be any better time than today to make anti-cyclical strategic decisions. That goes for possible new shareholders of the Berliner Effektengesellschaft AG as well as for our company itself. We believe in our company, are taking steps forward in the operative business, are prepared for again better times on the stock markets with an increase in order volume. But we are also ready for structural changes, which are becoming more and more evident. Right from the beginning we have backed the advance of ECNs, internalization and cost saving through netting.

Ever since 1999, we have already been operating TradeGate®, our own off-floor information and trading platform on the internet. Since then, together with Consors Discount-Broker AG too, we have constantly developed it further and can today boast the most advanced ECN with a, furthermore, extremely high acceptance rate. Probably, TradeGate® is the only ECN worldwide that combines the advantage of the quote-request process with that of an open order book. If, as a customer, you ask for a specific order category (quote-request), you are automatically provided with a binding buy and sell offer which, in each case, is based on the best price of defined reference markets (best price). With a market order it is possible – within a comfortable time period – to get an immediate execution or, in parallel to the quote-request, place an order in the order book for the day. The system then monitors its execution possibility for the rest of the day. The order is executed automatically as soon as another customer places the appropriate counter order, or when the best price matches the limit order (best execution).

Since the beginning of online operation in July 2002, the number of executions on TradeGate® has increased tenfold, from initially 6,000 per month to 60,000 at the year end. In contrast, the sales on some German stock exchanges in the same period have gone down by a quarter. To put it in one sentence:

TradeGate® – from the first German off-floor information and trading platform to the most successful ECN in Europe.

Every new system, whether for stock exchange or off-floor, brings about considerable development expenditure first, followed by ongoing maintenance and running costs – figures running to several million € which have to be recuperated through charges. However, no other service provider besides us has had the foresight to constantly build and develop such an off-floor trading platform over several years from the existing business, to create a company-owned asset in the form of infrastructure and technical know-how – that, in a nutshell, is TradeGate®. We do not charge any fee, either to related banks or to their customers. We trade without courtage, order flow providers do not have to pay any set-up, transaction or user fee. Not because we are a charity, but because the running costs are covered by our core business of market making.

The fact that we, as the operator of TradeGate®, simultaneously as the sole market maker, are the biggest customer and user of the system and therefore running it from the existing core business, gives us already a considerable competitive advantage. Furthermore, the banks have an indisputable incentive, especially in today's climate, to team up with TradeGate® as an order flow provider: we reduce their costs, which in German financial institutions amount to 90.0% and more of earnings, with such an enormous leverage that the potential difference can be as much as 90.0% – all through netting: orders are no longer settled separately, instead, once per trading day all positions in a certain order category are balanced against one contract note each for buying and selling and then closed against each other.







Nasdaq Deutschland

Let's take a second look back: in 2001 we invested in Nasdaq Europe S.A., the Berliner Börse AG formed an alliance with the pan-European branch of the US technology exchange. A league of three for the practised change of paradigms towards a hybrid market model in these parts, the union of quote and order driven components. Back then we provided the

creative ideas for the project and have also remained in this role during the further development process up to Nasdaq Deutschland – we have been co-founders of this initiative for a new stock exchange, so to speak.

The hybrid market model, as the union of a market maker system and a central limit order book, holds several functions which, up to now, have not been typical of the German stock exchanges landscape but which are in demand from market participants such as Dresdner Bank AG, Commerzbank AG or comdirect bank AG. These three institutions, alongside the Berlin and Bremen Stock Exchanges and Nasdaq Europe S.A., laid the foundations for the new stock exchange which began life, on a company law basis, with a change of name for the Bremer Wertpapierbörse AG to Nasdaq Deutschland AG and was entered in the commercial register in Bremen on January 21, 2003. At the same time, the acceding shareholders paid in their part of the nominal capital.

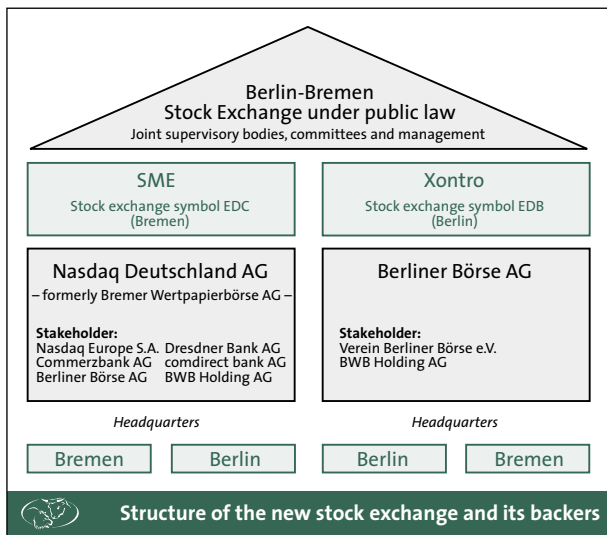


	50.0%	Nasdaq Europe S.A.
	15.0%	Dresdner Bank AG
	7.5%	Commerzbank AG
	7.5%	comdirect bank AG
	10.0%	Berliner Börse AG
	10.0%	Bremer Wertpapierbörse AG

Since the launch of Nasdaq Deutschland on March 21, 2003, 128 securities from the Nasdaq-100 and from the Dow Jones 30 are being traded, and since April 7, 2003, a further 110 securities from the DAX, MDAX and TecDAX. For every order category an open order book is run in which at least one market maker provides

constantly tradable quotes for all trading participants. Nasdaq Deutschland provides order flow providers with a platform from which they can make bilateral agreements with market makers for executing their orders, in effect, the chance to internalize – orders may be executed between two partners first, before coming into the order book. This upstream trading functionalism also has a name: BestEx. With BestEx the execution of orders happens at least at the best price, automatically determined by Nasdaq Deutschland, which simultaneously takes into account the current market situation regarding liquid, also foreign reference markets – a yardstick and a “must” for market makers like the Berliner Freiverkehr (Aktien) AG which, as such, has been involved in right from the beginning, equipped with a series of BestEx agreements for gaining order flow. For this, it has the ideal prerequisites: through many years’ experience in a tight market situation it acted as a market maker rather than a stockbroker, and therefore has a considerable competitive advantage. In addition, more experience was gained as market maker at Nasdaq Europe S.A. and for Nasdaq-100 European TrackerSM, briefly known as EQQQSM, the exchange traded fund which is modelled very closely to the Nasdaq-100 index.

In the course of modelling Nasdaq Deutschland, there were a few “firsts” for the German stock exchanges landscape which can largely be attributed to us. Firstly, one such example is the fact that a stock exchange price emerges despite internalization, what is not always a matter of course, whatever it says in the report of a certain well-known expert in stock exchange law. Secondly, through the merger of the Berlin and Bremen Stock Exchanges, approved by contracts signed by the Federal States of Berlin and Bremen in March 2003, Nasdaq Deutschland has made an important contribution to the consolidation of the German stock exchanges landscape. Under the roof of the merged stock exchange Nasdaq Deutschland will, on the one hand, run the electronic trading system SuperMontage Europe, tailor-made to domestic conditions and on the other, of course, maintain the exclusive market specialist business of the former stock exchanges in Berlin and Bremen. Finally, in order to demarcate these two functions last but not least in terms of business management, Nasdaq Deutschland is the first stock exchange with two backers independent from one another.



Structure of the new stock exchange and its backers

Before the start of operation on March 21, 2003, 33 German and Austrian financial institutions admitted to the stock exchanges in Berlin and Bremen in addition to Consors Discount-Broker AG, had already signed up for the simulation phase and prepared for the start of trading with own capital investment – order flow providers from all areas of the banking industry including a couple of settlement banks, which represent many institutional customers, especially from the sector under public law. Apart from the three founding banks, Consors Discount-Broker AG, Citibank Privatkunden AG, Oldenburgische Landesbank AG and Bankhaus Neelmeyer AG have, since the beginning, conducted their private investor orders via Nasdaq Deutschland; the Bankgesellschaft Berlin AG joined on April 7, 2003. A solid foundation for an appreciable order flow which provides the new stock exchange with a notably broad basis and: a tribute to Nasdaq Deutschland's successful business concept of:

- a best execution model for dealing in German and international stocks, giving investors a price superiority and higher liquidity – the orders are executed at prices which are usually better than those on the underlying reference markets,
- a transparent market model, which combines competition between market makers with the advantages of an open order book,
- a tool for order flow providers for reducing settlement costs through internalization and the use of the netting facility, consequently generating a scala effect,
- an attractive platform for new issues of German and international growth companies from all business areas,
- the brand Nasdaq itself, which stands for innovation, quality and transparency.

With Nasdaq Deutschland we are supporting a new stock exchange which gives us a good framework, creates a competitive business environment with a modern trading platform, offers netting, best execution and, put simply: has all the functions traditional stock exchanges do not have but which are more and more in demand. Every market participant who is connected to any German stock exchange via Xontro was also able to trade on Nasdaq Deutschland from the first day. The fact that our wholly owned subsidiary Berliner Freiverkehr (Aktien) AG is one of the market makers there makes it easier for us to access potential new customers for TradeGate® – as do the mandates of our Speaker of the Board, Dr. Jörg Franke, who is President of the united stock exchanges Berlin-Bremen and member of the Supervisory Board of Nasdaq Deutschland AG.

Thus, focusing on a stock exchange and an off-floor system both at the same time is not mutually exclusive, on the contrary: they complement each other. At present, ca. 600 order categories are traded on TradeGate®, compared with Nasdaq Deutschland the choice is wider, not static and, moreover, is so flexible that at any given time it can be expanded within 24 hours – naturally, listings on a stock exchange cannot be processed so quickly. Furthermore, customers on TradeGate® can trade for longer than on Nasdaq Deutschland, before markets start and it is also possible to respond to the US-American markets after German close of trading: Mondays to Fridays 8.00 a.m. until 10.00 p.m. Here, also, nothing remains static: should there be an increase in business it is possible at any time to extend this range, for example over the weekend. TradeGate® has no time limits. Only TradeGate®, with its high degree of automation, can perform 24 hour trading so easily.

EXCLUSIVE MARKET SPECIALIST BUSINESS AND MARKET MAKING

The stock market financial services industry is divided into two “disciplines,” that of being an exclusive market specialist and that of market making. For several years now, we have put emphasis on the latter without neglecting the former. At the moment we are exclusive market specialist for about 7,600 securities, mainly on the Berlin and Frankfurt/Main Stock Exchanges.

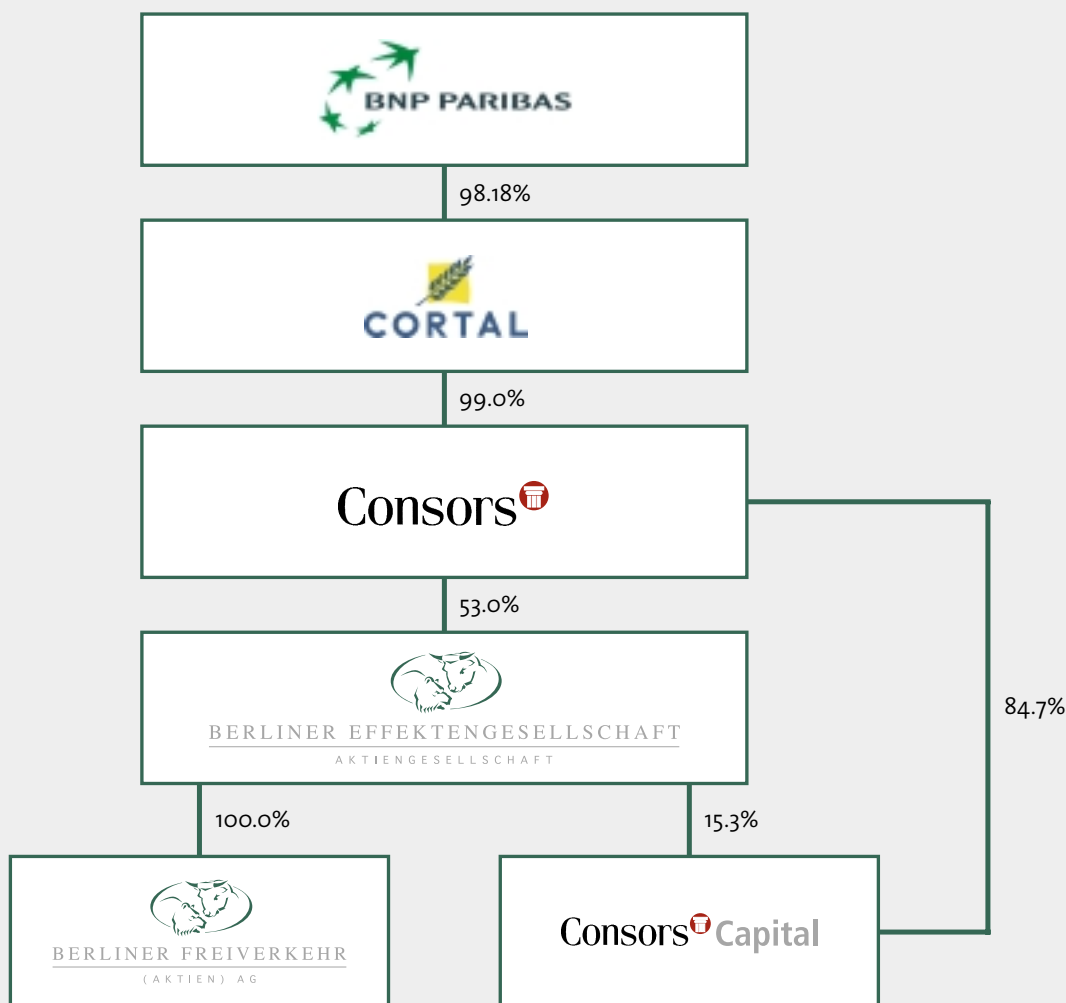
In years of high turnover exclusive market specialist

companies such as ours were able to make a good living from the order flow on the stock markets and in the order books. However, thanks to our strong stockholders' equity provisions we are one of the few who can and have prepared ourselves for the very difficult situation of today: the gaining ground of ECNs, internalization and cost saving through netting. One thing is certain, order flow will never return in its former structures.

Mr. Holger Timm, Speaker of the Board, declared at the fourth stockholders' convocation on December 6, 2002: "We want to earn our living as market makers, on spreads and with high volume" – in contrast to some of our remaining competitors who in the absence of a new business model are now relying solely on the exclusive market specialist business.




ORGANIZATIONAL STRUCTURE



Strategic minority stakes:
 37.1% Ventegis Capital AG
 28.0% Online Securities Holding Inc.
 11.0% Ladenburg Thalmann Financial Services Inc.
 1.14% Nasdaq Europe S.A.

(as at December 31, 2002)

SHAREHOLDER STRUCTURE


BERLINER EFFEKTENGESELLSCHAFT
AKTIENGESELLSCHAFT

Veröffentlichung gemäß § 25 Abs.1 WpHG

Am 7. Februar 2003 erhielten wir von BNP Paribas S.A., 16 Boulevard des Italiens, 75009 Paris, Frankreich, die Mitteilung, daß ihr seit 20. Dezember 2002 bzw. 27. Dezember 2002 die mittelbare Beteiligung im Sinne von §§ 21 Abs. 1, 22 Abs.1 Nr. 1 WpHG an der Berliner Effektengesellschaft AG, Kurfürstendamm 119, 10711 Berlin, wie folgt zuzurechnen ist:

- Die Consors International Holding GmbH, Ernst-Reuter-Straße 119, 95030 Hof/Saale, hält an der Berliner Effektengesellschaft AG eine unmittelbare Beteiligung von 53,0%.
- An der Consors International Holding GmbH ist die Consors Discount-Broker AG, Ernst-Reuter-Straße 119, 95030 Hof/Saale, mit 100,0% beteiligt.

Somit ist ihr die Beteiligung der Consors International Holding GmbH an der Berliner Effektengesellschaft AG nach § 22 Abs.1 Nr. 1 WpHG zuzurechnen.

- Die Consors Discount-Broker AG wurde zwischen dem 20. und dem 27. Dezember 2002 zu 95,05% und wird seit dem 27. Dezember 2002 zu 99,0% von der Cortal S.A., 5 Avenue Kleber, 75116 Paris, Frankreich, gehalten.

Somit ist der Cortal S.A. die mittelbare Beteiligung an der Berliner Effektengesellschaft AG nach § 22 Abs.1 Nr. 1 WpHG zuzurechnen.

- An der Cortal S.A. ist die BNP Paribas S.A. mit 98,18% beteiligt. Somit ist der BNP Paribas S.A. die mittelbare Beteiligung an der Berliner Effektengesellschaft AG nach § 22 Abs.1 Nr. 1 WpHG zuzurechnen.

Eine unmittelbare Beteiligung besteht nicht.

Des weiteren erhielten wir am 7. Februar 2003 von Cortal S.A., 5 Avenue Kleber, 75116 Paris, Frankreich, die Mitteilung, daß ihr seit 20. Dezember 2002 bzw. 27. Dezember 2002 eine mittelbare Beteiligung im Sinne von §§ 21 Abs. 1, 22 Abs. 1 Nr. 1 WpHG an der Berliner Effektengesellschaft AG, Kurfürstendamm 119, 10711 Berlin, gehört.

Eine unmittelbare Beteiligung besteht nicht. Vielmehr ist die Beteiligung im Umfang von 53,0% an der Berliner Effektengesellschaft AG wie folgt zuzurechnen:

- Die Consors International Holding GmbH, Ernst-Reuter-Straße 119, 95030 Hof/Saale, hält an der Berliner Effektengesellschaft AG eine unmittelbare Beteiligung von 53,0%.
- An der Consors International Holding GmbH ist die Consors Discount-Broker AG, Ernst-Reuter-Straße 119, 95030 Hof/Saale, mit 100,0% beteiligt.

Somit ist ihr die Beteiligung der Consors International Holding GmbH an der Berliner Effektengesellschaft AG nach § 22 Abs. 1 Nr. 1 WpHG zuzurechnen.

- Die Consors Discount-Broker AG wurde zwischen dem 20. und dem 27. Dezember 2002 zu 95,05% und wird seit dem 27. Dezember 2002 zu 99,0% von der Cortal S.A., 5 Avenue Kleber, 75116 Paris, Frankreich, gehalten.

Somit ist der Cortal S.A. die mittelbare Beteiligung an der Berliner Effektengesellschaft AG nach § 22 Abs. 1 Nr. 1 WpHG zuzurechnen.

