



annual report

2005



BORŻA TA' MALTA
MALTA STOCK EXCHANGE



mse annual report

2005

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the malta stock exchange

as at 31 January 2006

The Council

Joseph Zammit Tabona	Chairman
Arthur Galea Salomone	Deputy Chairman
Saviour Briffa	Council Member
Antoine Fiott	Council Member
Karen Spiteri Bailey	Council Member
Eileen V Muscat	Secretary to Council

Executive Committee

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

Strategy Committee

Joseph Zammit Tabona	Chairman
Arthur Galea Salomone	Member
Mark A Guillaumier	Member
Eileen V Muscat	Member

Audit Committee

Joseph Zammit Tabona	Chairman
Saviour Briffa	Member
Karen Spiteri Bailey	Member
Berta Vella	Member
Marie Cordina	Secretary

Securities Settlement System Steering Committee

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

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

30 March 2006

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 2005.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'J. Zammit Tabona', written in a cursive style.

Joseph Zammit Tabona
Chairman

Chairman's Message	9
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Chief Executive's Report	13
---------------------------------	-----------

Administration Report	17
------------------------------	-----------

The Council	19
Regulatory Matters	20
Human Resources	20
International Relations	21

Exchange Operations and Other Activities	23
---	-----------

Market Operations during 2005	25
Malta Stock Exchange Share Index	25
Market Capitalisation	26
Admission to Listing	29
Central Securities Depository	30
Compliance Office	31
Internal Compliance Office	32
Other Exchange Functions & Activities	32
Members	34

Financial Report and Audited Financial Statements	
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chairman's message

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Dec 02

chairman's message

It is indeed my great pleasure to present the Annual Report for 2005, particularly at the start of my tenure as Chairman and at a time when the secondary market is going through one of its most buoyant periods since the Exchange commenced operations in 1992.

The figures for 2005, both as regards market turnover and the Index value, as well as financial figures, speak for themselves. The equity market in particular continued to be very active, strengthening the positive trend that emerged at the end of 2004. The buoyancy of the equity market was sustained throughout 2005, reaching unprecedented levels during the last two months of the year, a trend which has continued during the first quarter of 2006. In total, across all sectors, market turnover registered a value of over Lm125 million, a 34% increase over the value registered in 2004. Equity prices also soared, resulting in an end-year Index value of 4980.70, an increase of 63% when compared to the end-2004 value.

With regard to the accounts of the Exchange for 2005, I am pleased to report that it registered a pre-tax surplus of Lm235,000, 12% higher than that achieved in the previous year, mainly due to the large increase in trading fees as a result of the significant increase in trading activity as well as the Exchange's continuing cost-cutting endeavours. These figures and values will be discussed and analysed in greater depth elsewhere in this Report, however, I feel that these give a very clear indication of the place that the Exchange has carved out for itself in the local financial sector and the important role it is playing in the economy.

During the past year the Exchange has continued to consolidate its position in the financial sector and has continued with a number of developments in its operations and functions which have come to fruition during the year, such as the upgrade of its clearing and settlement functions; off-exchange trading; the upgrade of the website to show more detailed real-time market information



and the listing and dematerialisation of Treasury Bills which is due during the first half of 2006.

Since it was divested of its regulatory responsibility as regulator of the local capital market in 2002, the Exchange has looked at its operations and functions and upgraded these where necessary in order to be able to better carry out its functions as solely an operator of the market, competing not only in the local context but also in the wider European scenario of which Malta now forms an integral part.

Looking to the future, therefore, the Exchange has now embarked on a very focused strategy to bring more companies to the market and to diversify the types of financial instruments available for trading on the market. The interest in the market over the past two years clearly indicates that the market can accommodate a number of other companies on its recognised lists and also a wide diversity of financial instruments. The strategy is two-pronged. Looking outwards towards prospective listed companies, discussing their individual needs and aims and how the market can help them achieve such aims and at the same time, looking inwards towards its own rules and procedures in order to make the current listing process more efficient and even offer alternative routes for companies to come to the market. I am optimistic that this strategy, having the very specific goal of attracting more

companies to the market will bear fruit particularly now that the market has regained some of the momentum that it had lost a few years ago when the Exchange was adversely effected, as were indeed most markets worldwide, by a general loss of confidence in capital markets and a resultant slump in activity.

I cannot look back towards 2005 without mentioning Mr Alfred Mallia, my predecessor as Chairman of the Exchange who passed away a few weeks ago and Mr Louis E Galea, former Deputy Chairman of the Exchange who passed away during 2005. I did not have the privilege of knowing either of them well, however, both their names became synonymous with the Exchange. Between them, they served the Exchange for over 16 years with unstinting and generous commitment. They are both sorely missed.

I look forward to my tenure as Chairman of such a vibrant institution with enthusiasm and optimism and I am sure that with the support of my fellow Council Members and the Management and staff, the Exchange will continue to develop and grow, not only nationally but also internationally.

Joseph Zammit Tabona
Chairman



chief executive's report



chief executive's report



Towards the end of 2005, the Minister of Finance appointed a new Council for the Stock Exchange chaired by Mr Joseph Zammit Tabona. Few would have thought, however, that one of the first duties of the incoming Chairman would be to attend the funeral services of Mr Alfred Mallia, the outgoing Chairman who passed away in February, just a few weeks after the changeover. During Mr Mallia's term in office of close to seven years as Chairman of the Council, he had overseen a number of important milestones for the Exchange; the relocation to the new premises in Valletta, the move to remote trading, membership of the World Federation of Exchanges and the Federation of European Securities Exchanges and the introduction of the Code of Principles of Good Corporate Governance in the Bye-laws of the Exchange, to name but a few. Under his leadership, the Exchange further strengthened its reputation for integrity and service not only on the domestic scene but also internationally. All those who knew him and worked with him will sadly miss his presence.

The market operations of the Exchange during the past year were again characterised by a buoyant equity market which saw share prices increase practically across the board throughout this period. The strong performance of the equities sector during the past two years was no doubt sustained by the healthy financial results registered by the majority of the listed entities but also reflected dividend policies which reward investor loyalty.

In my Report last year I had indicated that the most important challenge facing the Exchange in the immediate future is to increase the number of listed securities and generally widen the product range available for investors. As emphasised by the Chairman in this year's message, the efforts of the Exchange to attract new listings will intensify even further during the course of the coming months. Listing entails for most local private companies a cultural leap which is not always easy. Accepting new market disciplines, introducing a new culture of transparency and disclosure, adopting higher levels of corporate governance, introducing compliance procedures-all of these are part and parcel of the listing process. There are other realities, however, that we would do well to dwell upon. Today Malta forms an integral part of the European Union. New countries will be joining the Union before too many years have passed. The Euro will be local currency in less than two years time. The effects of the globalisation process are leaving their mark on our companies. Internet and e-trading are creating new business opportunities, making it easier for newcomers to enter the market. New technologies and new economic realities are creating the platform for more and more competitive forces to come into play. Competition can only get tougher in the years ahead. How will this increase in competition impact our companies? How ready are they to face this rapidly evolving scenario? Experience in other countries has clearly shown that listed companies,

because of the disciplines involved in achieving and maintaining listing standards, corporate governance principles and disclosure rules, are, by definition, better managed and, therefore, better equipped to face the stiff tests of competition in international markets. It is not simply a matter of culture now; it is more a question of having the right tools to go out, compete and get the business.

Furthermore, we must make sure that we fully understand the implications of joining the Eurozone for the local economy. The adoption of the Euro is bound to have a profound effect on what today are regarded as normal practices in the local financial sector-banking and financial services, insurance-and the entities operating in the real economy-tourism, manufacturing, construction companies-must be ready for these changes.

Of course, the above is just as true for the Exchange itself. As the EU continues in its efforts to dismantle those administrative and technical barriers hindering the free flow of goods and services across the Member states, the objective of a single market for financial services in Europe is slowly coming more and more into focus. The Exchange is very much aware of the market-related developments that are taking place across the EU and is taking various measures to strengthen and streamline its operations and to widen the range of services available to the market participants so as to be better placed to meet the new challenges and opportunities of the Single Market.

I had concluded my Report last year with a call for a concerted effort aimed at finding new avenues to promote our Capital Market as a tool for economic development. I must today report that this call for action has generated a positive response from a number of different quarters, and this augurs well for the future of this institution.

A handwritten signature in blue ink, appearing to read 'Mark A. Guillaumier'.

Mark A Guillaumier
Chief Executive



administration report





The Council

Joseph Zammit Tabona
Chairman

Arthur Galea Salomone
Deputy Chairman

Saviour Briffa
Council Member

Antoine Fiott
Council Member

Karen Spiteri Bailey
Council Member

Eileen V Muscat
Secretary to Council

The Council

The term of office of the Council appointed by the Minister of Finance in terms of Article 25 of the Financial Markets Act (Chapter 345 of the Laws of Malta) and Article 8 of the Schedule annexed thereto, expired on 30 September 2005, however, the Council remained in office in a caretaker capacity until January 2006 when the new Council was appointed.

The new Council was appointed for a period of three years up to 31 December 2008 and is composed of Mr Joseph Zammit Tabona as Chairman and Dr Arthur Galea Salomone as Deputy Chairman together with Dr Antoine Fiott, Ms Karen Spiteri Bailey and Mr Saviour Briffa as Council Members. Ms Eileen V Muscat, General Manager, is Secretary to the Council.

The Council held twelve meetings during the year under review. The Council deliberated mainly on enhancements to and the implementation of new technology for the Exchange's core systems; approved new rules and procedures in respect of the Exchange's functions and also continued to discuss and implement the Strategic Plan approved in 2004. In particular, with regard to the internationalisation of the Exchange, changing

circumstances and developments during the year resulted in the Council changing its international focus from a regional concept to a more individual approach towards other European and non-European jurisdictions.

Throughout the year the Council was assisted by the Executive Committee, the Audit Committee and the IT Committee. The Executive Committee concentrated on implementing the strategy drawn up by the Council particularly with regard to new services that may be provided by the Exchange and recommending operational developments and relevant rules while the Audit Committee continued to review the Exchange's financial position and made recommendations to Council regarding cost-saving initiatives and a diversification of income streams. At the same time, the IT Committee also met several times during the year. The main topic for discussion by the IT Committee was the renewal terms in respect of the trading system maintenance agreement which was due to expire early in 2006. The IT Committee endeavoured to negotiate for the most advantageous terms for the continuation of the maintenance agreement. In the meantime, following a decision by Council, the IT Committee looked into the possibility of purchasing a new trading system. The IT Committee was heavily

involved in drawing up a tender document for the purchase of a new trading system. Although the document has been finalised it has not yet been issued pending developments regarding the renewal of the maintenance agreement.

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 international standards. As shall be seen later on in this Report, the Exchange implemented the first phase of this project in July of 2005.

Appreciation

Mr Louis E Galea, Council Member and Deputy Chairman of the Exchange from 1991 to 1999 and Mr Alfred Mallia, Chairman of the Exchange from 1999 to 2005, passed away in 2005 and early 2006 respectively. Both Mr Galea and Mr Mallia served the Exchange for several years with complete dedication and commitment. Both have left a lasting legacy to the Exchange.

