



BORŻA TA' MALTA
MALTA STOCK EXCHANGE

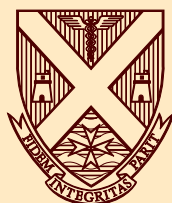
ANNUAL REPORT

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BORŻA TA' MALTA
MALTA STOCK EXCHANGE



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The Council

Alfred Mallia	Chairman
Arthur Galea Salomone	Deputy Chairman
Alexander Agius	Member
Saviour Briffa	Member
Marco Sammut	Member
Eileen V Muscat	Secretary to Council

Executive Committee

Mark A Guillaumier	Chairman
Alfred Mallia	Member
Eileen V Muscat	Member
Robert Vella Baldacchino	Member
Simon Zammit	Member
Marie Cordina	Secretary

Audit Committee

Alfred Mallia	Chairman
Alexander Agius	Member
Saviour Briffa	Member
Marie Cordina	Secretary

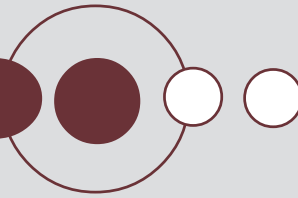
IT Committee

Alfred Mallia	Chairman
Mark A Guillaumier	Member
Marco Sammut	Member
Simon Zammit	Member
Marie Cordina	Secretary

Securities Settlement System Steering Committee

Mark A Guillaumier	Chairman
Saviour Briffa	Member
Eileen V Muscat	Member
Robert Vella Baldacchino	Member
Simon Zammit	Member

letter of transmittal



The Chairman
Malta Stock Exchange
Garrison Chapel
Castille Place
Valletta CMR 01

30 March 2004

The Chairman & President
Malta Financial Services Authority
Notabile Road
Attard

Dear Sir

In accordance with Article 31(1) of the Financial Markets Act [Cap. 345 of the Laws of Malta], I have the honour to transmit the Audited Financial Statements and Report on the activities of the Malta Stock Exchange for the Financial Year ended 31 December 2003.

Yours faithfully

Alf Mallia
Chairman

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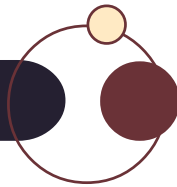
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Financial Report and Audited Financial Statements

Compensation Fund

The image features a minimalist design on a light orange background. A large white circle is partially visible on the right side. Overlapping this is a smaller, light orange circle. A thin dark brown line forms a path that starts from a solid dark brown circle on the left, loops around the top of the light orange circle, and then curves down to a dark brown rounded rectangular box. The text 'chairman's report' is written in white inside this box.

chairman's report



In my Report for 2002, I had then stated that the enactment of the Financial Markets Act [Cap. 345]- which effectively replaced the Malta Stock Exchange Act as the legislation regulating the Malta Stock Exchange- was one of the most important structural changes affecting the workings of this institution since it commenced operations in 1992. As the various provisions of the new law gradually started to come on stream during the course of 2003, various Exchange operations and procedures were reviewed and amended to reflect and comply with the requirements of the Financial Markets Act. By the end of the year under review, in fact, the Exchange had been divested of virtually all its regulatory powers, including the licensing of its Members and the responsibility for the vetting of listing applications and for the monitoring of compliance with the continuing obligations of listed companies. As a result of these changes, the Exchange now operates as an Investment Exchange regulated by the Malta Financial Services Authority in terms of the Financial Markets Act.

As Malta moves towards EU Membership in May 2004, the market conditions that the Exchange will be facing in Europe will be characterised by a highly competitive environment not only between intermediaries but also between markets, banks and exchanges. This environment poses a challenge not only to the Exchange but also to all other operators in the market. We believe that an Exchange relieved of its supervisory duties can better concentrate on its core operations, providing a wider range of services to its clients and competing on the basis of efficiency and cost.

In order to be better placed to take up the new challenges, the

Exchange has critically reviewed its current organisational set up and scope of operations and has developed a set of strategies designed to achieve its stated corporate objectives. With the coming into force of the new regulatory structure and the



consequent divestment of its legal responsibilities in this area, the way is now open for the Exchange to change gear in its operational set-up, seeking to exploit new business options which had hitherto been difficult or even impossible to pursue.

During 2003, work started on the groundwork necessary for the Exchange to move in this direction. The first steps aimed at setting up the Exchange as a corporate entity operating within a group structure have already been taken. It is envisaged that the Malta Stock Exchange Group will initially comprise the Central Securities Depository and the Clearing and Settlement function. Draft constitutional documents in respect of this corporate restructuring exercise have already been drawn

up and are currently being reviewed by the Exchange's professional advisers. In the meantime, the Exchange has already carried out a thorough review of all its current operations with the aim of streamlining procedures, making them more efficient and cost-effective particularly in the light of the new competitive challenges that must be faced as it takes up its new role in the European marketplace.

One particular area that has received particular attention during 2003 has been the clearing and settlement system operated by the Exchange in respect of transactions carried out in listed securities. The Exchange has been working in tandem with the Competent Authorities to upgrade the current system of securities settlement to comply fully with the highest European standards. It is envisaged that the new system will go live during the second quarter of 2004.

Although I have to state that the BorzaMed initiative has not as yet received the support expected from other Exchanges in the Mediterranean region, it is intended that during the coming year this goal will be more actively pursued and we hope that by the end of 2004 we will be able to report more positively on this matter.

The strong equity market performance which emerged during the first weeks of 2003 persisted throughout the year. This positive trend in equity prices was reflected in the value of the Malta Stock Exchange Index during 2003 when it climbed from 1874.76 at the beginning of the year to 2100.74 at the end of December, an appreciation of some 12%. This performance contrasts sharply with the 15% drop in value registered in 2002.

While the performance of the equity market during the year under review

was certainly encouraging, the number of companies approaching the market to list their equity was unsatisfactory. Although the Exchange listed five new corporate bonds during 2003 as well as a number of sub-funds of collective investment schemes, no new equities were listed. We expect that as the relevant financial ratios continue to improve, more companies will come to realise the advantages of raising finance by seeking a listing of equity as against other means of financing such as bank borrowing or bond issues. Having said this, we are pleased that the discussions started with the European Investment Bank [EIB] during the year in respect of the issue of a Lm10 million bond issue on the local market, have been concluded successfully due in no small part, to all those involved, including Competent Authorities, Managers, advisors, etc.

Market turnover during 2003 remained virtually unchanged from 2002, as a reduction in the value of equity trades was offset by higher levels of business in Government paper. It is clear that liquidity in the equity market can only be enhanced with a greater diversification of securities listed. Now that it is no longer acting as the regulator of the capital market, the Exchange intends to adopt a much more proactive stance in seeking new listings. As a first step, a study has been commissioned to take a close look at the current state of the market as well as its needs, both from the point of view of investors as well as issuers. The Exchange is studying the results emerging out of this exercise and these will eventually be used as the basis for a thorough review of the range of services offered by the Exchange.

Finally I would like to say something about the financial results of the Exchange during the past year. I believe that any plans for the future development of the Exchange can only be undertaken on the basis of a sound financial position. In spite of the significant expenditure incurred in connection with the setting up of the technical infrastructure required in respect of the new securities settlement system, the Exchange managed to carry out a cost cutting exercise which resulted in a

significant drop in overheads. As a result the operating profit for the year increased from just over Lm119,000 in 2002 up to Lm256,000 this year. Furthermore, a net current liability position of Lm390,000 at the end of 2002, has now been turned into a net positive balance of just over Lm20,000 following the re-negotiation of the Exchange's bank borrowing. It is good to see that the efforts of everybody involved in implementing this exercise have borne fruit.

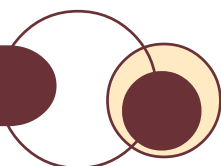
I would like to end my Report by thanking my fellow Council Members, the Executive team and all the staff of the Exchange for their dedication and hard work without which these results could not have been achieved. I would also like to thank the Members of the College as well as the other market practitioners for the support they have shown towards the Exchange. I am sure that with the co-operation and commitment of all parties involved, the Exchange can look forward to a positive future.



Alf Mallia
Chairman



administration report



The Council

Alfred Mallia	Chairman
Arthur Galea Salomone	Deputy Chairman
Alexander Agius	Member
Saviour Briffa	Member
Marco Sammut	Member
Eileen V Muscat	Secretary to Council



The Council

The Chairman and Council Members of the Exchange appointed by the Minister of Finance with effect from 1 October 2002 in terms of Article 25 of the Financial Markets Act [Cap. 345] (the Act) and of Article 8 of the Statute annexed thereto, continued in office throughout 2003.

The Council met fifteen [15] times during the year including a number of ad hoc meetings convened mainly to discuss amendments to the Bye-laws subsequent to the introduction of the new legislative and regulatory framework.

In April 2003 the Council formally set up the Executive Committee in terms of Article 8[7] of the Statute appended to the Act, under the chairmanship of the Chief Executive of the Exchange. Besides the Chief Executive, the Executive Committee is composed of the General Manager, the two Deputy General Managers and the Chairman of the Exchange with the Head of the Internal Compliance Office acting as Secretary.

The broad terms of reference of the Executive Committee in terms of the Statute are to formulate development

policies for the Exchange for submission to the Council. More specific terms of reference have been given to the Executive Committee by the Council in terms of Article 26 of the Act. The Executive Committee has been delegated with the responsibility to

- maintain the highest ethical standards in the conduct of business of the Exchange;
- promote and sustain an orderly, equitable and visible securities market;
- monitor trading;
- perform all other functions to establish a market in quoted securities; and
- do all other things as may be necessary for the proper performance and functioning of the Exchange.

Appropriate bye-laws and procedures were also drawn up to cover the composition and functions of the Executive Committee. The Executive Committee meets on a weekly basis, reporting and making recommendations to the Council as appropriate.

One of the major projects that has been undertaken by the Exchange during 2003 is the development and implementation of a new securities

clearing and settlement payment system. This is the one area of Exchange operations that is still not fully compliant with internationally accepted standards. This area of operations is, of course, critically important particularly in view of the Exchange's efforts to broaden the range of services it can provide, be these cross-border business, the provision of custodial services, etc.

Given the highly technical and complex nature of this enterprise, the Council decided to set up a Steering Committee to drive the project forward, from the setting up of the Project Plan right up to its implementation. The SSS Steering Committee is composed of the Chief Executive as Chairman, the Senior Executives of the Exchange and a Member of Council. The Central Bank of Malta and the Malta Financial Services Authority, respectively the competent authorities for National Payment Systems and for Recognised Investment Exchanges, also attend meetings of the Committee and both institutions have given valid and valuable contributions to the Project. The technical developments required are being undertaken and tested, including the implementation of SWIFT standards which will be the electronic messaging technology

adopted for the new securities settlement system. At the same time, the Committee has also prepared the appropriate rules and procedures which will regulate the new system and these have been submitted to the Authorities for their approval.

Both the IT Committee and the Audit Committee set up the previous year, continued to meet regularly on a monthly basis during 2003, their reports being submitted to the Council accordingly. Amongst other matters, the IT Committee has discussed the IT Infrastructure Usage Document which sets out guidelines for the use of IT systems within the Exchange. The Committee has also worked on a restructuring exercise for the trading and depository systems in use at the Exchange particularly with regard to the back-up procedures for hardware and software applications. This review forms part of an exercise currently being undertaken by the Exchange designed to improve the current Business Continuity Procedures with respect to the core operations of the Exchange.

The Audit Committee in turn, has continued to assist Council in fulfilling its responsibilities with regard to the financial management of the Exchange as well as ensuring compliance with the regular financial reporting requirements of the Competent Authority. At the same time the Audit Committee has also reviewed some of the operations of the Exchange with a view to making them more cost-effective, particularly with regard to the range of services currently being offered by the Exchange to listed companies and to other parties. Expenditure has also been strictly monitored and reviewed in order to remain within budgeted limits. In June 2003, in fact, the Audit Committee recommended a number of revisions to the Budgeted Estimates approved by Council earlier on in December 2002, to reflect the decreased levels of expenditure emerging from the interim results of the Exchange.

