

**ANNUAL REPORT
& FINANCIAL STATEMENTS 2002**

Contents

Mission Statement	2
Chairman's Message	3
Members	6
Management Committee	7
MCA Activity Highlights	8
Fixed Telephony	13
Mobile Telephony	19
Internet	23
Cable	27
eCommerce	31
Regulatory Framework	34
Inside MCA	36
Financial Statements	
Members' Report	40
Auditors' Report	41
Income and Expenditure Account	42
Balance Sheet	43
Statement of Changes in Equity	44
Cash Flow Statement	45
Notes to the Financial Statements	46
Licensed Operators	52

To regulate the sectors of telecommunications, eCommerce and posts with a view to achieving sustainable competition, enabling customer choice and value for money, coincident with contributing to the development of an environment that is conducive to investment and continued social and economic growth.

MISSION STATEMENT



Chairman's Message

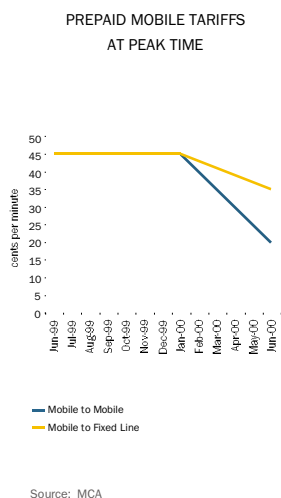
This is the first full financial year of operations of the Malta Communications Authority (MCA), which came into being on 1st January 2001. Our principal focus in this reporting year has been telecommunications.

Sector specific regulation has been deemed essential in telecommunications because of its very dynamics. It is a sector that is fast changing, blurring the boundaries between one medium and another. Telecommunications is the cornerstone of a country's socio-economic development. It is the major vehicle for the transmission of knowledge, information and, increasingly, business transactions. It is also a sector, particularly its fixed telephony part, which, with very minor exceptions, has traditionally been a public sector monopoly.

Introducing and sustaining competition in such markets is a tall order indeed and, thus, the preponderance of national regulatory agencies which have emerged in recent years. Presently, in excess of a hundred countries worldwide have a telecoms specific regulatory body.

Din hija l-ewwel sena finanzjarja shiha mit-twaqqif ta' l-Awtorità ta' Malta dwar il-Komunikazzjoni fl-1 ta' Jannar 2001. Matul din is-sena, iffukajna l-hidma tagħna fuq it-telekomunikazzjoni. Għal diversi raġunijiet, hassejna li r-regolamentazzjoni f'kull settur tat-telekomunikazzjoni kienet essenzjali. Dan minhabba li t-telekomunikazzjoni hija fattur ewlieni għall-iżvilupp soċjo-ekonomiku ta' pajjiż. Tradizzjonalment, it-telekomunikazzjoni – speċjalment dik tat-telefonija fissa – kienet monopolju ta' l-Istat. Dan ifisser li mhuwiex faċli li wiehed jintroduċi u jzomm kompetizzjoni fi swieq bħal dawn. Lanqas m'huwa faċli li wiehed ifiehem il-kunċett ta' aġenzji regolatorji fuq bażi nazzjonali li twaqqfu fl-aħhar snin.

Hemm aktar minn mitt pajjiż li għandu regolatur għas-settur tat-telekomunikazzjoni. Dawn qed jiehdu fuqhom responsabilitajiet godda ta' regolamentazzjoni minhabba l-iżvilupp teknoloġiku li qed iqarreb sistemi, li qabel ma kienux relatati. Id-dhul tal-go mobile, fis-settur tat-telefonija mobbli fis-suq lokali, wera



Increasingly, the mandate of these is evolving to a broader regulatory one, to include other media, such as the Internet and broadcasting, the result of technology convergence.

The emergence of a second mobile operator on the local market – *go mobile* – has demonstrated the benefits of competition in a very short space of time: two-thirds of the population now has a mobile phone, while the cost of service provision has been, just about, halved. Nevertheless, despite this progress, competition remains fragile, and without regulatory rules to ensure equity, it would also be short-lived. It would be so easy for dominant market players to muscle out their smaller competitors.

Regulation is also essential to ensure continued investment. Typically, prospective investors need to see a clear regulatory landscape far into the future. They need to know not just what the rules are today, but what they will be 10 to 15 years from now. It is precisely the definition of this landscape that the MCA has largely been preoccupied with in the past year. For the role of the agency requires it to be more proactive and strategic – it certainly should be less overtly interventionist. Where the latter is deemed essential, the lighter the better.

The formulation of regulatory frameworks is the domain of governments and multi-lateral agencies. Thus, in the Maltese context, we have an indigenous body of rules but which is consonant with European and international norms and conventions. Furthermore, consumers and service providers are afforded the opportunity to shape sector regulation. This report details a wide range of consultation topics, which have been launched in the year under review. The culmination of these is regulatory decisions balanced by the inputs

biċ-ċar il-benefiċċji li għib magħha l-kompetizzjoni fejn, fi żmien qasir, tnejn minn kull tliet Maltin għandhom 'mobile phone', filwaqt li l-ispejjeż għall-istess servizz naqsu kważi bin-nofs. Madankollu, għalkemm irregjistratna progress, wiehed ma jridx jinsa li l-kompetizzjoni tibqa' fragili. Minghajr regolamentazzjoni li tassigura imparjalità u kundizzjonijiet ugwali, din il-kompetizzjoni m'għandhiex futur: ikun faċli għal min għandu qagħda dominanti fis-suq li jxekkel kompetitur iżgħar minnu.