Mr Galea's relationship with the Exchange was indeed a long standing affair; first as a Member of the

Advisory Committee set up by Government in 1987 to make recommendations and to draft the legislation and regulations with regard to a stock exchange for Malta and later on as a Council Member and Deputy Chairman of the Exchange. Even when he was no longer involved directly with the Exchange in an official capacity, Mr Galea still closely followed the developments within the institution and there was always invariably a brief note or murmured word of praise saying well done!

Alfred Mallia came to the Exchange in 1999 at a time of difficult decisions. Yet he took the helm and steered the institution with a quiet resolution and vision. Under his leadership the Exchange moved to its new premises; implemented remote trading; introduced the Code of Principles of Good Corporate Governance and the Alternative Companies Listing Board. Certainly more than a lasting legacy for any one man.

We cannot also but mention Mr Anthony Galdes, ex-Governor of the Central Bank of Malta who also passed away during the year. Mr Galdes chaired the Advisory Committee and was instrumental in guiding the necessary legislation through Parliament.

It is to such individuals that the Exchange owes a wealth of gratitude.

Regulatory Matters

Legislation

Legal Notice 56 of 2005 – Off-Exchange Trading (Amendment) Regulations, 2005 came into force in February 2005. This Legal Notice amended Legal Notice 286 of 2004 regulating off-exchange trading. Primarily this amendment introduced the concept of “pre-validation” in respect of trades effected off-exchange allowing for the possibility of delaying reporting of such trades until they were validated through the Exchange’s systems.

The Prevention of Financial Markets Abuse Act was issued on 1 April 2005 which included a number of consequential amendments to the Financial Markets Act. Later on in the year Regulations and Guidance Notes were issued with regard to detection and reporting of market abuse offences. These new Regulations

necessitated changes to the Bye-laws of the Malta Stock Exchange and amendments to the Exchange’s reporting procedures with regard to reporting to the Competent Authority.

Bye-laws

During the year the Exchange drew up a number of draft bye-laws concerning off-exchange transactions which were discussed with the Competent Authority. The new Chapter of the Bye-laws – Chapter 7 – Off-Exchange Trade Validation and Reporting System was approved by the Competent Authority in December 2005 and circulated for consultation to the industry at the beginning of December. These new rules were implemented with effect from 30 January 2006.

Other minor amendments were made to the Bye-laws as a consequence of the coming into force of the Prevention of Financial Markets Abuse Act and the relevant regulations.

Council Notice 1 – Fees and Other Charges

Proposed new fees in connection with the introduction of off-exchange trading were submitted to the Competent Authority for approval during the year. These new fees were approved late in 2005 and became effective in January 2006. These new fees are included as Article 5 of Council Notice 1 – Fees & Other Charges.

Compliance

In April 2005 the Exchange underwent an inspection visit by the Competent Authority. The inspection concentrated mainly on Central Securities Depository Procedures and developments of new systems and rules.

In January and July the Exchange also submitted the “Certificate of Compliance” in accordance with the General Directives applicable to Recognised Investment Exchanges wherein the Council confirmed compliance with all relevant rules and regulations.

Audit

In March 2005 the Exchange’s External Auditors, Ernst & Young, submitted the Audited Financial Statements for 2004 and their

Management Letter to Council for approval in terms of the Financial Markets Act. The Financial Statements as at the end of 2004 were reproduced in full in the Exchange’s Annual Report for 2004.

Later on in the year the National Audit Office carried out an Audit of the Exchange as a public sector entity for the year 2004. The appropriate Management Letter was submitted to Council in January 2006.

Human Resources

Staff Complement

During the year the staff complement increased by one to forty-two following the recruitment of a junior member of staff in July of 2005 to form part of the IT Office staff complement. It was considered necessary to strengthen the staff complement within IT Office in view of the major technological implementations scheduled for 2005 and 2006. This recruitment took place following a review of IT Office’s workload and planned major developments.

During the Summer months the Exchange employed a University Study who assisted staff within the Central Securities Depository. Furthermore, the Exchange also gave two students from the Malta College of Arts and Sciences the opportunity to perform their work placement requirement with the Exchange, also assisting within the Central Securities Depository.

Staff Training

Two Exchange staff members who had been sponsored by the Exchange to undertake a University degree course successfully completed their studies in June and returned to work full-time with the Exchange. Later on in the year another two members of staff commenced University degree courses also sponsored by the Exchange. Another member of staff obtained the “Diploma in Computing and Information Systems” and is currently continuing to be sponsored by the Exchange to attain a degree in the same field. A further member of the IT Office staff was successful in obtaining the qualification as a “Certified Information Systems Auditor”. The Exchange is furthermore assisting two other



Exchange Speakers/ Panelists

Throughout the year Exchange personnel participated as speakers in a number of local and international events including:

- Presentation to new Bank of Valletta plc personnel regarding the Exchange's operations and functions
- Panelist at a seminar on MIFID organised by the MFSA
- Panelist at a seminar on Corporate Governance organised by the MFSA
- Speech at the 23rd International Symposium on International Crime organised by the International Bar

Association on Malta's Anti-Money Laundering Regulations

- Speech regarding the Exchange's international strategy at a seminar on business opportunities in the Mediterranean organised by the Camera di Commercio in Italy
- Presentation regarding Maltese financial services during a Presidential visit to Spain
- Panelist at a seminar on World Stock Exchanges held in London

International Relations

International Organisations

The Exchange retained its membership in several standard setting international organisations within the international financial sector, namely:

- Federation of European Securities Exchanges (FESE)
- World Federation of Exchanges (WFE)
- International Organisation of Securities Commissions (IOSCO)
- European Corporate Governance Institute (ECGI)
- European Capital Markets Institute (ECMI)
- International Securities Services Association (ISSA)

FESE whose membership spans the exchanges from all EU Member countries, seeks to inform the decision-making process at European level and to influence European policies and legislative proposals, thus contributing to the aims enshrined in the EU

Treaties in the field of securities and financial markets. FESE also promotes the enhancement of securities markets in Europe by fostering co-operation in the areas of primary markets, trading, clearing and settlement and deposit of securities.

WFE is the global organisation for exchanges and today its membership encompasses 57 exchanges from all over the world representing 97% of world stock market capitalisation, amounting to over US\$ 35,000 billion. WFE has examined virtually every aspect of the securities business be it technical, commercial, legal or economic and offers guidance and advocacy to all its members.

IOSCO is the international organisation for securities markets regulators. Its membership stands at 181 and is still growing rapidly. IOSCO's members regulate more than 90% of the world's securities markets. Among the key achievements of IOSCO are the adoption of Objectives and Principles of Securities Regulation recognised today as international benchmarks for all financial markets, the endorsement of a multilateral Memorandum of Understanding designed to facilitate enforcement and exchange of information among the international community of securities regulators and the approval of a comprehensive methodology that enables the objective assessment of implementation of IOSCO principles.

ECGI was established in 2002 to improve corporate governance through fostering independent scientific research and related activities. ECGI provides a forum for debate and dialogue between academics, legislators and practitioners, focusing on major corporate governance issues and thereby promoting best practice.

The European Federation of Financial Analysts Societies and the International Securities Markets Association established ECMI as an independent non-profit organisation. Its principle objective is to provide a joint forum for all market participants, policy makers and academics to discuss the stability, liquidity, integrity, fairness and competitiveness of European capital markets.

ISSA is a private sector, non-profit organisation currently with around 100 members worldwide including stock exchanges, central depositories,

members of staff who are undergoing an MBA and an International Practice Diploma Programme run by the International Bar Association respectively.

Apart from the above, the Exchange also sponsored a number of staff members throughout the year to undertake short courses in specific subjects such as computer courses, etc. At the same time Exchange officials participated in a number of seminars locally regarding EU legislation; market abuse, ETC employment procedures and pensions.

The Exchange also organised an internal training programme for its staff. Some of the topics covered included :

- Employment legislation
- Exchange policies regarding IT and E-mail usage and data protection
- Off-exchange Trading
- Market Abuse
- Clearing and Settlement

International Events

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

- UN Roundtable on Corporate Governance
- WFE Forum for Developing Markets
- Clearing and Settlement in Europe: The Progress to Integration
- International Bar Conference
- EU Corporate Governance Conference

custodian banks and asset managers. Its main aim is to collect and disseminate information on the developments in the rapidly changing international securities markets and at the same time offer a forum for the exchange of ideas.

Meetings

During 2005 as in previous years, the Exchange actively participated in the regular meetings of the organisations mentioned above.

In particular the Exchange participated in the numerous meetings organised by FESE. The Exchange not only participated in the regular Working Committee and Economics and Statistics Sub-Committee Meetings but also participated in various task force meetings on the Transparency Directive and MIFID. FESE is lobbying very strongly with the European Commission on both these Directives and has held a number of task force meetings in order to receive comprehensive and rapid feedback from its Members in order to make appropriate submissions to the EU Commission given the impact of these Directives on securities markets.

The Exchange also participated in the Annual Meeting and Convention of FESE as well as other meetings, specifically those on clearing and settlement.

The Exchange was also represented at the Annual Meetings of ISSA and ECMI and also participated in the regular WFE Working Committee Meetings.

Qatar Project

Towards the end of 2005 the Exchange embarked upon a project in conjunction with BTA Consulting of the UK and Simmons and Simmons, an international legal firm to provide consultancy to Qatari Authorities regarding the setting up of securities market regulatory authority and other developments such as the transfer of regulatory authority from the Doha Stock Market to the newly set-up financial markets authority that would establish Qatar as an internationally recognised jurisdiction for financial services.

The Exchange was brought into the project by BTA Consulting which for

many years has provided consultancy services to the Exchange itself, with a view to drawing upon the Exchange's technical expertise, its experience as a Member of IOSCO and its experience as a regulator and operator of the capital market which recently went through the process of being divested of its regulatory responsibilities and remaining solely as an operator of the capital market, the same process that was being undertaken for the Doha Securities Market. The short-term project involves the drawing up and submission of a number of deliverables including revisions to legislation; strategy and human resources requirements; rules and regulations for the new financial authority; revisions of the current exchange rules, etc. The project is due to conclude during the first quarter of 2006.

Euro Changeover

In 2005, following Malta's entry into ERM II and Government's announcement that Malta would become part of the Eurozone by January 2008, Cabinet appointed a National Euro Changeover Committee (NECC) to steer Malta towards adoption of the Euro. A number of executive and implementation committees were set up under the NECC and the Exchange has been appointed to form part of the committee relating to financial services together with other financial institutions, the Central Bank and the MFSA. The Exchange has the responsibility to oversee the implementation processes of participants in the market, namely its Members and the listed companies.

The Exchange has set up a number of internal committees to identify those areas of its operations that will be affected by the changeover and to oversee implementation. The main areas will be the conversion of Maltese Lira denominated listed securities to Euro and how these will be redenominated and redefined and the effect on secondary market trading. Another area that is being reviewed is the changeover of company and bond and stock registers held within the Central Securities Depository.

