



2004
mse annual report

as at 31 December 2004

The Council

Alfred Mallia	Chairman
Arthur Galea Salomone	Deputy Chairman
Alexander Agius	Council Member
Saviour Briffa	Council Member
Marco Sammut	Council 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

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


30 March 2005

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 2004.

Yours faithfully



Alf Mallia
Chairman

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Financial Report and Audited Financial Statements

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chairman's message

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and issuers to the market in order to deepen

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chairman's message

It is my pleasure to present the Malta Stock Exchange's Annual Report for 2004. In May of this year Malta became a member of the EU and this is, therefore, the first year that the Exchange has operated within the European structure.

While it may still be too early to gauge the direct effect of Malta's EU membership on the local capital market - after all Malta's EU membership is only a few months old - it is certainly not too difficult to consider the wider implications. Enough to mention the considerable volume of new legislation and regulation that has had to be taken on board. The Exchange, like the rest of the local financial services sector, was generally well-prepared to become part of the larger European market, however, it would be somewhat presumptuous to say that the transition has been completely painless. EU membership is, however, here to stay so it is now up to all of us to make the most of the challenges and opportunities that this new status has brought with it.

The past twelve months have been a very mixed bag for the Exchange. While the market has rallied and continues to be very active, listings have continued to disappoint. Some developments that should have materialised during 2004, such as the implementation of the new securities settlement system, have been delayed, while others, such as the Borzamed Project, have embarked on a different strategy and have taken on a new lease of life.

During 2004 the equity market continued to be very active, strengthening the positive trend that emerged at the end of 2003. The steady increase in share prices was sustained throughout 2004 and this was reflected in the value of the MSE Share Index. During 2004 this registered an increase of 44% on a year to year basis. The increase in equity prices was reflected in equity market turnover which more than doubled when compared to 2003 figures. Turnover values for both the corporate bond market and the

market in Government Paper remained fairly steady, as did prices overall. In total, across all sectors, market turnover increased in 2004 to Lm94 million, when compared to the Lm74 million registered during 2003.

Looking back through the Annual Reports of the past few years, the



recurrent theme has been the very limited number of companies approaching the market for their financing needs. After the first flurry of listings in the mid-1990s, company demand for financing through the Exchange slowed to a trickle. Indeed, during 2004 and for the first time since the Exchange was set up, not one single local company approached the capital market for its financing needs. While the Exchange is pleased to register the admission to listing of a Malta Lira denominated bond issued by the European Investment Bank, the lack of new securities made available on the market remains a concern. Throughout the years a number of reasons have been put forward to explain companies' reluctance to approach the market. Some may still be valid, such as the still relative ease by which bank finance may be obtained when compared to the effort, commitment and cost required to go public and then obtain a listing; the continually increasing regulatory and reporting requirements, and so forth. This was the first year that the listing process was taken over by the Listing Authority at the MFSA,

however, the Listing Rules and the Exchange's Admission Rules have been structured in a way so as not to add unnecessary duplication of processes. In truth there is no easy answer to explain the lack of listings.

What can be said with a degree of certainty, however, is that this is not an issue that the Exchange can tackle on its own. The Exchange considers an increase in listings as vital to the continued good performance of the capital market and has drawn up and invested in a number of strategies with this end in view, not only targeting local companies but even looking overseas, endeavouring to take full advantage of Malta's new status as an EU Member. The Government has pledged its full support for the Exchange's initiatives to better fulfill its basic objective of providing alternative avenues for businesses to raise capital and to mobilise savings into productive development. It is clear that the Government believes in a co-ordinated national policy that will encourage new investment. Indeed, there are many schemes in place to assist small enterprises and to encourage new investment. To this end the Exchange has held meetings with the FOI, IPSE and the commercial banks in order to try to co-ordinate efforts to encourage companies and smaller enterprises to utilise the facilities of the Exchange. Unfortunately, this co-ordination within a single national policy remains somewhat elusive. On the other hand, companies and their professional advisors must realise the importance of, at the very least, the possibility of seeking alternative financing solutions through the Exchange and not be deterred by the process of going public and obtaining a listing. These difficulties, if indeed they exist, are temporary. They are far outweighed by the long term benefits. In an ever increasing competitive world, this might in fact be the only solution.

The Exchange itself is not standing still on this issue. It is going out to prospective public companies directly and through its professional advisers and at the same time it is talking also to foreign companies and other European Exchanges to

encourage cross-listings on the Malta Stock Exchange. Furthermore, the Exchange has given its opinions on the draft Pension Fund proposals. The introduction of these Funds is a very important development in the local financial sector and one for which the Exchange can offer its services.

In my Report for 2003, I had then stated that I had hoped that by the end of 2004 I would be able to report more positively on the BorzaMed Project following the difficulties that arose during 2003. I am pleased to say that I can now report such positive progress. Here, I feel it incumbent upon myself to mention the considerable support given to the Project by the Government in particular by the Minister of Foreign Affairs who has taken every opportunity to discuss and promote the Project with his counterparts in Mediterranean Rim and Middle East countries particularly within the context of the Barcelona Process.

In view of a number of developments that took place during the year and discussions with all the parties concerned, the Council agreed on an alternative strategy for the Project. Discussions are well-advanced with the Tunis Bourse and it is hoped that the first phase of the Project will be implemented between the Malta Stock Exchange and the Tunis Bourse by end 2005. At the same time, discussions are taking place with several other Exchanges with a view also to bringing them on board the Project, particularly the Cairo & Alexandria Stock Exchanges (CASE). CASE was one of the original signatories to the Protocol, which however, for various internal reasons, then decided not to go ahead with its involvement with the BorzaMed Project during 2003. It appears that CASE is now eager to resume its interest in the BorzaMed Project and meetings have been held between the two Exchanges to discuss the way forward. The Federation of European Securities Exchanges (FESE) has also indicated its interest in promoting and putting its considerable weight behind this initiative, particularly as it views this Project as a natural development within the Barcelona Process. Discussions have taken

place with FESE which hopefully will lead to the setting up of a Focus Group under its auspices, composed of FESE members and non-members with a view to fostering greater co-operation between countries in the Mediterranean Region.

Throughout 2004 the Exchange has worked solidly in other areas, mainly on the implementation of a new security settlement system and the structural and financial re-organisation of the Exchange. I can report that very good progress has been made on both fronts and it is envisaged that these projects will be implemented during 2005.

The cost cutting exercise initiated during 2003 and which resulted in a significant drop in overheads, continued to bear fruit during 2004. Despite some loss of income on listing fees which are now being charged by the Listing Authority, the Exchange registered a pre-tax surplus of over Lm209,000. The strategy adopted by the Council during 2003 will continue in force in order to continue providing a sound financial base for the Exchange.

All the achievements attained by the Exchange would not have been possible without the commitment of my fellow Council Members, the Executive Committee and all the staff of the Exchange. As usual, it is all of them I have to thank for their hard work and dedication. I would also like to thank the Members of the Exchange for their continued support and collaboration.



Alf Mallia
Chairman



Thirteen years have passed since the Exchange opened its doors for business in January 1992. During these years, the Exchange has consistently and diligently performed its legal responsibilities of providing facilities for the trading, settlement and registration of listed securities to the general public. A lot has been achieved during these past thirteen years, not least the fact that today we can actually speak of a local capital market. We can also point to a subtle shift in investor attitude from one based purely on savings considerations towards an investment culture which accepts and seeks to manage risk for the sake of higher returns. The substantial increase in the number of individuals holding financial assets in the form of listed securities since 1992-up from something over 8,000 to some 75,000-as well as investor endorsement of relatively higher risk securities in the market, is proof enough of this shift in culture on the investor side. Looking back at the transformation in local investment culture that has emerged over these years, the Exchange can look back with satisfaction at its contribution particularly insofar as retail investor participation in the market is concerned. The consistent and on-going efforts of the Exchange aimed at making the Maltese public more aware of financial matters, has no

doubt also been a contributing factor behind this welcome shift in investor culture.

Whilst investor demand for financial assets has been a constant feature of the local capital market during these past years-particularly in the primary market-the same cannot be said of the supply side of the equation. New issues trickled slowly on to the market, both on the fixed income sector of the market but even more so on the equity side. The main reason why the Exchange has not been nearly as successful in fulfilling its primary economic purpose, namely that of mobilising savings into productive investment, can probably be traced back to the widespread reluctance of companies to approach the capital market for their financing needs. Of course, not all companies need such financing and of those who do, not all would qualify for a listing anyway. However, there seems to be a number of identifiable factors prompting this lack of corporate participation. The majority of local companies are small and family-owned and introducing outside shareholders and directors who do not form part of the family group is widely seen, rightly or wrongly, as a loss in the degree of family control. The costs and effort involved in upgrading the management and operational structures to the levels required in a listed company may also seem to be too onerous. Recourse to bank finance may be easier for a company to obtain without having to introduce the disciplines required in a listed company.

Of course, it is a fact that in previous years the Exchange was somewhat inhibited when it came to promoting the services and facilities it has to offer companies using the market to raise finance. This was essentially due to the fact that until recently the regulatory role of Exchange was deemed to be in conflict with any efforts aimed at promoting its listing services. This situation changed with the enactment of the Financial Markets Act, which essentially divested the

Exchange of most of its regulatory responsibilities including the listing process which is now the responsibility of the Listing Authority.

Increasing the number of securities listed and widening the available "product" range is possibly the most important challenge facing the Exchange in the immediate future. The primary function of the capital market is, of course, to provide companies with the necessary facilities enabling them to raise capital destined for growth and development. Capital markets play a central role in the on-going process of economic development of a country since easy access to capital by companies is crucial in order to help finance the growth of the real economy. An exchange operates at the centre of the market, mobilising capital in the most efficient manner within the various economic sectors in the country. An exchange should, therefore, operate at the heart of the economy, distributing the country's savings into productive investments, channelling resources where they are most needed in support of the country's economic objectives. Is our Exchange giving its full contribution to the development of the Maltese economy? Or has its capacity to promote economic growth been underestimated and, therefore, underutilised? I strongly believe that this has, indeed, been the case. Of course, there are difficulties, not least the size and structure of business firms in Malta and their traditionally closed culture. But if we really believe that a healthy and vibrant capital market in Malta can help promote and sustain the process of economic growth of the country, then it follows that the success of the domestic capital market must take priority as a national objective.

Let me conclude with a call to all those people who share the view that liberal market policies offer the best option forward for our markets, our economy and our people. Let's together raise the level of the debate on the Malta Stock Exchange beyond the day-to-day

figures for market deals and prices for this or that security. Let's focus on what needs to be critically reviewed and, if needs be, changed in the present corporate environment-including public company legislation, listing requirements, tax laws and regulations impinging on the listing process-in order to make the process of moving from a private company to a public company to a listed company an easier and more attractive proposition for local entities. Let us not forget, on the one hand, the higher needs for financing requirements that competitive pressures resulting from EU membership will continue to impose on our companies and on the other, the possible effects on domestic credit of the Basle 2 regulations on bank lending provisioned to come into force in 2006. In this ever changing landscape, a strong Exchange, able to provide an alternative and stable source of finance to our companies, will benefit the entire Maltese economy.



M A Guillaumier
Chief Executive

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administration report

develop the market in
develop the market in such a way so as to facilitate
capital and the trading of securities;

provide a market where listed securities can be traded in a
regulated and transparent manner;

The Council

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



The Council

The Chairman and Council Members appointed for a term of two years with effect from 1 October 2002 were re-appointed for a further period of one year up to 30 September 2005 in terms of Article 25 of the Financial Markets Act (Chapter 345 of the Laws of Malta) and Article 8 of the Statute annexed thereto.

The Council held eleven meetings during the year together with a number of other ad hoc meetings. Throughout the year the Council set and approved new procedures and policies for the operations of the Exchange as well as approved amendments to the rules and regulations of the Exchange. In April, the Council approved the Strategic Plan for the Exchange for the next three years setting out the objectives to be achieved in the short to medium term.

During the year, the Council has also been heavily involved with the BorzaMed Project. Following the slow progress reported in the previous years, the Council expended much time and energy in creating new strategies for this Project. The Council, with the assistance of its consultant and very active political and diplomatic support, adopted alternative approaches allowing for implementation of the Project in different stages and with different partners.

The Council was ably assisted throughout the year by the Executive Committee and by the two Council Committees, namely, the IT Committee and the Audit

Committee. In terms of its statutory obligations, the Executive Committee made several submissions and recommendations to Council particularly with regard to the drafting of the Strategic Plan and drawing up new policies for the Exchange. The Audit Committee continued to assist the Council with regard to the financial management of the Exchange as well as ensuring compliance with regulatory reporting requirements. The Audit Committee was also heavily involved in drawing up the financial model for the Exchange for the next three years in line with the Strategic Plan. The Audit Committee also continued to oversee the exercise commenced in 2003 consisting of a review of the Exchange's operations with a view to making these more cost-effective. On its part the IT Committee approved the IT Usage and E-mail Usage Policy Documents in line with the Data Protection Act. The IT Committee also continued to review all the IT procedures of the Exchange also with a view to ensuring that these remain efficient and cost-effective.

