



Letter of Transmittal

The Chairman
Malta Stock Exchange
27 Pietro Floriani Street
Floriana VLT 14

30 March 1999

The Hon J Dalli FCCA CPA MBIM MP
Minister of Finance
Valletta

Dear Minister

In accordance with Section 28 (1) of the Malta Stock Exchange Act (Cap. 345), I have the honour to transmit the Audited Accounts and Report on the activities of the Malta Stock Exchange for the Financial Year ended 31 December 1998.

Yours sincerely

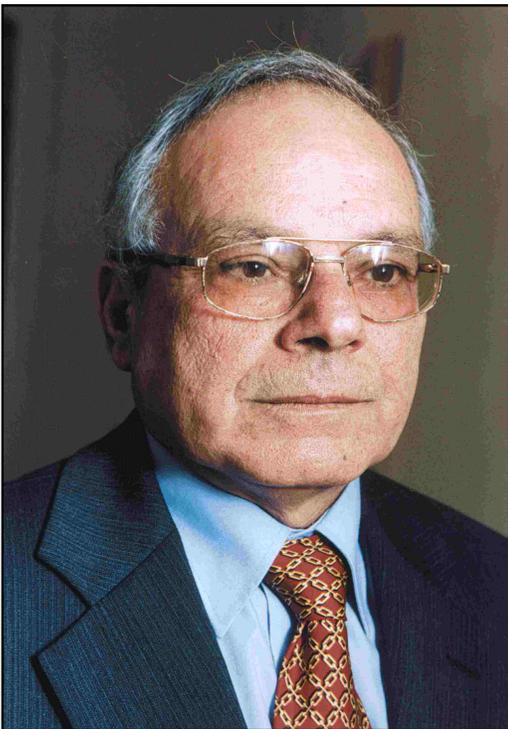
A handwritten signature in black ink, appearing to read 'Alf Mallia', is written over a horizontal line.

Alf Mallia



Chairman's Report

It is indeed my privilege to present the Annual Report of the Malta Stock Exchange for 1998 covering the seventh full year of operations of the Institution. During these years, the Exchange has not only carved out for itself a prominent niche in the local financial infrastructure but also managed to gain a reputation for integrity and sound management in important international fora.



If the degree of success of the Exchange were to be simply measured by the level of turnover, then the past year could be considered to have been very successful indeed. The value of business on the floor of the Exchange during 1998, in fact, exceeded the Lm134 million mark, well above last year's peak of Lm114 million. Whilst the year's market performance is detailed elsewhere in this Report, there have been a number of important developments during the past year which, I feel, deserve to be highlighted. The listing of Maltacom plc towards mid-year added new depth to the market. Maltacom plc is today the largest company listed on the Malta Stock Exchange and the decision to list part of the shares in London in the form of Depositary Receipts added a new dimension to the investment choices open to Maltese investors. It also gave the Exchange the opportunity to work in close contact with experienced international operators of great repute. It was something of a pity, then, that this decision happened to precede the crisis that shook emerging markets worldwide in the latter half of the year and which caught Maltacom plc shares in its backlash through its international connection. But we have all learnt important lessons from this experience, lessons which should serve us in good stead for the future.

The introduction of daily trading on the Malta Stock Exchange in May was a very significant spinoff of the Maltacom plc listing. As a result of having the facility to buy and sell listed securities on a daily rather than on a weekly basis, coupled with the concurrent reduction in the settlement period down from four to three days after the date of trading, investors can now enjoy greatly enhanced liquidity and marketability for their investments. This

important development brought the Exchange even further in line with international standards in this field.

The area of international relations has, of course, special significance for the Exchange. The number of listed collective investment schemes doubled in 1998 reaching a total of 97. This area of business has gained steadily in importance since the first schemes were listed in 1995 and from the number of applications we have in the pipeline, we have every hope of further expanding this highly competitive area of business during the coming year. The Exchange has, in fact, commissioned a firm of foreign consultants in order to conduct a comparative study of other jurisdictions where such schemes are also listed. This market strategy must be seen in the light of the ongoing efforts on a national basis aimed at developing Malta as a financial centre of repute where the Exchange intends to play an active role.

It is clear, however, that the Exchange can only develop this area of foreign business if it subscribes to and maintains certain high standards in its various areas of operations. Recognition of these standards has come from two sources. In April 1999, the Secretary General of the Federation of International Stock Exchanges (FIBV) will be visiting Malta in order to commence formal procedures which should lead to the Exchange attaining full membership of this prestigious organisation by the end of 1999. Recognition of the standards maintained by the Exchange also came from the recently issued Report updating the Commission Opinion on Malta's Application for Membership of the European Union wherein it is stated that "Prospectus and listing requirements seem fully in line with the *acquis* as do the rules relating to insider trading".

On the domestic front, the Exchange is pressing ahead with its efforts to encourage more listings of local companies. The current dialogue taking place with regards to Malta's quest for EU membership often brings up the question of the widespread restructuring necessary if local business is to reach the standards required in order to face the competitive fray in Europe. Restructuring more often means not only the modernisation of management strategies but also the introduction of new and up to date technologies. Inevitably, a restructuring exercise of the magnitude required would need a major injection of capital. The raising of long-term finance is, therefore, an issue that few businesses going through this restructuring process can afford to ignore with impunity. We firmly believe that the primary role of the Exchange is precisely in this area, harnessing private savings into private investment. Government's recently announced plans with regards to the putting in motion of a structured programme of privatisation during the next few years could, if well managed, have a positive catalytic effect on the financing of investment directly from private savings as distinct from the more orthodox source of bank borrowing.

Of course, the development of what we see as the primary role of the Exchange depends to a large extent on the degree of confidence that the market players, be it the intermediaries, the issuers and most importantly, the general public, have in the Institution. The Exchange is also there to ensure integrity and fair play in the operations of the market. In the light of the continued growth of the market and the consequent increase in our responsibilities, the Exchange has continued to strengthen the various offices through the recruitment of qualified personnel.

One of the problems we have had to live with from the outset was premises. In the first Annual Report of the Exchange the Chairman had reported the allocation of the Garrison Church in Valletta for conversion and use by the Exchange. Unfortunately, I must report that seven years down the road, and in spite of all the efforts on our part, we are still more or less in the same position. Let us hope that during the course of the new year we will be in a position to commence the conversion works that need to be done so that finally the Exchange can have premises such as would befit the Institution.

