annual report 2006

BORŻA TA' MALTA

MALTA STOCK EXCHANGE

annual report

2006

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the malta stock exchange

as at 31 December 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

letter of transmittal

The Chairman
Malta Stock Exchange
Garrison Chapel
Castille Place
Valletta VLT 1000

30 March 2007

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 2006.

Yours faithfully

Joseph Zammit Tabona
Chairman

contents

chairman's message

chairman's message

The start of my tenure as Chairman of the Malta Stock Exchange co-incided with the issue of the Annual Report for 2005 and, therefore, at that time, I could not but look forward and outline my hopes and plans for the development of the capital market. A year later, I can look both backwards and towards the future with perhaps a more experienced and knowledgeable vision of how the Exchange functions and its role in the financial sector.

The past year has in some ways been rather tumultuous, not least of all the level of trading activity registered during 2006 The first five months of the year registered unprecedented heights in equity trading turnover. Both prices and trading volumes in equities reached levels that were not entirely expected although announcements of generous bonus issues, scrip and rights issues by various Issuers, coupled with a buoyant economy, provided the right ingredients for such elevated levels of trading. While equity market trading levels and prices levelled off in the latter half of the year, comparing year-to-year figures, these remained high. Overall, therefore, the market registered one of its best performances of the last few years due almost entirely to equity trading values.

On the issue of increasing liquidity, the Exchange, in collaboration with other market players has started to look into the possibility of introducing market making. Indications are very heartening. There is a generally a very positive view to introducing market makers and from a more practical viewpoint, there appear to be very few legislative changes that need to be made to create a sufficiently robust legislative framework to support this new market player.

After a quiet start to 2007, trading activity appears to be picking up and reaching 2006 levels, helped by the new issues that have come to the market at the beginning of the year which have brought with them renewed investor interest in market trading.

On the supply side a number of new issues came to the market, including the first equity to be listed for the past few years together with two new corporate bonds that were made available to the market through intermediary offers. All the primary issues were over-subscribed and closed within a few hours of the opening of the offers to the public, further highlighting the thirst for new investment opportunities by investors.

The Tentative Listing Calendar for 2007 indicates a continuous stream of new issues (and Issuers) coming to the market, including both fixed income securities as well as a number of share issues. The coming year will finally see the listing and trading on the Exchange of Treasury Bills scheduled for the first quarter of 2007. We are pleased to have seen the enactment of the Securitisation Act during 2006.Apart from the first bond that is likely to be issued under this Act as announced by Government in its Estimates for 2007, we are hopeful that further bond issues will be made as a result of this new Act.

These new instruments as well as new Issuers from diverse sectors of the economy will add both breath and depth to the market, which, as I have often said in the past, I sincerely believe, is vital to the continued development of the Exchange, both locally and internationally.

The number of issues listed during 2006 and projections for 2007 are not only a result of changing company needs, but also a result of the pro-active stance taken by the Exchange itself through meeting with companies and encouraging them to look towards the market for their financing needs. We intend to continue down this route not only locally but also internationally. On this issue the Exchange has taken more practical steps including making recommendations to the Competent Authority regarding proposed changes to the Listing Rules to facilitate the listing process and the Exchange has also prepared discussion papers regarding the possibility of setting up an Exchange-regulated market, similar to other such markets already set up by other Exchanges.

The proposal to change the corporate structure of the Exchange from a public entity sent up under a specific law, to a group of companies set up under the Companies Act has also been in development for a number of years and I am very pleased to say has reached its final stages in late 2006.

The new structure provides that a Group of Companies will be established composed of a Holding Company, MSE Holdings plc, which will take over the emphyteutical lease on the premises from the Exchange and which will hold 100% shareholding in the operating company, Malta Stock Exchange plc. Malta Stock Exchange plc will take over the current operations and functions of the Exchange. Eventually, there will be a further split between the core operations. Malta Stock Exchange plc will retain trading operations while a further subsidiary, also 100% owned by the Holding Company, namely CSD (Malta) Plc will take over the registry and clearing and settlement functions.

The new corporate structure will provide a suitable platform for the eventual sale, in full or in part, of the subsidiary companies. This structure ensures that the property currently being utilised as the Exchange premises remains within the ownership of Government while at the same time it provides the best legislative, regulatory and governance platform to expand current operations into new avenues for further business and to attract possible future strategic partners.

During 2006 the Exchange registered a pre-tax surplus of Lm492,889, just over twice that registered for 2005. Increased trading levels had an effect on transaction fees, amendment fees and turnover charges, which also helped to raise the surplus registered by the Exchange. Government listing fees increased, although at the same time, listing fees from collective investment schemes decreased by 8% when compared to 2005, due to continued significant delistings. The Exchange's financial position will be discussed in greater depth elsewhere in this Report, however, I can say that the Council has undertaken to carry out a full review of the fee structure of the Exchange, including admission fees and registry fees, not only with a view to encouraging further business but also to better reflect the full range of services being offered by the Exchange.

So, what is in store for 2007? The new corporate structure will, no doubt, take centre stage. While since its inception the Exchange has operated as an independent entity operating within a highly regulated environment, the shift to a company structure together with all the attendant legislative, regulatory, operational and procedural changes that this will entail will be significant. The Exchange at the end of 2007 will look very different from what the Exchange looked like at the beginning of the year. However, in spite of all these changes there will not be any compromise on the continuity and integrity of services being offered.

Attracting more companies to the market will remain a priority as it is only through increased listings that the Exchange can continue to thrive. Encouraging local, family-owned companies to list remains high on the agenda, although we intend to look further afield, both within other EU jurisdictions and outside the EU.

Apart from the considerable corporate changes, 2007 will also bring with it several operational changes. MiFID, the Transparency Directive, the EU Code on Clearing and Settlement, an upgrade to the trading system, Target2, and the introduction of the Euro, to name but a few, will all come on stream during 2007. All these will be covered elsewhere in this Report, however, needless to say, all these entail significant technical implementations apart from legislative and regulatory changes. The framework within which the Exchange will be operating within at the end of 2007 will be quite different from what it is now.

The coming year can, therefore, be said to be a year of significant changes. The Exchange we have all known for the past 16 years will effectively cease to exist, however, to be replaced, I am sure, by a stronger and more vibrant company, fully equipped and ready to take on future developments. I do not pretend that the coming year will be easy, however, I am sure that with the continued support of my fellow Council Members and the Management and staff and market participants, the Exchange will be able to meet all future challenges.

Joseph Zammit Tabona
Chairman

chief executive's report

chief executive's report

In my Report for 2004, I had expressed the opinion that "increasing the number of securities listed and widening the available "product" range is possibly the most important challenge facing the Exchange in the immediate future". During the two years that followed, the Exchange shifted gear to tackle this challenge taking advantage from the fact that it is no longer burdened with the same regulatory responsibilities it had prior to the enactment of the Financial Markets Act. These responsibilities, particularly those related to the processing of listing applications, had obviously inhibited the Exchange when it came to promoting the services and facilities it has to offer to prospective clients, whether investors or issuers, and the new listings which came on stream during the past year primarily reflected this new proactive stance by the Exchange. The positive performance of the market both in terms of new listings as well as in turnover values recorded during 2006 was reflected in the financial results for the year which returned a healthy surplus before tax of just under Lm0.5 million.

The outlook for 2007 with respect to new listings remains very positive as there are clear indications that a number of other companies will be coming to the market during the course of the current year. Furthermore, we are envisaging that, towards the end of the first quarter of the year, the range of Malta Government paper listed on the Exchange will also be including Treasury Bills.

As both the local market conditions prevailing in 2006 as well as the financial results have been amply covered in other sections of this Annual Report, I would rather like to focus my attention this year on a number of important developments that are currently evolving on the international scene and which are having-and will continue to have-a profound effect on the operations of the Exchange.

When Malta became a Member of the European Union in May 2004, the compliance obligations arising from this historical move affected all the different sectors of our economic infrastructure. The Maltese financial services industry was, of course, no exception. In March 2000, EU heads of state and government had agreed on an ambitious goal: making the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". At the heart of these ambitious macro-economic objectives lay the operations of the financial markets which, in the words of the Commission, "play an essential role in fuelling ideas, supporting entrepreneurial culture and promoting access to, and use of, new technologies".

The setting up of an efficient Single European Market with free movement of capital and services across all EU territories had always been seen as a key objective in achieving the EU's macro-economic goals. Of course, it was just as clear that there were a number of issues along the way that had to be addressed before the goal of a Single Market for financial services in Europe could be achieved. In order to deal with these issues, in 1999 the EU launched the Financial Services Action Plan (FSAP) which was designed to address existing barriers hindering the free movement of capital and services across the EU. In March 2000, the Lisbon Convention formulated a series of revisions to the FSAP which brought about the Markets in Financial Instruments Directive or, as it is better known, MiFID.

The main objective of MiFID is to introduce the right environment for open and competitive markets across the EU territories. In the majority of Member States, in fact, trading in shares is today concentrated in stock exchanges. MiFID aims to break down this "concentration rule" by facilitating competition between the exchanges and other trading platforms such as Multilateral Trading Facilities (MTFs) and Systematic Internalisers (SIs). The liberalization of the market would lead to a reduction in transaction costs thus making the European financial markets more competitive on a global level in line with the objectives set out in the Lisbon Agenda. At the same time, MiFID also aims to promote investor protection by introducing new regulations intended to increase price transparency in the market. The Directive, in fact, prescribes the publication of price information by the different execution venues in a way that would make it easier for investors to compare prices and transaction costs. The transparency objective ties up with another key requirement of MiFID, namely the obligation of investment firms to take all the steps necessary to obtain the best possible results for their clients taking into account costs, speed, likelihood of execution and settlement, size and nature of the order. This obligation is better known as the principle of "Best Execution". In the new market environment, the client must agree beforehand on the execution policy to be followed by the investment firm and then utilize the information made available, both pre-trade as well as post-trade with the introduction of MiFID to verify that these instructions have actually been followed. Whenever a client gives specific instructions to the investment firm, however, the firm would be obliged to carry out the transaction strictly in accordance with these instructions.

The principle of price transparency has also been extended to the post-trading activities performed by central securities depositories, clearing houses and central counter parties. Clearing and Settlement is, of course, an important link in the value chain of securities markets. In November, 2006 the CEOs of Europe's stock exchanges, clearing houses and central counter parties agreed to subscribe to a voluntary Code of Conduct designed to cut the total cost of trading equities across national borders by injecting more price transparency and competition into clearing and settlement operations. As a Member of the Federation of European Stock Exchanges, the Malta Stock Exchange was one of the signatories of the Code which was presented to European Commissioner Charlie McCreevy during a ceremony held in Brussels on 7 November. Under this Code, each stock exchange, clearing house and central counter party organisation has bound itself to publish its tariffs in respect of trading, clearing and settlement of equity transactions so that customers will be able to compare in advance, all the costs they would be incurring when dealing in equities. The primary aim of the Code is to promote higher levels of price transparency as a means of increasing the competitiveness of the European securities markets. Customers, in fact, will now have a much clearer picture of the expenses involved at all levels of equity transactions carried out on EU markets and will be better able to reconcile costs with published tariffs. The ultimate aim is to offer market participants the freedom to choose their preferred provider of services separately at each layer of the transaction chain and to make the concept of "cross-border" redundant for cash equity transactions within Europe. It is envisaged that the various provisions of the Code will be implemented by end 2007. The Code of Conduct is widely regarded as a very important test case because, if successful, it would show that self-regulatory initiatives by the industry can be a valid substitute for legislation.

The Malta Stock Exchange is in the midst of all these sweeping changes. In fact, their effects will effectively impact all the Exchange's core operations, from trading to clearing and settlement all the way down the value chain to securities registration.