The Security Settlement System Steering Committee continued with its endeavours regarding the implementation of a new clearing and settlement system to be fully compliant with current international standards and practices. It had been envisaged that the new system would be fully implemented by the end of 2004. Due to a number of unforeseen circumstances, however, this has not been possible. Nevertheless, significant progress has been made. The Legal Notice providing for the introduction of "delivery versus payment" with regard to

transactions in listed securities has been issued and will come into force immediately the new system is ready to be implemented. The rules and procedures applicable to the new clearing and settlement system have been given regulatory approval in principle. These rules and procedures have been discussed in depth with all interested parties and while some changes are still necessary, all major points of contention have been resolved. The Steering Committee will continue with its efforts to ensure implementation of a new clearing and settlement system as soon as possible, particularly given the importance and impact that such a development will have on other areas of the Exchange's operations.

Apart from these Committees, during 2004, the Council, on the recommendation of the Executive Committee, set up a further two Committees with specific terms of reference. During the first quarter of the year the Business Continuity Planning Committee was set up, composed of Exchange officials under the Chairmanship of the Deputy General Manager (IT). The terms of reference of this Committee were to review the procedures and operations of the Exchange with a view to identifying the core operations necessary for the Exchange to continue its business in the case of any crisis and to make recommendations to the Council as to how such continuity may be achieved. This Committee has concluded its deliberations and has drawn up relevant recommendations which are currently being reviewed by the Executive Committee.

The Strategic Plan approved by the Council envisages the setting up of the Central Securities Depository as an entity in its own right, operating under its own legislative, regulatory and licensing framework. In the light of this, the Council set up a Committee under the Chairmanship of the Deputy General Manager (Legal) which was given the assignment to prepare recommendations regarding legislation in respect of the Central Securities Depository and also to outline new services that may be performed by this entity in terms of the new legislation. The Committee has concluded its deliberations and has submitted its recommendations to the Executive Committee prior to these being passed on to the Council for approval and then on to the Competent Authority.

The Strategic Plan

Early in 2003 the Exchange started to look at the possible effects that the new regulatory structure could have on the operations and profitability of the Exchange, coupled with the consideration of what the envisaged EU Membership would have on the capital market.

During the years prior to the coming into force of the Financial Markets Act in October 2002, the Exchange had a dual role to play, acting as both operator and regulator of the local capital market. In some ways this dual role may have hindered the development of the Exchange as a corporate entity. The regulatory role was, in fact, seen to be in potential conflict with the Exchange actively encouraging companies to seek a listing and to trade their securities on the market. The same argument was used to define the way in which the Exchange presented itself to the public. The role of regulator called for a low key public image – carrying on with its duties and operations but not making too much of a fuss about it.

While his approach could be said to have enhanced the Exchange's reputation as a solid and professional financial institution, it has left the Exchange without any real marketing infrastructure either

on a human resources level and much less so on a strategic level. These skills are, however, essential if the Exchange is to continue to operate profitably in a highly competitive environment.

Malta's entry as a Member of the EU in May 2004 has directly affected the operations of the Exchange in a number of ways. The European Commission's Financial Services Action Plan (FSAP) proposes a set of measures designed to remove a number of barriers that have been identified as hindering the implementation of a Single Market for Financial Services in the EU. The transformation to a single currency and the gradual implementation of the Action Plan, has led to remarkable progress in the process of financial integration in Europe. This means that the Maltese financial services industry including the Exchange is now operating within this Single Market. The market conditions that the Exchange faces in Europe are characterised by :

- a highly competitive environment not only between intermediaries but also between markets, banks and exchanges;
- the possible decline in transaction costs for investors due partly to the higher levels of competition but also to new economies of scale;
- increased market depth and higher liquidity levels;
- a single currency market; and
- a much larger investor base.

This environment poses a challenge to relatively small markets like Malta, impinging on the local financial intermediaries and the Exchange itself. This challenge, however, can also provide an opportunity for the Exchange to find and operate a niche market exploiting current conditions of :

- favourable labour relations;
- availability of a skilled, English speaking workforce;
- modern standards of telecommunications technology;
- EU standards of operations and regulation; and
- professional methods of conducting business.

Having considered the above as

well as other factors such as the local economic and fiscal environment, the Council, on the recommendation of the Executive Committee, approved a Strategic Plan for the Exchange for the next 3-5 years setting out clearly its mission and business objectives. In drawing up the Strategic Plan, the Executive Committee also took into consideration the points raised resulting from a SWOT analysis undertaken throughout all the offices of the Exchange.

Indeed, the Council is pleased to note that the Strategic Plan has been collectively agreed to by all the management team and staff of the Exchange. This facilitates implementation, there having been prior agreement by all concerned.

The Mission

The Strategic Plan includes a clear mission for the Exchange which states that the purpose of the Exchange is :

“To facilitate capital formation in the public and private sector by developing and operating a liquid, efficient and fair securities market for the ultimate benefit of issuers and investors whilst adding value to its shareholders”.

In order to be able to achieve this goal the Exchange has devised a business plan designed to :

- provide a market where listed securities can be traded in an orderly, regulated and transparent manner;
- develop the market in such a way as to facilitate the raising of capital and the trading of securities;
- seek new opportunities to attract domestic and overseas investors and issuers to the market in order to deepen the pool of liquidity;
- support companies already admitted to trading;
- attract new investors, particularly institutional;
- maintain and enhance standards of customer service;
- increase the range and scale of business by building on core strengths;
- optimise the use of available

- technologies;
- increase efficiency;
- reduce costs;
- acquire a high profile and a strong, positive public image;
- open and maintain two-way lines of communication with all market players;
- optimise the use of human resources; and
- exert a positive influence on opinion formers as to the role and importance of the Exchange.

During 2004 implementation of the Strategic Plan commenced on several fronts particularly with regard to enhancing the public image of the Exchange both locally and overseas and seeking greater collaboration with overseas exchanges together with the re-organisation of the Exchange.

Prime Minister's Visit to the Exchange

One of the highlights of the year was most definitely the Prime Minister's Official Visit to the Exchange.

The Prime Minister, Dr Lawrence Gonzi, accompanied by the two Parliamentary Secretaries, the Hon Dr Tony Abela and the Hon Mr Tonio Fenech, paid an Official Visit to the Exchange on 10 August 2004. During the Official Visit the distinguished guests had the opportunity to discuss with the Council and Executive Committee matters of concern to the Exchange. The Prime Minister and Parliamentary Secretaries also had the opportunity to tour the premises and meet all the staff of the Exchange.

In his speech welcoming the distinguished guests, the Chairman of the Exchange, Mr Alfred Mallia, stressed the importance of the Exchange in the national economic framework and the various ways in which the Exchange can assist the Government in attaining its policy objectives such as an improvement in the standard of living, an increase in productivity, a just distribution of wealth and an increased sense of fiscal morality. He also referred to the efforts being made by the Exchange to become an important



player within both the EU and the Mediterranean region. In particular, the Chairman mentioned the BorzaMed Project intended to cater for greater collaboration between exchanges in the Mediterranean region.



These matters were again raised during a presentation given to the Prime Minister and Parliamentary Secretaries for the occasion by the Chief Executive of the Exchange, Mr Mark A Guillaumier. During his presentation, Mr Guillaumier dealt with the role of the Exchange in the economy and how the Exchange had changed and developed during its short history to meet the challenges of a constantly changing environment. The Council stressed that whilst the Exchange can be said to have been very successful in a number of areas such as promoting a share ownership culture and in strengthening corporate governance in listed companies, there was still quite a way to go for the Exchange to better fulfil its basic role of providing alternative avenues for businesses to raise capital and to mobilise savings into productive investment.

The Exchange has endeavoured to carry out this role to the best of its abilities. However, it is clear that only a co-ordinated national policy will encourage new investment. The Prime Minister pledged the Government's guidance and support

for these efforts to bear the desired results.

Regulatory Matters

Financial Markets Act

During 2004 a number of regulations were issued to bring into force certain provisions of the Financial Markets Act or to prepare for the coming into force of other provisions.

Legal Notice 285 of 2004 entitled "*Membership and Access Regulations, 2004*" deals with membership of or access to a recognised investment exchange. This has been widened so as to permit European investment firms (as defined in Council Directive 93/22/EEC of 10 May 1992 on investment services in the securities field) to become a member of or have access to a recognised investment exchange established in Malta and to participate in the clearing and settlement system provided for members of such a recognised investment exchange either directly (by setting up branches in Malta) or indirectly (by

setting up a subsidiary company in Malta or by acquiring other investment firms in Malta and which are already members of such a recognised investment exchange or already have access to such a recognised investment exchange). Furthermore, where no physical presence is required, the European investment firm may also become a member of or have access to the said recognised investment exchange without having to be established in Malta. The said regulations apply in the same way to credit institutions as defined in Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions.

Legal Notice 286 of 2004 entitled *"Off-Exchange Trading Regulations, 2004"* was also published. In terms of the said Legal Notice, listed securities may be traded outside the recognised investment exchange on which they are listed and traded. The said Legal Notice will, however, come into force on such date as Prime Minister and Minister of Finance may by notice in the Government Gazette establish. This Legal Notice will come into force once the system for such off-exchange trading has been finalised. The Exchange has prepared rules and procedures under which off-exchange trading may take place and is currently awaiting regulatory approval prior to implementation.

Legal Notice 287 of 2004 entitled *"Transfer of Listed Securities Regulations, 2004"* regulating the completion for all purposes of law of the transfer of ownership of listed securities that are transacted on a recognised investment exchange has also been issued. As has already been mentioned elsewhere in this Report work on the new securities settlement system is very advanced. Legal Notice 287 will come into force once the new settlement system is ready to be implemented and regulatory approvals have been obtained.

Legal Notice 491 of 2004 entitled *"Recognised Investment Exchange (Transparency) Regulations, 2004"* came into force during 2004. As a result of the issue of these

regulations an amendment has also been made to the directives applicable to the recognised investment exchanges to cover the provisions of the said Legal Notice. These regulations set out the minimum transparency requirements which must be satisfied by a recognised investment exchange on a continuing and on-going basis.

Another Legal Notice issued during 2004 in terms of the Financial Markets Act is entitled *"Recognition of Approved Listing Particulars Regulations, 2004"* implementing the provisions of Directive 2001/34/EC of the European Parliament and of the Council of the 28 May 2001, on the admission of securities to official stock exchange listing and on the information to be published regarding these securities.

The Bye-laws

Admission Rules and Disclosure Standards

Consequent to the introduction of the Financial Markets Act and the transfer of regulatory responsibility for listing to the Listing Authority on 1 January 2004 the Exchange issued "Admission Rules and Disclosure Standards" as Chapter 5 of its Bye-laws. At the same time, the previous Listing Rules and Amalgamation Rules included as Chapters 6, 8, 9, 10 and 11 of the Bye-laws were revoked, these having been replaced by the Listing Authority's Listing Rules and the Exchange's Admission Rules and Disclosure Standards. These new rules and standards came into force on the 1 January 2004. Under the new set-up, a two-stage process applies to Issuers who want to have their securities admitted to the Exchange's Official List or any of its recognised lists.

As a first step, an Issuer must obtain authorisation of "admissibility" from the Listing Authority, or have "admissibility" granted by a competent authority in a foreign jurisdiction as may be laid out by Regulations issued in terms of the Financial Markets Act. The Issuer must then obtain admission to any of the Exchange's recognised lists as granted by the Council of the Exchange. It is only when both

processes have been completed that the Council Notice officially granting admission will be issued and the securities are deemed to be officially listed on the Exchange.

Issuers whose securities are granted admission must comply with the continuing listing obligations and the disclosure standards as laid down in the Listing Rules and Bye-laws of the Exchange to ensure that investors have adequate information to reach an informed investment decision and to have sufficient confidence that the market is transparent and well-regulated.

The Admission Rules and Disclosure Standards of the Exchange apply to all types of Issuers and securities seeking admission to any of the Exchange's recognised lists. However, as also stipulated in the Bye-laws, certain conditions may be waived or indeed added, at the absolute discretion of the Council. At no stage will the Exchange accept conditions that are less onerous than those outlined in the Listing Rules, however, approval of "admissibility" will not in itself guarantee granting of admission.