Finally, I feel I must pay tribute to Mr Frederick Mifsud Bonnici, my predecessor as Chairman, as well as to Mr Louis E Galea and Dr Vincent Falzon for their unfailing commitment to the Exchange during their term of office as

Members of the Council. Supported as it is by the wholehearted commitment of all its staff, I rest assured that the Exchange can face the coming challenges full of confidence. It is only through their hard work and dedication together with the other members of the Council that the Exchange can today look to the future with optimism and enthusiasm.



Alf Mallia
Chairman



Administration Report

The Council

The Chairman and Council Members holding office at the end of 1997 were re-appointed in terms of Section 4 of the Malta Stock Exchange Act (Cap. 345) and Section 5 of the First Schedule annexed to the Act for a thirteen-month term with effect from 1 January 1998. Mr Renè G Saliba, the Central Bank's representative on the Council, was also re-appointed for a further year at the end of his term of office in October.



The Minister of Finance appointed Mr Alfred Mallia as Chairman and Mr Edward Cachia Caruana and Dr Arthur Galea Salomone were appointed Council Members for a two-year term with effect from 1 February 1999. Mr George Wells was re-appointed for a further two years while Mr Renè G Saliba who is nominated by the Central Bank is the remaining Council Member. Mr Wells was elected Deputy Chairman by



the Council in terms of Section 5 (v) of the First Schedule of the Malta Stock Exchange Act (Cap. 345).



The Council met sixteen (16) times during the year under review and also continued its periodic meetings with the Malta Stock Exchange Committee. The sub-committees of the Council were also very active, in particular the Listing Committee and the Premises Committee. The frequent meetings of the Listing Committee reflected the increased activity of Collective Investment Schemes seeking admittance to the Official List of the Exchange. As plans for the conversion of the Garrison Church at Castille Square into new premises for the Exchange reached an advanced stage, the Premises Committee had frequent meetings with the Architects and other professional advisers, as well as with other interested

parties.



The Chairman and Council presented the Report for the previous financial year and a copy of the Audited Financial Statements of the Exchange at the statutory Special Meeting held in accordance with Section 9 (iv) (a) of the First Schedule of the Malta Stock Exchange Act (Cap. 345) which took place on 24 March 1998. This Special Meeting is also attended by licensed Members of the Exchange.

Delegations

During 1998 the Chairman of the Exchange, Mr Frederick Mifsud Bonnici, formed part of two delegations headed

by the Minister of Finance. The first delegation attended the Mediterranean Capital Markets conference in London, at which the Minister of Finance was also a speaker, while in June, another Ministerial delegation visited various financial institutions in the USA. In June, Mr Mifsud Bonnici also joined the Prime Minister, officials from Maltacom plc and other parties concerned, in London for the launch of the Maltacom plc roadshow.

Chairman's Speaking Engagements



The Chairman was also a guest speaker at two conferences during the year. Mr Mifsud Bonnici spoke about possible closer ties between the Malta Stock Exchange and other exchanges in the Mediterranean at the Malta Financial Services Centre Annual Conference. Later on, he presented a paper on "The Role of the Stock Exchange in the Economics of the Med" at a conference on Economic Diplomacy in the Mediterranean organised by the Mediterranean Academy of Diplomatic Studies.

Human Resources

The first few years of the Exchange's existence were characterised by rapid development in all areas of its operations. The prudent attitude adopted by the Council as regards to recruitment meant that human resources were stretched to the limit. During the year under review the Council endeavoured to ensure that the Exchange's duties and obligations did not diminish as a result of this.

It was necessary, therefore, to increase the staff complement and during 1998 eight (8) new members of staff were recruited at various grades and within different offices of the Exchange, particularly the Legal and Finance Offices.

This was followed by a re-organisation exercise and a new hierarchy was established which better reflected the Exchange's current needs and operations. The General Manager, Mr Paul J Spiteri, was appointed Chief Executive, while Mr Mark A Guillaumier, the Deputy General Manager was appointed General Manager and Mr Martin G Farrugia was promoted to Assistant General Manager. Two other senior staff members were also promoted to Senior Managers. All new appointments became effective on 1 January 1999.

At the end of 1998 the staff complement was, therefore, twenty-seven (27) following the resignation of a Manager I

towards the end of the year. The Exchange will continue with its re-organisation and recruitment drive throughout the forthcoming year, with particular emphasis placed on the setting up of a Research Department and the further strengthening of the Compliance Office.

Staff Development

International Conferences and Seminars

During the year under review, members of staff continued to participate in seminars and conferences, both locally and overseas, in an endeavour to broaden their knowledge and experience of capital markets and related fields.

International conferences attended dealt with the following topics :-

- The World's Stock Exchanges - Globalisation of Mutual Funds - Alternative Structures for Securities' Markets - Global Offshore Funds - Price Manipulation - Stock Exchange Issuer Relations - Y2K Bugs and Changes in Trading Systems - Due Diligence; and - International Accounting Standards



In November, Mr Mark A Guillaumier, Deputy General Manager formed part of a delegation from the local financial sector during a week-long visit to European Union organisations and other financial institutions in Brussels and Luxembourg. This familiarisation visit was organised by the European Union Commission in Malta for Maltese bankers and representatives of other financial institutions.

Training

Following the listing of Maltacom plc Global Depositary Receipts on the London Stock Exchange in June, Mr Mark A Guillaumier, Deputy General Manager attended a week's training on these instruments at the Bank of New York, USA, together with officials from Maltacom plc and Mid-Med Bank plc.

In view of the imminent implementation of a new upgrade to the trading system currently in use at the Exchange and the eventual move to remote trading, special emphasis was given to the training of IT staff to ensure that they are well-versed in all the changes being envisaged. Mr Alex Pace, Manager I, underwent training on the new

upgrade of the trading system at EFA Software Services Ltd, in Calgary, Canada, the suppliers of the trading system software. This was followed by further training in London on project management, organised by the Exchange's consultants, Brian Taylor Associates. Another member of staff from the IT Department, Mr Alfred Sammut, Supervisor, also underwent training at the IBM offices in London, on message queuing, a vital aspect in the operations of the trading system.