Other projects which the Stock Exchange is currently working on relate to the adoption of the Euro as the local currency in January 2008. The Exchange is currently working hand in hand with the local authorities and with other institutions in Malta on the changes that would be required to convert all the operations of the Exchange from the Maltese Lira to Euro. At the same time, the adoption of the Euro also involves new international responsibilities vis-a vis other European settlement systems and for this reason, we are collaborating with the Central Bank of Malta on a number of projects including Target2 and Target 2-Securities, both of which are European Central Bank initiatives aimed at setting up an efficient payments system in Euros which can support the European Central Bank's single monetary policy objectives. In order to be better able to monitor progress in this area, the Malta Stock Exchange, as the operator of the local CSD, became a full member of the European Central Securities Depositories Association (ECSDA) last November. ECSDA is a European organisation which brings together central securities depositories operating in EU Member States.

All the projects and initiatives I have described above necessarily involve investment in new generation technology. We are, in fact, upgrading the electronic systems we are currently using in all our core operations, namely trading, clearing and settlement and securities registration in order to be able to comply with the new international regulatory requirements as they come on stream.

An important piece of legislation coming out of Brussels is the Transparency Directive which has taken effect in all EU Member States in January, 2007. This Directive was designed to introduce a harmonious set of rules that apply to listing and disclosure requirements across the European Union. These rules affect four main areas of market operations, namely the requirement of periodic financial reporting by listed companies, disclosures of major shareholdings to the market, dissemination of regulated information and central storage of this information. The Directive itself does not mandate a dissemination model but the current Maltese regulatory regime requires listed issuers to disclose regulatory information via the Exchange which is then responsible for dissemination of this information to the market. The Transparency Directive also requires the existence of at least one Officially Appointed Mechanism (OAM) in every jurisdiction which would be responsible for the central storage of the Regulatory Information provided by the listed issuers within that jurisdiction. The Exchange has, in fact, been recently appointed as the OAM for Malta by the MFSA. These new responsibilities will obviously entail the introduction of technological upgrades, particularly in the area of electronic communications, which will enable us not only to comply with the provisions of the Transparency Directive on a national level, but also on a European level. In fact, it is envisaged that the OAMs appointed in each of the EU Member States will be required to connect to a central OAM located in Paris such that information will be easily accessible to all market users in the Member States through this central storage system. This set-up would enable investors in all Member States to acquire in a relatively simple manner the latest information pertaining to security issuers listed on EU exchanges.

Whilst a lot of work is being done to comply with our international commitments, we have not lost focus of local market needs, and particularly of the importance of increasing liquidity and choice in the market. Apart from our continued efforts to attract new securities to listing, we are also focusing on what regulatory amendments would be necessary in the body of regulation to introduce market making operations as part of our trading infrastructure. Market makers would require the support of stock lending facilities if the market is to derive maximum benefit so we are also determining the legal and regulatory requirements necessary to introduce this practice in the local infrastructure.

Another busy and challenging year lies ahead for the Exchange, but. supported by the hard work and dedication of our staff, we have every reason to be confident in the future of the Exchange.

Mark A Guillaumier
Chief Executive

administration

report

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 Council appointed by the Minister of Finance in terms of Article 25 of the Financial Markets Act (Cap. 345 of the Laws of Malta) in January 2006, continued in office throughout the year. The term of appointment of the Council expires on 31 December 2008.
The Council is composed of Mr Joseph Zammit Tabona, Chairman, Dr Arthur Galea Salomone, Deputy Chairman whilst Dr Antoine Fiott, Mr Saviour Briffa and Ms Karen Spiteri Bailey are Council Members. Ms Eileen V Muscat is Secretary to Council
The Chairman and Council Members are all appointed in a non-executive capacity, however, all are also active on other Exchange committees such as the Audit Committee.
The Council held thirteen meetings during the year under review as well as a further three ad hoc meetings convened specifically to discuss the corporate restructuring of the Exchange.
The Council deliberated on this issue throughout the year as well as on the short- and medium-term strategy of the Exchange, both with regard to the local scenario and internationally. The Council also discussed and approved the implementation of a significant technical upgrade to the trading system as well as negotiated a new maintenance agreement. The Council also approved a number of amendments to the Bye-laws particularly providing for new clearing and settlement rules and the introduction of off-exchange trading. Furthermore, the Council also discussed other operational matters including a number of regulatory and technical implementations scheduled for 2007.

Committees

Strategy Committee

The Strategy Committee met early on in the year when it set out the strategic goals for the year in line with the policy set by the Council. Primarily the Strategy Committee concentrated on devising a plan to increase the number of Issuers and securities on the Exchange's recognized lists. The Strategy Committee identified a number of local companies that could be possible prospective Issuers and set up one-to-one meetings with such companies and other market participants in order to explain the listing and admission process and to explain the advantages of using the market as a means of satisfying their financing needs. The Strategy Committee also directed Management to look into the current listing and admission rules with a view to making recommendations to Council to simplify and streamline such rules to make them more accessible to prospective Issuers. At the same time the Strategy Committee also requested that the Exchange undertake a feasibility study and to make proposals regarding the possibility of setting up an Exchange-regulated market. During 2006 the Exchange made recommendations to the Listing Authority regarding possible amendments to the Listing Rules. The Council is currently discussing recommendations made regarding the setting up of an Exchange-regulated market.

Executive Committee

Throughout the year the Executive Committee met on a regular basis. The Exchange Committee was heavily involved in drafting all the necessary documentation, including legislative amendments, to support the proposed corporate restructuring of the Exchange. The Executive Committee was also instrumental in drafting and recommending to Council major changes to the Bye-laws particularly in relation to the introduction of off-exchange trading. Another important issue for the Executive Committee was the negotiation with the supplier of the trading system software regarding implementation of an upgrade to the trading system as well as negotiations regarding a new maintenance agreement and relevant costs. Such negotiations were spread over a number of months before a satisfactory conclusion was reached and recommendations could be made to Council on the way forward.

In line with its statutory obligations, the Exchange Committee also oversaw the implementation of the Council's policy and made recommendations to Council regarding operational, regulatory and strategic matters.

Audit Committee

During the year the Council was also assisted by the Audit Committee. Apart from regularly reviewing the Management Accounts, the Audit Committee was involved in monitoring certain expenditure and in particular monitoring the income and investments of the Exchange and actively seeking different solutions for investment to maximise returns to the Exchange. Among other issues, the Audit Committee recommended that the Exchange settles its outstanding bank loan to decrease interest payments; the removal of an overdraft facility which was not being utilised and which would release pledged collateral for other investment and general oversight of the Exchange's investments. The Audit Committee also agreed to the write-off of bad debts and to ensure that other debts were settled. The Audit Committee also recommended a re-negotiation of the admission fees paid by Government in respect of listed Malta Government Stocks. Such negotiations were successfully concluded towards the end of the year.

Securities Settlement System (SSS) Committee

During 2005 the Exchange implemented the first phase of a new clearing and settlement system to be fully compliant with international standards. The SSS Committee continued to spearhead the implementation of this project during 2006, undertaking discussions with the relevant Competent Authorities and also drafting a new Chapter of the Bye-laws to include new rules under which a new clearing and settlement system would operate. After the completion of this phase of the project, the SSS Committee discussed further amendments to these rules with particular reference to "default" rules and also in view of the planned migration to Target2 when Malta adopts the Euro as its currency.

Furthermore, the deliberations of the SSS Committee also addressed the implementation of listing and trading of Treasury Bills scheduled for the first quarter of 2007 as well as the provisions of the EU Code of Conduct on Clearing and Settlement to which the Exchange became a signatory in late 2006. This issue will be addressed elsewhere in this Report.

Towards the end of the year the SSS Committee also started to look into the EU-wide proposal in respect of Target2-Securities. The Exchange was actively participating in Tri-Party Task Force meetings on this issue, organized by the European Central Bank.

Market Making Committee

Following discussions with the Members and other market participants, the Council considered the issue of the feasibility of introducing market makers to the local market. The Council agreed that the Chief Executive should chair a committee composed also of representatives of the Members, the Banks, the Competent Authority and legal experts, with a view to look into the legal, regulatory and infrastructural amendments necessary to be introduced so that market makers could operate within the local market.

The Committee held a number of meetings wherein each sector representatives prepared a review of their particular concerns and requirements and also made specific recommendations on how such objectives could be met. Feedback from all sectors had been very positive. It appeared that very few legislative changes were required to enable market makers to operate in the local market. The Committee was currently preparing the appropriate recommendations for Council.

Ad Hoc Committees

In view of the large number of developments due to take place during 2007, a number of other ad hoc committees have been set up by the Council and the Executive Committee in order to steer certain projects through to completion. In particular, the MiFID Committee has been very active. This is a cross-departmental, multi-disciplinary committee, chaired by the Chief Executive, which has been set up to ensure implementation of all MiFID and Transparency Directive requirements in due time including technical implementation and compliance with regulatory reporting requirements.

Human Resources

Staff Complement

The staff complement remained unchanged during the year as no new employees were engaged nor were there any resignations. Towards the end of the year procedures had commenced in order to recruit a junior member of staff. At the end of 2006, therefore, the staff complement stood at 42.

During the Summer months the Exchange engaged three students to assist in the workload and also so that they could gain work experience in their areas of studies.

Later on in the year the Exchange hosted an official from the Tanzania Stock Exchange. He spent a short period of time working at the Exchange in order to gain experience in Exchange operations particularly in connection with depository operations.

Conditions of Work

During the year under review, the Exchange introduced conditions to allow the possibility for Exchange staff to telework under certain conditions and in particular circumstances as approved by the Council. During 2006, two Exchange officials were granted authority to telework over a stipulated period of time.

During August 2006 the Exchange also introduced for the first time, limited flexi hours in order to ensure that the Exchange continued to provide all its daily services even during the month of August when the Exchange usually operates shorter working hours.

Staff Training

Two members of staff sponsored by the Exchange to undergo tertiary education, successfully completed their first year studies in June 2006. Both these staff members returned to work at the Exchange during the Summer months. The Exchange also continued to sponsor a number of staff in their part-time degree studies in computing and information systems, international law, creativity and innovation.
The Exchanged also sponsored a number of staff to undergo short courses and industry training on IT related matters, compliance, legal and regulatory matters. Exchange officials also participated in a number of local seminars on diverse topics related to the financial market.

International Events

As in previous years, the Exchange participated actively in a number of international meetings and conferences dealing with securities business.

The Chief Executive, Mr Mark A Guillaumier, participated as a guest speaker in Stock Exchange conferences held in New York, Dubai and London. During the course of the year, he also attended various meetings organised by the international bodies of which the Exchange is a member, including the World Federation of Stock Exchanges (WFE) and the International Organisation of Securities Regulators (IOSCO). In October, Mr Guillaumier also formed part of the business delegation accompanying the President of Malta on a State visit in Croatia. In November, he was in Brussels where he signed the European Code of Conduct on behalf of the Malta Stock Exchange in the presence of Commissioner Charlie McCreevy.

The General Manager of the Exchange, Ms Eileen V Muscat, represented the Exchange in a number of Task Force meetings organised by the Federation of European Stock Exchanges (FESE) during the year. These meetings dealt mainly with the effects of the implementation of the Market in Financial Instruments Directive (MiFID) on the operations of the European Stock Markets.

Mr Simon Zammit, Deputy General Manager, attended a meeting organised in December by the European Central Bank (ECB) in Frankfurt which dealt with the Eurosystem's Target2-Securities project. In September, Dr Vella Baldacchino, Deputy General Manager was in Cambridge, UK where he was a guest speaker at the 24th International Symposium on Economic Crime. His presentation dealt with Malta's Anti Money Laundering regulations.

During the year, the Malta Stock Exchange became a Member of the European Central Securities Depositories Association (ECSDA) during the course of the Annual General Meeting of this organisation which was held in Oporto, Portugal. During this meeting, the Exchange was represented by the Chief Executive who also made a presentation for the occasion.