In drawing up its Admission Rules and Disclosure Standards, the Exchange has sought to :

- minimise, as far as possible, any overlap with the Listing Rules in order to avoid confusion regarding delimitation of responsibilities and to avoid making the admission process onerous for Issuers;
- provide for applications for admissibility and admission to be made concurrently to minimise processing time up to the time of granting of admission or rejection of an application as the case may be; and
- permit flexibility and discretion within the Admission Rules and Disclosure Standards to allow access to different descriptions and categories of securities to the market while at the same time retaining the required standards to ensure the orderliness of the market.

Disclosure Standards

As a recognised investment exchange the Exchange has an obligation under the Financial Markets Act to ensure the operation

of an orderly, regulated and transparent market. Besides this obligation, the Exchange is also required to provide real-time monitoring of the market and to report accordingly to the Competent Authority.

The Disclosure Standards provided for in the Bye-laws are the same as those outlined in the Listing Rules, indeed, these have not been repeated but have merely been referred to in Section 5.03. Some additions have been included relating to information that is required in order for the Exchange to carry out its market monitoring function efficiently; i.e. information requested under the Corporate Governance Rules included within the Listing Rules.

Although the Exchange has primary responsibility for real-time monitoring of its markets, in order to minimise the risk of duplication of any action by the Exchange and the Listing Authority and to avoid confusion for Issuers, the Exchange's Compliance Office liaises closely with the Listing Authority to ensure each institution is aware of what the other is doing. The Listing Authority, will, however, have responsibility for investigations relating to non-compliance with the Listing Rules.

Council Notice 1 – Fees and Other Charges

Following the introduction of the two-tier listing process, listing fees as quoted in Council Notice 1 – Fees and Other Charges, were amended to reflect the new process. As from 1 January 2004, Initial Listing fees previously charged by the Exchange started to be charged by the Listing Authority while Annual Listing Fees continued to be charged by the Exchange. In this way, the new two-tier listing process has not added any extra financial burdens onto prospective listed companies.

Later on in the year a minor amendment was made to the listing fees in respect of collective investment schemes. In line with licensing fees, listing fees in

respect of these securities started to be charged per sub-fund and not per class as had been done previously.

Compliance with Data Protection Act

The Executive Committee, in conjunction with the Exchange's External Auditors, then Deloitte & Touche, carried out a review of the Exchange's operations to determine compliance with the Data Protection Act and to make recommendations on any action required to be taken to ensure full compliance with the said Act in those areas of the Exchange's procedures which were still lacking in this respect.

Following a thorough exercise it was deemed that through its own procedures and safeguards, the Exchange was largely compliant with the Data Protection Act. However, some policies had to be formalised and other documentation amended to ensure full compliance. All recommendations were implemented by December 2004. These included:

- the issue of formal policies stating the Exchange's Data Protection Strategy together with the E-Mail and IT Usage Policies. The Data Protection Policy was posted on the Exchange's website and at the same time all investors appearing on the registers held at the Central Securities Depository were informed individually of the Exchange's Policy in this respect. Staff members were also informed individually of their rights and obligations under this Act; and
- amendments were also made to Client Notification Forms; Statements and Registration Advices to make reference to the Exchange's Data Protection Policy to ensure that all new investors, whether dealing on the primary or secondary market, were aware of such Policy and their rights and obligations under this Act.

Auditors

Following the conclusion of the Financial Audit for 2003, the Council agreed that in line with good corporate governance principles, new external auditors should be appointed for the year under review. While the Exchange has no statutory or regulatory obligation to change external auditors after a certain number of years, the Council felt that it should be seen to be adhering to the principles it had so strongly advocated itself when introducing the Principles of Good Corporate Governance for Listed Companies as part of the Bye-laws.

The Council wished to take the opportunity to thank Deloitte & Touche who for the past six years had so ably acted as the Exchange's External Auditors and who had also assisted the Exchange on many other issues.

Following normal administrative procedures, Ernst & Young have been appointed as the Exchange's External Auditors for the year under review in terms of Article 31 of the Financial Markets Act.

Human Resources

During the year the staff complement decreased by one to forty one, following the resignation of a Manager mid-way through the year. No new members of staff were employed throughout the year although towards the end of the year, procedures had commenced to employ a junior staff member in IT Office. The Executive Committee recommended such recruitment to Council following a review of the IT Office's current workload and planned major developments due to take place during the next few months.

During the Summer months one University student was temporarily employed to assist with the workload within the Central Securities Depository.

Throughout the year there were a number of promotions and some staff movements took place to further streamline various offices

and to increase the general efficiency of the organisation. In line with the policy decided upon in 2003 and re-stated in the Strategic Plan, the Executive Committee is currently undertaking a review of the Exchange's organisational set-up with a view to making recommendations to Council regarding a new set up, aimed at maximising the competitiveness of the Exchange, by among other things, maximising the potential of its current workforce.

Conditions of Services and Terms of Employment

During the year, the Exchange, with the assistance of its consultants, carried out a review of the current "Conditions of Service and Terms of Employment" applicable to all Exchange permanent staff, with a view to ensuring compliance with current employment legislation particularly after Malta's accession to the EU.

Only slight changes were suggested and implemented. Some changes to the Exchange's vacation leave provisions were implemented to ensure compliance with the Working Time Regulations. These amendments dealt with transfer of vacation leave from one year to the following.

Furthermore, as already stated, the Exchange implemented and published policies with regard to Data Protection, IT Usage and E-mail Usage. The Exchange also implemented a Sexual Harassment Policy to be adhered to by all staff to ensure the dignity of men and women at work. All these amendments and new policies, as well as relevant provisions in the Working Time Regulations, were fully explained to staff prior to implementation.

Staff Development

Throughout the year the Exchange continued to support its staff to broaden their knowledge of matters directly affecting the capital markets and the financial services sector generally.

Besides sponsoring two of its staff members to undertake full-time

tertiary education, it also sponsored another two to undertake a graduate and post-graduate degree respectively on a part-time basis. Moreover, the Exchange also sponsored a number of staff members to undertake short specialised courses covering IT; EU legislation; etc. On the local scene, Exchange officials also attended a number of seminars relating to Trust Legislation; the Pension Scheme White Paper; the Market Abuse Directive; etc.

The Exchange also organised a number of talks for its own officials wherein senior executives explained new provisions of the Bye-laws and Anti-Money Laundering Rules; future developments of the Exchange and the implementation of new procedures and policies.

A number of staff members from all grades were involved in the drawing up of the Strategic Plan while others participated on the Business Continuity Plan Sub-Committee and the Committee set up to prepare the groundwork in relation to the Central Securities Depository legislation. A number of Exchange Officials also represented the Exchange on various committees such as the Statistics Committee.

Some of the international events attended by Exchange officials during the year included:

- 11th Annual Conference of the International Securities Settlement Association
- 5th Globalisation International Exchange and Clearing Forum
- 2nd Euro-Mediterranean Workshop

In September 2004, the Deputy General Manager, Dr Robert Vella Baldacchino, presented a paper on Malta's Anti-Money Laundering Regulations at the 22nd International Symposium on Economic Crime held in the UK while in October, the Chairman, Mr Alfred Mallia, addressed the audience at a seminar organised by the Camera di Comercio in Milan on business developments within the Mediterranean region. The Chairman spoke about the Exchange's plans in this context. In July the General Manager, Ms Eileen V Muscat, was invited to

speak at the Annual Conference of BOV Stockbrokers Ltd regarding the role of the Exchange as a recognised investment exchange.

International Relations

Full Membership of FESE

Following Malta's accession to the EU, the Malta Stock Exchange, together with the exchanges of the other nine accession countries was granted the status of Full Member of the Federation of European Securities Exchanges (FESE).

The Exchange's relationship with FESE is a long one, going back to 1992 when the Exchange was instrumental in setting up the Emerging Markets Forum, a platform for discussion within FESE for the newly emerging markets in Europe, whose Members eventually acceded to full membership of FESE last May.

Meetings

During 2004, as in previous years, the Exchange's senior executives actively participated in the various regular meetings of those international organisations of which the Exchange is a member.

The Exchange was delighted to host the April Working Committee meeting of FESE. Representatives of over 25 Exchanges from 20 European countries attended this meeting. The Exchange was particularly pleased to host this meeting as this was the last such event prior to the accession of 10 new member countries to the EU on 1 May 2004. The Exchanges of these 10 accession countries, including Malta, became full members of FESE following this historic date.

The Exchange was also represented at the other three Working Committees of FESE and the Annual Meeting and Convention as well as at the Annual Meeting of the International Organisation of Securities Commission (IOSCO)



and at the Working Committees and Annual Meeting of the World Federation of Exchanges. The Exchange also participated at the Annual

Meeting of the European Corporate Governance Institute, of which it is a Founder Member as well as at the Annual Meeting of the European Capital Markets Institute (ECMI).

Visit to the Vienna Stock Exchange

In November, the Chairman of the Exchange led a delegation to the Vienna Stock Exchange. The delegation also comprised representatives from the Malta Financial Services Authority and the Institute of Financial Services Practitioners, who all gave presentations regarding financial services available in Malta. The Exchange also held bilateral talks with the Vienna Stock Exchange in respect of fostering better relations and deepening the collaboration between the two Exchanges. This visit was the result of efforts on the part of the Exchange to strengthen ties with smaller Exchanges within Europe to the mutual benefit of the parties concerned. The outcome of the visit has been very positive and discussions are continuing following up a number of proposals made.

EU Financial Services Committee

The Chief Executive, Mr Mark A Guillaumier, has been appointed to represent the Malta Government on the EU Financial Services Committee, a technical committee giving advice and recommendations to ECOFIN. Mr Guillaumier has already attended a number of



meetings of this committee which are held regularly in Brussels.

Visitors to the Exchange

As stated elsewhere in this Report, one of the highlights of the year was the Official Visit by the Prime Minister and his Parliamentary Secretaries to the Exchange on 10 August 2004.

This visit was followed in October by an Official Visit by the Hon Dr M Frendo, Minister of Foreign Affairs. The Minister had the opportunity to discuss the Exchange's international strategy with the Council and Executive Committee particularly how he could lend his support to the Exchange's plans for regional collaboration within the context of the Barcelona Process. As a direct result of this visit, the Exchange's plans for greater collaboration between the capital markets in the Mediterranean region has now become an item for discussion, whenever possible, when the Minister meets his counterparts from countries in the region.

The Exchange also hosted a delegation of senior executives from the Vienna Stock Exchange to make preliminary preparations for the planned visit by a delegation from the financial services sector in Malta later on in the year to maximise the

benefit to be obtained from this visit to Vienna.

In December the newly appointed Tunisian Ambassador to Malta, HE Mr A Nestiri, paid a visit to the Exchange when he discussed matters of mutual interest with senior management, in particular possible collaboration between the capital markets of Northern Africa and the Malta Stock Exchange.

Throughout the year the Exchange also welcomed several distinguished guests from overseas including senior representatives from Euronext, OMX, the European Investment Bank; Citibank Corporation and JP Morgan Chase Bank.

Les Gavroches

The bronze copy of the sculpture by Antonio Sciortino "Les Gavroches" sponsored by the Exchange was unveiled at a special ceremony on 5 February 2004. The bronze was housed in the offices of Heritage Malta until it was placed in the Upper Barrakka Gardens in Valletta in late April 2004, in place of the original sculpture which is now housed in the Museum of Fine Arts.

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exchange operations and other activities

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exchange operations and other activities

Market Operations during 2004

During 2004 the market rallied and continued to be very active

continuing the positive trend that emerged towards the end of 2003. This positive trend was particularly evident in the equity market which

showed a huge increase in activity when comparing year to year figures.