Berlin, im Februar 2003

Der Vorstand

Publication in the "Handelsblatt" of February 12, 2003, in accordance with Section 25 Subsection 1 Wertpapierhandelsgesetz (WpHG) – (Securities Trading Law)

elektronischer
Bundesanzeiger

Nachfolgende Bekanntmachung wurde im elektronischen Bundesanzeiger mit folgenden Merkmalen veröffentlicht:

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BERLINER EFFEKTENGESELLSCHAFT
AKTIENGESELLSCHAFT

Berliner Effektengesellschaft AG

Kurfürstendamm 119, 10711 Berlin

WKN: 522130

ISIN: DE0005221303

Bekanntmachung einer Veröffentlichung gem. § 25 Abs. 1 WpHG

Im „Handelsblatt“ vom 12. Februar 2003 haben wir eine Mitteilung über Stimmrechtsanteile von Aktien unserer Gesellschaft nach §§ 21, 22 WpHG veröffentlicht.

Berlin, im Februar 2003

Der Vorstand

eBundesanzeiger | Auftragsnr. 030202000150 1/1

Publication in the elektronischer Bundesanzeiger (electronic Federal Gazette) of February 14, 2003, in accordance with Section 25 Subsection 1 Wertpapierhandelsgesetz (WpHG) – (Securities Trading Law)



	53.0%	BNP Paribas S.A.
	27.0%	Mr. Holger Timm
	20.0%	Free float

The free float accounts for 20.0% of our stock capital or 3,359,403 individual stocks.
On December 31, 2002, we held 832,857 own stocks in the portfolio (= 24.8% of the free float as at December 31, 2002).

OUR INVESTMENT PORTFOLIO

(as at December 31, 2002)

Ventegis Capital AG

The first complete business year of Ventegis Capital AG after the merger of the Berliner Effektenbeteiligungsgesellschaft AG with Cybermind AG was more than difficult, due to the generally depressed economic situation and the collapse of international capital markets. Compared with other countries in Europe, the German investment climate, especially with regard to fiscal aspects, shows a poor performance, which makes basic conditions even more difficult.

Last year's loss reached half of the company's nominal capital. It is planned to make an adjustment by effecting a capital write-down in the ratio of 10:1, followed by a capital increase of ca. 5.0 million €.

Our share in this venture capital unit is, compared with last year, almost unchanged at 37.1%.

Ladenburg Thalmann Financial Services Inc.

Our 11.0% participatory investment in Ladenburg Thalmann Financial Services Inc. has been written off completely. The reason being the negative business development of the Group.

Sale of our shares on the stock market would have been very difficult because of the extremely low volume of trading.

Online Securities Holding Inc.

Naturally, the dramatic decline in order volume spoiled the business development of the service provider with its order routing product for institutional clients in a negative way.

Last year, our 28.0% participatory investment was adjusted in value completely.

Nasdaq Europe S.A.

As part of the partner concept, in 2001, we made the same strategic investment in Nasdaq Europe S.A. as did other parties – the way to further cooperation.

At that time, the plans for Nasdaq Deutschland didn't exist yet, they came into being first when the cooperation between the Berliner Börse AG and the pan-European branch of the US-American technology exchange had been announced.

At the appropriate time we will consider an exchange of the shares in Nasdaq Europe S.A. for those in Nasdaq Deutschland, or possibly in the US-American parent company, depending on their potential IPO.

Our current investment lies at 1.14%.

Consors Capital Bank AG

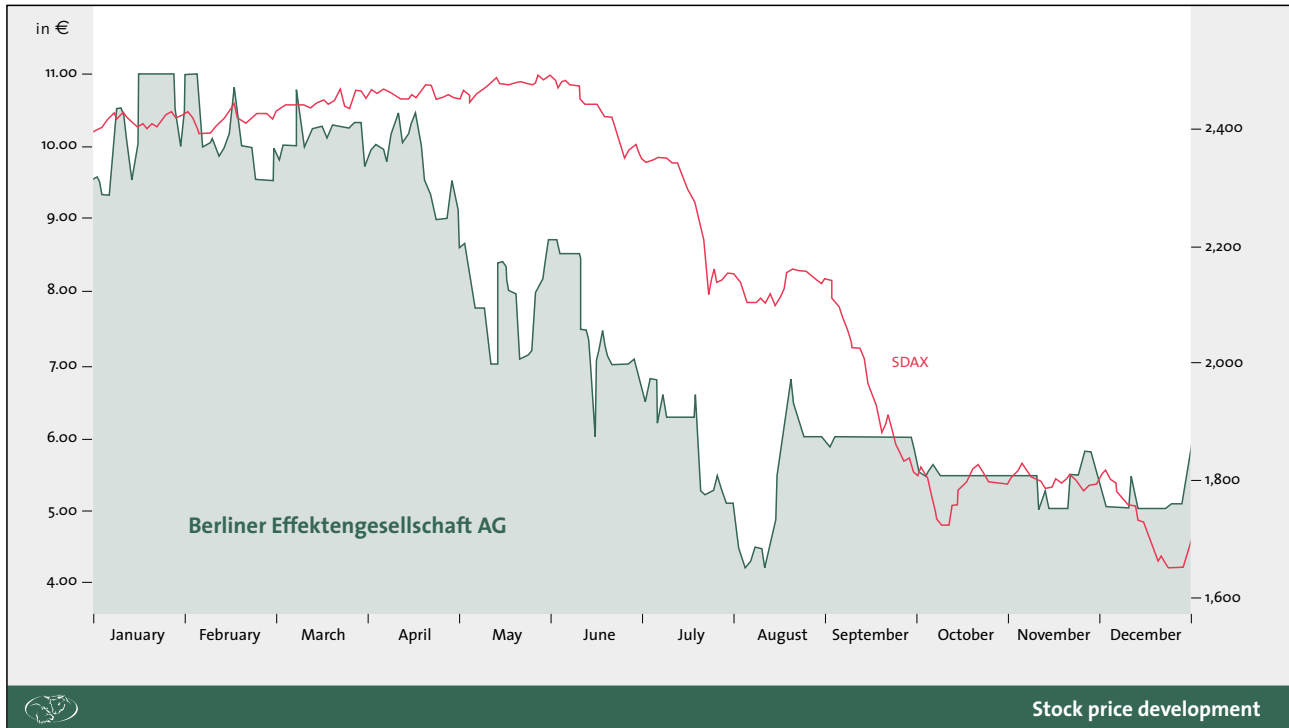
During the past year the Consors Capital Bank AG has restructured its areas of business. The Frankfurt/Main branch was closed down, now attention is on the business of private banking and securities settlement (financial market services), both located in Berlin.

In the course of assessing the earning-capacity value of our 15.3% participatory investment, there was a certain necessity to write off.

PRICE DEVELOPMENT OF OUR STOCK

SECURITIES IDENTIFICATION NUMBER 522130, ISIN DE0005221303, OFFICIALLY LISTED IN BERLIN AND FRANKFURT/MAIN

BERLINER EFFEKTEGESELLSCHAFT AG vs. SDAX From January 1, 2002, to December 31, 2002



During the past year, the price development of our stock again didn't exactly give us much to be happy about. Of course, we are far from satisfied with the loss in stock price of over 40.6%, despite the fact that in comparison this result appears in a different light: the SDAX lost 29.8%, the MDAX 30.1% and the DAX 43.9%. In 2002, especially the financial sector, even the DAX companies within, experienced considerable decline in stock price, some fairing significantly worse than we did. As expected, some of our former direct competitors disappeared from the stock exchange list, for us a clear confirmation that the strategic alignment we have chosen is appropriate.

With this in mind, the performance of our stock, lying roughly ten points below SDAX, must be seen in context. Things would certainly have turned out differently if BNP Paribas S.A. had had to submit a takeover bid to the outstanding shareholders of our company, as is required by the Wertpapierübernahmegesetz (WpÜG) – (Securities Acquisition and Takeover Act), effective since the beginning of 2002. That would have stabilized the stock price at around 12.00 €. Actually, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) – (The Federal Financial Supervisory

Authority) granted an exemption to BNP Paribas S.A., as we ourselves learned from the press.

Meanwhile, a look at the chart of our stock shows the first signs of a possible stable base – the stock price development since the middle of 2002 may be summarized like this. Our continuously high stockholders' equity provisions combined with our promising strategic alignment supports this analysis from a fundamental point of view. At the current stock price level the stock market value of our company roughly equals our amount of liquidity funds. Consequently, the stock markets currently value our operative business at zero. On account of the foresightedness of our strategic alignment which has been introduced over the last few years, we consider this as an obviously negative exaggeration.

CORPORATE GOVERNANCE AND INVESTOR RELATIONS

"Corporate Governance is nothing other than the consequent realization of shareholders' democracy and primarily a task of communication," is how a guest commentator summarized the principles of responsible corporate management in the "Börsen-Zeitung" last year.

Legal provisions in Germany guarantee that the basic rights of the shareholders are observed, that they are involved in the fundamental decisions of their company. The shareholders of the Berliner Effektengesellschaft AG exercise their rights at the shareholders' meeting either by voting there personally or appointing a proxy of their choice or a representative of the company who acts subject to directions. The invitation to the shareholders' meeting, its agenda, any petitions arising and the management statements are made timely accessible to the shareholders, also via the internet.

Certainly in a different context, but nevertheless appropriate, Cristoforo Colombo was, in his time, aware that, "Reliable information is a vital requisite for the success of any venture." For our shareholders we comply with all essential obligations related to information. Shareholders and other interested parties are offered the opportunity to subscribe to our mailing list for ad-hoc and press releases, reports and other relevant news. We announce well in temporal advance the most important target dates of the respective business year in our "corporate timetable." In the course of the fair disclosure principle, any information is made available to all capital market participants as regards content and simultaneity, also via the internet.

With coming into effect of the Viertes Finanzmarktförderungsgesetz (4. FimaFÖG) – (Fourth Financial Markets Promotion Act) on July 1, 2002, referring to Section 15 a Wertpapierhandelsgesetz (WpHG) – (Securities Trading Law), all dealings of the members of the Board and the Supervisory Board related to the stock of the Berliner Effektengesellschaft AG are published on our internet site under "Directors' Dealings" (www.effektengesellschaft.de/ir/index_ir.html), which is the link for the Deutsche Gesellschaft für Ad-hoc-Publizität mbH (DGAP) – (German Association for Ad-hoc Publishing).

While at EU level the obligation to disclose quarterly reports is currently being discussed, we have been providing regular quarterly statements on a voluntary basis since 1999 already. In that same year, our first shareholders' convocation took place, a tradition meanwhile, but one which simultaneously still remains a novelty: to our knowledge there is no other listed company that provides its shareholders with the opportunity to have discussions with the Board between two shareholders' meetings, to put forward

questions in an informal atmosphere. Transparency and communication are simply two sides of the same medal.

At one time, when the term Corporate Governance did not even exist itself, and the peak of the bull market ensured everyone's happiness and lapses of transparent corporate management were not yet a political issue, Corporate Governance was already an intrinsic part of our basic understanding. "Trustworthiness is a simple subject: you say, what you do, and you do, what you say" – a citation of the Israeli journalist Daniel Dagan that, like no other, summarizes our own demands on the management of our company and the frank communication with our shareholders.

The Board and the Supervisory Board work together closely for the shareholders' well-being and are committed to achieving a sustainable increase in the company's value. You can find the Declaration of Conformity pursuant to Section 161 Aktiengesetz (AktG) – (Stock Corporation Act) that was first made on December 6, 2002, on page 23 of this Annual Report.

For the further consolidation of the Corporate Governance idea on an associate level too, we are continuing being a member of the Deutscher Investor Relations Kreis (DIRK) – (German Investor Relations Association), and we are still managing the section initiated by us for the financial location of Berlin.



Corporate timetable for the remaining business year

May 2, 2003

Report on the first quarter 2003.

June 16, 2003

10.00 a.m. | Shareholders' meeting in Berlin.

July 31, 2003

Report on the first half year 2003.

October 30, 2003

Report on the third quarter 2003.

December 5, 2003

5.00 p.m. | Shareholders' convocation in Berlin.

REPORT OF THE BOARD

The past business year has been extremely difficult for the Board of the Berliner Effektengesellschaft AG, because in the sense of the shareholder value principle we were, to portray it in simplified words, confronted simultaneously with three equally difficult situations or challenges which will have a mutual influence on the future development of our company. We would like to comment on each one individually:

1. The unsettled shareholder structure of the company brought about by the sale of our still majority shareholder Consors Discount-Broker AG by the SchmidtBank KGaA to BNP Paribas S.A.
2. A rapid change of structure on the operative side of the company business to accommodate the expansion of an own trading platform as well as the initiative for the new stock exchange, Nasdaq Deutschland.
3. The dramatic crisis on the stock markets and, bound up with that, the financial services industry as a whole.

There is certainly no doubt that the main task of a Board is to make strategically important decisions for the future business alignment of the company and to take timely action against points 2. and 3. above or better still, to accurately anticipate an oncoming change in structure and to position the company accordingly. The Board believes it has succeeded in doing just that, both in the past and the present, so that the company is not only able to survive the maybe long-term crisis of the industry relatively unscathed, but could even emerge from it as one of the few to profit from these high speed structural changes. This results from the fact that we are at an advantage because we have always predicted the structural change from traditional floor trading to off-floor and stock exchange computer trading systems and already prepared ourselves at a time when we were still earning more than 99.0% of the turnover from traditional business. The fact that the changes are happening so quickly over the whole market is just a result of the crisis so that other market players are forced to hastily reduce their own transaction costs and outsource the quick and attractively priced order executions. At the same time, practically none of our

competitors are suitably prepared and in a position to match a similar quality of service which we offer at the moment.

During the past year, therefore, much attention was paid by the Board to the enterprise of a new stock exchange, Nasdaq Deutschland. Thus, it went into operation with the beginning of the second quarter of 2003 and meets today's requirements of customers and market participants with its dual concept of an open order book with simultaneous best execution opportunity as well as internalization in terms of transaction settlements. We wish this new stock exchange every success, quite simply because it is the last chance to prevent a stock exchange monopoly in Germany. It is absolutely incomprehensible why some parties still talk purposefully of a private law organization and therefore one which is focused on the highest possible profit, quasi a monopolist. In the end, not only professional market participants but also private investors would pay dearly for such a monopoly. The Berliner Effektengesellschaft AG will prove its high efficiency as market maker at Nasdaq Deutschland and over the past months has already won many banks as customers for the best execution. The only regrettable fact is that the development process of the new stock exchange took more than a year and its launch consequently happened at arguably the worst point in time, possibly at the peak of the capital markets crisis.

YEARBOOK 2002

January 2002

Common currency:
The Euro has arrived, the Old Continent is celebrating. Euphoria is followed by disillusionment – at least in Germany: price increases make everyone angry, estimating a value is difficult. Psychologists talk of a “colonial power” which Germans do not trust.

Berliner Effektengesellschaft AG

Dr. Jörg Franke, Speaker of the Board, is elected Chairman of the Stock Exchange Council of the Berlin Stock Exchange and thereby becomes its President.

February 2002

Finally:
Ending on February 28, the deutschmark is no longer legal tender. Farewell to the currency of the “economic miracle.”

Berliner Effektengesellschaft AG

Publication of the preliminary figures for 2001: the annual financial statements are marked by value adjustments and write-offs on the stocks of Consors Discount-Broker AG and own shares. Despite retained earnings of nearly - 17.3 million €, the stockholders' equity ratio remains at a superb 97.8% within the Group.

March 2002

Postponement:
The introduction of the new stockholders' equity regulations for banks, known as “Basel II,” is deferred until 2006.

Berliner Effektengesellschaft AG

Net income after tax amounts to 80,000.00 € for the first quarter – despite a continuously gloomy market.

April 2002

Act of terror:

In front of the El Ghriba synagogue, by trade a symbol of the peaceful coexistence of Jews and Muslims on the Tunisian Island of Djerba in the Mediterranean, a truck loaded with gas tanks explodes. 19 people are killed. Osama bin Laden's criminal network claims responsibility for the attack.

Berliner Effektengesellschaft AG

BNP Paribas S.A. acquires the 66,43% package that the SchmidtBank KGaA holds in Consors Discount-Broker AG. Thereby, the Berliner Effektengesellschaft AG has a new majority shareholder, too.

May 2002

Super institution:

Starting on May 1, a single uniform authority, The Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) – (The Federal Financial Supervisory Authority) becomes responsible for banks, financial services providers and insurance companies. The three former Federal Supervisory Offices for Banking, Insurance Business and Securities Trading are now history.

Berliner Effektengesellschaft AG

Due to the Wertpapierübernahmegesetz (WpÜG) – (Securities Acquisition and Takeover Act), effective since early 2002, BNP Paribas S.A. would have been required to submit a takeover bid to the outstanding shareholders of the Berliner Effektengesellschaft AG. On March 5, BaFin granted an exemption to BNP Paribas S.A., releasing them from that obligation – this is announced on May 10.

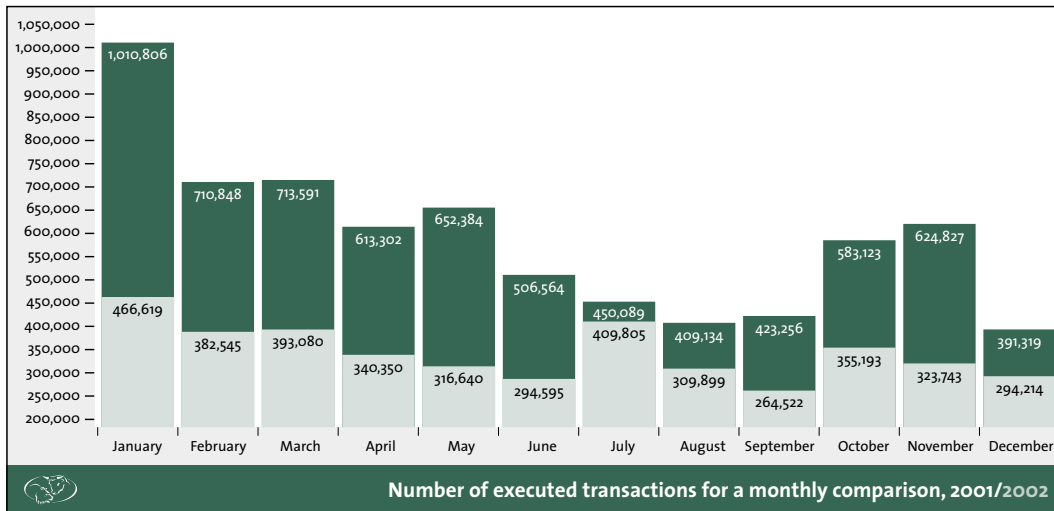
Therefore, regarding last year's result, Nasdaq Deutschland could not contribute to our profits for the past year, although naturally we had already incurred expenses during the preparation of our future investment. More details on the subject of Nasdaq Deutschland can be found on pages 25 to 27 of this Annual Report in our corporate portrait.