The Exchange was also accepted as a Member of the Association of the National Numbering Agencies (ANNA) during 2006. The Exchange's formal application for membership to this international body was discussed at a General Meeting of the organisation held in Buenos Aires, Argentina in November. The Exchange was represented at this meeting by Ms Stephanie Galea, Manager Compliance.

The Malta Stock Exchange was also present during a seminar and exhibition held in Zurich, Switzerland in June. The Exchange was represented at this event by Mr Anthony Cardona, Manager Special Assignments and by Mr Mark Borg Cardona, supervisor Compliance Office who were also responsible for manning a stand at the Exhibition Hall. The event was set up by the Swiss Organisation for Foreign Investment.

Regulatory Matters

Legislation

Two Legal Notices issued in terms of the Financial Markets Act (Cap. 345 of the Laws of Malta) and published in 2004 were brought into force during 2006.

Legal Notice 286 of 2004 – Off-Exchange Trading Regulations – was brought into force with effect from 27 January 2006 and provides that listed financial instruments may be traded outside the recognised investment exchange on which they are listed.

Legal Notice 287 of 2004 – Transfer of Listed Securities Regulations – came into force on 1 April 2006 and provides for the introduction of delivery-versus-payment in the case of market transactions in listed financial instruments.

Bye-laws

Significant changes to the Bye-laws and operations of the Exchange were implemented consequent to the coming into force of these two legal notices.

Two new chapters were added to the Bye-laws, namely Chapter 6 – Clearing and Settlement – and Chapter 7 – Off-Exchange Trade Validation and Reporting System. The provisions of these two new Chapters of the Bye-laws will be dealt with extensively elsewhere in this Report.

Further amendments were made throughout the current Bye-laws as a consequence of the coming into force of regulations issued under the Prevention of Financial Markets Abuse Act. Primarily these amendments concerned reporting requirements by listed companies.

Council Notice 1 – Fees and Other Charges

New charges were introduced in January 2006 in respect of off-exchange trading. These charges relate to turnover, trading and clearing and settlement charges and also include connectivity charges in respect of the Off-Exchange Trade Validation and Reporting System.

Compliance

In April 2006 the Exchange underwent an Inspection Visit by the Competent Authority which concentrated on trading, depository and compliance procedures.

In January and July, the Exchange submitted the "Certificate of Compliance" to the Competent Authority in terms of the General Directives applicable to Recognised Investment Exchanges wherein the Council confirmed compliance with all relevant rules and regulations and financial requirements.

Audit

In March 2006 the Exchange's external auditors, Ernst & Young, submitted the Audited Financial Statements and Management Letter for the financial year ended 31 December 2005 to the Council in terms of the Financial Markets Act (Cap. 345 of the Laws of Malta). The audited Financial Statements were submitted to the Competent Authority and reproduced in the Exchange's Annual Report for 2005.

International Relations

International Organisations

During 2006 the Exchange retained its membership in several standard setting international organisations as described in the Annual Report for 2005. During 2006, the Exchange became a full member of another two international organisations, namely the European Central Securities Depositories Association (ECSDA) and the Association of National Numbering Agencies (ANNA).

ECSDA

ECSDA was set up in 1997 in order to provide a forum for central securities depositories to exchange views and take forward projects of mutual interest. At the beginning of its activity, ECSDA focused on technical aspects of secure and efficient cross-border settlement, through the introduction of the Eurolinks network. ECSDA has since then developed complete standards for cross-border settlement of securities transactions and for automated support of corporate actions, ranging from cash dividends to more complex events such as rights. In support of the Eurolinks network, a model agreement was drafted to provide legal guidelines for the establishment of links between central securities depositories.

In the light of the strong increase of European cross-border activity, the deeper awareness of risks in the settlement process, the integration process of the European capital market and the higher attention paid to high efficiency of cross-border settlement, ECSDA enhanced its role as an Association. ECSDA has recently been focusing on conducting joint work on common interest issues in European clearing and settlement and on promoting the removal of obstacles on cross-border settlement, especially insofar as regards central securities depositories, the removal of the Giovannini Barriers highlighted in two project studies commissioned by the European Commission. This task is carried out in close co-operation with market participants including exchanges, issuers and intermediaries, and other institutional authorities. ECSDA also aims to give advice on legal, regulatory and fiscal matters to the European Commission and to contribute to the decision-making process, which will shape European clearing and settlement in Europe in the future.

ECSDA's mission is to offer solutions and provide advice at international level on technical, economical, financial and legal and regulatory matters to reduce risk and increase efficiency in custody, pre-settlement and settlement arrangements for securities and related payments across Europe for the benefit of issuers, investors and other market participants by promoting high efficiency with a low risk profile, a level playing field for all service providers, common standards, exchange of information and international co-operation.

ECSDA currently has nineteen European members, made up of sixteen central securities depositories and three international depositories. The Malta Stock Exchange has attained membership as operator of the Central Securities Depository.

ANNA

The Malta Stock Exchange, through the Central Securities Depository, has, since 1992, acted as the issuer of International Securities Identification Numbers (ISIN) for locally listed securities. ISO 6166 which provides for the uniform structure for ISIN numbers calls for the setting up of a national numbering agency which is responsible for the allocation of ISIN codes in accordance with these standards. The ISO Council designated the Association of National Numbering Agencies (ANNA) as the registration authority for this international standard.

In June 2003, the Competent Authority officially appointed the Exchange, as operator of the Central Securities Depository, as the National Numbering Agency entitled to allocate ISIN codes for all financial instruments issued locally. This appointment was a pre-requisite to formally approach ANNA with a view to becoming a global partner and eventually a full member.

ISIN codes are unique reference numbers that identify a particular security. Standard ISO 6166 describes the structure of ISIN codes and which organisations may allocate ISIN codes to which securities. In the allocation of ISIN codes, the definition of "fungibility" in the securities industry applies, namely that a security ranks *pari passu* in all respects with a different version of the same security and can be exchanged into the other form and vice-versa at any time. Thus fungible securities will be identified by one ISIN code.

The objectives of ANNA are:

- to make available to its members ISIN codes in a uniform structure for use in any application in the trading and administration of securities;
- to implement and maintain ISO 6166;
- to elaborate and maintain internal guidelines for the creation, modification or deletion of ISIN codes;
- to promote ISO 6166 and to assist all countries where a National Numbering Agency is going to be created;
- to implement and maintain ISO 10962 – Classification for Financial Instruments (CFI) – which is a code given to a group of financial instruments; and
- to elaborate and maintain guidelines for the creation and allocation of CFI codes.

The Malta Stock Exchange became the 69th member of ANNA in December 2006.

Meetings

During 2006, as in previous years, Exchange officials actively participated in the regular meetings of the international organisations of which the Exchange is a member such as working committees and annual general meetings. Particular emphasis was made to attend the various task force meetings organised by the Federation of European Securities Exchanges (FESE) regarding MiFID and clearing and settlement in view of the rapid developments taking place in these areas and the implementations scheduled for 2007.

During the year, the Exchange also started to attend the task forces meetings of a newly set up Tri Party Committee, organised by the European Central Bank which was discussing the feasibility of setting up Target2-Securities, a pan-European Securities Settlement System.

In November, the Exchange was represented at a general meeting of ANNA, when it was approved as a full member of this global organisation.

EU Code of Conduct on Clearing and Settlement

As a member of FESE, the Malta Stock Exchange was one of the signatories of the European Code of Conduct on Clearing and Settlement which was presented to European Commissioner Charlie McCreevy on 7 November 2006.

The signatories to the Code are members of FESE, the European Association of Central Counterparty Clearing Houses (EACH) and the European Central Securities Depositories Association (ECSDA) who have agreed on an industry-led Code of Conduct on Clearing and Settlement. The objective of the Code is to achieve greater efficiency and further integration of European capital markets in line with the objectives of the European Commission, and therefore, seeks to allow investors to trade European securities within a consistent, coherent and cost-efficient European framework. It is intended that customers, will, in fact, have a much clearer picture of the expenses involved in equity transactions carried out in EU markets and will be better able to reconcile with published tariffs.

The Code of Conduct covers the following areas:

- price transparency, to help customers to understand and compare prices and services to be implemented by 31 December 2006;
- standard unilateral access between organisations and interoperability to enhance the ability of organisations to interconnect and ultimately increase freedom of choice for market participants to be implemented by the end of June 2007; and
- service unbundling and accounting separation, to facilitate competition, increase customer choice and provide relevant information on the services provided to be implemented by the end of 2007.

As a signatory to the Code of Conduct, the Exchange has implemented the requirements of the first phase of the Code.

Qatar Project

In the Annual Report for 2005 it had been reported that the Exchange would be involved in an international project to provide consultancy to Qatari Authorities regarding upgrading their securities market, setting up a financial regulatory authority and other developments within the financial sector.

From October 2005 up to the end of February 2006, the Exchange was heavily involved in this project which culminated in the hand-over of all deliverables at the end of February 2006.

Exchange officials drew on their experience gained in the setting up of the Exchange itself and the subsequent transfer of regulatory responsibility to the Competent Authority, as well as all the changes that were taking place locally following Malta's accession to the EU.

The project included delivery of several documents including amended legislation, new rule books for both the financial market regulator and the capital market, dispute regulations, memorandum of understanding with the Central Bank and Anti Money Laundering Regulations.

During the week-long seminar held in Qatar at the end of February when the deliverables were submitted, the Exchange officials were also heavily involved in presenting the deliverables. Furthermore, they gave a lot of practical input on both the trading operations and the functions of the central securities depository which are very similar to those operated by the Malta Stock Exchange.

The Exchange has again been approached to participate in a second project for the Qatari Authorities which will focus on new rules and infrastructure for the central securities depository and the implementation of the capital market rules.

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

In June 2006 the Exchange hosted the GEMS Trading and Market Structure Seminar organised by the Zicklin School of Business, Baruch College, Columbia University of New York.

The inter-active seminar was attended by over 25 participants from various Exchanges and other financial institutions. A number of high level speakers and panelists participated in the seminar, including Ms Judith Hardt, Secretary General of FESE.

The Seminar provided a comprehensive overview of the workings of equity markets through specially set up trading simulations and also focusing on :

- order driven markets;
- technical analysis and algorithmic trading
- call and continuous trading
- price discovery
- networked trading; and
- block trading

The seminar also included two round-table discussions on “Technological Innovation and Market Structure” and “Stock Exchange Strategy – Ownership and Governance” which was also the topic of the concluding keynote address by Dr Ben Steil.

Euro Changeover

During 2006 the Exchange continued to work on the implementations necessary in respect of the changeover of listed financial instruments and trading of these financial instruments.

The Exchange focused on drawing up draft Guidelines to be issued by the NECC on “Redenomination and Renominalisation of Maltese lira denominated financial instruments converted into Euro”. These Guidelines set out the objectives, applicability and principles to be applied in the conversion and also set out market conventions and conversion methodologies for both fixed income financial instruments and equities.

The Guidelines, first issued in May 2006, have, following consultations with Members and listed companies, undergone a number of amendments with regard to the methodology of conversion to be applied to equity capital. It is envisaged the final Guidelines will be issued during the first quarter of 2007 providing for the redenomination of fixed income listed financial instruments using the bottom-up method based on individual holdings and the renominalisation of total share capital of listed companies.

exchange operations

and other activities

Market Operations during 2006

Market turnover during 2006 reached a total value of just under Lm161 million, an increase of Lm35 million, or 28% when compared to the previous year's turnover value. This increase in turnover was due entirely to increased trading activity in the equity market. Elevated market activity was concentrated in the first four months of the year. Market activity then leveled off to 2005 values for the remainder of the year.

The increase in market turnover was also reflected in the number of deals effected on the market which almost doubled from 2005 up to a total of 35,100 transactions making 2006 the busiest year since trading commenced in terms of deals concluded on the market.

