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MILESTONES

OUR VISION IS TO BE THE LEADING
STOCK EXCHANGE IN AFRICA

1994/95

NEW LEGISLATION

In September 1994 the legislation to transform the BSM in to a full stock exchange was passed by Parliament paving the way for the establishment of the Botswana Stock Exchange (BSE) where trading opened in November 1995.

1989

HUMBLE BEGINNINGS

The BSE traces its humble beginnings to when it was known as the Botswana Share Market (BSM) in 1989 when it was formerly established. In 1989, the BSM started with 5 listed entities.

2001

CEO APPOINTED

With effect from July 2001, a full time Chief Executive Officer was appointed with the aim of establishing an independent secretariat.

2003

FULL INDEPENDENT ENTITY

In April, in order to better execute the affairs of the Exchange, better serve stakeholders, be more responsive to global events and to remain competitive, the BSE discontinued the secretarial role of Ernst and Young Botswana to become a fully independent entity.

2006

DEVELOPING THE CAPITAL MARKET

The BSE developed a strategic plan with the objective of developing the Capital Market. The BSE adopted seven strategic pillars to better execute its plans and these are; Infrastructure Development, Market Development, Product Development, Regulation, Governance, Human Resource Development and Financial Resources.

2007

PUBLICATIONS IMPROVED

Improvements made to BSE publications. Selected BSE publications are published in Setswana.

2008

BSE BOARD CHARTER

The Central Securities Depository (CSD) was implemented in May 2008 and share dematerialisation has been progressing well since. The BSE also commenced computation of 3 additional indices i.e. Local Asset Status Index (LASI), Foreign Resources Sector Index (FRSI) and the Domestic Financial Sector Index (DFSI) with effect from February 2008. BSE Board Charter was adopted in 2008.

2009

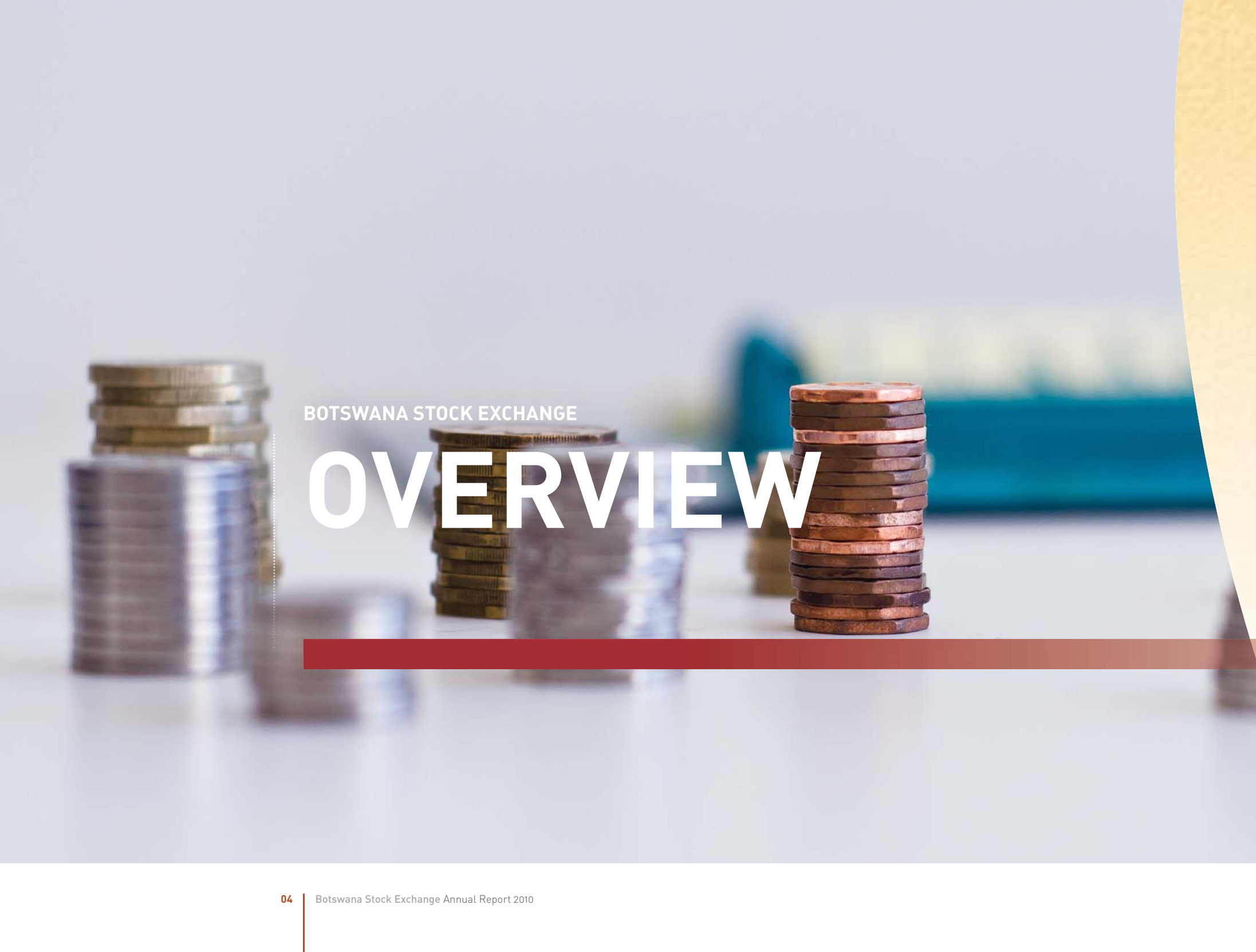
ON TRACK

The strategy to implement Exchange Traded Funds (ETFs) was bearing fruit as the BSE held discussions with potential ETF issuers. In 2009 selected BSE publications were translated into Setswana. As at end 2009, there were 31 listed companies and 32 bonds listed on the BSE.

2010

NEW GOLD ETF

The New Gold ETF was listed in July as first ETF in the BSE. P123.4 Million worth of New Gold Traded in first 6 months.



BOTSWANA STOCK EXCHANGE

OVERVIEW



The Botswana Stock Exchange (BSE) is Botswana's national stock exchange given the responsibility to operate and regulate equity and the fixed interest security market. Formally established in 1989, the BSE trace its humble beginnings to when it was known as Botswana Share Market (BSM). At that time there was no formal stock exchange in Botswana and the BSM traded as an informal market. There were only 5 listed entities with a single broking firm i.e. Stock Brokers Botswana Ltd (SBB), which was also charged with facilitating trading on the exchange via the matching of orders.

The Botswana Stock Exchange (BSE) is Botswana's national stock exchange given the responsibility to operate and regulate equity and the fixed interest security market. Formally established in 1989, the BSE trace its humble beginnings to when it was known as Botswana Share Market (BSM). At that time there was no formal stock exchange in Botswana and the BSM traded as an informal market. There were only 5 listed entities with a single broking firm i.e. Stock Brokers Botswana Ltd (SBB), which was also charged with facilitating trading on the exchange via the matching of orders.

In order to encourage foreign investors to Botswana an interim exchange committee was set up in October 1990 with representatives from the private and public sector, including the secretary of the Zimbabwe Stock Exchange, the chief executive of SBB, the permanent secretary of the ministry of finance, and the Deputy Director of the Bank Supervision.

The committee had the power to list and to de-list a stock, and was also responsible for ensuring that the BSE traded ethically [Ruben Lee, 1998]. The necessity to detach the running of the exchange from the broking business set in motion a process for the establishment of an independent exchange.

Overview (continued)

EXCHANGE HOUSE

The BSE continues to be pivotal to Botswana's financial system, and in particular the capital market, as an avenue on which government, quasi-government and the private sector can raise debt and equity capital.



In September 1994, the legislation to transform the BSM into a full exchange was passed by Parliament paving the way for the establishment of the Botswana Stock Exchange (BSE) where trading opened in November 1995. In March 1998, Ernst and Young took the full administration of the BSE. With effect from July 2001, a full time Chief Executive Officer was appointed with the aim of making the BSE completely independent. In April 2003, in order to better execute the affairs of the Exchange, better serve stakeholder, and be more responsive to global events and to remain competitive, the BSE discontinued the secretarial role of Ernst and Young Botswana to become a fully independent entity.

The BSE continues to be pivotal to Botswana's financial system, and in particular the capital market, as an avenue on which government, quasi- government and the private sector can raise debt and equity capital. The BSE plays host to the most pre-eminent companies doing business in Botswana. These companies represent a spectrum of industries and commerce; these are Banking, Financial Services, Wholesaling and Retailing, Tourism, Energy, Funeral Services, Property, Security and Information Technology. Currently there are 30 listed entities in the BSE and comprise of 21 Domestic and 9 foreign companies.

BOTSWANA STOCK EXCHANGE REGULATORY ENVIRONMENT

The main law which governs all the activities between the Exchange and its members, the proceedings of the Main Committee and its composition; the relationship between the Minister and the Exchange together with the relations between the Registrar, is the Botswana Stock Exchange Act No 11 of 1994. The BSE is regulated by the Non Banking Financial Institutions Regulatory Authority.

The members have promulgated Rules (Member Rules) which provide the requirements to be fulfilled for the securities listed and traded on the Exchange. Members Rules provide as the main objective thereof, "to operate a Stock Exchange in Botswana with due regard to the public interest to maintain fair and efficient dealing in securities for the protection of investors and regulate the affairs of members".

In addition, the Exchange has a set of Listing Requirements which provide the pre-listing requirements and post listing requirements to be observed by the issuers of listed securities. The emphasis is to make sure issuers disclose as much information to the public and investors so that the latter can make informed investment decisions.

CORPORATE INFORMATION

BSE Office:

Office Block 6, Plot 64511, Fairgrounds
Private Bag 00417, Gaborone

Independent auditors:

PricewaterhouseCoopers

Bankers:

Barclays Bank of Botswana Limited

VISION:

"To be the leading stock exchange in Africa"

MISSION

"To provide and operate a fair, transparent and efficient stock market for all stakeholders in order to optimise national economic development"

OUR PRODUCTS

The BSE aim to become a financial supermarket ,meaning it aims to provide the right kind of products to suit investor and issuer so that it meet growing customer demands and challenges of the globalisation of financial markets. This can be done through product innovation and diversification. Current products that can be listed include Equities, Corporate Bonds, Government Bonds, Exchange Trade Products and Commercial Papers while products being developed are, Securitised Products and Derivatives.



Main Committee Members



Mrs L. Siwawa
Chairperson
First elected 2008



Mr M. Makgatlhe
Vice - Chairperson
First elected 1998



Mr S. Mokama
Treasurer
First elected 2008



Mr G. Matsake
Member
First elected 2005



Mr G. Bakwena
Member
First elected 2006



Professor P. Takirambudde
Member
First appointed 2009



Mr M. Mokwape
Member
First appointed 2010



Mrs I. Sennanyana
Member
First appointed 2010



Mr P. Oflaherty
Member
First elected 2010



Management Team



Mr H. Mendis
Chief Executive Officer



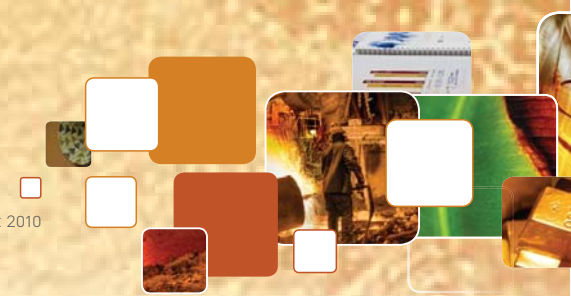
Ms L. Masire
Market Development
Manager



Mr T. Tsheole
Product Development
Manager



Ms L. Tamocha
Corporate Affairs Manager



Mr M. C. Z. Libengo
Finance & Administration
Manager



Mr M. A. Makwaeba
Information & Technology
Manager



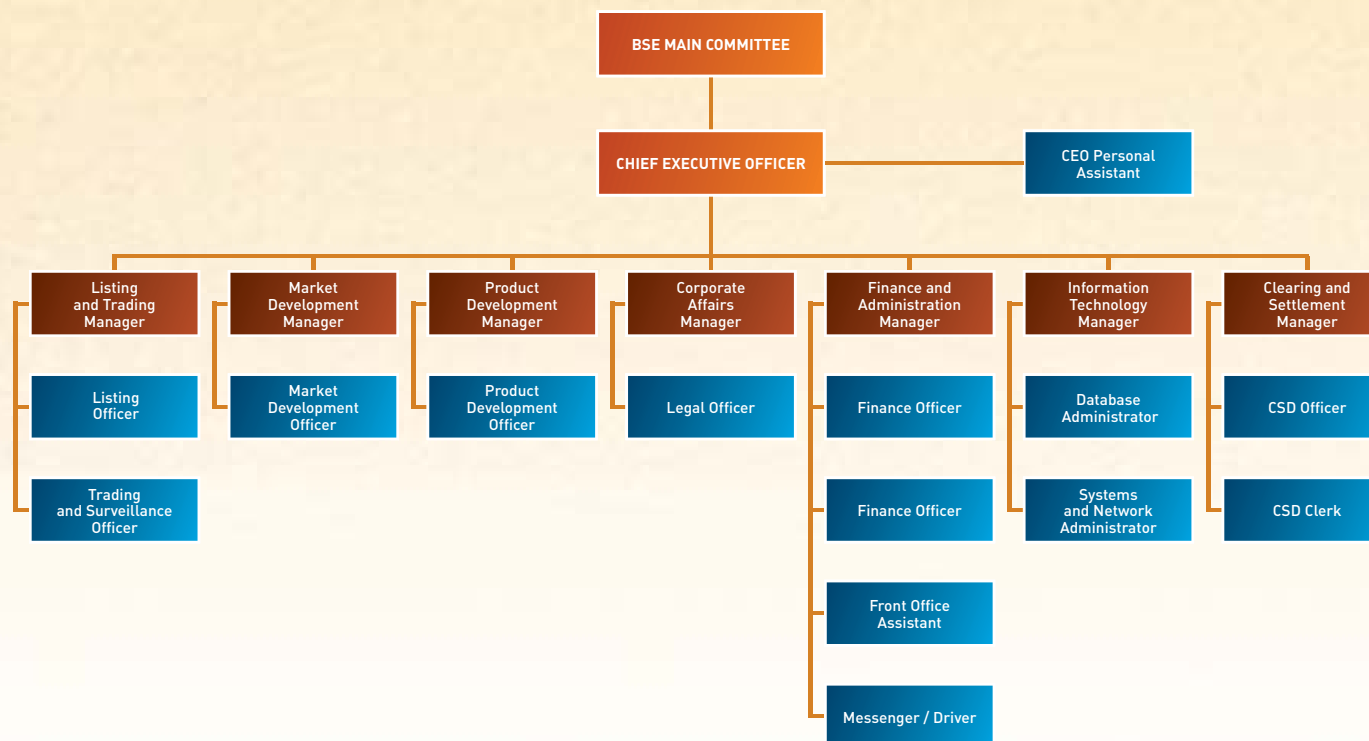
Ms D. Garekwe
Listings & Trading Manager



Ms M. Pheto
Clearing & Settlement
Manager



BSE Organisation Structure







Chairperson's Statement

On behalf of the main committee of the BSE I appreciate your interest in the Exchange and invite you to get to know the BSE and our activities better by reading this Annual Report. I will summarise the highlights and achievements of the Exchange during last year.

I was delighted to be invited to become Chairperson of the Exchange last year and would first like to thank my predecessor, Mr. Rizwan Desai, for the major contribution he made to the development of the BSE during his tenure as the Chairperson.

Much has been said about the global credit crunch and subsequent collapse of certain offshore institutions previously thought to be indestructible. The tremors of the world economic crisis could still be felt in 2010 and Botswana was still feeling its impact even though the economy was on the way to recovery. In this uncertain environment, investors have naturally been inclined to shop around seeking value in investments. It is mainly due to this unstable environment that the DCI, an indicator of the general price trends in the market, declined by 11.4% in 2010 in contrast to the marginal appreciation of 2.9 % previously in 2009.

This is the second instance that the DCI has depreciated. The First time was in 2008 where the DCI dipped by 16.5% at the height of the crisis.

On a positive note, the turnover of the BSE increased from a daily average of 3.1 Mn to P3.9 Mn in 2010. Correspondingly the liquidity of the BSE measured in terms of turnover to market capitalisation increased from 2.7% in 2009 to 3.7% in 2010. The main reason for the increase in turnover was the 1:10 share split of Letshego Holdings. In fact Letshego Holdings accounted for almost 55% of the total turnover of the BSE in 2010.

The decline in the DCI for the second time in 3 years cannot be considered an "investor friendly" phenomena. However, as explained more fully in the CEO's review it also had the impact of making the market more competitive through the alignment of value with price.



The year under review has seen the continued execution of the strategy we articulated a few years ago. We have remained focused on several fronts in line with the "Pillars of Development" identified in the strategy. Broadly these include infrastructure, market development, product development, legislation & regulation, human resources, governance and finance.

On the operational front, the domestic business witnessed growth on the back of series of initiatives undertaken during the year. The Exchange continued to expand its reach to semi-urban and rural areas. Turnover accounted for by individual investors has grown over the past 3 years from 3% in 2008 to 6.3% in 2010, still small but nonetheless an increase.

The BSE also made inroads with regard to introducing new products. The Newgold ETF (Exchange Traded Fund) was listed in July 2010 and by December it had already seen a price appreciation of 6.9%.

The process of implementing the automated trading system (ATS) is still ongoing and we hope to have implemented the ATS by December 2011.

We are informed that the Securities Bill which will replace the BSE Act will be placed before parliament at its sittings in July 2011.

This legislation will radically change the institutional and governance structure of the BSE to help remould the Exchange to cope with the many commercial challenges that it faces. The BSE is aware that it needs to function as a commercially viable entity and wean itself from the Government subvention. The BSE has implemented and will implement a series of strategies to become financially independent.

We have accomplished much, but much more needs to be done. We can do so only with the assistance of the Government and our stakeholders. The BSE has noted with interest the renewed energy in the privatisation front with the pending privatisations of BTC and NDB. As noted in previous reviews privatisation will play a significant role in the development of the capital market and the BSE is ready to assist in the process in any way it can.

I would like to thank the members of the BSE main committee which has served the BSE well. They have given dedicated effort to the BSE and I value their support and advice.

On behalf of the Board I would also like to thank the BSE's Executive Committee, staff

and the CEO, Mr. Hiran Mendis for their service to the Exchange, its clients and its stakeholders.

Finally, I would like to extend the BSE's sincere gratitude to all our stakeholders, our customers, our business partners and everybody who have reposed great trust in us and in our products during the year.

I also thank the various government bodies and the financial institutions for supporting us in our activities and helping us grow further. We look forward to the future with interest.

Mrs L. Siwawa
BSE Chairperson



Chief Executive Officer's Review

A CHALLENGING START

Financial markets in general suffered from the hangover of the economic crisis for a good part of 2010. In spite of most markets reacting promptly to the recession and recovery phases of the cycle, the crisis lingered on from the BSE's point of view with the DCI remaining flat for most of 2010. From a capital market point of view, crisis and volatility is not all bad, since it helps to cool down over heated markets, restores sanity and promotes turnover.

It is true that in the process some investors loose out and others gain. What is worse than a crisis from a market perspective are prices that are slow to react to changes in fundamentals. Such a market is akin to a sailing ship with the wind taken off its sails. In a nutshell this was the position the BSE found itself for most of 2010. Despite the stagnant conditions the BSE did make headway in the year under review.

1. MARKET PERFORMANCE

1.1 Indices

BSE's leading index the DCI, after remaining flat for most of the year depreciated steeply in December 2010 by 10.2% to close the year at 6,412.9 points thus declining by 11.4%. In comparison the DCI appreciated by 2.9% in 2009. This was the second time the DCI recorded a negative growth since the inception of the BSE. The previous time the DCI dipped was at the height of the financial crisis in 2008 when it recorded a decline of 16.5%.

Due to the lack lustre performance of the DCI over the past 3 years, the appreciation of the index over the immediate past 5 years (2006 to 2010) was 80.2% in comparison to an appreciation of 144.9% over the previous 5 year period (2001 to 2005). Cumulative inflation as measured by the CPI during the period 2006 to 2010 was 51.7% as against 49.3% during the period 2001 to 2005.

Hence over the past 10 years capital gains on the market have been significantly more than the level of inflation and far above the return an investor could have got from interest rate products. However, this position has changed drastically since 2008. The cumulative decline of the DCI in the period 2008 to 2010 was 23.9%. Inflation in the same period was 29.2%. Hence the inflation adjusted loss of an investment in the period would be an estimated 53%.

Figure 1: Index Performance: 2006 to 2010

	2006	2007	2008	2009	2010
DCI	6,195.4	8,421.6	7,035.5	7,241.9	6,412.9
% Change in DCI	74.1	35.9	(16.5)	2.9	(11.4)
FCI	1,777.3	2,200.9	1,192.0	1,418.3	1,673.9
% Change in FCI	57.3	23.8	(45.8)	19.0	18.0

Source: BSE

The quarterly analysis for 2010 detailed in Figure 2 reveals that the DCI appreciated by 3.3% and declined by 1.7% in Quarters 1 and 2 respectively. The DCI grew by 0.6% in Quarter 3 prior to depreciating by 13.3% in Quarter 4.

The Foreign Company Index (FCI) closed 2010 at 1,673.9 points, 18.0% above the level recorded as at end 2009. The FCI depreciated by 0.7% in Quarter 1, appreciated by 16.3% in Quarter 2 prior to recording a decline of 0.1% in Quarter 3 and registered a growth of 2.3% in Quarter 4.

It is interesting to note that on a quarterly basis in the year under review the DCI and the FCI has moved like a 'yo-yo' but in opposite directions.

Figure 2: Quarterly Performance of the DCI and FCI: 2010

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
DCI	7,477.7	7,352.0	7,393.4	6,412.9
% Change in DCI	3.3	(1.7)	0.6	(13.3)
FCI	1,408.2	1,637.7	1,635.8	1,673.9
% Change in FCI	(0.7)	16.3	(0.1)	2.3

Source: BSE

1.2 Market Turnover

Equity

An analysis of equity turnover reveals that P962.8 Mn worth of shares were traded in 2010 compared to P763.9 Mn in 2009, an increase of 26%. This was however less than the record turnover of P1,166.2 Mn achieved in 2008. Correspondingly the average daily turnover in 2010 was P3.9 Mn in comparison to P4.8 Mn registered in 2008. As noted in the previous Annual Report the biggest casualty of the economic crisis, from BSE perspective, was turnover. Hence it is heartening to note that turnover has begun to recover in the year under review. Most importantly the coefficient of variation of the average turnover has reduced to 2.2 in 2010 from 2.5 in 2009 reflecting that the average turnover was more stable and consistent in 2010 in comparison to 2009. However the coefficient of variation in 2008 was 2.0 when average daily turnover was P4.8 Mn.

In terms of the volume of shares traded, 2010 was a record year with 308.7 Mn shares being traded as against 167.6 Mn in 2009. The increase of 84.2% in volume in 2010 is mainly due to the 1:10 share split of Letshego Holdings Ltd.