The volume of business transacted on the market resulted in a market turnover value of almost Lm94 million (excluding any special trades

Comparative Trading Figures

Security	Number of Deals		Volume/No. of Shares		Market Turnover (Lm)	
	2004	2003	2004	2003	2004	2003
Equities						
Bank of Valletta	2,772	1,121	2,534,662	1,488,467	9,303,127	3,629,847
HSBC Bank	1,471	733	1,525,810	1,212,913	10,492,529	5,802,042
Lombard Bank	207	86	442,477	141,234	1,817,228	502,029
MiddleSea Insurance	262	168	198,043	188,305	439,939	417,315
Simonds Farsons Cisk	157	81	268,604	111,420	282,960	85,340
Suncrest Hotels	14	2	14,519	1,000	4,032	505
Maltacom	2,527	1,393	4,208,389	3,216,024	6,020,352	3,084,613
Int. Hotels Invest (Euro)	341	310	1,650,947	635,144	556,546	558,490
Plaza Centres	112	59	437,777	895,073	284,817	584,884
Global Financial Services	161	78	472,830	278,188	527,713	164,127
FIM Bank (US\$)	108	40	3,502,189	134,050	1,135,702	59,800
Malta International Airport	862	228	1,252,594	422,110	1,144,764	294,377
Datatrak	115	101	291,220	1,515,437	72,629	477,693
Total Equity	9,109	4,400	16,800,061	10,239,365	32,082,339	15,661,062
Corp. Bonds						
6.15% Bank of Valletta 2010	90	124	310,400	504,700	326,592	527,971
8% Bank of Valletta 2010 (US\$)	131	171	1,446,000	1,348,500	582,169	589,928
7.25% HSBC Bank 2005	134	104	679,500	487,200	707,872	511,415
6.15% Gasan Finance Company plc 2003/4	-	2	-	2,000	-	1,995
6.4% Gasan Finance 2008/11	170	53	302,800	60,300	305,891	61,624
6.5% Gasan Finance 2006/9	100	21	244,300	23,600	246,279	23,874
6.25% Simonds Farsons Cisk 2006/08	31	23	25,300	19,500	26,550	20,066
6.6% Simonds Farsons Cisk 2010/12	36	60	58,000	51,000	62,271	53,273
8.25% Suncrest Hotels 2005/07	46	48	87,700	64,800	84,416	64,651
6.7% Corinthia Finance 2009	328	106	1,001,900	410,200	1,007,389	417,281
6.75% Corinthia Finance 2012	137	126	431,000	590,200	435,571	606,195
6.5% Corinthia Finance 2010 (Euro)	115	92	1,005,700	1,413,100	429,604	615,250
5% Int. Hotel Invest. 2010	7	14	37,500	325,400	37,436	325,373
6.75% United Finance 2008	17	46	72,400	563,200	75,284	576,977
6.7% Eden Finance 2010	98	73	248,800	217,100	210,514	213,864
Malta Government Privatisation Bonds 2005	17	50	588,500	901,500	646,610	912,844
6.5% CC Car Parks 2006	20	22	88,400	77,800	91,279	79,277
6.7% Mizzi Org Finance 2009/12	94	102	192,200	370,500	204,632	394,705
6.7% Tumas Investments 2010/12	62	99	189,900	576,900	197,276	593,548
6.7% Tumas Investments 2006	4	58	181,200	739,400	191,610	766,976
6.5% CareMalta Finance 2008/11	36	57	129,300	441,600	135,007	455,541
5.75% Mariner Finance 2008/10 (Euro)	64	29	1,221,500	614,900	520,753	263,253
6% Dolmen Properties 2010/13	108	52	243,600	84,400	253,624	86,133
6.2% - 6.8% Int. Hotel Invest. 2013 (Euro)	70	108	604,100	1,961,500	260,556	837,583
6.3% Int. Hotel Invest. 2013	108	162	176,800	644,700	177,425	648,112
3.8% European Invest. Bank 2009	133	-	831,900	-	836,937	-
7.5% Hotel San Antonio 2012	49	61	67,800	104,200	67,652	103,341
8% Bay Street Finance 2012	70	106	147,300	292,200	145,317	290,141
7% Big Bon Finance 2010/12	39	51	116,400	156,800	123,386	165,914
Total Corp. Bonds	2,314	2,020	10,730,200	13,047,200	8,389,902	10,207,103
Close Ended Collective Invest. Scheme						
San Tumas Shareholdings plc	21	3	125,139	1,140	89,209	946
Total Close Ended Collective Invest. Scheme	21	3	125,139	1,140	89,209	946
Malta Government Stocks						
Total MGS's	3,215	2,880	48,550,500	42,679,200	53,147,976	48,292,074
Total all Securities	14,659	9,303	76,205,900	65,966,905	93,709,427	74,161,186

Malta Government Stock Movements 2004

MGS Outstanding	Date of Issue	Amount Issued	Coupon	Dates of Interest	Traded Value (Lm)	Deals	Last Close Price
6.7% MGS 2004	23-Apr-94	18,700,000	6.70%	23 Apr - 23 Oct	3,519	3	-
6.8% MGS 2004 (II)	1-Jul-98	25,851,800	6.80%	15 Jan - 15 Jul	37,637	15	-
7.25% MGS 2005	18-Jun-97	23,500,000	7.25%	24 May - 24 Nov	203,406	37	101.74
5.6% MGS 2005 (II)	3-Aug-99	31,500,000	5.60%	01 Feb - 01 Aug	4,259,258	11	101.66
7% MGS 2006	18-Jan-95	10,000,000	7.00%	19 May - 19 Nov	171,653	56	106.89
7.25% MGS 2006 (II)	15-Apr-96	19,250,000	7.25%	01 Feb - 01 Aug	271,603	66	106.38
7.25% MGS 2006 (III)	28-Jun-96	15,000,000	7.25%	20 Jan - 20 Jul	631,185	33	106.34
7% MGS 2006 (IV)	30-Jun-96	167,127	7.00%	30 Jun - 30 Dec	-	-	-
7.35% MGS 2007	18-Oct-97	24,750,000	7.35%	18 Apr - 18 Oct	64,466	18	110.68
5.9% MGS 2007 (II)	23-Apr-99	10,000,000	5.90%	23 Apr - 23 Oct	5,251	5	105.98
5.6% MGS 2007 (III)	6-Jul-00	35,250,000	5.60%	10 Jun - 10 Dec	419,997	69	105.46
7.2% MGS 2008	10-Jun-98	10,000,000	7.20%	10 Jun - 10 Dec	7,062	3	112.10
7.2% MGS 2008 (II)	1-Jul-98	30,000,000	7.20%	28 Feb - 28 Aug	109,321	31	112.47
7% MGS 2009	17-Aug-99	64,500	7.00%	30 Jun - 30 Dec	-	-	-
5.9% MGS 2009 (II)	3-Aug-99	25,000,000	5.90%	01Mar - 01 Sep	45,741	9	107.81
5.9% MGS 2009 (III)	17-Oct-00	45,300,000	5.90%	30 Mar - 30 Sep	24,836	4	107.52
5.9% 2009 (III) FI	24-Nov-04	19,000,000	5.90%	31 Mar - 30 Sep	-	-	-
5.9% MGS 2010	4-Jan-00	15,000,000	5.90%	19 May - 19 Nov	33,075	8	108.03
5.75% MGS 2010 (II)	6-Jul-00	18,500,000	5.75%	10 Jun - 10 Dec	2,778	3	106.89
7% MGS 2010 (III)	26-Sep-00	544,900	7.00%	30 Jun - 30 Dec	-	-	-
5.4% MGS 2010 (IV)	3-Mar-03	35,000,000	5.40%	21 Feb - 21 Aug	661,250	110	105.25
5.4% MGS 2010 (IV) FI	24 Aug 04	13,000,000	5.40%	21 Feb - 21 Aug	-	-	-
7.5% MGS 2011	23-Sep-96	15,000,000	7.50%	28 Mar - 28 Sep	134,471	22	118.07
6.25% MGS 2011 (II)	20-Aug-01	40,000,000	6.25%	01 Feb - 01 Aug	633,677	69	112.99
7% MGS 2011 (III)	24-Jan-02	125,000	7.00%	30 Jun - 30 Dec	-	-	-
7.8% MGS 2012	18-Jun-97	34,500,000	7.80%	24 May - 24 Nov	2,267,723	69	121.09
7% MGS 2012 (II)	29-Jul-02	176,200	7.00%	30 Jun - 30 Dec	-	-	-
5.7% MGS 2012 (III)	7-Oct-02	21,000,000	5.70%	30 Mar - 30 Sep	689,949	116	108.00
7.8% MGS 2013	18-Oct-97	34,250,000	7.80%	18 Apr - 18 Oct	203,242	50	123.15
6.35% MGS 2013 (II)	5-Dec-01	26,000,000	6.35%	19 May - 19 Nov	1,070,995	149	112.59
7% MGS 2013 (III)	12-Sep-03	66,700	7.00%	30 Jun - 30 Dec	-	-	-
6.6% MGS 2014	17-Oct-00	10,500,000	6.60%	30 Mar - 30 Sep	418,960	60	114.82
6.45% MGS 2014 (II)	8-Jun-01	30,000,000	6.45%	24 May - 24 Nov	781,381	85	114.05
5.1% MGS 2014 (III)	21-Jul-03	30,000,000	5.10%	06 Jan - 06 Jul	703,431	123	104.50
5.1% MGS 2014 (III) FI	24-Aug-04	17,000,000	5.10%	06 Jan - 06 Jul	668,162	15	103.90
7% MGS 2014 (IV)	06-Aug-04	1,718,800	7.00%	30 Jun - 30 Dec	-	-	-
7% MGS 2015	6-Jul-00	30,000,000	6.10%	10 Jun - 10 Dec	813,939	109	111.59
5.9% MGS 2015 (II)	19-Apr-02	40,200,000	5.90%	09 Apr - 09 Oct	1,209,755	154	109.99
5.9% MGS 2015 (II) FI	3-Mar-03	20,000,000	5.90%	09 Apr - 09 Oct	-	-	-
6.65% MGS 2016	17-Apr-01	30,000,000	6.65%	28 Mar - 28 Sep	1,648,278	142	116.59
4.8% 2016 (II)	1-Dec-03	30,000,000	4.80%	26 May - 26 Nov	7,231,975	492	100.60
4.8% 2016 (II) FI	03-Jun-04	25,000,000	4.80%	26 May - 26 Nov	218,432	9	100.73
7.8% MGS 2018	1-Jul-98	70,000,000	7.80%	15 Jan - 15 Jul	3,664,404	124	129.03
6.6% MGS 2019	1-Aug-99	44,000,000	6.60%	01 Mar - 01 Sep	10,613,150	107	117.95
5% MGS 2021	03-Jun-04	40,000,000	5.00%	08 Feb - 08 Aug	5,642,952	436	100.70
5.1% MGS 2022	24-Aug-04	20,000,000	5.10%	16 Feb - 16 Aug	3,080,434	132	100.85
5.1% MGS 2022 FI	24-Nov-04	10,500,000	5.10%	16 Feb - 16 Aug	567,289	36	100.20
5.1% MGS 2023	21-Jul-03	33,833,200	5.50%	06 Jan - 06 Jul	3,933,341	235	104.59

effected), an increase of 26% when compared to the previous year's turnover figures. The different sectors of the market showed a somewhat mixed performance during the year. While equity trading continued to be very strong and more than doubled in comparison to 2003 volumes, turnover in the Government Stock Market only registered a slight increase while

activity in the corporate bond market dampened slightly when compared to the highs achieved last year.

Equity prices rose steadily throughout the year reaching their peak and levelling off during the last quarter of 2004. The number of equity transactions effected during the year was 9,109, more than double the number effected the

previous year. The number of shares transacted increased by 64% to almost 17 million, resulting in a turnover value of Lm32 million, an increase of 104% when comparing year to year figures. While increases in equity trading were registered across the board, financial sector and telecommunication equities continued to outperform the rest.

Holders of MSE Listed Securities by Percentage of Market Capitalisation

	Financial Entities		Non-Financial Entities		Government		Individuals	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Equities	12.82%	30.65%	10.92%	0.18%	21.39%	0.00%	23.31%	0.73%
Corp. Bonds	36.50%	0.32%	6.02%	0.00%	0.31%	0.00%	56.66%	0.19%
MGS	62.07%	0.00%	5.75%	0.00%	0.62%	0.00%	31.44%	0.12%

Data as at 30.12.04

This activity was fuelled by the good financial results posted throughout the year by these companies and later on in the year by Government's announcement regarding the sale of its shareholding in the telecommunications company and in one of the major banks which added further impetus to the trading activity and price movements.

Although the number of transactions effected in the corporate bond market registered an increase of 14.5% when comparing year to year figures, total turnover value in this sector of the market reached a value of only Lm8.4 million, a decrease of almost 18% compared to the annual turnover in this market during 2003. The best performers in the Corporate Bond market were those bonds issued by companies in the tourism sector and in the financial services sector which showed a steady performance through the year under review. Prices, however, remained virtually unchanged throughout the year.

The performance of the Government Stock market in 2004 registered a slight increase when compared to 2003 resulting in a turnover value of Lm53.1 million, up from Lm48.3 million registered the previous year. During 2004 business in the Government Stock market was concentrated in the longer-term bonds (those with over a 10-year maturity). Turnover in these bonds accounted for over 78% of the total turnover in this market.