Although in our view the undoubtedly rapid and ever quickening structural change is in many areas still just a bare theory and therefore not evident for the last year, we can already see the proof in our own books. Our off-floor trading platform TradeGate®, a so-called ECN which also offers users generous savings possibilities, simultaneously with an immediate execution at better prices than the relevant comparative markets, has shown, in only nine months of operation since summer 2002, that it definitely meets the needs of the customer. While in June 2002, over 99.0% of the business volume of the Berliner Effektengesellschaft AG still came from the 7,000 order books handled by the company on the Berlin Stock Exchange and from the 600 order books handled on the Frankfurt/Main Stock Exchange, meanwhile, roughly half of all our transactions are now settled via TradeGate®. Structural change could hardly happen any faster. This is clear evidence that our business model is orientated towards customer need and the quality of our service is beyond any doubt. Since TradeGate® is an

off-floor trading system the customer himself must in each case make a conscious decision to get an execution there. The changes become even more obvious if one considers that the remaining traditional stockbrokerage business of the trading floor's order books is mainly limited to the thousands of less liquid order categories which are not even traded on both the stock exchanges or the off-floor internalization platforms, thus, at the moment, TradeGate® represents a liquid market of ca. 600 order categories, chiefly in large indices.

Naturally, the again drop in the markets in the year 2002 hit our company hard, which historically is also known to be coupled with a correspondingly large reduction in the overall order volume. In this respect, two mutually dependent factors accumulate themselves to cause a corresponding downturn in company profits. In other words, the achievement of the critical mass in order volume for the operation of a profitable business model will, in all probability, hardly be possible without an improvement on the stock markets. To a certain degree the decrease can be compensated for by gaining new customers and by the dropping out of competitors, but especially the once more negative development in the first quarter of 2003 has already shown that the wait and see policy of the private customers of formerly major banks has led to an unimaginable decline in trading.

For the sake of clarity, we have, as last year, listed the total transactions per month and compared them with the same month of the previous year. Here one can see that not in one single month could the target of the previous year be met, and over the whole year the execution of orders fell by 42.0%. This deficit has, mark you, affected our total figures even though via TradeGate® we were able to gain a sizeable portion of new business, for example on the DAX segment, for which our company has never before handled order books.



An important reference for the company is that of the operative business, which is shown almost exclusively in the business result of the wholly owned subsidiary Berliner Freiverkehr (Aktien) AG. This represents around - 1.3 million €, taking into account a residual loss from the sale of shares in Consors Discount-Broker AG in the middle of the year and, under the circumstances given, is not a bad result.

On the other hand, the Group result, marked by very restrictive write-offs and value adjustments on participatory investments, amounts to almost - 24.1 million € as opposed to the - 59.0 million € of last year. The most considerable write-offs are in Ladenburg Thalmann Financial Services Inc. at 4.5 million € with zero residual value, Ventegis Capital AG at 4.2 million € and Consors Capital Bank AG at 4.7 million €. Further value adjustments were made for Online Securities Holding Inc., Nasdaq Europe S.A. and own stocks. To some, these amounts may seem overcautious as we have, for example, made full-value write-offs on still active companies, but in the Board's view this serves to clarify the balance sheet structure and any possible future risks for our shareholders and business partners. Since we cannot at all predict an end to the economic crisis in general or for the financial markets in particular, it is felt that it can do no harm for the principles of the company's business plan to follow the usually undisclosed "worse case scenario." Without wanting or being able to make a realistic prognosis for the current business year, we can at least say that this year the operative loss could well reach 7.0 million €, while the residual value of all our participatory investments (own stocks not included) now amounts to only 3.5 million €. Thus, as a shareholder, one is in a position to compare these figures with our

stockholders' equity of almost 93.4 million € and our stockholders' equity ratio of 97.1%.

At this point it is necessary to mention another serious problem which has been causing the Board considerable worry for some time and which affects other companies just as much. Within the general administrative costs of the company there is a constant reduction in the costs attributable to the operative side of the business, but at the same time it is evident that administrative costs caused by legal and bureaucratic regulations and by supervisory and other authorities are climbing. To put it simply: it is clear that our industry is totally and inefficiently over-regulated. If large banks can hardly meet these costs, then smaller, middle-sized companies such as ours are hopelessly overburdened. The most particularly frustrating thing about these expenses is that they are in no way related to the profits of the company, but, especially in times of bad business development, increase steadily as, for example, those costs of supervisory authorities which can be charged out, they fall on an ever smaller number of shoulders due

June 2002

New departures:
The merging stock exchanges in Berlin and Bremen and The Nasdaq Stock Market®, via the subsidiary Nasdaq Europe S.A., as well as comdirect bank AG, Commerzbank AG and Dresdner Bank AG, will establish the new stock market, Nasdaq Deutschland on which German and international blue chips and growth stocks will be traded, starting in 2003.

Berliner Effktengesellschaft AG
The Berliner Freiverkehr (Aktien) AG will be involved in Nasdaq Deutschland as a market maker.

Shareholders' meeting on June 28, in Berlin.

July 2002

Equipment:
The Viertes Finanzmarktförderungsgesetz (4. FimafÖG) – (Fourth Financial Markets Promotion Act) becomes effective on July 1, having as main objectives the improvement of the investors' protection, to provide market participants with a broader scope for activity and making the defence system against money laundering more effective.

Berliner Effktengesellschaft AG
Publication of the half year figures with a Group result after tax of nearly - 9.1 million €.

Furthermore, the Berliner Effkten-gesellschaft AG accepts the cash settlement offer of 12.40 € per stock, submitted by BNP Paribas S.A. for its 841,201 stocks of Consors Discount-Broker AG, resulting in proceeds of ca. 10.4 million €.

August 2002

Power of nature:

Record floods hit Germany. On August 11, the depression "Ilse" deposits huge amounts of water over the Ore Mountains, bursting dams and dykes in Saxony, Saxony-Anhalt and Bavaria. 21 people are killed, thousands lose their possessions.

Berliner Effektengesellschaft AG

The Board and the employees donate 15,000.00 € to the day-care centre "Sonnenschein" in Zehren, approximately 10 km away from the Saxon city of Meissen. The record floods left 38 children without their nursery.

September 2002

Game adjourned:

Germany has decided. Contrary to most predictions, Federal Chancellor Gerhard Schröder and his red-green coalition win their second term, based on only a slight majority.

Berliner Effektengesellschaft AG

Massive decline in order flow for the Berliner Freiverkehr (Aktien) AG, September is one of the year's hardest months. However, contrary to this, order volume on TradeGate® is further increasing.

October 2002

Fiasco:

At 2,519 points, the DAX reaches its lowest level since September 1996, the Dow Jones quotes at 7,197 points, as low as back in October 1997.

Berliner Effektengesellschaft AG

The provisional appraisal after the first five months of full operation shows: TradeGate® is on its way from being the first German off-floor information and trading platform to Europe's most successful ECN. 6,000 orders at the beginning in June, already 45,000 in October.

to the numerous bankruptcies. In extreme circumstances such as we are experiencing now, the total costs for accountants, employees in Compliance, Internal Audit, Reporting, Bookkeeping, etc. as well as for supervisory authorities can easily exceed the total proceeds of a company. This situation is surely no longer acceptable and will lead the financial location of Germany into a dead end. To exaggerate a little, one could say that in the end there are too many cowboys and not enough indians.

The same goes for the unfathomable jungle of German tax legislation. In the reporting year, a fiscal audit for the (good) years 1997 to 1999 was carried out in the company. The conclusions drawn from this were lengthy and do not need to be discussed in detail here. The company audit lasted nine months, the preliminary results were taken into account in the annual financial statements. One thing, however, was very clear: in dealing with group structures, every company's management enters a no man's land with regard to any conceivable tax implications. Neither tax authorities nor accountants can provide reliable information. Most of the already unclear or questionable tax laws and decrees are changed more and more frequently, usually at short notice and backdated, which leads to a planning nightmare for companies. All this is stifling the economy in Germany and in

times of globalization is sheer nonsense. While large international groups have already reacted accordingly, it looks as if in the future one cannot absolutely exclude that we will even see smaller, middle-sized companies left with no alternative but to close down or to move location.

We return now to the above mentioned point 1. of our list which last year made it very difficult for the Board to plan ahead. With the sale of Consors Discount-Broker AG, the Berliner Effektengesellschaft AG was confronted with a well unpleasant and complicated situation. By purchasing Consors Discount-Broker AG, BNP Paribas S.A. nearly automatically gained 53.0% of the Berliner Effektengesellschaft AG, which they did not particularly want. Unwanted because our type of business does not fit in with the core business or strategy of a large bank like BNP Paribas S.A. and also because they do not make such high percentage participatory investments as a matter of principle. This became obvious over the past year as Consors Discount-Broker AG underwent a squeeze out, was taken off the stock exchange and was finally fully incorporated into the Group.

From the start, a complete integration of our company was never an option, either for BNP Paribas S.A. or for the Berliner Effektengesellschaft AG, since this would be clearly counterproductive from the point of view of the operative business. On the other hand, it is understandable that a Group such as BNP Paribas S.A. would not want full consolidation of a company whose prospects and risks are unfamiliar and which would be difficult to control from France. Therefore, in connection with the purchase of Consors Discount-Broker AG, BNP Paribas S.A. granted the SchmidtBank KGaA the right up until the end of 2002 to sell off up to 53.0% of the shares in the Berliner Effektengesellschaft AG and to retain any surplus proceeds.

This situation was certainly ominous for the Berliner Effektengesellschaft AG and its shareholders, since an unknown third party was under time pressure to sell its shares to the highest bidder. It is patently obvious that in view of the substantial value of the company, not every potential buyer would have the shareholders'

interests at heart. Therefore, the Board tried its utmost to find one or more strategic buyers for ca. 37.0% of the shares who practically could – like Consors Discount-Broker AG – bring extra value to the company business with the own one. Such a transaction was possible, even though the number of potentially suitable partners was limited from the start. The surely good work was done in close cooperation with the accompanying investment bank, but the general market situation finally prevented successful completion of a transaction because, as is known, the most likely candidates all had other problems to deal with, own ones. In our opinion, this would have been an ideal opportunity to make a very interesting investment against the cyclical trend – but which Board is in a position to do this nowadays? Towards the end there was another opportunity to get a very attractive shareholder on board, but in this case our company obviously fell as one of the first victims to the political disgruntlement between the USA and Germany. Especially our company and the Board, with its well-known close ties to the most important stock market in the world, regret this very much.

The Board together with the Supervisory Board was able to avert hostile and unwanted takeovers of the company. In this respect, the still existing blocking minority of over 25.0% of one of the Board members came in very useful.

This situation alone was debilitating enough, since outside our core operative business any reorganization or strategic change with regard to participatory investments or development of further business areas was practically impossible as long as the shareholder structure remains unsettled. It is exclusively the Board's job to advance the company, however, as illustrated in the case of BNP Paribas S.A. too, of course consideration should and must be taken of the strategic shareholders.

In so far, it remains an urgent task of the Board to find the quickest possible solution in the sense of the company and its shareholders which will enable us to once again concentrate on business development. The Board prefers any solution which, on the one hand

allows continuation of the existing good business relationship with Consors Discount-Broker AG and the new parent company, and, on the other, at least gives us the middle to long-term option of acquiring new business partners as to be also shareholders for our company.

With a little luck and the good will of all concerned, we may be able to present such a solution already at our this year's shareholders' meeting.

Berliner Effektengesellschaft AG

Holger Timm

Dr. Jörg Franke

November 2002

Ecological disaster:
The tanker "Prestige" sinks off the Galician coast, carrying more than 70,000 tons of fuel oil – the largest oil spill ever.

Berliner Effektengesellschaft AG
Announcement of the figures as at September 30: after a more than weak third quarter in terms of turnover, the Group's net income amounts to - 13.4 million €.

Beginning on November 28, the Berliner Freiverkehr (Aktien) AG is market participant at Nasdaq Europe S.A.

Again, record turnover figures on TradeGate®: 60,000 orders in November.

December 2002

Going East:
At their summit in Copenhagen, EU leaders resolve to admit ten additional states to the community in 2004. The total number of member states will then rise from 15 to 25.

Berliner Effektengesellschaft AG
Fourth shareholders' convocation in Berlin.

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET

BERLINER EFFEKTEGESELLSCHAFT AG, BERLIN

as at December 31, 2002

ASSETS	in € 2002	in € 2002	in € 2002	in € 2001
A. Fixed assets				
I. Tangible assets			108,542.95	77,687.00
II. Financial assets				
1. Stocks in affiliated companies		55,859,717.74		65,447,350.41
2. Participatory investments		3,580,549.28		13,275,179.91
3. Loans to companies with which there is a participatory relationship		560,600.96	60,000,867.98	4,241,302.03
			<u>60,109,410.93</u>	<u>83,041,519.35</u>
B. Current assets				
I. Receivables and other current assets				
1. Trade accounts payable		69,503.47		7,029.15
2. Receivables from affiliated companies		-		123,836.46
3. Other current assets		26,472,216.92	26,541,720.39	26,017,132.74
II. Securities				
1. Own stocks		4,623,144.55		6,935,215.10
2. Other securities		5,055,369.49	9,678,514.04	-
III. Cash on hand, bank balances			21,861,496.31	24,650,672.34
			<u>58,081,730.74</u>	<u>57,733,885.79</u>
C. Prepaid and deferred expenses			-	3,932.85
Total assets			118,191,141.67	140,779,337.99

EQUITY AND LIABILITIES	in € 2002	in € 2002	in € 2002	in € 2001
A. Stockholders' equity				
I. Stock capital		16,797,016.00		16,797,016.00
II. Capital reserve		119,886,061.68		119,886,061.68
III. Revenue reserves				
1. Statutory reserve	25,564.59			25,564.59
2. Reserve for own stocks	4,623,144.55			11,776,182.55
3. Other revenue reserves	-	4,648,709.14		1,686,454.34
IV. Retained earnings		- 30,863,021.13	110,468,765.69	- 17,252,298.34
B. Provisions and accruals				
I. Tax accruals		290,000.00		-
II. Other provisions and accruals		375,568.00	665,568.00	476,600.00
C. Liabilities				
I. Trade accounts payable		18,862.38		667.02
II. Amounts due to affiliated companies		7,004,370.51		7,276,096.56
III. Other liabilities		33,575.09	7,056,807.98	106,993.59
<i>of which for taxes</i>	25,577.11			97,981.31
<i>of which for social security contributions</i>	7,997.98			9,012.28
Total equity and liabilities			118,191,141.67	140,779,337.99

INCOME STATEMENT

BERLINER EFFEKTEGESELLSCHAFT AG, BERLIN

from January 1, 2002, to December 31, 2002

	in € 1-1-12-31-2002	in € 1-1-12-31-2002	in € 1-1-12-31-2001
1. Other operating profits		869,710.69	408,959.46
2. Personnel expenses			
a) Wages and salaries	- 823,647.96		- 1,374,353.37
b) social security payments and expenses for pensions	- 87,771.10	- 911,419.06	- 82,099.75
<i>of which for pensions</i>	- 14,311.52		- 12,420.22
3. Write-offs		- 22,203.30	- 24,285.74
4. Other operating expenses		- 1,001,392.65	- 2,636,681.89
5. Other interest and similar profits		1,058,592.19	1,369,910.42
<i>of which from affiliated companies</i>		718,429.99	1,251,319.67
6. Write-offs on financial assets and securities under current assets		- 21,150,737.96	- 13,254,580.89
7. Interest and similar expenses		- 40,000.04	- 14.30
<i>of which from affiliated companies</i>		-	-
8. Result from ordinary activities		- 21,197,450.13	- 15,593,146.06

	in € 1-1-12-31-2002	in € 1-1-12-31-2002	in € 1-1-12-31-2001
9. Extraordinary expenses	<u>- 1,152,630.55</u>		-
10. Extraordinary result		- 1,152,630.55	-
11. Income and profit taxes		- 89,715.31	1,284,869.37
12. Other taxes		- 10,419.14	- 58,421.00
13. Net income		- 22,450,215.13	- 14,366,697.69
14. Income brought forward from prior year		-	283,854.89
15. Loss brought forward from prior year		- 17,252,298.34	-
16. Withdrawals from the revenue reserves			
a) from the reserve for own stocks		7,153,038.00	-
b) from other revenue reserves		1,686,454.34	-
17. Appropriation to the revenue reserves			
a) to the statutory reserve		-	-
b) to the reserve for own stocks		-	- 3,169,455.54
c) to other revenue reserves		-	-
18. Retained earnings		- 30,863,021.13	- 17,252,298.34

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2002

BERLINER EFFEKTEGESELLSCHAFT AG, BERLIN

A. GENERAL INFORMATION ON THE CLASSIFICATION OF THE ANNUAL FINANCIAL STATEMENTS AND ON ACCOUNTING AND VALUATION METHODS

Preparation of the annual financial statements

The annual financial statements of the Berliner Effektengesellschaft AG for the year ended December 31, 2002, were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code). The provisions of the Aktiengesetz (AktG) – (Stock Corporation Act) were observed. Regarding the German Corporate Governance Code, a declaration was made and published on the company's internet site on December 6, 2002.

The balance sheet was prepared according to the provisions laid down in Section 264 HGB and classified according to Section 266 Subsections 2 and 3 HGB.

The income statement was prepared according to the costs of production (total output) method in accordance with Section 275 Subsection 2 HGB.

The annual financial statements were prepared in €.

The Berliner Effektengesellschaft AG is not included in any consolidated financial statements for the year ended December 31, 2002. The Consors International Holding GmbH, Hof/Saale, holds 53.0% of the company's stocks. Being a subordinate company of Consors Discount-Broker AG, Hof/ Saale, it does not prepare any consolidated financial statements. The Consors Discount-Broker AG doesn't prepare any consolidated financial statements either, thus it is included in the exempted consolidated financial statements of BNP Paribas S.A., Paris, France, for the year ended December 31, 2002. Due to an intention of disposal, BNP Paribas S.A. (the ultimate Group company), does not include Berliner Effektengesellschaft AG in the consolidated financial statements.