Chief Executive Officer's Review (continued)

Figure 3: Market Turnover: 2006-2010

	2006	2007	2008	2009	2010
Liquidity					
Turnover (P'Mn)	414.7	824.6	1,166.2	763.9	962.8
Average Daily Turnover (P'Mn)	1.7	3.4	4.8	3.1	3.9
Standard Deviation (P'Mn)	4.4	5.1	9.7	7.7	8.6
Coefficient of Variation	2.6	1.5	2.7	2.5	2.2
No. of Shares Traded (Mn)	87.2	124.6	193.3	167.6	308.7
Shares Traded/Shares Listed ^{Note 1}	3.1	2.2	3.4	2.9	3.9

Note 1: Domestic Board
Source: BSE

On a quarterly basis there was an increase in the number of shares traded from 30.4 Mn in Quarter 1 to 76.3 Mn in Quarter 2. There were 64.1 Mn and 137.8 Mn shares traded in Quarter 3 and Quarter 4 respectively. Figure 4 shows that most activity took place in Quarter 4 in terms of volume and value of shares traded in 2010. The increase in liquidity over the years is further confirmed by the percentage of shares traded to shares listed as detailed in Figure 3.

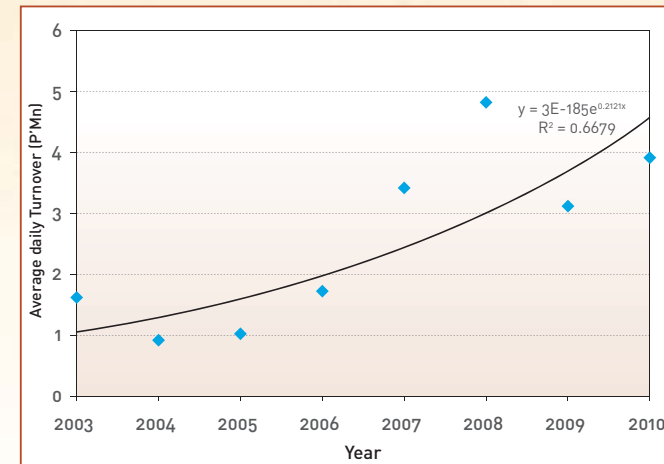
Figure 4: Quarterly Market Turnover: 2010

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Liquidity				
Turnover (P'Mn)	252.3	213.5	175.9	321.0
Average Daily Turnover (P'Mn)	4.0	3.4	2.8	5.1
No. of Shares Traded (Mn)	30.4	76.3	64.1	137.8
Shares traded / Securities Listed ^{Note 1}	0.5	1.0	0.8	1.7

Note 1: Domestic Board and Annualized
Source: BSE

The turnover of the BSE since 2003 is detailed in Figure 5. As can be seen from the trend line, turnover has increased steadily over the past years. However, the turnover of the BSE since the onset of the economic crisis has been below trend. The main casualty of the crisis, from the BSEs point of view, being turnover was discussed in the previous Annual Report.

Figure 5: Average Daily Turnover and Trend: 2003- 2010



Source: BSE

1.3 Comparative Investors Contribution to Turnover

As can be seen in Figure 6, there was an increase in foreign and local individual investor activity in the BSE since 2008. In 2010 foreign individual investor contribution to total turnover was 2.1% in comparison to 1.7% recorded in 2009. In 2010 local individual investor contribution increased to 6.3% from 5.9% in 2009. In comparison to 2008, local individual turnover has more than doubled indicating the positive impact of the BSE's market development initiatives.

It is also worth noting the significant participation of foreign companies in Quarters 2 & 4 as evident in Figure 7. This corresponds to a dip in the DCI in Quarter 2 and Quarter 4 and is indicative of the contrarian approach adopted by foreign institutional investors.

Figure 6: Comparative Investor Contribution to Turnover: 2008 – 2010

Investors	Turnover (%) 2008 ^{note 1}	Turnover (%) 2009 ^{note 1}	Turnover (%) 2010 ^{note 1}	% Contribution to Liquidity
Foreign Companies	13.4	37.8	34.6	1.3
Foreign Individuals	1.5	1.7	2.1	0.1
Local Individuals	3.0	5.9	6.3	0.2
Local Companies	69.6	51.1	48.0	1.8
Brokers	12.5	3.6	3.8	0.1
Market Makers	n/a	n/a	5.2	0.2
TOTAL	100.0	100.0	100	3.7

Note 1: Turnover statistics are for companies in CSD only
Source: CSD Botswana

Figure 7: Investors Contribution to Turnover
on a Quarterly basis (%) : 2010

Investors	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Companies	33.8	43.1	16.6	45.6
Foreign Individuals	1.6	3.3	1.0	2.7
Local Individuals	6.8	11.8	4.3	4.2
Local Companies	55.4	36.1	52.9	45.6
Brokers	2.4	5.7	7.4	0.6
ABSA Note 1	n/a	n/a	17.8	1.2
TOTAL	100.0	100.0	100.0	100.0

Note 1: Market Maker for NewGold
Source: BSE

1.4 Exchange Traded Funds (ETF)

The BSE listed its first ETF (NewGold ETF) in July 2010.

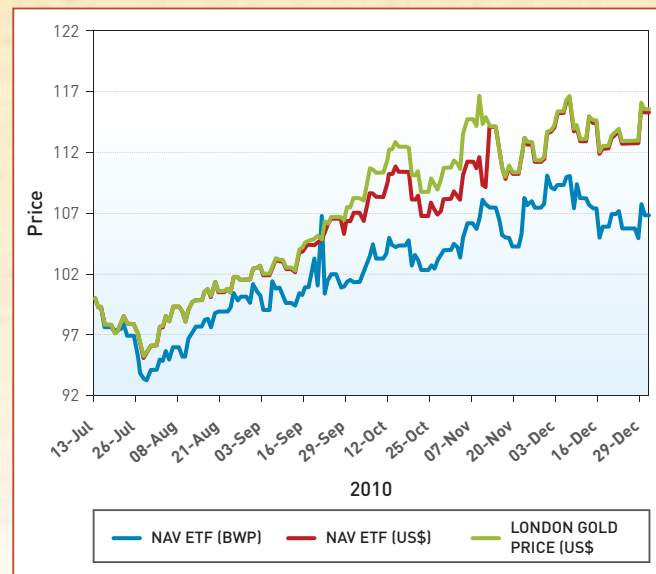
The total volume of the NewGold ETF traded on the BSE in 2010 was 1.5 Mn units with a total value of P123.4 Mn translating to a daily average turnover of P1.1 Mn. The price of NewGold ETF units ranged from P78.20 to P91.55 per unit during 2010.

The NewGold ETF was listed on 13th July 2010 at a price of P83.00 per unit. As at end December 2010 the price of the ETF had appreciated by 6.9% in Pula terms and the Net Asset Value (NAV) of the ETF in USD terms had registered a growth of 15.4%.



Chief Executive Officer's Review (continued)

Figure 8: Standardised Performance of the NewGold ETF in Pula & US\$ terms: 13th July to 31st December 2010



Source: BSE, Absa Capital

The price of the NewGold ETF quoted in Pula is impacted by 2 factors:

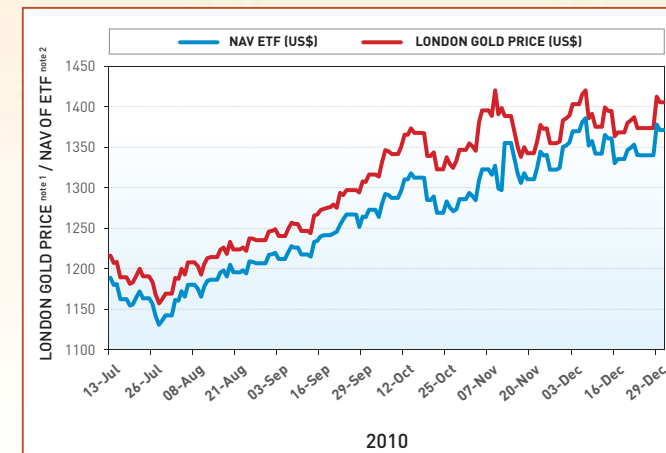
- (a) The price of Gold Bullion in the world market
- (b) The relative strength of the Pula against the US Dollar.

An appreciation of the Pula will negatively influence the Pula value of the ETF whereas a depreciation of the Pula will positively influence prices in Pula terms. Hence the NewGold ETF can be used as a hedge against the Pula.

As can be seen from Figure 8 and also noted above the price of the NewGold ETF in Pula terms has declined relative to the NAV of the ETF in US\$ terms. This can be explained by the increase in the strength of the Pula against the US\$ during the period 13th July to 31st December 2010. The Pula appreciated by 7.9% against the US\$ during the period.

Figure 9 depicts the NAV of the NewGold ETF in US\$ terms and the price of Gold in London Bullion Market Association (LBMA) also in US Dollars. The degree of correlation between these variables is almost 100%. This shows that the ETF efficiently tracks Gold prices. The difference between the NAV of the ETF and the price of gold is due to management fees.

Figure 9: NewGold ETF NAV Price (US\$) and the London Gold Price (US\$): 13th July 2010 to 31st December 2010



Note 1: London Gold Price per troy ounce of Gold (US \$)

Note 2: NAV of ETF per troy ounce of Gold net of management fees (US \$)

Source: BSE and Absa Capital

1.5 Debt Market

Figure 10 details the turnover in the debt market by issuer. As at end 2010, there were 36 bonds listed on the BSE. However as noted in Figure 10, only 10 bonds of those listed were traded on the BSE. The debt market turnover registered a growth of 18.4% in 2010. Bonds valued P757.7 Mn were traded during the year in comparison to P539.3 Mn and P639.8 Mn in 2008 and 2009 respectively.

As is the case in previous years, debt turnover was concentrated on government bonds with securities valued at P747.1 Mn being traded in comparison to P10.4 Mn corporate bonds, P180,000 in bonds issued by parastatals and P90,000 in bonds listed by quasi government institutions. Trades in government bonds made up 98.6% of the total debt market turnover in 2010. The ratio of debt turnover as a percentage of debt market capitalisation continued to improve over the years. The ratio reached 11.3% in 2010 compared to 9.9% and 10.6% in 2008 and 2009 respectively.

**Figure 10: Quarterly Analysis of Bond Trades:
January to December 2010**

	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	Vol (Mn)	Val (P' Mn)	Vol (Mn)	Val (P' Mn)	Vol (Mn)	Val (P' Mn)	Vol (Mn)	Val (P' Mn)
Government								
BW 003	230.05	265.58			15.00	17.26	10.07	11.19
BW 004	85.00	90.40	21.00	21.90	29.00	29.81		
BW 005	5.00	6.00	40.30	46.54	5.80	6.62	8.00	8.91
BW 006	131.64	132.60	3.58	3.63			4.40	4.49
BW 007	18.00	16.60	44.00	41.92	5.30	5.18	40.00	38.47
Quasi Govt.								
DPCF 002		0.09						
Corporate, Parastatals								
SCBB 003		0.19						
SBBL 052				10.00				
NDB 001						0.18		
SBBL 006						0.20		
TOTAL	469.69	511.45	108.88	123.99	55.10	59.24	62.47	63.06

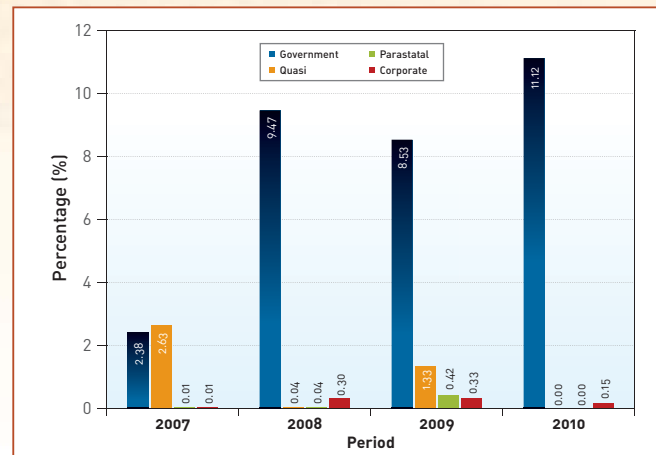
Source: BSE



Chief Executive Officer's Review (continued)

As noted in previous reviews, government bond turnover reported in Figure 10 includes trades executed by Primary Dealers through Bank of Botswana and reported to the BSE. The proportion of government bond turnover executed by Primary Dealers far outweighs the turnover transacted by brokers in the BSE. As noted in the previous Annual Report the BSE has been working on a Debt Market Development Strategy with the support of market participants and stakeholders (Bond Market Development Task Force) in order to address issues and centralise the trading of debt in the BSE. The Bond Market Development Task Force has agreed that a strategy to activate the debt market through the BSE will realise efficiencies for all stakeholders.

Figure 11: Debt Turnover as a % of Debt Market Capitalisation: 2007 to 2010



Source: BSE

The liquidity of debt securities measured as a ratio of turnover to debt market capitalisation analysed by issuer is detailed in Figure 11.

1.6 Market Indicators

The Market Price Earnings (P/E) ratio for domestic companies has been steadily declining since 2006. BSEs P/E ratio was 16.3x and 15.6x in 2006 and 2007 respectively. It declined to 12.0x in 2008, marginally increased to 13.5x in 2009 and reduced to 10.8x as at end December 2010. From a valuation perspective, a lower P/E ratio will improve BSEs competitiveness when compared to the Johannesburg Stock Exchange and Stock Exchange of Mauritius which had P/E ratios of 19.2x and 14.1x respectively as at December 2010. In contrast to the decline in the P/E ratio, the Dividend Yield has been increasing steadily over the past 5 years.

Figure 12: Market Indicators of the BSE: 2006 to 2010

	2006	2007	2008	2009	2010
Market indicators					
P/E Ratio (times)	16.3	15.6	12.0	13.5	10.8
Dividend Yield (%)	3.8	3.1	4.6	4.3	4.9
Price/Book value (times)	9.8	8.6	4.5	4.8	3.9

Source: BSE

Figure 13: Index Performance and the P/E ratio of Comparative Markets: 2007 to 2010

	2007		2008		2009		2010	
	Index (%)	P/E Ratio (x)	Index (%)	P/E Ratio (x)	Index (%)	P/E Ratio (x)	Index (%)	P/E Ratio (x)
BSE	35.9	15.6	(16.5)	12.0	2.9	13.5	(11.4)	10.8
JSE	16.2	13.4	(25.7)	10.9	28.6	19.4	18.5	19.2
SEM	53.8	16.5	(36.7)	8.5	40.4	10.7	16.1	14.1

Source: BSE

1.7 Market Capitalisation

BSE's domestic market capitalisation stood at P26.2 Bn as at end 2010 compared to P28.5 Bn as at end 2009. The market statistics in Figure 14 shows that the BSE's domestic market capitalisation relative to GDP was 30.0% as at end June 2010 in comparison to 40.7% and 29.5% as at the same period in 2008 and 2009 respectively.

Figure 14: Market Capitalisation and Relative Performance: 2006 to 2010

	2006	2007	2008	2009	2010
Market Capitalization					
Domestic Companies (P'Mn)	23,776.9	32,702.6	27,706.1	28,536.2	26,245.7
Foreign Companies (P'Mn)	510,407.8	535,324.9	286,260.2	346,001.1	408,380.3
Total (P'Mn)	534,184.7	568,027.5	313,966.3	374,537.2	434,626.0
Relative Performance					
Domestic Market Cap/GDP (%) ^{note 1}	28.4	37.1	40.7	29.5	30.0
Turnover/Domestic Co Mkt Cap (%)	1.8	2.5	3.9	2.7	3.7
Turnover/ All Co Market Cap (%)	0.1	0.1	0.3	0.2	0.2

Note 1: Figures as at end June of the relevant year
Source: BSE

The BSE's domestic market capitalisation as a percentage of non mining GDP (GDP excluding mining) has reduced from 62.2% and 44.6% in 2008 and 2009 respectively to 41.6% in 2010.

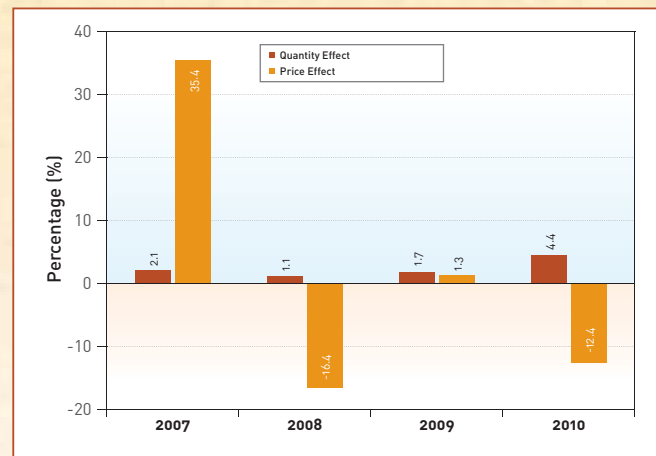
It is observed that the decline in market capitalisation was consistent with the decline in the DCI.

Market capitalisation can be influenced by 2 factors i.e. due to changes in the number of securities listed (quantity effect) and changes in the prices of such listed securities (price effect). BSE's market capitalisation for 2010 declined by 8.0% due to the cumulative impact of a price effect of a negative 12.4 % as against a quantity effect of 4.4%. As detailed in Figure 15, the price effect has played the dominant role in the growth in market capitalisation over the previous years with the exception of 2009.



Chief Executive Officer's Review (continued)

Figure 15: Price and Quantity Effect on the growth of Domestic Market Capitalisation: 2007 to 2010

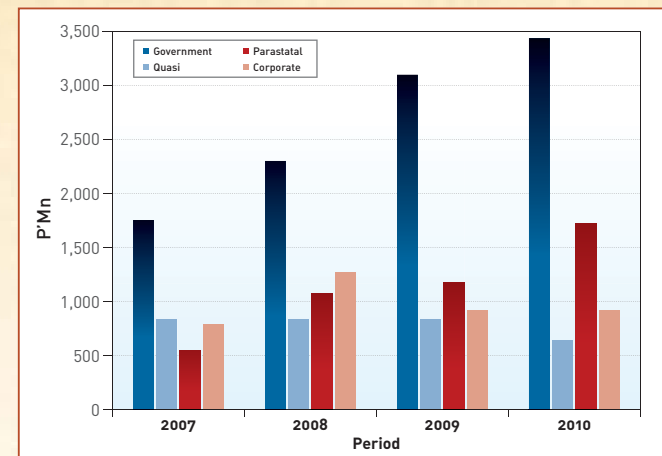


Source: BSE

The total nominal debt market capitalisation stood at P6.7 Bn as at end 2010 registering an increase of 11.7% from P6.0 Bn recorded in 2009. In comparison to 2006, debt market capitalisation has grown by 75%. The bond market capitalisation as a percentage of Botswana's GDP stood at 7.4% in 2010 a marginal increase from the 7.2% in 2009.

Figure 16 details the growth of the bond market analysed by issuer category since 2007.

Figure 16: Debt Market Capitalisation (Nominal Values) by Issuer Category: 2007 to 2010



Source: BSE

1.8 Sector Analysis

The performance of the DCI was greatly influenced by the banking sector in 2010. The banking sector contributed a negative 19.5% and the retail and wholesaling sector a negative 2.6% to the decline in the DCI. In comparison all the other sectors contributed positively to the DCI. Significant contributions were made by the tourism sector and the energy sector which contributed 6.5% and 2.2% respectively. Figures 17 and 18 detail the sector contributions to the DCI on an annual and quarterly basis.

Notwithstanding evidence to the contrary in certain periods, the banking and financial sectors are the drivers of the DCI while the mining and minerals sector has consistently influenced the performance of the FCI. This is not surprising given that the market capitalisation of the banking and financial sectors makes up 74.4% of domestic market capitalisation while the mining and minerals sector account for 96.3% of foreign company market capitalisation.

Figure 17: Sector Contributions to performance of the DCI & FCI (%): 2008 to 2010

	2008	2009	2010
Domestic Board			
Banking	(9.50)	1.04	(19.51)
Financial Services	(5.70)	3.91	0.69
Retail & Wholesaling	(0.60)	(1.41)	(2.59)
Property	(0.20)	0.13	0.69
Security Services	(0.10)	0.03	0.37
Information Technology	0.00	(0.03)	0.00
Energy	(0.20)	(0.41)	2.18
Tourism	(0.20)	(0.53)	6.53
Funeral Services	—	0.20	0.19
DCI	(16.50)	2.93	(11.45)
Foreign Board			
Financial Services	(0.60)	(0.04)	0.26
Mining & Minerals	(45.20)	19.02	17.76
FCI	(45.80)	18.98	18.02

Source: BSE

Figure 18: Sector Contribution to Quarterly Growth in the DCI & FCI (%): 2010

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Domestic Board				
Banking	2.05	1.39	0.50	(13.15)
Financial Services	(0.81)	(0.19)	(2.74)	(0.04)
Retail & Wholesaling	0.53	1.00	1.61	(0.21)
Property	0.69	(0.10)	0.62	(0.11)
Security Services	(0.02)	(0.13)	0.04	0.10
Information Technology	0.00	0.00	0.02	0.01
Energy	0.52	(0.30)	(0.54)	0.34
Tourism	0.06	(3.25)	0.51	(0.15)
Funeral Services	0.24	(0.10)	0.54	(0.05)
DCI	3.26	(1.68)	0.56	(13.26)
Foreign Board				
Financial Services	(0.04)	0.22	(0.10)	0.15
Mining & Minerals	(0.67)	16.08	(0.01)	2.17
FCI	(0.71)	16.30	(0.11)	2.33

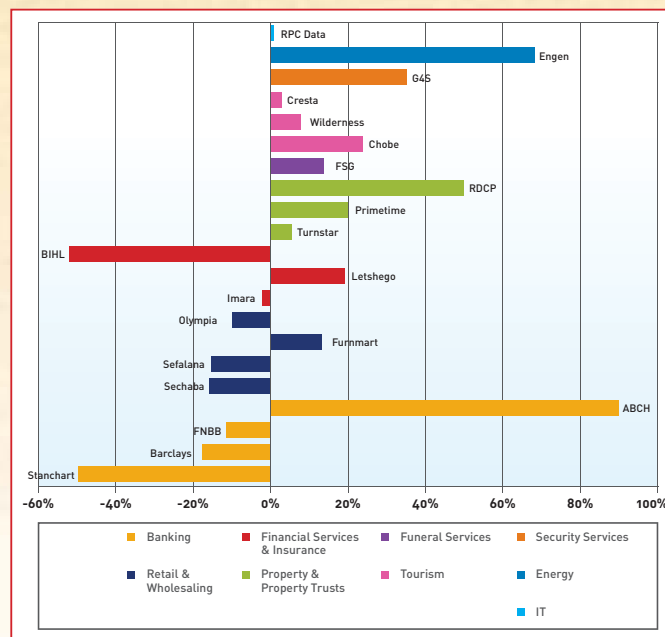
Source: BSE

As can be seen from Figure 19, prices of 11 domestic companies appreciated in 2010 whereas the prices of 8 shares declined. The price of RPC Data remained unchanged.