During the first four months of the year the market registered unprecedented volumes and values of trading in equities fuelled by the excellent financial results posted at the end of the previous year by the major listed companies. Furthermore, increased turnover in equities was also driven by announcements at the beginning of the year by several listed companies of bonus issues and dividend scrip issues. Turnover in the equity market reached a value of Lm88 million, an increase of over Lm36 million when comparing year-to-year figures. Turnover increased across almost all the listed equities, although equity trading was concentrated in the shares of the two major listed local banks and telecommunications company. The equity listed during October also performed well until the end of the year. Prices of equities also soared during the first few months with the Malta Stock Exchange Index reaching record values.

Trading in the corporate bond sector decreased by 36% to reach a turnover value of Lm4.7 million. The number of deals concluded in these securities, however, remained static at just over 1,600. A number of redemptions took place this year which had an adverse effect on turnover values. Corporate bond market activity was spread fairly evenly among all the listed corporate bonds including the two new issues listed towards the beginning of the year.

Market activity in the Government Stock sector remained unchanged from 2005, increasing by just under Lm2 million to a value for 2006 of Lm68 million. The number of transactions involving Government Stocks decreased slightly to 3,112. Trading was concentrated in three bond issues which mature during the next two years but which have high coupon rates. Significant turnover was also registered in the longer-term bonds.

Investor participation in the primary market remained high during 2006 when all new issues were over-subscribed. Market turnover figures reflect heightened interest by investors in the secondary market and particularly a shift from the corporate bond market to the equity and Government stock markets.

Malta Stock Exchange Share Index

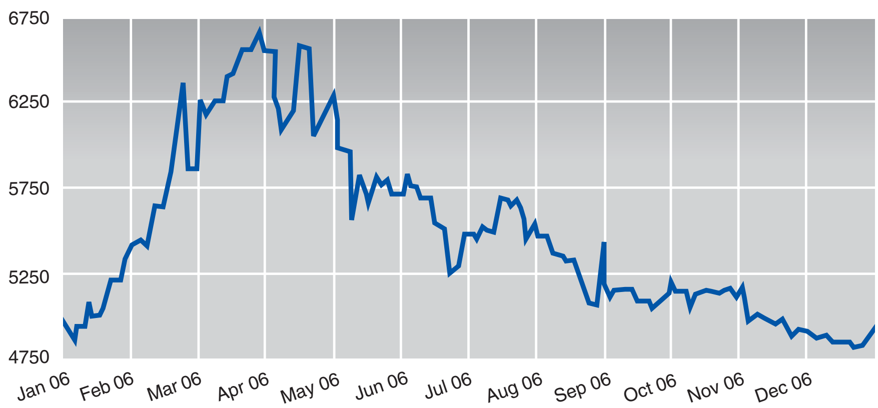
The considerable increase in equity trading during the first months of the year was reflected in the value of the Malta Stock Exchange Share Index which topped 6000.00 for the first time during 2006 and which reached its highest ever recorded value of 6634.42 on 27 March.

As equity trading decreased, the value of the Index also diminished to end the year at a value of 4873.46, down from a value of 4980.70 registered at the end of 2005.

Market Capitalisation

Market capitalisation at the end of 2006 stood at just under Lm2.9 billion (excluding Collective Investment Schemes) virtually unchanged from the value registered at the end of the previous year, although market capitalisation had topped Lm3.5 billion when the equity market was registering its highest activity. At the end of the year the market capitalisation of the equity market stood at Lm1.46 billion. The corporate bond market capitalisation

MSE Index 2006



Comparative Trading Figures

Security	Number of Deals		Volume/No. of Shares		Market Turnover (Lm)	
	2006	2005	2006	2005	2006	2005
Equities						
Bank of Valletta Plc Ord Lm0.25	9,163	5,037	6,977,967	3,252,597	31,458,757.17	18,573,166.39
HSBC Bank Malta Plc Lm0.125	13,360	2,916	8,613,233	2,228,262	34,285,759.30	14,473,451.38
Lombard Bank Plc Ord Lm0.50	515	323	364,520	265,738	2,255,844.12	1,501,142.04
Middlesea Insurance Plc Ord Lm0.50	608	341	344,436	279,472	1,261,725.04	894,052.23
Simonds Farsons Cisk Plc Ord Lm0.125	244	243	596,660	282,455	454,046.83	266,015.87
Suncrest Hotels Plc Ord Lm0.10	5	15	3,710	25,000	997.79	8,235.70
Maltacom Plc Ord Lm0.25	3,386	2,642	4,315,884	3,823,579	8,373,768.42	6,140,247.00
Int. Hotels Investments Plc Ord €1.00	642	288	2,207,793	1,535,974	898,501.73	523,739.84
Plaza Centres Plc Ord Lm0.20	143	161	619,114	800,966	424,234.88	494,002.68
GlobalCapital Plc Ord Lm0.125	587	195	876,483	534,693	1,697,638.66	647,318.63
FIMBank Plc Ord US$ 0.50	448	321	2,951,091	5,038,159	2,117,302.15	2,244,732.20
Malta Int. Airport Plc Ord Lm0.20	1,073	985	2,748,696	4,127,901	4,211,444.55	6,116,242.10
Medserv plc Ordinary ‘A’ Shares Lm0.10	66	-	390,010	-	531,608	-
Datatrak Holdings Plc Ord Lm0.10	112	157	185,951	419,327	54,076.15	106,810.62
Total Equity	**30,352**	**13,624**	**31,195,548**	**22,614,123**	**88,025,705**	**51,989,157**
Corp. Bonds						
8.25% Suncrest 2005/07	45	70	127,600	146,400	125,613.34	140,215.75
7.25% HSBC Bank 2005	-	44	-	587,500	-	601,786.10
Malta Govt. Privatisation Bonds 2005	-	10	-	991,000	-	1,117,378.00
6.5% Gasan Finance Company 2006/9	15	27	35,300	54,500	35,351.18	55,484.84
6.5% CC Car Parks Plc 2006	9	14	21,300	88,200	21,306.56	90,269.89
6.7% Tumas Investments Plc SecNotes 2006	2	6	20,000	89,000	20,400.00	92,480.00
6.25% Simonds Farsons Cisk Plc 2006/08	18	25	16,900	12,100	17,242.80	12,459.95
6.75% United Finance Plc 2008	27	19	180,000	54,800	182,828.80	57,014.13
6.5% CareMalta Finance Plc 2008/11	28	26	179,300	89,900	185,831.37	93,436.20
6.4% Gasan Finance Company Plc 2008/11	74	88	122,500	84,500	126,229.80	86,792.77
3.8% European Investment Bank 2009	58	43	188,900	170,700	188,630.06	171,209.75
6.7% Mizzi Org. Fin. Plc 2009/12	53	56	115,000	210,000	119,647.77	221,479.65
6.7% Corinthia Finance Plc 2009	85	147	161,200	335,200	165,535.52	344,465.70
6.15% Bank of Valletta Plc Sub 2010	86	79	204,300	735,400	215,324.32	773,802.35
6.5% Corinthia Finance Plc € 2010	39	54	218,500	396,000	95,961.85	174,095.04
5% Int. Hotel Investments Plc Con 2010	16	25	18,000	195,000	18,006.47	194,927.65
5.75% Mariner Finance Plc € 2008/10	30	56	288,300	368,400	123,876.57	159,085.75
6.7% Tumas Investments Plc 2010/12	77	58	231,000	186,600	240,992.08	194,559.27
8% Bank of Valletta US$ 2010	140	79	865,500	697,000	321,375.48	268,499.13
6.6% Simonds Farsons Cisk Plc 2010/12	52	59	41,300	55,500	43,426.43	59,064.13
6.7% Eden Finance Plc 2010	152	131	656,600	497,900	657,616.84	462,808.31
6.75% Corinthia Finance Plc 2012	83	73	149,300	313,800	155,280.50	323,540.56
6.2%-6.8% Int. Hotel Invest. Plc € 2013	42	76	361,300	1,028,800	160,046.66	452,458.91
6.3% Int. Hotel Investments Plc 2013	80	95	135,800	257,700	140,223.04	262,718.83
6% Dolmen Properties Plc Sec 2010/3	61	85	214,300	211,400	225,200.80	221,983.47
6.5% Int. Hotel Invest. Plc € 2012/14	43	-	659,600	-	291,580.62	-
5.6% GlobalCapital plc 2014/16	113	-	806,700	-	346,985.78	-
7% Big Bon Finance Plc Sec 2010/12	38	34	147,100	106,500	153,849.35	113,109.85
7.5% Hotel San Antonio Plc 2012	30	37	28,900	71,000	29,639.12	73,384.75
8% Bay Street Finance Plc 2012	121	161	305,100	594,700	308,533.37	594,691.54
	1,617	**1,677**	**6,499,600**	**8,629,500**	**4,716,536**	**7,413,202**
Close Ended Collective Investment Scheme						
San Tumas Shareholdings plc	19	21	17,176	46,138	18,109	37,645
Total Close Ended Collective Invest. Scheme	**19**	**21**	**17,176**	**46,138**	**18,109**	**37,645**
Malta Government Stocks	3,112	3,370	63,178,700	60,446,500	68,034,047	66,393,059
Total MGSs	**3,112**	**3,370**	**63,178,700**	**60,446,500**	**68,034,047**	**66,393,059**
Total all Securities	**35,100**	**18,692**	**100,891,024**	**91,736,261**	**160,794,398**	**125,833,063**