Special Meeting

The Malta Stock Exchange presented its Financial Statements

as well as the Financial Statements of the Compensation Fund for the year ended 31 December 2002 to Members at a Special Meeting convened on 14 March 2003 in terms of the Statute appended to the Act. The Chairman also presented a review of the developments and operations of the Exchange throughout the year, wherein he highlighted the main events that had taken place, referring in particular to the new legislative and regulatory framework.

The enactment of the Financial Markets Act and the subsequent amendments have made it no longer necessary for the Exchange to present its Financial Statements and Annual Report to Members. However, in terms of the Act, the Annual Report including the Audited Financial Statements have to be presented to the Competent Authority within four months of the end of the financial year of the Exchange, that is by the end of April. The Annual Report and Financial Statements of the Exchange and the Compensation Fund for 2002 were, in fact, submitted to the Malta Financial Services Authority by the end of April 2003 in terms of the Act.

The Financial Markets Act

Subsequent to the enactment of the Financial Markets Act [Cap. 345 of the Laws of Malta] in October 2002, a number of Legal Notices were issued in January 2003 establishing the Malta Financial Services Authority as the Competent Authority in respect of the financial services sector in Malta as well as being designated as the Listing Authority. An important innovation introduced by the Financial Markets Act (Cap 345) is the introduction of the "admissibility" concept for the listing of securities on a recognised investment exchange. For this purpose the Act establishes a Listing Authority whose function it is to authorise the admissibility of such securities as it considers appropriate to the lists of recognised investment exchanges. The Listing Authority has established a set of Listing Rules in terms of the Act to regulate admissibility and to supervise the

on-going obligations of listed issuers. In terms of the above provisions, all listing procedures were transferred to the Listing Authority by December 2003 when the new Listing Rules were issued. These Rules subsequently came into force on 1 January 2004.

During 2003 a number of amendments were made to the Act. Article 49 of the Act was amended to enable the Minister of Finance to issue regulations relating to, *inter alia*, the operations of recognised investment exchanges; admissibility to listing and direct or indirect membership. Later on in the year, several amendments to the Statute appended to the Act were also introduced, primarily meant to remove any reference to the Compensation Fund which has now been wound up and its assets transferred to the newly set up Investor Compensation Scheme.

In January 2003, the recognition requirements in respect of recognised investment exchanges were issued by means of Legal Notice. These recognition requirements include provisions relating to financial resources; suitability; constitution and governance; systems and controls; safeguards for investors; disclosure; promotion and maintenance of standards as well as disciplinary procedures and the setting up of systems dealing with complaints.

Later on in the year, the Malta Financial Services Authority issued general notification directives applicable to recognised investment exchanges in accordance with the provisions of Article 5 of the Act. Such directives ensure that due notice of events and specified information is provided to the Competent Authority for the proper fulfillment by the Authority of its regulatory functions as prescribed in the Act in relation to recognised investment exchanges.

Human Resources

Although there were a number of staff movements and promotions during 2003, no new members of staff were engaged during the year.

Indeed, the staff complement decreased by one [1] following the resignation of a junior staff member in June, bringing the staff complement down to 42 at the end of 2003.

During the Summer months, two students were temporarily employed to assist with the workload in the Depository and Research Office while later on in the year another student was contracted to carry out an independent study on the users' perception of the market.

The Internal Compliance Office, which was set up in 2002, was further strengthened in its staff complement in order to be able to finalise the Business Documentation Project thus enabling it to commence a number of verification processes and to comply with all regulatory reporting functions.

Staff Development

In its continued endeavours to keep its officials abreast of both local and international developments in the financial markets industry, the Exchange continued to support its officials to attend both local and overseas seminars and conferences. In view of the developments taking place within the Exchange, participation at international events was primarily geared towards those events dealing with the latest developments in clearing and settlement systems within the European regulatory framework.

Some of the events attended by Exchange officials during 2003 included :

- ESCB-CESR joint workshop on clearing and settlement;
- ECB workshop on Central Counterparty Clearing and Settlement for EU accession countries;
- Annual Conference on Clearing and Settlement;
- Strategies for counteracting developments in the financial world; and
- Investor Education.

In February 2003, the Deputy Chairman of the Exchange, Dr Arthur

Galea Salomone was a speaker at an international conference organised in London on the "Investment Services Directive and the development of securities' trading in Europe". Dr Galea Salomone presented a paper on the proposed corporate governance regime for regulated markets.

On the local scene, Exchange officials attended a number of lectures, seminars and workshops regarding the new legislative and regulatory framework for the Maltese financial sector which dealt not only with legal issues, but also took an in-depth look at regulation, tax, anti-money laundering provisions, competition, etc. Data protection issues were also discussed extensively during a number of local events attended by Exchange officials.

The Exchange also organised a number of talks for its own officials wherein senior executives explained the provisions of the new legislation and regulations and how these had affected or would be affecting the operations and procedures of the Exchange.

Other internal training sessions organised by the Exchange concentrated on developments in its IT systems, particularly the recent upgrade in the Exchange's Depository system. The Exchange also organised specific presentations for individual offices regarding the implementation of business procedures.

International Relations

IMF/World Bank FSAP Mission

The joint IMF/World Bank Mission carrying out a Financial Services Action Plan (FSAP) Assessment which had first visited Malta in October 2002 again visited Malta in January 2003. During this visit various meetings were again held with the top representatives of the relevant financial institutions prior to the Mission preparing its final report. This Mission primarily discussed with the Exchange the CPSS/IOSCO recommendations on clearing and settlement systems.

EU Peer Review

Later on in the year an EU Mission held a follow up visit to the EU Peer Review visit held in 2002. During further discussions held with the relevant institutions, including the Exchange, some matters raised during the previous visit were again addressed. The relevant report was published towards the end of the year.

Meetings

During 2003, as in previous years, senior executives actively participated in various meetings of those international organisations of which the Exchange is a member. These meetings included the Working Committees and Annual General Meeting of the World Federation of Exchanges [WFE]; the Working Committees and Annual Meeting of the Federation of European Securities Exchanges [FESE] and the Annual Meeting of the International Organisation of Securities Commissions [IOSCO]. The Exchange was also represented at the Annual General Meeting of the European Corporate Governance Institute [ECGI].

During the Working Committee of the WFE held in March, the Chief Executive was appointed to form part of a taskforce called the "WFE Corporate Governance Working Group" formed to study corporate governance issues influencing the level of confidence in the world's capital markets.

During the Working Committees of FESE, several issues of particular interest to EU accession countries were discussed, mainly the rapidly changing European regulatory regime. The Deputy Secretary General of FESE updated Working Committee participants regularly on the developments taking place in this area. These updates were extremely useful to EU accession countries like Malta which are currently undergoing significant changes in their own legislation and regulations to bring them in line with internationally acceptable standards.

FESE also organised a number of other meetings and sub-committee

meetings at which the Exchange was represented. These include the legal and regulatory sub-committee meeting; a meeting of a taskforce on clearing and settlement in EU accession countries and meetings of the statistics sub-committee. Indeed, the October 2003 meeting of the latter sub-committee was hosted by the Malta Stock Exchange and was attended by representatives from over 20 European stock exchanges.

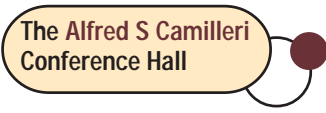
The Malta Stock Exchange will again be hosting a working committee of FESE to be held at the beginning of April 2004.

The Malta Stock Exchange was also represented at the Annual Conference of IOSCO when the Presidents' Committee approved the Exchange's application for Affiliate Membership of this world organisation following the transfer of Ordinary Membership to the Malta Financial Services Authority. The Malta Stock Exchange had been a member of IOSCO since 1992 but had to relinquish ordinary membership of this organisation to the Malta Financial Services Authority as a result of the regulatory changes brought about by the provisions in the Financial Markets Act.



Les Gavroches

As announced in 2001, the Exchange has sponsored a bronze cast copy of "Les Gavroches", one of the earliest and most important works of Antonio Sciortino, one of Malta's foremost sculptors. The bronze copy was commissioned in order to replace the original sculpture standing within the Upper Barrakka Gardens, situated at the rear of the Exchange premises, as the original was deemed to be too valuable to be left in the open air. The original sculpture has now been transferred to the Museum of Fine Arts in Valletta whilst the bronze copy will take the place of the original sculpture in the Barrakka Gardens. In the meantime, the copy may be viewed at the premises of Heritage Malta in Valletta.



The Alfred S Camilleri Conference Hall

The Conference Hall of the Exchange with a seating capacity of 80 people, has become a popular venue for meetings, seminars and workshops organised by a number of local institutions and organisations, particularly those in the financial sector as well as constituted bodies. Indeed, during 2003, the Conference Hall was often used as a venue for events organised by these institutions as well as for other events organised by the Exchange itself. Throughout this year the Exchange has further enhanced the services it can offer in the organisation of such events, especially with regard to equipment, layouts available, etc. The Exchange is very pleased to note the number of events that are being organised within its premises and which are proving to be a catalyst for the revival of this particular area of Valletta.

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exchange operations

and other activities

exchange operations & other activities

Market Operations during 2003

Business transacted on the market during 2003 reached a market value of just over Lm74 million, virtually unchanged when compared with the previous year's results. All three

sectors of the market, equities, corporate bonds and Government paper, showed a somewhat mixed performance during the year under review.

Although share prices rose steadily throughout the year, there was a

significant decline in the number of shares transacted when compared to 2002 which was reflected in a decrease of 25% in the value of turnover for this sector of the market. The aggregate value of shares transacted in 2003, in fact, contracted from just over Lm20

Malta Government Stock Movements 2003

MGS Outstanding	Date of Issue	Amount Issued	Deals	Traded Value (Lm)
7% MGS 2003 (II)	5-Jun-93	20,833,200	34	1,190,045
6.7% MGS 2004	23-Apr-94	18,700,000	95	725,968
6.8% MGS 2004 (II)	1-Jul-98	25,851,800	20	108,837
7.25% MGS 2005	18-Jun-97	23,500,000	25	156,641
5.6% MGS 2005 (II)	3-Aug-99	31,500,000	25	198,699
7% MGS 2006	18-Jan-95	10,000,000	43	186,899
7.25% MGS 2006 (II)	15-Apr-96	19,250,000	60	306,225
7.25% MGS 2006 (III)	28-Jun-96	15,000,000	32	130,160
7% MGS 2006 (IV)	30-Jun-96	167,127	-	-
7.35% MGS 2007	18-Oct-97	24,750,000	19	564,102
5.9% MGS 2007 (II)	23-Apr-99	10,000,000	10	28,779
5.6% MGS 2007 (III)	6-Jul-00	35,250,000	168	778,139
7.2% MGS 2008	10-Jun-98	10,000,000	4	6,104
7.2% MGS 2008 (II)	1-Jul-98	30,000,000	26	245,408
7% MGS 2009	17-Aug-99	64,500	-	-
5.9% MGS 2009 (II)	3-Aug-99	25,000,000	12	62,587
5.9% MGS 2009 (III)	17-Oct-00	45,300,000	10	32,439
5.9% MGS 2010	4-Jan-00	15,000,000	1	20,980
5.75% MGS 2010 (II)	6-Jul-00	18,500,000	5	59,884
7% MGS 2010 (III)	26-Sep-00	544,900	-	-
5.4% MGS 2010 (IV)	3-Mar-03	35,000,000	159	1,692,500
7.5% MGS 2011	23-Sep-96	15,000,000	24	519,947
6.25% MGS 2011 (II)	20-Aug-01	40,000,000	75	2,570,362
7% MGS 2011 (III)	24-Jan-02	125,000	-	-
7.8% MGS 2012	18-Jun-97	34,500,000	52	910,406
7% MGS 2012 (II)	29-Jul-02	176,200	-	-
5.7% MGS 2012 (III)	7-Oct-02	21,000,000	101	621,749
7.8% MGS 2013	18-Oct-97	34,250,000	6	1,104,957
6.35% MGS 2013 (II)	5-Dec-01	26,000,000	154	981,826
7% MGS 2013 (III)	12-Sep-03	66,700	-	-
6.6% MGS 2014	17-Oct-00	10,500,000	47	197,454
6.45% MGS 2014 (II)	8-Jun-01	30,000,000	66	378,563
5.1% MGS 2014 (III)	21-Jul-03	30,000,000	271	3,818,875
6.1% MGS 2015	6-Jul-00	30,000,000	112	2,541,996
5.9% MGS 2015 (II)	19-Apr-02	40,200,000	221	5,711,740
5.9% MGS 2015 (II) Fung.	3-Mar-03	20,000,000	65	1,252,803
6.65% MGS 2016	17-Apr-01	30,000,000	136	993,852
4.8% 2016 (II)	1-Dec-03	30,000,000	79	1,182,753
7.8% MGS 2018	1-Jul-98	70,000,000	125	11,238,217
6.6% MGS 2019	1-Aug-99	44,000,000	126	1,881,129
5.5% MGS 2023	21-Jul-03	33,833,200	415	5,891,046
TOTAL			2,880	48,292,074