Chief Executive Officer's Review (continued)

Figure 19: Price Changes of the Domestic Companies: 2010



Source: BSE

The analysis of the sectoral contribution to liquidity detailed in Figure 20 reveals that the financial services sector accounted for a larger contribution than all the other sectors. A total of 220.8 Mn shares were traded by the financial services sector in 2010 of which 96.4% were trades accounted for by Letshego. From the perspective of turnover Letshego's share was nearly 55% of turnover of the BSE in 2010. As can be seen from Figure 20 the liquidity of the BSE is highly concentrated on domestic counters, with dual listed companies contributing only 1.9% of the total number of shares traded.

Figure 20: Sector Contributions to Liquidity: 2009 and 2010

2009					2010			
SECTOR	Turnover as a % of Av. Market Cap		No. of shares Traded (Mn)	No. of shares traded as a % of no. of shares listed	Turnover as a % of Av. Market Cap		No. of shares Traded (Mn)	No. of shares traded as a % of no. of shares listed
	Note 1	Note 2	Note 1	Note 2	Note 1	Note 2	Note 1	Note 2
DOMESTIC BOARD								
Banking	0.83	0.14	68.53	1.78	0.60	0.04	37.23	0.96
Fin. Services	1.05	0.17	29.08	5.58	2.28	0.14	220.78	10.12
Retail	0.69	0.11	37.98	9.53	0.49	0.03	13.47	3.39
Property	0.07	0.01	12.81	2.14	0.13	0.01	20.25	3.38
Security	0.01	0.00	0.08	1.04	0.03	0.00	0.29	1.23
I.T	0.00	0.00	3.37	10.70	0.00	0.00	0.39	3.62
Energy	0.01	0.00	0.87	0.55	0.01	0.00	0.68	0.43
Tourism	0.01	0.00	0.72	0.78	0.01	0.00	1.57	0.31
Funeral Services	0.03	0.00	6.69	5.57	0.06	0.00	8.22	6.85
FOREIGN BOARD								
Fin. Services	0.00	0.00	1.39	0.13	0.00	0.00	1.60	0.19
Mining	0.00	0.00	6.28	0.20	0.00	0.00	4.18	0.14

Note 1: Computed separately for the domestic & foreign boards

Note 2: Computed for all shares listed on the BSE



Chief Executive Officer's Review (continued)

1.9 Comparative Performance with other Markets

A graphical analysis of the performance of the DCI compared to the indices of SEM, JSE and MSCI Emerging Markets (MSCI EM) in 2010 reveals that the DCI had a relatively flat performance over the greater part of 2010. This is attributed to the relatively higher valuations of Botswana stocks as a result of prices not reacting sufficiently to the financial crisis since 2008.

BSE's market P/E ratio has remained relatively high for the most of 2010. Hence the DCI has been lethargic to the recovery of global and regional markets. As was the trend in previous years, the negative correlation between the DCI and other emerging markets was still evident in 2010 as seen in Figure 21.

It is worth noting that the JSE and SEM ended 2010 with positive performances of 14.1% and 18.5% respectively while the MSCI EM Index registered a growth of 16.4%. In comparison and as noted previously the DCI closed the year depreciating by 11.4%.

Figure 21: Comparative Performance of the BSE DCI with other African Markets and MSCI Emerging Markets Index standardised as at the 04th January 2010 (Domestic Currencies)



Source: BSE

Figure 22 shows the comparative performance of the BSE with other regional stock exchanges in US Dollar terms.

Figure 22: Comparative Performance of the BSE DCI with other African Markets and MSC Emerging Markets Index standardised as at the 04th January 2010 (US \$)



Source: BSE

The DCI in US Dollar terms appreciated by 1.4% in Quarter 1 and declined by 7.0% in Quarter 2. It appreciated by 7.9% in Quarter 3 and declined by 11.7% in Quarter 4.

On a year to date basis, the DCI depreciated by 10.2% in US dollars terms as at end December 2010 as a result of the Pula appreciating against the US Dollar by 1.5% in the year under review.

The comparative performance of the BSE since the onset of the financial crisis is detailed in Figure 23. As can be seen, at the close of 2010 the DCI was 20.3% below the level it was on 13th September 2008. It is noted that in comparison the recovery of SEM and JSE was very rapid with the JSEs All Share Index and SEMs index having appreciated by 22.8% and 18.9% since the onset of the crisis on 13th September 2008.

Figure 23: The Steepest Decline and Recovery of Comparative Indices since Crisis

STOCK EXCHANGE	STEEPEST DECLINE SINCE 13th September 2008		RECOVERY TO 31st Dec 2010 (%)	% Change 13/09/08 to 31/12/10	% Change Jan -Dec 2010
	% CHANGE	DATE			
JSE	▼ 32.0	20/11/08	▲ 80.3	22.8	16.1
SEM	▼ 44.4	3/03/09	▲ 113.9	18.9	18.5
BSE DCI	▼ 24.4	19/05/09	▲ 5.5	[20.3]	[11.5]
BSE FCI	▼ 57.6	12/05/09	▲ 53.9	[34.7]	18.0

1.10 BSE's Development Path

The development of the BSE since 2007 is more clearly revealed using radar charts in Figures 24 to 27 and Figure 28. The radar charts visually compares the BSE's progress in the past 4 years and in comparison to the JSE and SEM between 2008 and 2010. The variables used to depict the progress of the BSE are size, liquidity, turnover and value. These are represented by market capitalisation/GDP, turnover/market capitalisation, average daily turnover and the reciprocal of the P/E ratio.



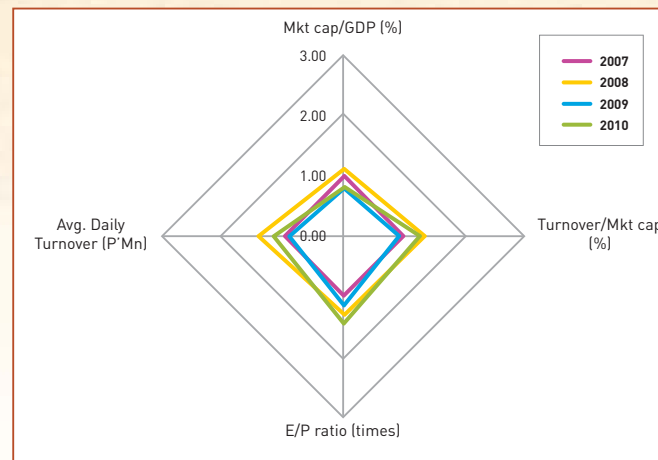
Chief Executive Officer's Review (continued)

1.10 BSE's Development Path (continued)

As can be seen from Figure 24, despite the onset of the financial crisis, 2008 remains the best year in terms of BSE's progress measured by its footprint. By standardising the relative footprint of BSE in 2007 to 1, 2008 was 1.65x the footprint of 2007 with 2009 declining to 0.90x in relative terms. In comparison the footprint was 1.36x in 2010 indicating that the BSE has started to recover from the crisis in the year under review.

The BSE's footprint in relation to the JSE and SEM for 2008, 2009 and 2010 is detailed in Figures 25, 26 and 27.

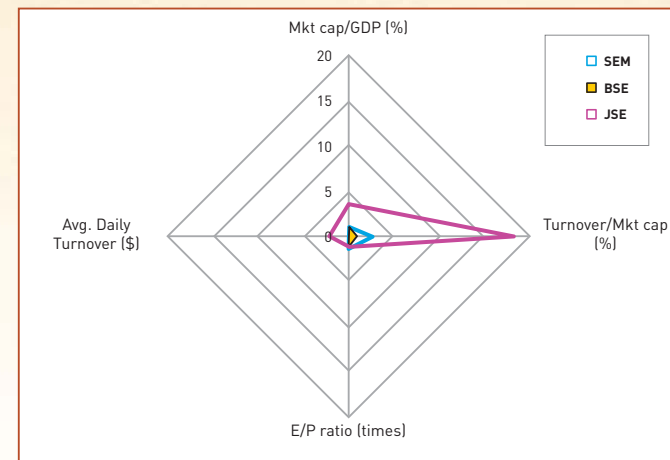
Figure 24: BSE footprint: 2006 to 2010



Note 1: Market capitalisation / GDP, Turnover / Market Capitalisation, E/P ratio and Average daily turnover for 2007 were standardised to 1 and the BSE's footprints for 2008, 2009 and 2010 was compared relative to the standardized footprint for 2007

Source: BSE

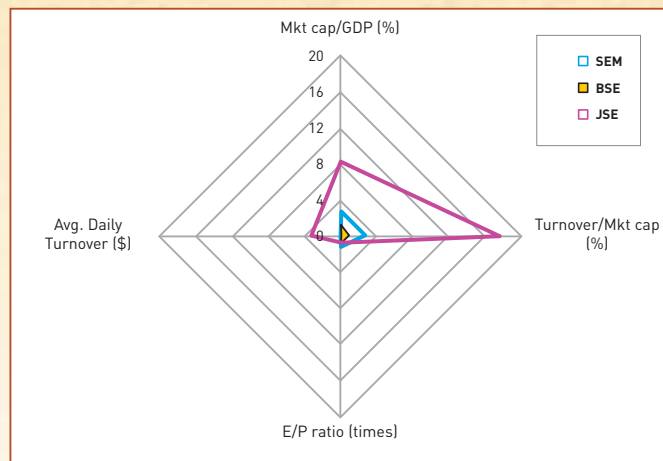
Figure 25: BSE Footprint in relation to JSE & SEM: 2008



Note 1: Scale; Turnover/Mkt Cap 1:1, Avg Daily Turnover1:1000, Mkt Cap/GDP 1: 1, E/P Ratio 1:1
Note 2: Market capitalisation/GDP, Turnover/Market, E/P ratio and Average daily turnover for the BSE were standardized to 1 and the footprint for SEM and JSE was computed relative to the BSE's footprint

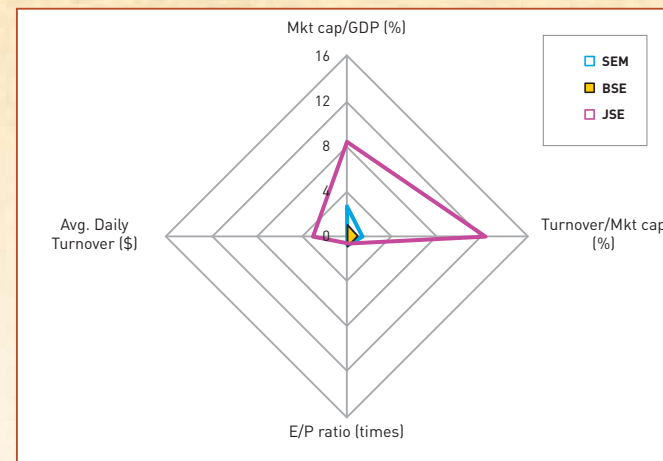
Source: BSE

Figure 26: BSE Footprint in relation to JSE & SEM: 2009



Note 1: Scale; Turnover/Mkt Cap 1:1, Avg Daily Turnover1:1000, Mkt Cap/GDP 1:1, E/P Ratio 1:1
 Note 2: Market capitalisation/GDP, Turnover/Market, E/P ratio and Average daily turnover for the BSE were standardized to 1 and the footprint for SEM and JSE was computed relative to the BSE's footprint
 Source: BSE

Figure 27: BSE in relation to JSE & SEM 2010



Note 1: Scale; Turnover/Mkt Cap 1:1, Avg Daily Turnover1:1000, Mkt Cap/GDP 1:1, E/P Ratio 1:1
 Note 2: Market capitalisation/GDP, Turnover/Market, E/P ratio and Average daily turnover for the BSE were standardized to 1 and the footprint for SEM and JSE was computed relative to the BSE's footprint
 Source: BSE

A summary of the development of the BSE relative to JSE and SEM is detailed in Figure 28. As can be seen the footprint of the BSE relative to Stock Exchange of Mauritius has increased from 19.2% in 2009 to 28.53% in 2010. As noted previously, 2008 standout in terms of BSEs performance in relation to the JSE and Mauritius.



Chief Executive Officer's Review (continued)

Figure 28: BSE Footprint in relation to SEM and JSE: 2008 to 2010

	2008	2009	2010
BSE relative to SEM	32.44%	19.22%	28.53%
BSE relative to JSE	0.04%	0.01%	0.01%

Source: BSE

1.11 Primary Market Activity

Equity

There was improved primary market activity in 2010 in comparison to 2009 when there were no new equity listings. There were 2 equity listings on the BSE in 2010. Wilderness Holdings Limited listed on the Domestic Company Board on 8th April 2010 through an Initial Public Offer (IPO) of 3 Mn shares at P4.00 each. Wilderness Holdings Limited simultaneously dual listed on the Africa Board of the JSE. The IPO received 570 applications for 3,179,638 ordinary shares, resulting in the issue being oversubscribed by 6%.

Cresta Marakanelo Limited launched an IPO to raise P59.0 Mn by way of an offer for sale of 40.7 Mn shares at P 1.45 per share. The issue was subscribed up to 93.9%. It is noted that the Cresta Marakanelo IPO was the largest IPO in recent times and the demand for shares at the IPO is indicative of demand for capital market products by the public. In addition to the IPO, Cresta Marakanelo privately placed 18.5 Mn shares and a further 3.7 Mn shares were vested in an employee share trust scheme.

Three companies delisted from the BSE in the second half of 2010. Sefcash delisted on 15th September 2010 following a successful share swap under which shareholders of Sefcash received shares of Sefalana Holdings Limited at a ratio of 4.5 shares of Sefalana Holdings for each share of Sefcash. DiamonEx Limited was delisted by the BSE with effect from 6th September 2010 subsequent to the long suspension of its shares. African Diamonds also delisted from the BSE on 22nd December 2010 after its acquisition by Lucara Diamonds Corporation.

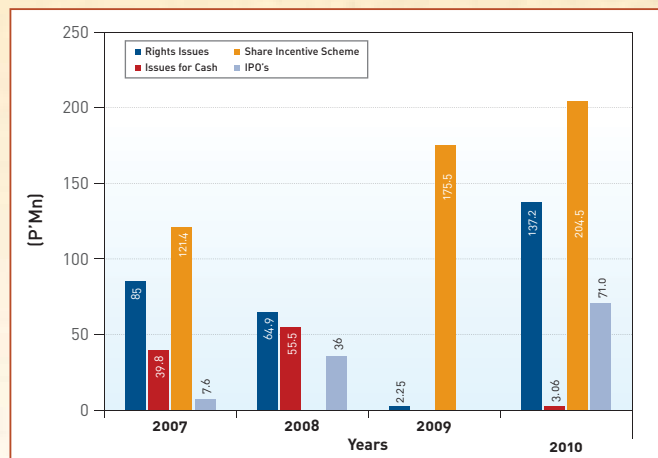
Letshego Holdings Limited had a share split of 10 to 1 on 16th April 2010, thus increasing the number of securities issued from 182,475,236 to 1,824,752,360. The share split resulted in an increase in liquidity in Letshego shares as evident from the number of shares traded in comparison to shares listed. Letshego shares which were trading at P16.00 per share just prior to the split traded at P1.85 per share just after the split. Hence on an equivalent basis the share price of Letshego appreciated by 15.6% due to the share split. The increase in price further boosted liquidity and market capitalisation.

As can be seen from the Letshego experience, the share split has resulted in an increase both liquidity and market capitalisation. This is not only special to Letshego but seems to be the norm for most share splits as evidenced by the FNB share split in 2007 and the Barclays share split in 2006.

In fulfilment of its primary role, the BSE provided a platform for listed companies to raise P415.8 Mn in 2010. These funds were raised through equity issues consisting of rights issues, share incentive schemes, issues for cash and IPOs by domestic companies. It is noted that funds raised through the BSE was P253.8 Mn in 2007, P156.4 Mn in 2008 and P177.8 Mn in 2009. Figure 29 profiles the means through which listed companies raised funds in the period 2007 to 2010.

As can be seen from Figure 29, Employee Incentive Schemes have accounted for the main primary market activity over the past years.

Figure 29: Primary market activity in Equities: 2007 to 2010



Source: BSE

Debt

During the first quarter of 2010 the Botswana government listed a P195 Mn bond (BW 007) maturing on 10th March 2025 at a fixed interest rate of 8%. The bond was listed under the P5 Bn programme memorandum of May 2008.

The government also increased the nominal values of BW 003 and BW 006 by P192 Mn and P200 Mn respectively in the first quarter of 2010.

During the second quarter of 2010, Botswana Vaccine Institute listed a P50 Mn bond (BVI 002) maturing on 14th July 2015 with a floating interest rate of 91 day Bank of Botswana Certificate (BOBC) plus a premium of 1.5%.

Furnmart Limited listed a P50 Mn bond (FML 015) maturing on 12th July 2015 with a floating rate linked to the 91 day Bank of Botswana Certificate (BOBC) plus a premium of 1.6%.

During the 3rd Quarter, the Botswana Building Society listed a P110 Mn floating rate bond (BBS 006) on 04th August 2010 which is due to mature on 04th August 2018. The bond was listed under the P500 Mn programme memorandum dated 29th July 2004 and the supplementary programme memorandum dated the 25th June 2005.

Botswana Housing Corporation (BHC) listed BHC 017 on 10th December 2010 to raise a nominal amount of P286 Mn. The bond carries a floating interest rate of 91 day Bank of Botswana Certificate plus 1.7% and is due to mature on 10th December 2017. On the same day BHC also listed a bond (BHC 020) with a nominal value of P103 Mn which is due to mature on the 10th December 2020 with a fixed interest rate of 10.1%. The bonds are listed under P 2 Bn programme.

Exchange Traded Funds

The strategy of the BSE in introducing ETFs based on foreign securities/ products to strengthen liquidity in terms of supply was realised in 2010 when the NewGold Exchange Traded Fund was dual listed on 13th July 2010. NewGold was listed under the newly created Exchange Traded Funds Board. This ETF was granted Local Asset Status by NBFIRA and has attracted much interest from investors. The performance of the NewGold ETF was detailed in section 1.4 of the review.



Chief Executive Officer's Review (continued)

2. UNDERSTANDING BSE INDICES

2.1 Theoretical Underpinning

There has been many requests by market participants for the BSE to explain the basis and reasons for the computation of its range of indices. At present the BSE computes 8 indices based on market capitalisation, liquidity, capital gains and total returns.

Stock market indices can be computed in many ways and have many uses. Whilst the primary function of indices is to measure average performance of a market, indices and index statistics are produced for analysing investment strategies and more importantly structuring products that can realise such investment strategies.

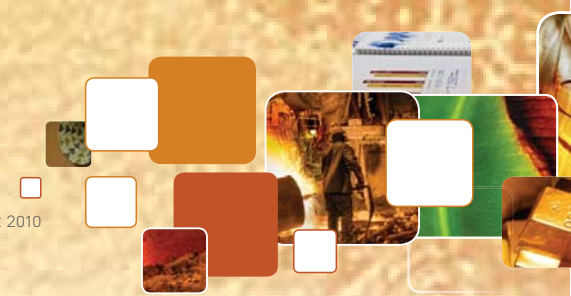
In the past few years the BSE introduced many new indices with the objective of assisting investors and financial advisors to support their investment and trading activities by enabling them to understand factors which influence market performance.

Prior to 2008, BSE computed 3 indices which included the Domestic Company Index (DCI), Foreign Company Index (FCI) and the All Company Index (ACI). These indices were computed using market capitalisation as the basis for weighting the component securities in the index and were designed to track and measure capital gains/losses.

An alternative methodology to using market capitalisation to weight component securities is the use of liquidity (free float) to compute relative weights of the component securities in an index. The Domestic Companies Free Float Index (DCFFI), Local Asset Status Free Float Index (LASFFI) and Domestic Financial Services Free Float index (DFSFFI) are indices computed by the BSE using liquidity as the measure of relative weight of the component securities.

The performance of a portfolio can be attributed to capital gains/losses and returns in the form of dividends or interest. The 3 indices computed by the BSE prior to 2008 were limited to the measurement of capital gains and losses. At present the BSE computes 6 indices using a total return methodology. These include Local Asset Status Index (LASI), Domestic Financial Sector Index (DFSII), Foreign Resource Sector Index (FRSI), Domestic Companies Free Float Index (DCFFI), Local Asset Status Free Float Index (LASFFI) and Domestic Financial Services Free Float Index (DFSFFI).

Market capitalisation weighted indices are popular but are limited in their usefulness since they do not adequately reflect price movements in a market, especially in markets such as the BSE where liquidity is concentrated on a few sectors and on a handful of securities. Changes in market capitalisation weighted indices for example, are dominated by price changes of shares with relatively high market capitalisation irrespective of liquidity. From a capital market perspective, what matters more than size is liquidity. Hence for an index to be a benchmark of performance it is important that it is constructed using a methodology that reflects liquidity.



The BSE discontinued the computation of the ACI in January 2009. The reason for discontinuing the ACI was that the market capitalisation computation methodology made the ACI to be heavily weighted in favour of foreign companies where liquidity was extremely low. The ACI therefore did not adequately reflect trading patterns and price changes on the BSE.

As noted in the previous reviews, the BSE commenced the computation of the Local Asset Status Index (LASI), Foreign Resources Sector Index (FRSI) and Domestic Financial Sector Index (DFSI) with effect from February 2008. These indices are computed on a total returns basis and are considered a better measure of performance in comparison to indices that only measure capital gains and losses like the DCI and FCI. The total returns methodology takes into account both capital gains/losses and dividends in their computation.

It is worth noting that the LASI consists of domestic and foreign companies accorded Local Asset Status by the Ministry of Finance and Development Planning (MFDP) and more recently by the Non Bank Financial Institutions Regulatory Authority (NBFIRA). The DFSI consists of financial institutions listed on the BSE domestic board while the FRSI is composed of resource sector companies listed on the BSE foreign board.

In spite of the BSE having introduced a plethora of indices to measure market performance, the DCI still remains the most popular index of the BSE in spite of its short comings. This is due to the historical acceptance of the DCI as the measure of performance of the BSE.

The methodology used by the BSE in the computation of Total Return Indices and Free Float weighted indices are detailed in Figures 30 and 31 for the benefit of the more technically minded readers of this review.