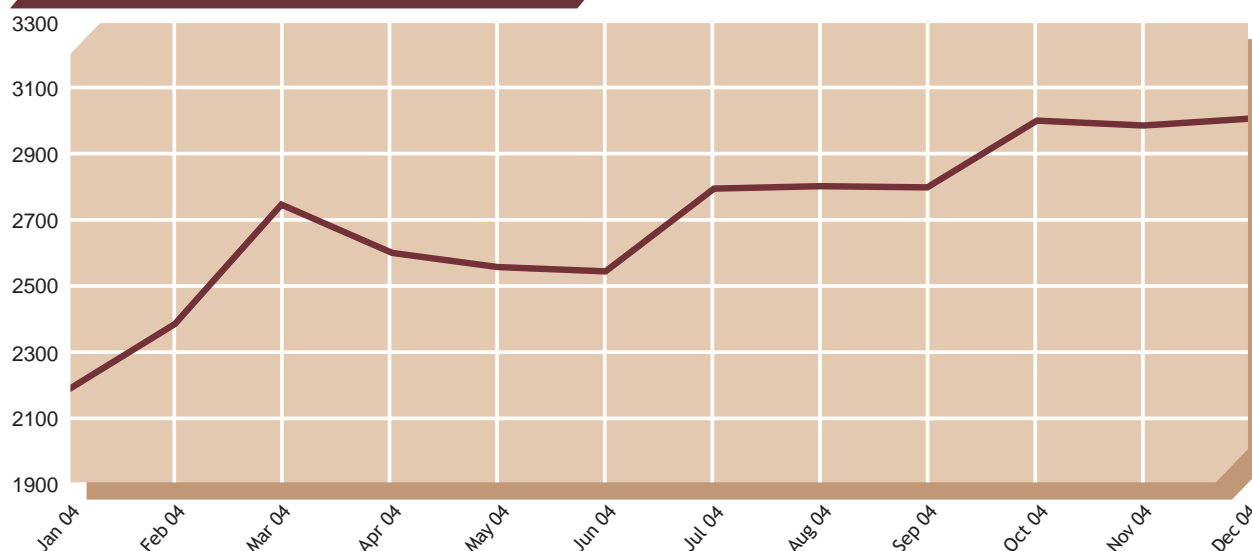
Investor participation in the primary market remained very strong, as indicated by the over-subscription of the few issues this year. This also indicates that despite its relatively small size the market could easily absorb more primary issues. Having said this, 2004 has seen an even wider spread of investors participating in the equity market, a trend that commenced towards the end of 2003 and continued during 2004, with investors probably being attracted by the steadily rising prices and the liquidity in the market

making access and exit fairly easy in the best performing shares.

Malta Stock Exchange Share Index

The significant increase in share prices throughout 2004 was reflected in the movement of the Malta Stock Exchange Share Index which ended the year at a value of 3068.61, up from 2125.76, the value at the end of 2003, a year to year increase of over 44%. The end-of-year value was the highest Index value registered during the year. It is interesting to note that during 2003 the performance of the equity market and hence the performance of the Index, mirrored that of much larger European and US markets. On the other hand, during 2004, the performance of the Index, while continuing the same steady rise as in other markets, has actually far outstripped the performance of many markets.

Malta Stock Exchange Share Index



(values at end-month)

Market Capitalisation

At the end of December 2004 the total market capitalisation of securities listed on the Exchange's Recognised Lists, excluding Collective Investment Schemes stood at Lm2.2 billion, up from

Lm1.8 billion at the end of 2003. While the market capitalisation of Government Stocks and corporate bonds remained virtually unchanged from the previous year's values, the increase in market capitalisation of equities accounted for the increase in the overall capitalisation of the market of Lm0.4 billion; a reflection

of the significant increases in equity prices.

The Net Asset Values of Collective Investment Schemes investing in locally listed securities all registered increases when compared to end-2003 values.

Market Capitalisation

Name of Security	Shares in Issue	Closing Prices December 04	Lm	%	Lm
Equities					
Bank of Valletta	55,416,441	4.49	248,819,820	0.274	
HSBC Bank Malta	36,480,000	7.99	291,475,200	0.321	
Lombard Bank	4,113,259	4.251	17,485,464	0.019	
Middlesea Insurance	12,500,000	2.5	31,250,000	0.034	
Simonds Farsons Cisk	25,714,286	1.12	28,800,000	0.032	
Suncrest Hotels	10,000,000	0.329	3,290,000	0.004	
Maltacom	101,310,488	1.5	151,965,732	0.167	
Int. Hotel. Invest. (Euro)	119,053,489	0.75	38,796,488	0.043	
Plaza Centres	9,414,000	0.615	5,789,610	0.006	
GloBAI Financial Services	13,207,548	1.397	18,450,945	0.020	
FIM Bank (US\$)	66,010,631	0.985	20,705,838	0.023	
Malta International Airport	40,589,995	1.13	45,866,694	0.051	
San Tumas Shareholdings plc	1,665,176	0.75	1,248,882	0.001	
Datatrak	15,949,500	0.236	3,764,082	0.004	
					907,708,755
Corporate Bonds					
7.25% HSBC Bank Malta 2005	20,000,000	101	20,200,000		
8.25% Suncrest Hotels 2005/7	2,984,500	94.01	2,805,728		
6.5% Gasan Finance 2006/9	3,492,200	101.57	3,547,028		
6.7% Corinthia finance 2009	10,000,000	103.5	10,350,000		
6.15% Bank of Valletta 2010	19,990,600	105.01	20,992,129		
5% Int. Hotel. Invest. 2010	5,000,000	99.98	4,999,000		
6.75% United Finance 2008	4,000,000	101	4,040,000		
8% Bank of Valletta 2010 (US\$)	36,543,500	115.61	13,453,901		
Malta Government Privatisation 2005	7,272,400	110	7,999,640		
6.7% Eden Finance 2010	10,000,000	90	9,000,000		
6.5% CC Car Parks 2006	1,500,000	102.02	1,530,300		
6.5% Corinthia Finance 2010 (Euro)	14,273,700	102	6,325,950		
6.75% Corinthia Finance 2012	6,289,900	103.5	6,510,047		
6.7% Mizzi Organisation 2009/12	10,000,000	106	10,600,000		
6.7% Tumas Investments 2010/12	7,000,000	104.9	7,343,000		
6.7% Tumas Investments 2006	4,200,000	105.75	4,441,500		
6.6% Simonds Farsons Cisk 2010/12	4,000,000	107.01	4,280,400		
6.25% Simonds Farsons Cisk 2006/8	2,000,000	103.75	2,075,000		
6.5% CareMalta Finance 2008/12	3,800,000	105.5	4,009,000		
6.3% Int. Hotel Invest. 2013	6,017,500	100.5	6,047,588		
6.2% - 6.8% Int. Hotel Invest. 2013 (Euro)	8,058,000	101.3	3,546,710		
5.75% Mariner Finance 2008/2010 (Euro)	13,000,000	100	5,648,490		
6.4% Gasan Finance 2008-2011	5,000,000	102.06	5,103,000		
6% Dolmen Properties Bonds 2010/13	4,700,000	105.49	4,958,030		
3.8% European Investment Bank Bonds	10,000,000	100.5	10,050,000		
7.5% Hotel San Antonio 2012	2,500,000	101.01	2,525,250		
8% Bay Street Finance 2012	3,263,800	99	3,231,162		
7% Big Bon Finance 2010/12	3,000,000	105	3,150,000		
					188,762,853
Malta Government Stocks					
7.25% MGS 2005	23,500,000	101.74	23,908,900		
5.6% MGS 2005 (II) A	31,500,000	101.66	32,022,900		
7% MGS 2006	10,000,000	106.89	10,689,000		
7.25% MGS 2006(II)	19,250,000	106.38	20,478,150		
7.25% MGS 2006 (III)	15,000,000	106.34	15,951,000		
7% MGS 2006 (IV)	167,127	100	167,127		

Market Capitalisation *(continued)*

Name of Security	Shares in Issue	Closing Prices December 04	Lm	%	Lm
Malta Government Stocks <i>(continued)</i>					
7.35% MGS 2007	24,750,000	110.68	27,393,300		
5.9% MGS 2007 (II)	10,000,000	105.98	10,598,000		
5.6% MGS 2007 (III)	35,250,000	105.46	37,174,650		
7.2% MGS 2008	10,000,000	112.1	11,210,000		
7.2% MGS 2008 (II)	30,000,000	112.47	33,741,000		
7% MGS 2009	64,500	100	64,500		
5.9% MGS 2009 (II)	25,000,000	107.81	26,952,500		
5.9% MGS 2009 (III)	45,300,000	107.52	48,706,560		
5.9% MGS 2009 (III) FI	19,000,000	100	19,000,000		
5.9% MGS 2010	15,000,000	108.03	16,204,500		
5.75% MGS 2010 (II)	18,500,000	106.89	19,774,650		
7% MGS 2010 (III)	544,900	100	544,900		
5.4% MGS 2010 (IV)	35,000,000	105.25	36,837,500		
5.1% MGS 2010 (IV) FI	13,000,000	100	13,000,000		
7.5% MGS 2011	15,000,000	118.07	17,710,500		
6.25% MGS 2011 (II)	40,000,000	112.99	45,196,000		
7% MGS 2011 (III)	125,000	100	125,000		
7.8% MGS 2012	34,500,000	121.09	41,776,050		
7% MGS 2012 (II)	176,200	100	176,200		
5.7% MGS 2012 (III)	21,000,000	108	22,680,000		
7.8% MGS 2013	34,250,000	123.15	42,178,875		
6.35% MGS 2013	26,000,000	112.59	29,273,400		
7% MGS 2013 (III)	66,700	100	66,700		
6.6% MGS 2014	10,500,000	114.82	12,056,100		
6.45% MGS 2014 (II)	30,000,000	114.05	34,215,000		
5.1% MGS 2014 (III)	30,000,000	104.5	31,350,000		
5.1% MGS 2014 (III) FI	17,000,000	103.9	17,663,000		
7% MGS 2014 (IV)	1,718,000	100	1,718,000		
6.1% MGS 2015	30,000,000	111.59	33,477,000		
5.9% MGS 2015 (II)	40,200,000	109.99	44,215,980		
6.65% MGS 2016	30,000,000	116.59	34,977,000		
4.8% MGS 2016 (II)	30,000,000	100.6	30,180,000		
7.8% MGS 2018	70,000,000	129.03	90,321,000		
6.6% MGS 2019	44,000,000	117.95	51,898,000		
5% MGS 2021	40,000,000	100.7	40,280,000		
5.1% MGS 2022	20,000,000	100.85	20,170,000		
5.1% MGS 2022 (FI)	10,500,000	100.2	10,521,000		
5.5% MGS 2023	33,833,200	104.59	35,386,144		
					1,092,030,086
			Total in Lm		2,188,501,694
	Exchange Rates (as at 31.12.04)	2.3015	Total in Euros		5,036,836,649
		3.1402	Total in US\$		6,872,333,019

Collective Investment Funds Investing in MSE Listed Securities

ISIN Code	Fund	Net Asset Value in Lm Dec-03	Net Asset Value in Lm Dec-04
MT0000072034	La Valette Funds Sicav plc - Malta Fund	17,346,988	23,163,287
MT0000072067	La Valette Funds Sicav plc - Malta Bond Fund	34,740,106	37,546,562
MT0000072075	Vilhena Funds Sicav plc - Malta Fund	7,028,223	10,994,274
MT0000072125	Vilhena Funds Sicav plc - Malta Government Bond Fund	44,946,496	48,340,959
MT0000072257	Global Funds Sicav plc - Malta Privatisation and Equity Fund	7,285,303	8,809,628
MT0000072260	Wignacourt Funds Sicav plc - Malta Fund	11,396,059	14,195,895
MT0000072273	Amalgamated Funds Sicav plc - Growth and Income Fund	12,911,434	19,470,182
MT0000072042	HSBC Malta Funds Sicav plc - Malta Bond Fund	58,639,718	60,428,850
MT0000072166	HSBC No-Load Funds Sicav plc - Malta Government Bond Fund	69,446,618	86,984,757
MT0000072174	HSBC No-Load Funds Sicav plc - Maltese Assets Fund	20,288,460	24,007,557
MT0000072406	Gasam Funds Sicav plc - Gasam Enterprise Fund	159,228	181,662

Admission to Listing

At the end of 2004 the following securities appeared on the recognised lists of the Exchange :

Listed Securities

13	Equities (Ord shares)
28	Corporate Bonds
44	Government Stock Issues
1	Close-ended Collective Investment Scheme
70	Open-ended Collective Investment Schemes – Primary Listed
297	Open-ended Collective Investment Schemes – Secondary Listed

The number of equities listed on the Exchange during 2004 remained unchanged. One new corporate bond, issued by the European Investment Bank was listed during 2004 bringing the number of listed corporate bonds up to 28 by the end of the year. Eight new Government Stocks were issued during 2004 while three existing issues were redeemed, bringing the number of listed Government Stocks up to 44 at the end of 2004. A number of primary listings of Collective Investment Schemes has pushed up the number of such listed securities to 70. While there have also been a number of Collective Investment Schemes that have sought and been granted a secondary listing on the Exchange, a significant number of others have been delisted. In fact, overall, a decrease of 21, from 318 to 297, has been registered during 2004 despite the new listings. The delisting of these funds was partly caused by cost-cutting exercises and merging of several funds, however, many such delistings are as a direct result of EU legislation that came into force upon Malta's accession to the EU with regard to funds under the UCITS regime.