Malta Government Stock Movements 2006

Security Name	Date of Issue	Amount Issued	Coupon	Dates of Interest	Traded Value (Lm)	Deals	Last Close Price
7% MGS 2006	11-Jan-95	10,000,000	7.00%	19-May - 19-Nov	193,841	56	100.29
7.25% MGS 2006 (II)	15-May-96	19,250,000	7.25%	1-Feb - 1-Aug	390,000	59	100.18
7.25% MGS 2006 (III)	21-Aug-96	15,000,000	7.25%	20-Jan - 20-Jul	106,477	37	100.32
7% MGS 2006 (IV) R	11-Jan-95	167,127	7.00%	30-Jun - 30-Dec	-	-	-
7.35% MGS 2007	12-Oct-97	24,750,000	7.35%	18-Apr - 18-Oct	8,555,953	57	102.55
5.9% MGS 2007 (II)	4-May-99	10,000,000	5.90%	23-Apr - 23-Oct	1,365,821	9	100.59
5.6% MGS 2007 (III)	6-Jul-00	35,250,000	5.60%	10-Jun - 10-Dec	643,758	100	100.73
7.2% MGS 2008	19-Jun-98	10,000,000	7.20%	10-Jun - 10-Dec	2,897,562	12	104.57
7.2% MGS 2008 (II)	3-Aug-98	30,000,000	7.20%	28-Feb - 28-Aug	14,229,961	46	105.06
7% MGS 2009 R	16-Aug-99	64,500	7.00%	30-Jun - 30-Dec	-	-	-
5.9% MGS 2009 (II)	20-Sep-99	25,000,000	5.90%	1-Mar - 1-Sep	407,104	13	104.33
5.9 % MGS 2009 (III)	16-Oct-00	64,300,000	5.90%	30-Mar - 30-Sep	1,661,263	22	103.99
5.9% MGS 2010	28-Dec-99	15,000,000	5.90%	19-May - 19-Nov	26,456	3	106.63
5.75% MGS 2010 (II)	6-Jul-00	18,500,000	5.75%	10-Jun - 10-Dec	15,184	6	105.51
7% MGS 2010 (III) R	26-Sep-00	544,900	7.00%	30-Jun - 30-Dec	-	-	-
5.4% MGS 2010 (IV)	3-Mar-03	48,000,000	5.40%	21-Feb - 21-Aug	736,912	97	103.94
7.5% MGS 2011	23-Oct-96	15,000,000	7.50%	28-Mar - 28-Sep	183,116	35	115.26
6.25% MGS 2011 (II)	10-Aug-01	40,000,000	6.25%	1-Feb - 1-Aug	209,432	45	108.16
7% MGS 2011 (III) R	24-Jan-02	125,000	7.00%	30-Jun - 30-Dec	-	-	-
7.8% MGS 2012	11-Jun-97	34,500,000	7.80%	24-May - 24-Nov	829,974	54	117.60
7% MGS 2012 (II) R	26-Jul-02	176,200	7.00%	30-Jun - 30-Dec	-	-	-
5.7% MGS 2012 (III)	7-Oct-02	116,000,000	5.70%	30-Mar - 30-Sep	1,424,781	104	107.83
7.8% MGS 2013	12-Nov-97	34,250,000	7.80%	18-Apr - 18-Oct	794,381	47	121.16
6.35% MGS 2013 (II)	5-Dec-01	26,000,000	6.35%	19-May - 19-Nov	540,038	97	112.09
7% MGS 2013 (III) R	12-Sep-03	66,700	7.00%	30-Jun - 30-Dec	-	-	-
6.6% MGS 2014	16-Oct-00	10,500,000	6.60%	30-Mar - 30-Sep	597,436	40	114.93
6.45% MGS 2014 (II)	8-Jun-01	30,000,000	6.45%	24-May - 24-Nov	773,451	63	114.78
5.1% MGS 2014 (III)	21-Jul-03	47,000,000	5.10%	6-Jan - 6-Jul	1,659,030	117	105.75
5.1% MGS 2014 (III) FI	4-Aug-06	-	-	- - -	481,632	35	105.65
7% MGS 2014 (IV) R	6-Aug-04	1,718,800	7.00%	30-Jun - 30-Dec	-	-	-
6.1% MGS 2015	6-Jul-00	30,000,000	6.10%	10-Jun - 10-Dec	550,500	62	113.06
5.9% MGS 2015 (II)	19-Apr-02	40,200,000	5.90%	9-Apr - 9-Oct	779,393	127	112.23
7% MGS 2015 (III) R	8-Jul-05	291,400	7.00%	30-Jun - 30-Dec	-	-	-
7% MGS 2015 (IV) R	30-Nov-05	345,400	7.00%	3-May - 3-Nov	-	-	-
6.65% MGS 2016	16-Apr-01	30,000,000	6.65%	28-Mar - 28-Sep	776,723	95	119.00
4.8% MGS 2016 (II)	2-Dec-03	80,000,000	4.80%	26-May - 26-Nov	8,076,971	367	104.36
4.8% MGS 2016 (II) FI B	29-Mar-06	-	-	- - -	1,246,137	90	104.65
7% MGS 2016 (III) R	30-Jun-06	1,455,600	7.00%	30-Jun - 30-Dec	-	-	-
7.8% MGS 2018	3-Aug-98	70,000,000	7.80%	15-Jan - 15-Jul	554,597	56	131.50
6.6% MGS 2019	20-Sep-99	44,000,000	6.60%	1-Mar - 1-Sep	958,091	72	121.57
5% MGS 2021	3-Jun-04	110,000,000	5.00%	8-Feb - 8-Aug	10,576,719	647	106.25
5% MGS 2021 FI Tranche C	5-Aug-05	-	-	- -	24,270	6	108.26
5.1% MGS 2022	24-Aug-04	30,500,000	5.10%	16-Feb - 16-Aug	1,739,250	209	107.45
5.5% MGS 2023	21-Jul-03	33,833,200	5.50%	6-Jan - 6-Jul	1,672,022	139	112.27

Holders of MSE listed securities by Market Capitalisation as at 31 Dec 06

	Financial Entities		Non-Financial Entities		Government		Individuals	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Equities	6.62%	28.64%	30.80%	5.12%	5.15%	0.00%	20.41%	3.27%
Corp. Bonds	5.15%	0.07%	3.31%	0.18%	0.08%	0.00%	14.97%	0.06%
MGS	68.50%	0.00%	18.80%	0.00%	0.60%	0.00%	35.44%	0.15%

Market Capitalisation as at 31/12/2006

Name of Security	Shares in Issue	Closing Prices December 05	Lm	%
CAPITALISATION(LM)				
Bank of Valletta	110,832,882	3.700	410,081,663	0.280
HSBC Bank Malta	291,840,000	1.900	554,496,000	0.379
Lombard Bank Malta	8,534,342	5.760	49,157,810	0.034
Middlesea Insurance	25,000,000	1.980	49,500,000	0.034
Simonds Farsons Cisk	25,714,286	0.800	20,571,429	0.014
Suncrest Hotels	10,000,000	0.267	2,670,000	0.002
Maltacom	101,310,488	1.490	150,952,627	0.103
Int. Hotel. Invest. (€)	162,101,484	1.000	69,589,372	0.048
Plaza Centres	9,414,000	0.700	6,589,800	0.004
GlobalCapital	13,207,548	2.200	29,056,606	0.020
Fimbank (US$)	86,168,679	1.730	48,549,687	0.033
Malta International Airport	40,589,995	1.370	55,608,293	0.038
Medserv	10,000,000	1.360	13,600,000	0.009
San Tumas Shareholdings	1,665,176	1.150	19,150	0.000
Datatrak	15,949,500	0.251	4,003,325	0.003
SUBTOTAL				***1,464,445,762***
8.25% Suncrest Hotels Bonds 2005/7	2,849,400	100.00	2,849,400	0.02
6.7% Corinthia Finance 2009	8,447,700	103.00	8,701,131	0.05
6.15% Bank of Valletta 2010	19,990,600	105.00	20,990,130	0.13
5% Int. Hotel. Invest. 2010	5,000,000	100.00	5,000,000	0.03
6.75% United Finance 2008	4,000,000	100.75	4,030,000	0.03
8% Bank of Valletta 2010 (US$)	36,543,500	107.00	12,734,586	0.08
6.7% Eden Finance 2010	10,000,000	102.50	10,250,000	0.06
6.5% Corinthia Finance 2010 (€)	14,273,700	102.50	6,280,820	0.04
6.75% Corinthia Finance 2012	6,289,900	104.00	6,541,496	0.04
6.7% Mizzi Organisation 2009/12	10,000,000	104.50	10,450,000	0.07
6.7% Tumas Investments 2010/12	7,000,000	104.01	7,280,700	0.05
6.6% Simonds Farsons Cisk 2010/12	4,000,000	104.50	4,180,000	0.03
6.5% CareMalta Finance 2008/12	3,800,000	103.50	3,933,000	0.02
6.3% Int. Hotel Invest. 2013	6,017,500	103.40	6,222,095	0.04
6.2% - 6.8% Int. Hotel Invest. 2013 (€)	8,058,000	104.10	3,601,090	0.02
5.75% Mariner Finance 2008/2010 (€)	13,000,000	100.00	5,580,836	0.03
6.4% Gasan Finance 2008-2011	4,948,200	101.50	5,022,423	0.03
6% Dolmen Properties Bonds 2010/13	4,700,000	103.50	4,864,500	0.03
3.8% European Investment Bank Bonds	10,000,000	100.00	10,000,000	0.06
6.5% Int. Hotel Invest. 2012-2014 (€)	12,500,000	103.10	5,532,541	0.03
5.6% GlobalCapital plc Euro Bond 2014/16	17,000,000	100.10	7,305,315	0.05
7.5% Hotel San Antonio 2012	2,500,000	102.67	2,566,750	0.02
8% Bay Street Finance 2012	3,263,800	102.00	3,329,076	0.02
7% Big Bon Finance 2010/12	3,000,000	104.50	3,135,000	0.02
SUBTOTAL				***160,380,888***
7.35% MGS 2007	24,750,000	102.55	25,381,125.00	0.02
5.9% MGS 2007 (II)	10,000,000	100.59	10,059,000.00	0.01
5.6% MGS 2007 (III)	35,250,000	100.73	35,507,325.00	0.03
7.2% MGS 2008	10,000,000	104.57	10,457,000.00	0.01
7.2% MGS 2008 (II)	30,000,000	105.06	31,518,000.00	0.03
7% MGS 2009	64,500	100.00	64,500.00	0.00
5.9% MGS 2009 (II)	25,000,000	104.33	26,082,500.00	0.02
5.9% MGS 2009 (III)	64,300,000	103.99	66,865,570.00	0.05
5.9% MGS 2010	15,000,000	106.63	15,994,500.00	0.01
5.75% MGS 2010 (II)	18,500,000	105.51	19,519,350.00	0.02
7% MGS 2010 (III)	544,900	100.00	544,900.00	0.00
5.4% MGS 2010 (IV)	48,000,000	103.94	49,891,200.00	0.04
7.5% MGS 2011	15,000,000	115.26	17,289,000.00	0.01
6.25% MGS 2011 (II)	40,000,000	108.16	43,264,000.00	0.03
7% MGS 2011 (III)	125,000	100.00	125,000.00	0.00
7.8% MGS 2012	34,500,000	117.60	40,572,000.00	0.03
7% MGS 2012 (II)	176,200	100.00	176,200.00	0.00
5.7% MGS 2012 (III)	116,000,000	107.83	125,082,800.00	0.10
7.8% MGS 2013	34,250,000	121.16	41,497,300.00	0.03
6.35% MGS 2013 (II)	26,000,000	112.09	29,143,400.00	0.02

Market Capitalisation (continued)

Name of Security	Shares in Issue	Closing Prices December 05	Lm	%
7% MGS 2013 (III)	66,700	100.00	66,700.00	0.00
6.6% MGS 2014	10,500,000	114.93	12,067,650.00	0.01
6.45% MGS 2014 (II)	30,000,000	114.78	34,434,000.00	0.03
5.1% MGS 2014 (III)	47,000,000	105.75	49,702,500.00	0.04
5.1% MGS 2014 (III) FI	19,250,000	105.65	20,337,625.00	0.02
7% MGS 2014 (IV)	1,718,800	100.00	1,718,800.00	0.00
6.1% MGS 2015	30,000,000	113.06	33,918,000.00	0.03
5.9% MGS 2015 (II)	40,200,000	112.23	45,116,460.00	0.04
7% MGS 2015 (III)	291,400	100.00	291,400.00	0.00
7% MGS 2015 (IV)	345,400	100.00	345,400.00	0.00
6.65% MGS 2016	30,000,000	119.00	35,700,000.00	0.03
4.8% MGS 2016 (II)	80,000,000	104.36	83,488,000.00	0.07
7% MGS 2016 (III)	1,455,600	100.00	1,455,600.00	0.00
7.8% MGS 2018	70,000,000	131.50	92,050,000.00	0.07
6.6% MGS 2019	44,000,000	121.57	53,490,800.00	0.04
5% MGS 2021	110,000,000	106.25	116,875,000.00	0.09
5.1% MGS 2022	30,500,000	107.45	32,772,250.00	0.03
5.5% MGS 2023	33,833,200	112.27	37,984,533.64	0.03
SUBTOTAL				***1,240,849,388***
TOTAL MARKET CAPITALISATION				***2,865,676,038***
TOTAL IN EUROS AT 0.429300				***6,675,229,532***

Collective Investment Funds investing in MSE Listed Securities

ISIN Code	Fund	Net Asset Value in Lm Dec-05	Net Asset Value in Lm Dec-06
MT0000072034	La Valette Funds Sicav plc - Malta Fund	31,896,571.72	24,662,178.04
MT0000072067	La Valette Funds Sicav plc - Malta Bond Fund	42,691,406.02	44,957,528.11
MT0000072075	Vilhena Funds Sicav plc - Malta Fund	15,569,116.41	14,863,565.97
MT0000072125	Vilhena Funds Sicav plc - Malta Government Bond Fund	54,497,813.50	57,962,268.78
MT0000072257	Global Funds Sicav plc - Malta Privatisation and Equity Fund	8,931,759.93	6,470,661.98
MT0000072260	Wignacourt Funds Sicav plc - Malta Fund	18,799,003.00	13,798,701.60
MT0000072273	Amalgamated Funds Sicav plc - Growth and Income Fund	32,748,818.47	31,265,937.13
MT0000072042	HSBC Malta Funds Sicav plc - Malta Bond Fund	80,478,313.00	90,459,611.00
MT0000072166	HSBC No-Load Funds Sicav plc - Malta Government Bond Fund	122,991,174.00	132,100,347.00
MT0000072174	HSBC No-Load Funds Sicav plc - Maltese Assets Fund	33,782,748.00	34,531,568.00
MT0000072406	Gasan Funds Sicav plc - Gasan Enterprise Fund	310,096.19	273,775.94

registered a value of Lm160.3 million while at the end of the year Government Stocks listed and traded on the Exchange reached a market capitalisation value of Lm1.24 billion.