million last year to Lm15 million in 2003. Shares of companies operating in the financial services sector and in the telecommunications sector remained the stronger performers during the year, both insofar as the number of deals

effected and the number of shares transacted.

The Corporate Bond sector remained buoyant, boosted by a number of new listings and the continued marked reluctance of

investors to deal more actively in equities. Turnover in this sector of the market remained unchanged at just over Lm10 million when compared to 2002 values. The best performers in the Corporate Bond market were those bonds issued by

Comparative Trading Figures

Security	Number of Deals		Volume/No. of Shares		Market Turnover (Lm)	
	2003	2002	2003	2002	2003	2002
Equities						
Bank of Valletta plc Ord Lm0.25	1,121	1,181	1,488,467	926,104	3,629,847	2,664,309
HSBC Bank Malta plc Ord Lm0.25	733	487	1,212,913	585,221	5,802,042	2,266,326
Lombard Bank (Malta) plc Ord Lm0.50	86	127	141,234	1,251,230	502,029	4,936,661
MiddleSea Insurance plc Ord LM0.50	168	159	188,305	804,846	417,315	1,865,971
Simonds Farsons Cisk plc Ordinary Lm0.125	81	91	111,420	147,837	85,340	99,698
6% SFC Pref 2001/03	-	20	-	1,584	-	15,847
Suncrest Hotels plc Ord Lm0.10	2	6	1,000	2,205	505	1,351
Maltacom plc Ord Lm0.25	1,393	1,401	3,216,024	2,083,202	3,084,613	2,463,287
Int. Hotels Investments Plc Ord Euro 1.0	310	265	635,144	1,924,330	555,768	1,867,682
Plaza Centres plc Ord Shares Lm0.20	59	103	895,073	1,015,271	584,884	635,474
GloBAI Financial Srv Grp Plc Ord Lm0.025	78	197	278,188	13,899,277	164,127	3,498,309
First Int Merchant Bank Plc Ord USD 0.50	40	15	134,050	277,075	59,800	151,865
Malta Int Airport Ord A Shares Lm0.20	228	4	422,110	4,700	294,377	3,431
Datatrak Holdings Plc Ord Lm0.10	101	135	1,515,437	388,784	477,693	229,682
Total Equity	4,400	4,191	10,239,365	23,311,666	15,658,340	20,699,893
Corp. Bonds						
6.15% BOV Plc Sbrdnt Bonds 2010	124	192	504,700	971,800	527,971	991,810
8% BOV Plc US\$ Bonds 2010	171	313	1,348,500	4,880,500	589,928	2,341,040
7.25% HSBC Sbrdnt Unsec Loan Stock 2005	104	101	487,200	298,300	511,415	314,210
6.15% Gasan Finance Company plc 2003/4	2	24	2,000	121,300	1,995	121,453
6.4% Gasan Finance Company plc 2008/11	53	-	60,300	-	61,624	-
6.5% Gasan Finance Company plc 2006/9	21	84	23,600	329,200	23,874	335,107
6.25% SFC plc Bonds 2006/08	23	15	19,500	6,600	20,066	6,688
6.6% SFC plc Bonds 2010/12	60	32	51,000	30,700	53,273	31,356
8.25% Suncrest Bonds 2005/07	48	26	64,800	87,600	64,651	89,345
6.7% Corinthia Finance plc Bonds 2009	106	84	410,200	845,700	417,281	867,008
6.75% Corinthia Finance plc Bonds 2012	126	88	590,200	392,500	606,195	395,255
6.5% Corinthia Finance plc € Bonds 2010	92	150	1,413,100	2,485,900	615,250	1,012,300
5% IHI Plc Conv Bond 2010	14	15	325,400	553,100	325,373	549,174
6.75% United Finance Plc Bonds 2008	46	37	563,200	590,500	576,977	603,780
6.7% Eden Finance plc Bonds 2010	73	100	217,100	579,700	213,864	577,110
Malta Government Privatisation Bonds plc 2005	50	82	901,500	474,700	912,844	474,315
6.5% CC Car Parks Plc Bonds 2006	22	27	77,800	78,700	79,277	80,528
6.7% Mizzi Org Finance plc Bonds 2009/12	102	157	370,500	824,000	394,705	845,338
6.7% Tumas Investments plc Bonds 2010/12	99	104	576,900	281,800	593,548	283,024
6.7% Tumas Investments plc Secured Notes	58	9	739,400	66,200	766,976	68,438
6.5% CareMalta Finance plc Bonds 2008-11	57	33	441,600	189,900	455,541	190,345
5.75% Mariner Fin. Plc Eur Bonds 2008/10	29	-	614,900	-	263,253	-
6% Dolmen Prop. plc Sec Bonds 2010/13	52	-	84,400	-	86,133	-
6.2% - 6.8% IHI Plc Euro Bonds 2013	108	-	1,961,500	-	837,583	-
6.3% IHI Plc ML Bonds 2013	162	-	644,700	-	648,112	-
7.5% Hotel San Antonio plc Bonds 2012	61	28	104,200	44,800	103,341	43,835
8% Bay Street Finance plc bonds 2012	106	12	292,200	32,500	290,141	32,382
7% Big Bon Finance Plc Sec Bonds 2010/12	51	10	156,800	25,100	165,914	25,590
Total Corp. Bonds	2,020	1,723	13,047,200	14,191,100	10,207,103	10,279,431
Close Ended Collective Invest. Scheme						
San Tumas Shareholdings plc	3	-	1,140	-	946	-
Total Close Ended Collective Invest. Scheme	3	-	1,140	-	946	-
Malta Government Stocks						
Total MGS's	2,880	1,860	42,679,200	40,885,700	48,292,074	44,830,554
Total all Securities	9,300	7,774	65,965,765	78,388,466	74,157,518	75,809,878

Holders of MSE Listed Securities by Market Capitalisation

	Financial Entities		Non-Financial Entities		Government		Individuals	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Equities	12.90%	29.61%	12.92%	0.25%	20.22%	0.00%	23.19%	0.91%
Corp. Bonds	34.80%	0.47%	3.47%	0.00%	0.15%	0.00%	60.98%	0.14%
MGS	62.50%	0.03%	1.81%	0.00%	0.78%	0.00%	34.79%	0.10%

End of January 2004 data

companies in the tourism sector and in the financial services sector which showed a steady performance throughout the year under review.

The first close-ended Collective Investment Scheme was listed on the Exchange towards the end of the year, too late, however, to make any significant impact on turnover figures.

The performance of the Government Stock market in 2003 resulted in a market turnover of slightly over Lm48 million, up from Lm45 million registered during the previous year. Business in Government paper was concentrated around medium and long term issues which accounted for over four fifths of the total business transacted in this market sector during the year.

Investor participation in the primary market remained very strong as indicated by all the bond issues which were heavily over-subscribed in a short period of time, very often

within a few hours of the opening of the offer. This interest in the primary market is, however, not reflected in the secondary market, where the percentage of individuals trading on the market when compared to the total number of security holders, is almost insignificant. However, market performance during the last quarter of 2003 and more significantly, during the first weeks of 2004, indicate an upsurge in market transactions generally with a greater spread of investors who are dealing and also, a marked swing to equity trading, indicating that the market is responding to the prevalent market sentiment both locally and overseas.

reflected this pattern, with highest values being registered during October and November. The Index declined slightly thereafter only to start increasing once again towards the last weeks of the year. It is interesting to note that the performance of the MSE Index mirrors the performance of much larger European and US indexes. The MSE Index registered an increase of 12% during the year, in sharp contrast with the decrease of 15% registered in 2002. The value of the MSE Index stood at 2125.76 at the end of 2003, up 255 points from the end of 2002 value of 1870.91.

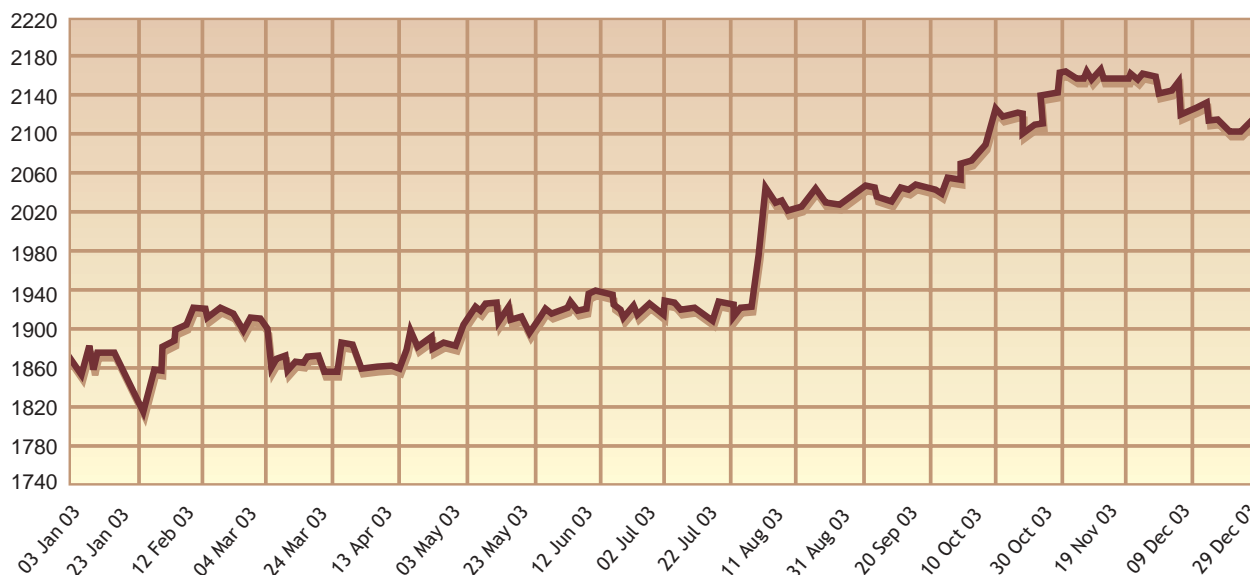
Malta Stock Exchange Share Index

The steady increase in share prices which started to emerge in January 2003 was sustained throughout the year. Movements in the MSE Index

Market Capitalisation

At the end of December 2003, the total market capitalisation of securities listed on both the Official List and the Alternative Companies