The following securities were granted admission to the recognised lists of the Exchange during 2004 :

Equities:

- 61,363 Lombard Bank Malta plc Ordinary Shares of Lm0.50 Nominal (*subsequent to a bonus issue*)
- 4,174 First International Bank plc Ordinary Shares of US\$0.50 Nominal (*subsequent to an exercise of rights under the Executive Share Option Scheme Rules*)
- 10,000,000 International Hotel Investments plc Ordinary Shares of EURO 1 nominal

Corporate Bonds:

- Lm10,000,000 Nominal 3.8% European Investment Bank Bonds 2009

Malta Notes:

- GBP 5,000,000 SGA Societe Generale Acceptance NV – Malta Notes 2010
- GBP 6,000,000 SGA Societe Generale Acceptance NV – Malta Notes 2010

Malta Government Stocks:

- Lm25,000,000 4.8% Malta Government Stock 2016 (II) Fungible Issue
- Lm40,000,000 5.0% Malta Government Stock 2021
- Lm 1,718,000 7.0% Malta Government Stock 2014 (IV)
- Lm20,000,000 5.1% Malta Government Stock 2022
- Lm13,000,000 5.1% Malta Government Stock 2010 (IV) Fungible Issue
- Lm17,000,000 5.1% Malta Government Stock 2014 (III) Fungible Issue
- Lm10,500,000 5.1% Malta Government Stock 2022 Fungible Issue
- Lm19,000,000 5.9% Malta Government Stock 2009 (III) Fungible Issue

Collective Investment Schemes:

Primary Listing :

- 4 sub-funds of New Star Global Investment Funds plc
- 3 sub-funds of Vilhena Funds SICAV plc
- 1 sub-fund of La Valette Funds SICAV plc
- 4 sub-funds of Global Funds SICAV

- 1 sub-fund of HSBC Malta Funds SICAV plc
- 2 sub-funds of HSBC No Load Funds SICAV
- 4 sub-funds of Somerset Capital Fund SICAV

Secondary Listing :

- 15 sub-funds of HSBC International Capital Secured Growth Fund plc
- 7 sub-funds of Fidelity Funds SICAV
- 1 sub-fund of INVESCO Maximum Income Fund
- 1 sub-fund of INVESCO GT Management SA – INVESCO GT
- 4 sub-funds of INVESCO Asset Management Ireland Ltd
- 4 sub-funds of INVESCO World Bond Series SICAV
- UBS (LUX) Medium Term Bond Fund
- UBX (LUX) Bond SICAV

The following securities have been delisted from the Exchange's recognised lists during 2004 :

- 6 sub-funds of Barclays Investment Fund (Lux) SICAV
- 13 sub-funds of Barclays International Funds SICAV
- 7 sub-funds of Friends Provident International Global Investment Portfolio
- 1 sub-fund of La Valette Funds SICAV
- 5 sub-funds of HSBC International Funds SICAV plc
- 14 sub-funds of Aviva Funds SICAV plc
- USB (Lux) Bond Fund + sub-funds
- UBS (Lux) Strategy Fund + sub-funds
- UBS (Lux) Equity Fund + sub-funds

Central Securities Depository

The number of accounts held within the Central Securities Depository (CSD) increased from 149,000 at the end of 2003 to over 170,000 at the end of 2004. This expansion is primarily a reflection of the increase of holders in the corporate debt instruments sector. These accounts represent 63,641 individual investors, virtually unchanged from 2003 figures. These figures indicate that on average, each individual investor holds at least two different

securities. At the end of 2004, 47,006 account holders held equities; 75,759 held Government stocks while 41,892 held corporate bonds.

The number of register amendments effected by the CSD across all registers almost doubled in 2004 when compared to 2003 up to over 54,000 in 2004 from 29,000 last year. This marked increase in the number of amendments effected by the CSD was due largely to two main factors. One was the increased activity in the market which resulted in the number of bought/sold movements on the registers increasing from 9,303 in 2003 to 14,590 in 2004. Furthermore, both the Treasury on behalf of Government, and a number of listed companies, in particular the banks, have commenced procedures to encourage security holders to use direct credit facilities rather than receiving interest/dividend cheques. This has resulted in the market increase in Mandate/Power of Attorney amendments which increased from 2,868 in 2003

Dividend / Interest Payments for 2004

	Gross Amount (in Lm)	No of Warrants
January	6,008,911	12,571
February	5,743,274	14,631
March	7,620,903	17,770
April	7,663,713	25,424
May	15,915,936	46,901
June	4,334,037	16,251
July	8,343,906	23,075
August	5,398,976	18,493
September	6,242,100	14,535
October	8,471,977	17,731
November	7,899,730	31,163
December	13,189,410	42,439
TOTAL	96,832,872	280,984

issues was sent to all holders of new issues and at the end of the year over 65,000 Statements of Holdings were issued to all investors registered within the CSD at the end of December 2004.

As has been stated elsewhere in this Report, the Council appointed a Committee to prepare the groundwork in respect of new CSD

continued to liaise with the Malta Financial Services Authority with respect to the regulation of its Members, in particular in relation to trading activity. Furthermore, Compliance Office also liaised closely with the Listing Authority with respect to monitoring of continuing obligations of listed companies. In this respect the Listing Authority formally delegated

CSD Register Amendments for 2004

Amendment Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Causa Mortis	143	123	117	118	93	58	80	85	116	140	27	22	1,122
Garnishee Insert	7	3	1	5	2	1	3	4	7	5	5	1	44
Garnishee Release	2	-	0	0	0	0	0	0	2	3	4	0	11
Holder Amendment	188	124	203	137	111	174	182	55	73	72	75	76	1,470
Mandate/Power of Attorney	1,563	12,615	587	289	181	311	511	202	188	257	132	336	17,172
Bought Movements	1,251	1,512	1,796	1,127	775	814	1,191	1,314	1,036	1,676	1,211	887	14,590
Sold Movements	1,251	1,512	1,796	1,127	775	814	1,191	1,314	1,036	1,676	1,211	887	14,590
Release of Estates	265	254	256	153	187	179	196	112	228	342	223	129	2,524
Off-Market Transfers	80	115	76	64	27	104	63	15	61	70	52	30	757
Pledge Insert	83	104	87	87	109	75	94	82	71	111	51	58	1,012
Pledge Release	85	125	79	96	91	78	81	74	68	66	80	66	989
Total	4,918	16,487	4,998	3,203	2,351	2,608	3,592	3,257	2,886	4,418	3,071	2,492	54,281

to over 17,000 in 2004. Throughout the year, the CSD processed nearly 281,000 dividend and interest cheques, nearly 55,000 more than the number processed in 2003. The gross value of these dividend/interest cheques amounted to almost Lm97 million.

During 2004 the CSD carried out the primary issue processing in respect of eight new Government Stock issues, five of which were fungible issues. The CSD also carried out the primary issue processing of one corporate bond issue. Notification of registration in respect of all new

legislation. In this respect the executive staff within the CSD compiled a document including the Department's history, daily procedures and statistics, together with proposals for new services under the envisaged new set-up. The executive staff within CSD also gave a talk to a group of MA students covering the procedures and operations of the CSD.

Compliance Office

During 2004 Compliance Office

the Exchange with the collation and monitoring of certain information regarding listed companies. Compliance Office carries out this function and reports accordingly.

Twelve on-site inspection visits were conducted during the year and a total of 33 investigations were carried out by Compliance Office. The majority of these were carried out with respect to certain price fluctuations in equities or where a difference in the trading patterns of a particular security was noted. All enquiries made by Compliance Office in this respect up to

December 2004 have been cleared with the Competent Authority and currently no investigations are pending.

A total of 198 Company Announcements were issued during the year as follows :

January	9
February	15
March	18
April	34
May	13
June	24
July	14
August	11
September	15
October	12
November	15
December	18

The compilation of the internal procedures of Compliance Office have been concluded and transaction reporting procedures in line with the appropriate directives applicable to recognised investment exchanges, which had been amended following the issue of the relevant regulations under the Financial Markets Act, have been established and implemented.

Compliance staff were also involved in the various projects being currently carried out by the Exchange such as the BorzaMed Project and off-exchange trading.

Internal Compliance Office

During 2003 the Internal Compliance Office had concentrated on the Business Documentation Project; i.e. the identification and compilation of all Exchange procedures into a standard format which now form the Exchange's Official Procedures Manual. This exercise was concluded towards the beginning of 2004 and indeed, the Procedures Manual has already gone through significant changes. The Internal Compliance Office plays a pivotal role in the updating exercise to ensure that any new procedures and/or amendments to current procedures are fully tested; that all other procedures that may be affected by such amendments are also changed; that all offices concerned are made aware of the changes effected and that, finally, the Procedures Manual is amended accordingly. On the other hand during 2004, the Internal Compliance Office

concentrated on carrying out a number of compliance visits to all of the offices of the Exchange with a view to ensure the on-going compliance with their respective business procedures. Internal Compliance Office in fact carried out a total of fourteen inspection visits and followed up each visit with a report to the Head of Office and where necessary, also carried out a follow-up visit.

During the year Internal Compliance Office also continued the daily random verification of certain procedures within the CSD such as pledge and mail processing and dividend/interest payment processing. Another area which the Internal Compliance Office also concentrated upon was the verification of all the information and data published on the Exchange's website.

Internal Compliance staff are also involved in the various projects being undertaken by the Exchange such as the BorzaMed Project; clearing and settlement; IT developments and off-exchange trading rules and procedures.

In line with the Article 5.2 of the "General Notification Directives applicable to Recognised Investment Exchanges" Internal Compliance Office reports on the activities of the Exchange on a monthly basis to the Competent Authority. At the same time, this Office also submits a monthly report to Council with particular reference to the inspection visits carried out, their findings and any action taken by the Office.

Other Exchange Functions and Activities

In view of the changes brought about in terms of the new regulatory regime as well as those necessitated by entry into the EU, the Exchange's Legal Office was involved during the year in amending the Financial Markets Act and the Schedule annexed thereto. It also continued to assist the Competent Authority in the drafting of relevant regulations enacted under the Financial Markets Act to implement relevant provisions of EU Directives.

Throughout the year, the Legal Office was also involved in the Committee appointed by the Council to prepare the groundwork for the CSD legislation and to recommend new services which could be provided by the CSD under such legislation. Preparing all the necessary documentation and analysing the standards required for members of the European Central Securities Depositories Association (ECSDA) also formed part of this project. In the said project the Legal Office contributed in particular to the part relating to the legal infrastructure of the Exchange's CSD. Legal Office drafted a report relating to the said legal infrastructure, addressing mainly, the issue of dematerialisation and the manner in which this could be regulated under Maltese Laws. To this end, Legal Office conducted a research analysis on how foreign jurisdictions regulate dematerialisation.

In addition to the above, Legal Office has continued to perform its daily business assisting other offices within the Exchange as well the public on matters of a legal nature. This includes the vetting and processing of legal documents in connection with causa mortis procedures, donations, etc.

All Exchange operations are obviously supported by the IT Office which assists other offices not only in the maintenance of IT programmes and equipment but also in the design of new functions, reports, etc. During 2004, IT Office has been heavily involved with the implementation of SWIFT, to be utilised in the new clearing and settlement system, including testing of procedures in respect of off-exchange trading. IT Office has also assisted in the drafting and implementation of the IT Usage and E-mail Usage Policy Documents. At the same time, IT Office has been instrumental in assisting both Compliance Office and Research Office in redesigning certain reports in accordance with new requirements emanating from EU Directives and new FESE and WFE statistical reporting requirements. The IT Office Manager in fact represents the Exchange on both the local financial services Statistical Committee and the

Statistical Sub-Committee of FESE. Throughout the year, IT Office has continued to update the Exchange's website and assisted other offices in updating procedures and reporting functions. IT Office was also heavily involved in drawing up the Business Continuity Plan.

Throughout the year the Exchange continued with its Investor Education Programme through a specific course of lectures aimed at the general public designed to explain not only the operations and

Exchange operations by Special Assignments Office. This Office in fact reviewed the presentations given to students and created different presentations for the different levels. Special Assignments Office was also involved in other presentations such as to foreign representatives of Fimbank plc and other local organisations.