Accounting and valuation principles

The annual financial statements contain all assets, debts, expenses and profits. Items on the assets side have not been offset against items on the equity and liabilities side, and expenses have not been offset against profits.

The financial assets, "stocks in affiliated companies," "participatory investments," and "loans to companies

with which there is a participatory relationship" are recorded at acquisition costs, considerably diminished by write-offs to the lower applicable value.

We have valued tangible assets at acquisition or production costs and, when depreciable, less normal, permissible in commercial laws' provisions write-offs, using the straight-line method. Low-value assets are written off in full in the year of acquisition and retired.

"Receivables and other current assets" as well as "bank balances" are stated at their acquisition costs or their nominal value. Securities under current assets are stated observing strictly the principle of lower of cost or market, for each type of security, at the continuously determined average values or lower values on the balance sheet date.

Liabilities are stated at their repayment amount.

Recognizable risks are accounted for with provisions and accruals.

Proportionate interest determined at the balance sheet date is shown under the underlying receivables or liabilities.

Translation of foreign currency

The items of fixed assets denominated in foreign currency were translated at the acquisition rates and considerably diminished by write-offs to the lower applicable value. There were no other assets or debts in foreign currency at the balance sheet date. Expenses and profits denominated in foreign currency were translated at the rate on the day.

B. EXPLANATIONS TO THE BALANCE SHEET AND CAPITAL

Classification of remaining terms

In the amount of 29,000,000 €, receivables become due on June 30, 2004. All other receivables and the liabilities have a remaining term of less than one year.

Receivables from and liabilities to affiliated companies

"Cash on hand, bank balances" include 21,355,000 € receivables from Consors Capital Bank AG, Berlin. Furthermore, "trade accounts payable" include 37,000 € receivables from Berliner Freiverkehr (Aktien) AG, Berlin. As a countermove to that, there are liabilities

of 7,004,000 € to Berliner Freiverkehr (Aktien) AG, referring to advance payments for trade tax being charged out.

Development of fixed assets

For the development of the fixed assets at historical acquisition rates and the accumulated write-offs, reference is made to the separate fixed assets schedule. Due to the poor economical development, above all the financial assets were written off considerably. In detail, the write-offs are listed up and elucidated in the explanations to the income statement.

With the exception of a residual purchase money, deposited on a trust account and resulting from the exchange of the interests held in Ladenburg Thalmann & Co. Inc., New York, USA, the financial assets in foreign currency were written off completely. Their acquisition costs which were translated at historical rates, were 10,950,000 € translated.

Other current assets

“Other current assets” comprise items which cannot be subsumed under other balance sheet items on the assets side. These pertain to receivables from the tax authorities and substantial assets in computing equipment. In the third quarter, the Consors Capital Bank AG decided to close down its branch in Frankfurt/Main and to start bidding proceedings for the sale of the computer equipment. In the scope of these bidding proceedings, we received the tender. Part of the equipment was sold to the Berliner Freiverkehr (Aktien) AG. Just a single laptop was absorbed into the company’s fixed assets. The rest will be used if needed, or sold at a later date.

Stock capital

On December 31, 2001, the stock capital was 16,797,016.00 €. On December 31, 2002, the stock capital consistently was 16,797,016.00 €, divided into 16,797,016 non-par individual stocks.

In the past business year, announcements regulated by Section 21 Subsection 1 of the Wertpapierhandelsgesetz (WpHG) – (Securities Trading Law) we received from the law firm Gleiss Lutz Hootz Hirsch, from Medusa Beteiligungsverwaltungsgesellschaft Nr. 75 mbH (Medusa Investment Administration Company Number 75 Ltd) and from the Bundesverband deutscher Banken (Federal Association of German Banks) and

later from BNP Paribas S.A. These announcements were all in connection with the bid to save the former SchmidtBank KGaA, Hof/Saale, by a banking consortium and the subsequent sale of shares in Consors Discount-Broker AG.

Approved capital

No capital increases were performed from the existing tranches of approved capital. The Board was authorized by the shareholders’ meeting of July 3, 2001, to increase the stock capital until July 2, 2006, with the consent of the Supervisory Board, by issue of new individual stocks against cash or non-cash contribution once or more than once by a total of up to 8,398,492.50 €. At the shareholders’ meeting on June 28, 2002, no authorization was resolved, so this still applies.

Contingent capital

The shareholders’ meeting of June 15, 1999, had resolved to contingently increase the stock capital by 600,000 € for an employee option scheme (contingent capital I) and by 5,940,000 € for the issue of stock option warrants without bonds (contingent capital II). On the basis of the contingent capital increase and in exploitation of the contingent capital II, a total of 527,802 stocks with a computed value of 1.00 € were issued up to December 31, 2002. At the shareholders’ meeting on June 28, 2002, a further contingent capital increase of 600,000 € was resolved. This entitles the Board to hand out convertible bonds and/or subscription rights without bonds to members of the Board and company employees as well as to members of the Board and employees of companies affiliated under the terms of Section 15 ff AktG.

Capital reserve

No monies were allocated to the capital reserve.

Revenue reserves

To partly balance the loss carry-forward and the net loss for the year, the Board resolved the complete release of “other revenue reserves” to the amount of 1,686,454.34 €. We comment on the “reserve for own stocks” in the following paragraph.

Retained earnings

The retained earnings include the sum of - 17,252,298.34 € carried forward from last year.

Own stocks

On July 3, 2001, the shareholders' meeting authorized the Board, pursuant to Section 71 Subsection 1 Number 8 AktG, to acquire own stocks for the purpose of sale or for withdrawal from circulation. It was limited in time until December 31, 2002, and to 10.0% of the nominal capital of July 3, 2001, i.e. 1,679,698 stocks.

On June 28, 2002, the shareholders' meeting revised the authorization. It is now limited in time until December 31, 2003, and to 10.0% of the nominal capital of June 28, 2002, i.e. 1,679,701 stocks.

The resolution of the shareholders' meeting on June 28, 2002, authorized the Board to either partly or completely withdraw acquired stocks with the consent of the Supervisory Board on the basis of the authorization granted. This authorization may be used in part or completely and on one occasion or on several occasions.

In 2002, these authorizations have been made use of by selling stocks. The table following shows the number of stocks traded by calendar month. The purchases were made exclusively through the stock exchange. In 2002, Berliner Effektengesellschaft AG acquired 86,352 stocks for 495,000 €. The portfolio remaining in the company on December 31, 2002, of 832,857 own stocks, had to be written off by 2,807,000 € on account of strict adherence to the principle of lower of cost or market. A "reserve for own stocks" is to be recorded in the balance sheet to the amount of the residual book value of the own stocks of 4,623,000 €. Taking into account the reserve existing at December 31, 2001, 2,312,000 € were released from the reserve as at December 31, 2002.

In 2002, the company sold the stocks of Consors Discount-Broker AG which, as at December 31, 2002, owned an indirect 53.0% stake in the Berliner Effektengesellschaft AG. The sale was carried out within the framework of the settlement offer submitted by BNP Paribas S.A. at 12.40 € per stock. The reserves for these stocks in a controlling company which, at December 31, 2001, were valued at 4,841,000 €, were released at the balance sheet date.

Month	Number of stocks purchased/transferred	Number of stocks sold/disposed	Proportion of nominal capital
Brought forward	746,505	-	4.44%
January 2002	-	-	0.00%
February 2002	-	-	0.00%
March 2002	-	-	0.00%
April 2002	-	-	0.00%
May 2002	-	-	0.00%
June 2002	-	-	0.00%
Sub-total Authorization 2001	746,505	-	4.44%
July 2002	-	-	0.00%
August 2002	2,170	-	0.01%
September 2002	34,570	-	0.21%
October 2002	18,287	-	0.11%
November 2002	15,696	-	0.09%
December 2002	15,629	-	0.09%
Total Authorization 2002	86,352	-	0.51%
Grand total	832,857	-	4.96%

Provisions and accruals

Under provisions and accruals, positions have been removed of which the amount or date of maturity are not finally certain but which belong in the income statement of the business year 2002 or earlier. Since June 2002, a company audit for the years 1997 to 1999 is being carried out by the Finanzamt für Körperschaften I von Berlin (Corporation Tax Authority in Berlin). The present assessments indicate a back payment for taxes of about 250,000 € with interest of about 40,000 €.

Other provisions and accruals are mainly made up of the following:

Provisions and accruals for	in '000 € 12-31-2002	in '000 € 12-31-2001
personnel expenses	68	154
annual financial statements	180	218
contributions to the Chamber of Industry and Commerce	105	105
threatening losses	23	-
Total	376	477

Liabilities due to affiliated companies

The "amounts due to affiliated companies" include trade tax charge-outs to be repaid. Since the accordant notifications have not yet been made and the company has shown corresponding receivables from the tax

authorities under “other current assets,” payment is not yet due.

C. NOTES TO THE INCOME STATEMENT

According to the articles of association, the purpose of our company is the relaying of securities transactions of all kinds and in particular the determination of prices and quotations on the OTC and regulated markets of the Berlin and other stock exchanges. Furthermore, the company advises and accompanies firms on their way to going public on national or international stock exchanges and in this connection puts at their disposal all manner of technical and financial services. The company itself does not need to be active in the aforementioned areas; it can fulfill the denoted purpose of the company by becoming a shareholder of dependent Group companies which are directly involved in the business mentioned. Proceeds are made through the outsourcing of operative activities to Group companies, mainly from the charge-out for services, from profits from participatory investments and from the investment of liquidity funds.

“Other operating profits” include the following positions:

	in '000 € 2002	in '000 € 2001
Income from the exit of participatory investments	248	-
Cost charge-outs in the Group		
Berliner Effektengesellschaft AG	223	204
Other cost charge-outs	212	107
Profits from the sale of computing equipment	96	-
Releases from other provisions and accruals	79	2
Profits from tax charge-outs	-	58
Other profits	12	38
Total other operating profits	870	409

As a result of the changes in tax legislation there is no consolidated tax filing status for businesses, thus charge-outs for trade tax are no longer incorporated.

In the past business year, personnel expenses fell by 545,000 € from 1,456,000 € to 911,000 €. The main reason being a drop in the compensation to the Board and a reduction of, on average, one employee over the

year. The write-offs pertain to the business and office equipment.

The ongoing operating expenses are shown under “other operating expenses.” The significant amounts are made up as follows:

	in '000 € 2002	in '000 € 2001
Costs for annual financial statements	167	252
Costs for the services of the Berliner Freiverkehr (Aktien) AG	131	-
Costs for the shareholders' meeting	104	158
Costs of computing equipment to be sold	96	-
Occupancy costs	82	76
Compensation to the Supervisory Board	81	55
Expenses from tax charge-outs	-	1,052
Contributions to associations (also relating to other periods)	19	336
Other expenses	321	708
Total other operating expenses	1,001	2,637

The costs for the services of the Berliner Freiverkehr (Aktien) AG concern the personnel at reception and the employees in IT-Operations. Last year they were included in personnel expenses at the sum of 145,000 €.

“Other interest and similar profits” are made up of the interest from cash investments and interest profits from financial assets. Investments of liquidity funds in overnight funds and fixed-term deposits brought interest of 720,000 €. Receivables from companies with which there is a participatory relationship brought interest of 338,000 €. Of this, interest of 182,000 € refer to the conversion of the loan to Nasdaq Europe S.A. Brussels, Belgium/London, UK, into stockholders' equity before maturity.

The position “interest and similar expenses” contains almost exclusively interest on tax to be paid back. More details can be found below in the explanation of tax expenses.

In “write-offs on financial assets and securities under current assets” are included the write-offs on own stocks which were explained above. The write-offs on financial assets are divided between the positions “participatory investments” and “loans to companies with which there is a participatory relationship.” The considerable write-offs on participatory investments held by the Berliner Effektengesellschaft AG were

carried out using the principle of lower of cost or market. The market value or the applicable value was used as a benchmark. The applicable value was determined by assessing the earning-capacity value, the current stockholders' equity provisions and the profitability or current capital measures and the resulting evaluations. The write-offs are made up as follows:

Participatory investments	Amount in €	Write-offs on
Ladenburg Thalmann Financial Services Inc.	4,546,862.73	applicable value
Ventegis Capital AG	4,252,676.61	market value
Consors Capital Bank AG	4,746,636.00	applicable value
Nasdaq Europe S.A.	1,379,366.95	applicable value
Online Securities Holding Inc.	1,071,706.34	applicable value
Total	15,997,248.63	

Foreign participatory investments account for 6,998,000 € of the total amount. Receivables from Ladenburg Thalmann Financial Services Inc., New York, USA, which belong to the financial assets and which arose out of the exchange of interests in Ladenburg Thalmann & Co. Inc., were, allowing for the marked-off interest and due to the poor economic development of the company, adjusted in value completely, e.g. 2,346,000 €.

The Consors Capital Bank AG incurred extraordinary expenses due to the close of its branch in Frankfurt/Main. Since these expenses were offset by corresponding profits, a contract for the takeover of losses was agreed with the shareholders. The holding in the company amounted to 1,153,000 €, which was booked as extraordinary expenses.

The Berliner Effektengesellschaft AG received a refund on the 1999 tax assessments and corrections to tax declarations. Since June 2002, a fiscal company audit for the years 1997 to 1999 is being carried out in-house. In line with the present assessments and taking into consideration the results of an interim meeting, a sum of 250,000 € plus 40,000 € interest has been reserved. Therefore, a negative balance of 90,000 € is shown under "income and profit taxes."

D. OTHER INFORMATION

Interests held

The following information relates to December 31, 2002, or the business year 2002, unless otherwise specified.

Consors Capital Bank AG, Berlin

(formerly Frankfurt/Main)

Nominal capital:	15,132,456.00 €
Interests held: 15.3%	2,314,815.00 €
Stockholders' equity:	9,746,841.86 €
Net income:	- 11,235,150.98 €

Berliner Freiverkehr (Aktien) AG, Berlin

Nominal capital:	23,000,000.00 €
Interests held: 100.0%	23,000,000.00 €
Stockholders' equity:	34,857,491.72 €
Net income:	- 2,316,905.38 €

Online Securities Holding Inc., Delaware, USA

Nominal capital:	230,004.12 US-\$
Interests held: 28.0%	60,303.03 US-\$
Stockholders' equity	
as at December 31, 2001:	2,025,120.00 US-\$
Net income 2001:	- 2,323,600.00 US-\$

Ventegis Capital AG, Berlin

Nominal capital:	12,608,455.00 €
Interests held: 37.1%	4,673,271.00 €
Stockholders' equity:	4,993,270.15 €
Net income:	- 8,085,271.06 €

Other financial commitments

There are no significant contingent liabilities or financial obligations which are not evident from the annual financial statements.

Employees

The number of employees has developed as follows:

	Female	Male	Total
Average of the year			
Board members	0.0	1.6	1.6
Other employees	2.8	3.2	6.0
Total	2.8	4.8	7.6
off which part-time employees (number of persons)	1.3	1.5	2.8
off which part-time employees (equal to full-time employees)	0.8	0.8	1.6
As at December 31, 2002			
Board members	0.0	2.0	2.0
Other employees	3.0	3.0	6.0
Total	3.0	5.0	8.0
off which part-time employees (number of persons)	1.0	1.0	2.0
off which part-time employees (equal to full-time employees)	0.6	0.6	1.2

CORPORATE BODIES OF BERLINER EFFEKTENGESELLSCHAFT AG

(as at December 31, 2002)

Members of the Board

Dr. Jörg Franke, Frankfurt/Main,
Speaker

Chairman of the Supervisory Board:

RTS Realtime Systems (Deutschland) AG, Frankfurt/Main

Chairman of the Stock Exchange Council:

Berlin-Bremen Stock Exchange, Berlin and Bremen
(since March 20, 2003)

Deputy Chairman of the Supervisory Board:

Berliner Börse AG, Berlin
(since October 24, 2002)

Member of the Supervisory Board:

Nasdaq Deutschland AG, Berlin and Bremen
(since February 25, 2003)

Member of the Board:

Nasdaq Europe S.A., Brussels, Belgium/London, UK

Member of the Supervisory Board:

Mummert Consulting AG, Hamburg

Member of the Board:

Bundesverband der Finanzintermediäre an den deutschen Wertpapierbörsen
(Federal Association of Financial Intermediaries on the
German Stock Exchanges), Frankfurt/Main

Member of the Board of Directors:

Fresco SICAV, Luxembourg

Member of the Advisory Board:

Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt/Main

Holger Timm, Berlin,
Speaker

Chairman of the Board of

Berliner Freiverkehr (Aktien) AG, Berlin

Chairman of the Supervisory Board:

Ventegis Capital AG, Berlin

Member of the Supervisory Board:

Consorts Capital Bank AG, Berlin (formerly Frankfurt/Main)
EuroChange AG, Berlin

Member of the Board:

Ladenburg Thalmann & Co. Inc., New York, USA

Members of the Supervisory Board

André Dujardin, Berlin,
entrepreneur

Member of the Advisory Board:

Berliner Volksbank eG, Berlin

Dr. Reto Francioni, Zurich, Switzerland,
President, SWX Swiss Exchange
Chairman
(until February 19, 2002)

Member of the Administrative Board:

EUREX, Frankfurt/Main and Zurich, Switzerland
virt-x, London, UK

Wolfgang Hermanni, Berlin,
businessman

Deputy Chairman
(until March 21, 2002)

Chairman
(since March 21, 2002)

Chairman of the Supervisory Board:

Berliner Freiverkehr (Aktien) AG, Berlin
EuroChange AG, Berlin

Member of the Supervisory Board:

Ventegis Capital AG, Berlin

Jean-Philippe Huguet, Neuilly-sur-Seine, France,
General Secretary and CFO, Cortal Consors
(since February 20, 2003)

Dr. Andor Koritz, Berlin,
lawyer

Deputy Chairman
(since March 21, 2002)

Member of the Supervisory Board:

Berliner Freiverkehr (Aktien) AG, Berlin

Detlef Prinz, Berlin,
entrepreneur

Member of the Supervisory Board:

Messe Berlin GmbH, Berlin

Dr. Günter Rexrodt, Berlin,
member of the Bundestag (Lower House), former
Federal Minister for Economics

Chairman of the Supervisory Board:

AGIV Real Estate AG, Hamburg

Member of the Supervisory Board:

AWD Holding AG, Hannover
DTZ Zadelhoff Holding GmbH, Frankfurt/Main
Landau Media AG, Berlin

Member of the Board of Directors:

Skandia AB, Stockholm, Sweden

Dr. Uwe Schroeder-Wildberg, Nuremberg,
member of the Board (CFO), MLP AG
(until January 31, 2003)

Chairman of the Supervisory Board:

Consorts Capital Bank AG, Berlin (formerly Frankfurt/Main)

Member of the Supervisory Board:

Consorts France S.A., Paris, France
elnsurance Agency AG, Munich

Remuneration of the corporate bodies

Dr. Jörg Franke received remuneration of 370,000 € from the Berliner Effektengesellschaft AG. 63,000 € of this was in contributions to a pension fund and benefits in kind in the form of a company car. Remuneration to the Supervisory Board was 81,000 € and is made up as follows:

	Remuneration in €
Andrä Dujardin	11,600.00
Wolfgang Hermann	23,200.00
Dr. Andor Koritz	23,200.00
Detlef Prinz	11,600.00
Dr. Günter Rexrodt	11,600.00

Payments or benefits for personally rendered services were not made to Board members or Supervisory Board members.