Global Equity Markets Seminar (GEMS) on Trading and Market Structure

The Exchange is pleased to announce that in June 2006 it will be hosting the Global Equity Markets Seminar (GEMS) on Trading and Market Structure, organised by the Zicklin School of Business, Baruch College, Columbia University of New York. GEMS is aimed at securities industry professionals concerned with trading systems from both a user and designer point of view. The seminar is ideally suited to the needs of stock exchange executives, broker dealers, market and services providers and regulatory authorities.

GEMS provides a comprehensive overview of the workings of the equity markets, focusing among other things, on the benefits and limitations of different trading structures, the impact of technology on the development of trading systems and market structures, the changing governance structure and role of stock exchanges and the changing requirements for effective market regulation.

GEMS will be run by Professor Robert A Schwartz of Columbia University, Dr Benn Steil, Director of International Economics at the Council of Foreign Relations in New York and Professor Bruce W Weber, Associate Professor of Information Management at the London Business School.

Designation of Exchange as an Recognised Investment Exchange for Tax Purposes

With effect from 29 December 2005 HM Revenue and Customs have designated the Exchange as a Recognised Stock Exchange under Section 841(10(b) – Income and Corporation Taxes Act of 1998. Such recognition is for tax purposes only and confers no other status on the Exchange.

With effect from the same date the Exchange will also be regarded as a recognised stock exchange for Inheritance Tax purposes.



exchange operations
and other activities



exchange operations and other activities

Market Operations during 2005

Throughout 2005 the market continued on the trend that commenced during 2004, rallying considerably both in terms of volume and value, particularly in the equity market, which showed unprecedented levels of turnover and prices during the year. The volume of business transacted on the market resulted in a market turnover value of almost Lm126 million (excluding any special trades), an increase of Lm32 million when compared to 2004 figures, that is a year-to-year increase of 34%.

The different sectors of the market showed a somewhat mixed performance during the year under review. Trading was dominated by very strong equity trading and considerable increases in equity prices, across all listed equities. Equity trading resulted in a market turnover value of almost Lm52 million, 41% of the total turnover volume for 2005. This value shows an increase of almost Lm20 million over the market value for the same sector registered during 2004. This increase was not only due to the increase in prices, but also the number of deals effected which increased from 9,109 in 2004 to 13,624 in 2005 resulting in almost 23 million shares changing hands during the year, a year-to-year increase of 35% in the number of shares transacted. While generally all equities registered increases in trading volumes and prices throughout 2005, the financial sector and telecommunications sector equities continued to out-perform equities from other sectors. This activity was fuelled by good results posted by listed companies throughout the year; announcements regarding dividends and bonus issues and other announcements from Government regarding the sale of its holdings in one of the major local banks and telecommunications company, as part of the on-going privatisation process.

Trading in the Corporate Bond sector dampened slightly during the year, resulting in a market turnover value of

Lm7.4 million, down from Lm8.4 million the previous year. This reflected a shift in investor sentiment which moved towards investing in the equity market. This decrease in turnover values and number of trades effected was also due in part to the redemption of the HSBC Bank Malta Bond 2005 in June, which was not only the largest listed corporate bond but was also one of the most actively traded. Looking at the 2005 figures, one can see that the corporate bonds issued by the financial sector and the hotel sector, remained fairly active throughout the year. Overall, prices decreased slightly when compared to those of the previous year.

Market turnover values of the Government Stock sector also registered a year-to-year increase of 21% from just over Lm53 million in 2004, to Lm 66.4 million in 2005. The number of transactions in this sector rose slightly from 3,215 in 2004 to 3,370 in 2005. Generally, Government Stock issues prices registered an increase when compared to 2004 values; in particular the longer-term (10 year +) Government stocks showed significant price increases. The longer term stocks (2016-2023) also remained very actively traded accounting for almost 50% of the market turnover value registered in this sector during 2005.

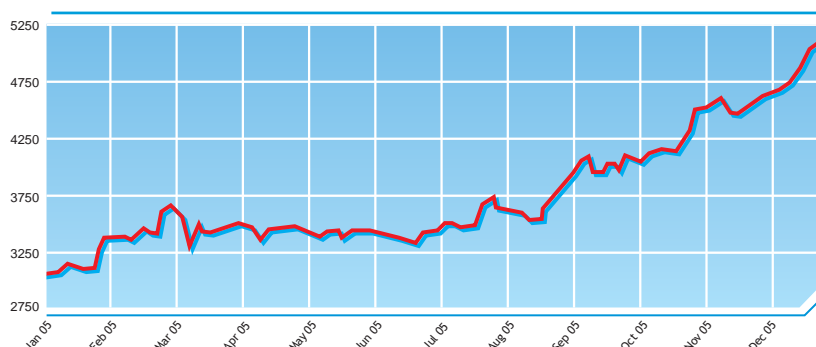
Investor participation in the primary market remained very strong, as indicated by the interest in the issues admitted to the Official List during the year. As can be seen from the market turnover value figures, 2005

saw a shift of investor interest from the fixed coupon rate bond and stock markets to the equity market. This shift can also be seen in an increase in the number of individual investors actively participating in the secondary market, a trend that commenced in 2003 and has continued steadily during the past two years. The buoyancy of the equity market has, of course, attracted more investors to these securities, particularly as heightened activity in the equity market facilitates access and exit, enhancing the chance for investors to register quick returns on their investment.

Malta Stock Exchange Share Index

The considerable increase in share prices throughout 2005 was reflected in the movement of the Malta Stock Exchange Share Index (the Index) which registered a continual upsurge during the year. The Index ended the year at a value of 4980.703, the highest value achieved during the year, up from 3068.61; a year-to-year increase of 63%, which according to end year statistics issued by the World Federation of Exchanges is one of the highest year to year Index increases achieved by any of its Members. The Index values achieved during 2005 continue the trend commenced in 2004 when the Index had registered a year-to-year increase of 44% over 2003 figures.

MSE Index 2005



Market Capitalisation

At the end of December 2005 the total market capitalisation of securities listed on the Exchange's recognised listed (excluding Collective Investment Schemes) had reached just over Lm2.9 billion, up from Lm2.2 billion at

the end of 2004. While the market capitalisation of corporate bonds decreased from Lm189 million in 2004 to Lm162 million in 2005, due mainly to the redemption of two issues, the market capitalisation of equities increased from Lm 908 million to Lm1.5 billion, due to the significant

increases in equity prices registered throughout the year. Market capitalisation of Government Stocks also increased from Lm1.1 billion at the end of 2004, to Lm1.3 billion at the end of 2005.

Comparative Trading Figures

Security	Number of Deals		Volume/No. of Shares		Market Turnover (Lm)	
	2005	2004	2005	2004	2005	2004
Equities						
Bank of Valletta	5,037	2,772	3,252,597	2,534,662	18,573,166	9,303,127
HSBC Bank Malta	2,916	1,471	2,228,262	1,525,810	14,473,451	10,492,529
Lombard Bank Malta	323	207	265,738	442,477	1,501,142	1,817,228
MiddleSea Insurance	341	262	279,472	198,043	894,052	439,939
Simonds Farsons Cisk	243	157	282,455	268,604	266,016	282,960
Suncrest Hotels	15	14	25,000	14,519	8,236	4,032
Maltacom	2,642	2,527	3,823,579	4,208,389	6,140,247	6,020,352
Int. Hotels Invest (Euro)	288	341	1,535,974	1,650,947	523,740	556,546
Plaza Centres	161	112	800,966	437,777	494,003	284,817
Global Financial Services	195	161	534,693	472,830	647,319	527,713
FIM Bank (US\$)	321	108	5,038,159	3,502,189	2,244,732	1,135,702
Malta International Airport	985	862	4,127,901	1,252,594	6,116,242	1,144,764
Datatrak	157	115	419,327	291,220	106,811	72,629
Total Equity	13,624	9,109	22,614,123	16,800,061	51,989,157	32,082,339
Corp. Bonds						
6.15% Bank of Valletta 2010	79	90	735,400	310,400	773,802	326,592
8% Bank of Valletta 2010 (US\$)	79	131	697,000	1,446,000	268,499	582,169
7.25% HSBC Bank 2005	44	134	587,500	679,500	601,786	707,872
6.4% Gasan Finance 2008/11	88	170	84,500	302,800	86,793	305,891
6.5% Gasan Finance 2006/9	27	100	54,500	244,300	55,485	246,279
6.25% Simonds Farsons Cisk 2006/08	25	31	12,100	25,300	12,460	26,550
6.6% Simonds Farsons Cisk 2010/12	59	36	55,500	58,000	59,064	62,271
8.25% Suncrest Hotels 2005/07	70	46	146,000	87,700	140,216	84,416
6.7% Corinthia Finance 2009	147	328	335,200	1,001,900	344,466	1,007,389
6.75% Corinthia Finance 2012	73	137	313,800	431,000	323,541	435,571
6.5% Corinthia Finance 2010 (Euro)	54	115	396,000	1,005,700	174,095	429,604
5% Int. Hotel Invest. 2010	25	7	195,000	37,500	194,928	37,436
6.75% United Finance 2008	19	17	54,800	72,400	57,014	75,284
6.7% Eden Finance 2010	131	98	497,900	248,800	462,808	210,514
Malta Government Privatisation Bonds 2005	10	17	991,000	588,500	1,117,378	646,610
6.5% CC Car Parks 2006	14	20	88,200	88,400	90,270	91,270
6.7% Mizzi Org Finance 2009/12	56	94	210,000	192,200	221,480	204,632
6.7% Tumas Investments 2010/12	58	62	186,600	189,900	194,559	197,276
6.7% Tumas Investments 2006	6	4	89,000	181,200	92,480	191,610
6.5% CareMalta Finance 2008/11	26	36	89,900	129,300	93,436	135,007
5.75% Mariner Finance 2008/10 (Euro)	56	64	368,400	1,221,500	159,086	520,753
6% Dolmen Properties 2010/13	85	108	211,400	243,600	221,983	253,624
6.2% - 6.8% Int. Hotel Invest. 2013 (Euro)	76	70	1,028,800	604,100	452,459	260,556
6.3% Int. Hotel Invest. 2013	95	108	257,700	176,800	262,719	177,425
3.8% European Invest. Bank 2009	43	133	170,700	831,900	171,210	836,937
7.5% Hotel San Antonio 2012	37	49	71,000	67,800	73,385	67,652
8% Bay Street Finance 2012	161	70	594,700	147,300	594,692	145,317
7% Big Bon Finance 2010/12	34	39	106,500	116,400	113,110	123,386
Total Corp. Bonds	1,677	2,314	8,629,500	10,730,200	7,413,204	8,389,902
Close Ended Collective Invest. Scheme						
San Tumas Shareholdings plc	21	21	46,138	125,139	37,645	89,209
Total Close Ended Collective Invest. Scheme	21	21	46,138	125,139	37,645	89,209
Malta Government Stocks						
Total MGS's	3,370	3,215	60,446,500	48,550,500	66,393,059	53,147,976
Total all Securities	18,692	14,659	91,736,261	76,205,900	125,833,065	93,709,427