In-house training



The Exchange organised an in-house Induction Course for the first time during 1998, for its new recruits. This was intended to give new employees a general overview of the role, functions and operations of the Exchange in order to help them form a complete picture and become an integral part of the Institution they had joined. It is intended that this will be followed up by other courses and lectures dealing with specific areas of the Exchange's operations such as trading, listing and Collective Investment Schemes.

Local Training

The Exchange continued to encourage its staff to undergo further training and obtain further qualifications as the Management firmly believes that a highly qualified and motivated work force is the major asset for the Exchange's continued development and expansion. At present, in fact, several staff members are undergoing training in financial services, IT, accounts, economics and other related subjects.

At the same time Exchange management and staff were also very active in attending local seminars on various topics, ranging from "The Restructuring of the Maltese Economy" to "Competition and Competition Law in Small Jurisdictions".

International Affiliations

Throughout 1998 the Chairman and members of the Senior Management represented the Exchange at the regular meetings of the various international organisations of which it is a member.

The Chairman, Mr Mifsud Bonnici, headed a delegation which included representatives from the Central Bank of Malta and the Malta Financial Services Centre at the Annual Conference of the International Organisation for Securities Commission (IOSCO). Mr Mifsud Bonnici had also attended IOSCO's European Regional Committee Meeting, earlier on in the year.

The IOSCO Annual Conference finalised and approved a document regarding new regulatory principles and

practices which will eventually be adopted by the Malta Stock Exchange.

The Malta Stock Exchange was nominated to represent stock exchanges from emerging markets, on IOSCO's Executive Committee, its highest policy making body. Unfortunately, because of its limited resources and time availability the Exchange had to decline this offer as in the circumstances it did not feel that it could make a meaningful contribution.

The Spring Meeting of the Emerging Markets Task Force within the Federation of European Stock Exchanges (FESE) was attended by both the General Manager and the Deputy General Manager, while the latter also represented the Malta Stock Exchange at the Autumn Meeting.

The Annual General Meeting of the Federation des Bourses de Valeurs (FIBV) was attended by the General Manager. The Exchange is an Affiliate Member and is currently in the process of being validated by the FIBV as a candidate for full membership. In fact, the Secretary General of the FIBV will be visiting the Exchange in the Spring of 1999, following which it is hoped that the Malta Stock Exchange will be granted full membership of the FIBV at its next Annual General Meeting to be held in November in Bangkok.

Premises

Preparations for the refurbishment of the Garrison Church in Valletta to house the new premises of the Exchange continued unabated during the year under review.

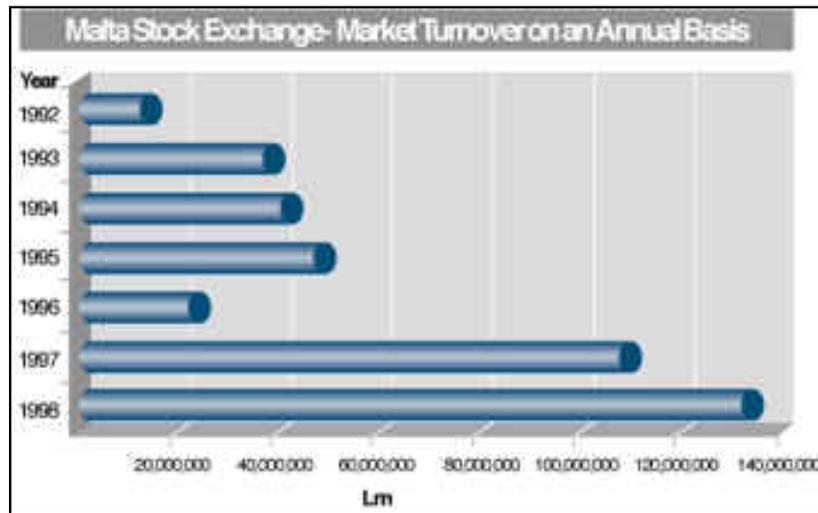
The Premises Committee, under the Chairmanship of Mr Louis E Galea, the Deputy Chairman of the Exchange, met frequently with the Architects throughout the year. The Premises Committee also held preliminary meetings with the Planning Authority, the Valletta Rehabilitation Committee and other interested parties to discuss the plans drawn up by the Architects. These plans have subsequently been submitted to the competent authorities for the necessary permits to be issued.



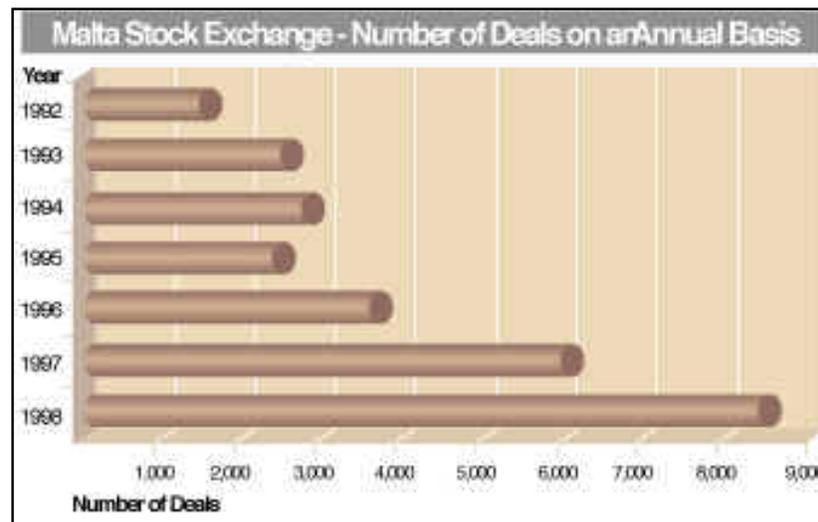
Exchange Operations and other Activities

Market Performance during 1998

During 1998 turnover on the market continued to expand to reach a record high of Lm134.8 million. This represented a Lm20.5 million (18%) increase on the previous peak of Lm114.3 million registered in 1997.



The record level of business transacted during the year under review was also reflected in the number of deals concluded which reached a total of 8,507, an increase of 2,393 (39%) over the previous year.