Ir-regolamentazzjoni hija wkoll meħtieġa għaliex tassigura l-investiment neċessarju. Investitur irid jara li s-settur li ser jinvesti fil-huwa wiehed stabbli u serju, mhux biss għall-preżent iżda wkoll għall-futur. Fil-fatt, matul din is-sena l-MCA kienet qed taħdem fuq dan il-binarju. Dan għaliex ir-rwol ta' aġenzija regolatorja għandu jkun wiehed proattiv u strateġiku u mhux sempliċiment ta' interventi kostanti. Meta tinhas il-meħtieġa ta' intervent, dan għandu jsir b'persważjoni u mhux b'impożizzjoni.

Il-holqien ta' strutturi regolamentarji huwa rwol tal-gvernijiet. F'Malta għandna sett ta' regolamenti li għalkemm kienu mfassla lokalment, jaqblu ma' konvenzjonijiet u liġijiet Ewropej u internazzjonali. Barra minn hekk, kull min jipprova servizz għandu l-opportunità li jgħin fil-holqien tar-regolamentazzjoni tas-settur tiegħu. Dan ir-rapport annwali jsemmi firxa sħiħa ta' dokumenti konsultattivi mnieda tul din l-aħħar sena. Il-konkluzjoni ta' kull proċess tkun id-deċiżjoni dwar ir-regolamentazzjoni, li minbarra l-opinjoni ta' l-operaturi, thaddan ukoll dik tal-konsumaturi u dik imxandra fil-mezzi tal-komunikazzjoni.

Wara li hejjejna r-regolamentazzjoni, kien imiss li nanalizzaw dak li jkun għaddej u ninfurzaw fejn meħtieġ. L-attitudni litigjuza fil-kuntest

from consumers, the media and service providers. Having established the rules of the game, oversight and enforcement become paramount. In the local context, enforcement has proved a challenge, given our penchant for litigation. This year has been an experience both in terms of the challenge of the regulatory powers of the agency as well as its decisions. There is indeed a Telecommunications Appeals Board, which is appointed by the Minister for Transport and Communications. In addition, service providers have recourse to the Civil Courts.

The repetitive challenge of regulatory decisions exacerbates the workload of the MCA. The investigation and preparation for appeals consumes a good part of agency resources. This is difficult to reflect in a report of this nature; it would be unethical to dwell on such cases, as it could prejudice the outcome of appeals.

Finally this report, quite apart from giving an accounting to our shareholders, that is, the general public, is also intended as a vehicle to improve public awareness of the agency and its interventions in their interest. For me, it has been both an honour to build the Malta Communications Authority as well as a great privilege to serve with its Members, alongside the fine team of professionals and support staff that has been assembled. It is a team that is imbued with a remarkable work ethic, going about its business in a manner which has earned it the respect of its clients in the short period of its existence.

To all my colleagues go my sincere thanks.

Joseph V. Tabone
Chairman

lokali, ma twassalx għal infurzar faċli. Din is-sena għalina kienet waħda mimlija esperjenzi kemm fid-deċiżjonijiet ta' l-Awtorità u kif ukoll fil-kontestazzjoni ta' dawn l-istess deċiżjonijiet. Intant, il-Ministru għat-Trasport u l-Komunikazzjoni waqqaf Bord ta' l-Appelli dwar it-Telekomunikazzjonijiet, minbarra faċilità oħra li għandhom l-operaturi li jistgħu jirrikorru fil-Qrati Ċivili.

Din is-sitwazzjoni tkompli żżid max-xogħol konsiderevoli ta' l-Awtorità. L-investigazzjoni u l-preparazzjoni meħtieġa għal dawn l-appelli hija ta' piż kbir fuq ir-riżorsi ta' l-Awtorità minghajr ma nidhlu fil-merti ta' każi speċifiċi minhabba raġunijiet ta' etika u wkoll biex ma nippreġudikawx l-eżitu ta' l-istess appelli.

Dan ir-rapport – minbarra li jagħti rendikont lill-pubbliku – huwa wkoll intiż sabiex itejjeb il-mod kif l-istess pubbliku jhares lejn l-Awtorità u l-mod kif hija tintervjeni fl-interess tagħhom. Personalment, inhossni onorat li bnejt l-Awtorità ta' Malta dwar il-Komunikazzjoni, u privileġġjat li servejt mal-Membri l-oħra, flimkien ma' tim eċċellenti u professjonali li fi fteit żmien irnaxxielhom jiksbu r-rispett tal-klijenti tagħna.

Minn qalbi niringrazzjahom tal-hidma tagħhom.

Members



Joseph V. Tabone
Chairman

Reuben Balzan

Anthony P. Pavia

Carmel Grima

Mark Portelli

In line with its commitment towards the creation of a strengthened regulatory structure, the Maltese Government enacted the Malta Communications Authority Act, 2000, which establishes the Malta Communications Authority (MCA), sets out its terms of reference, mode of operation, appointment of officers and financing. The MCA is identified as the entity that is responsible for the administration of the Telecommunications (Regulation) Act 1997 (TRA).