The Net Asset Values of Collective Investment Schemes investing in locally listed securities collectively registered a significant increase during 2006 when compared to the values registered during 2005.

Admission to Listing

The following financial instruments appeared on the recognised lists of the Exchange at the end of 2006:

14	Equities (ordinary shares)
29	Corporate Bonds
38	Government Stock Issues
1	Close-ended Collective Investment Scheme
52	Open-ended Collective Investment Schemes *(Primary listed)*
124	Open-ended Collective Investment Schemes *(Secondary listed)*

A new equity was listed during 2006 bringing the total number of listed equities to 14 by the end of the year. Another equity has been suspended from trading pending the conclusion of a delisting process. Several other Issuers listed further equity following bonus and scrip dividend issues. Two new corporate bonds were also admitted to the Official List during the year after being offered to the public through intermediaries offers. Both these bonds are denominated in Euro. At the same time three corporate bond issues were redeemed. Three new Government stock issues were admitted to the Official List while another five issues were redeemed during the year.

The following securities have been granted admittance to the Exchange's recognised lists during 2006:

Equity			
Medserv plc	10,000,000 Ordinary 'A' shares of 10c Nominal		
Lombard Bank Malta plc	123,622 shares of 25c Nominal *Scrip Dividend Issue*		
HSBC Bank Malta plc	218,880,000 shares of 12c5 Nominal *Bonus Issue*		
Fimbank plc	14,725,333 shares of US$0.50c Nominal *Bonus and Scrip Dividend Issue*		
Bank of Valletta plc	55,416,441 shares of 25c Nominal *Bonus Issue*		
Fimbank plc	269,607 shares of US$0.50c Nominal *Executive Share Option Scheme*		
IHI plc	23,047,995 shares of €1 Nominal		
Corporate Bonds			
€17,000,000 Nominal	5.6% Global Financial Services Group plc Euro Bond 2016		
€12,500,000 Nominal	6.5% International Hotels Investments Euro Bond 2012-2014		
Government Stocks			
Lm25,000,000	4.8%	Malta Government Stock	2016 (Fungibility Issue)
Lm1,455,600	7%	Malta Government Stock	2016 (III)
Lm19,250,000	5.1%	Malta Government Stock	2014 (III) (Fungibility Issue)
Collective Investment Schemes *(Secondary Listing)*			
Fidelity Funds SICAV	4 Sub-funds		
Brewin Dolphin Portfolios Limited	1 Sub-fund		

The following financial instruments have been delisted from the Exchange's recognised lists during 2006:

Merrill Lynch International Investment Funds	7 Sub-funds
Lloyds TSB Money Fund	1 Sub-fund

Compliance Office

During the year Compliance Office continued to liaise with the Competent Authority in respect to the regulation of Members, particularly in relation to trading activity.

As part of the on-going regulation of Members, in October, Compliance Office commenced a new programme of Surveillance Visits in respect of Member Firms. By the end of the year Compliance Office had concluded and reported upon three such visits. Surveillance visits principally concern trading procedures and client orders.

In line with the General Notification Directives applicable to recognised investment exchanges, Compliance Office reported twenty instances where a number of transactions effected on the Exchange were investigated. Nineteen of these investigations have been duly concluded whilst one particular investigation is still on-going.

Compliance Office has been involved in a number of projects throughout the year including making recommendations to Council on possible amendments to the Listing Rules and a feasibility study on the possible introduction of a new market to meet the needs of smaller companies and also other studies in relation to a possible new calculation of trade ranges. With effect from January 2006 the responsibility of the office was extended to include the operations of the Off-exchange Trade Validation and Reporting System. Compliance Office has been heavily involved in the implementation of the requirements of MFID and the Transparency Directive. Manager Compliance is part of the internal committee regarding MiFID implementation and also represents the Exchange at FESE MiFID Task Force meetings. Manager Compliance was also instrumental for the Exchange to obtain full membership of ANNA, and ensuring that the Exchange is fully compliant with all its guidelines. Manager Compliance is the Exchange's representative at ANNA meetings.

Compliance Office conducted two training sessions during the year in respect of new traders. Eight new traders successfully completed the trading and written examination. Compliance Office also guided the new Member through all membership procedures and the setting-up of trading operations.

A total of 239 Company Announcements were issued during 2006 through the Exchange's dissemination system, an increase of 12 when compared to the previous year. Company announcements were issued as follows:

January	13
February	12
March	22
April	31
May	26
June	33
July	11
August	19
September	17
October	18
November	18
December	19

Internal Compliance Office

In line with its own procedures, Internal Compliance Office carried out seven inspection visits to ensure on-going compliance to regulations and procedures in all Exchange offices. In the case of the Central Securities Depository, Internal Compliance Office carries out daily verification of various processes such as pledging, dividend/interest payments, redemptions and bonus issues. Internal Compliance Office also regularly verifies data published on the Exchange's website.

Throughout the year Internal Compliance continued to amend and update the Exchange's Procedures Manual. There were significant changes to procedures during the year driven by the introduction of the Off-Exchange Trade Validation and Reporting System and the implementation of new clearing and settlement procedures. In particular Internal Compliance Office is involved in daily verification of clearing and settlement procedures to ensure that only controlled changes are effected to the point of message generation on Settlement Day. Internal Compliance Office also monitors incoming payments which initiate outgoing payments and eventually reconciles these against data generated on Settlement Day and the reconciliation report submitted by the operator of the payments system.

In accordance with Article 5.2 of the General Notification Directives applicable to recognised investment exchanges Internal Compliance Office prepares monthly reports for submission to Council and to the Competent Authority. Internal Compliance Office is also represented on the internal MiFID Committee and is involved in a number of other exercises relating to the Transparency Directive and listing and trading of Treasury Bills.

Central Securities Depository

The number of accounts held with the Central Securities Depository (CSD) decreased from 169,000 at the end of 2005 to less than 160,000 at the end of 2006. This decrease resulted from a number of redemptions of securities during the year, including three Government Stock issues and four corporate bond issues which between them accounted for over 10,000 bond holders. The accounts held at the CSD represent 62,626 individual investors. Over half of these, 36,473 hold equi-

CSD Register Amendments for 2006

Amendment Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Causa Mortis	170	136	158	133	266	195	167	109	142	119	135	71	**1,801**
Garnishee Insert	5	2	3	5	7	1	4	2	1	5	11	4	**50**
Garnishee Release	4	2	2	7	2	5	5	1	6	3	12	0	**49**
Holder Amendment	241	152	209	79	133	134	105	91	88	168	130	56	**1,586**
Mandate/Power of Attorney	417	425	274	175	471	264	296	226	205	341	314	117	**3,525**
Bought Movements	4,080	6,080	4967	5122	3565	2081	1613	2008	1497	1887	1945	1345	**36,190**
Sold Movements	4,080	6,080	4967	5122	3565	2081	1613	2008	1497	1887	1945	1345	**36,190**
Release of Estates	232	208	200	271	281	268	259	247	216	298	323	133	**2,936**
Off Market Transfers	69	51	95	55	102	39	53	64	92	67	61	23	**771**
Pledge Insert	62	94	91	92	200	175	104	96	66	90	107	41	**1,218**
Pledge Release	69	82	102	70	147	125	77	70	48	62	79	39	**970**
Total	**9,429**	**13,312**	**11,068**	**11,131**	**8,739**	**5,368**	**4,296**	**4,922**	**3,858**	**4,927**	**5,062**	**3,174**	**85,286**

Dividend Payment Report as at end of December 2006

	GROSS AMT LM	GROSS AMT EURO	GROSS AMT US$	NO OF PAYMENTS
January	5,637,163.000			11,064
February	8,254,836.40	499,596.00		29,169
March	11,260,940.65			18,967
April	5,258,850.93		1,249,039.47	13,097
May	19,478,176.64			50,538
June	4,009,730.95			10,261
July	7,090,913.00			15,373
August	25,272,108.99			34,402
September	9,693,804.48			15,074
October	7,512,426.98		2,923,480.00	26,280
November	7,648,800.20			30,275
December	16,912,154.42			31,000
TOTAL	**128,029,906.64**	**499,596.00**	**4,172,519.47**	**285,500**

ties, 28,178 hold Government Stocks while 12,678 hold corporate bonds.

The number of register amendments effected by the CSD across all registers increased from 52,349 in 2005 to 85,286 in 2006, due principally to a significant increase in the number of market transactions (bought/sold movements) concluded during the year.

During the year the CSD also effected primary issue processing procedures in respect of three new Government Stock issues, two of which were fungible issues. Furthermore, the CSD also carried out primary issue process procedures in respect of two corporate bond issues and one equity issue.

The CSD also effected the processing in respect of redemptions and redemption payments and the amalgamation processes in respect of fungible Government Stock issues.

Throughout the year the CSD processed nearly 285,500 dividend and interest payments on behalf of issuers, an increase from 284,874 last year. The dividend/interest payments totaled a gross value of slightly over Lm128 million, as well as €0.5 million and US$ 4 million.

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

The introduction of new clearing and settlement procedures in April significantly affected the procedures of the CSD. New technical and operational procedures were introduced to enable settlement to take place on Settlement Day following confirmation of receipt of funds. Reports to listed companies were also amended to reflect these new clearing and settlement procedures. Further changes to CSD procedures resulted from the introduction of off-exchange trading which also affected post-trading procedures and registration.

Another system upgrade was made to the depository software during the year in order to increase functionality. Some other changes were also made to other procedures, such as pledging procedures.

Clearing and Settlement

A major development that took place in April 2006 was the introduction of new rules on clearing and settlement, in particular the introduction of settlement on a delivery-versus-payment (DVP) basis in order to bring the Exchange's clearing and settlement operations further in line with international standards with a view to decreasing, if not eliminating entirely, operational and systemic risk.

The new rules and procedures provide for the setting up of MaltaClear, a system for the clearing and settlement of all trades effected on the market.

The new system provides for a settlement cycle of not more than three working days, on a netting basis but also allowing for the possibility of gross settlement, with settlement taking place on a DVP basis, that is registration of securities in the name of a buyer only takes place upon confirmation of receipt of payment for such a purchase in accordance with the rules of the system and in accordance with the provisions of the "Transfer of Listed Securities Regulations" issued in terms of the Financial Markets Act (Cap. 345 of the Laws of Malta).

Settlement on a DVP basis became possible through the electronic linkage between the trading system, the CSD and MaRIS, the National Payment System operated by the Central Bank of Malta.

MaltaClear was approved as an authorised Securities Settlement System by the Central Bank of Malta as Competent Authority, in terms of Article 26 of the Central Bank of Malta Act. The rules of MaltaClear are incorporated under Chapter 6 of the Bye-laws and provide for settlement on a DVP basis in respect of all securities traded on the Exchange.

Apart from DVP, the new clearing and settlement rules also provide for "buyer's right of forward transmission", that is the provision for a buyer to alienate the acquired right of the purchased securities before settlement day. Furthermore, "point of entry" of a trade into the system is also defined giving such trade protection from insolvency procedures from such moment of entry into the system which has been defined as the moment the trade is executed.

Clearing and settlement rules will be revised during 2007 to include new provisions in respect of clearing and settlement of Treasury Bills and also to include further default rules to kick in the event of failed settlement.

Off-exchange Trade Validation and Reporting System

Following the approval of the relevant rules, included as Chapter 7 of the Bye-laws, the Trade Validation and Reporting System went live on 31 January 2006.