Equity business in 1998 was more than two and a half times the total of the previous year, up from Lm8.1 million to Lm21.2 million and thus accounted for almost 16% of the year's total turnover compared with 7% last year. Whilst this increase reflected higher levels of business across the board in the equities market, the introduction of Maltacom plc shares on the market in June played a significant role in pushing up turnover figures for this year.

The increase in equity trading was complemented by higher levels of trading in Government Stocks, up from Lm104.8 million in 1997 to Lm112.1 million this year. During the same period, corporate bond turnover, at Lm1.5 million, registered an increase of 11% over last year's figure. The increased volumes of trading become even more significant when one considers the high average levels of outstanding Treasury Bills which characterised the past

year, as well as the availability on the primary market of new issues of Government Stocks in 1998.

An analysis of the Government Stock market during 1998 shows that business in the 7.8% MGS 2018 accounted for over 20% of the year's turnover in these securities. Yields on Government Stocks closed the year lower as prices on longer-term paper edged upwards during the last quarter after holding steady for most of the year.

Malta Stock Exchange Share Index

The Malta Stock Exchange Ordinary Share Index ended the year at 1287.58 compared with the January opening value of 1047.73, equivalent to a percentage increase of 23% over the year. The Index reflects the movements of the Trade Weighted Average Prices (TWAP) of the Ordinary Shares listed on the Exchange. Thus, whilst Bank of Valletta plc, Mid-Med Bank plc and Lombard Bank (Malta) plc shares registered gains of 27%, 24% and 44% respectively in their average prices when compared to the end of December 1997 average prices, Middle Sea Insurance plc shares went up by 30% and Simonds Farsons Cisk plc ordinary shares by 18% while Suncrest shares dropped by 12.5%. After an initial upsurge Maltacom plc shares were down by 17% on the issue price at the end of November as the Global Depository Receipt price in London registered the effect of the international crisis which affected emerging market securities worldwide during the latter part of the year. However, Maltacom plc prices rallied and regained their value throughout the last month of the year to end 1998 at an average price of 89c6, just 0.44% down from the issue price in June.



Market Capitalisation

The market capitalisation of securities listed on the Exchange (excluding Collective Investment Schemes) reached a total of Lm991.1 million at the end of the year, up from Lm720 million a year ago. Of these, Lm668.5 million represented the capitalisation of the Government stock market, whilst the market value of equities reached Lm296.6 million. The remaining Lm26 million reflected the market value of corporate bonds.

Trading

The highlight of the trading year was the introduction of daily trading with effect from 18 May 1998. Trading on the Floor of the Exchange had been taking place on a weekly basis (every Wednesday) since the start of the Exchange's operations in January 1992.

During 1998 it was becoming increasingly noticeable that trading levels in both the equity and Government Stock market were becoming sufficient to switch to daily trading. In May the Council, therefore, decided that it was the opportune time to introduce trading on a daily basis. Not only was the transition a smooth one but also the trading figures, both as regards turnover as well as the number of deals, very clearly indicate increased liquidity on the market as a result of the introduction of daily trading. The concurrent listing of Maltacom plc Global Depository Receipts on the London Stock Exchange and the listing of the shares on the Malta Stock Exchange were also contributory factors towards the decision in favour of daily trading.

The introduction of daily trading in May necessitated some changes in the pre- and post-trading procedures of the Exchange. The major change was the reduction in the registration period from T+4 (four days after trading) to same day registration whereas the cash settlement period was reduced from T+4 to T+3.

A further important change which is envisaged is the upgrade to the current electronic trading system. Changes to both the hardware and software will add considerable functionality to the system apart from the fact that compliance with Y2K requirements is assured. The new upgrade to the trading system is expected to be operative in the Autumn.

The next major development in trading will be the changeover to a remote environment on a screen based basis when trading will be carried out from the brokers' offices on a continuous basis.

Listing



BUYER	PRICE	QUANTITY	SELLER	BGN.
WPM	0.90	17,222,785	WPM	SPT
WPM	0.90	17,222,784	WPM	SPT
WPM	0.90	3,039,315	WPM	SPT

Following its listing in June, Maltacom plc became the seventh and largest company listed on the Exchange in terms of market capitalisation. A total of 101,310,488 Maltacom plc Ordinary Shares of 25c each Nominal were listed on 22 June, with 20% of these shares being offered to the public on the primary market. The local listing of Maltacom plc ordinary shares was also characterised by the concurrent quotation of Maltacom plc Global Depository Receipts on the London Stock Exchange. This was the first time that a local company has participated in an international public offering involving the issue of Depository Receipts.

Apart from this equity listing in June, five (5) new Government stocks were admitted to the Official List amounting to an aggregate nominal value of Lm158.5 million. These were the 7.2% MGS 2008 (I) and (II) issues, the 6.8%

MGS 2004 (II), the 6.15% MGS 2001 (issued as two separate tranches) together with the first twenty-year bond, the 7.8% MGS 2018. At the same time, six (6) Government stock issues with a nominal value of Lm48.5 million were redeemed in 1998. As a result of these movements, the Nominal value of Government stocks listed on the Exchange rose from Lm523.4 million at the end of December 1997 to Lm633.4 million a year later.

Insofar as listing is concerned the highlight of the year was the large increase in the number of funds listed on the Exchange, which had reached a total of 97 at the end of 1998. In all, forty-nine (49) funds were granted a listing in 1998 including 4 funds based in Malta; namely Tri-Med Malta Government Bond Fund, Tri-Med Maltese Assets Funds, Vilhena Malta Government Bond Fund and the Global Bond Fund Plus. The forty-five (45) foreign based funds admitted to the Official List during 1998 included listings by Fidelity, Barclays, Midland, Turkish Garanti, Commercial Union and Lazard. The Central Securities Depository (CSD)

Collective Investment Schemes listed during 1998

Fund	Currency
Fidelity Funds - Privatisation Fund	DM
Fidelity Funds - Euro Blue Chip Fund	ECU
Midland Offshore Global Investment Funds Ltd - Asian Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Global Emerging Markets Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - North American Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Pan-European Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Chinese Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Hong Kong Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Japanese Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Malaysian Equity Class	US\$