The TRA establishes the framework for a liberalised telecommunications market, sets out the obligations of telecommunications operators, provides for the protection of consumer interests and delineates the appeals framework with regard to decisions of the MCA.

Management Committee

Christine Apap
Personal Assistant to Chairman



Colin Camilleri
Chief Technical Officer



Joseph Cuschieri
Chief of Operations



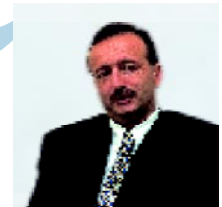
Celia Falzon
Project Manager



Paul E. Micallef
Chief Legal Officer



Patrick Vella
Chief of Policy & Planning



MCA Activity Highlights

OCTOBER

- Publication of Decision Notice on Directory Information Access Codes Allocation

NOVEMBER

- Launching of MCA website
- Implementation of Phase I of the New Numbering Plan >>
- Participation in the 25th European Committee for Postal Regulation (CERP) Plenary Meeting
- Organisation of MCA forum on “Clients’ rights in a liberalised telecommunications environment” >>

DECEMBER

- Publication of Decision Notice on National Numbering Conventions >>

JANUARY

- Presentation of final report by National Economic Research Associates (NERA), economic consultants retained by the MCA, outlining a strategy for operators’ implementation of cost-based accounting systems

FEBRUARY

- Launching of Internet Service Provider (ISP) Code of Practice
- Publication of a Consultation Paper on the Implementation of Cost-Based Accounting Systems
- Publication of a Consultation Paper on Accounting Separation and Publication of Financial Information for Telecommunications Operators
- Publication of a Consultation Paper on Dominant Market Position (DMP) in Telecommunications
- Participation at Open Network Provision (ONP) Committee Meeting

MARCH

- Appointment of Task Force to undertake analysis of the New European Union (EU) Framework for Electronic Communications
- Publication of a Consultation Paper on Universal Service Obligations (USOs)
- Publication of Final Decision Notice on Itemised Billing

>> Implementation of Phase I of New Numbering Plan

In line with Government’s policy for the liberalisation of the telecommunications sector, the TRA establishes that, after 31st December 2002, no operator in the telecommunications sector may be granted exclusive privileges. This Act also sets out a plan for the reform of the sector designed to bring extant monopolies in fixed and mobile telephony as well as cable TV services to an end.

The introduction of competition in this sector created a pressing need for additional numbering capacity to cater for the increased demand. A New Numbering Plan, managed by the MCA, was adopted after consultation with the three market players, namely, *Maltacom plc*, and the two mobile telephony operators, *go mobile* and *Vodafone*. The Plan aims at accommodating new technologies and services and takes into consideration the potential growth and requirements in the sector for the next fifteen years.

>> Organisation of MCA forum on “Clients’ rights in a liberalised telecommunications environment”

As outlined in the MCA’s Mission Statement, one of the main goals of the Authority is to secure tangible benefits for the consumer. The Authority, in conjunction with the Consumer Affairs Council, organised a forum aimed at bringing together the Authority, the operators and their clients. The objective of the forum was to generate discussion about consumer issues and seek the views of the stakeholders, in respect of the existing scenario and forthcoming changes in the sector.

>> Publication of Decision Notice on National Numbering Conventions

The impending liberalisation of the sector also has implications for the management of the Numbering Plan. Until December 2001, the incumbent fixed line operator, *Maltacom plc*, managed the previous Numbering Plan.

To ensure transparency and non-discrimination in respect of decisions about numbering, in January 2002, the MCA took over this function in accordance with a set of conventions laid out in its Decision Notice DN02/01.

APRIL

- Appointment to Task Force to analyse the implications of Third Generation Mobile Telephony locally
 - Involvement of MCA in mGovernment initiative
-

MAY

- End of Parallel Run of Phase I of the New Numbering Plan
 - Coming into force of Electronic Commerce (eCommerce) legislation
 - Publication of Decision Notice on Dominant Market Position in Telecommunications >>
-

JUNE

- Implementation of Phase II of the New Numbering Plan
 - Granting of licence to Malibu Communications Ltd
 - Appointment to Task Force on Child Abuse over the Internet
 - Publication of a Consultation Paper on Price Control Review
 - Participation in Conference on Monitoring Telecommunications Markets of EU Candidate Countries
-

JULY

- Publication of a Consultation Paper on the Malta Internet eXchange (MIX)
 - Publication of a Decision Notice on Directory Information Services and Products
 - Publication of Decision Notice on Implementation of Cost-Based Accounting Systems >>
 - Changes to Import Regulations and Type Approval Procedures for Telecommunications Terminal Equipment
 - Start of Electro-Magnetic Frequency (EMF) emissions Audit
-

AUGUST

- Launching of MCA Strategic Plan >>
 - Publication of a Consultation Paper on Carrier Selection/Carrier Pre-Selection
-

SEPTEMBER

- Publication of Decision Notice on Accounting Separation and Publication of Financial Information for Telecommunications Operators
- Publication of a Consultation Paper on Voice over IP (Internet Protocol)
- Granting of licence to Vodafone Malta Ltd to provide International Gateway Services after 2002

>> Publication of Decision Notice on Dominant Market Position in Telecommunications

One of the key obligations of the Telecommunications Regulator is the identification of operators that have a Dominant Market Position (DMP) in the respective telecommunications markets. The designation of operators with DMP status is an extremely important regulatory decision as it triggers additional obligations on such operators, with the objective of securing a healthy competitive environment.