Malta Government Stock Movements 2005

MGS Outstanding	Date of Issue	Amount Issued	Coupon	Dates of Interest	Traded Value (Lm)	Deals	Last Close Price
7.25% MGS 2005	18-Jun-97	23,500,000	7.25%	24 May - 24 Nov	178,100	14	100.22
5.6% MGS 2005 (II)	03-Aug-99	31,500,000	5.60%	01 Feb - 01 Aug	22,500	6	100.58
7% MGS 2006	18-Jan-95	10,000,000	7.00%	19 May - 19 Nov	635,800	69	103.18
7.25% MGS 2006 (II)	15-Apr-96	19,250,000	7.25%	01 Feb - 01 Aug	1,813,900	91	102.30
7.25% MGS 2006 (III)	28-Jun-96	15,000,000	7.25%	20 Jan - 20 Jul	1,326,900	50	102.67
7% MGS 2006 (IV) R	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	1,342,600	51	107.00
5.9% MGS 2007 (II)	23-Apr-99	10,000,000	5.90%	23 Apr - 23 Oct	37,000	16	103.31
5.6% MGS 2007 (III)	06-Jul-00	35,250,000	5.60%	10 Jun - 10 Dec	507,800	86	103.18
7.2% MGS 2008	10-Jun-98	10,000,000	7.20%	10 Jun - 10 Dec	94,200	4	109.44
7.2% MGS 2008 (II)	01-Jul-98	30,000,000	7.20%	28 Feb - 28 Aug	746,400	47	109.96
7% MGS 2009 R	17-Aug-99	64,500	7.00%	30 Jun - 30 Dec	-	-	-
5.9% MGS 2009 (II)	03-Aug-99	25,000,000	5.90%	01 Mar - 01 Sep	338,500	13	108.42
5.9% MGS 2009 (III)	17-Oct-00	64,300,000	5.90%	30 Mar - 30 Sep	1,508,700	20	108.00
5.9% 2009 (III) FI	24-Nov-04	-	-	-	500,000	1	108.75
5.9% MGS 2010	04-Jan-00	15,000,000	5.90%	19 May - 19 Nov	19,000	4	110.11
5.75% MGS 2010 (II)	06-Jul-00	18,500,000	5.75%	10 Jun - 10 Dec	62,600	9	108.94
7% MGS 2010 (III) R	26-Sep-00	544,900	7.00%	30 Jun - 30 Dec	-	-	-
5.4% MGS 2010 (IV)	03-Mar-03	48,000,000	5.40%	21 Feb - 21 Aug	1,077,100	90	107.17
7.5% MGS 2011	23-Sep-96	15,000,000	7.50%	28 Mar - 28 Sep	116,200	30	119.46
6.25% MGS 2011 (II)	20-Aug-01	40,000,000	6.25%	01 Feb - 01 Aug	2,873,000	66	112.00
7% MGS 2011 (III) R	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	4,657,400	51	122.30
7% MGS 2012 (II) R	29-Jul-02	176,200	7.00%	30 Jun - 30 Dec	-	-	-
5.7% MGS 2012 (III)	07-Oct-02	116,000,000	5.70%	30 Mar - 30 Sep	411,200	86	110.85
5.7% MGS 2012 (III) F1	30-Mar-05	-	-	-	234,600	1	109.89
5.7% MGS 2012 (III) F1 Tranche B	26-May-05	-	-	-	228,100	1	109.70
5.7% MGS 2012 (III) F1 Tranche C	08-Aug-05	-	-	-	250,000	1	110.58
7.8% MGS 2013	18-Oct-97	34,250,000	7.80%	18 Apr - 18 Oct	2,473,500	57	125.01
6.35% MGS 2013 (II)	05-Dec-01	26,000,000	6.35%	19 May - 19 Nov	529,500	117	115.06
7% MGS 2013 (III) R	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	440,400	37	117.23
6.45% MGS 2014 (II)	08-Jun-01	30,000,000	6.45%	24 May - 24 Nov	580,500	46	116.50
5.1% MGS 2014 (III)	21-Jul-03	47,000,000	5.10%	06 Jan - 06 Jul	3,113,200	120	107.00
7% MGS 2014 (IV)	06-Aug-04	1,718,800	7.00%	30 Jun - 30 Dec	-	-	-
6.1% MGS 2015	06-Jul-00	30,000,000	6.10%	10 Jun - 10 Dec	2,761,000	75	113.86
5.9% MGS 2015 (II)	19-Apr-02	40,200,000	5.90%	09 Apr - 09 Oct	1,889,800	167	112.23
7% MGS 2015 (III)	01-Jun-05	291,400	7.00%	30-Jun - 30 Dec	-	-	-
7% MGS 2015 (IV)	30-Nov-05	345,400	7.00%	03-May - 03 Nov	-	-	-
6.65% MGS 2016	17-Apr-01	30,000,000	6.65%	28 Mar - 28 Sep	1,447,600	81	119.37
4.8% 2016 (II)	01-Dec-03	55,000,000	4.80%	26 May - 26 Nov	4,293,300	213	104.61
7.8% MGS 2018	01-Jul-98	70,000,000	7.80%	15 Jan - 15 Jul	2,418,700	55	132.66
6.6% MGS 2019	01-Aug-99	44,000,000	6.60%	01 Mar - 01 Sep	2,628,100	53	122.35
5% MGS 2021	03-Jun-04	85,000,000	5.00%	08 Feb - 08 Aug	5,065,300	540	108.50
5% MGS 2021 FI	30-Mar-05	-	-	-	1,924,300	124	104.00
5% MGS 2021 FI Tranche B	26-May-05	-	-	-	1,574,700	115	104.50
5% MGS 2021 FI Tranche C	30-Mar-05	25,000,000	5.00%	08 Feb - 08 Aug	6,574,500	275	107.75
5.1% MGS 2022	24-Aug-04	30,500,000	5.10%	16 Feb - 16 Aug	2,344,300	336	107.35
5.1% MGS 2022 FI	24-Nov-04	-	-	-	71,200	16	101.75
5.5% MGS 2023	21-Jul-03	33,833,200	5.50%	06 Jan - 06 Jul	1,335,000	136	111.05

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	6.45%	34.60%	12.06%	2.65%	16.16%	0.00%	26.14%	1.94%
Corp. Bonds	20.06%	0.28%	14.10%	0.71%	0.39%	0.00%	64.25%	0.22%
MGS	52.03%	0.00%	15.05%	0.00%	0.43%	0.00%	32.38%	0.11%

Data as at 30.12.05

Market Capitalization

Name of Security	Shares in Issue	Closing Prices December 05	Lm	%	Lm
Equities					
Bank of Valletta	55,416,441	7.420	411,189,992	0.276	
HSBC Bank Malta	72,960,000	8.000	583,680,000	0.391	
Lombard Bank Malta	4,205,360	8.950	37,637,972	0.025	
Middlesea Insurance	12,500,000	3.600	45,000,000	0.030	
Simonds Farsons Cisk	25,714,286	0.900	23,142,857	0.016	
Suncrest Hotels	10,000,000	0.310	3,100,000	0.002	
Maltacom	101,310,488	1.850	187,424,403	0.126	
Int. Hotel. Invest. (Euro)	139,053,489	0.910	54,322,433	0.036	
Plaza Centres	9,414,000	0.680	6,401,520	0.004	
GloBAI Financial Services	13,207,548	1.400	18,490,567	0.012	
FIM Bank (US\$)	71,150,215	2.010	51,664,294	0.035	
Malta International Airport	40,589,995	1.550	62,914,492	0.042	
San Tumas Shareholdings plc	1,665,176	0.931	1,550,279	0.001	
Datatrak	15,949,500	0.310	4,944,345	0.003	
					1,491,463,155

Corporate Bonds					
8.25% Suncrest Hotels 2005/7	2,984,500	92.000	2,712,620		
6.5% Gasan Finance 2006/9	3,471,900	100.100	3,475,372		
6.7% Corinthia finance 2009	10,000,000	102.100	10,210,000		
6.15% Bank of Valletta 2010	19,990,600	106.100	21,210,027		
5% Int. Hotel. Invest. 2010	5,000,000	100.000	5,000,000		
6.75% United Finance 2008	4,000,000	105.000	4,200,000		
8% Bank of Valletta 2010 (US\$)	36,543,500	110.000	14,521,820		
6.7% Eden Finance 2010	10,000,000	98.000	9,800,000		
6.5% CC Car Parks 2006	1,500,000	101.500	1,522,500		
6.5% Corinthia Finance 2010 (Euro)	14,273,700	102.300	6,268,565		
6.75% Corinthia Finance 2012	6,289,900	103.000	6,478,597		
6.7% Mizzi Organisation 2009/12	10,000,000	104.150	10,415,000		
6.7% Tumas Investments 2010/12	7,000,000	104.050	7,283,500		
6.7% Tumas Investments 2006	4,200,000	102.000	4,284,000		
6.6% Simonds Farsons Cisk 2010/12	4,000,000	105.000	4,200,000		
6.25% Simonds Farsons Cisk 2006/8	2,000,000	102.450	2,049,000		
6.5% CareMalta Finance 2008/12	3,800,000	104.000	3,952,000		
6.3% Int. Hotel Invest. 2013	6,017,500	103.000	6,198,025		
6.2% - 6.8% Int. Hotel Invest. 2013 (Euro)	8,058,000	102.300	3,538,823		
5.75% Mariner Finance 2008/2010 (Euro)	13,000,000	100.000	5,580,836		
6.4% Gasan Finance 2008-2011	5,000,000	102.010	5,100,500		
6% Dolmen Properties Bonds 2010/13	4,700,000	104.750	4,923,250		
3.8% European Investment Bank Bonds	10,000,000	100.000	10,000,000		
7.5% Hotel San Antonio 2012	2,500,000	104.000	2,600,000		
8% Bay Street Finance 2012	3,263,800	100.000	3,263,800		
7% Big Bon Finance 2010/12	3,000,000	105.500	3,165,000		
					161,953,235

Malta Government Stocks					
7% MGS 2006	10,000,000	103.180	10,318,000		
7.25% MGS 2006 (II)	19,250,000	102.300	19,692,750		
7.25% MGS 2006 (III)	15,000,000	102.670	15,400,500		
7% MGS 2006 (IV)	167,127	100.000	167,127		
7.35% MGS 2007	24,750,000	107.000	26,482,500		
5.9% MGS 2007 (II)	10,000,000	103.310	10,331,000		
5.6% MGS 2007 (III)	35,250,000	103.180	36,370,950		
7.2% MGS 2008	10,000,000	109.440	10,944,000		
7.2% MGS 2008 (II)	30,000,000	109.960	32,988,000		
7% MGS 2009	64,500	100.000	64,500		
5.9% MGS 2009 (II)	25,000,000	108.420	27,105,000		
5.9% MGS 2009 (III)	64,300,000	108.000	69,444,000		
5.9% MGS 2010	15,000,000	110.110	16,516,500		
5.75% MGS 2010 (II)	18,500,000	108.940	20,153,900		
7% MGS 2010 (III)	544,900	100.000	544,900		
5.4% MGS 2010 (IV)	48,000,000	107.170	51,441,600		
7.5% MGS 2011	15,000,000	119.460	17,919,000		
6.25% MGS 2011 (II)	40,000,000	112.000	44,800,000		
7% MGS 2011 (III)	125,000	100.000	125,000		