Chief Executive Officer's Review (continued)

Figure 30: Computation Methodology of Total Return Indices Constructed by BSE

- 1.1 A Total Return Index (TRI) reflects returns arising from price movements (capital gains/losses) and dividends receipts on the constituent securities. The assumption in computing a TRI is that dividends received are reinvested in the underlying securities.
- 1.2 Therefore, the performance of the TRI reflects the total return on the stock included in the index, which comprises 3 components;
 - (a) Daily price movement of shares (capital gains or losses)
 - (b) Dividends declared on shares that are components of the index adjusted for the ex dividend date
 - (c) Return earned on dividends reinvested in the component securities of the index

Computation Methodology

(a) Computation of Price Index on a capital gain basis (PI)

$$PI = \frac{MC_t}{MC_b} \times N$$

Where;

MC_t = current market capitalization

MC_b = base market capitalization

N = base index

(b) Adjustment for Cash Dividends

In order to adjust the index for dividends, an index dividend adjustment is the computed representing the value of cash dividends declared in respect of the component securities on ex dividend date, expressed as index points. The formula for dividend adjustment is given below:

$$\text{Dividend Adjustment (XD)} = \frac{\sum_{i=1}^n G_i W_i \times N}{MC_b}$$

Where;

G_i = dividend per share of the i^{th} company

W_i = number of ordinary shares issued by the i^{th} company

MC_b = base market capitalization of the constituent stock

N = base index

(c) Computation of TRI on Day t

$$TRI_t = \frac{TRI_{t-1}}{PI_{t-1}} \times (PI_t + XD_t)$$

Where;

TRI_t = Total Return Index value today

TRI_{t-1} = Total Return Index value yesterday

PI_t = Underlying price index today

PI_{t-1} = Underlying price yesterday

XD_t = Ex dividend adjustment on t as computed in (b) above

Figure 31: Computation Methodology of Liquidity Weighted (Free Float) Indices Constructed by BSE

- (a) The difference between market capitalization weighted indices and liquidity weighted indices is the relative weight of the component securities used in the computation of the index.
- (b) In market capitalization weighted indices the weighted average of the market capitalization of each of the component securities is used.
- (c) In contrast; in liquidity or free float weighted indices, component securities for the computation of the index is computed using a measure of liquidity. The BSE estimates liquidity for this purpose by using an estimated free float. Free float number of shares is computed by multiplying the total number of shares in issue by the component securities turnover to market capitalization ratio.
- (d) The following table illustrates the methodology used

Table 1: Computation of Estimated Free Float

Security	No. of Shares in issue (Mn)	Turnover/Market Capitalisation (%)	Estimated Free Float Number of Shares ^{Note1}
A	1000	10	100
B	2000	12	240
C	1500	8	120

Note 1: Estimated Free Float is computed by multiplying the number of shares in issue by the Turnover/Market Capitalisation ratio

- (e) The computation of liquidity weighted indices is done by using the estimated free float number of shares to compute the free float market capitalization.
- (f) The following table illustrates the methodology used

Table 2: Computation of Liquidity Weighted Indices

Security	Price _{Base}	Price _{Current}	Estimated Free Float	Free Float Mkt. Cap _{Base}	Free Float Mkt. Cap _{Current}
A	10	^{Note1} 14	100	1000	1400
B	12	12	240	2880	2880
C	8	8	120	960	960
				4840	5240

Note 1: Price of security A increased from P10.00 to P14.00

$$\text{Liquidity Weighted Index} = \frac{\text{Total Free Float Market Capitalisation}_{\text{current}}}{\text{Total Free Float Market Capitalisation}_{\text{base}}} * \text{Base Index}$$

If the Base Index is assumed to be 1000 as is the case of DCFFI, LASFFI and DFSFFI computed by the BSE, the current index computation for the above example can be computed as follows:

$$\begin{aligned} \text{Liquidity Weighted Index} &= \frac{5240}{4840} * 1000 \\ &= 1082.6 \text{ points} \end{aligned}$$



Chief Executive Officer's Review (continued)

A summary of the different methodologies used to compute the 8 indices produced by the BSE is detailed in Figure 32.

Figure 32: Computation Methodologies used in the Construction of BSE Indices

	Weighting		Returns	
	Market Cap	Free Float	Capital Gains	Total
DCI	✓		✓	
FCI	✓		✓	
LASI	✓			✓
DFSI	✓			✓
FRSI	✓			✓
DCFFI		✓		✓
LASFFI		✓		✓
DFSFFI		✓		✓

Source: BSE

2.2 Relative Performance

BSE's performance analysed by its different indices is detailed in Figure 33. As noted previously this is to enable analysts and investors to better understand and analyse market performance. The BSE is hopeful that these indices will assist the structuring of index based products, which will help improve the breadth and depth of the market.

In order to evaluate the different attributes of indices composed of the same or largely the same securities using different computation methodologies, the 8 indices computed by the BSE have been classified in pairs as detailed in Figure 33.

Figure 33: Performance of Indices Computed by BSE: 2008 to 2010

	2008	2009	2010	2010			
				Q1	Q2	Q3	Q4
DCI % Change	(16.5)	2.9	(11.4)	3.3	(1.7)	0.6	(13.3)
DCFFI % Change	n/a	n/a	0.3	3.7	0.9	0.6	(4.8)
LASI % Change	(44.1)	20.0	15.8	(0.7)	15.2	0.1	1.2
LASFFI % Change	n/a	n/a	1.5	3.9	0.9	1.2	(4.4)
DFSI % Change	(16.4)	9.1	(15.4)	2.8	(2.0)	1.2	(16.9)
DFSFFI % Change	n/a	n/a	(0.7)	(1.1)	6.0	1.2	(6.4)
FCI % Change	(52.1)	19.0	18.0	(0.7)	16.3	(0.1)	2.3
FRSI % Change	(46.4)	22.0	18.6	(0.7)	16.8	0.0	2.3

Source: BSE

2.3 Analysis of Movement of Indices

Figure 33 details the performance of indices computed by the BSE. Figure 34 depicts the standardised movement of paired indices in 2010 consisting of similar component securities computed using different methodologies.

As can be seen from Figures 33 and 34, indices computed using the free float methodology as the basis of weighting (as against the market capitalization methodology) have been more resilient in the downturn experienced in Quarter 4 of 2010. A comparison of the DCI and DCFFI as detailed in Chart A of Figure 34 indicates that the DCI has been influenced mainly due to the price movements of the less liquid securities.

This is the main reason why the DCFFI has in fact appreciated by 0.3% in 2010 as against the DCI which has declined by 11.4%.

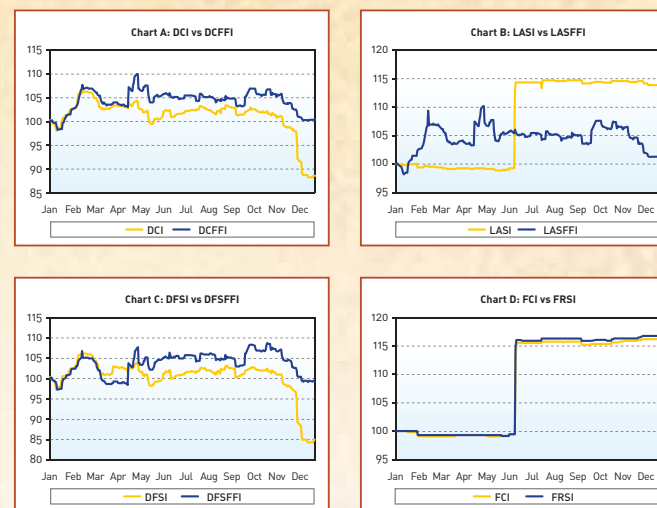
The other reason for the difference in performance can be explained by the dividend yield of domestic companies listed on the main board. The dividend yield of these companies in 2010 was 4.9%. Hence it can be estimated that approximately 4.9% of the difference of 11.7% between the DCI and DCFFI was due to the total returns methodology whereas the balance 6.8% can be attributed to the different weighting methodologies.

A similar picture emerges when we examine Chart C of Figure 34 comparing the performance of the DFSI to the DFSFFI. As can be seen, the DFSI depreciated by 15.4% in 2010 in comparison to the DFSFFI which declined by 0.7% in the same period. However in this case the difference can be attributed to the weighting methodologies used since both indices are computed using total returns.

The movement of the LASI as against LASFFI (Chart B of Figure 34) can be explained by the impact of Anglo American on the LASI. The LASI is influenced largely by Anglo American price as it is a market capitalization index. In comparison, LASFFI effectively neutralizes the impact of Anglo by using liquidity as the basis for weighting the component securities. Anglo American, which has the largest market capitalization of any security listed on the BSE is also the most illiquid and hence from a liquidity stand point, the impact of Anglo American is minimal on the computation of LASFFI.

At present, the BSE does not compute an index to track bond prices. One of the recommendations made by the Bond Market Development Task Force is that a bond index should be computed by the BSE. The BSE is looking at the feasibility of introducing a bond index.

Figure 34: Analysis of Movement of Indices in 2010



Source: BSE

As detailed above, the difference in performance between the indices as depicted by diagrams shown is attributed to different methodologies used in their computation.

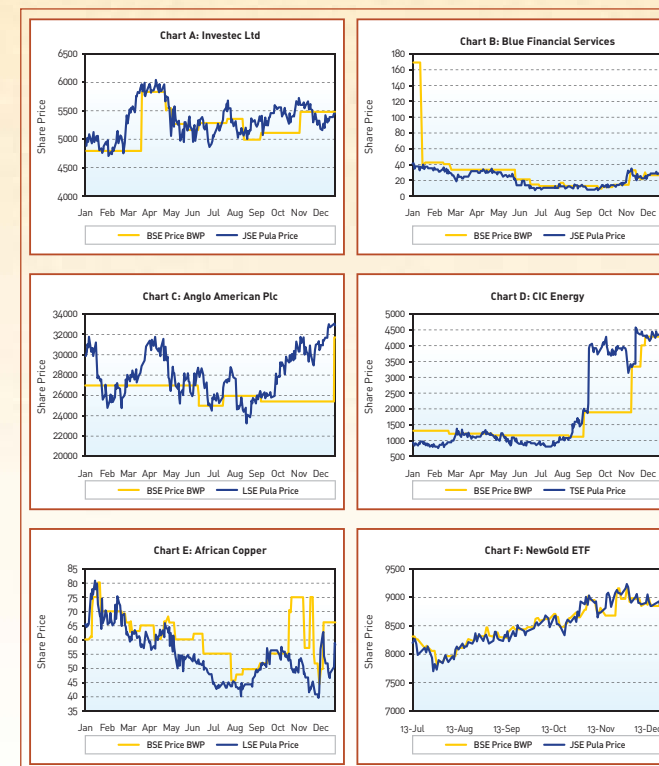


Chief Executive Officer's Review (continued)

3. EFFICIENCY IN PRICE DISCOVERY OF DUAL LISTED COMPANIES

The illiquidity of companies listed on the BSE resulting in inefficiencies in price discovery was discussed in previous reviews. This situation is especially true in respect of dual listed companies. As noted previously this was what led to the BSE to discontinue the computation of the ACI. A comparison of prices on the BSE and prices in primary markets reveal that there are differences that have not been bridged through arbitrage. The inefficiencies in price discovery can also be depicted by the straight lines and sharp changes shown in the BSE prices as detailed in all charts in Figure 35 with the exception of Chart F which is an account of the NewGold ETF. Inefficiencies in price discovery in respect of selected securities translates into an inefficient FCI since the BSE dual listed companies do not adequately mirror the price performance of the primary market.

Figure 35: Prices of BSE Dual Listed Companies vs Primary Market Prices 2010



Source: BSE, I-Net Bridge

A graphical analysis of the dual listed company prices in comparison to the NewGold ETF shows that, the NewGold prices in the BSE tracks the prices of the primary market more efficiently as clearly depicted in Chart F of Figure 35.

The BSE computed the average price differentials of selected dual listed companies and such differentials relative to the average share prices of the securities researched.

The analysis of the differentials in prices between the primary market and BSE is detailed by Figure 36. For example, the absolute mean deviation shows that the share price of CIC Energy on the BSE is on average P0.97 different from the primary market price. On a relative basis the price of CIC Energy deviates by a margin of 4.8% in comparison to its average share price.

As can be seen from Figure 36, Anglo American Plc has the highest price variation of P16.95 per share. However, on relative basis, the price difference in Blue Financial Services tops the list with a deviation of 13.5%. From an analytical point of view the mean price differential relative to the average share price is more important since deviation has to be measured in relation to another statistic which in this case is the average share price.

As noted above, the price discovery or the NewGold ETF is the most efficient with a relative price difference of 0.7% of the share price in comparison with the primary market share price. The efficiency of price discovery of NewGold ETF can undoubtedly be attributed to the appointment of a market maker who provides continuous liquidity and ensures that prices in the BSE are in line with that of the primary market.

Figure 36: Mean Price Differentials of Dual Listed Companies for Trades on the BSE: 2010

	Mean Price Differential (P)	Mean Price Differential Relative to Average Share Price (%)
CIC Energy Corporation	0.97	4.76
Blue Financial Services Limited	0.03	13.50
Investec Limited	1.60	2.99
Anglo American PLC	16.95	6.32
African Copper PLC	0.07	10.88
Aviva Corporation Limited	0.05	7.09
NewGold ETF	0.62	0.73

Source: BSE, I-Net Bridge



Chief Executive Officer's Review (continued)

4. DEPARTMENTAL REVIEWS

4.1 Market Development Activities

The Exchange continued to pursue its marketing initiatives in 2010 with the objective of increasing awareness of retail investors on the stock market. The initiatives included presentations, road shows and attendance at exhibitions. The Exchange also hosted several groups at the BSE where participants were afforded the opportunity of viewing trading.

A synopsis of the market development activities undertaken by the BSE in the year under review are detailed in Figures 37, 38 and 39.

Figure 37: Presentations and Roadshows: 2010

Location	No. of participants
Barclays Compliance Department	10
Shashe CJSS	100
Francistown Senior Secondary	6
NIIT Francistown	3
BAC Francistown	98
Mater Spei	45
Tati Nickel	33
Barclays Bank Francistown	60
Francistown Senior Secondary	35
BDF Glenvalley	59
McConnell Senior Secondary	45
UB Finance Society	503
Ministry of Labour	64
Lobatse SSS	101
BOPEU-Goodhope	33
BDF Thebephatshwa	52
Tertiary Examination Council	25
Tlokwen Rural Administration Council	35
Botswana Public Employees Union-Palapye	40
Botswana Public Employees Union-Sefhare	42
Bakwena Kgari School	45
Women in Business-Sanitas Garden	25
VGEA	100
Sowa Pan	82
Mahalapye Rural Administration Council	53
Ntwaagae Primary School	37
Botswana Public Employees Union-Bobonong	36
Broadhurst Police	30
Total	1797

Source: BSE

Figure 38: Attendance at Exhibitions and Fairs: 2010

Location	No. of participants
Easter Fair	
Tertiary Education Council	25
Consumer Fair	485
JAB-Rutwang CJSS	14
JAB-John Nswazi	12
JAB-Masunga	18
Jab Students	15
Tlokweng Education Center	50
Palapye BOPEU	35
Legae School	15
Total	669

Source: BSE

Figure 39: Trade Viewing: 2010

Location	No. of participants
Junior Achievement Botswana Students	10
Junior Achievement Botswana Students	22
Junior Achievement Botswana Students	15
UB Finance Society	14
UB Finance Society	15
Legae Secondary School	17
Botswana Defence Force	20
Botswana Defence Force	22
UB Business Clinic	22
UB Business Clinic	15
Total	172

Source: BSE

Publicity

During the first quarter of 2010 the BSE partnered with Botswana Television to sponsor the business segment of the "Daily Live Breakfast Show".

The Exchange continued to partner with the media in promoting the capital market by contributing articles to newspapers and taking part in radio & television talk shows to educate the public on the importance of investing in the capital market.

4.2 Product Development

Financial Market Courses

The BSE partnered with Geometric Progression CC of South Africa to conduct 6 financial market courses in 2010. The objective of this initiative was to improve the level of understanding and knowledge of financial market participants, especially debt market participants.

Three courses were conducted on Understanding Financial Markets which was attended by 45 participants. The course on Introduction to Bonds was attended by 12 participants and the programme on Intermediate Bonds was attended also by 12 participants. The workshop on Derivatives only attracted 8 participants indicating that the local market is perhaps not yet ready for the introduction of these products. The Exchange plans to collaborate with local industry experts to conduct these courses using local skills where possible.



Chief Executive Officer's Review (continued)

4.2 Product Development (continued)

Bond Market Development

As noted in the Annual Report for 2009, the BSE was instrumental in initiating the formation of a Bond Market Development Task Force with representation from Primary Dealers, Asset Managers, Issuers, Regulators and Stockbrokers. The objective of this initiative, from the BSE perspective is to understand and appreciate the requirements of the industry in order to develop rules and regulations which would be conducive to listing, trading and settling bond transactions on the BSE. The BSE is of the view that if successful, this initiative will improve liquidity of bond trading on the Exchange.

The Bond Market task force has since consolidated the contributions of bond market participants and produced a draft bond market development strategy. The paper has been distributed to industry participants and regulators for comments prior to finalisation.

Contract For Difference (CFDs)

The BSE has drafted a concept paper on the introduction of CFDs on the BSE. The Exchange plans to hold several meetings with strategic partners to appraise them of the BSE's plans and get their views and support for this new product.

It is noted that introduction of CFDs in the BSE is likely to take some time given its implications on;

- a) Regulations
- b) Infrastructure
- c) Awareness creation
- d) Readiness of the market

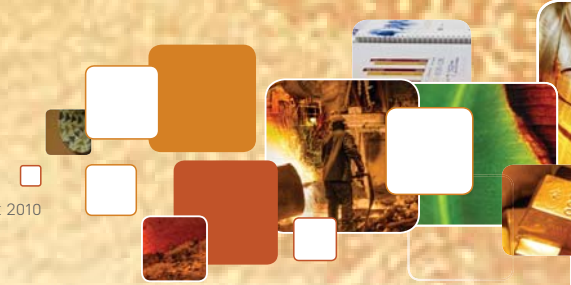
The introduction of CFDs by the BSE is in line with its strategy to increase the breadth and depth of the market. It is envisaged that by introducing CFDs liquidity on the BSE is likely to improve.

Introducing Exchange Traded Funds (ETFs)

The BSE dual listed the NewGold ETF in July 2010. The NewGold ETF tracks the price of gold bullion and hence provides investors the opportunity of profiting from movement of gold prices without actually holding gold as a physical asset. Given that gold is priced in US Dollars it also provides a basis of hedging the movement of the Pula against the US Dollar.

Since its listing, the volume of the NewGold ETF traded on the BSE in 2010 was 1.5 Mn units at a value of P 123.2Mn. The price of units transacted ranged between P78.70 and P91.55 per unit. It is noted that since its listing the market value of the NewGold ETF has appreciated by 7.5% up to 31st December 2010.

During the last quarter of 2010, the BSE had discussions with Nedbank Capital of South Africa regarding listing Nedbank's Equally Weighted Top 40 ETF BettaBeta. Subsequently Nedbank Capital made several presentations to fund managers, brokers and other interested parties. The presentations were made to create awareness amongst potential investors and to test investor appetite for this product. The Bettabeta ETF was listed on the BSE in May 2011. The ETF is primarily listed on the JSE.



It is noted that both ETFs listed on the BSE have been granted Local Asset Status by NBFIRA.

As noted in previous Annual Reports the idea behind introducing ETFs is once again to improve liquidity and provide investments with diverse risk-return options by improving the breadth and depth of the market.

4.3 Infrastructure Development

The successful implementation of the Central Securities Depository (CSD) in May 2008 made clearing and settlement of securities efficient, robust and transparent, thus reducing systemic risk. It also paved the way for the implementation of an Automated Trading System (ATS) which will be instrumental in bringing the BSE on par with more developed exchanges.

As noted in the previous Annual Report, the proposals received for the implementation of the ATS were subject to a rigorous 3 stage technical evaluation followed by a financial evaluation. The Public Procurement and Asset Disposal Board (PPADB) has since approved the ATS Tender Evaluation Committee's recommendations and approved negotiations with the preferred vendor. At present the software and hardware contracts are being negotiated with the preferred vendor. It is now expected that the ATS will be implemented in Quarter 4 or 2011 subject to the contract being signed in June 2011.

The CSDB successfully completed a project to email client account statements. The project was completed in January 2011 using inhouse IT personnel. Whilst emailing clients statements would sharply reduce costs, it will also improve the efficiency of service delivery with CSD account holders receiving their monthly statements without delay. At present approximately 60% of statements are delivered via email. A campaign was launched to encourage account holders to opt for receiving statements via email.

4.4 Central Securities Depository (CSD)

As detailed in Figures 40 and 41, dematerialisation of shares in the CSD System is continuing satisfactorily. As at end December 2010, 45.8% of domestic company shares were dematerialised as against 34.2% in December 2009.

Dematerialisation status of foreign companies decreased to 62.5% at the end of December 2010 from 68.0% as at end of December 2009. The decline was mainly due to the delisting of African Diamonds Plc.



Chief Executive Officer's Review (continued)

4.4 Central Securities Depository (CSD) (continued)

Figure 40: Dematerialisation status of Domestic Companies: 2009 and 2010

	Issued Shares (No)	2010 Shares Deposited into CSD (No)	% of shares in CSD	2009 % of shares in CSD
ABCH	146,419,524	47,243,868	32.3%	28.2%
Barclays	852,161,250	217,917,214	25.6%	25.2%
BIHL	281,070,652	103,392,099	36.8%	35.1%
Chobe	89,405,139	36,072,505	40.4%	30.4%
Cresta	185,000,000	37,572,851	20.3%	—
Engen	159,722,220	38,628,232	24.2%	24.0%
FNBB	2,563,700,000	658,269,826	25.7%	25.3%
FSG	120,000,000	93,399,589	77.8%	52.4%
Furnmart	50,961,781	10,215,652	20.1%	19.8%
G4S	8,000,000	2,004,169	25.1%	24.0%
Letshego	1,841,422,950	1,435,063,858	77.9%	53.8%
Olympia	28,600,000	4,490,361	15.7%	15.4%
Primetime	179,890,200	65,990,760	36.7%	34.4%
RDCP	33,541,022	6,836,545	20.4%	20.2%
RPC Data	31,482,887	11,728,395	37.3%	37.0%
Sechaba	133,014,875	106,323,191	79.9%	73.6%
Sefalana	184,541,130	158,459,917	85.9%	78.8%
Sefcash	—	—	—	15.8%
Stanchart	298,350,519	55,918,760	18.7%	18.9%
Turnstar	385,810,579	329,441,763	85.4%	84.9%
Imara	58,162,419	42,197,994	72.6%	68.9%
Wilderness	231,000,000	135,946,222	58.9%	—
NewGold	1,200,000	1,200,000	100%	—
Market	7,863,457,147	3,598,313,771	45.8%	34.2%

Source: CSD Botswana

Figure 41: Dematerialisation of Foreign Companies: 2009 and 2010

Security	Issued Shares on Botswana Register	2010 Shares Deposited into CSD (No)	% of Shares in CSD	2009 % of Shares in CSD
Aviva	1,676,306	1,180, 821	70.4%	59.6%
AFDI	—	—	—	75.23%
CICE	984,900	370,467	37.6%	3.2%
ACAP	788,530	393,702	49.9%	40.8%
IAMGOLD	901,841	773,972	85.8%	86.7%
Market	4,351,577	2,718,962	62.5%	68.0%

Source: CSD Botswana

The shares of companies incorporated in the UK are yet to be dematerialised since the UK Companies Act has not listed Botswana as a country where sub-registers of UK companies can be maintained. The BSE has sought the assistance of the Ministry of Trade and the British High Commission to resolve this issue.