In February 2002, the MCA published a Consultation Paper entitled "Dominant Market Position in Telecommunications" to obtain the views of all interested parties on the proposed methodology and approach in the assessment of DMP in the relevant markets. The TRA establishes, as a principal criterion, that an operator having a twenty-five per cent share (based on the operator's percentage of gross revenues) in the particular telecommunications market, shall be presumed to have a DMP.

The MCA designated Maltacom plc, Vodafone Malta Ltd and Melita Cable plc as having a DMP in the fixed telephony, mobile telephony and cable television markets respectively. No operator was designated as having a DMP in the Telecommunications Transport Provider (TTP) market. DMP designations shall be published at least once a year.

>> Publication of Decision Notice on Implementation of Cost-Based Accounting Systems

This decision followed an extensive consultative process with the industry players, which had started in February 2002. The MCA had initiated this consultation process through the publication of a Paper entitled "Implementation of Cost-Based Accounting Systems for the Telecommunications Sector". The purpose of this document was to review the options, outline a strategy and establish a timetable for the implementation of appropriate cost-accounting systems by the DMP-designated network operators. In conjunction with this document, the MCA published another Consultation Paper dealing with Accounting Separation and the Publication of Financial Information. The purpose of this Paper was to define the level and format of the separated financial statements to be produced by the operators.

>> Launching of MCA Strategic Plan

The activities that the MCA embarked upon in this first full year of operation all form part of a plan aimed at achieving a set of strategic objectives that the Authority has drawn up in line with its mission. The strategic plan constitutes the MCA's high level plan of action for the forthcoming three-year period and is the basis upon which the Authority develops its annual Business Plan and Budget.

The scope of this Strategic Plan is reflective of the MCA's regulatory mandate, which, in addition to telecommunications, also embraces electronic commerce (eCommerce) and postal services. The purpose of the strategic plan is twofold: beyond serving as a road map, outlining the deliverables of the Authority, it provides an insight into what sort of regulatory environment stakeholders can expect in the coming years.



Fixed Telephony

ON THE THRESHOLD OF LIBERALISATION

The liberalisation of telephony markets across Europe has developed rapidly over the past years. This has resulted in an intensification of competition and regulation in many call segments that, in turn, resulted in tariffs falling rapidly in most markets. Incumbents, however, still retain the vast majority of end user connections.

Fixed Telephony

Fixed line telephony still accounts for the majority of most incumbent telecommunications revenue. A high rate of substitution of fixed to mobile telephony has been observed in Europe.

Locally, the fixed telephony sector is characterised by relatively high rates for international calls. On the other hand, local call prices compare well with those charged in the EU member states. Rates for fixed interconnection are also considerably higher than EU benchmarks. The implications are that the fixed telephony sector needs to improve on quality and price, with resultant beneficial fallout on the rest of the economy.

Prospective additional international gateways will provide the needed competitive impetus to the telecommunications liberalisation process as will the advent of Voice over Internet Protocol (VoIP). This will serve to bring down international tariffs, a factor which could have a market impact on development as an island economy.

New Numbering Plan for the Maltese Islands

As mentioned earlier, the MCA introduced a new Numbering Plan in November 2001. The impetus for this plan was threefold:

- the introduction of competition with the resultant benefits in price and quality for consumers
- the promotion of sectoral investment
- the adoption of the provisions of the EU telecommunications legislation.

The basis of the Numbering Plan was that of moving from a six to a predominantly eight-digit system and enabling eventual portability of numbers between all kinds of telephony service providers. Number portability will enable subscribers to retain the same telephone numbers when switching operators. Besides addressing portability, the new Plan also covered EU policy and directives relating to openness to competition and harmonisation.

This largely uniform change - the addition of the prefix '21' to existing six-digit numbers - was relatively simple to communicate to the public and the business community and could be implemented fairly easily by the operators.

The change was implemented in phases. In the first phase, the majority of fixed telephony service numbers migrated from a six to an eight-digit system. Paging and premium numbers also underwent some modification to have them aligned to an eight-digit system.

The Numbering Plan also addressed the introduction of a new range of access codes for local Directory Enquiries Services.

There was a six-month parallel running period, during which time both the old and the new numbers remained operational. As of 1st May 2002, any calls made using the old numbers ceased to be connected; however, a recorded message advised callers to redial, using the new numbers.

Changes to Direct Dialling-In (DDI) and Freephone Numbers occurred in June 2002, following the completion of the first phase of changes. A parallel running period is currently underway.

Implementation of Radio and Telecommunications Terminal Equipment (R&TTE) Directive

Telecommunications legislation required the 'type approval' by an authorised agency of telecommunications terminal equipment at importation stage. This has been a long-standing requirement intended to ensure the non-interference of equipment that is linked to a national telecommunications infrastructure.

In 1998, Maltacom was recognised, at law, as the expert in the type approval of such equipment and conducted the type approval process on behalf of the, then, Telecommunications Regulator. The newly-formed MCA revoked these delegated powers as they were deemed to place Maltacom in a conflict of interest predicament. On 1st January 2002, Maltacom ceased to provide type approval services.