Stock ownership/Trading in company stocks by members of the corporate bodies

Last year, members of the Board acquired a total of 345,000 stocks and sold none. As at December 31, 2002, Board members held 4,541,069 stocks and

155,000 options on stocks of the company, of which 4,541,069 stocks and 35,000 options went to Mr. Holger Timm.

In the past year, the members of the Supervisory Board neither acquired nor sold any stocks. As at December 31, 2002, the members of the Supervisory Board held less than 1.0% of the stock capital and no options on stocks of the company.

Proposal on application of income

The Board proposes to the shareholders' meeting, that the retained earnings be brought forward to the new balance sheet.

Berlin, March 11, 2003

Berliner Effektengesellschaft AG

Holger Timm

Dr. Jörg Franke

Fixed assets schedule pursuant to section 264 HGB as at December 31, 2002

	in € Acquisition costs	in € Additions in the business year	in € Disposals in the business year	in € Write-offs in total	in € Write-offs in the business year	in € Residual book value at 12-31-2002	in € Residual book value in prior year
Tangible fixed assets							
Business and office equipment	120,823.23	9,676.30	248.00	65,091.53	22,203.30	65,160.00	77,687.00
Payments on assets and assets under construction	-	43,382.95	-	-	-	43,382.95	-
Total tangible assets	120,823.23	53,059.25	248.00	65,091.53	22,203.30	108,542.95	77,687.00
Financial assets							
Stocks in affiliated companies	65,447,350.41	-	4,840,967.45	4,746,665.22	4,746,665.22	55,859,717.74	65,447,350.41
Participatory investments	18,631,691.44	1,588,470.00	32,488.00	16,607,124.16	11,250,612.63	3,580,549.28	13,275,179.91
Loans to companies with which there is a participatory relationship	4,241,302.03	254,016.79	1,588,470.00	2,346,247.86	2,346,247.86	560,600.96	4,241,302.03
Total financial assets	88,320,343.88	1,842,486.79	6,461,925.45	23,700,037.24	18,343,525.71	60,000,867.98	82,963,832.35
Total fixed assets	88,441,167.11	1,895,546.04	6,462,173.45	23,765,128.77	18,365,729.01	60,109,410.93	83,041,519.35

AUDITORS' REPORT

We have audited the annual financial statements of Berliner Effektengesellschaft AG, including the bookkeeping system and the management report for the business year ended December 31, 2002. The bookkeeping system and the preparation of the annual financial statements and the management report in accordance with the German commercial laws' provisions are the responsibility of the company's Board. Our responsibility is to express an opinion, based on our audit, on the annual financial statements, including the bookkeeping system and the management report.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB and the generally accepted German Standards for audits of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) – (Institute of Accountants). Those Standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and profitability in the annual financial statements, in accordance with generally accepted principles of bookkeeping and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations of possible misstatements have been taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping system, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the company's net assets, financial position and profitability, in accordance with generally accepted principles of bookkeeping. On the whole, the management report provides a suitable understanding of the company's position and suitably presents the risks of future development.

Berlin, March 21, 2003
PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eckes
Wirtschaftsprüfer
(Accountant)

Fuhlbrügge
Wirtschaftsprüfer
(Accountant)

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

GROUP BALANCE SHEET

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

as at December 31, 2002

	in € 2002	in € 2002	in € 2002	in '000 € 2001
ASSETS				
1. Cash reserve assets				
a) Cash balance		738.11	738.11	0
2. Receivables from banks				
a) due daily		7,317,952.12		8,554
b) other receivables		37,759,278.73	45,077,230.85	41,170
3. Receivables from customers			88,830.78	1,508
including: secured by charges on properties ---				
Loans to municipalities ---				
4. Stocks and other non-fixed interest securities			9,859,025.17	158
5. Participatory investments			1,711,240.88	7,121
including: in banks ---				
in financial services institutions ---				
6. Stocks in affiliated companies			242,964.00	16,290
including: in banks 242,964.00 €				
in financial services institutions ---				
7. Stocks in associated companies			1,922,118.43	6,155
including: in banks ---				
in financial services institutions ---				
8. Intangible assets			3,746,031.24	4,370
9. Tangible assets			2,381,102.78	3,080
10. Own stocks or interests			4,623,144.55	6,935
Nominal amount/computed value 832,857.00 €				
11. Other current assets			26,477,747.12	26,077
12. Prepaid and deferred expenses			24,487.93	17
Total assets			96,154,661.84	121,435

EQUITY AND LIABILITIES	in € 2002	in € 2002	in € 2002	in '000 € 2001
1. Liabilities to banks				
a) due daily		602,184.96	602,184.96	75
2. Liabilities to customers				
a) other liabilities				
aa) due daily	147,865.95	147,865.95	147,865.95	197
3. Other liabilities			317,764.99	472
4. Provisions and accruals				
a) Tax accruals		432,000.00		
b) other provisions and accruals		1,271,148.00	1,703,148.00	1,962
5. Special item partly with reserve character			1,571.00	3
6. Stockholders' equity				
a) Stock capital		16,797,016.00		16,797
b) Capital reserve		100,919,950.38		100,920
c) Revenue reserves				
ca) Statutory reserve	25,564.59			25
cb) Reserve for own stocks	4,623,144.55			18,236
cc) other revenue reserves	1,879,472.55	6,528,181.69		0
d) Retained earnings		- 30,863,021.13	93,382,126.94	- 17,252
Total equity and liabilities			96,154,661.84	121,435

GROUP INCOME STATEMENT

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

from January 1, 2002, to December 31, 2002

	in € 1-1 – 12-31-2002	in € 1-1 – 12-31-2002	in € 1-1 – 12-31-2002	in '000 € 1-1 – 12-31-2001
1. Interest profits from				
a) Loan and money market transactions	1,625,218.00			2,496
b) fixed-interest securities and bonds issued in book-entry form	4,255.26	1,629,473.26		28
2. Interest expenses		- 72,051.14	1,557,422.12	- 11
3. Current profits from				
a) Stocks and other non-fixed interest securities		20,527.95	20,527.95	17
4. Result from associated companies			- 4,199,462.23	- 2,372
5. Commissions received			5,941,717.72	12,863
including: courtage profits	5,819,516.81			(12,430)
courtage profits from pooling settlement	0.00			(0)
6. Commissions paid			- 2,207,746.51	- 3,630
including: courtage expenses	- 2,036,981.17			(- 3,457)
courtage expenses from pooling settlement	0.00			(0)
7a. Profit from financial transactions			24,371,125.94	37,203
of which: aa) Securities	53,774.77			(131)
ab) Price differences on name-to-follow transactions	24,250,325.87			(37,063)
7b. Expenses from financial transactions			- 19,613,705.23	- 32,647
of which: ba) Securities	- 341,648.23			(- 956)
bb) Price differences on name-to-follow transactions	- 18,996,582.02			(- 31,678)
8. Other operating profits			865,388.39	2,241
9. Profits from the release from special items partly with reserve character			1,579.00	3
10. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	- 4,231,405.35			- 5,903
ab) social security payments and expenses				
for pensions	- 713,809.45	- 4,945,214.80		- 763
including: for pensions 56,709.25 €				
b) other administrative expenses		- 6,260,271.07	- 11,205,485.87	- 8,427

	in € 1-1 – 12-31-2002	in € 1-1 – 12-31-2002	in € 1-1 – 12-31-2002	in '000 € 1-1 – 12-31-2001
11. Write-offs and value adjustments on intangible assets and tangible assets			- 1,617,415.20	- 1,853
12. Other operating expenses			- 69,271.72	- 1,039
13. Write-offs and value adjustments on receivables and certain securities as well as allocations to provisions and accruals in credit business		- 5,302,017.51	- 5,302,017.51	- 7,801
14. Write-offs and value adjustments on participatory investments, stocks in affiliated companies and securities treated as fixed assets		- 12,616,867.64	- 12,616,867.64	- 49,419
15. Result from ordinary activities			- 24,074,210.79	- 59,014
16. Extraordinary expenses		- 1,152,630.55		0
17. Extraordinary result		- 1,152,630.55	- 1,152,630.55	
18. Income and profit taxes			- 106,513.37	922
19. Other taxes, unless recorded under item 12			- 10,488.53	- 1
20. Net income			- 25,343,843.24	- 58,093
21. Income brought forward from prior year			0.00	284
22. Loss brought forward from prior year			- 17,252,298.34	0
23a. Withdrawals from the capital reserve			0.00	18,966
23b. Allocations to the capital reserve			0.00	0
24. Withdrawals from the revenue reserves				
a) from the reserve for own stocks		13,612,593.00		16,364
b) from other revenue reserves		0.00	13,612,593.00	11,359
25. Appropriation to the revenue reserves				
a) to the reserve for own stocks		0.00		- 3,169
b) to other revenue reserves		- 1,879,472.55	- 1,879,472.55	- 2,963
26. Retained earnings			- 30,863,021.13	- 17,252

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR 2002

BERLINER EFFEKTEGESELLSCHAFT AG, BERLIN

A. GENERAL BACKGROUND

Scope of consolidation

Berliner Effektengesellschaft AG, Berlin, is the parent company of the Berliner Effektengesellschaft AG Group. Besides the parent company, the subsidiary, Berliner Freiverkehr (Aktien) AG, Berlin, is included in the consolidation of the Group financial statements. An associated company is balanced at equity.

The Berliner Effektengesellschaft AG is not included in any consolidated financial statements for the year ended December 31, 2002. The Consors International Holding GmbH, Hof/Saale, holds 53.0% of the company's stocks. Being a subordinate company of Consors Discount-Broker AG, Hof/Saale, it does not prepare any consolidated financial statements. The Consors Discount-Broker AG doesn't prepare any consolidated financial statements either, thus it is included in the exempted consolidated financial statements of BNP Paribas S.A., Paris, France, for the year ended December 31, 2002. Due to an intention of disposal, BNP Paribas S.A. (the ultimate Group company), does not include Berliner Effektengesellschaft AG in the consolidated financial statements.

B. GENERAL INFORMATION ON THE CLASSIFICATION OF THE GROUP FINANCIAL STATEMENTS AND ON ACCOUNTING AND VALUATION METHODS

Preparation of the Group financial statements

The Group financial statements of Berliner Effektengesellschaft AG for the year ended December 31, 2002, were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV) – (Bank Accounting Directive), as last amended on December 11, 1998.

The classification of the annual financial statements is in accordance with the RechKredV; the vertical form has been chosen for the income statement.

The subsidiary included, which was first consolidated in the Group financial statements as at December 31, 1998, was consolidated according to the book value method pursuant to Section 301 Subsection 1 Number 1 HGB. The book value of the participatory investment was offset against the stockholders' equity relating to it at the time of the acquisition of the shares. Ventegis Capital AG, Berlin, is shown in the Group

financial statements at equity, under the book value method pursuant to Section 312 Subsection 1 Number 1 HGB.

Receivables and liabilities between the companies included in the Group financial statements were eliminated, as too were expenses and profits.

In view of their subordinate importance for the net assets, financial position and profitability, one associated company is included in the Group balance sheet at acquisition costs, diminished by write-offs to the lower applicable value, instead of at equity. It is shown under the item "participatory investments."

The annual financial statements were prepared in €.

Accounting and valuation principles

Accounting and valuation principles correspond with the statutory regulations.

Receivables from banks and customers are shown at their nominal value. Securities are defined in Section 7 RechKredV; in the balance sheet we show them under the items "bonds and other fixed-interest securities," "stocks and other non-fixed interest securities," "stocks in associated companies," "stocks in affiliated companies" and "participatory investments." In stating profits/expenses we distinguish in the case of securities between fixed assets, trading stocks and stocks of the liquidity reserve (securities which are treated neither as fixed assets nor as part of the trading stock). In the latter two cases, these are current assets, which are stated observing strictly the principle of lower of cost or market, for each type of security, at the continuously determined average values or lower values on the balance sheet date. We have recorded securities which are shown under "participatory investments" and "stocks in affiliated companies" as fixed assets. For this reason, write-offs were not avoided.

Recognizable risks have been accounted for with value adjustments, provisions and accruals.

Financial assets have been recorded at acquisition costs, taking account of probably permanent diminutions in value. We have valued tangible assets at acquisition or production costs and, when

depreciable, less normal, permissible in commercial laws' provisions write-offs, using the straight-line method. Low-value assets are written off in full in the year of acquisition and retired.

For deferred tax assets, we did not establish a deferred tax item in accordance with the provisions of Section 274 Subsection 2 HGB.

Liabilities are stated at their repayment amount.

We have formed the provisions and accruals for taxes, uncertain liabilities and threatening losses from pending transactions in the amount of their probable utilization on the basis of reasonable commercial judgment.

Proportionate interest determined at the balance sheet date is shown under the underlying receivables or liabilities.

Translation of currency

The valuation of assets and debts denominated in foreign currency has been made in accordance with the provisions of Section 340 h HGB. There was a deviation for stocks which are quoted on a stock exchange in € and whose nominal value or computed nominal value (e.g. individual stocks) is denominated in foreign currency. These might be stocks of US-American companies e.g., whose capital is denominated in US-\$. We have recorded these securities, observing the principle of lower of cost or market, at their acquisition costs or at the closing rates determined in € on a German stock exchange.

All other assets and debts denominated in foreign currencies were translated at reference rates of the European Central Bank or, in cases where no reference rates were available, at the average rates on the currency market on the balance sheet date. For the balance sheet items, the method of simply secured assets and debts and the option of sole recognition of losses from currency translation pursuant to Section 340 h HGB were applied.

C. NOTES TO THE BALANCE SHEET

Classification of remaining terms

The classification of remaining terms is as follows:

	in € 2002	in € 2001
Other receivables from banks		
a) in less than three months	37,198,677.77	38,302,076.08
b) more than three months and less than one year	560,006.96	0.00
c) more than one year and less than five years	0.00	2,868,057.62
d) more than five years	0.00	0.00
	37,758,684.73	41,170,133.70
Receivables from customers		
a) in less than three months	0.00	0.00
b) more than three months and less than one year	0.00	0.00
c) more than one year and less than five years	29,142.93	1,406,823.22
d) more than five years	0.00	0.00
e) of indefinite term	59,687.85	101,225.97
	88,830.78	1,508,049.19

Receivables from and liabilities to affiliated companies

Classification due to balance sheet items	in '000 € 2002	in '000 € 2001
Receivables:		
Receivables from banks	38,335	39,170
Total	38,335	39,170
Liabilities:		
Liabilities to banks	559	-
Total	559	-

Total amount of all assets and debts denominated in foreign currency

The amounts represent the sums of the equivalents in € of the most various currencies. The difference does not indicate any exposed foreign currency positions.

	in '000 € 2002	in '000 € 2001
Assets	2,117	9,955
Debts	-	-

Above all, the drop mainly refers to the considerable write-offs on receivables from and the participatory investment in Ladenburg Thalmann Financial Services Inc.

Securities marketable on a stock exchange

	in '000 € 2002	in '000 € 2001
Listed on a stock exchange		
Stocks and other non-fixed interest securities	0	56
Participatory investments	0	4,547
Stocks in affiliated companies	0	11,301
Not listed on a stock exchange		
Stocks and other non-fixed interest securities	9,859	102
Participatory investments	1,711	2,574
Stocks in affiliated companies	243	4,990
Stocks in associated companies	1,922	6,154
Total of listed investments		
Stocks and other non-fixed interest securities	9,859	158
Participatory investments	1,711	7,121
Stocks in affiliated companies	243	16,291
Stocks in associated companies	1,922	6,154

The securities in the portfolio are all listed on stock exchanges. Stocks which are listed on the OTC market of a German stock exchange do not qualify as listed on a stock exchange in the meaning of the RechKredV. In the business year, the participatory investments, listed on a stock exchange, shown as at December 31, 2001, were written off completely, and the stocks in affiliated companies, listed on a stock exchange, were alienated.

Development of fixed assets

	in '000 € Acquisition costs	in '000 € Additions in the business year	in '000 € Disposals in the business year	Proportionate changes in stockholders' equity in total	in '000 € in the business year
Financial assets					
Stocks in associated companies	8,526	-	38	- 4,246	- 2,883
Stocks in affiliated companies	62,222	-	57,232	-	-
Participatory investments	10,106	1,588	-	-	-
Total financial assets	80,854	1,588	57,270	- 4,246	- 2,883
Intangible economic assets					
Intangible assets	187	107	-	-	-
Goodwill	6,295	-	-	-	-
Total intangible economic assets	6,482	107	-	-	-
Tangible assets					
Business and office equipment	5,091	289	169	-	-
Payments on assets and assets under construction	156	77	107	-	-
Total tangible assets	5,247	366	276	-	-
Total fixed assets	92,583	2,061	57,546	- 4,246	- 2,883

Goodwill

In the consolidation of the subsidiary existing on December 31, 2002, Berliner Freiverkehr (Aktien) AG, there resulted an asset difference (goodwill) of 6,295,327.59 €. This goodwill is being amortized over ten years. Goodwill totalling 3,619,813.24 € was shown on December 31, 2002.