Malta Stock Exchange Share Index for the Year 2003



Market Capitalisation

Name of Security	Shares in Issue	Closing Prices December 03	Lm	%	Lm
Equities					
Bank of Valletta (LM)	55,416,441	2.45	135,770,280	21.46	
International Hotels Invest EURO	119,053,489	0.84	43,122,302	6.82	
HSBC Bank Malta (LM)	36,480,000	5.47	199,545,600	31.54	
Lombard Bank (LM)	4,051,896	3.7	14,992,015	2.37	
Middlesea Insurance (LM)	12,500,000	2.399	29,987,500	4.74	
Simonds Farsons Cisk (LM)	25,714,286	0.9	23,142,857	3.66	
Suncrest Hotels (LM)	10,000,000	0.52	5,200,000	0.82	
Maltacom (LM)	101,310,488	1.05	106,376,012	16.82	
Plaza Centres (LM)	9,414,000	0.6	5,648,400	0.89	
GloBAI Financial Services (LM)	13,207,548	1.05	13,867,925	2.19	
FIM Bank (US\$)	66,006,457	0.93	21,181,465	3.35	
Malta International Airport (LM)	40,589,995	0.7	28,412,997	4.49	
San Tumas Shareholdings plc	1,665,176	0.83	1,382,096	0.22	
Alternative Companies List (ACL)					
Datatrak Holdings plc	15,949,500	0.25	3,987,375	0.63	
					632,616,826

Corporate Bonds					
7.25% HSBC Bank Malta 2005 (LM)	20,000,000	104.99	20,998,000	11.62	
8.25% Suncrest Hotels 2005/7(LM)	2,992,500	99	2,962,575	1.64	
6.5% Gasan Fin. 2006/9 (LM)	3,500,000	101.5	3,552,500	1.97	
6.7% Corinthia Fin. 2009 (LM)	10,000,000	102.25	10,225,000	5.66	
6.15% Bank of Valletta 2010 (LM)	20,000,000	104.51	20,902,000	11.56	
5% Int. Hotels Invest. 2010 (LM)	5,000,000	100	5,000,000	2.77	
6.75% United Fin. 2008 (LM)	4,000,000	103	4,120,000	2.28	
8% Bank of Valletta 2010 (US\$)	36,543,500	117.5	14,816,125	8.20	
MG Privatisation plc Bonds 2005 (LM)	7,272,400	106	7,708,744	4.27	
6.7% Eden Fin. 2010 (LM)	10,000,000	96.5	9,650,000	5.34	
6.5% CC Car Parks 2006	1,500,000	103	1,545,000	0.85	
6.5% Corinthia Fin. plc 2010 (EUR)	14,273,700	101.5	6,247,167	3.46	
6.75% Corinthia Fin. 2012 (LM)	6,289,900	102.5	6,447,148	3.57	
6.7% Mizzi Org. plc 2009/12 (LM)	10,000,000	106.5	10,650,000	5.89	
6.7% Tumas Invest 2010/12 (LM)	7,000,000	104.5	7,315,000	4.05	
6.7% Tumas Invest (Sec. Notes) 2006	4,200,000	105.6	4,435,200	2.45	
6.6% Simonds Farsons Cisk 2010/12 (LM)	4,000,000	105	4,200,000	2.32	
6.25% Simonds Farsons Cisk 2006/8 (LM)	2,000,000	104	2,080,000	1.15	
6.5% CareMalta Fin. 2008/12	3,800,000	101	3,838,000	2.12	
6.3% Int.Hotel Invest. plc 2013	6,017,500	100.5	6,047,588	3.35	
6.2% - 6.8% Int. Hotel Invest. 2013 (EUR)	8,058,000	101.5	3,526,743	1.95	
5.75% Mariner Finance 2008/2010 (EUR)	13,000,000	100	5,605,623	3.10	
6.4% Gasan Finance 2008-2011	5,000,000	103	5,150,000	2.85	
6% Dolmen Properties plc Secured Bonds	4,700,000	102.52	4,818,440	2.67	
Alternative Companies List (ACL)					
7.5% Hotel San Antonio plc 2012 (LM)	2,500,000	99.51	2,487,750	1.38	
8% Bay Street Finance 2012	3,263,800	99	3,231,162	1.79	
7% Big Bon Fin. (LM) 2010/12	3,000,000	106	3,180,000	1.76	
					180,739,764

Malta Government Stocks					
913,029,427	Various	Various	1,020,288,658		
					1,020,288,658
				Total in Lm	1,833,645,248
Exchange Rates		2.3191	Total in Euros	4,252,406,696	
		2.8981	Total in US\$	5,314,087,294	
		1.6326	Total in Stg	2,993,609,233	

Collective Investment Funds Investing in MSE Listed Securities

Fund	Net Asset Value in Lm Dec-02	Net Asset Value in Lm Dec-03
La Valette Funds Sicav plc - Malta Fund	16,300,540	17,346,988
La Valette Funds Sicav plc - Malta Bond Fund	24,581,912	34,740,106
Vilhena Funds Sicav plc - Malta Fund	7,721,345	7,028,223
Vilhena Funds Sicav plc - Malta Government Bond Fund	29,462,528	44,946,496
Global Funds Sicav plc - Malta Privatisation and Equity Fund	7,266,731	7,285,303
Wignacourt Funds Sicav plc - Malta Fund	10,571,118	11,396,059
Amalgamated Funds Sicav plc - Growth and Income Fund	10,430,659	12,911,434
HSBC Malta Funds Sicav plc - Malta Bond Fund	40,375,429	58,639,718
HSBC No-Load Funds Sicav plc - Malta Government Bond Fund	32,392,613	69,446,618
HSBC No-Load Funds Sicav plc - Maltese Assets Fund	18,363,803	20,288,460
Gasam Funds Sicav plc - Gasam Enterprise Fund	128,072	159,228

List stood at just over Lm1.8 billion, an increase of Lm0.2 billion over the comparable figure of the previous year. There was an increase in the market capitalisation of both equities and fixed-income securities, with the strongest increase being registered in the Government Bond sector which was boosted during 2003 by the listing of a number of long-term issues.

Admission to Listing

The following securities were admitted to listing on the Malta Stock Exchange during 2003:

Equities

- 9,236,223 Bank of Valletta plc Ord Shares Lm0.25c
[subsequent to a Bonus Issue]
- 56,738 Lombard Bank Malta plc Ord Shares Lm0.50c
[subsequent to a Bonus Issue]
- 31,037,740 Global Financial Services Group plc Ord Shares Lm0.02,5
- 35,693 Lombard Bank Malta plc Ord Shares Lm0.50c
[subsequent to a Bonus Issue]
- 4,500 First International Bank plc Ord Shares US\$0.50c
[pursuant to Executive Share Option Scheme rules]
- 3,445 International Hotels Investments plc Ord Shares E1.00
[pursuant to conversion of shares into Euros]
- 20,001,957 First International Bank plc Ord Shares US\$0.50c
[subsequent to a Rights Issue]

Close-ended Collective Investment Scheme

- 1,665,176 Santumas Shareholdings plc Ord Shares Lm0.25c

Corporate Bonds

- Lm6,017,500 6.3% International Hotel Investments plc Lm Bonds 2013
- Euro 8,058,000 6.2%-6.8% International Hotel Investments plc Euro Bonds 2013
- Euro 13,000,000 5.75% Mariner Finance plc Bonds 2008/2010
- Lm5,000,000 6.4% Gasam Finance Co plc Bonds 2008/2011
- Lm4,700,000 6% Dolmen Properties plc Secured Bonds 2010/2013

Malta Notes

- GBP5,000,000 SGA Societe' Generale Acceptance NV – Malta Notes 2007
- GBP5,000,000 SGA Societe' Generale Acceptance NV – Malta Notes 2009

Malta Government Stocks

- Lm35,000,000 5.4% MGS 2010 (IV)
- Lm20,000,000 5.9% MGS 2015 (II) – Fungible issue.
- Lm30,000,000 5.1% MGS 2014 (III)
- Lm33,833,200 5.5% MGS 2023
- Lm66,700 7.0% MGS 2013 (II)
- Lm30,000,000 4.8% MGS 2016 (II)

Collective Investment Schemes

Secondary Listing :

- 1 share class Fidelity Funds SICAV
- 25 share classes HSBC International Capital Secured Growth Fund plc
- 3 share classes Brewin Dolphin Portfolios Limited
- 3 shares classes Thames River Traditional Funds plc

At the end of 2003 the following securities appeared on the Official List and on the Alternative Companies List of the Malta Stock Exchange :

Listed Equities

Equities

14 Ordinary Shares

Corporate Bonds

27 Bonds

Malta Government Stocks

39 Stocks

Collective Investment Schemes

Close-ended - 1 [primary listed]

Open-ended - 52 [primary listed]

318 [secondary listed]

The number of equities listed on the Exchange during 2003 remained unchanged. Five [5] new corporate bond listings pushed the number of listed corporate bonds up to 27 with one corporate bond being redeemed during the year. At the same time, the number of Government Stocks listed on the Exchange rose from 36 at the end of 2002 to 39 a year later. During this period, a total of 6 issues were listed and 3 issues were redeemed.

Delisting of Collective Investment Schemes

A number of share classes of collective investment schemes were delisted from the Official List of the Exchange during 2003. These delistings partly reflected cost-cutting exercises carried out by a number of listed schemes but were also the result of the merging of share classes. These delistings, as listed below, were counterbalanced by new listings of share classes of a number of schemes, including the first close-ended scheme to be listed on the Exchange. Thus the number of collective investment schemes listed on the Exchange at the end of 2003 remained virtually unchanged when compared to the end 2002 figures, decreasing overall by 7 [4 primary listings, 3 secondary listings] down to 318.

Delistings during 2003:

- 2 sub-funds Jupiter Astral Fund Ltd
- 17 sub-funds HSBC Global Investments Funds Ltd
- 1 share class [US\$] Fidelity Funds SICAV
- 2 sub-funds Privilege Portfolio Fund Ltd
- 1 sub-fund Privilege Portfolio SICAV
- 3 sub-funds Gasan Funds SICAV
- 1 sub-fund Edinburgh Investment Company ICVC
- 1 sub-fund Fidelity Funds SICAV
- 7 sub-funds [& SICAV] Melita International Fund SICAV plc
- 1 sub-fund Ashmore Russian Debt Portfolio

Central Securities Depository

At the end of 2003 the number of accounts registered with the Central Securities Depository [CSD] was over 149,000 representing 63,139 individual holders. These figures show an increase of 6,000 and 3,000 respectively when compared to end-2002 figures, reflecting in turn the increase in the number of listed securities registered during 2003. The number of account holders does not usually vary greatly from year to year since the majority of investors participating in the primary market already hold securities and therefore, have already been allocated a CSD account.

At the end of 2003, a total of 31,566 account holders held equity securities while 28,402 investors held Government securities. The figure for individual shareholders in the

corporate bond market has also registered an increase to 22,223.