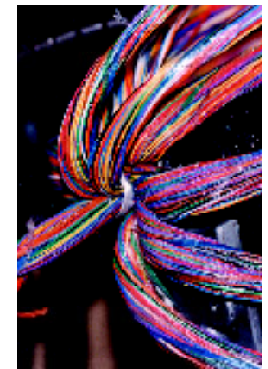
Simultaneously, the R&TTE Directive (99/5/EC) was implemented as part of Maltese legislation through Legal Notice 329 of 2001, and after a transitional period, came fully into force in July 2002. This Legal Notice has replaced the previous Import Licence and Type Approval regime in line with the principle of free movement of goods. The R&TTE Directive ensures that imported goods are safe, do not cause interference with other equipment and are compatible with local services. This newly-introduced system did away with certain bureaucratic procedures and removed the need for testing and charging.

Tariff Rebalancing

Tariff rebalancing is a structured process involving the alignment of prices for the various telecommunications services with the cost of providing the service. Such a process is a critical component within the various work streams leading to full liberalisation. This is intended to ensure that charges are reflective of cost of offering the service and not having one service subsidising another i.e. that international calls are not subsidising local calls. Maltacom has now initiated a process to address any such structural imbalances over a specified period of time. The MCA is responsible for assessing and approving such a process.



Ears to the ground



Diverse services ... for an increasingly-demanding subscriber

NEW NUMBERING PLAN

Maltacom	21 xxx xxx
go mobile	79xx xxxx
Vodafone	99xx xxxx

Directory Enquiries:

Maltacom	118 2
go mobile	118 7
Vodafone	118 9

1857-1859

First records of submarine cable connections with Malta. Mediterranean Extension Company Ltd laid submarine cables between Malta and the Mediterranean islands of Sardinia, Corfù and Sicily respectively.



Cost-Based Accounting Systems and Accounting Separation

The provision of interconnection (the physical connection between operators) on fair and efficient terms is widely recognised as an essential requirement for the creation of a competitive market. Increasingly, cost-based structures for interconnection charges are perceived as providing the means of facilitating such competition.

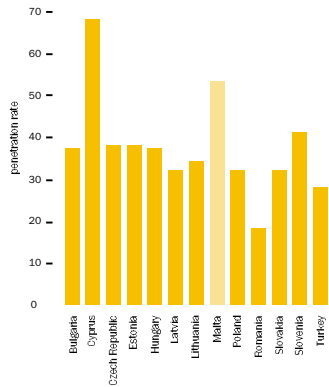
Conscious of the fact that such structures represent the foundation for achieving effective competition, the MCA embarked on a consultative process with the industry players and other parties to seek a way forward. After due consultation had taken place, the MCA published its decision in July 2002. In the decision, the MCA directed operators with a DMP to use a Fully Allocated Cost (FAC) Accounting System on a Historic Cost-Basis in the development of cost-based accounting systems. In effect, this means that all costs are attributed to different services, according to a set of allocation rules and principles.

Carrier Selection/Pre-Selection

The forthcoming liberalisation of the fixed telephony sector will allow callers to choose to have their telephone calls carried by alternative service providers. In August 2002, the MCA published a Consultation Paper introducing Carrier Selection/Pre-Selection in Malta. This is a facility that enables subscribers connected to one operator to choose to have some of their telephone calls carried by another operator. The calls made through Carrier Selection are charged at the rates offered by the selected operator rather than those available from the operator providing network access to the subscriber.

A well-developed Carrier Selection scheme is a key enabler for effective competition in a liberalised telecommunications environment. In its Consultation Paper, the MCA is proposing the introduction of this facility for international calls originating from Malta. In order to make it simple for subscribers, a single bill will be provided, with operators settling transactions between them.

FIXED LINES PER 100 INHABITANTS IN EU CANDIDATE COUNTRIES AS OF 31ST DECEMBER 2001



Source:
First Report on Monitoring of EU Candidate Countries
(Telecommunications Services Sector)

1860-1885

First telegraph office in Malta opened by the Mediterranean, Malta and Alexandria Company in Valletta. In 1882 the Societe` Internationale des Telephones opened the first magneto-type telephone exchange and three years later, merged with another company and became The Melita Telephone Company.

Universal Service Obligations

In March 2002, the MCA published a Consultation Paper initiating the review and re-definition of Universal Service Obligations (USOs). The objective of these USOs is to ensure that those telecommunications services, which are essential for social and economic interaction, are made available to everybody, upon reasonable request, in an appropriate fashion and at an affordable price.

The TRA defines the basic set of services that designated telephony operators are obliged to provide, such as directory enquiries services and emergency services, and also authorises the MCA to define other universal services, as it deems appropriate. The Paper is currently at the consultative stage and a decision is expected to be published in the coming weeks.

Working for Consumers

Itemised Billing

The MCA's overriding goal is to achieve the best deal for consumers in terms of quality, choice and value for money.

The TRA underlines the importance of ensuring that itemised billing - a facility required by users to assist in verifying their use of telephony services - is widely available to those who wish to use it. The Regulations require an operator to provide its subscribers with a basic level of itemised billing at no extra charge. The MCA has the duty of ensuring that operators provide such a facility to users.