Market Capitalization (continued)

Name of Security	Shares in Issue	Closing Prices December 05	Lm	%	Lm
Malta Government Stocks					
7.8% MGS 2012	34,500,000	122.300	42,193,500		
7% MGS 2012 (II)	176,200	100.000	176,200		
5.7% MGS 2012 (III)	116,000,000	110.850	128,586,000		
7.8% MGS 2013	34,250,000	125.010	42,815,925		
6.35% MGS 2013 (II)	26,000,000	115.060	29,915,600		
7% MGS 2013 (III)	66,700	100.000	66,700		
6.6% MGS 2014	10,500,000	117.230	12,309,150		
6.45% MGS 2014 (II)	30,000,000	116.500	34,950,000		
5.1% MGS 2014 (III)	47,000,000	107.000	50,290,000		
7% MGS 2014 (IV)	1,718,000	100.000	1,718,000		
6.1% MGS 2015	30,000,000	113.860	34,158,000		
5.9% MGS 2015 (II)	40,200,000	112.230	45,116,460		
5.9% MGS 2015 (III)	291,400	100.000	291,400		
5.9% MGS 2015 (IV)	345,400	100.000	345,400		
6.65% MGS 2016	30,000,000	119.370	35,811,000		
4.8% MGS 2016 (II)	55,000,000	104.610	57,535,500		
7.8% MGS 2018	70,000,000	132.660	92,862,000		
6.6% MGS 2019	44,000,000	122.350	53,834,000		
5% MGS 2021	85,000,000	108.500	92,225,000		
5.1% MGS 2021 FI Tranche C	25,000,000	107.750	26,937,500		
5.1% MGS 2022	30,500,000	107.350	32,741,750		
5.5% MGS 2023	33,833,200	111.050	37,571,769		
					1,263,260,081
			Total in Lm		2,916,676,471
	Exchange Rates (as at 31.12.05)	0.4293	Total in Euros		6,794,028,584
		2.7681	Total in US\$		8,073,652,139

Collective Investment Funds investing in MSE Listed Securities

ISIN Code	Fund	Net Asset Value in Lm Dec-04	Net Asset Value in Lm Dec-05
MT0000072034	La Valette Funds Sicav plc - Malta Fund	23,163,287	31,896,572
MT0000072067	La Valette Funds Sicav plc - Malta Bond Fund	37,546,562	42,691,406
MT0000072075	Vilhena Funds Sicav plc - Malta Fund	10,994,274	15,569,116
MT0000072125	Vilhena Funds Sicav plc - Malta Government Bond Fund	48,340,959	54,497,814
MT0000072257	Global Funds Sicav plc - Malta Privatisation and Equity Fund	8,809,628	8,931,760
MT0000072260	Wignacourt Funds Sicav plc - Malta Fund	14,195,895	18,799,003
MT0000072273	Amalgamated Funds Sicav plc - Growth and Income Fund	19,470,182	32,748,818
MT0000072042	HSBC Malta Funds Sicav plc - Malta Bond Fund	60,428,850	80,478,313
MT0000072166	HSBC No-Load Funds Sicav plc - Malta Government Bond Fund	86,984,757	122,991,174
MT0000072174	HSBC No-Load Funds Sicav plc - Maltese Assets Fund	24,007,557	33,782,748
MT0000072406	Gasan Funds Sicav plc - Gasan Enterprise Fund	181,662	310,096

The Net Asset Values of Collective Investment Schemes investing in locally listed securities all registered significant increases in 2005 when compared to end-2004 values, as can be seen above, also a reflection of the significant increases in equity prices registered throughout the year under review.

Admission to Listing

At the end of 2005 the following

securities appeared on the recognised lists of the Exchange:

13	Equities (Ordinary Shares)
26	Corporate Bonds
41	Government Stock Issues
1	Close-ended Investment Scheme
70	Open-ended Collective Investment Schemes (Primary Listed)
129	Open-ended Collective Investment Schemes (Secondary Listed)

The number of equities listed on the Exchange remained unchanged from that at the end of 2004. Two corporate bonds were redeemed during the year, namely the Malta Government Privatisation Bond 2005 and the 7.25% HSBC Bank Malta Bond 2005 reducing the number of listed corporate bonds from 28 in 2004 to 26 at the end of 2005. Eight new Government Stock issues were listed throughout the year. At the same time, however, ten Government Stock issues were redeemed while a further nine fungibility issues were

amalgamated and re-issued. At the end of 2005, therefore, 41 Government Stock Issues appeared on the Official List of the Exchange down from 45 as at the previous year's end. The delisting of Collective Investment Schemes continued throughout 2005, resulting in 190

Collective Investment Schemes, both primary and secondary listed, appearing on the appropriate recognised list as at the end of 2005. The following securities were granted admission to the recognised lists of the Exchange during 2005:

Equities			
20,000,000		International Hotels Investments plc Ordinary Shares of 1 Euro Nominal	
92,101		Lombard Bank Malta plc Ordinary Shares of Lm0.50 Nominal	
5,163,108		Fimbank plc Ordinary Shares of US\$0.50 Nominal	
Malta Government Stock Issues			
Lm 20,000,000	5%	Malta Government Stock	2021(I) Fungibility Issue
Lm 20,000,000	5.7%	Malta Government Stock	2012(III) Fungibility Issue
Lm 25,000,000	5%	Malta Government Stock	2021 (I) Fungibility Issue
Lm 35,000,000	5.7%	Malta Government Stock	2012 (III) Tranche B
Lm 291,400	7%	Malta Government Stock	2015 (III)
Lm 25,000,000	5%	Malta Government Stock	2021 (I) Fungibility Issue
Lm 40,000,000	5.7%	Malta Government Stock	2012 (III) Fungibility Issue
Lm 345,400	7%	Malta Government Stock	2015 (IV)
Malta Notes			
GBP 6,000,000		SGA Societe General Acceptance NV – Malta Notes 2005	
Collective Investment Schemes			
Primary Listing:			
4 Share classes of Somerset Capital Fund SICAV			
Secondary Listing:			
2 Sub-funds of Fidelity Funds SICAV			

The following securities have been delisted from the Exchange's recognised lists during 2005 :

6	Sub-funds of Barclays Investment Fund (Lux) SICAV
11	Sub-funds of Barclays International Funds SICAV
4	Sub-funds of Thames River Traditional Funds plc
84	Sub-funds of HSBC International Capital Secured Growth Funds plc
12	Sub-funds of La Valette Funds
1	Sub-fund of Gasan International High Yield Fund
3	Invesco GT Funds
4	Sub-funds of HSBC Global Investment Funds plc
11	Sub-funds of Invesco GT Funds

Central Securities Depository

The number of accounts held within the Central Securities Depository

(CSD) decreased slightly from 170,000 at the end of 2004 to slightly less than 169,000 at the end of 2005. This decrease resulted from the redemption of two corporate bonds, namely, the 7.25% HSBC Bank Malta Subordinated Unsecured Loan Stock 2005 and the Malta Government Privatisation Plc Bonds 2005 which had 7,614 and 242 holders respectively. These accounts represent 61,998 individual investors. At the end of the year, 50,955 account holders held equities, and increase of more than 3,000 over the previous year; 77,173 held Government Stocks, also an increase of 1,500 over the previous year while 40,129 account holders had balances of corporate bonds, a decrease of 1,000 over 2004, due, as already stated, to the redemption of two corporate bond issues during the year.

The number of amendments effected by the CSD across all registers overall

decreased slightly from 54,281 in 2004 to 52,349 in 2005. While there was a substantial increase in bought/sold movements during 2005 which reflected the increase in activity in the secondary market, these increases were tempered by a substantial decrease in the amendments as a result of mandate/power of attorney inserts. It is to be recalled that during 2004 the high volume of these amendments was a reflection of the insert of direct credit instructions from investors following efforts by the Treasury and other Issuers to encourage investors to use direct credit facilities. The bulk of the input of this new information was carried out in 2004 resulting in the high volume of related amendments.

During 2005 the CSD processed 284,874 dividend and interest payments on behalf of Issuers, an increase from 280,984 last year, for a total value of approximately Lm144,000,000, up from almost Lm97,000,000 processed during the previous year. This increase in interest and dividend payments was largely due to a number of Issuers, approving and issuing interim dividends apart from the annual dividend.

Furthermore, at the end of the year over 62,000 Statement of Holdings were issued to all investors registered within the CSD.

During the year the CSD also effected the primary issue processing procedures in respect of the eight new Government Stocks issued throughout the year as well as for a further issue of equity by a listed company. Furthermore, the CSD effected all the processing in respect of redemptions and redemption payments and the amalgamation processes in respect of fungible Government Stock issues.

As part of its continued efforts to provide better services to investors, during 2005 terminals were made available at a designated location within the Exchange, where CSD staff could log on directly to the CSD system when they were helping investors who came to the Exchange to seek assistance with any difficulty they may have had with regard to their accounts held within the CSD. The availability of such terminals has considerably cut down the time it takes CSD staff to assist each individual investor.

CSD Register Amendments for 2005

Amendment Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Causa Mortis	129	480	74	164	74	81	124	174	148	189	77	162	1,876
Garnishee Insert	4	-	3	7	10	6	4	1	6	9	14	5	69
Garnishee Release	5	-	1	4	5	5	6	2	1	0	15	1	45
Holder Amendment	85	179	82	80	58	126	198	236	156	114	123	62	1,499
Mandate/Power of Attorney	315	1,088	600	880	301	629	411	400	326	1078	176	201	6,405
Bought Movements	1,203	1,683	1651	1178	1103	1048	1234	1516	1588	1857	2618	2054	18,733
Sold Movements	1,203	1,683	1651	1178	1103	1048	1234	1516	1588	1857	2618	2054	18,733
Release of Estates	229	158	198	200	169	89	106	155	132	345	249	237	2,267
Off-Market Transfers	85	106	73	62	35	141	75	47	48	71	79	58	880
Pledge Insert	76	79	90	73	98	75	45	82	56	75	121	83	953
Pledge Release	67	93	72	75	88	68	72	68	53	73	93	67	889
Total	3,401	5,549	4,495	3,901	3,044	3,316	3,509	4,197	4,102	5,668	6,183	4,984	52,349

The introduction of new clearing and settlement procedures in July of 2005 also had an effect on the post-trading procedures effected by the CSD. These were changed in line with newly automated clearing and settlement procedures which significantly decreased the processing time of post-settlement procedures within the CSD. Towards the end of the year, post-trading procedures

were again reviewed and revised in preparation for the introduction of the Off-Exchange Trade Validation and Reporting System due to be implemented at the beginning of 2006.