The number of register amendments effected by the CSD during 2003 across all registers amounted to 29,332 an increase of almost 3,000 over the comparable 2002 figure. The largest number of amendments emanated from the bought/sold movements on the market. During 2003 these amounted to 18,606 up from 15,852 in 2002, reflecting the increase in market activity registered throughout the year under review. There was also a marked increase in off-market transfers and pledge inserts, counterbalanced by a decrease in holder amendments which were less than half those registered in 2002. This is largely due to the fact that during 2002, a door re-numbering exercise was being carried out which resulted in a significant number of address changes on the accounts. Although this exercise continued somewhat in

CSD Register Amendments for 2003

	Gross Amount (in Lm)	No of Warrants
January	19,552,707	9,034
February	4,908,440	8,679
March	18,130,028	15,338
April	3,166,762	15,129
May	5,461,625	16,675
June	3,819,875	14,691
July	5,120,336	8,983
August	4,854,813	11,519
September	6,349,725	15,587
October	9,098,427	19,995
November	5,716,921	18,961
December	3,787,717	15,400
TOTAL	89,967,376	169,991

CSD Register Amendments for 2003

Amendment Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Causa Mortis	92	122	142	68	102	143	84	334	165	47	231	49	1,579
Garnishee Insert	4	0	1	1	3	4	7	1	2	1	3	6	33
Garnishee Release	7	0	3	2	3	1	3	3	0	0	1	5	28
Holder Amendment	238	123	55	86	48	139	88	116	84	117	118	32	1,244
Mandate/Power of Attorney	464	213	189	562	243	178	167	37	229	207	238	141	2,868
Bought Movements	798	651	679	584	778	656	1055	900	705	893	978	626	9,303
Sold Movements	798	651	679	584	778	656	1055	900	705	893	978	626	9,303
Release of Estates	188	181	111	111	336	183	207	68	259	141	179	98	2,062
Off-Market Transfers	143	101	76	64	73	81	96	56	50	55	101	113	1,009
Pledge Insert	64	76	58	132	54	72	110	77	127	116	108	128	1,122
Pledge Release	63	35	69	73	55	50	68	55	62	70	71	110	781
Total	2,859	2,153	2,062	2,473	2,370	2,163	2,940	2,547	2,388	2,540	3,006	1,934	29,332

2003 the bulk of the amendments had been carried out during the previous year.

During 2003 the CSD processed almost 170,000 dividend and interest cheques, an increase of 25,000 over the comparable figure for 2002. The increase in these cheques mainly reflected the new listings during the year but were also due to the fact that some listed companies opted to issue interim dividends resulting in extra processing runs. The dividend/interest cheques processed had a gross value of Lm90 million, up from Lm63 million in 2002. Both the Government and a number of listed companies have commenced procedures to encourage security holders to use "direct credit" facilities. It is, therefore, envisaged that the number and value of dividend/interest cheques processed by the CSD will decrease significantly during the coming year.

During the year under review, the CSD also processed a number of primary issues in respect of new securities issued on the primary market. In certain instances the CSD worked in collaboration with the managers of the respective issues.

Towards the end of the year, a system upgrade was implemented in the depository system, adding greater functionality in particular with a view to dividend cheque processing, primary issue processing, reporting, etc. The upgrade to the CSD software was also implemented in view of the changes being envisaged as a result of the introduction of the new clearing and settlement system. All the members of the CSD staff underwent the requisite training prior to the implementation of the upgrade.

Compliance Office

Subsequent to the enactment of the Financial Markets Act in October 2002, most of the regulatory functions previously carried out by the Exchange were transferred to the Malta Financial Services Authority. The transitory licenses issued to Members in 2002 were revoked during 2003 and new licenses were issued by the Malta

Financial Services Authority in terms of the new regulatory framework. The regulation of stockbroking services was, therefore, transferred in its entirety to the Malta Financial Services Authority during the year.

Following the issue of the new Listing Rules in December 2003 by the Listing Authority, the legal responsibility for the oversight of the continuing obligations of listed companies has also passed to the Malta Financial Services Authority with effect from 1 January 2004. Although the Exchange still liaises closely with the Malta Financial Services Authority on these matters, the role of the Exchange is now primarily geared to disseminate company information via Company Announcements to its Members.

During 2003 the Compliance Office continued to liaise with the Malta Financial Services Authority in respect to the regulation of its Members insofar as their trading activities on the local market are concerned. The Exchange has discussed in depth with the Authority its role within the new regulatory framework and it was agreed that the Exchange should continue to carry out on-site inspection visits to its Members, in conjunction with the Malta Financial Services Authority whenever deemed necessary. In view of these discussions, the scheduled on-site inspection visit programme for 2003 was postponed and will now take place during the course of 2004.

Although only one on-site inspection visit took place during the past year, a total of 17 investigations were carried out by the Compliance Office with the results being reported to the Malta Financial Services Authority. Most of these investigations concerned price fluctuations in equity trading and significant divergences in the trading patterns of a particular security. Compliance Office also carried out a further investigation regarding a breach of the Bye-laws by a Member of the Exchange. The Member subsequently settled the appropriate fine imposed by the Exchange. At the beginning of 2003, the Exchange also reported to the Competent Authority in terms of Article 36 of the Financial Markets Act, a possible

breach of insider dealing and market abuse regulations.

During 2003 Compliance Office also carried out a training programme for a number of new staff being engaged by Members of the Exchange to act as traders on the trading system of the Exchange. These training sessions took place in May and November.

Although a large part of Exchange's compliance function has been transferred to the Malta Financial Services Authority, the Exchange remains responsible for the surveillance of the market, which function continues to be carried out by the Compliance Office. Having been divested of a number of its regulatory functions, the Compliance Office has, however, taken on new reporting functions in line with the general notification directives applicable to recognised investment exchanges. Besides reporting to the Competent Authority on a daily basis regarding activity on the market, Compliance Office also provides monthly reports to the Malta Financial Services Authority in accordance with the requirements laid out in these directives. In view of these changes, the internal procedures of Compliance Office have been amended considerably and reporting requirements have been clearly established.

During 2003 Compliance Office issued a total of 248 Company Announcements, an increase of 61 over the previous year, as follows:

January	18
February	11
March	20
April	28
May	28
June	21
July	20
August	20
September	33
October	17
November	12
December	20

Internal Compliance Office

Throughout 2003 the Internal Compliance Office continued to

devote most of its work to the Business Documentation Project which entailed the identification and compilation of all Exchange procedures into a standard format to arrive to the Exchange's official Procedures' Manual. During 2003 the Internal Compliance Office worked on the office procedures of the IT Department, Compliance Department, Legal Department, Finance Department, Research Office and Human Resources and Corporate Services Office. All procedures were concluded by the end of the year. Indeed, some procedures were already being amended during this period to reflect changing circumstances particularly in the regulatory aspect. In fact, the responsibilities of the Internal Compliance Office include not only the identification and formalisation of office procedures but also their continuous updating to reflect changes in the operational setup. This office was constantly in touch with the various departments in order to ensure that any procedures to be amended were first tested and signed off before the amendments were implemented.

Internal Compliance Office has also implemented a new system of checks and controls to ensure the on-going compliance of each department with the established business procedures including regular inspection visits to the various offices of the Exchange. Following each visit, a detailed report is forwarded to the head of office being inspected with appropriate comments and where necessary, a follow up visit is carried out.

With regard to CSD operations, the Internal Compliance Office carries out a daily random verification of processes taking place, particularly with regard to registration and releases of pledges, incoming and outgoing mail and company actions such as the issue of dividend and interest payments carried out on behalf of a number of listed companies.

Another function of the Internal Compliance Office is to liaise with the Competent Authority on matters of compliance with the Regulator's requirements. The office is responsible for verifying and forwarding a monthly report compiled by the Compliance

Department of the Exchange. The Internal Compliance Office, however, also reports separately on a monthly basis to the Council, in order that the Council may have an on-going overview of the Exchange's adherence to its own procedures.



Other Exchange Functions & Activities

The year under review has been a year of transition for the Exchange, not only as a result of the Exchange's new status as a recognised investment exchange but also in view of Malta's new political status as a Member of the EU. All offices of the Exchange have played their part in this transition process with most of the procedures and operations of the Exchange being affected by these developments.

During the course of 2003, the Exchange has not only worked in liaison with the regulatory authority to manage smoothly the transfer of regulatory obligations in respect of its Members, but also continued to assist, mainly through its Legal Office, the Listing Authority in the vetting of listing applications and continuing obligations of listed issuers. This function has now been transferred in its entirety to the Listing Authority following the issue of the Listing Rules by the Listing Authority and the Admission Rules by the Exchange.

The Legal Office has also assisted the Competent Authority in the drafting of legislation meant to ensure Malta's compliance with the various EU Directives covering the financial services sector. New procedures have also been drafted and implemented in respect of "*causa mortis*" procedures in order to improve the services offered by the Exchange to investors in this area.

During the past year, the Research Office has also been heavily involved in redesigning the setup and coverage of the Exchange's statistical database. This exercise was carried out partly to comply with regular requests for statistical information by local authorities but also to meet new demands coming in as Malta moves towards EU

membership. Furthermore, the Exchange's membership of international organisations such as WFE and FESE also entail a regular flow of information to comply with the requirements of these entities. Research Office represents the Exchange on the FESE Statistical Sub-Committee and has been very active within this Committee in drawing up new statistical programmes and answering questionnaires connected with Malta's new role as a full Member of the EU. These new statistical programmes have required the input of other offices of the Exchange, including the setting up and implementation on an on-going basis of a new structure of categorisation for all accounts held with the CSD. Research Office has also been involved with the organisation of courses aimed at improving investor awareness of the market. During the year, Research Office also re-designed the Exchange's monthly and quarterly market performance reports, which are now also available on the Exchange's website. Plans are also in hand to have these reports appear in the Press on a regular basis as from the beginning of 2004.

All Exchange operations are obviously supported by the IT Office which assists other offices in the design of new functions, reports etc. Apart from its normal and on-going support functions, however, IT Office also carried out during 2003 a review of the back-up procedures currently in place in respect of all Exchange data and processes. IT Office also worked on a new design for the Exchange's website which now includes more information and streamlined updating. The most important addition introduced in the website this year is the possibility to view the changes in the trading tape ticker in real time. IT Office also tested and implemented the latest upgrade to the Depository software and trained Exchange personnel using the Depository. IT Office are currently working on the implementation of the new securities settlement system, including the installation and testing of SWIFT, which is the messaging system to be utilised in the new system.

The Special Assignments Office has been heavily involved throughout the

year in drawing up Investor Education programmes, both for investors in general and for specific audiences, sometimes in conjunction with other organisations such as the Malta Institute of Management. This office has drawn up a proposal for an investor education campaign which has been approved by the Executive Committee for implementation during 2004. Special Assignments Office is also responsible for organising the Exchange's public activities, such as seminars, conferences, etc. and is also responsible for the management of the Exchange's Conference Centre including reservations and upgrading and drawing up an appropriate fee structure. The Special Assignments Office is also responsible for visits by school children to the Exchange. In 2003 the Exchange welcomed more than 800 students, from both private and public schools for an interactive lecture regarding the functions and operations of the Exchange. An Essay Competition introduced in 2003 for school children participating in these visits was very successful and a number of prizes were awarded at a Prize Giving Ceremony organised during November 2003.

Amendments to the Bye-laws

The Bye-laws of the Exchange were the subject of considerable changes following the coming into force of new legislation in October 2002. Indeed, the Bye-laws had to be virtually re-written in order to ensure compliance with the new legislative and regulatory structure.

In July 2003 a set of new Bye-laws were issued to replace the existing ones, appearing under the general headings of Interpretation, Administration, Membership, Trading and Settlement and Central Securities Depository. The most significant changes concerned those bye-laws dealing with the Membership of the Exchange which had to be amended to reflect the fact that the Exchange no longer licenses its Members but provides them with access to its trading system. These new bye-laws provide for the identification of a Compliance

Officer, responsible to liaise with the Exchange on trading matters and to ensure compliance with the bye-laws as regards the order log book, reconciliation, client orders, etc.

The bye-laws regarding the administration of the Exchange were also amended to reflect the setting up of the Executive Committee, its terms of reference and procedures. On the other hand, those bye-laws dealing with trading, clearing and settlement and the Central Securities Depository have not yet been significantly amended. It is envisaged that these bye-laws will be considerably amended during 2004 once the new securities settlement system is implemented.