The MCA entered into a consultation process with Maltacom plc, with the objective of introducing a minimum level of free itemised billing to subscribers. The Consumers' Association also made representations on the subject to the MCA.

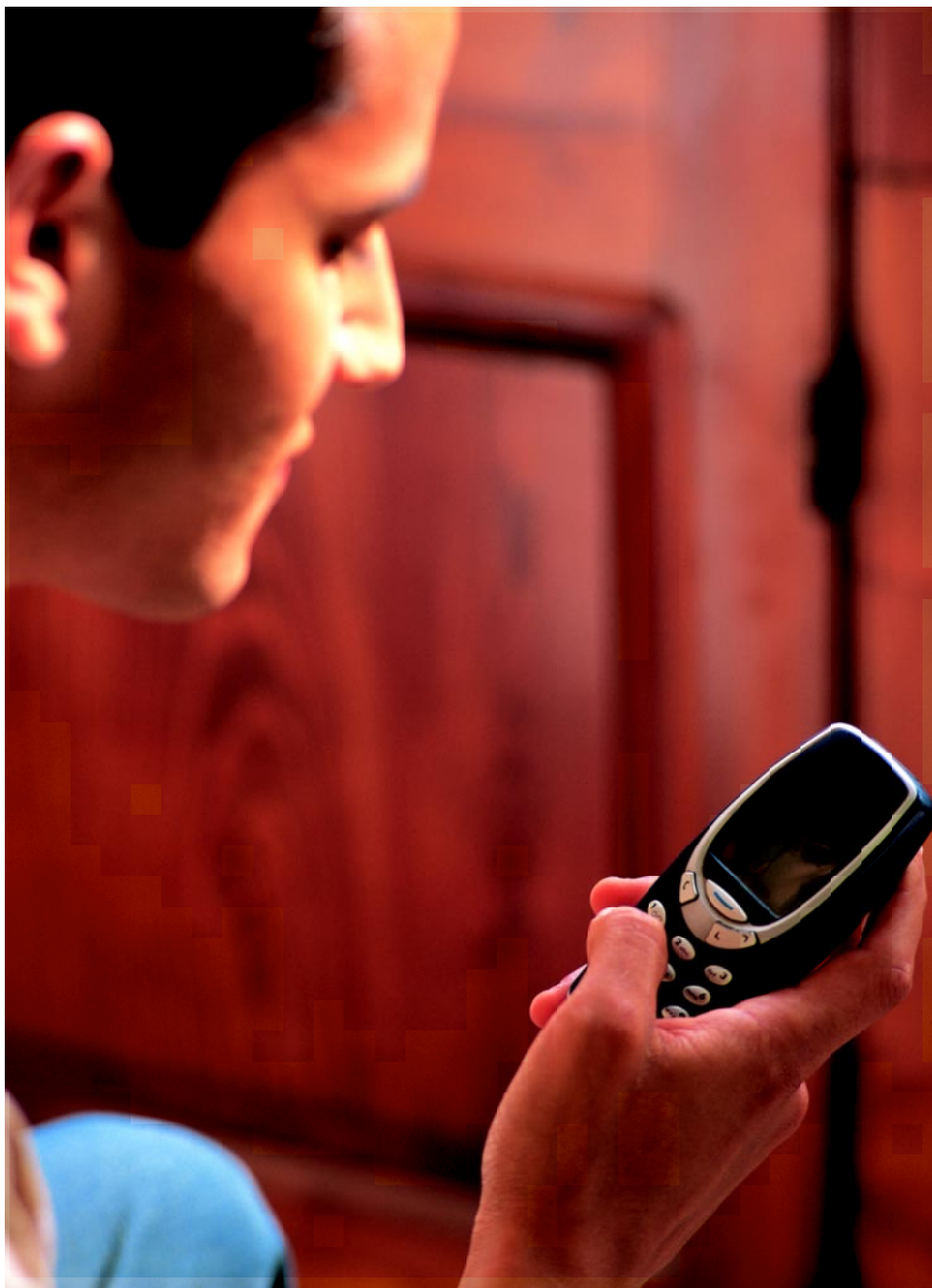
In its final Decision Notice, DN01/02, published in March 2002, the MCA established the minimum level of itemised billing that must be made available by all telephony operators to subscribers, free of charge. Meanwhile, Maltacom has instituted an appeal against this decision in the Telecommunications Appeals Board, an independent administrative tribunal with jurisdiction to hear and decide appeals from decisions taken by the MCA.

On its part, the MCA remains committed towards the implementation of its decision to ensure subscribers are in a position to verify their telephone bills.



Always on top of things





Mobile Telephony

MORE CHOICE ... BETTER CHOICE

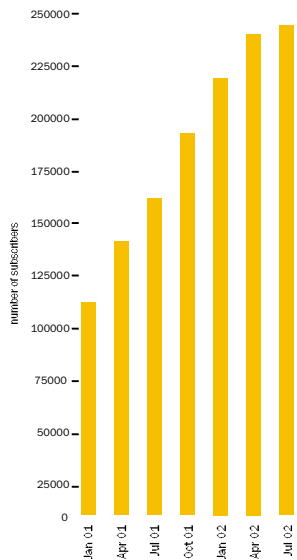
In the EU, mobile telephony is the fastest expanding market and mobile penetration in every member state increased between 2000 and 2001. In August 2001, there were 36% more mobile subscribers than a year before. The market share of leading mobile operators fell as a result of increased competition.