Midland Offshore Global Investment Funds Ltd - Indian Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Singaporean Equity Class	US\$
Midland Offshore Global Investment Funds Ltd - Global Opportunities Class	US\$
Midland Offshore Global Investment Funds Ltd - Global Bond Class	US\$
Midland Offshore Global Investment Funds Ltd - Sterling Bond Class	£ Stg
Midland Offshore Global Investment Funds Ltd - US Dollar Bond Class	US\$
Midland Offshore Global Investment Funds Ltd - US Dollar Reserve Class	US\$
Midland Offshore Global Investment Funds Ltd - American Opportunities Class	US\$
Midland Offshore Global Investment Funds Ltd - Asian Opportunities Class	US\$
Midland Offshore Global Investment Funds Ltd - Japanese Opportunities Class	US\$
Midland Offshore Global Investment Funds Ltd - European Opportunities Class	US\$
Midland Offshore Global Investment Funds Ltd - UK Equity Class	£ Stg
Midland Offshore Global Investment Funds Ltd - European Equity Class	US\$
Barclays Global Income Fund	£ Stg
Barclays International Growth Manager - US Dollar Class	US\$
Barclays International Growth Manager - Sterling Class	£ Stg
Turkish Garanti DM Capital Growth Fund	DM

Vilhena Malta Government Bond Fund	Lm
Commercial Union Privilege Portfolio Short-term Euro Bond Fund	Euro
Commercial Union Privilege Portfolio Sterling Bond Fund	£ Stg
Lazard Personal Portfolio Fund Ltd - Sterling Denominated Share Class	£ Stg
Lazard Personal Portfolio Fund Ltd - US Dollar Denominated Share Class	US\$
Lazard Global Bond Fund plc - International Bond Fund	£ Stg
Lazard Global Bond Fund plc - US Dollar Bond Fund	US\$
Lazard Global Bond Fund plc - High Yield Bond Fund	£ Stg
Lazard Global Bond Fund plc - Diversified Bond Fund	US\$
Lazard Global Bond Fund plc - Sterling Reserve Fund	£ Stg
Lazard Global Equity Fund plc - International Equity Fund	US\$
Lazard Global Equity Fund plc - North American Fund	US\$
Lazard Global Equity Fund plc - UK Equity Fund	£ Stg
Lazard Global Equity Fund plc - European Fund	US\$
Lazard Global Equity Fund plc - Pan European Fund	DM
Lazard Global Equity Fund plc - Japan Fund	Yen
Lazard Global Equity Fund plc - Asia Pacific Fund	US\$
Lazard Global Equity Fund plc - Latin American Fund	US\$

Lazard Global Equity Fund plc - Emerging World Fund	US\$
Global Bond Fund Plus	Lm
Tri-Med Malta Government Bond Fund	Lm
Tri-Med Maltese Assets Fund	Lm

Central Securities Depository (CSD)

The increase in the number of listed securities and the expanding volumes of business which characterised the year was reflected in the increased workload of the Central Securities Depository (CSD). The number of accounts held within the CSD rose from 93,181 at the end of December 1997 to 101,556 a year later, i.e. an increase of almost 9%. This increase was largely due to the increase in equity holders following the listing of Maltacom plc shares. These accounts represent 50,381 individual holders across all registers, up from just under 47,000 at the end of 1997. The number of amendments effected throughout all the registers rose from 16,913 during 1997 to 22,324 during 1998, an increase of 32% with the largest increase in amendments being registered in the bought/ sold movements as a result of the increase in trading levels.

During 1997, the CSD software had been enhanced to enable listed companies to establish a direct electronic link between the CSD and individual listed companies via a remote workstation. This would enable listed companies to be provided with all updated information concerning their register/s as quickly and efficiently as possible. During 1998, one (1) of the listed companies had taken up this facility and it was envisaged that a further three (3) would be linked up remotely during the first quarter of 1999.

The CSD processed applications of all five primary issues of the newly issued Government Stocks as well as that of the Maltacom share issue. The latter was a particularly difficult and intensive exercise given the very tight time constraints under which the process was conducted. However, with the assistance of employees from Maltacom plc itself, the deadlines given were comfortably met.

The CSD also issued over 118,000 interest and dividend payment cheques during 1998, as opposed to 96,000 in 1997 amounting to an aggregate value of Lm38 million.

Compliance

The Compliance Office continued to carry out its surveillance function in order to ensure that the market, as well as all the market players are properly regulated.

The Council of the Exchange, being very aware of the importance of the regulatory function of the Exchange, during 1998 took steps to further strengthen the complement of the Compliance Office in order to ensure that the surveillance functions of the Exchange are regularly carried out. It is also envisaged that during the forthcoming year the Compliance Office will be further strengthened, in particular in view of the move to remote trading and the possible increase in listings.

On-site inspection visits

Compliance Officers carried out several on-site inspection visits to stockbroking firms in line with the programme of visits commenced during 1997. These visits served to ensure that the procedures of stockbroking firms, with particular importance given to the Firms' order books, back office controls and accounting processes, are properly maintained. These investigations help to ensure that investors are adequately protected and stockbrokers conform to the Code of Conduct forming part of the Bye-laws. Management Accounts of the Firms are also reconciled against the Quarterly Reporting Statements submitted to the Exchange in terms of the Bye-laws. The purpose of these Quarterly Reporting Statements is to provide Compliance Office with the information necessary to monitor regularly the financial position of each Member Firm.

Market Monitoring

Compliance Officers also carried out a number of other on-site surprise visits. These inspections do not form part of the planned programme but are normally carried out as a result of monitoring of the market. If there are any indications that transactions have been effected which may not exactly reflect the day's pattern of trading, the Compliance Office will respond immediately and carry out any investigations it deems necessary.

Most of this investigation is done through the full audit trails regarding trading, settlement and the registration cycle produced directly after trading. The importance of these surprise visits has increased considerably since the introduction of daily trading as an immediate response to any distortions in the market is imperative as any queries need to be clarified before the next trading session.

Both the on-site inspections together with the off-site i.e. the submission of the Quarterly Reporting Statements, form an integral part of the Exchange's annual surveillance programme and have to be rigorously maintained.

Continuing Listing Obligations

Companies whose securities have been admitted to the Official List as well as listed Collective Investment Schemes (CISs) have certain ongoing obligations which must be strictly adhered to. It is important that communications between listed companies and the market are maintained on a regular basis to ensure that investors can at all times, reach fully informed investment decisions. For this reason, companies are required to make periodic announcements as laid out in the Bye-laws and whenever events considered to be price-sensitive occur.