Later on in the year, following the setting up of the Investor Compensation Scheme established in terms of the Investment Services Act (Cap 370) by the Malta Financial Services Authority and the consequent winding up of the Compensation Fund previously set up in terms of Article 12 of the Statute appended to the Act, the bye-laws relating to the workings of the Compensation Fund were revoked by the Council. It may be interesting to note here that the EU Council Directive of 3 March 1997 on Investor Compensation Schemes (97/9/EEC) calls on Member states to set up an investor compensation scheme that guarantees a harmonised minimum level of protection at least for the small investor in the event that an investment firm is unable to meet its obligations towards its investor clients.

At the end of December 2003, the Council approved the new Admission Rules of the Exchange. These Admission Rules replaced the existing listing requirements with regard to equities, fixed interest securities, alternative companies list, collective investment schemes and overseas companies. Those bye-laws which had been included under these chapters have now been amended and included in the Listing Rules issued by the Listing Authority. These rules also cover the continuing listing obligations of listed companies including the Code of Corporate Governance. Reflecting the position taken by the Listing Authority in its Listing Rules, the Exchange, in its own Admission

Rules, does away with the need for a listed company to appoint a corporate stockbroker after it has been listed. However, the Bye-laws now provide that upon acquiring listing, a company shall appoint a Compliance Officer who shall be responsible to provide the Exchange with any information or explanation that the Exchange may reasonably require for the purpose of verifying compliance with the Bye-laws.

Presently, the Bye-laws consist of five chapters under the following headings:

- Interpretation
- Administration
- Membership
- Trading, Clearing and Settlement and Central Securities Depository
- Admission Rules

The Bye-laws can be found on the website of the Exchange.

Membership

The transition period necessary for the Members of the Exchange to complete the move from the transitory licenses under which they had been operating to new licenses issued under the Investment Services Act, was completed in 2003. Henceforth, membership licenses will be issued by the Malta Financial Services Authority while the Exchange will authorise access to its trading system. Furthermore, stockbrokers and accredited representatives will be designated as "traders" on the Exchange floor. A number of new traders were authorised by the Exchange during 2003 after having successfully completed the necessary training and written examinations.

Mr Wilfred Mallia continued as Chairman of the College of Stockbroking Firms throughout 2003 while Mr David Curmi retained the post of Deputy Chairman. During the year, Mr Vincent Rizzo replaced Mr Jean P Gaffiero as Secretary of the College. The College met regularly on a monthly basis and also held a number of meetings with officials of the Exchange to discuss matters of mutual interest.

Azzopardi Investment Management Ltd

Il-Piazzetta, Fourth Floor,
Tower Road, Sliema SLM 16
Tel: (356) 21313100, 21337403, 21320191, 21320404
Fax: (356) 21318897

12/15 Vincenti Buildings
Strait Street, Valletta VLT 08
Tel: (356) 21250890 Fax: (356) 21232820

21 St Mary Street, Victoria, Gozo VCT 08
Tel: (356) 21558793 Fax: (356) 21318897

Financial Planning Services Ltd

4 Marina Court, G Cali' Street, Ta' Xbiex MSD 14
Tel: (356) 21344243/4, 21344255 Fax: (356) 21341202

Ivan Burridge Stockbroking Ltd

1 Britannia House,
9 Old Bakery Street, Valletta VLT 09
Tel: (356) 21231492, 21250345 Fax: (356) 21239279

Calamatta, Cuschieri & Company Ltd

5th Floor, Valletta Buildings,
South Street
Valletta VLT 11
Tel: (356) 21237858, 21239192 Fax: (356) 21220509

3 Gelmus Court, Pope John Paul II Street
Victoria, Gozo
Tel: (356) 21564291 Fax: (356) 21564292

Curmi & Partners Ltd

Finance House, Princess Elizabeth Street
Ta' Xbiex MSD 11
Tel: (356) 21347331/2 Fax: (356) 21347333

Rizzo, Farrugia & Co. (Stockbrokers) Ltd

Airways House, Third Floor,
High Street, Sliema SLM 15
Tel: (356) 21333125, 21314038
Fax: (356) 21310671

Hogg Capital Investments Ltd

Regent House, Level 3, Suite 33,
Bisazza Street, Sliema SLM 15
Tel: (356) 21322872/3, 21340385 Fax: (356) 21342760

Charts Investment Management Services Ltd

18A Third Floor, Europa Centre, Floriana VLT 15
Tel: (356) 21224106, 21241121 Fax: (356) 21241101

Globe Financial (Management) Ltd

120, The Strand, Gzira GZR 03
Tel: (356) 21310088 Fax: (356) 21388593

191 Merchant Street, Valletta VLT 10
Tel: (356) 21227451/3 Fax: (356) 21227454

Arcadia Commercial Centre, Level 3
Fortunato Mizzi Street, Victoria, Gozo VCT 108
Tel: (356) 21562228, 21565272/5 Fax: (356) 21564418

Atlas Investment Services Ltd

Abate Rigord Street, Ta' Xbiex MSD 12
Tel: (356) 21322590/1 Fax: (356) 21322584

BOV Stockbrokers Ltd

Ground Floor,
Development House,
St. Anne Street, Floriana VLT 01
Tel: (356) 21227370/1/4 Fax: (356) 21227375

HSBC Stockbrokers (Malta) Ltd

233 Republic Street,
Valletta VLT 08
Tel: (356) 21245284 Fax: (356) 21252504

Lombard Stockbrokers Ltd

Level 5, The Mall Complex,
The Mall, Floriana VLT 16
Tel: (356) 21220002 Fax: (356) 21243280



financial report

financial report

year ended 31st December, 2003

In the year under review the Exchange maintained a consistent level of operating income to that of the prior year with gross income amounting to *Lm1,149,434* compared to *Lm1,147,547* in the prior year. There were five new bond issues accepted on the Official List, six new issues of Malta Government Stock and several new listings of sub-funds of collective investment schemes.

The pre-tax profit for the year, however increased significantly from *Lm71,101* to *Lm299,166*. This is mainly due to the significant drop in overheads and interest of *Lm173,329* and the one-off income earned from the liquidation of the Compensation Fund of *Lm95,491*.

The drop in overheads is in line with the cost cutting exercise that was embarked upon towards the end of the prior year. Significant savings were made in promotional and conference activities and also in telecommunications and security. Following the capitalisation of the *Lm1,000,000* loan from the Ministry of Finance, interest costs have fallen by *Lm34,004*.

The distribution of *Lm95,491* emanated from the liquidation of the Compensation Fund in November 2003. By virtue of the L.N. 370 of 2003 – Financial Markets (Amendment of Schedule) Regulations, 2003 the Compensation Fund previously accounted for in the financial statements of the Exchange ceased to be in effect from 21st November

2003 and was absorbed as an integral part of the Investor Compensation Scheme established under the Investor Compensation Scheme Regulations, 2003. The funds accumulated up to the date of liquidation were distributed to the Malta Stock Exchange and the Investor Compensation Scheme in accordance with the provisions of L.N. 370. The distribution made to the Exchange represents contributions made by the Exchange to the Compensation Fund in the past and a share of the investment income received by the Compensation Fund up to that date. This distribution consisted of investments of *Lm68,800* and cash of *Lm26,691*.

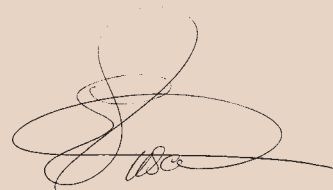
Following the positive results achieved, the Council propose that *Lm25,000* of the accumulated surplus will be passed on to Government.

The balance sheet at 31st December, 2003 shows net assets of *Lm2,335,222*, an increase of *Lm1,209,595* over the prior year. This increase has been a result of the capitalisation of a loan of *Lm1,000,000* due to the Ministry of Finance; from the post-tax profit for the year after deducting the *Lm25,000* appropriation mentioned above; and after accounting for the *Lm23,058* increase in the fair value of the Exchange's available-for-sale investments.

Following the results achieved for the year and the refinancing of the Exchange's bank debt, the net

current liability position of *Lm389,230* at 31st December 2002 has been eliminated completely.

Both the Index and the trading volumes have risen in the first months of 2004. Consequently, the Council is cautiously optimistic for the coming financial year and look forward for a year of consolidation.



Eileen V. Muscat
General Manager

Malta Stock Exchange,
Garrison Chapel,
Castille Place,
Valletta,
Malta.

17th March, 2004

report of the council

year ended 31st December, 2003

The Council Members present their report and the audited financial statements of the Exchange for the year ended 31st December, 2003.

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 31st December, 2003 are shown in the income statement on page V. The profit for the year after taxation was *Lm186,537* whilst a gain of *Lm23,058* was registered on the available-for-sale financial assets. Following the capitalisation of the *Lm1,000,000* loan from the Ministry of Finance the Exchange's net assets at the year end amounted to *Lm2,335,222* compared to *Lm1,125,627* at the end of last year.

Council Members

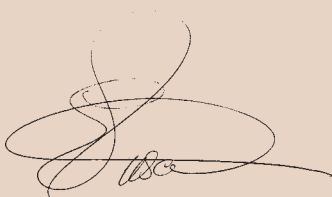
The Council, appointed in terms of Article 8 of the Statute is made up as follows:

Alfred Mallia (Chairman)
Arthur Galea Salomone
(Deputy Chairman)
Alex Agius
Saviour Briffa
Marco Sammut

Auditors

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

By order of the Council:



Eileen V. Muscat
Secretary

Garrison Chapel,
Castille Place,
Valletta.

17th March, 2004

statement of council members' responsibilities



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 its profit 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; and
- 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 which enable them to ensure that the financial statements comply with the Financial Markets 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' report

to the council of Malta Stock Exchange

We have audited the financial statements of the Malta Stock Exchange on pages V to XVII for the year ended 31st December, 2003. These financial statements are the responsibility of the Council. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Council members, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Exchange as of 31st December, 2003 and of its profit, changes in equity and cash flows for the year then ended, have been properly prepared in accordance with International Financial Reporting Standards and comply with the Financial Markets Act (Cap. 345).



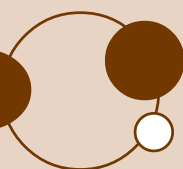
Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants
and Auditors

17th March, 2004

income statement

year ended 31st December, 2003



	<i>Note</i>	2003 Lm	2002 Lm
Operating income	<i>3</i>	1,149,434	1,147,547
<hr/>			
Operating expenditure			
Administrative expenses		358,431	494,148
Depreciation		96,538	92,139
Staff costs	<i>4</i>	438,247	441,855
		893,216	1,028,142
<hr/>			
Operating profit for the year		256,218	119,405
Income from financial assets		-	17,939
Profit on disposal of investments		-	1,125
Provision for impairment in value of unlisted available for sale investment		(7,250)	-
Provision for bad debt		(11,538)	-
Income from liquidation of Compensation Fund	<i>5</i>	95,491	-
Interest receivable		12,622	13,013
Interest payable and similar charges	<i>6</i>	(46,377)	(80,381)
<hr/>			
Profit before taxation	<i>7</i>	299,166	71,101
Taxation	<i>8</i>	(112,629)	(27,310)
<hr/>			
Profit for the year		186,537	43,791

balance sheet

31st December, 2003

	<i>Notes</i>	2003 Lm	2002 Lm
Fixed assets			
Tangible assets	<i>9</i>	2,413,830	2,352,867
Financial assets	<i>10</i>	259,858	175,250
		2,673,688	2,528,117
Current assets			
Debtors	<i>11</i>	432,371	460,934
Cash at bank and in hand		45,457	14,416
		477,828	475,350
Creditors: amounts falling due within one year	<i>12</i>	(455,360)	(864,580)
Net current assets/(liabilities)		22,468	(389,230)
Total assets less current liabilities		2,696,156	2,138,887
Creditors: amounts falling due after more than one year			
Interest bearing borrowings	<i>13</i>	(326,438)	(1,000,000)
Deferred taxation	<i>14</i>	(34,496)	(13,260)
		2,335,222	1,125,627
Capital and reserves			
Capital	<i>15</i>	1,500,000	500,000
Accumulated surplus		691,673	625,627
Payable to Government		25,000	-
Revaluation reserve		23,058	-
Other reserve	<i>16</i>	95,491	-
		2,335,222	1,125,627