Throughout the year the CSD processed a number of applications by Issuers of both listed and non-listed securities to provide ISIN numbers, the internationally

recognised reference number for all financial instruments. This service is provided, free of charge, by the CSD, in its capacity as the National Numbering Agency in respect of financial instruments. During 2005, the CSD also provided ISIN numbers for Treasury Bill issues, in preparation for when Treasury Bills would be dematerialised and registered within the CSD.

Dividend/Interest Payments for 2005

	Gross Amount (in Lm)	Gross Amount (in Euros)	Gross Amount (in US\$)	No of Payments
January	5,547,635.90	-	-	11,249
February	7,242,763.53	499,596.00	-	25,042
March	18,388,578.49	-	-	23,034
April	5,031,459.48	927,790.50	-	15,662
May	14,012,373.89	-	-	39,924
June	3,880,191.95	-	-	14,458
July	8,274,980.92	747,500.00	-	23,213
August	41,754,484.42	-	-	33,031
September	8,468,333.90	-	-	14,406
October	5,548,496.63	-	2,923,480.00	17,808
November	9,933,735.42	-	-	37,769
December	12,977,687.81	-	-	29,278
TOTAL	141,060,722.32	2,174,886.50	2,923,480.00	284,874

The Committee appointed by the Council to make recommendations with regard to legislation in respect of the CSD concluded its deliberations early 2005. These recommendations were submitted to the Council, which, following extensive deliberations made its recommendations to the Competent Authority.

Compliance Office

Throughout 2005 Compliance Office continued to liaise with the Securities Unit of the Malta Financial Services Authority with respect to the regulation of its Members, in particular in relation to trading activity. Following the coming into force of the Prevention of Financial Markets Abuse Act in April of 2005 and the subsequent issue of regulations under this Act, Compliance Office procedures changed with regard to

reporting to the Competent Authority. In accordance with the new reporting requirements consequent to the issue of the Prevention of Financial Markets Abuse Act, the delegation given by the Listing Authority to the Exchange in respect of the collation and monitoring of certain information was no longer applicable. Compliance Office now reports directly to the Securities Unit at the MFSA. Furthermore, Compliance Office also prepared new reporting procedures to come into force early in 2006 upon the implementation of the Off-Exchange

Trade Validation and Reporting System. Compliance Office would be reporting the same information with regard to off-exchange deals to the Competent Authority as it did for on-exchange trading.

Compliance Office did not carry out any on-site inspection visits to its Members during the year, however, in all it carried out 23 investigations largely as a result of price fluctuations on the market or changes in trading patterns, particularly with respect to equity trading. All investigations carried out were reported to the Competent Authority. No investigations were pending as at the end of the year.

Compliance Office staff were also involved in the various projects being currently carried out by the Exchange such as the new clearing and settlement procedures; off-exchange trading and new reporting procedures. Furthermore, Compliance Office also conducted training in May and November in respect of the trading system for new traders.

During 2005 a total of 227 Company Announcements were issued, an increase of 29 over the previous year. Company Announcements were issued as follows :

January	7
February	16
March	18
April	33
May	19
June	25
July	22
August	15
September	25
October	15
November	18
December	14

Internal Compliance Office

Internal Compliance Office carried out a total of seven inspection visits in all the offices of the Exchange during 2005 to ensure the on-going compliance with the business procedures of each department. Following each visit a report was forwarded to each Head of Office for any follow-up action deemed appropriate. Where necessary, a follow-up visit was also carried. Furthermore, Internal Compliance

Office continued with the daily random verification of CSD processes, mainly concentrating on pledge processing; dividend/interest payment processing and end-of-year statements.

During the year, Internal Compliance Office continued to update and verify procedures and update the Procedures Manual where necessary. Several amendments were made to internal procedures, among which were amendments to recruitment procedures following new regulations issued under the Employment Law and changes to Compliance Office procedures following the issue of new market abuse regulations.

The Exchange's website also underwent huge changes during the year and Internal Compliance Office has been actively involved in verification of all the data provided on the site.

Internal Compliance Office, together with Legal Office, carried out a review of all internal procedures during the year, with particular emphasis on CSD procedures, to check compliance with relevant legislation in particular, the information and verification of identity being requested from clients. As a result of this exercise some procedures have undergone slight modifications. The exercise is due to be concluded at the beginning of 2006.

In July 2005 the Exchange implemented new clearing and settlement procedures in respect of settlement of transactions denominated in Maltese Liri. Internal Compliance Office was very involved in verifying the new procedures implemented particularly to ensure that the data compiled to initiate the necessary cash transaction messages was correct. On a daily basis, Internal Compliance Office verified settlement details to ensure that such information remained unchanged until the point of message generation on Settlement Day. On Settlement Day, Internal Compliance Office monitored both incoming and outgoing payments, reconciling these against data generated on the relevant trading day and also against the reconciliation report forwarded to the Exchange by the Central Bank of Malta, as operator of the payment system.

In accordance with Article 5.2 of the General Notification Directives

applicable to recognised investment exchanges on a monthly basis, Compliance Office prepared a monthly report for submission to the Competent Authority which was verified by Internal Compliance Office prior to submission.

Internal Compliance Office was also involved in a number of other ad-hoc exercise such as the random testing on the new Borzanet site at the beginning of the year.

Other Exchange Functions and Activities

During the first quarter of 2005, Legal Office continued to be involved in the project dealing with the possibility of widening the range of services that could be offered by the CSD to its users, namely investors, issuers and intermediaries and determining any infrastructural changes that would need to be introduced from both the technical and legal sides so as to be able to support the provision of such services. Legal Office assisted in drafting recommendations regarding legislation aimed at achieving the above which has been submitted to the Competent Authority for review.

During May the Senior Legal Officer delivered a presentation of the "Functions and Operations of the Exchange's Legal Office" to a number of delegates from Commonwealth countries.

Furthermore, Legal Office staff continued to carry out necessary research so as to keep abreast with developments in local legislation as well as those within the European Union. As part of such endeavours Legal Office staff attended various seminars and conferences organised locally and dealing *inter alia* with developments in local and EU legislation.

In addition to the above, Legal Office continued to perform its daily duties in assisting other offices within the Exchange as well as investors and issuers in legal matters. This includes the vetting and processing of legal documents in connection with deceased investors, personal separation of spouses, donations, emancipation of minors, amalgamation or division of companies and processing of

	"Causa Mortis" files of Listed Securities vetted and processed by the Legal Office			"Causa Mortis" - Others	Donations	Personal Separations	Legal Enquiries re: Pledges of Listed Securities
	No. of New Files (released and pending)	No. of Files Released	No. of Files Opened & Released in same year				
2005	131	121	80	115	48	9	1
2004	127	116	77	90	30	8	1

	Garnishees				Prohibitory Injunctions			Criminal Prosecutions & Investigation & Attachment Orders
	Garnishee Orders	Judicial Letters	Extension of Time-Limit (Garnishee Orders)	Counter Warrants	Others	Warrants of Prohibitory Injunctions	Counter Warrants	
2005	40	21	46	19	5	5	7	17
2004	85	49	27	19	2	4	4	26

garnishee orders and warrants of prohibitory injunction issued by the Courts. Such procedures were followed by the issue of instructions by the same office to other Exchange offices, particularly the CSD wherein such instructions were executed with a view to updating the relevant register of members or debentures.

During 2005, IT Office was heavily involved with the implementation of the new clearing and settlement procedures, particularly with the testing and implementation of the SWIFT messaging system which was going to be utilised in this new system. Such implementation also involved testing with both the Central Bank of Malta and other commercial banks, which are members of the payment system. IT Office liaised with both Internal Compliance Office and Compliance Office to draw up the new procedures and the relevant timetable. Furthermore, IT Office continued to be involved in the drafting of further rules and regulations with respect to clearing and settlement that would provide for the second phase of implementation i.e the introduction of delivery versus payment.

IT Office was also instrumental in creating new procedures in respect of off-exchange trading. IT Office developed the Off-Exchange Trade Validation and Reporting System, using the Exchange's current trading hardware and software. This system was due for implementation at the beginning of 2006.

During the year, IT Office worked on upgrading the Exchange's website. Indeed, throughout the year, new information became available on the website, primarily real-time trading information, fed directly from the trading system; more statistics and more historical information. Another part of the website has also been developed to show latest information including press releases, speeches, etc. Further upgrades are envisaged for the website, including more in-depth company information and analysis. Such upgrades will continue to come on stream throughout 2006.

The IT Office staff complement was strengthened by the recruitment of one junior member of staff, in order for the office to be able to provide better service to the users of its systems both internally and externally. Furthermore, IT staff continued with training in order to keep abreast of developments in the field.

During the year, Manager IT Office continued to represent the Exchange on the Statistics and Economics Sub-Committee of FESE and liaised with the Central Bank of Malta and the Exchange's own Research Office to create further statistical reports as required under EU Directives.

The Exchange welcomed over 700 students throughout the year as part of its on-going education programme. The education programme for students continued to be managed by Special Assignments Office. New

presentations were prepared and updated to reflect developments within the Exchange and also to reflect the different ages of students being addressed. Exchange staff were also involved in supervising several University students who were completing degree theses on financial services. This year, in fact, saw an upsurge in the number of students writing dissertations about the capital market, particularly regarding market performance and the calculation of the share index.

During 2005 the Exchange only carried out a limited investor education campaign, however, a new campaign was being devised which would make use particularly of the Exchange's website as an inter-active learning tool. The Exchange's website was recording several thousand hits per day and was seen as being the best avenue for reaching the general body of investors.

Securities Settlement System

The Exchange has been working on a new security settlement system for the past three years in order to develop a new system fully compliant with international standards. To this end the Exchange has been liaising with the Central Bank of Malta, as regulator of payment systems in Malta, to create a new security settlement system using current technologies.

In July of 2005, the first phase of the project was completed. The Exchange became a Member of the Malta Inter-Bank Real Time Payment System and also became a Member of SWIFT, the internationally recognised messaging system that would be implemented for the new security settlement system.

The first implementation stage of the project concerned only market transactions denominated in Maltese Liri. In accordance with these new procedures, Members have authorised the Exchange to direct debit their settlement accounts. Furthermore, agreements have been entered into between the Exchange and settlement banks in order for each party to accept the relevant SWIFT messages. All security settlement transfers are now effected by SWIFT messages and strict time-tables have been drawn up in accordance with the time-table of the payment system in order to ensure that security settlement payments are effected in due time and that settlement is not delayed or even halted.

The second phase of the project, will involve the coming into force of LN 287 of 2004 which introduces delivery-versus-payment, i.e. where transfer of securities occurs only if cash has been received in respect of transactions effected. This phase of the project would be the technical introduction of delivery-versus-payment which would involve the link between the payment system and the CSD and regulatory approvals permitting, is scheduled for the beginning of 2006. This phase of the project foresees that delivery-versus-payment is implemented across the board, that is even for non-Lm denominated transactions and therefore, new procedures have been drawn up to cater for this.

Off-Exchange Trade Validation and Reporting System

In December 2005, the Competent Authority approved new bye-laws in respect of the Off-Exchange Trade Validation and Reporting System (the System). This is a system whereby trades effected off-exchange in accordance with regulations issued under Article 49 of the Financial Markets Act are pre-validated against balances in the CSD, the same as for

on-exchange trades and are reported to the market, in accordance with transparency and reporting requirements.