Mobile Telephony

This was also a consequence of the effects of over-investment in infrastructure and the uncertainty in Universal Mobile Telecommunications System (UMTS) licensing in Europe.

National Statistics Office (NSO) figures show that in August 2001, Maltese mobile telephony penetration was below that of the average EU rate by 22%. When compared with EU candidate countries, Malta had the third highest mobile penetration rate, following Slovenia and the Czech Republic. However, the rate of increase in mobile penetration compares favourably with EU average increases, whereby there was an increase in Malta in active mobile subscribers of 49% between July 2001 and July 2002.

MOBILE PHONE SUBSCRIBERS



Source: MCA

Operation of a second international gateway

Once Maltacom's monopoly of the international gateway comes to an end in December 2002, other operators will be in a position to establish and maintain telecommunications systems between Malta and other countries.

An additional gateway is a critical milestone in the opening up of the telecommunications sector. It will afford critical redundancy in the event of a breakdown in the existing single link. It creates the impetus for the generation of further competition in the market, which will, in turn, provide consumers with better quality of service, choice and value for money. Moreover, having the requisite resilience in the international link renders Malta a more attractive inward investment destination.

The continued investment in the sector by the current market players augurs well for the development of the country's infrastructure and guarantees concomitant benefits to the economy.

Divestment of Maltacom shares in Vodafone

As part of the process of transition from a monopolised to a competitive market, Maltacom was granted a mobile operator licence and was required to shed the shareholding it held in what now became its direct competitor, Vodafone. The MCA continues to be seriously concerned that both parties have not been able to come to an acceptable arrangement for the sale of these shares within the stipulated time frames. The MCA stated clearly that Maltacom was in breach of its licence conditions and issued a directive to mitigate this.

The MCA is playing an active mediatory role in the ongoing process leading to an equitable and effective disposal of Maltacom's shareholding in Vodafone.

Third Generation Technology

Third generation mobile communications (3G) represents the next major step in the evolution of this sector. What principally differentiates 3G services from current Global System for Mobile (GSM) communications services is the emphasis on data rather than voice. The next wave of mobile phones will provide converged services combining voice, data, video and multimedia messaging.

The MCA has been actively involved with Government in formulating an appropriate policy framework for 3G, including time frames for roll-out.

Working for Consumers

Auditing of Mobile Phone Base Stations emissions

The MCA is responsible for ensuring that appropriate standards are maintained in the operation of all telecommunications infrastructures. In February 2002, the MCA commissioned the Malta National Laboratory (MNL) to carry out a detailed audit of EMF emissions by mobile phone base stations.

The project consists of three main components: data gathering, theoretical modelling and ongoing audit. The audit entails the on-site measurement of the electromagnetic fields emanating from the base stations, thus permitting scientific comparison between predicted and observed results.

The project is initially contemplated to have a three-year life cycle although it is envisaged that auditing will continue on a regular basis thereafter. The first batch of on-site results have confirmed that base stations are operating well below the maximum safe levels established by the International Commission on Non-Ionizing Radiation Protection (ICNIRP). The readings from audited sites are available online on the Authority's website.

mGovernment

As the telecommunications and eCommerce regulator, the MCA has been working very closely with the Ministry for Justice and Local Government on the mGovernment project. An integral part of the eGovernment programme, this project aims to offer eGovernment services via mobile telephony. The MCA's role in this project is to ensure that both mobile operators provide equal access to all users of mGovernment services and that a level playing field is maintained in the definition and provision of these services.