The acquisition costs of “stocks in associated companies” are made up of the proportionately acquired stockholders’ equity and the acquired goodwill. Compared with what is reflected in the fixed assets schedule of last year, the write-offs have been split into two categories: changes in the proportionate stockholders’ equity and write-offs which apply to the goodwill. The comparative values for 2001 were - 1,362,000 € proportionate result and 1,009,000 € straight-line and special write-offs on goodwill. Of the shares in Ventegis Capital AG in our portfolio as at December 31, 2001, 24,800 were sold in 2002. These shares, which had a value of 33,000 €, could be sold for 32,000 €. As at December 31, 2001, the shares in Consors Discount-Broker AG, the controlling company and those of Consors Capital Bank AG, Berlin, were shown under “stocks in affiliated companies.” In the past business year, BNP Paribas S.A. made a settlement

offer to the outstanding shareholders of Consors Discount-Broker AG. This amounted to a cash settlement of 12.40 €. The offer, which also applied to us, we accepted. From this transaction the Group made, on balance, a loss realized of 0.9 million €.

Other current assets

“Other current assets” comprise items which cannot be subsumed under other balance sheet items on the assets side. They relate to receivables from the tax authorities, accounting to 26,256,000 €.

Other liabilities

“Other liabilities” comprise items on the equity and liabilities side which cannot be subsumed under other balance sheet items. Of the 318,000 €, 158,000 € relate to trade accounts payable and 151,000 € to payroll-deducted wages tax and social insurance contributions which have still to be paid, and 9,000 € to the balance items on currency valuation.

Provisions and accruals

Under provisions and accruals, positions have been removed of which the amount or date of maturity are not finally certain but which belong in the income

	in '000 € Write-offs in total	in '000 € Write-offs in the business year	in '000 € Residual book value at 12-31-2002	in '000 € Residual book value in prior year
	2,320	1,316	1,922	6,154
	4,747	4,747	243	16,290
	9,983	6,998	1,711	7,121
	17,050	13,061	3,876	29,565
	168	101	126	120
	2,675	629	3,620	4,249
	2,843	730	3,746	4,369
	2,956	886	2,255	2,924
	-	-	126	156
	2,956	886	2,381	3,080
	22,849	14,677	10,003	37,014

statement of the business year 2002 or earlier. Since June 2002, an internal audit for the years 1997 to 1999 is being carried out by the Finanzamt für Körperschaften I von Berlin (Corporation Tax Authority in Berlin) in the Group. The present assessments indicate a back payment for taxes of about 360,000 € with interest of about 72,000 €.

Other provisions and accruals are mainly made up of the following:

Provisions and accruals for	in '000 € 12-31-2002	in '000 € 12-31-2001
charge-outs to the		
banking supervisory authorities	404	614
annual financial statements	236	290
personnel expenses	161	632
threatening losses	160	50
contributions to the Chamber of Industry and Commerce	110	110
contract note charges	53	80
dismantling of offices	52	40
Other provisions and accruals	95	146
Total	1,271	1,962

Special item partly with reserve character

The “special item partly with reserve character” records the special write-offs pursuant to Sections 1-4 Fördergebietsgesetz (FördGG) – (Regional Aid Act). They are released regularly over the assets’ effective period, in favour of the income statement. In 2002, releases were made in the amount of 1,579.00 €. There were no new formations.

Stock capital

On December 31, 2001, the stock capital was 16,797,016.00 €. On December 31, 2002, the stock capital consistently was 16,797,016.00 €, divided into 16,797,016 non-par individual stocks.

In the past business year, announcements regulated by Section 21 Subsection 1 of the Wertpapierhandelsgesetz (WpHG) – (Securities Trading Law), we received from the law firm Gleiss Lutz Hootz Hirsch, from Medusa Beteiligungsverwaltungsgesellschaft Nr. 75 mbH (Medusa Investment Administration Company Number 75 Ltd) and from the Bundesverband deutscher Banken (Federal Association of German Banks) and later from BNP Paribas S.A. These announcements were all in connection with the bid to save the former SchmidtBank KGaA, Hof/Saale, by a banking

consortium and the subsequent sale of shares in Consors Discount-Broker AG.

Approved capital

No capital increases were performed from the existing tranches of approved capital. The Board was authorized by the shareholders’ meeting of July 3, 2001, to increase the stock capital until July 2, 2006, with the consent of the Supervisory Board, by issue of new individual stocks against cash or non-cash contribution once or more than once by a total of up to 8,398,492.50 €. At the shareholders’ meeting on June 28, 2002, no authorization was resolved, so this still applies.

Contingent capital

The shareholders’ meeting of June 15, 1999, had resolved to contingently increase the stock capital by 600,000 € for an employee option scheme (contingent capital I) and by 5,940,000 € for the issue of stock option warrants without bonds (contingent capital II). On the basis of the contingent capital increase and in exploitation of the contingent capital II, a total of 527,802 stocks with a computed value of 1.00 € were issued up to December 31, 2002. At the shareholders’ meeting on June 28, 2002, a further contingent capital increase of 600,000 € was resolved. This entitles the Board to hand out convertible bonds and/or subscription rights without bonds to members of the Board and company employees as well as to members of the Board and employees of companies affiliated under the terms of Section 15 ff AktG.

Capital reserve

No monies were allocated to the capital reserve.

Revenue reserves

Because of the write-offs on our own shares, revenue reserves fell by 2,312,070.55 €. As regards the shares in Consors Discount-Broker AG, a reserve for stocks in a controlling company for the previous years had to be created. As a result of the sale of these shares the provisions and accruals, which at December 31, of the previous year amounted to 11,300,522.45 € in the Group, had to be released in full. In line with the Group’s fictitious appropriation of the result, the subsidiary’s retained earnings and the consolidation recognized in the result is shown under “other revenue reserves.” These have increased in the Group by 1,879,472.55 €.

Own stocks

On July 3, 2001, the shareholders' meeting authorized the Board, pursuant to Section 71 Subsection 1 Number 8 AktG, to acquire own stocks for the purpose of sale or for withdrawal from circulation. It was limited in time until December 31, 2002, and to 10.0% of the nominal capital of July 3, 2001, i.e. 1,679,698 stocks.

On June 28, 2002, the shareholders' meeting revised the authorization. It is now limited in time until December 31, 2003, and to 10.0% of the nominal capital of June 28, 2002, i.e. 1,679,701 stocks.

The resolution of the shareholders' meeting on June 28, 2002, authorized the Board to either partly or completely withdraw acquired stocks with the consent of the Supervisory Board on the basis of the authorization granted. This authorization may be used in part or completely and on one occasion or on several occasions.

In 2002, these authorizations have been made use of by selling stocks. The table following shows the number of stocks traded by calendar month. The purchases were made exclusively through the stock exchange. In 2002, Berliner Effektengesellschaft AG acquired 86,352 stocks for 495,000 €. The portfolio remaining in the company on December 31, 2002, of 832,857 own stocks, had to be written off by 2,807,000 € on account of strict adherence to the principle of lower of cost or market. A "reserve for own stocks" is to be recorded in the balance sheet to the amount of the residual book value of the own stocks of 4,623,000 €. Taking into account the reserve existing at December 31, 2001, 2,312,000 € were released from the reserve as at December 31, 2002. The reserve for stocks in a controlling company, which at December 31, 2001, amounted to 11,301,000 €, was released at the balance sheet date. For more details, please refer to the section "development of fixed assets."

Month	Number of stocks purchased/transferred	Number of stocks sold/disposed	Proportion of nominal capital
Brought forward	746,505	-	4.44%
January 2002	-	-	0.00%
February 2002	-	-	0.00%
March 2002	-	-	0.00%
April 2002	-	-	0.00%
May 2002	-	-	0.00%
June 2002	-	-	0.00%
Sub-total Authorization 2001	746,505	-	4.44%
July 2002	-	-	0.00%
August 2002	2,170	-	0.01%
September 2002	34,570	-	0.21%
October 2002	18,287	-	0.11%
November 2002	15,696	-	0.09%
December 2002	15,629	-	0.09%
Total Authorization 2002	86,352	-	0.51%
Grand total	832,857	-	4.96%

Balancing item for outside stockholders' shares

As at December 31, 2002, no subsidiaries, in which third party interests exist, will be included in the consolidated financial statements within the scope of full consolidation. Therefore, no balance item is shown.

D. EXPLANATIONS TO THE INCOME STATEMENT

Profits and expenses from financial transactions

The "profits and expenses from financial transactions" are income or losses which arise from purchase and sale of financial instruments, especially securities, as a result of market price fluctuations. Write-offs on trading stocks are dealt with separately. They are shown under "profits or expenses from financial transactions a) securities." Furthermore, differences from name-to-follow transactions are shown here under the sub-item b). In the past business year there were no profits or expenses from futures or options. The results from currency positions, which arose in connection with trading stocks in securities, are included in the total amount.

Other operating profits

The position "other operating profits" is a compound item, under which profits are shown which do not belong anywhere else and which arise from ordinary activities.

	in '000 € 2002	in '000 € 2001
Other cost charge-outs	472	503
Releases from other provisions and accruals	316	181
Income from the exit of tangible assets	19	-
Result from the exit of the Berliner Effektenbeteiligungsgesellschaft AG	-	1,160
Profits from tax charge-outs	-	58
Other profits	58	339
Total other operating profits	865	2,241

Personnel expenses

Included in the personnel expenses are supplementary grants and bonuses of 96,000 €. This represents a reduction of 1,189,000 € compared with last year.

Other administrative expenses

Shown under "other administrative expenses" are all expenses of a business nature, such as occupancy costs, contributions to the banking supervisory authorities, audit costs and such things. For the Group the breakdown appears as follows:

	in '000 € 2002	in '000 € 2001
Expenses for stock exchange information services	1,181	1,258
Stock exchange charges for contract notes, Xetra	1,140	1,648
Occupancy costs	865	950
Computing expenses	562	603
Expenses for data lines	558	233
Contributions to associations and banking supervisory authorities	548	755
Legal and consultancy fees	381	755
Other administrative expenses	1,025	2,225
<i>of which expenses relating to other periods</i>	193	855
Total other administrative expenses	6,260	8,427

Other operating expenses

The position "other operating expenses" is a compound item, under which expenses are shown which do not belong anywhere else and which arise from ordinary activities.

	in '000 € 2002	in '000 € 2001
Compensation for damages	3	36
Losses from the exit of tangible assets	41	24
Expenses from tax charge-outs	-	979
Other expenses	25	-
Total other operating expenses	69	1,039

Write-offs and value adjustments on receivables and certain securities as well as allocations to provisions and accruals in credit business

The total sum of 5,302,000 € includes write-offs on own stocks of 2,807,000 € and write-offs and value adjustments on receivables of 2,495,000 €. There included is the value adjustment of a convertible promissory note issued by Ladenburg Thalmann Financial Services Inc., New York, USA, with a value of 2,346,000 €.

Write-offs and value adjustments on participatory investments

The considerable write-offs on participatory investments come from the financial statements of the Berliner Effektengesellschaft AG and were carried out using the principle of lower of cost or market. The market value or the applicable value was used as a benchmark. The applicable value was determined by assessing the earning-capacity value, the current stockholders' equity provisions and the profitability or current capital measures and the resulting evaluations. The write-offs are made up as follows:

Participatory investments	Amount in €	Write-offs on
Ladenburg Thalmann Financial Services Inc.	4,546,862.73	applicable value
Consors Capital Bank AG	4,746,636.00	applicable value
Nasdaq Europe S.A.	1,379,366.95	applicable value
Online Securities Holding Inc.	1,071,706.34	applicable value
Total	11,744,572.02	

Also shown under this position is the balanced loss of 872,000 € from the sale of shares in Consors Discount-Broker AG.

Extraordinary expenses

The Consors Capital Bank AG incurred extraordinary expenses due to the close of its branch in Frankfurt/Main. Since these expenses were offset by corresponding profits, a contract for the takeover of losses was agreed with the shareholders. The holding in the Berliner Effektengesellschaft AG Group amounted to 1,153,000 €, which was booked as extraordinary expenses.

Income and profit taxes

The Berliner Effektengesellschaft AG Group received a refund on the 1999 tax assessments and corrections to tax declarations. Since June 2002, a fiscal company audit for the years 1997 to 1999 is being carried out in the Berliner Effektengesellschaft AG and the Berliner Freiverkehr (Aktien) AG. In line with the present assessments and taking into consideration the interest expected, appropriate provisions and accruals were formed. Therefore, income and profit taxes show a balance of 107,000 €.

E. OTHER INFORMATION

Forward transactions

During the business year there were no transactions for own account in a contract subject to a price risk.

There were no forward transactions outstanding at the balance sheet date.

Other financial commitments

The Group has obligations of 4,170,000 € from rental, leasing and servicing contracts. They relate mainly to rental contracts for office premises. Berliner Freiverkehr (Aktien) AG has taken up guarantee lines from various banks. The total amount is 8,356,000 €. Above all, they serve as collateral pursuant to the Börsengesetz (BörsG) – (Stock Exchange Law), for the risks arising from the processing of name-to-follow transactions and from price differences. We have pledged balances and securities with a value of 4,500,000 € for the guarantee lines. In addition, the mortgage regarding a bank balance of the Berliner Freiverkehr (Aktien) AG, amounting to 1.2 million US-\$, approximately 1.1 million €, for the liabilities of a company in the USA, has been abolished.

Interests held

The following information relates to December 31, 2002, or the business year 2002, unless otherwise specified.

Affiliated company included in the Group financial statements:

Berliner Freiverkehr (Aktien) AG, Berlin

Nominal capital:	23,000,000.00 €
Interests held: 100.0%	23,000,000.00 €
Stockholders' equity:	34,857,491.72 €
Net income:	- 2,316,905.38 €

Online Securities Holding Inc., Delaware, USA

Nominal capital:	230,004.12 US-\$
Interests held: 28.0%	60,303.03 US-\$
Stockholders' equity	
as at December 31, 2001:	2,025,120.00 US-\$
Net income 2001:	- 2,323,600.00 US-\$

The associated companies are:

Ventegis Capital AG, Berlin

Nominal capital:	12,608,455.00 €
Interests held: 37.1%	4,673,271.00 €
Stockholders' equity:	4,993,270.15 €
Net income:	- 8,085,271.06 €

The associated company Online Securities Holding Inc. is of subordinate importance for the Group financial statements. If included in the annual financial statements, it would not have any substantial impact because of its balance sheet totals and results. The participatory investment was adjusted in value completely.

Employees

The number of employees has developed as follows:

	Female	Male	Total
Average of the year			
Board members	1.0	3.0	4.0
Traders	7.2	29.3	36.5
Other employees	14.7	19.7	34.4
Maternity regulations	2.3	0.0	2.3
Student trainees	2.0	14.3	16.3
Total	27.2	66.3	93.5
off which part-time employees (number of persons)	6.0	16.8	22.8
off which part-time employees (equal to full-time employees)	3.8	6.0	9.8
As at December 31, 2002			
Board members	1.0	3.0	4.0
Traders	6.0	29.0	35.0
Other employees	14.0	20.0	34.0
Maternity regulations	3.0	0.0	3.0
Student trainees	2.0	14.0	16.0
Total	26.0	66.0	92.0
off which part-time employees (number of persons)	6.0	17.0	23.0
off which part-time employees (equal to full-time employees)	3.6	5.0	8.6

CORPORATE BODIES OF BERLINER EFFEKTENGESELLSCHAFT AG

(as at December 31, 2002)

Members of the Board

Dr. Jörg Franke, Frankfurt/Main,
Speaker

Chairman of the Supervisory Board:

RTS Realtime Systems (Deutschland) AG, Frankfurt/Main

Chairman of the Stock Exchange Council:

Berlin-Bremen Stock Exchange, Berlin and Bremen
(since March 20, 2003)

Deputy Chairman of the Supervisory Board:

Berliner Börse AG, Berlin
(since October 24, 2002)

Member of the Supervisory Board:

Nasdaq Deutschland AG, Berlin and Bremen
(since February 25, 2003)

Member of the Board:

Nasdaq Europe S.A., Brussels, Belgium/London, UK

Member of the Supervisory Board:

Mummert Consulting AG, Hamburg

Member of the Board:

Bundesverband der Finanzintermediäre an den deutschen Wertpapierbörsen
(Federal Association of Financial Intermediaries on the
German Stock Exchanges), Frankfurt/Main

Member of the Board of Directors:

Fresco SICAV, Luxembourg

Member of the Advisory Board:

Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt/Main

Holger Timm, Berlin,
Speaker

Chairman of the Board of

Berliner Freiverkehr (Aktien) AG, Berlin

Chairman of the Supervisory Board:

Ventegis Capital AG, Berlin

Member of the Supervisory Board:

Consorts Capital Bank AG, Berlin (formerly Frankfurt/Main)
EuroChange AG, Berlin

Member of the Board:

Ladenburg Thalmann & Co. Inc., New York, USA

Members of the Supervisory Board

André Dujardin, Berlin,
entrepreneur

Member of the Advisory Board:

Berliner Volksbank eG, Berlin

Dr. Reto Francioni, Zurich, Switzerland,
President, SWX Swiss Exchange
Chairman
(until February 19, 2002)

Member of the Administrative Board:

EUREX, Frankfurt/Main and Zurich, Switzerland
virt-x, London, UK

Wolfgang Hermanni, Berlin,
businessman

Deputy Chairman
(until March 21, 2002)

Chairman
(since March 21, 2002)

Chairman of the Supervisory Board:

Berliner Freiverkehr (Aktien) AG, Berlin
EuroChange AG, Berlin

Member of the Supervisory Board:

Ventegis Capital AG, Berlin

Jean-Philippe Huguet, Neuilly-sur-Seine, France,
General Secretary and CFO, Cortal Consors
(since February 20, 2003)

Dr. Andor Koritz, Berlin,
lawyer

Deputy Chairman
(since March 21, 2002)

Member of the Supervisory Board:

Berliner Freiverkehr (Aktien) AG, Berlin

Detlef Prinz, Berlin,
entrepreneur

Member of the Supervisory Board:

Messe Berlin GmbH, Berlin

Dr. Günter Rexrodt, Berlin,
member of the Bundestag (Lower House), former
Federal Minister for Economics

Chairman of the Supervisory Board:

AGIV Real Estate AG, Hamburg

Member of the Supervisory Board:

AWD Holding AG, Hannover
DTZ Zadelhoff Holding GmbH, Frankfurt/Main
Landau Media AG, Berlin

Member of the Board of Directors:

Skandia AB, Stockholm, Sweden

Dr. Uwe Schroeder-Wildberg, Nuremberg,
member of the Board (CFO), MLP AG
(until January 31, 2003)

Chairman of the Supervisory Board:

Consorts Capital Bank AG, Berlin (formerly Frankfurt/Main)

Member of the Supervisory Board:

Consorts France S.A., Paris, France
elnsurance Agency AG, Munich

Remuneration of the corporate bodies

From the fully consolidated companies, Dr. Jörg Franke received remuneration of 370,000 €. 63,000 € of this was in contributions to a pension fund and benefits in kind in the form of a company car. Mr. Holger Timm received 123,000 €. Remuneration to the members of the Supervisory Board was 81,000 € in the Group and is made up as follows:

	Remuneration in €
André Dujardin	11,600.00
Wolfgang Hermann	23,200.00
Dr. Andor Koritz	23,200.00
Detlef Prinz	11,600.00
Dr. Günter Rexrodt	11,600.00

Payments or benefits for personally rendered services were not made to Board members or Supervisory Board members.