The system makes use of the current trading infrastructure and provides that it may be accessed both from remote terminals and terminals housed within the Exchange itself. Furthermore, the system provides that off-exchange deals are only confirmed when they are validated against balances held in the CSD and that reporting is done directly through the trading terminals. This ensures that the market has real-time trading information emanating from both on-exchange and off-exchange dealing. The way the system has been set up, ensures that Members already accessing the trading system, are not involved in any further expenses or any need for new infrastructure. Besides this, the advantage of using the current trading infrastructure is that off-exchange deals may also be settled through the Exchange's clearing and settlement services.

The Exchange does not regulate the off-exchange market, however, through the trading system it does report to the Competent Authority regarding such deals.

The Off-Exchange Trade Validation and Reporting System was implemented at the end of January 2006, following a period of consultation regarding the proposed bye-laws and the conclusion of processes to give access to applicants for participation in the system. At the start of operations of this system, four Members had applied for and been granted access to the system.

Members

At the end of 2005 a total of twelve firms apart from the Central Bank of Malta were authorised as Members of the Exchange. At the end of the year Lombard Stockbrokers Ltd ceased operations. Finco Treasury Management Ltd applied for Membership towards the end of the year and was scheduled to commence operations had the beginning of 2006. The individual designated as the Central Bank of Malta as the Bank's stockbroker was assigned new duties within the Central Bank and he was replaced by another official of the

Central Bank who was also an authorised trader so recognised by the Exchange.

The twelve Member firms and the Central Bank are represented by over 30 traders, authorised to trade on the Exchange's trading system on their behalf. During 2005 a number of new traders were authorised to deal on behalf of several Member firms, after having successfully completed the requisite training and written examination.

The officials of the College of Stockbroking Firms, appointed in terms of the Statute appended to the Financial Markets Act, continued in Office; namely Mr Wilfred Mallia as Chairman; Mr David Curmi as Deputy Chairman and Mr Vincent Rizzo as Secretary.

The Members had several meetings with the Exchange in particular regarding clearing and settlement; off-exchange trade validation and reporting procedures and the Euro Changeover. Members gave very valid contributions on these matters and strongly participated during the consultation periods. Members also supported the Exchange during the changeover to the new clearing and settlement procedures and the implementation of the Off-Exchange Trade Validation and Reporting System and it is in no small part due to such support, that these developments could be implemented with virtually no difficulties right from the start.

members

Azzopardi Investment Management Ltd

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

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

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

Financial Planning Services Ltd

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

Calamatta, Cuschieri & Company Ltd

5th Floor, Valletta Buildings,
South Street
Valletta VLT 11
Tel: (356) 25688688 Fax: (356) 25688256

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

Curmi & Partners Ltd

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

Rizzo, Farrugia & Co. (Stockbrokers) Ltd

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

Hogg Capital Investments Ltd

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

Charts Investment Management Services Ltd

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

Globe Financial (Management) Ltd

120, The Strand, Gzira GZR 03
Tel: (356) 21310088 Fax: (356) 21310093

92 St Bartholomew Street
Qormi QRM 06
Tel: (356) 21442664 Fax: (356) 21442701

Arcadia Commercial Centre, Level 3
Fortunato Mizzi Street, Victoria, Gozo G 09
Tel: (356) 21562228, 21565272/5 Fax: (356) 21564418

Atlas Investment Services Ltd

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

BOV Stockbrokers Ltd

BOV Centre
Cannon Road
Tel: (356) 22751732 Fax: (356) 22751733

HSBC Stockbrokers (Malta) Ltd

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

Finco Treasury Management Ltd

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



financial report

and audited financial statements

5500

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2000

25250

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25850

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4

Dec 01

Mar 02

Jun 02

Sep 02

Dec 02

general information

Council Members

Joseph Zammit Tabona	Chairman (appointed on 10 January 2006)
Alfred Mallia	Chairman (resigned on 10 January 2006)
Arthur Galea Salomone	
Alex Agius	(resigned on 10 January 2006)
Saviour Briffa	
Marco Sammut	(resigned on 10 January 2006)
Antoine Fiott	(appointed on 10 January 2006)
Karen Spiteri Bailey	(appointed on 10 January 2006)

Council Secretary

Eileen V Muscat

Registered Office

Garrison Chapel
Castille Place
Valletta CMR 01
MALTA

Bankers

Bank of Valletta plc
Valletta Business Centre
Level 2, Annex
45, Republic Street
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

financial

report

year ended 31 December 2005

The strong performance of the Exchange market during the past twelve months resulted in a significant increase in trading related fees which more than covered the higher expenditure levels mainly incurred in connection with the implementation of a number of measures designed to bring current systems in line with EU regulations. The Exchange, in fact, ended the year with a pre-tax operating surplus of Lm235,307 improving the previous year's figure by around 12%. This increase was due to slightly higher levels of operating income combined with a reduction in expenditure.

The operating income of the Exchange, in fact, went up marginally in 2005 to reach Lm1,186,066-against Lm1,163,439 the previous year-while total expenditure remained virtually unchanged from Lm951,113 in 2004 to Lm949,201 in 2005.

The significant increase in equity prices and the high trading volumes registered throughout 2005 had a positive impact on Exchange income with stockbroker fees, transaction fees and other related income rising by some 30% to Lm164,208. Fees accruing on Register services were more or less unchanged at Lm363,630 but Listing Fees were down by some 2% to Lm658,228. This drop in income was mainly due to redemption of a corporate bond in June. Income levels, however, were also negatively affected by the delisting of a number of investment funds during the course of the year.

Expenditure levels were again contained in 2005 despite unforeseen increases in utility costs and other expenses connected with the setup and implementation of an updated clearing and settlement system. At the same time, the Exchange achieved considerable savings in

promotional activities and telecommunication expenses. This decrease in expenditure is a reflection of Management's strict commitment to contain costs without compromising on the levels of service provided by the Exchange.

The expectations for 2006 are cautiously positive. During the first quarter of the year, trading volumes and equity prices continued to move at record levels, with positive effects on Exchange income. Furthermore, there are indications that a number of new listings are in the pipeline for 2006 including the listing and dematerialisation of Treasury Bills. The positive results obtained in 2005 have also enabled the Exchange to reduce its bank borrowings in the first quarter of 2006, thereby cutting drastically debt servicing costs for the coming year.



Mark A Guillaumier
Chief Executive

*Malta Stock Exchange
Garrison Chapel
Castille Place
Valletta*

30 March 2006

The Members of the Council present their annual report and the audited financial statements for the year ended 31 December 2005.

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 Lm235,307 for the year ended 31 December 2005, compared to the profit before tax of Lm209,693 generated during the year ended 31 December 2004.

Council Members

During the year ended 31 December 2005 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 Members and was signed on its behalf by:



Eileen V Muscat
Secretary

*Garrison Chapel
Castille Place
Valletta
MALTA*

30 March 2006

auditor's 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 2005 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes set out on pages V to XVIII.

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 2005 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

30 March 2006

income

statement

for the year ended 31 December 2005

	Notes	2005 Lm	2004 Lm
Operating income	2	1,186,066	1,163,439
Administrative expenses		(949,201)	(951,113)
Operating surplus	3	236,865	212,326
Income from investment securities	5	14,688	16,045
Interest receivable	6	1,076	919
Interest payable	7	(17,322)	(19,597)
Profit before taxation		235,307	209,693
Taxation	8	(91,110)	(83,168)
Profit for the financial year		144,197	126,525

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


balance sheet

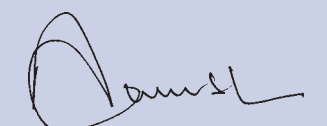
as at 31 December 2005

	Notes	2005 Lm	2004 Lm
ASSETS			
Fixed assets			
Tangible assets	9	2,229,796	2,312,385
Financial assets	10	261,821	260,175
		2,491,617	2,572,560
Current assets			
Trade and other debtors	11	442,086	443,854
Income tax recoverable		41,961	29,112
Cash at bank and in hand	17	179,283	64,089
		663,330	537,055
TOTAL ASSETS		3,154,947	3,109,615
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	12	1,500,000	1,500,000
Revaluation reserve	13	16,264	15,194
Accumulated surplus		987,395	843,198
Other reserve	13	95,491	95,491
Total equity		2,599,150	2,453,883
Non-current liabilities			
Interest bearing loans and borrowings	14	168,716	249,968
Deferred taxation	15	75,811	63,129
		244,527	313,097
Current liabilities			
Interest bearing loans and borrowings	14	83,362	79,751
Trade and other creditors	16	227,908	262,884
		311,270	342,635
Total liabilities		555,797	655,732
TOTAL EQUITY AND LIABILITIES		3,154,947	3,109,615

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

The financial statements on pages V to XVIII have been authorised for issue by the Council Members on 30 March 2006 and were signed on its behalf by:


JOSEPH ZAMMIT TABONA
Chairman


ARTHUR GALEA SALOMONE
Deputy Chairman

statement of changes

in equity

for the year ended 31 December 2005

	Capital Lm	Revaluation reserve Lm	Accumulated surplus Lm	Other reserve Lm	Payable to Government Lm	Total Lm
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 10)	-	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
Financial year ended 31 December 2005						
Balance at 1 January 2005	1,500,000	15,194	843,198	95,491	-	2,453,883
Profit for the financial year	-	-	144,197	-	-	144,197
Unrealised gain on financial assets available for sale (note 10)	-	1,646	-	-	-	1,646
Effect of deferred taxation on unrealised gain (note 15)	-	(576)	-	-	-	(576)
Balance at 31 December 2005	1,500,000	16,264	987,395	95,491	-	2,599,150

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

cash flow

statement

for the year ended 31 December 2005

	Note	2005 Lm	2004 Lm
Cash flows from operating activities			
Net surplus before taxation		235,307	209,693
Adjustments for:			
Depreciation of tangible assets		101,273	112,015
Investment income		(14,688)	(16,045)
Interest receivable		(1,076)	(919)
Profit on disposal of tangible assets		-	(1,000)
Interest payable		17,322	19,597
Operating surplus before working capital changes		338,138	323,341
Decrease/(increase) in debtors		1,768	(11,483)
Decrease in creditors		(34,835)	(24,921)
Cash generated from operations		305,071	286,937
Interest received		1,076	919
Interest paid		(17,463)	(19,456)
Taxation paid		(91,853)	(135,026)
Net cash from operating activities		196,831	133,374
Cash flows from investing activities			
Purchase of tangible assets		(18,684)	(27,271)
Investment income		14,688	16,045
Proceeds from disposal of tangible assets		-	1,000
Movements in bank term deposit balance		(250)	(323)
Net cash used in investing activities		(4,246)	(10,549)
Cash flows from financing activities			
Repayment of bank loan		(77,105)	(72,568)
Net movement in cash and cash equivalents		115,480	50,257
Cash and cash equivalents at beginning of year		52,000	1,743
Cash and cash equivalents at end of year	17	167,480	52,000

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

notes

to the financial statements

for the year ended 31 December 2005

1. Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

Accounting convention and basis of preparation

These financial statements are prepared under the historical cost convention, except for available-for-sale investments that have been measured at fair value. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and comply with the Financial Markets Act (Cap. 345).