This system provides that financial instruments listed on the Exchange may also be traded off-exchange. However, as the Exchange's trading infrastructure is used to report such trades, pre-validation of sell balances against CSD holdings could be retained. Furthermore, the level of transparency and reporting provided in respect of on-market trades is also available in respect of off-exchange trading. In the case of off-exchange trading however, there is no price-formation mechanism. Such trades may also be settled through MaltaClear.

This system is accessed through a separate screen within the trading system and may be accessed directly or indirectly and remotely or on-site by authorised investment firms.

Apart from new rules, the implementation of the Off-Exchange Trade Validation and Reporting System has necessitated other minor consequential changes to the bye-laws; a new trading time-table encompassing both on-exchange and off-exchange trading as well as considerable changes to post-trading procedures. Furthermore, new fees and charges were drawn up regarding the provision of services in respect of this trade reporting system.

By the end of the year seven authorised investment firms had applied for and been granted access to the Off-Exchange Trade Validation and Reporting System.

Other Exchange Functions and Activities

Throughout the year IT Office was involved in a number of major projects including off-exchange trading, clearing and settlement, an upgrade to the Depository software and upgrades to the Exchange's website as well as the installation of an electronic tape ticker showing real-time market prices.

The Exchange's website has been upgraded to include real-time trading information, both for the on-exchange and off-exchange markets, the facility to include new prospectuses to be disseminated, and enhanced company information. Later on in the year a new page was added to the website in relation to the EU Code of Conduct on Clearing and Settlement.

Towards the end of the year IT Office commenced work on the implementation project in respect of a major technical upgrade to the trading system, scheduled to go live in July of 2007.

During 2007, IT Office will continue to be involved in other major projects including Treasury Bill trading, changeover to Euro and the implementation of MiFID and the Transparency Directive and continued changes to the clearing and settlement system including connectivity to Target2, once Malta joins the Eurozone.

Manager IT represents the Exchange on FESE's Statistics and Economics Sub-committee and also on other various local committees relation to payment systems and statistical reporting.

Manager Special Assignments continued to manage the on-going education programme for schools. Over 800 school children visited the Exchange and were given a presentation on its operations and functions.

As part of the education campaign Exchange officials also participated in four television programmes on financial services where they discussed specific aspects of Exchange operations, and also participated in radio programmes when they answered investors' questions regarding the Exchange and its operations.

The Education campaign also involved presentations to University students as well as supervising and assisting such students with their dissertations.

In conjunction with HSBC Bank Malta plc, the Exchange held three seminars targeted at specific audiencies to continue to widen the knowledge of financial services in Malta in general and about the Exchange operations and related services in particular.

One of these seminars held in June was entitled "Encouraging Companies to go Public". A number of companies were invited to attend and the response was very positive. The Hon Tonio Fenech, Parliamentary Secretary, Ministry of Finance, opened the seminar and outlined his vision for the future of the Exchange. Prof J V Bannister, Chairman of the MFSA, spoke about the Listing Rules, while Mr Shaun Wallis, Chief Executive of HSBC Bank Malta plc spoke about the advantages of listing. The Chairman of the Exchange concluded the seminar by outlining the Exchange's strategy to increase listings. The seminar also included two very interesting panel discussions regarding the experience of listed companies on the market and considerations before going public.

The other two seminars were held in June and November and were aimed at the investing public. The seminar, which were conducted in Maltese, dealt with how an investor should plan his investments. Speakers from HSBC Bank Malta plc and the Exchange spoke about capital markets in general and the Exchange in particular and also about financial planning. Both seminars were very well attended by investors who took the opportunity to discuss certain matters with the speakers and to clarify other issues.

Members

Membership

At the end of 2006 a total of twelve firms together with the Central Bank of Malta were authorised as Members of the Exchange.

During the year Azzopardi Investment Management ceased operations. Finco Treasury Management Ltd commenced operations at the beginning of the year while towards the end of the year, another firm, Mediterranean Bank plc, also commenced trading operations.

The Exchange is currently processing an application in respect of another new Member.

Traders

At the end of 2006 the twelve Member Firms together with the Central Bank of Malta were represented by over fifty traders, authorised by the Exchange to trade on behalf of the Member firms. Eight new traders were authorised to trade after obtaining all regulatory clearances and after successfully completing the requisite training and written test, which during 2006 was held in May and October.

The Exchange is currently processing a number of trader applications and will be holding the first training session for 2007 and written test during the first quarter of the year.

College of Stockbroking Firms

The College of Stockbroking Firms composed of representatives from all Member firms and set up in terms of Article 8 of the Statute appended to the Financial Markets Act (Cap. 345 of the Laws of Malta) appointed Mr James Blake as Chairman and Mr Andrew Zarb Mizzi as Secretary for a period of one year with effect from 28 March 2006. Mr Blake and Mr Zarb Mizzi took over from Mr Wilfred Mallia and Mr Vincent Rizzo, respectively. Mr David Curmi was re-appointed as Deputy Chairman also for a period of one year.

The College held regular meetings with the Chairman and Senior Management of the Exchange when matters of mutual interest were discussed in particular issues in relation to trading, prospective listings and Euro changeover regarding which Members have given very valid contributions.. The College is also represented on the Market Making Committee where Members have participated actively and have made very relevant recommendations. The College has supported the Exchange in its endeavours over the year which has helped, in no small way, to facilitate changes and developments.

members

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Bank of Valletta plc
BOV Centre
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HSBC Stockbrokers (Malta) Ltd
233 Republic Street
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Finco Treasury Management Ltd
Level 5
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Mediterranean Bank Plc
10 St Barbara's Bastion
Valletta
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general information

Council Members

Joseph Zammit Tabona	Chairman (appointed on 10 January 2006)
Alfred Mallia	Chairman (resigned on 10 January 2006)
Arthur Galea Salomone	Deputy Chairman
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
MALTA

Bankers

Bank of Valletta p.l.c.
Valletta Business Centre
Level 2, Annex
45, Republic Street
Valletta VLT 04
MALTA

APS Bank Limited
APS House
St. Anne Square
Floriana
MALTA

Auditors

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

financial report

The Malta Stock Exchange registered a profit before taxation of Lm492,889 for the year ended 31 December 2006. This was more than twice the pre-tax profit registered for 2005 with the increase being mainly attributable to higher listing fees which went up by around 40% this year to reach Lm922,761. Following the termination of an agreement with the Treasury whereby fees payable to the Exchange in respect of the listing of Government paper had benefited from a 50% discount, the annual listing fees payable to the Exchange in respect of 2006 amounted to Lm506,000.

The higher levels of trading activity which characterised the earlier months of 2006 also resulted in a significant increase in Exchange fees. In fact, stockbroker fees, transaction fees and other income directly related to market volumes, increased by nearly 50% to Lm186,382.

Reflecting these movements, the operating income of the Exchange showed a sharp increase of almost 30% to reach Lm1,525,388.

At the same time, total expenses for the year amounted to Lm1,062,430 in 2006 representing an increase of 12% on the previous year. This increase in costs reflected higher professional fees incurred during 2006 as a direct result of the restructuring exercise currently being carried out by the Exchange but was also due to significant outlays paid out in respect of foreign advertising.

On the other hand, the Exchange also managed to cut down on expenses in a number of areas, most notably in transport related costs, repairs and maintenance of the premises as well as in insurance premia. Furthermore, the Exchange also paid back all bank borrowing during the first quarter of 2006, thereby cutting down drastically on its debt-servicing costs for the year.

The Exchange is now looking at implementing further cost-cutting measures as part of management's commitment to further improve on the financial results for the coming year. This is in line with management's strict commitment to contain operating costs without compromising on the levels of service provided by the Exchange.

The expectations for 2007 continue to be positive. During the first quarter of the year, in fact, four corporate bonds and an equity issue have already been added to the Official List whilst a number of other possible listings are already in the pipeline.

Mark A. Guillaumier
Chief Executive

Malta Stock Exchange
Garrison Chapel
Castille Place
Valletta
20 March 2007

council's report

The Members of the Council present their annual report and the audited financial statements for the year ended 31 December 2006.

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 Lm492,889 for the year ended 31 December 2006, compared to the profit before tax of Lm235,307 generated during the year ended 31 December 2005.

Council Members

During the year ended 31 December 2006 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
20 March 2007

auditor's report

We have audited the financial statements of the Malta Stock Exchange, which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set on pages V to XVIII.

Council's Responsibility for the Financial Statements

The Council is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2006, and of its financial performance 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
20 March 2007

income statement

	Notes	2006 Lm	2005 Lm
Operating income	2	**1,525,388**	1,186,066
Administrative expenses		**(1,069,680)**	(949,201)
Operating surplus	3	**455,708**	236,865
Income from investment securities	5	**20,285**	14,688
Other income		**24,298**	-
Other expenses		**(6,859)**	-
Interest receivable	6	**1,087**	1,076
Interest payable	7	**(1,630)**	(17,322)
Profit before taxation		**492,889**	235,307
Taxation	8	**(174,530)**	(91,110)
Profit for the financial year		**318,359**	144,197

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 2006

	Notes	2006 Lm	2005 Lm
ASSETS			
Non-current assets			
Property, plant and equipment	9	**2,163,189**	2,229,796
Financial assets	10	**305,572**	261,821
		2,468,761	2,491,617
Current assets			
Trade and other receivables	11	**630,322**	442,086
Income tax recoverable		**783**	41,961
Cash at bank and in hand	17	**164,939**	179,283
		796,044	663,330
TOTAL ASSETS		**3,264,805**	**3,154,947**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	12	**1,500,000**	1,500,000
Revaluation reserve	13	**17,052**	16,264
Accumulated surplus		**1,305,754**	987,395
Other reserve	13	**95,491**	95,491
Total equity		**2,918,747**	2,599,150
Non-current liabilities			
Interest bearing loans and borrowings	14	**-**	168,716
Deferred taxation	15	**82,494**	75,811
		82,494	244,527
Current liabilities			
Interest bearing loans and borrowings	14	**2,185**	83,362
Trade and other payables	16	**261,379**	227,908
		263,564	311,270
Total liabilities		**346,058**	555,797
TOTAL EQUITY AND LIABILITIES		**3,264,805**	3,154,947

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 20 March 2007 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 2006

	Capital Lm	Revaluation reserve Lm	Accumulated surplus Lm	Other reserve Lm	Total Lm
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**
Financial year ended 31 December 2006					
Balance at 1 January 2006	1,500,000	16,264	987,395	95,491	2,599,150
Profit for the financial year	-	-	318,359	-	318,359
Reversal of impairment loss (note 10)	-	7,250	-	-	7,250
Unrealised loss on financial assets available for sale (note 10)	-	(9,249)	-	-	(9,249)
Effect of deferred taxation on unrealised loss (note 15)		3,237	-	-	3,237
Balance at 31 December 2006	**1,500,000**	**17,502**	**1,305,754**	**95,491**	**2,918,747**

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 2006

	Note	2006 Lm	2005 Lm
Cash flows from operating activities			
Profit before taxation		**492,889**	235,307
Adjustments for:			
Depreciation		**99,232**	101,273
Investment income		**(20,285)**	(14,688)
Interest receivable		**(1,087)**	(1,076)
Interest payable		**1,630**	17,322
Decrease in provision for bad debts		**(11,538)**	-
Operating surplus before working capital changes		**560,841**	338,138
(Increase)/decrease in debtors		**(176,698)**	1,768
Increase/(decrease) in creditors		**33,471**	(34,835)
Cash generated from operations		**417,614**	305,071
Interest received		**1,087**	1,076
Interest paid		**(1,630)**	(17,463)
Taxation paid		**(152,342)**	(91,853)
Taxation recovered		**28,910**	-
Net cash from operating activities		**293,639**	196,831
Cash flows from investing activities			
Purchase of tangible assets		**(32,625)**	(18,684)
Purchase of investments		**(52,750)**	-
Redemption of investments		**7,000**	-
Investment income		**20,285**	14,688
Movements in bank term deposit balance		**10,052**	(250)
Net cash used in investing activities		**(48,038)**	(4,246)
Cash flows from financing activities			
Repayment of bank loan		**(250,327)**	(77,105)
Net movement in cash and cash equivalents		**(4,726)**	115,480
Cash and cash equivalents at beginning of year		**167,480**	52,000
Cash and cash equivalents at end of year	17	**162,754**	167,480

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

1. Summary of Significant Accounting Policies

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

Basis of preparation and statement of compliance

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).