As part of its duties Special Assignments Office also managed the Exchange's Conference Centre

consisted of a Business Breakfast followed by a series of seminars on a monthly basis. Special Assignments Office was responsible for the production and co-ordination of these events. Both these events, entitled respectively "The Instruments to Finance Business Growth" and "150 days in the EU – Rise or Fall?" attracted a wide range of excellent speakers and also a very good audience representing various sectors of the business community. The support given by the EU Directorate was much appreciated and an indication of the importance given to this event.



Membership

At the end of 2004 a total of twelve firms apart from the Central Bank were authorised as Members of the Exchange. These firms are represented by over thirty traders, authorised to trade on the Exchange's trading system on their behalf.

functions of the Exchange and its role in the financial sector but also to give a general overview of the financial sector as a whole. While in previous years this Investor Education Programme had been held at the Exchange's premises in Valletta, during 2004, the Exchange organised these lectures in different localities on the Island for easier access by the general public, with the assistance of the various Local Councils involved who offered venues and other administrative assistance. For the first time during 2004 an Investor Education Course was held in Gozo. Attendance at these courses was overwhelming and the Exchange will be continuing similar initiatives during 2005.

Throughout the year, Special Assignments Office has continued to be heavily involved with the Exchange's public relations and investor education programmes. During 2004, the Exchange again welcomed several hundred secondary school students who were given an overview of

– arranging for its marketing; setting fees for the use of its facilities; managing the diary of events, etc. We are pleased to note that the Conference Centre is now running at a substantial profit, which profit is utilised to constantly upgrade the service being offered.

Special Assignments Office also handled all the administrative arrangements for the FESE Working Committee held in Malta in April and hosted by the Exchange. Besides the arrangements for the Working Committee itself, Special Assignments Office prepared a very intensive social programme for the delegates which gave them a very good idea of Malta's history and leisure facilities.

For the first time this year, the Exchange organised joint events with the Malta Institute of Management. These two events



Membership decreased by one firm during 2004, following the winding up of one of the Member firms.

A number of new traders were authorised to trade during 2004 after having successfully completed the requisite training and written examination set by the Exchange.

The Officials of the College of Stockbroking Firms continued in office; namely, Mr Wilfred Mallia as Chairman, Mr David Curmi as Deputy Chairman and Mr Vincent Rizzo as Secretary. 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 particularly with regard to the clearing and settlement system.

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12/15 Vincenti Buildings
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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

Calamatta, Cuschieri & Company Ltd

5th Floor, Valletta Buildings,
South Street
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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
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Rizzo, Farrugia & Co. (Stockbrokers) Ltd

Airways House, Third Floor,
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Tel: (356) 21333125, 21314038
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Hogg Capital Investments Ltd

Regent House, Level 3, Suite 33,
Bisazza Street, Sliema SLM 15
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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
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Atlas Investment Services Ltd

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

BOV Stockbrokers Ltd

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HSBC Stockbrokers (Malta) Ltd

233 Republic Street,
Valletta VLT 08
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Lombard Stockbrokers Ltd

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

Council Members

Alfred Mallia	Chairman
Arthur Galea Salomone	Deputy Chairman
Alexander Agius	Council Member
Saviour Briffa	Council Member
Marco Sammut	Council Member

Council Secretary

Eileen V Muscat

Registered Office

Garrison Chapel
Castille Place
Valletta CMR 01
MALTA

Bankers

Bank of Valletta plc
Valletta Business Centre
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Valletta VLT 04
MALTA

APS Bank Ltd
APS House
St Anne Square
Floriana
MALTA

Lombard Bank Malta plc
Lombard House
67, Republic Street
Valletta
MALTA

Auditors

Ernst & Young
Certified Public Accountants
Fourth Floor
Regional Business Centre
Achille Ferris Street
Msida MSD 04
MALTA

Year ended 31 December 2004

During the year under review, the Exchange maintained a level of operating income consistent with that of the previous year. At Lm1,163,439, this year's income was marginally higher than the Lm1,149,434 registered in 2003. Eight Malta Government Stock issues, one corporate bond and 53 Collective Investment Schemes were admitted to the Exchange's Official List during 2004. On the other hand, a total of 71 Collective Investment Schemes were taken off the Official List during the year.

The Exchange registered a pre-tax surplus of Lm209,693 in 2004, a figure which is somewhat smaller than the Lm299,166 registered in 2003. The latter figure, however, includes an exceptional amount of Lm95,491 representing the refund of contributions to the Compensation Fund which became payable to the Exchange following the liquidation of the Fund towards the end of that year. This income was transferred to the capital reserves in 2003 thus reinforcing the Exchange's financial base.

On the expenditure side, rigorous cost cutting measures implemented by management during 2004, contained the increase in expenditure to just over 4% to Lm951,113, well within the budget for the year.

The main increases in expenditure during 2004 reflected higher insurance related costs, consultancy and professional fees and staff training. At the same time, the Exchange registered significant savings in computer maintenance costs, hospitality, overtime payments as well as in expenses relating to Exchange publications, stationery and postage.

Following the capitalisation of the Lm1,000,000 loan from the Government in June 2003, the Exchange has reduced its interest burden by Lm26,000 less by way of loan interest. However, interest is still being paid in respect of a loan of Lm400,000, which is fully

secured against the Exchange's assets.

The Balance Sheet as at 31 December 2004 shows a net asset position of Lm2,452,772. This is equivalent to an increase of Lm117,550 when compared to the previous year's figure due mainly to the repayment of a short term loan which took place during the year. At the same time, bank balances were up from Lm11,222 at the end of 2003 to Lm61,802 a year later.

During the first months of 2005 and until going to print, equity prices and trading volumes showed a continued steady increase and well exceeded the figures registered at the same stage last year. Should the present market trends continue deep into the year in line with on-going expectations, current levels of operating income should be maintained and possibly exceeded once a number of new Exchange services projected to come on stream during the course of the coming year start giving a return. Combined with Management's strong and continuing commitment to contain costs, the Exchange's financial outlook for the coming year is cautiously positive.



Mark A Guillaumier
Chief Executive

*Malta Stock Exchange
Garrison Chapel
Castille Place
Valletta*

29 March 2005

The Members of the Council present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activity

The Malta Stock Exchange maintains facilities to ensure an orderly and efficient market place for securities trading. The Malta Stock Exchange also provides clearing and settlement, depository and related services for securities.

Results

The income statement is set out on page V and the movements in the reserves are disclosed in the statement of changes in equity on page VII.

Review of the business

The Malta Stock Exchange has registered a profit before tax of Lm209,693 for the year ended 31 December 2004, compared to the profit before tax of Lm299,166 generated during the year ended 31 December 2003.

Council Members

During the year ended 31 December 2004 the Council Members were as listed on page I.

The Council Members are appointed in terms of Article 8 of the Statute.

Statement of the Council's responsibilities

The Council Members are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Malta Stock Exchange as at the end of the financial period and of the profit or loss for that period.

The Council Members are responsible for ensuring that: -

- appropriate accounting policies

have been consistently applied and supported by reasonable and prudent judgements and estimates;

- the financial statements have been drawn up in accordance with International Financial Reporting Standards;
- the financial statements are prepared on the basis that the Malta Stock Exchange must be presumed to be carrying on its business as a going concern; and
- account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

The Council Members are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Malta Stock Exchange and to 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 Malta Stock Exchange and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Ernst & Young have expressed their willingness to continue in office.

The Council's report was approved by the Council's Members and was signed on its behalf by:



Eileen V Muscat
Secretary

*Garrison Chapel
Castille Place
Valletta
Malta*

29 March 2005

auditors' report

To the Council of the Malta Stock Exchange

We have audited the financial statements of the Malta Stock Exchange for the year ended 31 December 2004 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes set out on pages IV to XVII.

As described in the Council's Report on page III, these financial statements are the responsibility of the Council Members. Our responsibility is to express an independent 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 of material misstatement. 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 and judgements 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 Malta Stock Exchange as of 31 December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Financial Markets Act (Cap. 345).

This copy of the audit report has been signed by Anthony Doublet (Partner) for and on behalf of

Ernst & Young
Certified Public Accountants

29 March 2005

income statement

for the year ended 31 December 2004

	Notes	2004 Lm	2003 Lm
Operating income	2	1,163,439	1,149,434
Administrative expenses		(951,113)	(912,220)
Operating surplus	3	212,326	237,214
Income from liquidation of Compensation Fund	5	-	95,491
Income from investment securities	6	16,045	11,458
Interest receivable	7	919	1,164
Interest payable	8	(19,597)	(46,161)
Profit on ordinary activities before taxation		209,693	299,166
Taxation on profit on ordinary activities	9	(83,168)	(112,629)
Profit for the financial year		126,525	186,537

The accounting policies and explanatory notes on pages IX to XVII form an integral part of the financial statements.

balance sheet

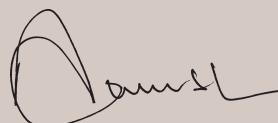
as at 31 December 2004

	Notes	2004 Lm	2003 Lm
ASSETS			
Fixed assets			
Tangible fixed assets	10	2,312,385	2,397,129
Financial assets	11	260,175	259,858
		2,572,560	2,656,987
Current assets			
Trade and other debtors	12	443,854	432,371
Taxation recoverable		29,112	-
Cash at bank and in hand	18	64,089	45,457
		537,055	477,828
TOTAL ASSETS		3,109,615	3,134,815
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	13	1,500,000	1,500,000
Revaluation reserve	14	15,194	23,058
Accumulated surplus		843,198	691,673
Payable to Government		-	25,000
Other reserve	14	95,491	95,491
Total equity		2,453,883	2,335,222
Provisions for liabilities and charges			
Deferred taxation	15	63,129	34,496
Creditors: Amounts falling due after more than one year			
Interest bearing loans and borrowings	16	249,968	326,438
Creditors: Amounts falling due within one year			
Interest bearing loans and borrowings	16	79,751	107,797
Trade and other creditors	17	262,884	287,664
Current taxation		-	43,198
		342,635	438,659
Total liabilities		655,732	799,593
TOTAL EQUITY AND LIABILITIES		3,109,615	3,134,815

The accounting policies and explanatory notes on pages IX to XVII form an integral part of the financial statements. The financial statements on pages V to XVII have been authorised for issue by the Council Members on 29 March 2005 and were signed on its behalf by:



Alfred Mallia
Chairman



Arthur Galea Salomone
Deputy Chairman

statement of changes in equity

for the year ended 31 December 2004

	Capital Lm	Revaluation reserve Lm	Accumulated surplus Lm	Other reserve Lm	Payable to Government Lm	Total Lm
Financial Year Ended 31 December 2003						
Balance at 1 January 2003	500,000	-	625,627	-	-	1,125,627
Profit for the financial year	-	-	186,537	-	-	186,537
Capitalisation of loan from Ministry of Finance	1,000,000	-	-	-	-	1,000,000
Transfer to amount payable to Government	-	-	(25,000)	-	25,000	-
Transfer to other reserve (note 14)	-	-	(95,491)	95,491	-	-
Unrealised gain on financial assets available for sale (note 11)	-	23,058	-	-	-	23,058
Balance at 31 December 2003	1,500,000	23,058	691,673	95,491	25,000	2,335,222
Financial Year Ended 31 December 2004						
Balance at 1 January 2004	1,500,000	23,058	691,673	95,491	25,000	2,335,222
Profit for the financial year	-	-	126,525	-	-	126,525
Reversal of transfer of amount payable to Government	-	-	25,000	-	(25,000)	-
Unrealised gain on financial assets available for sale (note 11)	-	317	-	-	-	317
Effect of deferred taxation on unrealised gain:						
- current year (note 15)	-	(111)	-	-	-	(111)
- prior year (note 15)	-	(8,070)	-	-	-	(8,070)
Balance at 31 December 2004	1,500,000	15,194	843,198	95,491	-	2,453,883

The accounting policies and explanatory notes on pages IX to XVII form an integral part of the financial statements.

cash flow statement

for the year ended 31 December 2004

	Note	2004 Lm	2003 Lm
Cash flows from operating activities			
Net profit before taxation		209,693	299,166
Adjustments for:			
Depreciation of tangible assets		112,015	96,538
Provision for bad and doubtful debts		-	11,538
Provision for impairment of unlisted investment		-	7,250
Profit on disposal of tangible assets		(1,000)	-
Investment income		(16,045)	(11,458)
Interest receivable		(919)	(1,164)
Interest payable		19,597	46,161
Income from Compensation Fund		-	(95,491)
<hr/>			
Operating profit before working capital changes		323,341	352,540
Increase in debtors		(11,483)	(32,976)
Decrease in creditors		(24,921)	(64,670)
<hr/>			
Cash generated from operations		286,937	254,894
Interest received		919	1,164
Interest paid		(19,456)	(45,878)
Taxation paid		(135,026)	(23,732)
Taxation received		-	25,538
<hr/>			
Net Cash from Operating Activities		133,374	211,986
<hr/>			
Cash flows from investing activities			
Purchase of tangible assets		(27,271)	(152,998)
Investment income		16,045	11,458
Proceeds from disposal of tangible assets		1,000	-
Cash from liquidation of Compensation Fund		-	26,691
<hr/>			
Net Cash used in investing Activities		(10,226)	(114,849)
<hr/>			
Cash flows from financing activities			
Repayment of bank loan		(72,568)	-
<hr/>			
Net Movement in Cash and Cash Equivalents		50,580	97,137
Cash and Cash Equivalents at Beginning of Year		11,222	(85,915)
Cash and Cash Equivalents at End of Year	18	61,802	11,222

The accounting policies and explanatory notes on pages IX to XVII form an integral part of the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2004

1. Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Accounting convention and basis of preparation

These financial statements are prepared under the historical cost convention, as modified by the revaluation of certain assets. These financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and comply with the Financial Markets Act (Cap. 345).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Listing and registration fees

Revenue is recognised on an accrual basis.