Stock ownership/Trading in company stocks by members of the corporate bodies

Last year, members of the Board acquired a total of 345,000 stocks and sold none. As at December 31, 2002, Board members held 4,541,069 stocks and 155,000 options on stocks of the company, of which 4,541,069 stocks and 35,000 options went to Mr. Holger Timm.

In the past year, the members of the Supervisory Board neither acquired nor sold any stocks. As at December 31, 2002, the members of the Supervisory Board held less than 1.0% of the stock capital and no options on stocks of the company.

Stock option scheme

In 2000, for the first time, the Berliner Effektengesellschaft AG applied a stock option scheme for the employees of all companies belonging to the Group. In each of the years from 2000 to 2002 employees were offered 200,000 option rights. For each option the bearer is entitled to buy one individual stock of the company, which corresponds to one share of the nominal capital at 1.00 €. The condition for exercising the option rights is an increase of at least 5.0% in the closing price of the stock of the Berliner Effektengesellschaft AG on the Berlin Stock Exchange, compared with the average closing price of the company's stock of the last 20 trading days before conceding the option right. Further details on the stock option scheme are summarized below:

Year of allocation	Options offered	Options accepted	Option rights still existing	Exercise period	Exercise price	Exercise obstacle
2000	200,000	186,500	78,500	03-01-2002 – 02-28-2005	27.00 €	29.17 €
2001	200,000	194,000	172,500	03-01-2003 – 02-28-2006	27.00 €	26.43 €
2002	200,000	196,500	191,000	03-01-2004 – 02-28-2007	10.35 €	10.72 €

Group segment reporting

The Group segment reporting following was drawn up according to Deutscher Rechnungslegungsstandard Nr. 3 (German Accounting Standard Number 3) in conjunction with Deutscher Rechnungslegungsstandard Nr. 3-10 (German Accounting Standard Number 3-10), which contains supplementary regulations for banks.

The commissions received and paid, which are largely made up of courtage, are allocated to the segments which actually carried out the underlying business. Commissions paid in connection with payment transactions and guarantees arranged for the Group are shown under central scope. The result from financial transactions, which comprises mainly the differences from name-to-follow transactions, is also added to the segment which is responsible for operations. Here, the results included from the valuation of foreign currency balances held at banks are, on principle, accounted for by central scope. The result of interest profits/expenses is almost exclusively made up of the profits of investments in liquid funds. At the moment, this business is run at central scope and the profits are allocated accordingly. The basic principle of allocating administrative expenses to the segments is that they should pay for the expenses they incur. Higher level items, for example the provision of the IT-structure, are included in the central scope. An arithmetical charge-out to individual segments is not in operation at the moment.

The segment assets and segment liabilities contain the equity assets or liabilities in the segment, arising from trading activities. The current account balances held at banks serve mainly payment transactions and investments in liquid funds and are therefore shown under central scope.

The risk positions are the risk assets and the market risk positions at each segment level, according to Grundsatz I (Principle I). The equity capital was divided on the basis of differentiated benchmarks. The basis of the breakdown is a risk orientated approach. The risk positions flow into the division, along with existing limitations and the allocation of the amount from the commission surplus and the result from financial transactions and personnel expenses. The return on allocated capital is shown as a quotient of the result after provision for risks per segment and the allotted capital. The cost/income ratio is the quotient from

administrative expenses and the sum of profits according to the classification of the income statement.

The Berliner Effektengesellschaft AG Group is yet only active in the exclusive market specialist business/ securities trading. The business fields venture capital and private banking specified in previous years are now operated by companies no longer fully consolidated, thus a reorganization of the Group segment reporting became necessary. The business area exclusive market specialist business/securities trading is not divided further. Within the scope of the exclusive market specialist and the stockbrokerage business, transactions in securities are either relayed directly, placed with a time limit (name-to-follow transactions) or passed on to the relative exclusive market specialists. A useful and arbitrary-free restriction of these activities is not possible, mainly because of expenses and profits. Since a trader administers these tasks in parallel for certain securities, the splitting of his job, for example by means of timing, is also ruled out. Apart from this operative segment there are only central scopes which incorporate mainly technical support and administration. The allocation of expenses and profits is carried out on the basis of responsibility. If direct allocation is not possible, a suitable distribution code is used. The Group result is shown as a summary of segment data and data of central scopes and consolidation.

GROUP SEGMENT REPORTING
BERLINER EFFEKTEGESELLSCHAFT AG, BERLIN

	Exclusive market specialist business/Securities trading		Central scopes/ Consolidation		Group	
	in '000 € 2002	in '000 € 2001	in '000 € 2002	in '000 € 2001	in '000 € 2002	in '000 € 2001
Interest surplus	34	104	1,544	2,427	1,578	2,531
Result from associated companies	-	-	- 4,199	- 2,372	- 4,199	- 2,372
Commission surplus	3,741	9,277	- 7	- 44	3,734	9,233
Result from financial transactions	4,949	4,912	- 192	- 357	4,757	4,555
Total profits	8,724	14,293	- 2,854	- 346	5,870	13,947
General administrative expenses (including write-offs)	- 6,305	- 8,316	- 6,518	- 8,630	- 12,823	- 16,946
Other expenses/profits	- 28	41	824	1,160	796	1,201
Result before provision for risks	2,391	6,018	- 8,548	- 7,816	- 6,157	- 1,798
Total provision for risks	-	- 103	- 5,301	- 7,698	- 5,301	- 7,801
Result after provision for risks	2,391	5,915	- 13,849	- 15,514	- 11,458	- 9,599
Segment assets	877	948	44,334	46,168	45,211	47,116
Cash reserve assets	-	-	1	-	1	-
Receivables from banks	773	689	44,304	46,168	45,077	46,857
Receivables from customers	60	101	29	-	89	101
Trading assets	44	158	-	-	44	158
Segment liabilities	750	272	-	-	750	272
Liabilities to banks	602	75	-	-	602	75
Liabilities to customers	148	197	-	-	148	197
Securitized liabilities	-	-	-	-	-	-
Trading liabilities	-	-	-	-	-	-
Risk positions	8,110	12,741	68,789	104,055	76,899	116,796
Risk assets	1,933	2,025	66,703	100,670	68,636	102,695
Market risk positions	6,177	10,716	2,086	3,385	8,263	14,101
Equity capital (without retained earnings)	24,838	29,385	99,407	89,341	124,245	118,726
Average number of employees (including student trainees)	52.0	57.0	41.5	38.2	93.5	95.2
Return on allocated capital	9.6%	20.1%	- 13.9%	- 17.4%	- 9.2%	- 8.1%
Expenses/profit ratio	72.5%	58.0%				

Return = Result after provision for risks/equity capital

Group cash flow statement

The Group cash flow statement following was drawn up according to Deutscher Rechnungslegungsstandard Nr. 2 (German Accounting Standard Number 2) in conjunction with Deutscher Rechnungslegungsstandard Nr. 2-10 (German Accounting Standard Number 2-10), which contains supplementary regulations for banks.

On account of the activities of the companies in the Group, cash and cash equivalents contain the cash balances of all companies and the current account balances due daily, held at banks, by Berliner Effektengesellschaft AG and Berliner Freiverkehr (Aktien) AG. The cash flow from operating activities includes the changes in the overnight funds and fixed-term deposits of Berliner Effektengesellschaft AG and Berliner Freiverkehr (Aktien) AG. At the balance sheet date, there were overnight funds amounting to 2.5 million € and fixed-term deposits totalling 37.2 million €.

Minority stakeholders have not made any capital contributions. They did not receive any distributions.

The Group cash flow statement does not include the increase in the participatory investment in Nasdaq Europe S.A. The new shares in Nasdaq Europe S.A. are the result of conversion of a loan to stockholders' equity. There were no other non-cash events of significance in 2002.

Berlin, March 11, 2003

Berliner Effektengesellschaft AG

Holger Timm

Dr. Jörg Franke

GROUP CASH FLOW STATEMENT
BERLINER EFFEKTEGESELLSCHAFT AG, BERLIN

	in '000 € 2002	in '000 € 2001
Net income	- 25,344	- 58,093
Non-cash items contained in the net income, and reconciliation to the cash flow from operating activities	-	-
Write-offs, value adjustments and write-ups on tangible and financial assets	17,562	53,697
Changes in provisions and accruals	- 259	- 7,947
Change in non-cash items	6,219	11,006
Income/loss from the sale of financial and tangible assets	894	- 1,137
Other adjustments (balance)	- 189	172
Sub-total	- 1,117	- 2,302
Changes in net assets and liabilities from operating activities after correction for non-cash components	-	-
Receivables		
from banks	941	28,195
from customers	-	-
Securities (unless financial assets)	- 9,772	1,992
Other asset items from operating activities	- 405	- 9,850
Liabilities		
to banks	431	1,360
to customers	-	- 2
Securitized liabilities	-	-
Other liability items from operating activities	- 362	4,021
Extraordinary payments received	-	-
Extraordinary payments made	-	-
Cash flow from operating activities	- 10,284	23,414
including: Interest and dividends received	1,706	6,145
Interest paid	-	- 4
Payments of profit tax	14	- 28,004
Payments received from the sale of		
Financial assets	10,429	1,671
Tangible assets	50	10
Payments made for the purchase of		
Financial assets	-	- 9,891
Tangible assets	- 367	- 1,028
Effects from the change in the scope of consolidation		
Payments received from the sale of consolidated companies and other business units	-	-
Payments made for the acquisition of consolidated companies and other business units	-	-
Changes in funds from other investment activities (balance)	-	-
Cash flow from investment activities	10,112	- 9,238
Payments received from capital increases	-	1
Dividend payments	-	- 9,794
Purchase and sale of own stocks	- 495	- 10,143
Changes in funds from subordinated capital as well as other hybrid capital (balance)	-	-
Payments received from loans taken up	-	-
Payments made for the redemption of loans	-	-
Cash flow from financing activities	- 495	- 19,936
Cash holdings at end of the prior period	4,919	10,680
<i>of which cash reserve assets</i>	3	1,863
<i>of which receivables from banks due daily</i>	4,916	8,817
Cash flow from operating activities	- 10,284	23,414
Cash flow from investment activities	10,112	- 9,238
Cash flow from financing activities	- 495	- 19,936
Changes in cash and cash equivalents on account of exchange rates, scope of consolidation and valuation	-	- 1
Cash holdings at end of period	4,252	4,919
<i>of which cash reserve assets</i>	1	3
<i>of which receivables from banks due daily</i>	4,251	4,916

SUMMARIZED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT OF BERLINER EFFEKTENGESELLSCHAFT AG TO THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

1. GENERAL COMMENTS ON THE ECONOMIC ENVIRONMENT

The already very unedifying development of 2001 for the financial services industry has become considerably worse during the reporting year 2002. All conceivable services on which the Group is directly or indirectly dependent for its operations have been affected. Thus, as in the last year, the whole sector of venture capital and investment banking in Germany has reached such a low that there is no stimulus for the core business of stock exchange trading and market making. From order flow providers, particularly the online brokers who make up the majority of customers of the Berliner Freiverkehr (Aktien) AG, there is no new business to be acquired. The stock of customers continues to reduce its turnover, due to drastic loss of assets and not least to the complete uncertainty with regard to the economic and political situation. For the Berliner Freiverkehr (Aktien) AG this has led to another significant downturn in executed orders of around 42.0%, despite the fact that since the middle of the year our own platform, TradeGate®, gained a considerable amount of new business on the DAX.

The assumption made in the last management report of a speedy market consolidation in the area of stockbrokers and exclusive market specialists has proven to be correct. Some financial services companies went bankrupt during last year or were unable to meet the legal and supervisory requirements referring to their industry. With regard to the market capitalization compared with our immediate competitors, the company is larger than all competitors listed on the stock exchange put together.

All conditions in the sector have deteriorated on a worldwide basis. Company failures and financial scandals in the USA have had particularly negative consequences. Without stimulus from this market, the most important for the sector, no improvement of the domestic situation is in sight. The financial location of Germany is already in serious crisis, partly of its own making.

2. COURSE OF BUSINESS

2.1 Development of profits

The difficult situation of the financial services sector is clearly reflected in the result. On one hand, the development of the Berliner Freiverkehr (Aktien) AG played a decisive role, but so too did the negative changes in our participatory investments, necessitating a substantial revaluation of the Berliner Effektengesellschaft AG's portfolio.

Due to declining business, no noteworthy surplus funds were achieved and as the interest rate also declined, the interest profits fell by 35.4%. On the other hand, interest expenses increased dramatically. The reason being the creation of provisions and accruals for interest to be paid back for taxes. The associated company Ventegis Capital AG had to make substantial value adjustments and write-offs on its participatory investments and stakeholders' loans. According to the participatory ratio of the Berliner Effektengesellschaft AG, the appropriate share result, along with write-offs on goodwill, is shown under "result from associated companies." The much lower commission surplus is a result of very weak stock exchange business and the interrelated courtage. The business of relaying securities transactions fell to a low, particularly on the Frankfurt/Main Stock Exchange. One form of backing for profitability was the development of the result from financial transactions. However, the profits and expenses from financial transactions, which are primarily made up of price differences from name-to-follow transactions, fell almost at the same rate so that the result from financial transactions hardly changed at all.

Within general administrative expenses it was possible to achieve a saving of 3,073,000 €. This can be ascribed to personnel expenses which were reduced by about 1,721,000 €, mainly through fewer bonuses and supplementary grants for the staff of Berliner Freiverkehr (Aktien) AG. Other administrative expenses were, on balance, reduced by 2,167,000 €. The reduction in variable expenses such as charges for contract notes were pitted against higher expenses for data lines. One-off charges incurred during the previous year for

back payments to the banking supervisory authorities and the Chamber of Industry and Commerce also improved the income statement for 2002 compared with 2001.

Once again, write-offs on participatory investments and own stocks burdened the profitability of the Berliner Effektengesellschaft AG and therefore the Group. The participatory investment in Ladenburg Thalmann Financial Services Inc. was written off completely. The reason being the negative business development of the Ladenburg Thalmann Financial Services Inc. Group, which is reflected in a Group's loss at September 30, 2002, of 10,014,000 US-\$ and a negative Group stockholders' equity of 3,499,000 US-\$. Sale of the shares held by us on the stock exchange would have been very difficult because of the extremely low volume of trading so that a valuation of the stock exchange value was not appropriate.

Our participatory investment in Nasdaq Europe S.A., which was made only last year, was written off since the loan granted of 1,400,000 € was to be converted into stocks prior to maturity. Compared with the initial investment at 208.00 € per stock, a conversion price of 17.00 € was agreed. Thus, the Berliner Effektengesellschaft AG reduced the value of the initial investment to the conversion value plus the proportionate additional charges. The Online Securities Holding Inc. is seriously affected by the weak development of securities business. Since, moreover, very few liquidity funds are available and an input of equity is not expected, a complete participatory investment write-off seemed appropriate.

The Consors Capital Bank AG, listed under "stocks in affiliated companies," again made a high net loss in 2002 even though 7.5 million € was taken over by the two main shareholders Consors Discount-Broker AG and the Berliner Effektengesellschaft AG. The Berliner Effektengesellschaft AG's share of the loss takeover appears in both the income statement of the company and the Group under "extraordinary expenses." The reorientation of the bank – the Frankfurt/Main branch was closed down and a concentration on private banking and securities settlement took place – brought about a revaluation. In the course of assessing the earning-capacity value there was a certain necessity to write off.

Development of results compared with last year:

	2002	2001	Absolut	in %
Interest surplus	1,578	2,530	- 952	- 37.6%
Result from associated companies	- 4,199	- 2,372	- 1,827	77.0%
Commission surplus	3,734	9,233	- 5,499	- 59.6%
Result from financial transactions	4,757	4,556	201	4.4%
Gross profits	- 5,870	13,947	- 8,077	- 57.9%
General administrative expenses				
Personnel expenses	- 4,945	- 6,666	1,721	- 25.8%
Other administrative expenses	- 6,260	- 8,427	2,167	- 25.7%
Write-offs on intangible assets and tangible assets	- 1,617	- 1,853	236	- 12.7%
Total	- 12,822	- 16,946	4,124	- 24.3%
Other operating profits/expenses (balance)	797	1,205	- 408	- 33.9%
Operating result before provision for risks	- 6,155	- 1,794	- 4,361	243.1%
Provision for risks (write-offs on participatory investments, among others)	- 17,919	- 57,220	39,301	- 68.7%
Operating result after provision for risks	- 24,074	- 59,014	34,940	- 59.2%
Extraordinary result	- 1,153	-	- 1,153	0.0%
Tax	- 117	921	- 1,038	- 112.7%
Net income	- 25,344	- 58,093	32,749	- 56.4%

The development of results of the Berliner Effekten-gesellschaft AG was marked by the above-mentioned write-offs. Up until now, only the participatory investment in Berliner Freiverkehr (Aktien) AG has not been written off. As a consequence of the cumulative losses of the last two years, the book value is higher than the proportionate stockholders' equity. Should there be no improvement in profits next business year, a revaluation even of this participatory investment may be considered.

2.2 Development of balance sheet

The Group's balance sheet underwent a rather significant change when compared with last year. The adjustment in valuation of the participatory investments of the Berliner Effektengesellschaft AG and the sale of the shares in Consors Discount-Broker AG has changed the equation considerably. As a result of the write-offs on participatory investments, they are shown with a decrease of 76.0%. At the end of last year, the "stocks in affiliated companies" still included the Consors Discount-Broker AG stocks. When selling, the book value of 11,301,000 € could not be attained,

which meant a loss realized of 872,000 €. In addition, the valuation of Consors Capital Bank AG was reduced by 95.1% so that under “stocks in affiliated companies” only 243,000 € are shown. The balance of Ventegis Capital AG turned out to be only 68.8% lower. The reason for this was the write-offs within the company’s participatory investment portfolio, which were partly reflected in the amount stated at equity. The changes in “own stocks” and “receivables from banks” are also as a result of the effected write-offs. The receivables of 1,990,000 US-\$ from Ladenburg Thalmann Financial Services Inc., which were written off at December 31, 2002, were last year included under “receivables from banks.” “Stocks and other non-fixed interest securities” increased since the proceeds from the sale of stocks of Consors Discount-Broker AG were invested in shares in money market funds. Here, a write-off was unnecessary.