Adoption of IFRSs during the year

During the year under review the Exchange adopted the revised IAS 32-Financial Instruments:-disclosure and presentation and the revised IAS 39-Financial Instruments:-recognition and measurement mandatory for financial years beginning on or after 1 January 2005.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Exchange's accounting periods beginning on or after 1 January 2006 or later periods. The Exchange has not early adopted these provisions and the Exchange's Council is of the opinion that there are no requirements that will have a possible impact on the Exchange's financial statements in the period of initial application.

The Exchange has not applied the following IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been issued but are not yet effective:

IFRS 6 - Exploration for and evaluation of mineral resources. This standard is not applicable to the Exchange.

IFRS 7 - Financial Instruments - Disclosures. This standard supersedes the disclosure requirements of IAS 32.

A complementary amendment to IAS 1 - Presentation of Financial Statements - Capital disclosures.

The Exchange assessed the impact and concluded that certain additional disclosures would be necessary upon their application.

IFRIC 4 –Determining whether an arrangement contains a lease and IFRIC 5 - Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds are not expected to be relevant to the activities of the Exchange.

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. Since these clearing house activities are not transactions of the Exchange, they are not reflected in these financial statements.

1. Accounting Policies *(continued)*

Tangible assets

Tangible 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 %

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

Gains and losses arising on derecognition upon disposal of tangible assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Financial assets

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

After initial recognition, financial assets which are classified as “available-for-sale” are measured at fair value, without any deduction for transaction costs that may be incurred on sale or other disposal. Unrealised gains or losses on available-for-sale securities are reported as a separate component of equity until the financial asset 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.

For financial assets 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.

A financial asset is derecognised (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the right to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but the Exchange has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- the rights to receive cash flows from the asset have been transferred and either the Exchange (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Financial liabilities are initially recognised at cost, being the fair value of the consideration received, including transaction costs that are directly attributable to the issue of the financial liability, in the case of financial liabilities not at fair value through profit or loss.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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.

1. Accounting Policies *(continued)*

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 available-for-sale financial assets - if an available-for-sale financial asset is impaired, an amount comprising the difference between the cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement.

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 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 short-term 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 for goods and services received, whether or not billed to the company.

Current taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that are enacted by the balance sheet date.

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 amounts for financial reporting purposes.

Under this method the Exchange is required to make provision for deferred income taxes on the revaluation of financial assets. Such deferred tax is charged or credited directly to the revaluation reserve.

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.

Operating leases

Capitalised leased assets are depreciated over the remaining term of the lease. Operating lease payments are recognised as an expense in the income statement.

Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where it is expected that some or all of a provision is to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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:

	2005 Lm	2004 Lm
Stockbrokers fees	89,430	59,819
Listing fees	658,228	671,346
Register fees	363,630	365,781
Transaction fees and other income	74,778	66,493
	1,186,066	1,163,439

3. Operating Surplus

The operating surplus is stated after charging:

	2005 Lm	2004 Lm
Staff costs (Note 4a)	438,987	420,330
Emoluments of the chairman and council members inclusive of allowances, honoraria and remuneration for services given	13,050	14,175
Auditors' remuneration	2,950	2,950
Depreciation of tangible assets (note 9)	101,273	112,015

4. Employee Information

a. Staff costs

The total employment costs were as follows:

	2005 Lm	2004 Lm
Wages and salaries	412,570	395,020
Social security costs	26,417	25,310
	438,987	420,330

b. Staff numbers

The average number of persons employed by the Exchange during the year was 43 (2004: 42).

5. Income from Investment Securities

	2005 Lm	2004 Lm
Interest on quoted securities	14,688	16,045

6. Interest Receivable

	2005 Lm	2004 Lm
On bank balances	1,076	919

7. Interest Payable

	2005 Lm	2004 Lm
On overdraft	1,761	194
On bank loan	15,561	19,403
	17,322	19,597

8. Taxation

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

	2005 Lm	2004 Lm
Current tax expenses	79,004	62,716
Deferred tax expense (Note 15)	12,106	20,452
	91,110	83,168

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

	2005 Lm	2004 Lm
Profit on ordinary activities before taxation	235,307	209,693
Theoretical taxation expense at 35%	82,357	73,392
Tax effect of		
- excess of carrying amount over tax base of tangible assets	6,199	6,981
- expenses not deductible for tax purposes	5,706	5,713
- income subject to different tax rates	(3,152)	(2,918)
Tax charge	91,110	83,168

9. Tangible Assets

	Leasehold premises & related expenditure Lm	General electrical equipment Lm	Computer software Lm	Office furniture, fittings & other equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2005						
Opening net book amount	1,748,620	354,668	76,385	132,712	-	2,312,385
Additions	563	620	12,276	5,225	-	18,684
Depreciation charge	(18,609)	(30,542)	(28,733)	(23,389)	-	(101,273)
Closing net book amount	1,730,574	324,746	59,928	114,548	-	2,229,796
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 2005						
Cost	1,810,149	458,133	617,859	281,835	-	3,167,976
Accumulated depreciation	(79,575)	(133,387)	(557,931)	(167,287)	-	(938,180)
Net book amount	1,730,574	324,746	59,928	114,548	-	2,229,796
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

9. Tangible Assets *(continued)*

The bank loan facility is fully secured by a general hypothec over the Exchange's assets and by a special hypothec over the Exchange's leasehold premises. (note 14)

10. Financial Assets

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

	2005 Lm	2004 Lm
Available-for-sale financial assets (at fair value)		
Listed available-for-sale financial assets	261,821	260,175
Unlisted available-for-sale financial asset	7,250	7,250
Provision for unlisted available-for-sale financial asset	(7,250)	(7,250)
At 31 December	261,821	260,175

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

Listed securities with a nominal value of Lm115,000 (carrying value of Lm104,683) are pledged as security for the bank overdraft facility (note 14).

The unrealised gain in the carrying amount on these financial assets, which has been recognised in equity during the year ended 31 December 2005 amounted to Lm1,646 (2004: Lm317) (page XV and note 13).

Interest rates on the listed available-for-sale financial assets are fixed. Their maturity and the average interest rates earned are as follows:

	Average interest rate	2005 Lm	2004 Lm
Within 1 year	7.25%	7,161	-
Between 2 and 5 years	6.48%	171,864	178,907
After 5 years	6.10%	82,796	79,554
		261,821	258,461

Listed securities with a carrying value of Lm124,683 (nominal Lm115,000) are pledged as security for the bank overdraft facility (note 14).

The unlisted available-for-sale financial asset represents 10% interest in the equity of Malta International Training Centre Limited, which is registered in Malta and has been fully provided for.

11. Trade and Other Debtors

	2005 Lm	2004 Lm
Fees receivable	383,004	398,947
Other debtors	2,454	-
Prepayments and accrued income	56,628	44,907
	442,086	443,854

Trade and other debtors are stated net of a provision for doubtful debts of Lm11,538 (2004:Lm11,538).

12. Capital

	2005 Lm	2004 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.

13. 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 10).

Other reserve

By virtue of Legal Notice 370 of 2004 - Financial Markets (Amendment of Schedule) Regulations, 2004, the Exchange is bound to maintain the proceeds of the liquidation of the Compensation Fund in a separate reserve until January 2008.

14. Interest Bearing Loans and Borrowings

	2005 Lm	2004 Lm
Current borrowings		
Bank overdrafts (note 17)	1,751	2,287
Bank loan	81,611	77,464
Short term borrowings	83,362	79,751
Non-current borrowings		
Bank loan	168,716	249,968
Long term borrowings	168,716	249,968
Total borrowings	252,078	329,719

The Exchange has a bank overdraft facility of Lm100,000 (2004: Lm140,000) for the purpose of working capital financing. It is due for revision on 4 August 2006. This facility is secured by a pledge on listed securities with a fair value of Lm124,683 (nominal value of Lm115,000) (note 10).

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 fully secured by a general hypothec over the Exchange's assets and by a special hypothec over the Exchange's leasehold premises and a pledge on an insurance policy.

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

	2005 %	2004 %
Bank overdrafts	5.50 - 6.00	6.25
Bank loan	5.50	5.25

14. Interest Bearing Loans and Borrowings *(continued)*

Maturity of non-current interest bearing loans and borrowings:

	2005 Lm	2004 Lm
Between 1 and 2 years	86,000	81,630
Between 2 and 5 years	82,716	168,338
	168,716	249,968

15. Deferred Taxation

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

	2005 Lm	2004 Lm
At beginning of the year	63,129	34,496
Debited in equity - current year	576	111
- prior year	-	8,070
Debited in the profit and loss account (Note 8)	12,106	20,452
At end of the year	75,811	63,129

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate of 35% (2004: 35%). The balance at 31 December represents:

	2005 Lm	2004 Lm
Temporary differences arising between the carrying amount and the tax base of fixed assets	66,409	54,304
Temporary differences on financial assets	8,757	8,181
Temporary differences on accrued investment income	645	644
	75,811	63,129

16. Trade and Other Creditors

	2005 Lm	2004 Lm
Falling due within one year		
Prepaid listing fees	154,110	169,570
Other creditors	39,831	58,500
Accruals	33,967	34,814
	227,908	262,884

17. Cash at Bank and in Hand

i. Cash at bank and in hand as disclosed in the balance sheet consist of:

	2005 Lm	2004 Lm
Cash at bank and in hand	169,231	54,287
Term deposit	10,052	9,802
	179,283	64,089

17. Cash at Bank and in Hand *(continued)*

The interest rate on bank term deposit, which matures within 9 months from the balance sheet date, is 3.1% (2004: 3%).

ii. Cash and cash equivalents consist of cash in hand and short term deposits at bank, net of outstanding bank overdrafts as follows.

	2005 Lm	2004 Lm
Cash at bank and in hand	169,231	54,287
Bank overdraft (note 14)	(1,751)	(2,287)
	167,480	52,000

18. 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:

	Buildings	
	2005	2004
	Lm	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	741,871	746,871
	771,871	776,871

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.

19. Contingent Liabilities

At 31 December 2005 and 2004 the Exchange had the following contingent liability:-

Claims up to a maximum of Lm95,491 in relation to the Compensation Fund up to 3 January 2008 as stipulated in Section 13 of the Statute of the Malta Stock Exchange Act. This amount is fully provided for in the 'Other Reserve' (note 13).

20. 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 19 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 Exchange to concentrations of credit risk consist principally of investment securities consisting of quoted and unquoted investments, debtors and cash at bank.

20. Financial Instruments *(continued)*

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 Exchange's cash at bank is placed with quality financial institutions. Carrying amounts for debtors are stated net of the necessary 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 Exchange's debtor base and the Exchange 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 Exchange's bank term deposit is at interest rates as disclosed in note 17. The interest rates on the borrowings of the Exchange are disclosed in note 14.

21. Comparative Information

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



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