Approved by the Council and signed on its behalf on 17th March, 2004 by:



Alfred Mallia
Chairman



Arthur Galea Salomone
Deputy Chairman

statement of changes in equity

year ended 31st December, 2003

	Capital Lm	Revaluation reserve Lm	Other reserve Lm	Accumulated surplus Lm	Payable to Government Lm	Total Lm
Balance at 31st December, 2001	500,000	-	-	581,836	-	1,081,836
Surplus for the year	-	-	-	43,791	-	43,791
Balance at 31st December, 2002	500,000	-	-	625,627	-	1,125,627
Surplus for the year	-	-	-	186,537	-	186,537
Transfer to amount payable to Government	-	-	-	(25,000)	25,000	-
Capitalisation of loan from Ministry of Finance	1,000,000	-	-	-	-	1,000,000
Transfer to other reserve	-	-	95,491	(95,491)	-	-
	1,000,000	-	95,491	66,046	25,000	1,186,537
Movement in Available-for-sale financial assets	-	23,058	-	-	-	23,058
Gain not recognised in the income statement	-	23,058	-	-	-	23,058
Balance at 31st December, 2003	1,500,000	23,058	95,491	691,673	25,000	2,335,222

cash flow statement

31st December, 2003

	<i>Note</i>	2003 Lm	2002 Lm
Cash flows from operating activities			
Profit before taxation		299,166	71,101
<i>Adjustments for:</i>			
Depreciation		96,538	92,139
Interest receivable		(12,622)	(13,013)
Interest payable		46,377	80,381
Profit on disposal of investments		-	(1,125)
Income from financial assets		-	(17,939)
Income from Compensation Fund		(95,491)	-
Provision for impairment of unlisted investment		7,250	-
Provision for bad debts		11,538	-
<hr/>			
Operating profit before working capital movement		352,756	211,544
Movement in debtors		(32,976)	(40,027)
Movement in creditors		(64,670)	(294,088)
<hr/>			
Cash flows from operating activities		255,110	(122,571)
Taxation paid		1,806	(36,225)
Tax credit received		-	5,529
<hr/>			
Net cash flows from operating activities		256,916	(153,267)
<hr/>			
Cash flows from investing activities			
Payments to acquire tangible assets		(152,998)	(158,527)
Interest received		12,622	12,976
Interest paid		(46,094)	(79,686)
Dividends received		-	1,622
<hr/>			
Net cash flows from investing activities		(186,470)	(223,615)
<hr/>			
Cash flows from financing activities			
Drawdown of bank loan		-	400,000
<hr/>			
<hr/>			
Net movement in cash and cash equivalents		70,446	23,118
<hr/>			
Cash and cash equivalents at the beginning of the year		(85,915)	(109,033)
<hr/>			
Cash from liquidation of Compensation Fund		26,691	-
<hr/>			
Cash and cash equivalents at the end of the year	<i>17</i>	11,222	(85,915)

notes to the financial statements

31st December, 2003



1. Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with International Financial Reporting Standards. The more important accounting policies are set out below.

2. Principal accounting policies

Tangible assets

Tangible assets are stated at cost less accumulated depreciation.

Depreciation

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold premises and related expenditure	over the remaining term of the lease
General electrical equipment	6.67%
Computer systems	20%
Office furniture, fittings and other equipment	10 – 16.67%
Motor vehicles	20%

Depreciation is not charged on tangible fixed assets which have not yet been brought into use.

Financial instruments

Financial assets and liabilities are recognised on the Exchange's balance sheet when the Exchange has become party to the contractual provisions of the instrument.

(i) Trade debtors
Trade debtors are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(ii) Financial assets
Financial assets are initially measured at cost.

Available-for-sale investments are re-measured to fair value, unless this cannot be reliably measured. Fair value changes on available-for-sale assets are recognised directly in equity, through the statement of changes in equity.

(iii) Borrowings
Interest-bearing loans and overdrafts are recorded at the proceeds received.

(iv) Creditors
Creditors are stated at their nominal value.

Impairment

At each balance sheet date, the Exchange reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. Where an impairment loss subsequently reverses, the carrying

2. Principal accounting policies (continued)

Impairment *(continued)*

amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses/reversals are recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss/reversal is treated as a revaluation movement.

Settlement of deals

The Malta Stock Exchange provides the services of a clearing house to facilitate the settlement of deals made during the trading session. The financial transactions emanating therefrom are not included in the financial statements of the Exchange.

Revenue recognition

(i) Turnover

Listing and registration fees are recognised on an accrual basis.

(ii) Interest receivable

Interest is recognised on an accrual basis.

(iii) Investment income

Investment income is accounted for when it is probable that the economic benefits associated with the transaction will flow to the company and these can be measured.

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profits. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand, less bank advances repayable within three months of the date of the advance.

3. Operating income

Operating income comprises membership and other fees receivable from stockbrokers and financial intermediaries, together with fees receivable in respect of the listing, clearing, registration and trading of quoted securities and related services. The income from the main activities was as follows:

	2003 Lm	2002 Lm
Stockbrokers and intermediary fees	57,233	64,435
Listing fees	665,508	683,704
Register fees	370,915	350,617
Transaction fees and other income	55,778	48,791
	1,149,434	1,147,547

4. Staff costs

The average number of persons employed by the Exchange during the year was forty five (2002 – forty two). Staff costs for the year comprised:

	2003 Lm	2002 Lm
Wages and salaries	372,636	376,060
Social security costs	49,195	49,251
Recruitment, uniforms and other staff welfare costs	16,416	16,544
	438,247	441,855

5. Income from liquidation of Compensation Fund

	2003 Lm	2002 Lm
Refund of contributions made by the Malta Stock Exchange	75,000	-
Share of net investment income from contributions to the Compensation Fund	20,491	-
	95,491	-

This represents the gross amount received upon liquidation of the Compensation Fund as described in L.N. 370 of 2003 - Financial Markets (Amendment of Schedule) Regulations, 2003.

6. Interest payable and similar charges

	2003 Lm	2002 Lm
<i>This is charged on:</i>		
Bank loan and overdraft	21,377	30,381
Other loan	25,000	50,000
	46,377	80,381

7. Profit before taxation

	2003 Lm	2002 Lm
<i>This is stated after charging:</i>		
Emoluments of the Chairman and Council Members inclusive of allowances, honoraria and remuneration for services given	14,050	14,875
Auditors' remuneration	2,950	2,875

8. Taxation

(a) Current taxation

	2003 Lm	2002 Lm
Balance brought forward	(50,001)	(26,277)
<i>Tax charge for the year:</i>		
Malta tax at 35%	89,483	4,276
Tax credit received	-	(5,529)
Final withholding tax at 15%	1,910	1,946
Tax at source at 35%	-	6,279
Deferred taxation (note 14)	21,236	20,338
	112,629	27,310
Sub-total	62,628	1,033
<i>Tax paid/received:</i>		
Settlement tax/refund	25,538	-
Provisional tax	(21,822)	(28,000)
Tax credit received	-	5,529
Withholding tax on interest received	(1,910)	(1,946)
Tax at source on dividend income	-	(6,279)
Transfer from deferred taxation (note 14)	(21,236)	(20,338)
Balance carried forward (note 12)	43,198	(50,001)

8. Taxation (continued)

(b) The tax charge for the year and the tax charge applying the statutory domestic income tax rate are reconciled as follows:

	2003 Lm	2002 Lm
Surplus for the year	299,166	71,101
Tax at the applicable rate of 35%	104,708	24,885
<i>Tax effect of:</i>		
Tax credit received	-	(5,529)
Depreciation charges not deductible by way of capital allowances in determining taxable income	5,998	5,654
15% withholding tax on investment income	(2,524)	(2,595)
Disallowable expenses	4,586	4,895
Exempt income	(7,172)	-
Other permanent differences	7,033	-
Tax charge for the year	112,629	27,310

9. Tangible assets

	Leasehold premises and related expenditure Lm	General electrical equipment Lm	Computer systems Lm	Office furniture, fixtures and other equipment Lm	Motor vehicles Lm	Total Lm
Cost						
At 01.01.2003	1,767,662	413,479	553,639	246,441	9,195	2,990,416
Additions	100,347	7,080	35,041	15,033	-	157,501
At 31.12.2003	1,868,009	420,559	588,680	261,474	9,195	3,147,917
Depreciation						
At 01.01.2003	24,048	38,631	464,843	100,832	9,195	637,549
Provision for the year	18,224	27,897	30,163	20,254	-	96,538
At 31.12.2003	42,272	66,528	495,006	121,086	9,195	734,087
Net book value						
At 31.12.2002	1,743,614	374,848	88,796	145,609	-	2,352,867
At 31.12.2003	1,825,737	354,031	93,674	140,388	-	2,413,830

10. Financial assets

	2003 Lm	2002 Lm
At 1st January:		
Listed originated loans	168,000	168,000
Unlisted available-for-sale investments	7,250	7,250
Shares in associated undertakings	-	375
	175,250	175,625
Additions/(disposals)	68,800	(375)
Provision for unlisted available-for-sale investment	(7,250)	-
Increase in fair value of listed investments now classified as available-for-sale	23,058	-
	259,858	175,250

The listed available-for-sale investments represent the Exchange's investments in Malta Government Stocks which were previously classified as originated loans. These are now being accounted for at fair value in accordance with the accounting policies illustrated in note 2. The originating loans were previously measured at cost and their market value at 31st December, 2002 was *Lm174,160*.

The unlisted available-for-sale investments represent the Exchange's 10% interest in the equity of Malta International Training Centre Limited, which is registered in Malta and has been provided for in full.

11. Debtors

	2003 Lm	2002 Lm
Fees receivable	399,631	366,082
Prepayments and accrued income	32,740	33,313
Other debtors	-	11,538
Taxation (note 8)	-	50,001
	432,371	460,934

12. Creditors: amounts falling due within one year

	2003 Lm	2002 Lm
Bank overdraft (secured note 13)	34,235	100,331
Bank loan (secured note 13)	73,562	400,000
Prepaid listing fees	172,484	164,022
Compensation fund	-	10,902
Accruals	46,935	56,094
Other creditors	84,946	133,231
Taxation (note 8)	43,198	-
	455,360	864,580

13. Interest bearing borrowings

	2003 Lm	2002 Lm
<i>Amounts repayable within five years:</i>		
Unsecured loan	-	1,000,000
Bank loan	326,438	-
	326,438	1,000,000

At the balance sheet date the Exchange had a bank overdraft facility of *Lm140,000* that bears interest at the rate of 6.25% (2002 – 7.5%) and is secured by a pledge on listed securities with a nominal value of *Lm186,000* and a *Lm400,000* bank loan which bears interest at 5.25% and is secured by the assets of the Exchange.

The Exchange also had an unsecured overdraft facility of *Lm250,000* to cover any shortfall in the Securities Settlement Account operated by the Exchange with Central Bank of Malta.

At 31st December, 2002 the Exchange had a loan facility of *Lm1 million* from the Ministry of Finance which bore interest at 5% per annum. This loan was capitalised during the year.

The maturity of bank debt may be analysed as follows:

	2003 Lm	2002 Lm
Between one and two years	151,079	-
Between two and five years	248,921	-
	400,000	-

14. Deferred taxation

	2002 Lm	Movement for the year Lm	2003 Lm
<i>Arising on:</i>			
Fixed assets	13,260	21,236	34,496

15. Capital

This represents the initial capital contribution by the Government of Malta as specified by Section 30 of the Financial Markets Act (Cap. 345) as well as the Ministry of Finance loan which was capitalised during the year as illustrated above.