In this regard, listed companies as well as quoted Funds issued eighty-nine (89) Company Announcements through the Compliance Office, during the year under review. This is a substantial increase from the number issued in 1997, due mainly to the new listings of CISs that occurred during the year. Compliance Officers together with members of the Senior Management of the Exchange also attended the Annual General Meetings of all the listed companies.

Suspension of Trading

In December the Council, for the first time, was constrained to suspend trading in Mid-Med Bank plc shares in terms of Section 5.30 (5) of the Malta Stock Exchange Act (Cap. 345). The Council felt the need to call for an unequivocal Company Announcement by the Bank in connection with the proposed extraordinary resolutions at the forthcoming Annual General Meeting authorising the Bank to buy back its own shares. The suspension was lifted after just one day following the release of the required Company Announcement.

Apart from the routine surveillance of the market, Members and listed companies, the Compliance Office also undertook other specific exercises during 1998 covering particular aspects of the operations of listed companies and Members.

Compliance with Companies Act

Towards the beginning of the year an exercise was conducted in order to ensure that all stockbroking firms and listed companies had complied, or were in the process of complying, with the Companies Act, 1995. These had to submit their amended Memoranda and Articles of Association to the Registrar of Companies by the end of 1998. The Exchange would be provided with the Certificate of Compliance once issued.

Prevention of Money Laundering

As part of the inspection visits, Compliance Officers also ensure that Stockbroking Firms are adhering to the Guidelines on Money Laundering issued in 1997. As a follow-up, in August 1998 the Compliance Office issued a questionnaire regarding the operations and procedures adopted by each Stockbroking Firm with regard to the detection of money laundering transactions. Particular aspects tackled included record keeping, reporting of suspicious transactions, staff training and internal controls. The replies received were summarised in a report which was presented to the Financial Action Task Force on Money Laundering (FATF) later in the year. The FATF is an inter-governmental body whose purpose is the development and promotion of policies aiming to prevent criminal proceeds from being utilised in future criminal activities and from affecting legitimate economic activities. The authorities in Malta had asked for an evaluation of its compliance with FATF's Forty Recommendations and representatives of the Task Force had also visited the Malta Stock Exchange and met representatives from the stockbroking community. The report eventually submitted by the FATF indicated that in general the Malta Stock Exchange was in line with its recommendations.

Y2K Compliance by Listed Companies

Another exercise undertaken by Compliance Office related to Y2K compliance by listed companies. The Exchange undertook to ensure that the public is made aware of any material effects that this issue might have on any listed company. At the same time enquiries were made to assess what listed companies were doing to reduce or eliminate any adverse consequences which this issue might create. In this respect, therefore, listed companies had been asked to issue Company Announcements by the end of September 1998, providing the market with all the relevant information.

The Council takes a serious view of the Exchange's regulatory function and, therefore, monitors closely the exercises undertaken by Compliance Office in order to be fully briefed should its intervention be deemed necessary. It is comforting to note that stockbroking firms and listed companies collaborate closely and are very co-operative. This support facilitates the maintenance of the Exchange's regulatory function and augurs well for the market as a whole.

Amendments to Bye-laws

The Bye-laws of the Malta Stock Exchange first issued in July 1991 have undergone several amendments since their introduction. Such changes are necessary as a result of new developments in the Exchange's operations. The past year has proven to be no exception.

The introduction of daily trading in May 1998 necessitated changes to several bye-laws concerning settlement day, the calculation of accrued interest and the registration procedure. Another related amendment was the deletion of buying-in and selling-out procedures which were now deemed to be superfluous.

Subsequent to the issue of Global Depositary Receipts (GDRs) by Maltacom plc in June, the need arose to introduce new Bye-laws and amend existing ones. These new bye-laws, besides defining GDRs, provided for the conversion of GDRs into ordinary shares and vice-versa, off-market. Such new bye-laws were not restricted to Maltacom plc securities but were drafted to cover any similar future eventualities.

In September, the Council approved the introduction of a new section in the Code of Conduct for Members annexed to the Bye-laws regarding Advertising Regulations. Up to that time rules regarding Members' responsibilities vis-a-vis advertising were unclear and subject to various interpretations. The latest listing experience highlighted these shortcomings and the Council felt that it was opportune to clarify matters in an effort to avoid the pitfalls and confusion encountered so far. At the same time, bye-law 6.01.05 (xiii) was also amended in order that advertisements relating to securities being considered for admittance to the Official List had to be formally approved by the Exchange prior to publication.

Other amendments made to the Bye-laws during 1998 included those regarding special trades and principal trading.

In accordance with Section 8 (2) of the Malta Stock Exchange Act, (Cap. 345) amendments to the Bye-laws have to be laid on the Table of the House of Representatives.

Public Relations

During 1998, the Exchange witnessed a huge upsurge in primary and secondary listings of CISs. In particular, Malta appeared to be a preferred jurisdiction for secondary listings of these Funds. The Council, therefore, felt that it would be a worthwhile effort to draw up a comparable study of similar jurisdictions with a view to outlining Malta's strengths and resolve its weaknesses in the area of Fund listing. The result of such a study would be the preparation of a professional marketing package which could be used to attract further Investment Funds to list in Malta.

The Council, therefore, commissioned Brian Taylor Associates (BTA) of London, UK to undertake this study. As a first stage BTA would draw up the comparative preliminary report. Following this they would conduct a workshop to discuss this with Exchange officials and then present a final report, outlining the next steps to be undertaken.

Up to the end of the year BTA had presented the preliminary report and arrangements were underway to hold the workshop at the end of January 1999.

Throughout the year the Exchange had also advertised in several prestigious overseas journals such as Euro-med, European Focus and Euromoney, highlighting the benefits of listing foreign based investment funds in Malta.

The series of ten (10) half-hour TV programmes produced by the Exchange during 1997 were transmitted on a further two local television stations during 1998. The feedback continued to be very positive, especially from investors and students. The Exchange in fact continued to welcome students to the Exchange, to view trading and be given an overview of the operations of the Exchange. Visits to the Exchange particularly by business studies students, have become a routine part of their yearly round of visits to financial institutions.