Significant accounting judgements, estimates and assumptions

In preparing the financial statements, Council is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the changes become known. In the opinion of the Council, the accounting estimates, assumptions and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised)-'Presentation of financial statements'.

Standards, interpretations and amendments to published standards effective in 2006

In 2006, the Exchange adopted new standards, amendments and interpretations to existing standards that are mandatory for the Exchange's accounting period beginning on 1 January 2006. The adoption of these revisions to the requirements of IFRSs did not result in substantial changes to the Exchange's accounting policies.

Standards, interpretations and amendments to published standards that are not yet effective

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 2007 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 *(effective for financial years beginning on or after 1 January 2007).* This standard is not applicable to the Exchange's operations.

IFRS 7-Financial Instruments–Disclosures *(effective for financial years beginning on or after 1 January 2007).* This standard supersedes the disclosure requirements of IAS 32.
A complementary amendment to **IAS 1-Presentation of Financial Statements-Capital disclosures**. *(effective for financial years beginning on or after 1 January 2007).* The Exchange assessed the impact and concluded that certain additional disclosures would be necessary upon their application.

IFRS 8-Operating Segments *(effective for financial years beginning on or after 1 January 2009).*
IFRS 8 is not relevant to the Exchange's operations.

IFRIC 7-Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies *(effective for financial years beginning on or after 1 March 2006).*
IFRIC 7 is not relevant to the Exchange's operations.

1. Summary of Significant Accounting Policies *(continued)*

IFRIC 8-Scope of IFRS 2 *(effective for financial years beginning on or after 1 May 2006). IFRIC 8 is not relevant to the Exchange's operations.*

IFRIC 9-Reassessment of Embedded Derivatives *(effective for financial years beginning on or after 1 June 2006).* IFRIC 9 is not relevant to the Exchange's operations.

IFRIC 10-Interim Financial Reporting and Impairment *(effective for financial years beginning on or after 1 November 2006).* IFRIC 10 is not relevant to the Exchange's operations.

IFRIC 11, IFRS 2-Group and Treasury Share Transactions *(effective for financial years beginning on or after 1 March 2007).* IFRIC 11 is not relevant to the Exchange's operations.

IFRIC 12-Service Concession Arrangements *(effective for financial years beginning on or after 1 January 2008).* IFRIC 12 is not relevant to the Exchange's operations.

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.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated to write off the cost of property, plant and equipment 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	6 2/3%
Computer systems	20%
Office furniture, fittings and other equipment	10 - 16 2/3%

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

Gains and losses arising on de-recognition upon disposal of property, plant and equipment (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

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit of loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. All financial assets are initially recognised at cost, being the fair value of the consideration given, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Exchange determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

The Exchange has classified its financial assets during the current and previous year as 'available-for-sale' 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 using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis based on the expected cash flows of the underlying net asset base of the investment and option pricing models.

Derecognition of financial assets

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.

Derecognition of financial liabilities

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.

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 and loss, is transferred from equity to the income statement.

1. Summary of Significant Accounting Policies *(continued)*

Trade and other receivables

Trade receivables 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 other outstanding bank facilities.

Borrowing costs

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

Trade and other payables

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.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfilment is dependant on a specified asset; or
d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal of extension period for scenario b).

For arrangements entered prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

1. Summary of Significant Accounting Policies *(continued)*

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

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:

	2006	2005
	Lm	Lm
Stockbrokers fees	**120,844**	89,430
Listing fees	**922,761**	658,228
Register fees	**382,901**	363,630
Transaction fees and other income	**98,882**	74,778
	1,525,388	1,186,066

Other income

Other income comprises of fees charged to a third party for advisory services provided by the Malta Stock Exchange personnel.

3. Operating Surplus

The operating surplus is stated after charging:

	2006	2005
	Lm	Lm
Staff costs (note 4a)	**477,579**	438,987
Emoluments of the chairman and council members	**11,981**	13,050
Auditors' remuneration	**2,950**	2,950
Depreciation of tangible assets (note 9)	**99,232**	101,273
Lease payments	**4,583**	7,167

4. Employee Information

a. **Staff costs**

The total employment costs were as follows:

	2006	2005
	Lm	Lm
Wages and salaries	**450,052**	412,570
Social security costs	**27,527**	26,417
	477,579	438,987

b. **Staff numbers**

The average number of persons employed by the Exchange during the year was 43 (2005: 43).

5. Income from Investment Securities

	2006	2005
	Lm	Lm
Interest on quoted securities	**15,720**	14,688
Profit on sale of securities	**4,565**	-
	20,285	14,688

6. Interest Receivable

	2006	2005
	Lm	Lm
On bank balances	**1,087**	1,076

7. Interest Payable

	2006 Lm	2005 Lm
On overdraft	**-**	1,761
On bank loan	**1,630**	15,561
	1,630	17,322

8. Taxation

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

	2006 Lm	2005 Lm
Current tax expenses	**164,610**	79,004
Deferred tax expense (note 15)	**9,920**	12,106
	174,530	91,110

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:

	2006 Lm	2005 Lm
Profit on ordinary activities before taxation	**492,889**	235,307
Theoretical taxation expense at 35%	**172,511**	82,357
Tax effect of		
- excess of carrying amount over tax base of tangible assets	**5,863**	6,199
- excess of carrying amount over tax base of amount receivable	**155**	-
- expenses not deductible for tax purposes	**4,792**	5,706
- income subject to different tax rates	**(4,753)**	(3,152)
- provisions not subject to tax	**(4,038)**	-
Taxation charge	**174,530**	91,110

9. Property, Plant and Equipment

	Leasehold premises & related expenditure Lm	General electrical equipment Lm	Computer software Lm	Office furniture, fittings & other equipment Lm	Total Lm
Year ended 31 December 2006					
Opening net book amount	1,730,574	324,746	59,928	114,548	2,229,796
Additions	744	-	14,877	17,004	32,625
Depreciation charge	(18,617)	(30,542)	(25,178)	(24,895)	(99,232)
Closing net book amount	**1,712,701**	**294,204**	**49,627**	**106,657**	**2,163,189**
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
At 31 December 2006					
Cost	1,810,893	458,133	632,736	298,839	3,200,601
Accumulated depreciation	(98,192)	(163,929)	(583,109)	(192,182)	(1,037,412)
Net book amount	**1,712,701**	**294,204**	**49,627**	**106,657**	**2,163,189**
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

10. Financial Assets

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

	2006 Lm	2005 Lm
Available-for-sale financial assets (at fair value)		
Listed available-for-sale financial assets	**298,322**	261,821
Unlisted available-for-sale financial asset	**7,250**	7,250
Provision for unlisted available-for-sale financial asset	**-**	(7,250)
At 31 December	**305,572**	261,821

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.

The unrealised loss in the carrying amount on these financial assets, which has been recognised in equity during the year ended 31 December 2006 amounted to Lm9,249 (2005: unrealised gain Lm1,646) (note 13 below).

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 %	2006 Lm	2005 Lm
Within 1 year	7.35	**9,230**	7,161
Between 2 and 5 years	5.99	**167,075**	171,864
After 5 years	5.84	**122,017**	82,796
		298,322	261,821

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

11. Trade and Other Receivables

	2006 Lm	2005 Lm
Fees receivable	**542,059**	383,004
Other debtors	**35,810**	2,454
Prepayments and accrued income	**52,453**	56,628
	630,322	442,086

Trade and other debtors are stated net of a provision for doubtful debts of Lm nil (2005:Lm11,538). Bad debts written off during the year amounted to Lm10,038 (2005-nil).

12. Capital

	2006 Lm	2005 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 2003 - Financial Markets (Amendment of Schedule) Regulations, 2005, 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

	2006 Lm	2005 Lm
Current borrowings		
Other bank facilities (note 17)	**2,185**	1,751
Bank loan	**-**	81,611
Short term borrowings	**2,185**	83,362
Non-current borrowings		
Bank loan	**-**	168,716
Long term borrowings	**-**	168,716
Total borrowings	**2,185**	252,078

The Exchange has an unsecured overdraft facility of Lm250,000 (2005: Lm250,000) to cover any temporary shortfall in the Securities Settlement Account operated by the Exchange with the Central Bank of Malta.

The interest rates can vary depending on the Central Bank of Malta base rate, which is currently 4%. The average interest rates on the company's borrowings were as follows:

	2006 %	2005 %
Other bank facilities	**6.25**	5.50 - 6.00
Bank loan	**6.00**	5.50

Maturity of non-current interest bearing loans and borrowings:

Between 1 and 2 years	**-**	86,000
Between 2 and 5 years	**-**	82,716
	-	168,716

15. Deferred Taxation

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

	2006 Lm	2005 Lm
At beginning of the year	**75,811**	63,129
(Credited)/debited in equity	**(3,237)**	576
Debited in the profit and loss account (note 8)	**9,920**	12,106
At end of the year	**82,494**	75,811

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate of 35% (2005: 35%). The balance at 31 December represents:

	2006 Lm	2005 Lm
Temporary differences arising between the carrying amount and the tax base of fixed assets	**76,174**	66,409
Temporary differences on financial assets	**5,520**	8,757
Temporary differences on accrued investment income	**800**	645
	82,494	75,811

16. Trade and Other Payables

	2006 Lm	2005 Lm
Falling due within one year		
Prepaid listing fees	**175,442**	154,110
Other creditors	**50,012**	39,831
Accruals	**35,925**	33,967
	261,379	227,908

17. Cash at Bank and In Hand

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

	2006 Lm	2005 Lm
Cash at bank and in hand	**164,939**	169,231
Term deposit	**-**	10,052
	164,939	179,283

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

	2006 Lm	2005 Lm
Cash at bank and in hand	**164,939**	169,231
Other bank facilities (note 14)	**(2,185)**	(1,751)
	162,754	167,480

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	
	2006 Lm	2005 Lm
- not later than one year	**5,000**	5,000
- later than one year and not later than five years	**26,000**	25,000
- later than five years	**735,871**	741,871
	766,871	771,871

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. Capital Commitments

At 31 December 2006, the Exchange had commitments of Lm30,165 principally relating to the upgrade of the Exchange's trading system.

20. Contingent Liabilities

At 31 December 2006 and 2005 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).

21. Related Party Disclosures

Related party	Period	Amounts invoiced to related by parties Lm	Amounts invoiced related by parties Lm	Amounts owed related parties Lm	Amounts owed to related parties Lm	Type of transactions
Government of Malta - The Treasury	2006	647,100	-	293,088	-	Listing fees and Register fees
	2005	419,000	-	135,997	-	Listing fees and Register fees

Key management personnel
The Executive Committee members are considered to be key management personnel. Included in 'Administrative expenses' are salaries paid to Executive Committee members amounting to Lm91,829 (2005: Lm89,729).

22. Financial Instruments

At the year end, the Exchange'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 Exchange's main financial liabilities on the balance sheet consisted of payables. The Exchange's off-balance sheet financial liabilities at the year end consisted of claims in relation to the Compensation Fund as described in note 20 Contingent Liabilities.

Timing of cash flows

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

Credit risk

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

The credit risk relating to quoted investment securities is considered to be low in view of management's policy of investing only in high quality and sovereign securities which are listed on recognised stock exchanges. The 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.

Interest rate risk

The interest rates on the borrowings of the Exchange are disclosed in note 14.

23. Comparative Information

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

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