The Exchange has also engaged with the Registrar of Companies regarding the dematerialisation of bonds. This has been necessitated due to certain provisions in the Botswana Companies Act not adequately addressing the electronic transfer of bonds. The BSE is hopeful that this initiative will result in the dematerialisation of bonds.

Progress on Account Opening

The number of authorised accounts opened by investors (excluding joint accounts) as at end December 2010 was 10,598 as detailed in Figure 42 in comparison to 7,499 in 2009.

Figure 42: Status of CSD accounts as at December: 2009 and 2010

Client Classification	2010								2009
	SBB	MOTS	CAPS	AA	SCBB	STAN	FNB	Total	Total
Local Companies	185	131	99	6	69	22	9	521	260
Foreign Companies	23	22	56	2	347	63	0	513	492
Foreign Individuals	114	11	85	3	0	0	0	213	128
Foreign Residents	221	92	238	13	0	0	0	564	404
Foreign Juniors	9	3	12	0	0	0	0	24	19
Local Individuals	3,743	1,887	2,373	141	0	0	0	8,144	5,735
Local									
Juniors	288	133	187	11	0	0	0	619	461
Total	4,583	2,279	3,050	176	416	85	9	10,598	7,499

Source: CSD Botswana



Chief Executive Officer's Review (continued)

4.4 Central Securities Depository (CSD) (continued)

Client Holdings

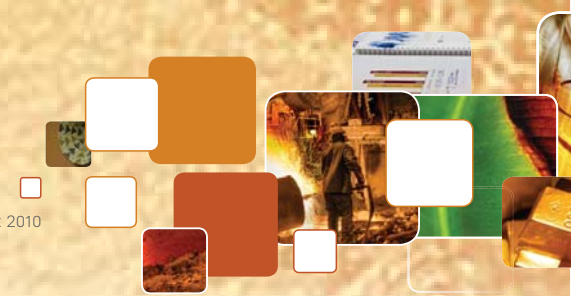
As detailed in Figure 43 client holdings by foreign institutional investors have been steadily increasing since the beginning of the year.

Figure 43: CSD Client holdings by Investor category

	2009				2010			
Client Suffix	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Local Company	83.9%	82.4%	82.3%	81.3%	80.0%	68.8%	68.6%	69.4%
Foreign Company	12.4%	12.6%	12.3%	12.9%	14.1%	26.4%	26.5%	25.5%
Local Individual	2.5%	3.4%	3.9%	4.0%	4.0%	3.2%	3.3%	3.4%
Others Regions	1.2%	1.6%	1.5%	1.8%	1.9%	1.6%	1.6%	1.7%
Total	100%	100%	100%	100%	100%	100%	100%	100%

	2009				2010			
Domiciles of Clients	Mar 2009	June 2009	Sept 2009	Dec 2009	Mar 2010	June 2010	Sept 2010	Dec 2010
Local Citizens	86.6%	86.0%	86.3%	85.4%	84.1%	72.1%	71.8%	72.8%
US Citizens	8.6%	8.4%	7.8%	8.6%	8.2%	10.0%	10.1%	10.5%
SADC Countries	2.8%	2.8%	2.7%	3.5%	5.3%	12.8%	12.5%	10.1%
Other Regions	2.0%	2.8%	3.2%	2.5%	2.4%	5.1%	5.6%	6.6%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: CSD Botswana



4.5 Regulation and Governance

The Proposed Securities Bill and BSE Rules

The Committee appointed by MFDP to review the draft Securities Bill has completed its review and recommended several amendments. These amendments have been incorporated into the draft bill. The Securities Bill is expected to be presented to Parliament in due course.

The BSE took over the review of its Member Rules from the consultants appointed by MFDP at the request of MFDP. The BSE has gone through several drafts of the proposed rules but has decided to suspend further work after having been made to understand that NBFIRA are drafting Member Rules and are likely to direct the BSE to adopt such rules.

The BSE's trading rules will undergo an extensive revision subsequent to the implementation of the proposed Automated Trading System.

The above developments, especially the proposed Securities Bill will help the BSE convert itself from being a parastatal to being a corporate. In effect this would require the BSE to transform from being a "not for profit" organisation into a company operating as a commercial entity.

The governance of the BSE will be sufficiently addressed once the Securities Bill becomes Law. However, several measures have been undertaken by the BSE to improve the governance of the Exchange as reported in previous years. These include adoption of a Board Charter in 2007 and the introduction of non - independent non -executive Committee members.

4.6 Organisation Structure and HR development

In 2010, the BSE continued to train its staff through various means that included workshops, conferences and courses on operations of stock exchanges. This will improve the level of knowledge of staff members and add to the development of the capital market.

The BSE also continues to offer internship to graduates under the government's internship programme.

A project is underway to evaluate the BSE's organisation structure, job profiles and succession plans.

The draft rules of NBFIRA for Securities Exchanges envisage an internal audit function and compliance function. Further BSE's growth in size and complexity in the recent past makes it imperative that checks, balances and controls are strengthened. The proposed organisation structure for the BSE is expected to address gaps in the BSE structure.

4.7 Financial Resources

The financial performance of the BSE/BSE Group over the past 5 years is detailed in Figure 44. As detailed in Figure 44, the BSE yet depends on a subvention from government to break even. However as will be noted, the subvention is mainly used to meet development expenditure which is defined as Market Development and IT expenditure. In 2010 the subvention was exclusively used to meet development expenditure as detailed in Figure 44. In order for the BSE to remain viable without a subvention the required average daily turnover for 2010 was an estimated P5.1 Mn. The BSE achieved an average daily turnover of P3.9 Mn in 2010.



Chief Executive Officer's Review (continued)

4.7 Financial Resources (continued)

As noted in the section on Regulation and Governance, the proposed Securities Bill will pave the way for the BSE to be converted into a company. If this is to take place, the BSE will require its subvention to be capitalised in the form of share capital issued to government. The BSE has engaged MFDP on this matter. A paper motivating the capitalisation of CSDB has already been submitted to MFDP for their consideration. A paper on the capital requirements of the BSE will be presented to government in due course.

Figure 44: Financial Performance of BSE: 2006 to 2010

	2006 P	2007 P	2008 Note 2 P	2009 Note 2 P	2010 Note 2 P
INCOME					
Income from Operations	5,085,115	5,829,852	10,597,991	10,555,673	13,561,022
EXPENDITURE					
Development Expenditure Note 1	299,636	1,098,159	2,151,999	1,824,181	1,990,334
Administrative Expenditure	4,297,846	6,266,152	10,816,712	11,152,744	12,896,249
Total Expenditure	4,597,482	7,364,311	12,968,711	12,976,925	14,886,583
Profit/(Loss) Prior to Subvention	487,633	(1,534,459)	(2,370,720)	(2,421,252)	(1,325,561)
Subvention required to break even	—	1,534,459	2,370,720	2,421,252	1,325,561
Subvention received	2,012,500	2,589,932	3,992,605	4,812,500	2,525,000
Profit transferred to Reserves	2,500,133	1,055,473	1,621,885	2,391,248	1,199,439
Extent to which Income from operations meet administrative expenses	100%	93%	98%	95%	100%

Source: BSE

Note 1: Defined as Market Development and IT Expenditure.

Note 2: Includes both BSE and CSDB

4.8 Regional and International Cooperation

The BSE participated in 2 Committee meetings of SADC Stock Exchanges (CoSSE) held in Cape Town, South Africa and Mbabane, Swaziland during 2010. As a member of the African Securities Exchanges Association (ASEA), the BSE attended the Annual General Meeting of ASEA held in Livingstone, Zambia in November 2010.

5. APPRECIATION

The year that was, was not easy for the Exchange, but we did move closer to realising our vision as the results amply illustrate. We could not have done so without the support of many.

I thank the Ministry of Finance and Development Planning, Bank of Botswana and NBFIRA for their support.

I appreciate the counsel received from Mrs Lipalesa Siwawa the Chairperson, members of the Main Committee and Board of Directors of CSDB.

I acknowledge the support received from Stockbrokers, participants of CSDB, the settlement bank and all stakeholders.

I wish to thank the managers and each member of staff individually for their unstinted efforts and support which made my job as the CEO much easier.



Hiran Mendis
Chief Executive Officer





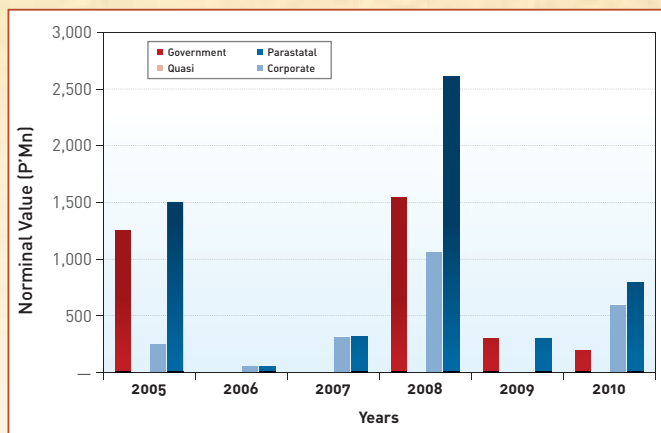
BOTSWANA STOCK EXCHANGE

GRAPHICAL REVIEWS

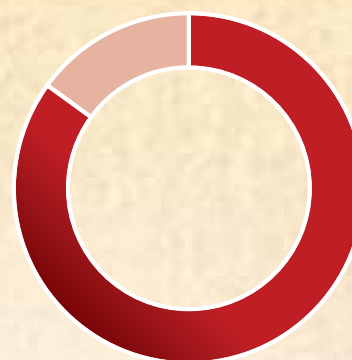
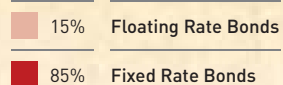
Equities Graphical Review - Bonds

Botswana Stock Exchange Annual Report 2010

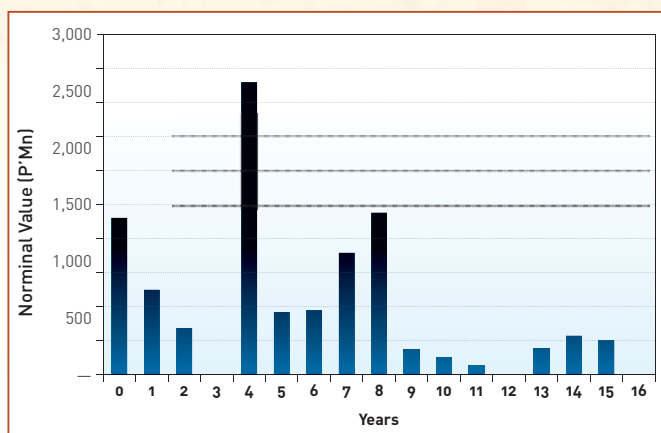
Primary Market Activity (Debt Issues) (2005-2010)



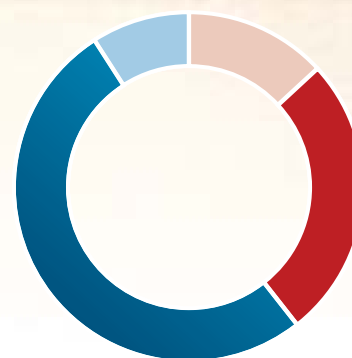
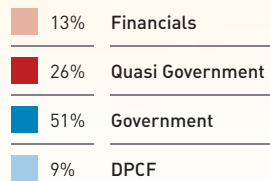
Structure of issuance in the market



Maturity of Bonds Issued as at 31 December 2010



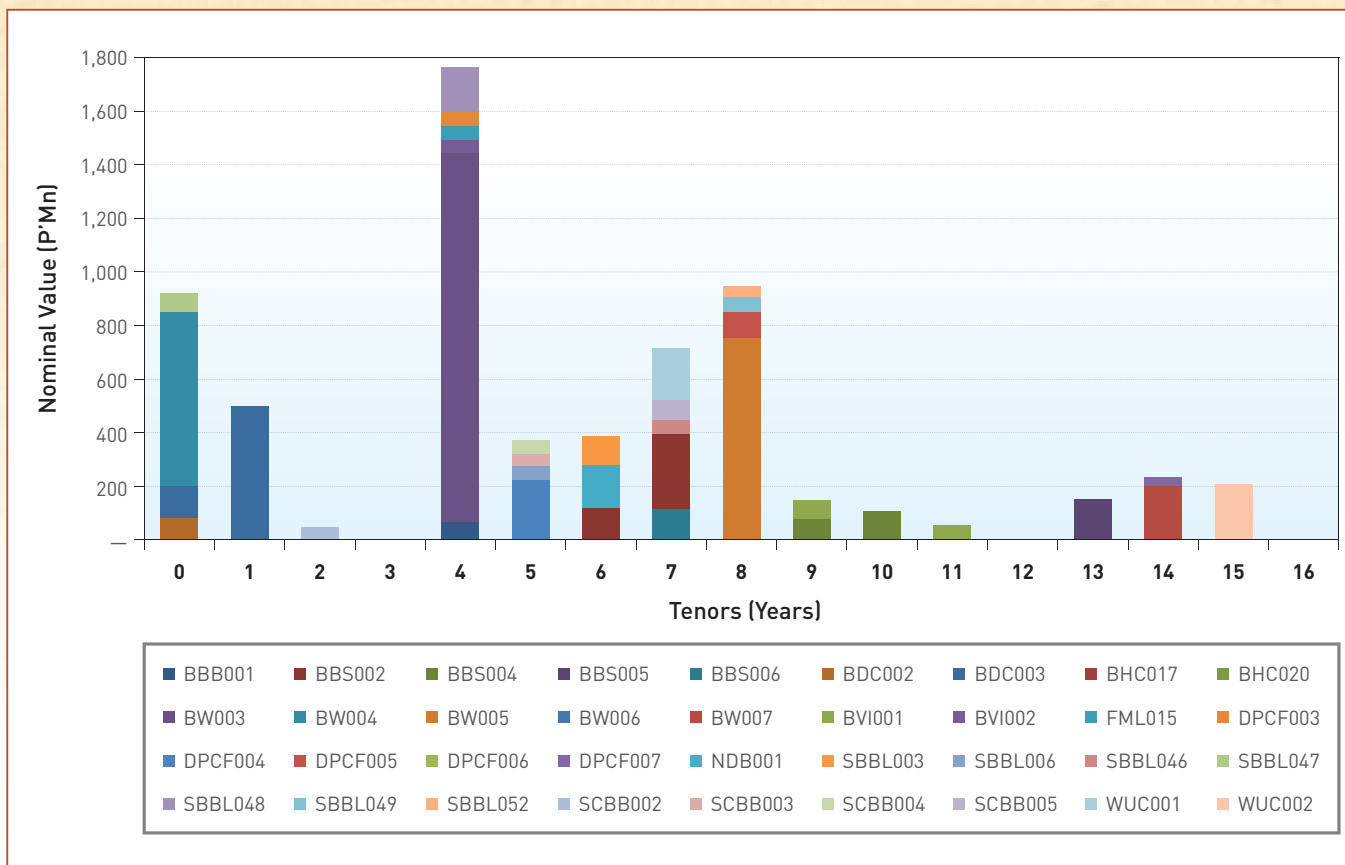
Industry Sector classification





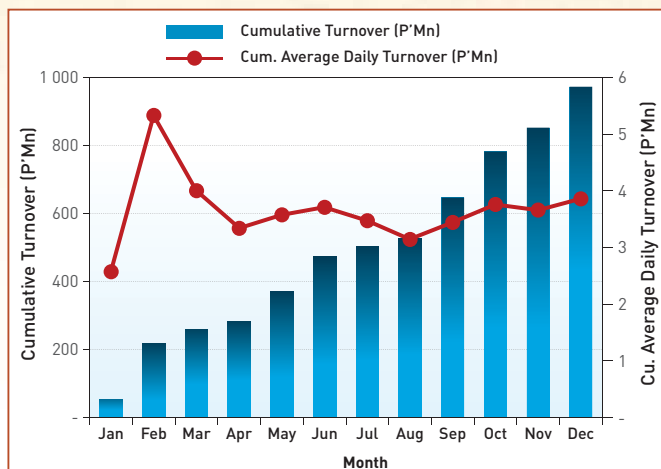
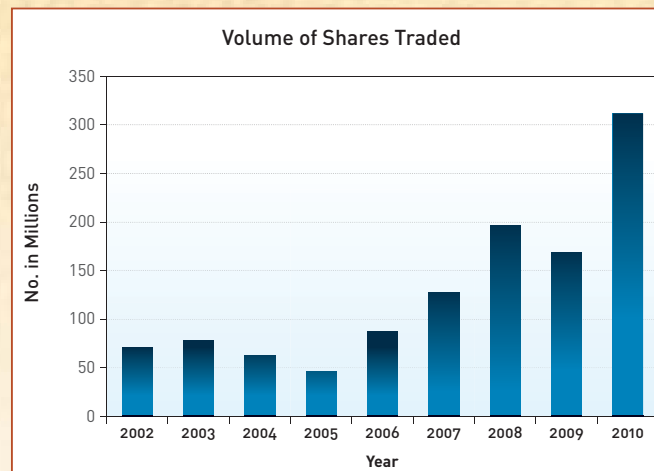
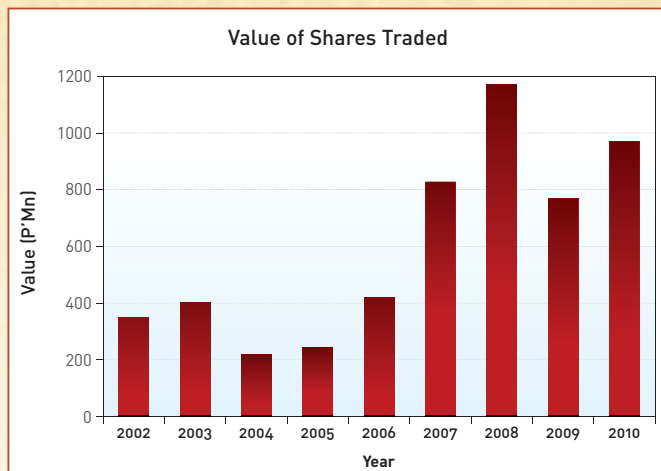
Equities Graphical Review - Bonds (continued)

Maturity of Bonds Issued as at December 2010 Analysed by Issuer



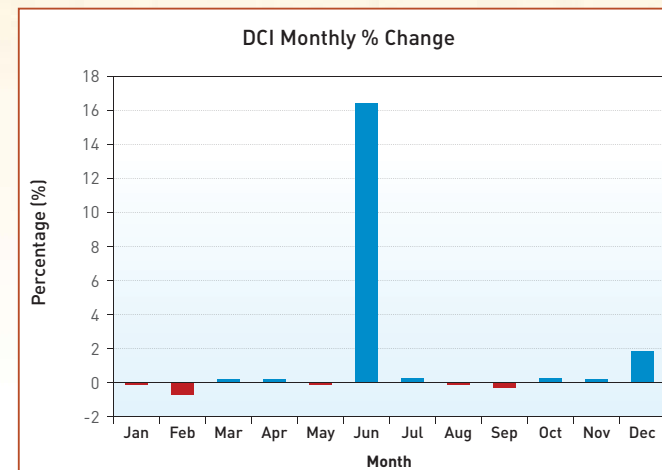
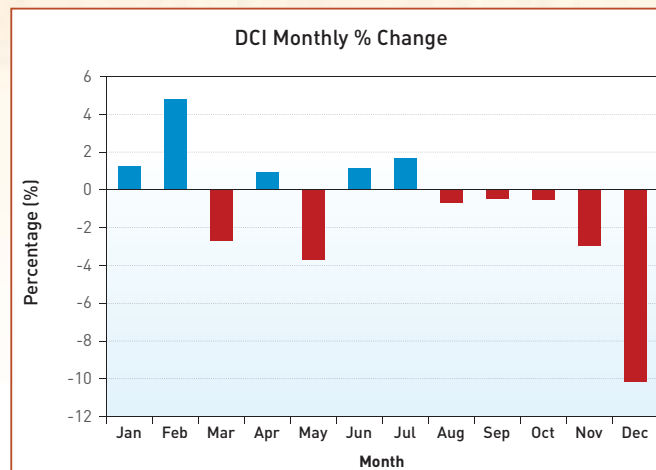
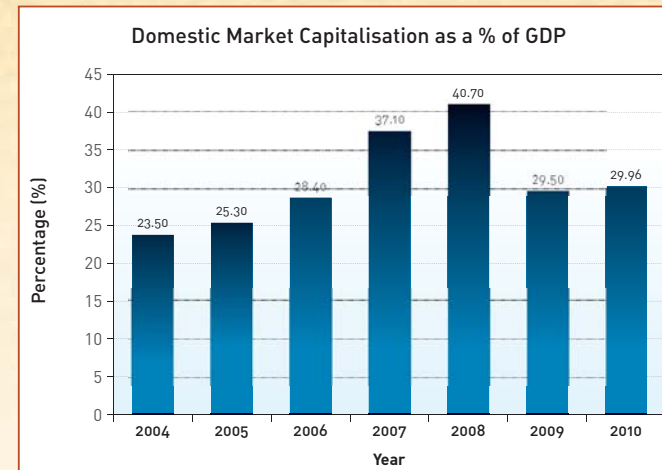
Equities Graphical Review - Equities