Since the changes in assets are due in the most part to activities affecting results, the stockholders’ equity has changed accordingly considerable (- 21.3%).

The above implementation also describes the major changes in the balance sheet of the Berliner Effektengesellschaft AG. In the annual financial statements of the Berliner Effektengesellschaft AG, as at December 31, 2001, the stocks of Consors Discount-Broker AG were included with a book value of 4,841,000 €, they were sold with 247,000 € income. The participatory investment in Ventegis Capital AG was written off in the annual financial statements at the stock exchange value of the shares.

3. RISK REPORT

3.1 General

The Berliner Effektengesellschaft AG Group is aware of the risks relevant to the Group and is continually developing techniques for handling, monitoring and controlling them. In principle, risk is understood to be the negative difference between actual incidents and expected incidents. The basis of risk management system is the classification of risks into market price risks, operational risks, risks of counterparty defaults and liquidity risks.

The risk management system which is based on the decentralized controlling and monitoring of risks

differentiates between the areas most exposed to risk, risk management in the narrow sense and risk control, which monitors the risk situation and supports risk management, in particular with information on risks assumed. The Controlling department is also largely responsible for the further development of the risk management system.

3.2 Market price risks

Market price risks arise from changes in stock prices or in currency and interest rates, which result in a change of value of the financial instruments within the portfolio. Negative changes in the market price of financial instruments within the portfolio, for example stocks, bonds or bank balances in foreign currency, can lead to write-offs which effect results. Since a focal point of the Group’s business activities lies in the trading and relaying of transactions of stocks of foreign companies, especially US-American securities, an indirect foreign currency risk also has to be borne. For example, in an ideal market, changes in the US-\$ exchange rate bring about corresponding changes in the stock price in €. In the realms of risk management system this risk is seen as an implicit part of the stock price risk.

In controlling the stock price risk the computing system RiskMAP deployed by the Berliner Freiverkehr (Aktien) AG has proven itself efficient. With RiskMAP the acquisition costs of open positions – here it is largely a matter of name-to-follow transactions – is compared with current reference prices. From this, a pending result can be worked out. To get an idea of the aggregate exposure, the calculated result of individually settled positions – a trader can have open name-to-follow positions from buy and sell positions for the same security – as well as the already realized result of the day are pooled with the pending result. This mass forms the basis for monitoring through risk controlling, too. Any crossing of this limits, which may happen sporadically in single trading departments, is investigated and, using appropriate methods, removed. At no time has the company ever been in any danger. As a result of the decrease in the volume of trading on the stock markets the internal limits of the trading department were reduced over the business year. Supplementary to the internal limits of the trading departments, a system was introduced to mechanically monitor limits via a point independent of the trading

department. The limits, monitored with that, which are at least the same as the internal trading limits, are orientated towards losses which would be dangerous for the existence of the company and are based on the stockholders' equity provisions, the predicted result and any other risk situation. The test phase was successful so that the system is operational now. Since the limits are, among other things, based on internal planning, the actual development is checked against the projection. If necessary, the limits are adjusted.

3.3 Operational risks

By operational risks we mean such risks arising out of inappropriate or faulty company operations caused by employees or systems or external occurrences, including legal risks.

The decentralized controlling of operational risks was supplemented by a central risk catalogue. Each department, especially in the areas IT-Operations and IT-Development, controls the risks arising from their own area in coordination with the Board. In the process of compiling the risk catalogue, categories were formed according to frequency of occurrence and extent of damage per fault. These categories are regularly checked and adjusted if necessary by a working group where all areas of the company are involved. More detailed categories are planned for 2003. As a further step, the special risks which result from the wide use of computers were watched separately and possible counteraction and its realized or planned implementation was added to this. Possible steps which are not meant to be implemented are documented accordingly. This detailed inspection will be extended into other areas. Furthermore, as of 2003, a central record of damages will be kept which, among other things, will serve to check the categories.

During the risk inventory of 2000 the risk of ownership change of the Berliner Effektengesellschaft AG was identified. The risks and also the opportunities which come out of this are described under 5. Outlook.

Part of the controlling of operational risks is the set-up of an internal audit for the Berliner Freiverkehr (Aktien) AG. For reasons of cost, the tasks of this internal audit were outsourced to a large auditing company. In terms of their activities, areas of the subsidiary Berliner Freiverkehr (Aktien) AG are examined regularly

which is reported to the Board of the Berliner Freiverkehr (Aktien) AG. A focus of last year was the scrutiny of computer based processes, no major complaint was made.

The legal risks are limited by the use of internal and, when necessary, external legal knowledge, too. Any contracts which are not in standard form are presented to the company lawyer for inspection. For complex contracts in particular, for example those which require a deeper knowledge of foreign law, other experts are also consulted. Under legal risks we also count the further development of supervisory, banking and stock exchange law, which we are watching with a critical eye. As far as possible, the fundamental consequences of new directions are raised and discussed in-house before they come into effect.

3.4 Other risks

Other risks include the risks of counterparty defaults and liquidity risks. The counterparty default risk is the danger that a debtor fulfills his obligations either too late, incompletely or not at all. For the main part, the Berliner Effektengesellschaft AG Group shows receivables from banks in the Group balance sheet. Our most important connection with a bank, where the main part of our investments in liquid funds were made, is that with the Consors Capital Bank AG which belongs to the affiliated companies. Since it is an affiliated company, the deposits placed here are not subject to deposit insurance. In addition, there are accounts with further domestic and two other foreign banks. Apart from these bank accounts, which are used for payment transfers and cash deposits, there are receivables from securities transactions from other stockbrokers. As these are regulated by stock exchange systems and the market participants are subject to supervision by the stock exchanges and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) – (The Federal Financial Supervisory Authority), the risks here are considered minimal. Besides this, under "other current assets" receivables from repayments of trade tax charge-outs to the parent company are included.

Liquidity risk we understand to be the danger that payment commitments might not be made on time, in full or not at all, or that it might not be possible to transfer fixed assets into liquidity funds at the

appropriate time or to the appropriate extent. Control of solvency occurs within a plan of payments received and outgoing payments over the next twelve months. The first quarter is reported on a monthly basis, thereafter reports are made on a quarterly basis. If there are certain shortfalls, reports are made more often than normal. In the last year the self-imposed limits did not fall short. In addition, the Berliner Freiverkehr (Aktien) AG is subject to the regulations of Grundsatz II (Principle II), which makes certain minimum demands on the proportion of financial resources and financial liabilities. During the past year, the index numbers wavered between 18.3 and 51.8 by a minimum figure of 1 stipulated by Principle II.

Added to this are the risks from participatory investments of the Berliner Effektengesellschaft AG, here, losses in value can arise from an accordingly negative development in the invested companies. Possibly, in the case of a close working relationship, this could also lead to loss of image.

3.5 Reporting

The Board had at its disposal all necessary information from different systems, above all for the control of market price risks. In future, this will be summarized in a risk report which contains the realized and pending results of the previous day and the current month, the balance of risk limits at the close of trading of the previous day, information on limit changes and any unusual occurrences. This report will be passed to the Board member responsible for Controlling and, on request, also to the other members of the Board. In addition, once a month, a report is made listing any noteworthy limit-overshoot and unusual business transactions with regard to business partners, volume, conditions and business background. Details of any other major risks to the company are also put in the report. In particular, details of damages arising from operational risks, unusual occurrences and action taken are reported. This risk report complements the monthly report made for the Board on economic development. Apart from the balance sheet and the income statement, it contains details of employee development, development in securities transactions and several key figures. At present, the Board receives a detailed quarterly report on the company's solvency. In order to improve the transparency of general administrative expenses, the Board and department

heads are provided with an analysis of the costs allocated to their area. In meetings, questions can be raised and any necessary action discussed. Along with improved transparency it is aimed to increase the sensibility of those responsible.

3.6 Financial Services Supervision

On the grounds of its licence to be permitted to supply financial services according to Section 1 Subsection 1 a Sentence 2 Numbers 1,2 and 4 of the Gesetz über das Kreditwesen (KWG) – (Banking Law), the Berliner Freiverkehr (Aktien) AG, which belongs to the Group, is subject to supervision by the BaFin. Accordingly, a monthly interim statement plus income statement, calculations based on Principles I and II and, quarterly, declarations of any large loans and loans in millions must be submitted. Unusual occurrences are to be announced separately. Due to the size of the company we were also required to undertake an internal audit according to the minimum demands of the definition of internal audits for banks. The index numbers coming out of the Principles always fulfilled the minimum demands without difficulty. Thus, the stockholders' equity ratio, which places the liable equity capital within the framework of the KWG in relation to the risk assets, varied between 192.2% and 220.5%. The overall figure which places the calculable liable capital funds which correspond with our liable equity capital, in relation to the risk positions, varied between 128.0% and 153.4%. Consolidated surveillance by the banking supervisory authorities is not done at the moment since the Group is subordinated to Consors Discount-Broker AG.

4. DECLARATION PURSUANT TO SECTION 312 AKTG

According to Section 312 AktG, the Board of Berliner Effektengesellschaft AG has submitted a report on the relationships with affiliated companies for the year 2002. The final declaration of this report is: "Apart from the legal transactions and measures stated above, no legal transactions were undertaken in the reporting period, nor were any measures known which would have to be reported. The Board of Berliner Effektengesellschaft AG, Berlin, declares, in accordance with Section 312 AktG, that for each legal transaction with the controlling company and the companies affiliated with the controlling company, and for each measure taken or refrained from in their interest, the company received an appropriate consideration. The

judgment was made in each case on the basis of the circumstances at the time the legal transaction was concluded or the measure taken or refrained from.”

5. OUTLOOK

For the coming business year the Group expects no improvement in the general conditions. There is certainly a fear that the order volume which is important for the Group will, at the very least, remain at a low level, possibly drop even further. In order to balance out these losses the Berliner Freiverkehr (Aktien) AG in particular must, by way of compensation, win order flow from other market participants.

Through the newly improved Group-owned platform TradeGate® and via the participation of the Berliner Freiverkehr (Aktien) AG as market maker at the to be newly launched stock exchange Nasdaq Deutschland, which will go into operation in March 2003, the basic prerequisites for winning order flow are in place. Reductions in market volume as a whole could also be compensated for by the further market adjustment caused by the drop out of other, incompetent financial services providers.

Disproportionate increases in administrative expenses will continue to put a strain on the Group's business results, which arise for the most part from legislation for financial services providers (audits according to the WpHG, compliance, internal audit, reporting, charge-outs to the BaFin, etc.). These costs prohibit meaningful economic business for small financial services providers or in smaller market niches. Therefore, it is important that the Group achieves the critical mass and begins to grow once again, not only considering the excellent stockholders' equity provisions but also with particular regard to the operative business. A “healthy shrinkage” in a declining capital market is not possible and is therefore not aspired to by the Board.

In addition, particular attention is paid to the possible change in the shareholder structure of the Berliner Effektengesellschaft AG and any possible resulting risks. In 2002, BNP Paribas S.A. acquired the majority share in Consors Discount-Broker AG. In the context of the integration of this participatory investment into the BNP Paribas S.A. Group, all participatory

investments of Consors Discount-Broker AG were discussed with regard to their role in the Group. In respect of the Berliner Effektengesellschaft AG Group a reduction of the participatory investment to under 20.0%, and thus below the consolidation limit, is being considered. Even in the case of a sale of shares in Berliner Effektengesellschaft AG by BNP Paribas S.A., the continued link-up to the order flow of Consors Discount-Broker AG is extremely important for the focus of the Group's activities in the exclusive market specialist business and market making. The Board will avail itself of every opportunity to achieve this aim.

Berlin, March 11, 2003

Berliner Effektengesellschaft AG

Holger Timm

Dr. Jörg Franke

AUDITORS' REPORT

We have audited the consolidated annual financial statements of Berliner Effektengesellschaft AG and the Group management report for the business year from January 1, 2002, to December 31, 2002. The preparation of the consolidated annual financial statements and the Group management report in accordance with the German commercial laws' provisions are the responsibility of the company's Board. Our responsibility is to express an opinion, based on our audit, on the consolidated annual financial statements and the Group management report.

We conducted our audit of the consolidated annual financial statements in accordance with Section 317 HGB and the generally accepted German Standards for audits of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) – (Institute of Accountants). Those Standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and profitability in the consolidated annual financial statements, in accordance with generally accepted principles of bookkeeping and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements have been taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated annual financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated annual financial statements, the eligibility of the companies for consolidation, the scope of the accounting and consolidation principles used and significant estimates made by the Board, as well as evaluating the overall presentation of the consolidated annual financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated annual financial statements give a true and fair view of the Group's net assets, financial position and profitability, in accordance with generally accepted principles of bookkeeping. On the whole, the Group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Berlin, March 23, 2003
PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eckes
Wirtschaftsprüfer
(Accountant)

Fuhlbrügge
Wirtschaftsprüfer
(Accountant)

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board was kept extensively informed by the Berliner Effektengesellschaft AG, on the development of the Group and its companies in the 2002 business year, occurring in four meetings and including written and oral reports. A variety of important business issues of both a general and particular nature were discussed and decided upon after having been elaborately treated, two resolutions were passed between meetings. The Supervisory Board fulfilled all its incumbent duties as required by the Aktiengesetz (AktG) – (Stock Corporation Act) and the articles of association.

The discussions were centered on the course of business activities, the economic position of the company, its future prospects, its strategic orientation in a market and competition environment that is continuously undergoing heavy and also difficult changes and, on the changes of its shareholder structure.

The members of the Supervisory Board took care that the Board of the company took the suitable measures and is running a supervision system such that any developments endangering the continuation of the company be recognized early (Section 91 Subsection 2 AktG). In its function as a financial holding, the company has an efficient controlling system at its disposal and compiles monthly consolidated figures of comparison. The supervision of risks was particularly improved at the wholly owned operative subsidiary Berliner Freiverkehr (Aktien) AG, where, even more, an independent internal auditor was brought in. In the opinion of the Supervisory Board, the existing risk supervision system fulfills all the statutory

requirements and is capable of enabling the Supervisory Board to contemporarily carry out its supervision obligations.

In its meeting on December 6, 2002, the Supervisory Board dealt extensively with the recommendations of the Government Commission German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the elektronischer Bundesanzeiger (electronic Federal Gazette), and principally agreed upon their implementation at the Berliner Effektengesellschaft AG except for four items. On the same day and thereby within the deadline, the Board and the Supervisory Board submitted its first Declaration of Conformity according to Section 161 AktG and made it permanently accessible to the shareholders on the company's internet site. Its wording can be found on page 23 of this Annual Report. All members of the Board and the Supervisory Board of the Berliner Effektengesellschaft AG undertook the obligation to personally follow the recommendations of the Government Commission German Corporate Governance Code. The Board and the Supervisory Board of the Berliner Effektengesellschaft AG are convinced that they have complied with the recommendations of the Government Commission German Corporate Governance Code during the reporting period and intend to do so in the future.

In the course of consultations on the recommendations of the Government Commission German Corporate Governance Code, the formation of two committees also was resolved, by name a balance committee, consisting of Mr. Wolfgang Hermanni and Dr. Günter

Rexrodt, and a personnel committee, consisting of Mr. Wolfgang Hermanni and Mr. André Dujardin. The committees prepare topics to be discussed at the plenum and also resolutions of the Supervisory Board.

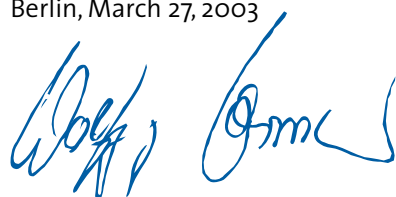
With effect from February 19, 2002, Dr. Reto Francioni resigned from his seat on the Supervisory Board. By resolution of the Local Court of Berlin-Charlottenburg on May 7, 2002, Dr. Uwe Schroeder-Wildberg, then member of the Board of Consors Discount-Broker AG, was appointed as a replacing member, and was elected at the shareholders' meeting on June 28, 2002. Meanwhile, Dr. Uwe Schroeder-Wildberg has withdrawn from the Board of Consors Discount-Broker AG and therefore, on January 31, 2003, resigned from his seat on the Supervisory Board. The Supervisory Board would like to thank Dr. Uwe Schroeder-Wildberg for his permanently constructive cooperation and expert advice. By resolution of the Local Court of Berlin-Charlottenburg on February 20, 2003, Mr. Jean-Philippe Huguët, General Secretary and CFO of Cortal Consors, was appointed as a replacing member.

The annual financial statements for the 2002 business year, including the bookkeeping system and the management report, all compiled by the Board in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code) and the Aktiengesetz (AktG) – (Stock Corporation Act), was examined and certified with an unqualified audit opinion by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Lise-Meitner-Straße 1, 10589 Berlin, who had been appointed at the shareholders' meeting on June 28, 2002. The

Supervisory Board in turn examined the annual financial statements and the management report and both were discussed and endorsed with the Board and the external auditor at the meeting on March 27, 2003, thus the annual financial statements have been officially approved. We are in agreement with the Board on their proposal for the application of retained earnings.

The Board also submitted to the Supervisory Board the consolidated financial statements and the Group management report, for the year 2002, both compiled in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code) and the Aktiengesetz (AktG) – (Stock Corporation Act), and, in addition to that, the audit report issued with the unqualified audit opinion of the external auditors of the Group, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Lise-Meitner-Straße 1, 10589 Berlin, who had been appointed at the shareholders' meeting on June 28, 2002. The Supervisory Board examined the consolidated financial statements and the Group management report and they were discussed and approved with the Board and the external auditor at the meeting on March, 27, 2003.

Berlin, March 27, 2003



Wolfgang Hermanni
Chairman of the Supervisory Board

IMPRINT

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Picture on page 5:
Udo Hesse, Berlin

“Nasdaq Deutschland AG” and “Nasdaq Deutschland” we partly used synonymously

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Please consider,

- that the German version of the Annual Report 2002 is the authoritative one,
- given details about time refer to c.e.t.,
- that, in Germany, the term “Börse” mostly is a fix component of the domestic stock exchanges’ names. Actually, “Börse” is the German word for the English “stock exchange”

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