16. Other reserve

By virtue of L.N. 370 of 2003 – Financial Markets (Amendment of Schedule) Regulations, 2003, the Exchange is bound to maintain the proceeds of the liquidation of the Compensation Fund in a separate reserve until January, 2008.

17. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2003 Lm	2002 Lm
Cash at bank and in hand	45,457	14,416
Bank overdraft	(34,235)	(100,331)
Net balance	11,222	(85,915)

18. Contingent liability

At 31st December, 2003 the Exchange had the following contingent liability:

Claims, up to a maximum of *Lm95,491* in relation to the Compensation Fund up to January 2008 as stipulated in bye-law 7.08 of the Malta Stock Exchange.

19. Financial instruments

Financial assets of the Exchange include cash classified as current assets in the balance sheet, as well as debtors. Financial liabilities of the Exchange include loans, borrowings and creditors. The accounting policies for these assets and liabilities are set out in note 2 to the financial statements and those policies are directed towards the establishment of fair values for these assets and liabilities.

Fair values

At 31st December, 2003 and 2002 the carrying amounts of creditors, debtors and short borrowings approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of long-term borrowings are not materially different from the carrying amounts.

20. Financial risk management

Credit risk

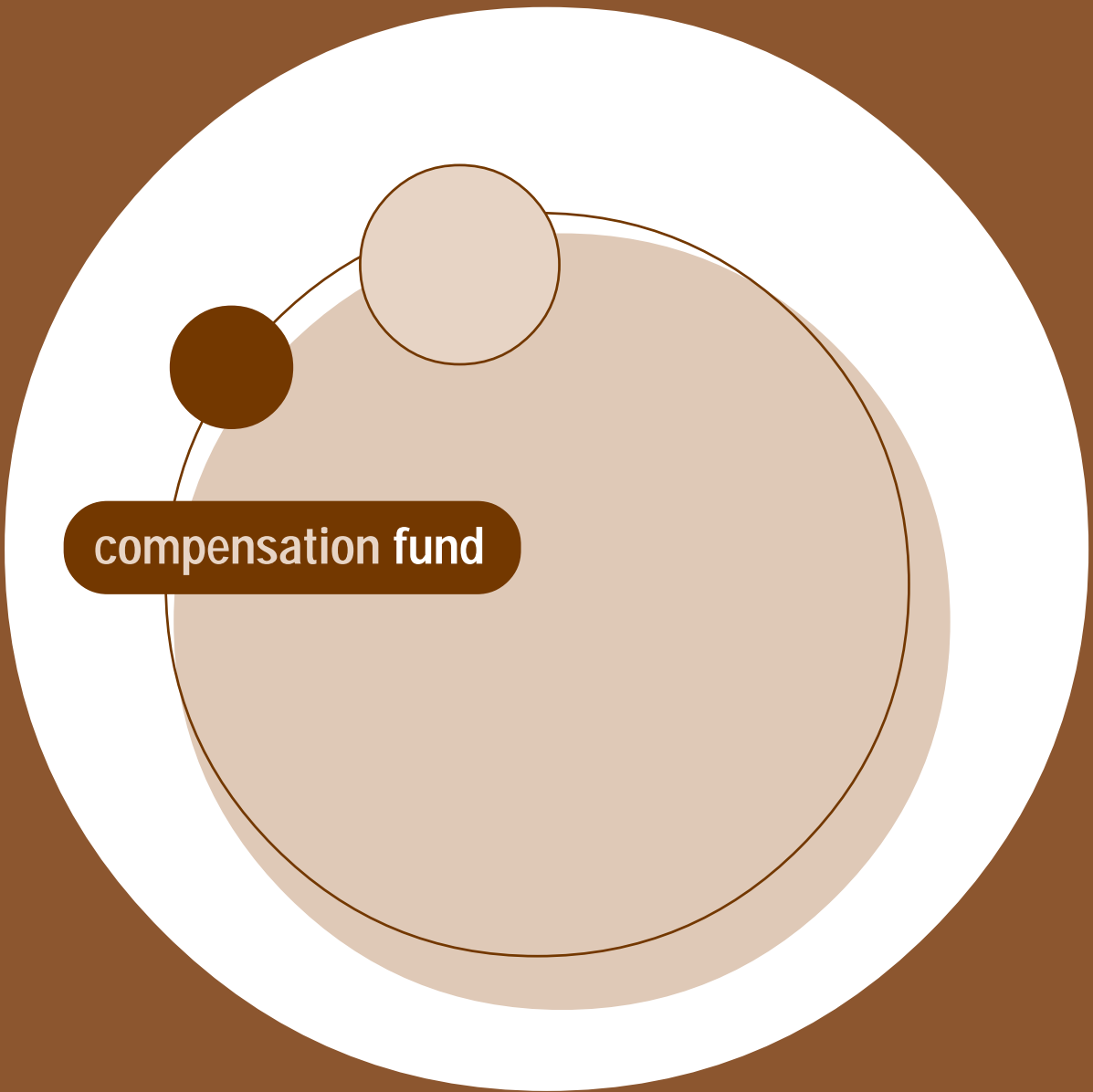
Financial assets which potentially subject the Exchange to concentrations of credit risk, consist principally of debtors and investments. Trade debtors are presented net of the allowance for doubtful debts. Credit risk with respect to debtors is limited due to credit control procedures.

Interest rate risk

The Exchange has taken out facilities to finance its operations as disclosed in note 13. The interest rates thereon and the terms of such borrowings are disclosed accordingly.

21. Comparative figures

Certain comparative figures have been reclassified in order to comply with the current year's presentation of the financial statements.



compensation fund

report of the council

period ended 20th November, 2003

The Council Members present their report and the audited financial statements of the Compensation Fund for the period ended 20th November, 2003.

Activities

The Malta Stock Exchange maintained a Compensation Fund until 20th November 2003, on which date it was liquidated by virtue of L.N. 370 of 2003 – Financial Markets (Amendment of Schedule) Regulations, 2003. Consequently financial statements have been prepared up to 20th November, 2003.

The Compensation Fund had been established in terms of Section 14 of the Statute contained in the Schedule to Financial Markets 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 was administered by the Council of the Malta Stock Exchange in terms of the Bye-laws issued by the Council on 24th 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.

By virtue of the L.N. 370 of 2003 – Financial Markets (Amendment of Schedule) Regulations, 2003 the Compensation Fund ceased to be in effect from 21st November, 2003 and

was absorbed as an integral part of the Investor Compensation Scheme established under the Investor Compensation Scheme Regulations, 2003. The funds accumulated up to 20th November, 2003 were distributed to the Malta Stock Exchange and the Investor Compensation Scheme in accordance with the provisions of L.N. 370.

Results

The results for the period ended 20th November, 2003 are shown in the income and expenditure account on page III. The surplus for the period after taxation was *Lm4,556*. This has been added to the accumulated fund brought forward of *Lm200,594* leaving accumulated funds of *Lm205,150* to be distributed on liquidation as shown in the statement of accumulated funds on page V.

Council members

The Council, appointed in terms of Article 8 of the Statute is made up as follows:

Alfred Mallia (Chairman)
Arthur Galea Salomone (Deputy Chairman)
Alex Agius
Saviour Briffa
Marco Sammut

Auditors

The appointment of Deloitte & Touche as auditors comes to an end with the signing of these financial statements.

By order of the Council:



Eileen V. Muscat
Secretary

Garrison Chapel,
Castille Place,
Valletta.

17th March, 2004



auditors' report

to the council members of the Malta Stock Exchange

We have audited the financial statements of the Malta Stock Exchange - Compensation Fund on pages III to VIII for the period ended 20th November, 2003. These financial statements are the responsibility of the Council. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Council members, as well as an evaluation the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 20th November, 2003 and of its surplus, changes in equity and cash flows for the year then ended, and have been properly prepared in accordance with International Financial Reporting Standards.



Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants
and Auditors

17th March, 2004

income and expenditure account

period ended 20th November, 2003

	2003 (01.01.03- 20.11.03) Lm	2002 (01.01.02- 31.12.02) Lm
Income		
Investment income	6,362	10,627
Taxation deducted at source	(953)	(1,594)
Operating surplus for the period	5,409	9,033
Write-off of debtor	(853)	-
Surplus for the period	4,556	9,033



balance sheet


20th November, 2003

	<i>Note</i>	20.11.03 Lm	31.12.02 Lm
Fixed assets			
Financial assets	<i>3</i>	-	147,800
Current assets			
Financial assets	<i>3</i>	147,800	-
Debtors	<i>4</i>	-	13,391
Cash at bank		57,350	39,403
		205,150	52,794
Creditors: amounts falling due within one year			
Malta Stock Exchange		(95,491)	-
Investor Compensation Scheme		(109,659)	-
Net current assets		-	52,794
		-	200,594
Accumulated fund		-	200,594

Approved by the Council and signed on its behalf on 17th March, 2004 by:



Alfred Mallia
Chairman



Arthur Galea Salomone
Deputy Chairman

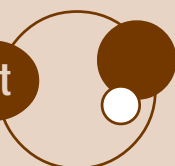
statement of accumulated funds

period ended 20th November, 2003

	Lm
Balance at 31st December, 2001	191,561
Surplus for the year	9,033
Balance at 31st December, 2002	200,594
Surplus for the period	4,556
Transfer of assets to the Malta Stock Exchange	(95,491)
Transfer of assets to the Investor Compensation Scheme	(109,659)
	(200,594)
Balance at 20th November, 2003	-

cash flow statement

period ended 20th November, 2003



		2003 (01.01.03- 20.11.03) Lm	2002 (01.01.02- 31.12.02) Lm
Cash flows from operating activities	<i>Note</i>		
Interest received		6,362	10,627
Write-off of debtor		(853)	-
Movement in debtors		13,391	25,003
<hr/>			
Cash flows from operations		18,900	35,630
Taxation paid		(953)	(1,594)
<hr/>			
Net cash flows from operating activities		17,947	34,036
<hr/>			
Cash and cash equivalents at the beginning of the period/year		39,403	5,367
<hr/>			
Cash and cash equivalents at 20th November 2003 / 31st December 2002	<i>5</i>	57,350	39,403

notes to the financial statements

20th November, 2003

1. Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards. The more important accounting policies are set out below.

2. Principal accounting policies

Financial instruments

Financial assets are recognised on the Fund's balance sheet when the Fund has become party to the contractual provisions of the instrument.

Debtors

Debtors are presented at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial assets

Financial assets are initially measured at cost.

At subsequent reporting dates, investments in securities that have been purchased at original issuance, are measured at cost, less any impairment losses which may arise

Revenue recognition

(i) Contributions

Contributions in terms of Chapter 7 of the Malta Stock Exchange Bye-laws are accounted for in the year to which they relate.

(ii) Investment income

Investment income is recognised on an accruals basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand less bank advances repayable within three months of the date of the advance.

3. Financial assets

	20.11.03 Lm	31.12.02 Lm
Listed originated loans	147,800	147,800

The listed originated loans represent the Fund's investments in Malta Government Stocks which have been classified as originated loans, since these were purchased on original issuance, and are measured at cost. These financial assets were distributed to the Malta Stock Exchange and the Investor Compensation Scheme on 21st November, 2003.

4. Debtors

	20.11.03	31.12.02
	Lm	Lm
Other debtors	-	10,903
Accrued income	-	2,488
	-	13,391

5. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	20.11.03	31.12.02
	Lm	Lm
Cash at bank	57,350	39,403

The cash held at 20th November, 2003 was distributed to the Malta Stock Exchange and the Investor Compensation Scheme on 21st November, 2003.

Malta Stock Exchange

ANNUAL REPORT

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