Interest income

Revenue is recognised as the interest accrues, unless collectibility is in doubt.

Investment income

Revenue is recognised when the right to receive payment is established.

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 there from are not included in the financial statements of the Exchange.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated to write off the cost of tangible assets on a straight line basis over the expected useful lives of the assets concerned. The annual rates used for this purpose, which are consistent with those of the previous year, are:-

Leasehold premises and related expenditure	over the remaining term of the lease
General electrical equipment	20%
Computer systems	20%
Office furniture, fittings and other equipment	10 – 16 ² / ₃ %
Motor vehicles	20%

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

Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are taken into account in determining operating surplus.

Investments

All investments are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment.

After initial recognition, investments which are classified as “available-for-sale” are measured at fair value, without any deduction for transaction costs that it may incur on sale or other disposal. Unrealised gains or losses on available-for-sale securities are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

1. Accounting Policies *(continued)*

Investments *(continued)*

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the "trade date", that is, the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount as follows:

- for financial assets at amortised cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- for the financial assets at fair value – where a loss has been recognised directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised in equity is transferred to the net profit and loss for the period.

Trade and other debtors

Trade debtors are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Cash and cash equivalents

Cash in hand and at banks and short-term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits at banks, net of outstanding bank overdrafts.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Trade and other creditors

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

Deferred taxation

Deferred income tax is provided using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

1. Accounting Policies *(continued)*

Deferred taxation *(continued)*

Under this method the company is required to make provision for deferred income taxes on the revaluation of certain fixed assets. Such deferred tax is charged or credited directly to the revaluation reserve. Deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property is realised through the profit and loss account.

Deferred tax assets are recognised only to the extent that future taxable profit will be available such that realisation of the related tax benefit is probable.

2. Operating Income

Operating income comprises membership and other fees receivable from stockbrokers 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:

	2004 Lm	2003 Lm
Stockbrokers fees	59,819	57,233
Listing fees	671,346	665,508
Register fees	365,781	370,915
Transaction fees and other income	66,493	55,778
	1,163,439	1,149,434

3. Operating Surplus

The operating surplus is stated after charging:

	2004 Lm	2003 Lm
Staff costs (Note 4a)	420,330	421,831
Emoluments of the Chairman and Council Members inclusive of allowances, honoraria and remuneration for services given	14,175	14,050
Auditors' remuneration	2,950	2,950
Depreciation of tangible fixed assets (Note 10)	112,015	96,538

4. Employee Information

a. Staff costs

The total employment costs were as follows:

	2004 Lm	2003 Lm
Wages and salaries	395,020	397,233
Social security costs	25,310	24,598
	420,330	421,831

b. Staff numbers

The average number of persons employed by the Exchange during the year was 42 (2003: 44).

5. Income from Liquidation of Compensation Fund

	2004 Lm	2003 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

6. Income from Investment Securities

	2004 Lm	2003 Lm
Interest on quoted securities	16,045	11,458

7. Interest Receivable

	2004 Lm	2003 Lm
On bank balances	919	1,164

8. Interest Payable

	2004 Lm	2003 Lm
On overdraft	194	929
On bank loan	19,403	20,232
On other loan	-	25,000
	19,597	46,161

9. Taxation

The taxation charge for the year is comprised of the following:

	2004 Lm	2003 Lm
Current tax expenses	62,716	91,393
Deferred tax expense (Note 15)	20,452	21,236
	83,168	112,629

The taxation on profit on ordinary activities differs from the theoretical taxation expense that would apply on the Exchange's profit on ordinary activities before taxation using the applicable tax rate in Malta of 35% as follows:

	2004 Lm	2003 Lm
Profit on ordinary activities before taxation	209,693	299,166

9. Taxation (continued)

	2004 Lm	2003 Lm
Theoretical taxation expense at 35%	73,392	104,708
Tax effect of		
- excess of carrying amount over tax base of tangible assets	6,981	6,013
- excess of carrying amount over tax base of financial assets	-	2,538
- excess of carrying amount over tax base of amounts receivable	-	4,038
- expenses not deductible for tax purposes	5,713	4,586
- income subject to different tax rates	(2,918)	(9,254)
Tax charge	83,168	112,629

10. Tangible Fixed Assets

	Leasehold premises & related expenditure Lm	General electrical equipment Lm	Computer software Lm	Office furniture fixtures & other equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2004						
Opening net book amount	1,809,036	354,031	93,674	140,388	-	2,397,129
Additions	1,368	853	14,916	10,134	-	27,271
Reclassifications	(43,090)	36,101	1,987	5,002	-	-
Disposals	-	-	-	-	(9,195)	(9,195)
Depreciation charge	(18,694)	(36,317)	(34,192)	(22,812)	-	(112,015)
Depreciation released on disposals	-	-	-	-	9,195	9,195
Closing net book amount	1,748,620	354,668	76,385	132,712	-	2,312,385
At 31 December 2004						
Cost	1,809,586	457,513	605,583	276,610	-	3,149,292
Accumulated depreciation	(60,966)	(102,845)	(529,198)	(143,898)	-	(836,907)
Net book amount	1,748,620	354,668	76,385	132,712	-	2,312,385
At 31 December 2003						
Cost	1,851,308	420,559	588,680	261,474	9,195	3,131,216
Accumulated depreciation	(42,272)	(66,528)	(495,006)	(121,086)	(9,195)	(734,087)
Net book amount	1,809,036	354,031	93,674	140,388	-	2,397,129

11. Financial Assets

The carrying amounts of financial assets at 31 December were as follows:

	2004 Lm	2003 Lm
Available-for-sale investments (at fair value)		
Listed on the Malta Stock Exchange	260,175	259,858

The listed available-for-sale investments represent the Exchange's investment in Malta Government Stocks. These investments are classified as "available-for-sale" and are carried at fair value with the unrealised gains and losses reported directly in equity.

11. Financial Assets *(continued)*

The unrealised gain in the carrying amount on these investments, which has been recognised in equity during the year ended 31 December 2004 amounted to Lm317 (2003: Lm23,058) (page VII and note 14).

12. Trade and Other Debtors

	2004 Lm	2003 Lm
Fees receivable	398,947	399,631
Prepayments and accrued income	44,907	32,740
	443,854	432,371

13. Capital

	2004 Lm	2003 Lm
Capital	1,500,000	1,500,000

This represents the initial capital contribution of Lm500,000 by the Government of Malta as specified by Section 30 of the Financial Markets Act (Cap. 345), together with an amount of Lm1,000,000 which was a Government loan capitalised during the year ended 31 December 2003.

14. Reserves

Revaluation reserve

The balance on this reserve represents unrealised gains, net of losses, arising from the revaluation at fair value of financial assets classified as “available-for-sale”, net of deferred taxation (note 11).

Other reserve

By virtue of Legal Notice 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.

15. Deferred Taxation

The provision for deferred taxation for the year is analysed as follows:

	2004 Lm	2003 Lm
At beginning of the year	34,496	13,260
Debited in equity - current year	111	-
- prior year	8,070	-
Debited in the profit and loss account (Note 9)	20,452	21,236
At end of the year	63,129	34,496

15. Deferred Taxation (continued)

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate of 35% (2003: 35%). The balance at 31 December represents:

	2004	2003
	Lm	Lm
Temporary differences on fixed assets	54,304	34,055
Temporary differences on financial assets	8,181	-
Temporary differences on accrued investment income	644	441
	63,129	34,496

16. Interest Bearing Loans and Borrowings

	2004	2003
	Lm	Lm
Current borrowings		
Bank overdrafts (note 18)	2,287	34,235
Bank loan	77,464	73,562
Short term borrowings	79,751	107,797
Non-current borrowings		
Bank loan	249,968	326,438
Long term borrowings	249,968	326,438
Total borrowings	329,719	434,235

The Exchange has a bank overdraft facility of Lm140,000 for the purpose of working capital financing. It is due for revision on 13 May 2005. This facility is secured by a pledge on listed securities with a nominal value of Lm168,000.

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

The bank loan facility is secured by a general hypothec over the Exchange's assets and by a special hypothec over the Exchange's immovable property and a pledge on an insurance policy.

The average interest rates on the company's borrowings were as follows:

	2004	2003
	%	%
Bank overdrafts	6.25	6.25
Bank loan	5.25	5.25

Maturity of non-current interest bearing loans and borrowings:

	2004	2003
	Lm	Lm
Between 1 and 2 years	81,630	77,517
Between 2 and 5 years	168,338	248,921
	249,968	326,438

17. Trade and Other Creditors

	2004 Lm	2003 Lm
Falling due within one year		
Prepaid listing fees	169,570	172,484
Other creditors	58,500	68,245
Accruals	34,814	46,935
	262,884	287,664

18. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents included in the cash flow statement reconcile to the balance sheet amounts as follows:

	2004 Lm	2003 Lm
Cash at bank and in hand	54,287	35,978
Short term bank deposits	9,802	9,479
	64,089	45,457
Bank overdraft (note 16)	(2,287)	(34,235)
	61,802	11,222

The interest rate on the short-term bank deposit, which matures within 9 months from the balance sheet date, is 3% (2003: 4%).

19. Commitments under Non-Cancellable Operating Leases

At 31 December the total of future minimum lease payments under non-cancellable operating leases for each of the following periods were as follows:

	<i>Buildings</i>	
	2004 Lm	2003 Lm
- not later than one year	5,000	5,000
- later than one year and not later than five years	25,000	25,000
- later than five years	746,871	751,871
	776,871	781,871

The lease agreement stipulates that the rights over the leased assets revert to the lessor in the event of default by the Exchange on its obligations.

20. Contingent Liabilities

At 31 December 2004 and 2003 the Exchange had the following contingent liability:-

Claims up to a maximum of Lm95,491 in relation to the Compensation Fund up to 3rd January 2008 as stipulated in Section 13 of the Statute of the Malta Stock Exchange Act.

21. Financial Instruments

At the year end, the company's main financial assets on the balance sheet comprise investments, debtors and cash at bank. At the year end, there were no off-balance sheet financial assets.

At the year end, the company's main financial liabilities on the balance sheet consisted of bank overdrafts, bank loan and creditors. The company's off-balance sheet financial liabilities at the year end consisted of claims in relation to the Compensation Fund as described in Note 20 Contingent Liabilities.

Timing of cash flows

The presentation of the financial assets and liabilities listed above under the current and non-current headings within the balance sheet is intended to indicate the timing in which cash flows will arise.

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of investment securities consisting of quoted and unquoted investments, debtors and cash at bank.

The credit risk relating to quoted investment securities is considered to be low in view of management's policy of investing only in high quality and sovereign securities which are listed on recognised stock exchanges. The company's cash at bank is placed with quality financial institutions. Carrying amounts for debtors are stated net of the necessary general provisions which have been prudently made against bad and doubtful debts in respect of which management reasonably believes that recoverability is doubtful. Credit risk with respect to debts is limited due to the large number of customers comprising the company's debtor base and the company has no significant concentration of credit risk.

Fair values

The fair value of available-for-sale investments is based on quoted market prices at the balance sheet date.

The carrying amounts of cash at bank, debtors, creditors and short term borrowings approximated their fair values. The fair values of long term borrowings are not materially different from their carrying amounts.

Interest rate risk

The company's short-term bank deposit is at interest rates as disclosed in note 18. The interest rates on the borrowings of the Exchange are disclosed in note 16.

22. Comparative Information

Where applicable, comparatives have been adjusted to conform with the current year's presentation.

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