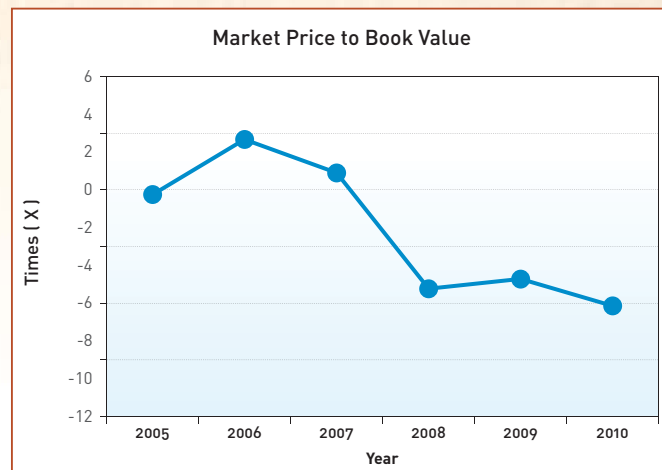
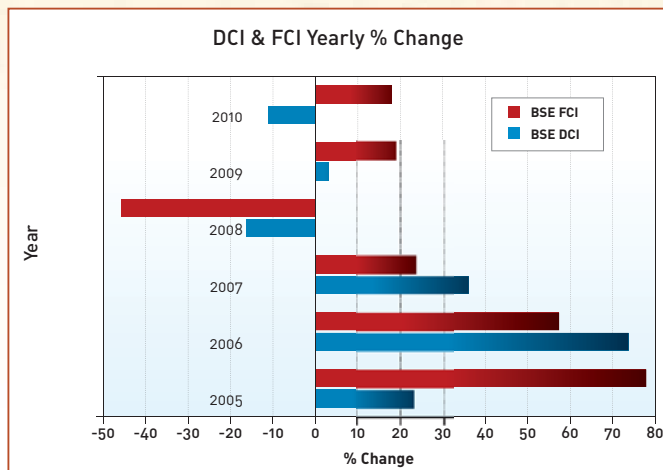
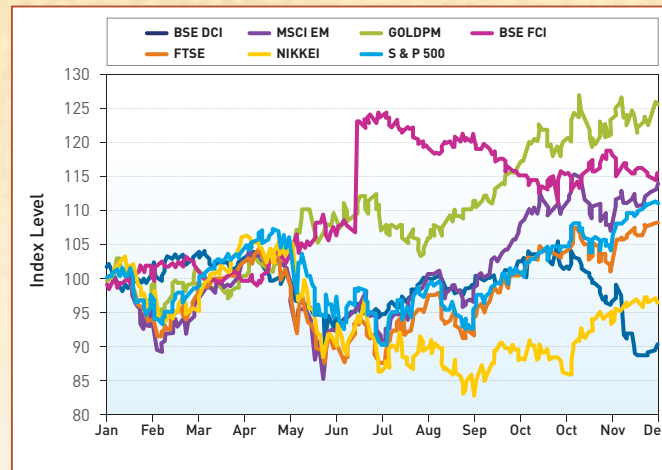
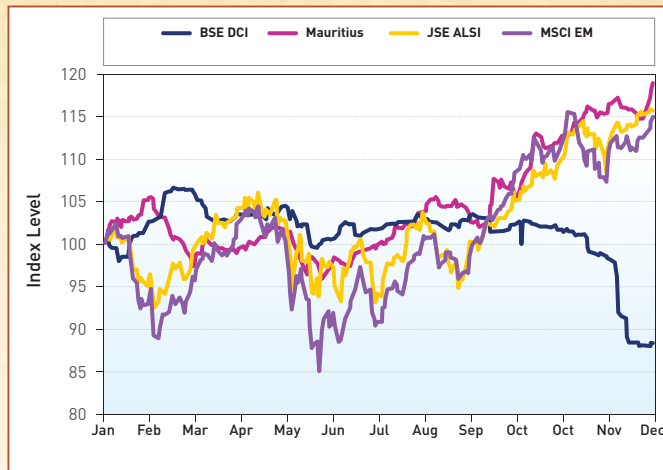
Botswana Stock Exchange Annual Report 2010





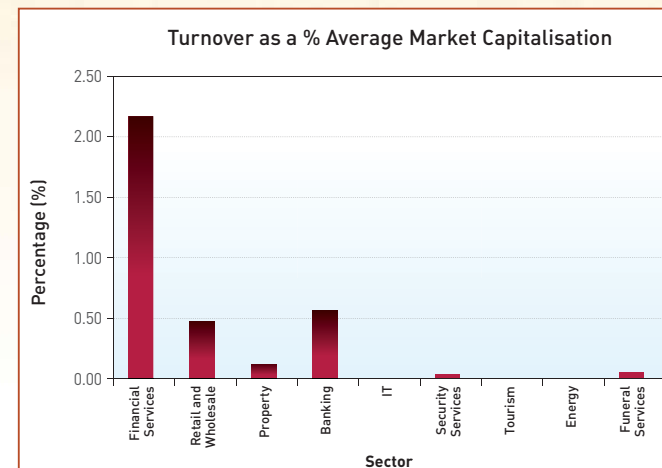
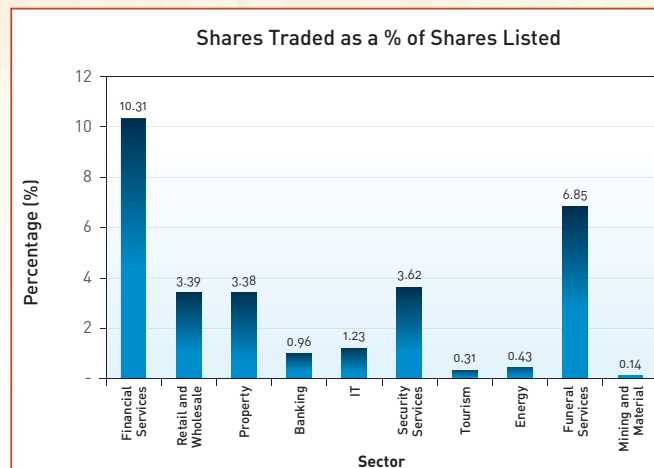
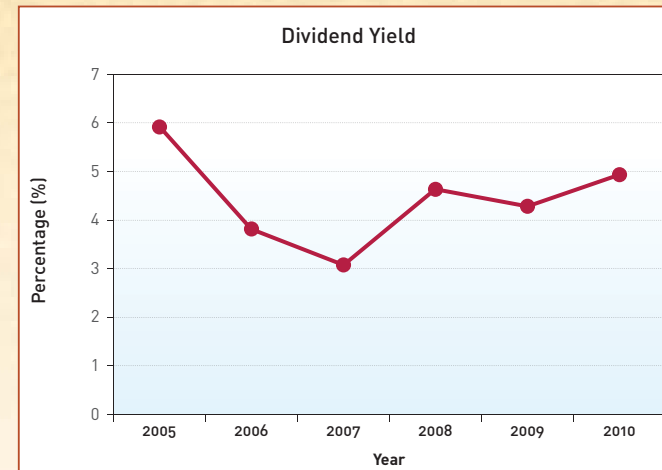
Equities Graphical Review - Equities (continued)



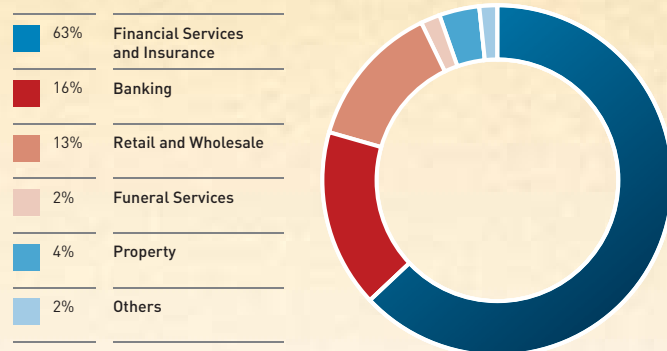




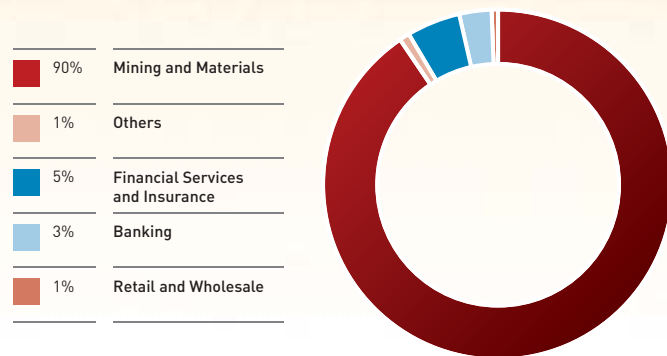
Equities Graphical Review - Equities (continued)



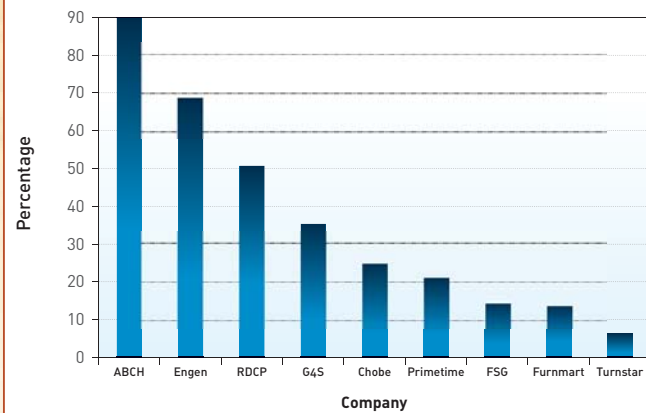
Turnover as a % of Shares Listed by Capitalisation



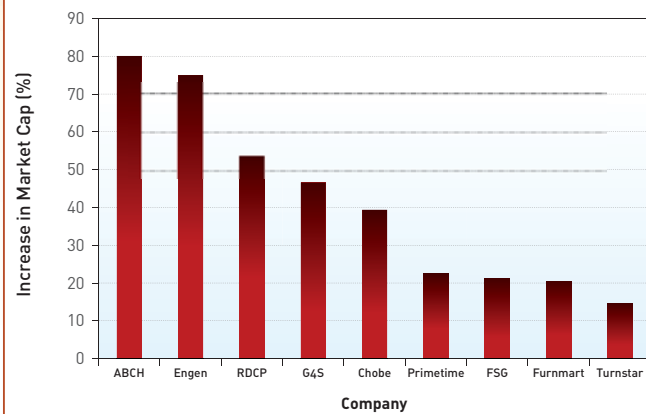
Total Market Cap by Sector



Domestic companies by gains in price

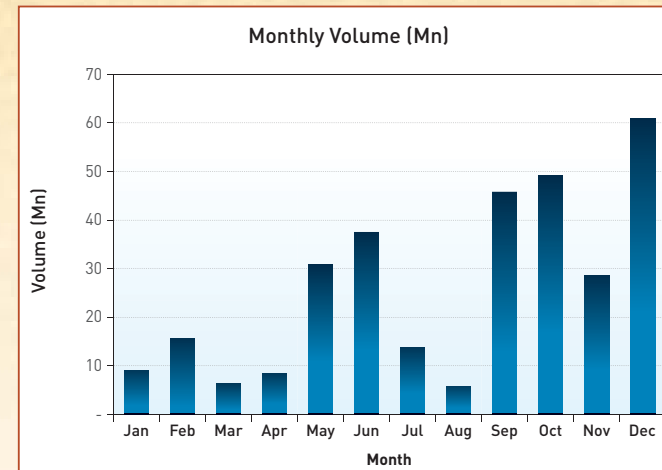
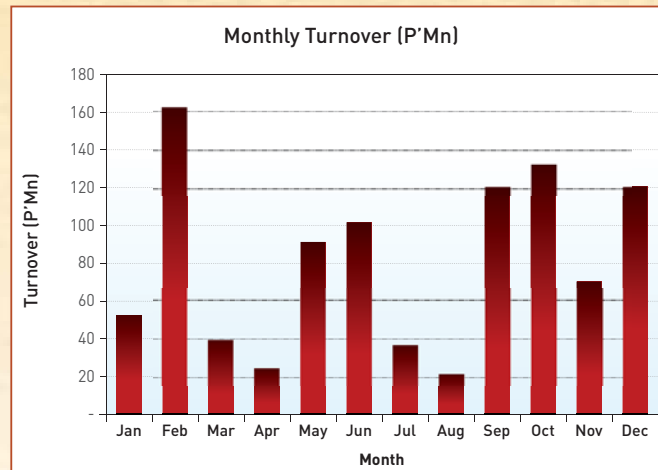


Domestic companies by gains in market capitalisation





Equities Graphical Review - Equities (continued)



Market Statistics

Botswana Stock Exchange Annual Report 2010

Table 1:
Number of Companies Listed

	2005	2006	2007	2008	2009	2010
Number of new listings	3	4	2	2	0	2
Number of de-listings	0	1	2	2	0	3
Foreign listings	9	12	12	11	11	9
Domestic listings	19	19	19	20	20	21
TOTAL	28	31	31	31	31	30

Source: BSE

Table 2:
BSE Market Capitalization as at Year ended December (P'000,000)

	2005	2006	2007	2008	2009	2010
Domestic Market Capitalization	13,418.10	23,776.87	32,702.58	27,706.07	28,536.15	26,245.68
Foreign Market Capitalization	301,144.60	510,407.79	535,324.96	286,260.24	346,001.07	408,380.29
Total Market Capitalization	314,562.70	534,184.66	568,027.53	313,966.31	374,537.22	434,625.98

Source: BSE

Table 3:
Market Capitalisation as at Quarter ended (P'000,000)

	Mar 09	Jun 09	Sept 09	Dec 09	Mar 10	Jun 10	Sept 10	Dec 10
Domestic Market Capitalization	25,405.46	24,555.57	27,199.36	28,536.15	29,465.20	30,183.31	30,121.24	26,245.68
Foreign Market Capitalization	282,224.50	272,570.35	281,309.92	346,001.07	343,718.00	399,487.53	399,523.33	408,380.29
Total Market Capitalization	307,629.96	297,125.92	308,509.28	374,537.22	373,183.20	430,057.84	429,644.57	434,625.97

Source: BSE



Market Statistics (continued)

Table 4:
Market Capitalization by sector as at Year ended December (P'000,000)

	2005	2006	2007	2008	2009	2010
Banking	8,377.90	15,941.57	19,304.42	16,563.22	16,858.29	12,953.79
Financial Services & Insurance	14,698.85	24,412.40	25,391.54	19,486.78	20,466.10	21,511.31
Retailing & Wholesaling	9,017.20	11,855.78	12,978.07	3532.90	3,134.73	2,617.45
Property & Property Trust	248.21	437.83	934.80	907.87	944.73	1,083.66
Mining & Materials	281,422.39	480,421.05	508,427.76	272,109.54	331,978.26	393,451.15
Security Services	122.40	136.00	220.00	181.12	188.80	262.96
Information Technology	12.91	21.41	18.89	15.74	7.87	7.56
Funeral Services	—	—	—	132.00	187.20	224.40
Energy	535.07	758.68	769.86	702.78	586.18	1,022.22
Tourism	106.07	178.22	295.44	334.38	185.07	1,491.46

Source: Botswana Stock Exchange

Table 5:
Market Capitalization by sector as at Quarter ended (P'000,000)

	March 2009	June 2009	Sept 2009	Dec 2009	March 2010	June 2010	Sept 2010	Dec 2010
Banking	15,340.15	15,283.61	17,313.59	16,858.29	17,443.16	16,850.86	16,796.09	12,953.79
Financial Services & Insurance	17,497.31	15,824.04	17,632.55	20,466.10	20,119.15	21,702.18	20,934.28	22,990.67
Retailing & Wholesaling	3,252.76	3,134.60	3,095.92	3,134.73	3,284.87	2,856.79	2,678.88	2,617.45
Property & Property Trust	867.36	848.21	917.83	944.73	1,141.95	1,182.64	1,114.67	1,083.66
Mining & Minerals	269,281.34	15,824.04	17,632.55	20,466.10	329,810.71	385,221.56	385,183.45	391,971.79
Security Services	172.24	164.96	174.48	188.80	184.00	239.36	234.96	262.96
Information Technology	14.17	9.76	10.07	7.87	7.87	756	5.67	7.56
Funeral Services	144.00	150.00	157.20	187.20	255.60	300.00	240.00	224.40
Energy	653.26	638.89	614.93	586.18	734.72	862.50	921.60	1,022.22
Tourism	250.33	259.27	232.45	185.07	201.16	834.40	1,534.98	1,491.46

Source: Botswana Stock Exchange

Table 6:
Trading Statistics as at Year ended December

	2006	2007	2008	2009	2010
Volume Traded (Mn)	87.25	124.60	193.31	167.59	962.8
Value Traded (P'Mn)	414.70	824.56	1,166.19	763.85	308.7
No. of Deals	4,172.00	6,378.00	5,272.00	4,135.00	4,971.00
Liquidity	2.23	2.92	3.86	2.68	3.67

Source: Botswana Stock Exchange

Table 7:
Trading Statistics as at Quarter ended

	Mar 09	Jun 09	Sept 09	Dec 09	Mar 10	Jun 10	Sept 10	Dec 10
Volume Traded (Mn)	79.26	24.27	33.84	30.21	30.4	76.3	64.1	137.8
Value Traded (P'Mn)	323.32	108.80	170.16	161.57	252.3	213.5	175.9	321.0
No. of Deals	905.00	1,011.00	1,066.00	1,153.00	1,210.00	1,206.00	1,319.00	1,236.00

Source: Botswana Stock Exchange



Market Statistics (continued)

Table 8:
BSE Indices as at Year ended December

	2005	2006	2007	2008	2009	2010
DCI	3,559.14	6,195.45	8,421.63	7,035.50	7,241.89	6,412.94
FCI	1,129.94	1,777.30	2,200.97	1,191.98	1,418.26	1,673.90
LASI				558.67	670.53	776.19
DFSI				835.70	911.85	771.85
FRSI				536.52	654.48	776.28
DCFFI						2,014.62
DFSFFI						3,034.05
LASFFI						1,760.46

Source: Botswana Stock Exchange

Table 9:
BSE Indices as at Quarter ended

	Mar 09	Jun 09	Sept 09	Dec 09	Mar 10	Jun 10	Sept 10	Dec 10
DCI	6,451.30	6,233.09	6,904.24	7,241.89	7,477.7	7,352.0	7,393.4	6,412.9
FCI	1,168.65	1,117.92	1,153.26	1,418.26	1,408.2	1,637.7	1,635.8	1,673.9
LASI	546.88	529.35	548.22	670.53	665.73	766.97	767.35	776.19
DFSI	762.18	739.94	841.66	911.85	810.52	985.70	928.98	771.85
FRSI	531.05	514.25	529.16	654.48	649.93	758.89	758.88	776.28
DCFFI					2,088.22	2,103.82	2,116.92	2,014.62
DFSFFI					3,028.60	3,202.21	3,242.07	3,034.05
LASFFI					1,805.74	1,818.96	1,841.26	1,760.73

Source: Botswana Stock Exchange

Table 10:**Top Ten Domestic Companies by Volume traded (Mn)**

2009		2010	
Company	Volume	Company	Volume
FNBB	54.86	Letshego	212.80
Sefalana	30.25	FNBB	18.91
Letshego	18.21	Barclays	13.14
Barclays	9.13	Turnstar	10.63
Turnstar	8.33	Sechaba	10.09
BIHL	7.74	Primetime	9.58
Sechaba	6.98	FSG	8.22
FSG	6.69	BIHL	6.36
Primetime	3.99	ABCH	4.27
RPC Data	3.37	Sefalana	2.96

Source: BSE

Table 12:**Top Ten Domestic Companies by Value traded (P' Mn)**

2009		2010	
Company	Value	Company	Value
Letshego	195.236	Letshego	528.337
FNBB	121.190	Sechaba	112.250
Sechaba	95.553	Barclays	89.356
Sefalana	89.220	BIHL	62.164
BIHL	79.759	FNBB	49.357
Stanchart	58.073	Turnstar	18.398
Barclays	52.885	FSG	17.001
Imara	48.872	Primetime	16.686
Turnstar	11.351	Stanchart	12.996
FSG	8.503	Sefalana	9.855

Source: BSE

Table 11:**Top Foreign Companies by Volume traded (Mn)**

2009		2010	
Company	Volume	Company	Volume
African Copper	4.825	African Copper	2.035
Aviva	1.012	Discovery Metals	1.473
African Diamond	0.362	Blue	1.056
A-cap	0.200	African Diamond	0.590
Discovery Metals	0.951	Aviva	0.545
Blue	0.048	A -Cap	0.073
DiamonEx	0.046	CIC Energy	0.005
Investec	0.015	Investec	0.004
Iamgold	0.010	Iamgold	0.003
CIC Energy	0.005	Anglo	0.001

Source: BSE

Table 13:**Top Ten Foreign Companies by Value traded (P'Mn)**

2009		2010	
Company	Value	Company	Value
African Copper	1.920	Discovery Metals	7.396
Discovery Metals	1.733	African Diamond	2.412
African Diamond	1.201	African copper	1.270
Iamgold	0.689	Aviva	0.372
Investec	0.662	Iamgold	0.281
Aviva	0.638	Anglo	0.271
A-cap	0.371	Blue	0.212
Anglo	0.286	Investec	0.208
Blue	0.087	A-cap	0.172
CIC Energy	0.062	CIC Energy	0.080

Source: BSE



Market Statistics (continued)

Table 14:
Top Ten Domestic Companies by Market Capitalization (P' Mn)

2009		2010	
Company	Market Cap.	Company	Market Cap.
FNBB	6,357.98	FNBB	5,511.96
Barclays	5,700.96	Barclays	4,712.45
Stanchart	4,609.00	Letshego	3,406.63
BIHL	3,223.88	BIHL	2,956.86
Letshego	2,828.37	Stanchart	2,386.76
Sechaba	1,715.89	Sechaba	1,429.92
Engen	586.18	Engen	1,022.22
Furnmart	586.06	WIL	1,009.47
Turnstar	540.13	Furnmart	667.60
Sefalana	530.08	Turnstar	547.85

Source: BSE

Table 15:
Top Ten Foreign Companies by Market Capitalization (P'Mn)

2009		2010	
Company	Market Cap.	Company	Market Cap.
Anglo	294,221.91	Anglo	354,654.33
Iamgold	35,119.91	Iamgold	34,123.28
Investec	13,151.14	Investec	14,634.96
Blue	818.29	FNBB	5,511.96
CIC Energy	668.74	Barclays	4,712.45
Dis. Metals	650.16	Letshego	3,406.63
Afri. Copper	477.59	BIHL	2,956.86
A-Cap	421.44	Stanchart	2,386.76
Afri.Diamond	360.48	Dis. Metals	2,059.35
DiamonEx	58.03	CIC Energy	1,637.15

Source: BSE

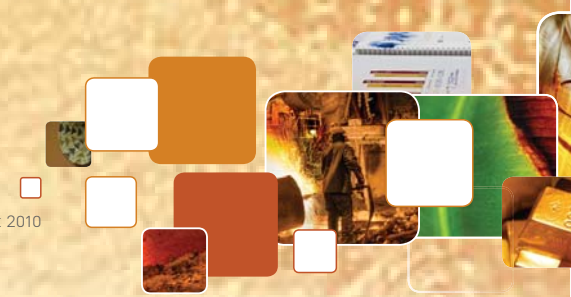
Table 16:
Bond Statistics 2010

Bonds	Maturity Date	Issue size	Coupon Rate (%)	Trade (P)
BBB001	30/10/2014	100,000,000		
BBS002	15/12/2016	115,000,000	12	
BBS004	26/11/2019	75,000,000	11.1	
BBS005	03/12/2023	150,000,000	11.2	
BBS006	04/08/2018	110,000,000		
BDC002	01/06/2011	75,000,000		
BDC003	01/06/2011	125,000,000	11.00	
BHC017	10/12/2017	286,000,000		
BHC020	10/12/2020	103,000,000	10.1	
BW003	23/03/2015	1,342,000,000	10.25	294,033,140
BW004	12/03/2011	650,000,000	10.50	142,102,069
BW005	12/09/2018	750,000,000	10	68,058,229
BW006	09/03/2012	500,000,000	7.5	140,720,497
BW007	10/03/2025	195,000,000	8	102,167,007
BVI001	07/05/2018	70,000,000	11.23	
BVI002	14/07/2015	50,000,000		
DPCF003	02/06/2013	225,000,000	10.31	
DPCF004	02/06/2016	220,000,000	10.45	
DPCF005	02/06/2019	100,000,000	10.6	
DPCF006	02/06/2022	55,000,000	10.75	
DPCF007	02/06/2025	35,000,000	10.9	
FML015	12/07/2015	50,000,000		
NDB001	01/08/2017	165,000,000		180,000
SBBL003	01/06/2017	100,000,000	10.50	
SBBL006	01/06/2016	50,000,000		200,000
SBBL046	11/06/2018	50,000,000		
SBBL047	11/06/2011	70,000,000	11.00	
SBBL048	11/06/2015	175,000,000	10.70	
SBBL049	13/08/2018	50,000,000		
SBBL052	17/12/2018	50,000,000		10,000,000
SCBB002	20/12/2012	50,000,000	10.30	
SCBB003	20/12/2015	50,000,000	10.50	190,000
SCBB004	20/12/2015	50,000,000		
SCBB005	27/11/2017	75,000,000		
WUC001	26/06/2018	195,000,000	10.65	
WUC002	26/06/2026	205,000,000	10.60	
TOTAL		6,716,000,000		757,080,943



BOTSWANA STOCK EXCHANGE

CORPORATE GOVERNANCE



The Main Committee of the BSE established in terms of the BSE Act is made up of 3 members appointed by the Minister of Finance and Development Planning and a maximum of 6 members elected by member brokers, subject to a maximum of 2 persons elected from any one broking company.