During 1998, the Exchange issued a new booklet entitled "The Malta Stock Exchange -Operations and Functions". It was felt that due to all the recent developments within the Exchange, it was time to upgrade and update all the informative leaflets previously issued by the Exchange. This new booklet is intended to give a brief overview of the Malta Stock Exchange and its procedures looking mainly at its role and functions, the participants in the Market, dealing through stockbrokers and the advantages of having a stock exchange.



In September, the Malta Stock Exchange participated in the Finance and Business Fair organised for the first time during 1998. This participation provided the Exchange with a shop window and visitors to the fair were presented with an opportunity to enquire about the Exchange. The stand was designed in a way as to explain briefly the role and objectives of the Exchange and gave a brief history of the Institution. The stand was manned by Exchange personnel who were available to answer any queries from visitors to the Exhibition. Booklets,



leaflets and statistics were also available for distribution to visitors.



Following the introduction of daily trading, the Prices and Yields and the Official List including Index values started to be issued on a daily basis by the Exchange. The Exchange also continues to provide weekly and monthly reports to the media in an effort to maintain the public's awareness of the Exchange and its operations. At the same time, due to the large number of Funds that acquired a listing in 1998, the Official List was split into two, a daily version including all local listed securities and a weekly Official List including only foreign based CISs. It is envisaged, however, that early in the next year, the Official List pertaining to CISs will also start to be

published on a daily basis. It is also planned that the Exchange will issue other statistical reports pertaining to the market in the Media during the coming year in a continued endeavour to ensure that the general public is kept abreast of what is happening in the Market. All this information, together with other documents, including the Bye-laws, will be available on the Exchange's specially designed website by the first quarter of 1999.



During 1998 the Exchange enrolled in the Reuter Service and in particular made available to brokers real time information from the London Stock Exchange regarding Maltacom GDR trading and prices. This information is made available both to stockbrokers and to the public gallery during the trading session in order that they can follow what is happening to the Maltacom plc GDR prices whilst trading is taking place locally.



The Prime Minister, Dr Alfred Sant, visited the Exchange in May, at the start of daily trading. Dr Sant was shown round



the Exchange and met Members of the Council and the staff. Electronic Trading was explained to the Prime Minister and he was also given an overview of the operations of the Exchange. Architecture Project, the architects responsible for the refurbishment of the Garrison Church, gave a brief presentation about the project, explaining the concept behind the design and the various stages that needed to be gone through before final completion.

Members ' Activities

The Malta Stock Exchange Committee, effective 1 April 1998, elected in terms of Section 6 of the First Schedule annexed to the Malta Stock Exchange Act consisted of Mr Ivan J Burridge who was appointed Chairman of the Committee, Mr Paul V Azzopardi, Deputy Chairman and two other stockbroker Members, namely Mr Christopher J Pace and Mr Joseph G P Bonello who was co-opted to replace Mr Karol F Farrugia who resigned from the Committee during April. Mr Mark A Guillaumier was again nominated by the Council to represent the Exchange on the Committee while Miss Eileen V Muscat continued in her role as Secretary to the Committee.

The Committee met 14 times during 1998. In addition, the Committee had regular quarterly meetings with the Council and was convened a couple of times to discuss urgent matters with the Council on an ad hoc basis.

In accordance with its terms of reference, the Committee made several recommendations to Council concerning trading, amendments to the bye-laws and other matters affecting the Market. The assistance of the Committee was instrumental in helping the Exchange's smooth transition from weekly to daily trading within such tight time constraints.

Accredited Representatives

As a result of the introduction of daily trading coupled with the increase in trading volumes, stockbrokers felt the need to appoint new Accredited Representatives to ease their workload, particularly daily attendance at the Exchange.

Prospective Accredited Representatives who were required to undergo intensive training on the Floor and attend several specific training sessions prior to sitting for the appropriate written test. In all, seven (7) new Accredited Representatives were appointed during 1998 and a further two new Accredited Representatives from the Central Bank replaced the existing two who were internally transferred within the Bank. A further four (4) prospective Accredited Representatives were undergoing training on the Floor at the end of 1998. These are expected to sit for the appropriate written test towards the end of the first quarter of 1999.

To help ease the financial load on Member Firms, the Council made concessions to the fee structure for Accredited Representatives applicable for 1998 (when daily trading was introduced) and has since decided to extend the new fee structure into 1999.

At the end of 1998 there were twenty three (23) registered Accredited Representatives representing eight (8) Member Firms and the Central Bank of Malta.

Financial Intermediaries

During 1998 the Council approved the inclusion of two new Financial Intermediaries in the Commission Sharing Register, namely Midland Bank plc (Malta Branch) and Growth Investments Ltd. Both these institutions were approved as Financial Intermediaries after obtaining the appropriate licence from the Malta Financial Services Centre.

The importance of Financial Intermediaries has increased considerably throughout the years, as can be seen from the increased interest of financial institutions to be included on the Commission Sharing Register. During 1998, approximately 25% of market business was channelled through Financial Intermediaries.

The Exchange, considering the contribution that Financial Intermediaries were having in the Market, deemed it appropriate that these Institutions should be liable to pay appropriate fees on commissions earned, as were levied on brokers. At the same time the Exchange also felt that Financial Intermediaries should be bound by the same Code of Conduct applicable to brokers and therefore, the appropriate Bye-laws were amended accordingly.

There were ten (10) institutions operating as Financial Intermediaries at the end of December 1998, six (6) commercial banks, two (2) Fund Management companies and a further two (2) financial institutions.



Financial Report

In spite of a marginal reduction in profit when compared with the previous year, the financial performance of the Exchange during 1998 can be regarded as quite satisfactory. Both revenue and expenditure continued to rise during 1998, the former increasing by Lm 113,274 (18%) to Lm 737,386, whilst the latter added Lm 140,503 (30%) to Lm 610,272. As a result, net profit after tax at Lm 103,779 was Lm 5,689 (5.2%) less than the comparative figure for 1997. The increase in revenue registered in 1998 can be mainly attributable to the listing of Maltacom plc as well as to the sharp increase in market turnover which characterised the past year. The listing of Collective Investment Schemes was another factor contributing to Exchange income in 1998. On the expenditure side, recruitment of

additional staff and improvements in telecommunications equipment proved to be the main factors behind the increase in total costs registered during the past year.

A surplus for the year of Lm 103,779 after tax

As stated above, surplus for 1998 was slightly below that of 1997 but it was still well above the budgeted figure of Lm 60,000. At Lm 54,761, the tax charge is slightly lower than last year's.