Corporate Governance (continued)

Main Committee

The Main Committee of the BSE established in terms of the BSE Act is made up of 3 members appointed by the Minister of Finance and Development Planning and a maximum of 6 members elected by member brokers, subject to a maximum of 2 persons elected from any one broking company.

The functions of the main Committee are to set the strategic direction of the BSE and to ensure that the BSE is being managed in line with policies set by the committee. The BSE Board for the year was constituted by the following members:

MEMBER	POSITION	DATE FIRST APPOINTED TO BSE BOARD
Elected Members		
Lipalesa Siwawa	Chairperson	2008
Martin Makgatthe	Vice-Chairperson	1998
Seleka Mokama	Treasurer	2008
Gregory Matsake	Member	2005
Geoffrey Bakwena	Member	2006
Peter Takirambudde	Member	2009
Appointed Members		
Makola Mokwape	Member	2010
Iponeng Sennanyana	Member	2010
Patrick O'Flaherty	Member	2010

Board Sub-Committees

Listings and Trading sub-committee

The Listings and Trading sub-committee sets policy and formulates rules with regard to listings and trading matters. It approves listing applications that require special dispensation from the listing rules referred to them by the Executive Committee.

The members of the Listings and Trading sub-committee are:

Member	Attendance
Martin Makgatthe	2/2
Gregory Matsake	2/2
Seleka Mokama	2/2
Peter Takirambudde	2/2
Lipalesa Siwawa	0/2
Rizwan Desai*	1/1
Patrick O'Flaherty**	1/1

*Resigned with effect from 28 May 2010

**Appointed with effect from 28 May 2010

Audit sub-committee

The Audit sub-committee assists the main committee in discharging its duties relating the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The members of the Audit sub-committee are:

Members	Attendance
Geoffrey Bakwena	7/7
Seleka Mokama	4/7
Elaina Gonsalves*	2/2
Reginald Motswaiso*	1/2
Makola Mokwape**	3/5
Iponeng Sennanyana***	4/5

*Resigned with effect from 30 April 2010

**Appointed with effect from 01 May 2010

*** Appointed with effect from 06 May 2010



Corporate Governance (continued)

Investigations and Disciplinary sub-committee

The Investigations and Disciplinary sub-committee hears complaints made against any broker or broking firm (trading participant) referred to it by the BSE or any member of the public and determines its findings following a hearing; including, if applicable, pronouncement of sanctions.

The members of the Investigations and Disciplinary sub-committee are:

Members	Attendance
Peter Takirambudde	1/1
Elaina Gonsalves*	1/1
Makola Mokwape**	
Iponeng Sennanyana***	

*Resigned with effect from 30 April 2010

**Appointed with effect from 01 May 2010

*** Appointed with effect from 06 May 2010

Governance and Remuneration sub-committee

Governance and Remuneration sub-committee is responsible for all matters relating to corporate governance and practices of the BSE, nominations of members to be appointed to the BSE Committee and sub-committees as well as terms and conditions of employment for management of the BSE.

The members of Governance and Remuneration sub-committee are:

Members	Attendance
Peter Takirambudde	6/7
Elaina Gonsalves*	2/2
Reginald Motswaiso*	2/2
Makola Mokwape**	5/5
Iponeng Sennanyana***	5/5

*Resigned with effect from 30 April 2010

**Appointed with effect from 01 May 2010

*** Appointed with effect from 06 May 2010

Botswana Stock Exchange Security Fund sub-committee

Botswana Stock Exchange Security Fund was established to provide compensation for losses incurred under certain circumstances by registered stockbrokers, employees or associates and agents of registered stockbrokers or broking members. The sub-committee is responsible for all matters relating to the governance of the fund as outlined in the BSE Act.

The members of the BSE Security Fund sub-committee are:

Members	Attendance
Peter Takirambudde	1/1
Martin Makgathe	1/1
Gregory Matsake	1/1

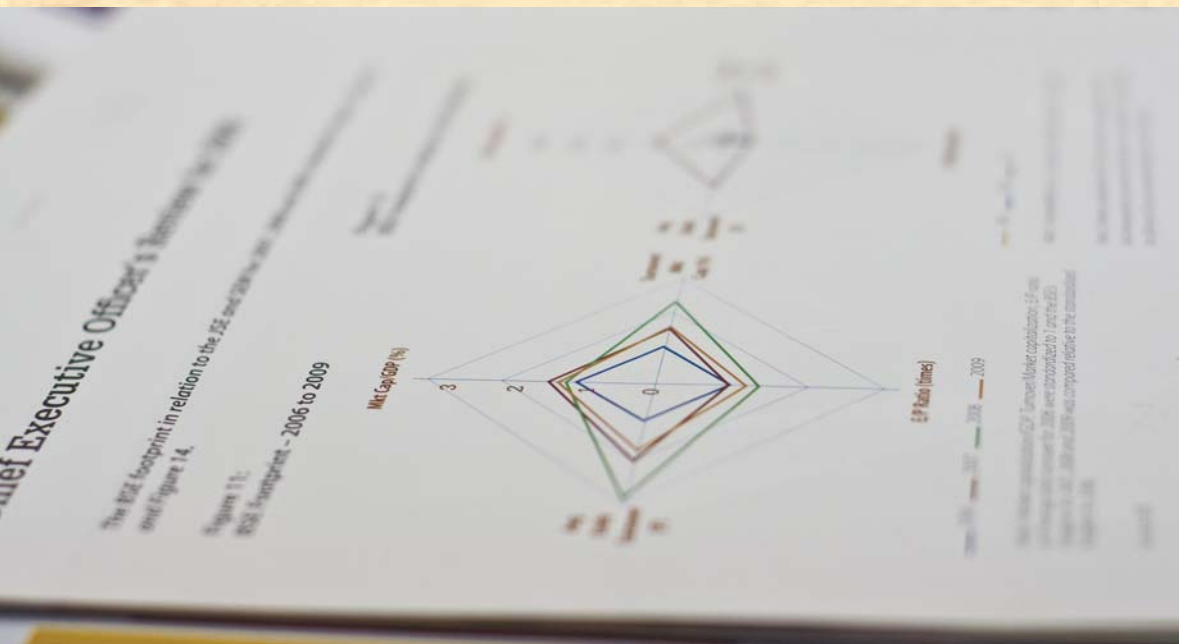
**The Chief Executive Officer is an Ex-Officio
Member of all Sub-Committees**

The Corporate Affairs Manager is the Secretary to the Main Committee, Governance & Remuneration sub-committee and Investigations & Disciplinary sub-committee. The Finance and Administration Manager is the secretary to the Audit & Remuneration sub-committee. The Listings & Trading Manager is the secretary to the Listings & Trading sub-committee.





Corporate Governance (continued)



Board Charter

The BSE is a member organisation and a regulator with the potential for conflicts of interest to arise. In order to minimize the potential for such conflicts the BSE adopted a Board Charter with effect from January 2008 based on the principles of good corporate governance as a way of ensuring that the business of the exchange is conducted in a responsible and ethical manner.

The Board Charter defines Committee members in terms of whether they are independent or non-independent and whether they are executive or non-executive. Independent Committee members are defined as those appointed by the Minister of Finance and Development Planning. Non-independent Committee members are those appointed by the stockbrokers given that stockbrokers are regulated by the BSE. Non-independent Committee members are further categorised as executive and non-executive members. Executive Committee members are defined as those Committee members who hold executive positions in the stockbroking company they represent. Non-Executive Committee members in contrast are those who do not hold executive positions in the stockbroking companies they represent.

Attendance at meetings of the Main Committee and Sub-Committees

Members	Main Comm.	Listings & Trading	Audit	Invest. & Discip.	Gov. & Renum.	Security Fund	BSE AGM
R. Desai*	8/8	1/1					1
L. Siwawa	9/12	0/2	2/7				1
G. Matsake	11/12	2/2					1
G. Bakwena	6/12		7/7				1
M. Makgatlhe	1/12	2/2					1
S. Mokama	12/12	2/2	4/7				1
P. Takirambudde	11/12	2/2		1/1	6/7	1/11	1
M. Mokwape**	5/7		3/5		5/5		1
I. Sennanyana***	4/7		4/5		5/5		1
E. Gonsalves****	2/5		2/2	1/1	2/2		
R. Motswaiso****	0/5		1/2		2/2		
P. O'Flaherty*****	3/5	1/1					
M. Makgatlhe						1/1	
G. Matsake						1/1	

*Resigned with effect from 28 May 2010

** Appointed with effect from 01 May 2010

***Appointed with effect from 06 May 2010

****Resigned with effect from 30 April 2010

***** Appointed with effect from 28 May 2010

Committee Fees

The BSE pays Members a sitting allowance based on the rates set by government.

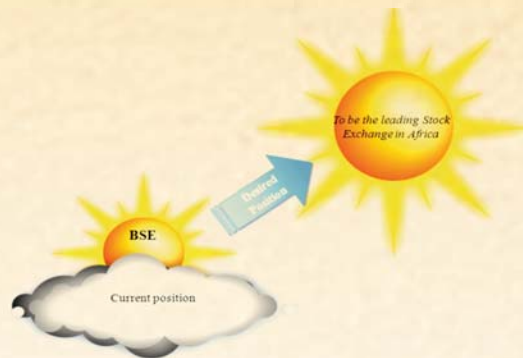


BOTSWANA STOCK EXCHANGE

PROGRESS

ON THE BSE STRATEGY

BSE Strategic Vision



BSE Strategic Pillars



Progress on the BSE Strategy

The BSE has made progress in achieving strategic objectives as detailed in the BSE's strategic plan. A synopsis of progress to date is given below:

Infrastructure development

- IT infrastructure improved to implement the ATS
- CSD implemented in May 2008, followed by subsequent shares dematerialisation
- More than 10,500 investor accounts opened as at end of December 2010
- CSDB started a project to email account statements
- Dematerialisation of shares continuing satisfactorily in the CSD System
- More than 45% of domestic companies were dematerialised as at end of December 2010
- ATS tender evaluation completed. Software and hardware contracts are being negotiated with the preferred vendor



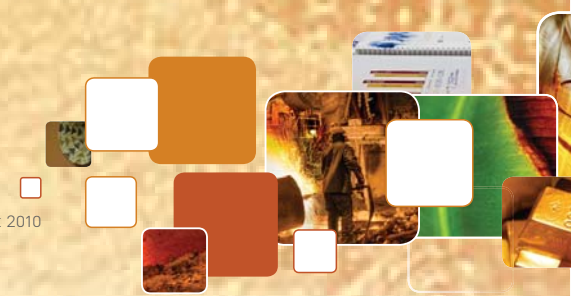
Progress on the BSE Strategy (continued)

Regulation

- Settlement cycle of transaction in BSE reduced to T+4 from T+5
- Code on corporate governance for listed companies implemented in 2008
- CSD rules drafted by BSE and implemented in 2008
- Strategies implemented to improve compliance by listed companies
- Committee appointed by MFDP to review the draft Securities Bill completed its review and recommended several amendments which have now been incorporated into the draft bill. The Securities Bill is expected to be presented to Parliament in due course.
- BSE awaiting enactment of Securities Bill to enable it to proceed on several development initiatives which will include the corporatization of the BSE
- Listings Requirements approved by Committee, comments forwarded to MFDP
- BSE took over role of drafting Member Rules in Quarter 4 of 2009. In 2010 the responsibility to draft Member Rules was taken over by NBFIRA
- Trading Rules expected to undergo extensive revision subsequent to the implementation of the ATS

Market Development

- Improvements made to BSE publications
- Selected BSE publications translated into Setswana
- Series of road shows held nationwide to educate general public about the BSE
- BSE also participated at exhibitions and fairs around the country
- Continued awareness creation campaigns conducted targeting retail investors
- Commenced awareness creation on the listing process targeted at companies with the potential to list
- Promoted publicity of the BSE operations by inviting the public to view live BSE trading sessions
- Held Conferences and workshops to market the BSE brand, product development and strategy. These conferences are; Creating Wealth for Batswana in 2007, Exchange Traded Funds in 2008, Securitisation and the Bond Market in 2008, Credit Rating Workshop in 2008.
- Strategic alliances with key institutions fostered
- Partnered with Botswana Television to sponsor the business segment of the "Daily Breakfast Show"
- Partnered with the media by contributing articles and taking part in radio and television talk shows
- BSE doing market performance shows on RB1 and RB2



Product Development

- Series of indices constructed using "total return" methodology
- Series of indices based on "free float" constructed
- Library to assist research established
- Strategic Alliances formed with Absa Capital SA & Nedbank Capital to implement ETFs in the BSE
- Dual listed the NewGold Exchange Traded Fund in July 2010 in partnership with Absa Capital
- Nedbank Capital made several presentations to fund managers, brokers and other interested parties to raise aware on the BettaBeta ETF
- Partnered with Nedbank Capital to facilitate the dual listing of the Nedbank's Equally Weighted Top 40 ETF known as BettaBeta
- Bond Market Association established in 2010, with representation from several market participants
- Bond Market Task Force consolidated the contributions of bond market participants and produced a draft bond market development strategy
- Partnered with Geometric Progression CC of South Africa to conduct 6 financial market courses in 2010
- Courses satisfactorily attended by BSE staff, fund managers, brokers, lawyers and capital market regulators among others
- Plans to hold several meetings with strategic partners to appraise them of the BSE's plans to introduce Contract for Difference (CFDs)
- Concept papers on CFDs approved by BSE Board

Organisation Structure and Human Resource Development

- Changes made to organisation structure to assist in implementing strategic plan in 2006
- Performance appraisal system for staff implemented
- BSE continued to train staff through workshops, conferences and courses on operations of the stock exchange
- The BSE continues to offer internship to graduates under the government's internship programme
- A project is underway to evaluate the BSE's organisation structure, job profiles and succession plans

Governance Structure

- BSE Board Charter adopted
- Differentiation between "independent" and "non independent" committee members made in the constitution of sub-committees

Financial Resources

- BSE fees on transactions rationalised to reduce dependence on government subvention
- BSE Strategic plan review in progress aimed at Commercialisation of the Exchange



BOTSWANA STOCK EXCHANGE

GROUP ANNUAL FINANCIAL STATEMENTS

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Statement of Main Committee Members' Responsibilities

for the year ended 31 December 2010

The Main Committee Members of the Botswana Stock Exchange are responsible for the annual group financial statements and all other information presented therewith. Their responsibility includes the maintenance of true and fair financial records and the preparation of annual group financial statements in accordance with International Financial Reporting Standards and in the manner required by the Botswana Stock Exchange Act, 1994.

The group maintains systems of internal control, which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of the group assets. The committee members are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the main committee members to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The main committee members have no reason to believe that the group will not be a going concern in the foreseeable future based on forecasts, available cash resources and with continued support of the Botswana Government.

Our external auditors conduct an examination of the financial statements in conformity with International Standards on Auditing, which include tests of transactions and selective tests of internal accounting controls. Regular meetings are held between management and our external auditors to review matters relating to internal controls and financial reporting. The external auditors have unrestricted access to the main committee members.

The financial statements set out on pages 84 to 110 and the supplementary information on page 111 were authorised for issue by the committee members on 07 April 2011 and are signed on its behalf by:

MEMBER

MEMBER

Report of the Independent Auditors to the Members and Main Committee Members of Botswana Stock Exchange

for the year ended 31 December 2010



Report on the Financial Statements

We have audited the accompanying financial statements of Botswana Stock Exchange, set out on pages 84 to 110, which comprise the statement of financial position and consolidated statement of financial position as at 31 December 2010 and the statement of comprehensive income and consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of changes in equity and cash flow statement and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Main Committee Members' Responsibility for the Financial Statements

The main committee members are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Botswana Stock Exchange Act, 1994 and the Companies Act in Botswana (Companies Act 2003).

This responsibility includes: designing, implementing and maintaining internal controls 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.

Auditor's 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 auditor's judgment, 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 in 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 present fairly, in all material respects, the Botswana Stock Exchange and its subsidiary as of 31 December 2010 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Botswana Stock Exchange Act and Companies Act in Botswana (Companies Act 2003).

Chartered Public Accountants

Gaborone, 7 April 2011

Practicing member: Narendra Soni

Membership number: 19900354.08



Statements of Comprehensive Income

for the year ended 31 December 2010

	Notes	GROUP		EXCHANGE	
		2010 P	2009 P	2010 P	2009 P
Revenue		13 118 340	10 141 091	10 972 276	8 443 694
Government subvention		2 525 000	4 812 500	1 590 750	3 646 300
Other income		18 725	27 300	18 725	27 300
		15 662 065	14 980 891	12 581 751	12 117 294
Administrative expenses		(14 886 583)	(12 976 923)	(11 675 266)	(12 580 771)
Operating profit / (loss)	1	775 482	2 003 968	906 484	(463 477)
Interest received	2	423 957	387 282	325 587	164 501
Profit / (loss) before income tax		1 199 439	2 391 250	1 232 072	(298 976)
Income tax	3	—	—	—	—
Profit / (loss) for the year		1 199 439	2 391 250	1 232 072	(298 976)
Other comprehensive income		—	—	—	—
Total comprehensive income		1 199 439	2 391 250	1 232 072	(298 976)

Statements of Financial Position

for the year ended 31 December 2010

		GROUP		EXCHANGE	
	Notes	2010 P	2009 P	2010 P	2009 P
ASSETS					
Non-current assets					
Property, plant and equipment	5	1 531 491	1 845 295	1 518 484	1 827 828
Investment in subsidiary	4	—	—	100	100
		1 531 491	1 845 295	1 518 584	1 827 928
Current assets					
Receivables and prepayments	6	407 192	1 779 039	159 225	2 282 369
Cash and cash equivalents	8	9 884 219	6 273 099	9 011 417	4 652 883
		10 291 411	8 052 138	9 170 642	6 935 252
Total assets		11 822 902	9 897 433	10 689 226	8 763 180
EQUITY					
Capital and reserves					
Proprietary rights capital	9	5 200	5 200	5 200	5 200
Rights premium		777 476	777 476	777 476	777 476
Retained income		8 852 152	7 657 713	7 819 110	6 592 038
		9 634 828	8 440 389	8 601 786	7 374 714
LIABILITIES					
Non-current Liabilities					
Deferred lease rental	7	—	17 474	—	17 474
Current liabilities					
Trade and other payables	10	2 030 169	1 311 084	1 929 535	1 242 506
Amounts due to the Botswana Stock Exchange Security Fund	12	5 000	5 000	5 000	5 000
Deferred lease rental	7	152 905	123 486	152 905	123 486
		2 188 074	1 439 570	2 087 440	1 370 992
Total liabilities		2 188 074	1 457 044	2 087 440	1 388 466
Total equity and liabilities		11 822 902	9 897 433	10 689 226	8 763 180



Statements of Changes in Equity

for the year ended 31 December 2010

	Proprietary Rights P	Rights Capital P	Retained Premium P	Total Income P
GROUP				
As at 31 December 2009				
Opening Balance	5 200	777 476	5 271 463	6 054 139
Profit for the year	—		2 391 250	2 391 250
Transfer to the Botswana Stock Exchange Security Fund (Note 12)	—	—	(5 000)	(5 000)
Closing Balance	5 200	777 476	7 657 713	8 440 389
As at 31 December 2010				
Opening Balance	5 200	777 476	7 657 713	8 440 389
Profit for the year	—		1 199 439	1 199 439
Transfer to the Botswana Stock Exchange Security Fund (Note 12)	—	—	(5 000)	(5 000)
Closing Balance	5 200	777 476	8 852 152	9 634 828

	Proprietary Rights P	Rights Capital P	Retained Premium P	Total Income P
EXCHANGE				
As at 31 December 2009				
Opening Balance	5 200	777 476	6 896 014	7 678 690
Profit for the year	—	—	(298 976)	(298 976)
Transfer to the Botswana Stock Exchange Security Fund (Note 12)	—	—	(5 000)	(5 000)
Closing Balance	5 200	777 476	6 592 038	7 374 714
As at 31 December 2010				
Opening Balance	5 200	777 476	6 592 038	7 374 714
Profit for the year	—	—	1 232 072	1 232 072
Transfer to the Botswana Stock Exchange Security Fund (Note 12)	—	—	(5 000)	(5 000)
Closing Balance	5 200	777 476	7 819 110	8 601 786

In terms of the Botswana Stock Exchange Act, 1994, section 72(3) the Exchange is required to transfer to the Botswana Stock Exchange Security Fund half the annual profit from trading, or P 5 000 whichever is greater (note 12).



Statement of Cashflows

for the year ended 31 December 2010

		GROUP		EXCHANGE	
	Notes	2010 P	2009 P	2010 P	2009 P
Cash generated/ utilised in operating activities					
Net cash flows from operating activities	13	3 455 981	3 806 561	4 301 764	3 633 782
Investing activities					
Purchase of property, plant and equipment	5	(296 904)	(324 704)	(296 904)	(306 865)
Interest received	2	423 955	387 282	325 587	164 501
Proceeds from sale of property, plant and equipment		28 089	—	28 087	—
Net cash flows used in investing activities		155 140	62 578	56 770	(142 364)
Changes in cash and cash equivalents		3 611 121	3 869 139	4 358 534	3 491 418
Cash and cash equivalents at beginning of the year		6 273 099	2 403 960	4 652 883	1 161 465
Cash and cash equivalents at the end of the year	8	9 884 220	6 273 099	9 011 417	4 652 883

Accounting Policies

for the year ended 31 December 2010

The principal accounting policies applied in the preparation of these group financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

The group financial statements of Botswana Stock Exchange have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Botswana Stock Exchange Act, 1994 and Companies Act in Botswana (Companies Act 2003). The financial statements are prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the "Critical accounting estimates and judgements" section of the financial statements.

Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Changes in accounting policies and disclosures

(a) The Company has adopted the following new and amended IFRSs as of 1 January 2010:

- IAS 27 (revised), 'Consolidated and separate financial statements', - effective from 1 July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.
- IAS 1 (amendment), 'Presentation of financial statements' - effective on or after 1 January 2010. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.



Accounting Policies (continued)

for the year ended 31 December 2010

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the company

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010.

The group has evaluated the those new and amended standards and interpretations and have concluded that these are currently no applicable to the group.

- IFRS 3 'Business combination' – effective 1 July 2009. The standard introduces some significant changes to accounting for business combinations. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' - effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.
- IAS 39 (amendment), "Financial instruments", effective from 1 July 2009. Recognition and measurement on eligible hedged items.

(c) New standards and amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted by the company.

- IFRIC 17 – Distributions of non cash assets to owners (effective 1 July 2009)
- IFRIC 18 – Transfer of assets for customers (effective 1 July 2009)

B. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'currency' ('Pula'), which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the group rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

C. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	the lower of period of lease and 10 years
Office equipment	4 - 10 years
Motor vehicles	3 - 5 years
Furniture and fittings	8 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the statement of comprehensive income.

D. Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date control ceases.

The purchase method of accounting is used to account for the acquisition by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.



Accounting Policies (continued)

for the year ended 31 December 2010

D. Consolidation (continued)

Subsidiaries (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, as negative goodwill. Such amounts are subsequently transferred to a separate reserve.

Inter group transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Exchange controls the Central Securities Depository Company of Botswana Limited, which is a company registered in the Republic of Botswana.

E. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

F. Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

G. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the administrative expense account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses' in the statement of comprehensive income.

H. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

I. Employee benefits

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group pays contributions to Glenrand MIB (Botswana) (Pty) Ltd, a privately administered pension insurance plan. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Employee entitlements to annual leave and gratuity are recognised when they accrue to employees and a provision is made for the estimated liability as a result of services rendered by employees up to the statement of financial position date. Contract staff are paid terminal gratuities in accordance with their respective employment contract.

J. Proprietary rights

Proprietary rights capital is recognised at the fair value of the consideration received by the Group.

K. Income Tax

Current income tax is provided in the financial statements using the gross method of tax.

Tax is charged on the net income for the period after taking into account income and expenditure, which is not subject to tax and capital allowances on property, plant and equipment. Provision is made for income tax payable at applicable rates of tax.

The Botswana Stock Exchange is exempt from income tax in accordance with the Income Tax Act (Chapter 52:01) Second Schedule – Part 1 (xv).

L. Deferred income tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to calculate deferred income tax. The principal temporary differences arise from capital allowances for tax purposes exceeding depreciation charged and deferred lease receivables. Deferred income tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which these tax losses can be utilised.

M. Security Fund

In terms of the Botswana Stock Exchange Act, 1994 (Section 77 (3), the Exchange is required to transfer in cash or securities to the Botswana Stock Exchange Security Fund the greater of half of the Exchange's profits and P5 000 on an annual basis.

For the purpose of this transfer, profits shall exclude any donations, grant or other financial support received from the Government of Botswana.



Accounting Policies (continued)

for the year ended 31 December 2010

N. Leases

Leases of assets where the lessor retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period which termination takes place.

Leases of property, plant and equipment where the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Finance leases are

Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest is charged to the income statement over the period of the lease. The asset is depreciated over its useful life.

O. Revenue recognition

Revenue comprise the invoiced value for services rendered, net of value added tax. The following specific recognition criteria must be met before revenue is recognised.

i) BSE Fees

In terms of the Botswana Stock Exchange Members Rules, 0.12% - 0.15% of the transaction value for trades on the Stock Exchange is due to the Exchange. Revenue is recognised on settlement date unless collectability is in doubt.

ii) Interest

Interest income is recognised as it accrues taking account of the principal outstanding and the effective rate over the period of maturity, when it is determined that such income will accrue to the Group.

iii) Listing fees

Listing fees, documentation, inspection and review fees are billed as and when the services are provided. Revenue is recognised on invoicing or on listing of the relevant security.

iv) Annual sustaining fees

Annual sustaining fee is recognised on a time proportion basis unless collection is in doubt.

v) Member fees

Annual member/dealer fees are invoiced in advance for the year unless collection is in doubt.

vi) Central Securities Depository (CSD) fees

CSD fee is charged on the transaction value (for both the buyer and the seller) which is charged at 0.1% on the transaction value. Revenue is recognised on the settlement date unless collectability is in doubt.

P. Government subvention

Subventions are recognised at their fair value where there is reasonable assurance that the group will comply with all attached conditions. Grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Q. FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the Exchange's statement of financial position when the Exchange becomes party to the contractual provisions of instruments as follows.

Financial assets

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and determined at the time of initial recognition.

- Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.
- Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

- Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.
- Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost. Provision is made, where in the opinion of the directors, an impairment in value has occurred.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in the statement of comprehensive income incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with the interest expense recognised on an effective yield basis.



Financial Risk Management

for the year ended 31 December 2010

The Group's activities expose it to a variety of financial risks: market risk (including price risk, cash flow and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Risk management is carried out under the guidance of the main committee. The main committee provides guidance for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as appropriate.

(a) Market risk

(i) Price risk

The Exchange revenue is fixed in terms of the Botswana Stock Exchange Act, 1994 and the listing and trading rules and therefore is not susceptible to price risk.

(ii) Cash flow and fair value interest rate risk

As the group has no significant interest-bearing assets, the Exchange's income and operating cash flows are substantially independent of changes in market interest rates. The group manages interest risk by ensuring that excess funds are invested in interest bearing accounts.

(b) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables from brokers and committed transactions. Management assesses the credit quality of the members, taking into account their financial position, past experience and other factors. Regular financial statements of broking companies are reviewed and form the basis for managing credit risks.

Overdue listing, commission and annual sustaining fees are monitored for collectability and settlement periods rigorously monitored in line with the Stock Exchange listing and member rules. Management does not expect any losses from non-performance by these counterparties.

Credit quality of financial assets

All receivables are reviewed for impairment. Trade receivables that are less than three months past due are not considered impaired. These relate to a number of customers for whom there is no recent history of default. The ageing of trade receivables that were past due but not impaired is as per note 6. At 31 December 2010, all impaired receivables have been provided for.

b) Credit risk (continued)

The table below shows an age analysis of fee receivables at their carrying value respectively as at the statement of financial position date.

	Total	Fully performing	Past due	Impaired
	P	P	P	P
At 31 December 2010				
Group				
Fee receivables	88 666	64,106	15 023	9 537
Exchange				
Fee receivables	76 685	61 502	5 640	9 543
At 31 December 2009				
Group				
Fee receivables	134 238	6 026	62 353	65 859
Exchange				
Fee receivables	115 024	6 026	43 139	65 859

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The group does not hold any collateral as security.



Financial Risk Management (continued)

for the year ended 31 December 2010

b) Credit risk (continued)

The table below shows the credit limit and balance of the major counterparties at the statement of financial position date.

GROUP Counterparty	Rating	31 December 2010		31 December 2009	
		Credit limit	Balance	Credit limit	Balance P
Barclays Bank of Botswana	N/A	N/A	889 038	n/a	6 273 099
EXCHANGE					
Counterparty					
Barclays Bank of Botswana	N/A	N/A	889 038	n/a	4 652 883

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. There are no credit ratings available in Botswana. The fair value approximates their carrying amounts.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. This is generally carried out at local level by management in accordance with practice and limits set by the main committee. In addition, the Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
Accounts payable				
- Less than 1 year	2 030 170	1 311 084	1 929 535	1 242 506
- Between 1 and 2 years	—	—	—	—
- over 3 years	—	—	—	—
	2 030 170	1 311 084	1 929 535	1 242 506

(a) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to perform the mandate for which it was created and benefits for other stakeholders and to maintain an environment of transparency for listed companies, the public and its stakeholders. During 2010, the group did not have borrowings. As a public institution, the Exchange is owned and supported by the Government of the Republic of Botswana who provides the necessary support to sustain the operations of the Exchange.



Critical Accounting Estimates and Assumptions

for the year ended 31 December 2010

Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Useful lives and residual values for property, plant and equipment

The Group tests annually whether, the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Residual values of computers, plant and equipment and motor vehicles are based on current estimates of the value of these assets at the end of their useful lives. The estimate residual values of motor vehicles have been determined by management based on their knowledge of the industry.

Impairment of receivables

The Group follows the guidance of IAS 39 to determine when a receivable is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Notes to the Financial Statements

for the year ended 31 December 2010

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
1 OPERATING PROFIT				
Operating profit is stated after charging/(crediting):				
Audit fees - current	146 550	135 206	93 718	89 448
Advertising cost	753 964	741 043	750 598	731 794
Depreciation (note 5)	598 195	575 671	593 736	575 299
Operating lease cost - rental adjustment	11 945	66 018	11 945	66 018
Remuneration paid to senior managers	4 494 341	3 683 280	3 269 252	3 229 692
Sitting allowances of committee members	193 200	132 300	121 170	85 890
Staff costs - see below	9 277 325	7 774 359	7 069 275	6 135 642
Gain / (loss) on disposal of property, plant and equipment	15 575	(1 665)	15 575	(1 665)
Government subvention	(2 525 000)	(4 812 500)	(1 590 750)	(3 646 300)
STAFF COSTS				
Salaries and wages	7 455 124	5 887 071	5 586 595	4 248 354
Other benefits	11 280	67 222	11 280	11 537
Gratuities and other terminal benefits	1 810 921	1 820 066	1 471 401	1 875 751
	9 277 325	7 774 359	7 069 275	6 135 642
Number of persons employed at the end of year:				
- Full time	20	21	15	16
2 INTEREST RECEIVED				
Interest received - Bank	423 957	387 282	325 587	164 501



Notes to the Financial Statements (continued)

for the year ended 31 December 2010

3 INCOME TAX

The Botswana Stock Exchange is exempt from income tax in accordance with the Income Tax Act.

No provision for income tax has been made in these financial statements due to the subsidiary company incurring a tax loss of P1 358 969 during the year (2009 : P 1 121 824), available for set off against future profits. In addition no deferred tax asset has been provided on tax losses in line with policy note L. The Botswana Stock Exchange is not subject to income tax in terms of policy note K.

The tax loss of the CSD is analysed over the following future

Tax year	Loss	Utilised in the year	Assessable loss carried forward	Loss falls away in tax year
2009	1 121 824	—	1 121 824	2014
2011	237 145	—	237 145	2016
	1 358 969	—	1 358 969	

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
4 INVESTMENT IN SUBSIDIARY				
Shares at cost	—	—	100	100

The investment in subsidiary comprises of 100% share investment in the Central Securities Depository Company Limited, a company incorporated in the Republic of Botswana.

5 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
	P	P	P	P	P
GROUP					
Year ended 31 December 2009					
Opening net book amount	254 853	841 861	525 941	475 273	2 097 928
Additions	—	308 709	15 995	—	324 704
Disposal	—	(3 999)	—	—	(3 999)
Depreciation	(29 183)	(297 226)	(57 479)	(191 783)	(575 671)
Depreciation on disposals	—	2 333	—	—	2 333
Closing net book amount	225 670	851 678	484 457	283 490	1 845 295
At 31 December 2009					
Cost	405 442	1 465 920	589 382	767 140	3 227 884
Accumulated depreciation	(179 772)	(614 242)	(104 925)	(483 650)	(1 382 589)
Net book amount	225 670	851 678	484 457	283 490	1 845 295
Year ended 31 December 2010					
Opening net book amount	225 670	851 678	484 457	283 490	1 845 295
Additions	—	290 365	6 539	—	296 904
Disposal	—	(66 085)	—	—	(66 085)
Depreciation	(29 179)	(363 235)	(59 270)	(146 511)	(598 195)
Depreciation on disposals	—	53 573	—	—	53 573
Closing net book amount	196 491	766 296	431 726	136 979	1 531 492
At 31 December 2010					
Cost	405 442	1 690 200	595 921	767 140	3 458 703
Accumulated depreciation	(208 951)	(923 904)	(164 195)	(630 161)	(1 927 211)
Net book amount	196 491	766 296	431 726	136 979	1 531 491



Notes to the Financial Statements (continued)

for the year ended 31 December 2010

5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold Improvements	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
	P	P	P	P	P
EXCHANGE					
Year ended 31 December 2009					
Opening net book amount	254 853	841 861	525 941	475 273	2 097 928
Additions	—	290 870	15 995	—	306 865
Disposal	—	(3 999)	—	—	(3 999)
Depreciation	(29 183)	(296 854)	(57 479)	(191 783)	(575 299)
Depreciation on disposals	—	2 333	—	—	2 333
Closing net book amount	225 670	834 211	484 457	283 490	1 827 828
At 31 December 2009					
Cost	405 442	1 444 082	589 382	767 140	3 206 046
Accumulated depreciation	(179 772)	(609 871)	(104 925)	(483 650)	(1 378 218)
Net book amount	225 670	834 211	484 457	283 490	1 827 828
Year ended 31 December 2010					
Opening net book amount	225 670	834 211	484 457	283 490	1 827 828
Additions	—	290 365	6 539	—	296 904
Disposal	—	(66 085)	—	—	(66 085)
Depreciation	(29 179)	(358 776)	(59 270)	(146 511)	(593 736)
Depreciation on disposals	—	53 573	—	—	53 573
Closing net book amount	196 491	753 288	431 726	136 979	1 518 484
At 31 December 2010					
Cost	405 442	1 668 362	595 921	767 140	3 436 865
Accumulated depreciation	(208 951)	(915 074)	(164 195)	(630 161)	(1 918 381)
Net book amount	196 491	753 288	431 726	136 979	1 518 484

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
6 RECEIVABLES AND PREPAYMENTS				
Fee receivables	88 665	134 238	76 685	115 024
Other receivables	327 957	509 410	157 828	331 454
Related party balance (note 13)	—	1 201 250	2 437 779	4 106 392
Provision for impairment	(9 430)	(65 859)	(2 513 067)	(2 270 501)
	407 192	1 779 039	159 225	2 282 369
Fee receivables that are less than three months past due date are not considered impaired.				
At 31 December 2010, fee receivables of P79 022 (2009: P 6 026) and 2010: P67 135 (2009: P6 026) were fully performing for the Group and Exchange respectively.				
At 31 December 2010, fee receivables of P9 644 (2009: P62 353) and 2010: P9 550 (2009: P43 139) were past due but not impaired for the Group and Exchange respectively. These relate to a number of independent customers for whom there is no history of default.				
The ageing analysis of this trade receivable is as follows:				
Up to 3 months	79 022	17 927	67 135	815
3 to 6 months	9 644	44 427	9 550	42 324
	88 666	62 354	76 685	43 139



Notes to the Financial Statements (continued)

for the year ended 31 December 2010

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
6 RECEIVABLES AND PREPAYMENTS (continued)				
As of 31 December 2010, trade receivables of P9 430 (2009: P 65 859) for the group and P 2 513 067 (2009: P 2 270 501)				
The ageing of these receivables is as follows:				
Over 6 months	9 430	65 859	2 513 067	2 270 501
The related party balance represents amounts for expenses incurred and reimbursable by the Government of the Republic of Botswana.				
7 DEFERRED LEASE RENTALS				
Charge to the income statement	11 945	66 018	11 945	66 018
Balance at 31 December	11 945	66 018	11 945	66 018
Non current	—	17 474	—	17 474
Current	152 905	123 486	152 905	123 486
	152 905	140 960	152 905	140 960
8 CASH AND CASH EQUIVALENTS				
Cash at bank	9 881 719	6 270 599	9 008 917	4 650 383
Cash in hand	2 500	2 500	2 500	2 500
	9 884 219	6 273 099	9 011 417	4 652 883

Cash at bank mainly includes call account, which has an effective interest rate of 5 to 8% (2009- 5 to 8%) per annum.

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
9 PROPRIETARY RIGHTS CAPITAL				
Issued proprietary rights capital	5 200	5 200	5 200	5 200
The holders of proprietary rights are entitled to receive				
10 TRADE AND OTHER PAYABLES				
Trade payables	433 030	400 188	433 030	310 188
VAT payable (note 11)	763 359	201 030	715 633	184 951
Other payables	833 780	709 866	780 872	747 367
	2 030 170	1 311 084	1 929 535	1 242 506
At 31 December 2010, the Exchange did not have any payables denominated in foreign currencies.				
11 VAT ACCOUNT				
Opening balance	201 030	48 385	184 951	(11 562)
Current year movement	385 343	152 645	353 696	196 513
Adjustment realated to VAT payable	176 986	—	176 986	—
Closing balances	763 359	201 030	715 633	184 951



Notes to the Financial Statements (continued)

for the year ended 31 December 2010

	GROUP		EXCHANGE	
	2010	2009	2010	2009
	P	P	P	P
12 AMOUNTS DUE TO THE BOTSWANA STOCK EXCHANGE SECURITY FUND (Note 13)				
Opening balance	5 000	10 000	5 000	10 000
Statutory transfer for the year	5 000	5 000	5 000	5 000
Settled during the year	(5 000)	(10 000)	(5 000)	(10 000)
	10 000	5 000	10 000	5 000
13 CASH GENERATED / (UTILISED) IN OPERATING ACTIVITIES				
Operating activities:				
Operating profit	775 482	2 003 968	906 484	(463 477)
Adjustment for:				
Depreciation (note 5)	598 195	575 671	593 736	575 299
(Gain) / loss on disposal of property plant and equipment	(15 575)	1 665	(15 575)	1 665
	1 358 103	2 581 304	1 484 646	113 487
Working capital changes				
Receivables and prepayments	1 371 847	1 690 577	2 123 144	3 852 425
Trade and other payables	719 085	(521 339)	687 029	(388 148)
Deferred lease rentals	11 945	66 018	11 945	66 018
Transfer of funds to Botswana Stock Exchange Security Fund	(5 000)	(10 000)	(5 000)	(10 000)
Cash generated in operating activities	3 455 981	3 816 560	4 301 764	3 643 782

14 RELATED PARTY TRANSACTIONS

Related parties are entities under common control or ownership. The Exchange was set up by the Botswana Stock Exchange Act, 1994, and is therefore related to the Government of Botswana. All stock brokers who are members of the Botswana Stock Exchange are also related parties.

Transactions with related parties are in the normal course of business. The following transactions were carried out with related parties.

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
a) Sale of services				
Membership fees				
— Stockbrokers Botswana (Pty) Ltd	4 500	4 750	4 500	4 750
— Capital Securities (Pty) Ltd	4 000	3 750	4 000	3 750
— African Alliance	3 500	3 500	3 500	3 500
— Motswedi Securities (Pty) Ltd	4 250	4 500	4 250	4 500
	16 250	16 500	16 250	16 500
Listing fees - Government bonds	4 875 000	3 187 500	4 875 000	3 187 500
b) Grants received				
Government of the Republic of Botswana	2 525 000	4 812 500	1 590 750	3 646 300



Notes to the Financial Statements (continued)

for the year ended 31 December 2010

	GROUP		EXCHANGE	
	2010 P	2009 P	2010 P	2009 P
14 RELATED PARTY TRANSACTIONS (continued)				
c) Transfer to the Botswana Stock Exchange Security Fund	5 000	5 000	5 000	5 000
d) Year end balances arising from sale/purchases of services and in terms of BSE Act				
Due to the Botswana Stock Exchange Security Fund	5 000	5 000	5 000	5 000
Due from the Government of the Republic of Botswana	—	1 201 250	—	901 750
Due from the Central Securities Depository Botswana	—	—	2 437 778	3 204 642

Sitting allowances by the Committee members and earnings by the senior management team are shown in note 1.

15 POST BALANCE SHEET EVENTS

Main committee members confirm that there are no post balance sheet events affecting the Exchange which require disclosure in the financial statements.

Detailed Statement of Comprehensive Income-Exchange

for the year ended 31 December 2010

	2010 P	2009 P
Revenue		
Commission	2 620 396	2 097 725
Listing and annual sustaining fees	8 335 630	6 329 469
Members fees	16 250	16 500
Government subvention	1 590 750	3 646 300
Sundry income	18 725	27 300
Total income	12 581 751	12 117 294
Administrative expenses		
Advertising	750 598	731 794
Audit fees	93 718	89 448
Bad debt write-off	333 287	2 269 542
Bank charges	24 641	16 559
Cleaning	52 542	44 576
Communication expenses	251 225	195 024
Computer expenses	606 267	660 551
Consulting fees	156 146	170 764
Depreciation	593 736	575 299
Electricity	72 428	31 946
Entertainment	72 610	139 543
Insurance	133 946	123 275
Internship allowances	—	12 684
Legal fees	470	12 227
Library expenses	6 321	4 340
Loss on disposal of property plant and equipment	—	1 665
Members sitting allowances	121 170	85 890
Motor vehicle expenses	35 731	34 464



Detailed Statement of Comprehensive Income-Exchange (continued)

for the year ended 31 December 2010

	2010 P	2009 P
Administrative expenses		
Office expenses	31 422	23 744
Printing and stationery	34 849	62 661
Recruitment expenses	—	22 067
Rental	482 334	548 615
Repairs and maintenance	26 175	61 538
Salaries and wages	7 069 275	6 135 642
Security costs	27 988	21 586
Training Levy	19 428	—
VAT related expenses	219 101	—
Seminars and conferences	121 349	117 193
Staff welfare	11 280	11 537
Subscriptions	83 534	67 222
Travelling, accommodation and entertainment expenses	232 161	301 364
Water	11 534	8 012
	11 675 266	12 580 771
Net Interest cost		
Interest income	325 587	164 501
	325 587	164 501
Net profit for the year	1 232 072	(298 976)

The detailed income statement does not form a part of the audit opinion on page 83.

General Information

PRINCIPAL ACTIVITIES:

Regulating and promoting the listing and dealing in shares and other securities listed on the Botswana Stock Exchange (BSE).

COMMITTEES OF THE STOCK EXCHANGE:

Main Committee

Ministerial appointees:

Peter Takirambudde

Makola Mokwape

Iponeng Sennanyana

Elected Members:

Lipalesa Siwawa (Chairperson)

Martin Makgatlhe

Gregory Matsake

Geoffrey Bakwena

Patrick O' Flaherty

Seleka Mokama

Membership of Sub Committees:

(1) Listings and trading

Lipalesa Siwawa (Chairperson)

Martin Makgatlhe

Gregory Matsake

Peter Takirambudde

Seleka Mokama

Patrick O' Flaherty

(2) Audit

Iponeng Sennanyana (Chairperson)

Makola Mokwape

Seleka Mokama

Geoffrey Bakwena

(3) Investigations and disciplinary

Peter Takirambudde (Chairperson)

Makola Mokwape

Iponeng Sennanyana

(4) Governance & Remuneration

Makola Mokwape (Chairperson)

Iponeng Sennanyana

Peter Takirambudde

CHIEF EXECUTIVE OFFICER

Hiran Mendis

SECRETARY TO THE MAIN COMMITTEE:

Latelang Tamocha

REGULATOR:

Non-Bank Financial Institutions Regulatory

Authority (NBFIRA)

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(The financial statements are expressed in Pula, the currency of Botswana)

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