The move to daily trading and listing of Maltacom plc were important factors contributing to the increase in revenue.

Note 3 to the Financial Statements splits up aggregate income broadly between fees payable by stockbrokers and financial intermediaries to the Exchange - Lm 54,000 (1997 - Lm 37,000), listing fees - Lm 413,000 (1997 - Lm 356,000), and revenue earned by way of services provided by the Central Securities Depository - Lm 270,000 (1997 - Lm 231,000). The move to daily trading has generated more business for the Exchange, stockbrokers and financial intermediaries as evidenced by the increase in commissions payable. Moreover, the Exchange continued to list more Collective Investment Schemes during the year, bringing the number of listed funds to almost one hundred.

1998 was another successful year in generating cash

As the cash flow statement on page (VII) shows, the net cash generated from operations amounted to Lm 178,000. Most of these cash resources were utilised to invest in highly liquid financial assets. The upshot of this was a doubling in interest receivable during 1998.

Containing expenses within the budget estimates

The increased trading activity had an expansionary effect on expenditure during 1998, with the highest movements being registered in staff costs and telecommunications charges. These were a result of the recruitment of additional staff to bring the complement up to 27 at year end. The listing of the Malatcom Global Depository Receipts (GDRs) on the London Stock Exchange also necessitated that the Exchange subscribes to an on-line Reuters services. Towards the end of the year, the Exchange commissioned a study on the workings of Collective Investment Schemes in the international markets. The aim of this study is to define our strenghts and weaknesses as a fund listing centre and to draw up a marketing package aimed at attracting new international business to the local market.

A healthy balance sheet augurs well for financing of growth in 1999

The net assets at year end reaching Lm 741,200, an increase of 16% over 1997. These assets include recognition of a deferred tax asset as required by IAS 12 (revised). This amounts to Lm 22,594. Tangible fixed assets are approaching the end of their economic life and expenditure on these assets is expected to increase substantially during 1999. Investments in financial assets were relatively high in 1998, and it is planned that the Exchange will utilise part of these resources in the coming year once the situation regarding the new premises crystallises.

Expectations for 1999

The Exchange expects that the net operating surplus for 1999 will be in the region of Lm 75,000. The Exchange will be undertaking a recruitment drive during the course of this year to increase its staff complement in order to strengthen the organisational structure. As a result, staff costs are expected to increase substantially in 1999. It is also expected that capital expenditure on the new premises will gather momentum in 1999 and that significant cash resources will be utilised in this project.

Furthermore, expenditure on electronic equipment and on ancillary consultancy and professional services are expected to increase substantially during the coming year, as the Exchange gears itself up for the various projects envisaged for the year 2000.



M A Guillaumier
General Manager

27 Pietro Floriani Str
Floriana
Malta

16 March 1999



Report of the Council

The Council Members present their Report and the audited Financial Statements of the Exchange for the year ended 31 December 1998.

Activities

The Malta Stock Exchange regulates and maintains facilities to ensure an orderly and efficient market place for

securities' trading. The Exchange also provides clearing and settlement, depository and related services for securities.

Results

The results for the year ended 31 December 1998 are shown in the income and expenditure account on page (V). The surplus for the year after taxation was Lm103,779.

Council Members

The Council, appointed in terms of Article 5 of the Statute is as listed below:

A Mallia (Chairman)

G Wells (Deputy Chairman)

E Cachia Caruana

A Galea Salomone

R G Saliba

On 1 February 1999 Messrs. A Mallia, E Cachia Caruana and A Galea Salomone were appointed as new members replacing Messrs. F Mifsud Bonnici, L E Galea and V Falzon.

Committee Members

The Committee, formed in terms of Article 6 of the Statute, comprises four members representing the stockbroking community and one appointed by the Council from the Malta Stock Exchange senior executives.

Following the statutory elections of the Stock Exchange Committee members held on 25 March 1998 in terms of Article 6 (iv) of the statute, Messrs. I J Burridge, P V Azzopardi, and C J Pace were elected as new members replacing Messrs. A Calamatta, N Curmi and W Mallia. Mr K Farrugia resigned from the committee on 16 April 1998 and was replaced by Mr J G P Bonello. Consequently the Stock Exchange Committee is composed as follows:-

I J Burridge (Chairman)

P V Azzopardi (Deputy Chairman)

J G P Bonello

C J Pace

M A Guillaumier

Council Members' responsibility

The Council Members are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Exchange at the end of each financial year and of the results for the year then ended. In preparing the financial statements, the Council Members should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Exchange will continue in business.

The Council Members are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Exchange and to enable them to ensure that the financial statements comply with the Malta Stock Exchange Act (Cap. 345). They are also responsible for safeguarding the assets of the Exchange and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors Deloitte and Touche have intimated their willingness to continue in office.

By order of the Council:



M A Guillaumier
Secretary

27 Pietro Floriani Street
Floriana
Malta.

24 March 1999



Report of the Auditors

We have audited the financial statements of the Malta Stock Exchange on pages (V) to (XII) for the year ended 31 December 1998. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages (VIII) and (IX).

Respective responsibilities of Council Members and Auditors

The Council Members are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on the statements presented by the Council Members.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council Members in the preparation of the financial statements and of whether the accounting policies adopted are appropriate to the Exchange's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Exchange's affairs at 31 December 1998 and of the surplus and its cash flows for the year then ended and have been properly prepared in accordance with International Accounting Standards and comply with the Malta Stock Exchange Act (Cap. 345).



Paul Mercieca

DELOITTE & TOUCHE
Certified Public Accountants and Auditors

1 Col Savona Street
Sliema
Malta.

24 March 1999



The Compensation Fund

The Malta Stock Exchange maintains a Compensation Fund established in terms of Section 12 of the Statute contained in the First Schedule to the Malta Stock Exchange Act (Cap. 345) for the purpose of ensuring the security of Exchange transactions in the event of financial difficulties of any Member to meet his obligations towards the investing public.

The Fund is administered by the Council of the Malta Stock Exchange in terms of the Bye-laws issued by the Council on 24 July 1995, which provide inter alia for the separate management of the Fund's assets. Accordingly, separate financial statements are drawn up in respect of the Fund.