go mobile Head Office



Forging mobile links

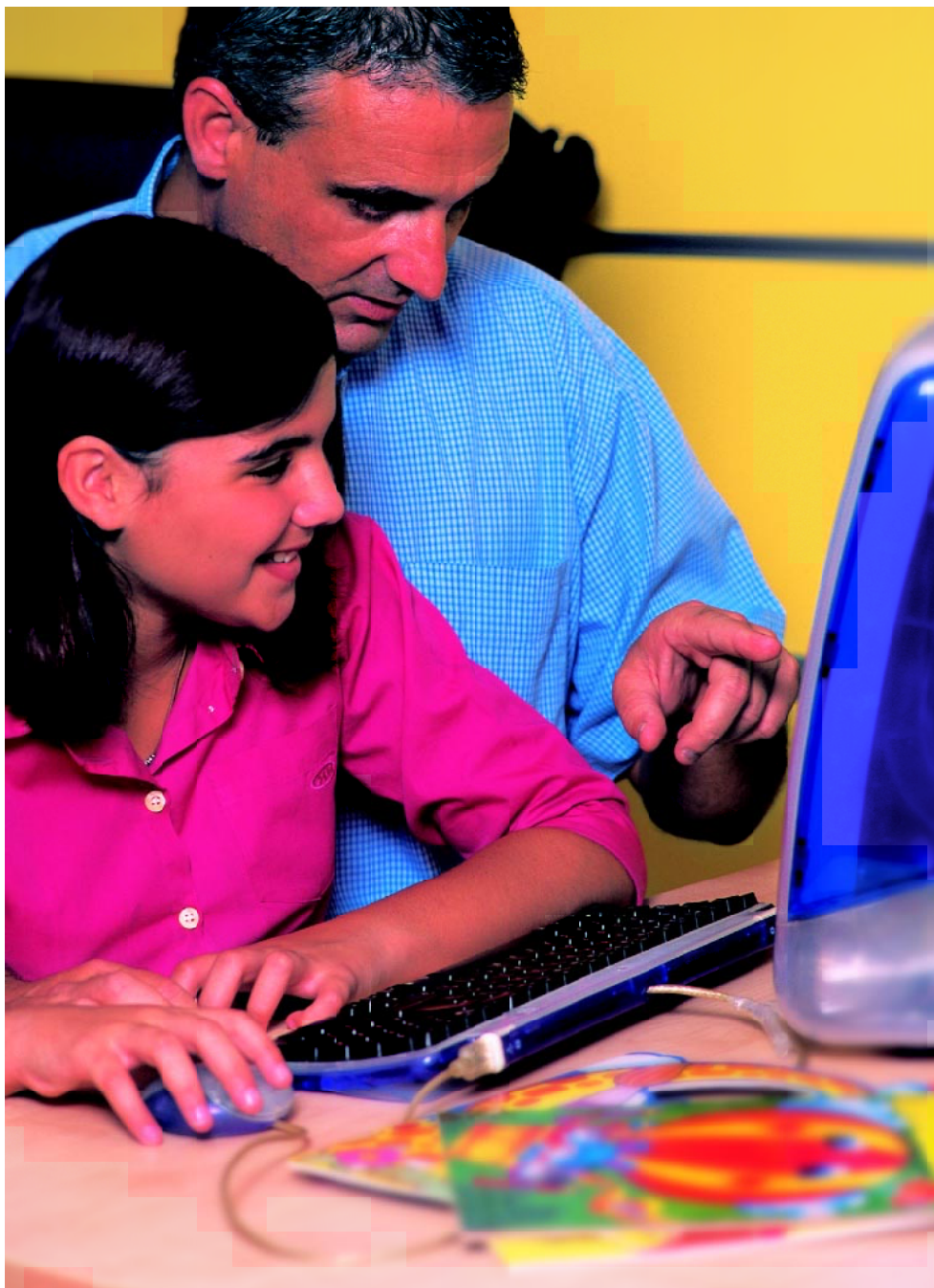


Vodafone Head Office

1933-1947

Government telephone system inaugurated. In 1934, the Eastern Telegraph Company became Cable & Wireless. By 1936, the Valletta exchange increased to full capacity of 2,000 lines. In 1947 the overseas telephone service was inaugurated, with a radio-telephone service being provided via London.





Internet

THE WHOLE WIDE WORLD AT YOUR FINGERTIPS

At the end of 2001, Germany, Italy, France and the UK collectively accounted for 63% of all European Internet users. A total of 144.4 million Europeans had used the Internet at least once a month. Russia and Poland are the most developed Internet markets in Eastern Europe, despite the fact that Internet penetration is still relatively low in these countries.

Internet

A report by the eMarketer agency forecasts the total number of Europeans online reaching 221 million by 2004, with Germany leading the charts with the highest number of online users. Eastern European countries, like Slovenia and Estonia, would experience a boom, but the rest of Eastern Europe will not succeed in catching up.

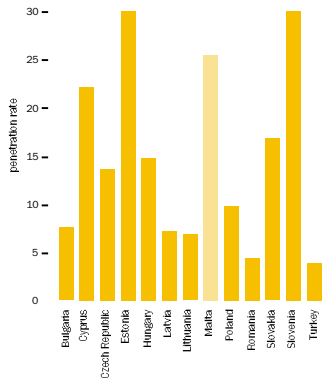
Internet subscriptions in Malta increased by 4.4% between the last quarter of 2001 and the first quarter of 2002; this was an increase of 38.5% in comparison to the same period the previous year. Malta's Internet penetration rate in 2001 was higher than that of Portugal, Italy, France, Spain and Greece. Malta's penetration rate was the third highest in comparison to the rates in the EU candidate countries, with Estonia having the highest rate, followed by Slovenia.

Malta Internet eXchange

In 1997, an attempt was made by the members of the Internet Service Provider (ISP) sub-section (ISPSS), within the IT section of the Malta Chamber of Commerce, to draw up and hence implement plans for a local Internet Exchange, that would act as a central Internet Protocol (IP) interconnect point for local intra-ISP traffic. With the assistance, support and participation of the Network Information Centre (NIC) Malta, based at the University of Malta, the Malta Internet eXchange (MIX) came into being in 1999. The presence of a national backbone served to increase the spread of access to local web content as well as to speed up registration of locally registered domain names. In late 2000, however, a number of ISPs decided to withdraw from the MIX and set up a parallel interconnect arrangement. This unfortunately led to a situation where subscribers of ISPs connected to the original exchange could not efficiently communicate with clients of the ISPs connected to the new exchange point. Legislation had to be rapidly introduced to return interconnection to its original status. In order to rectify this abnormal situation, in 2001, the MCA commenced discussions with the ISPSS to broker the establishment of a MIX that will be on a sounder footing than the current one.

In July 2002, the MCA published a Consultation Paper on the subject. In this document, the Authority sought to consult with all interested parties about an ISP interconnection methodology that would ensure optimal accessibility without imposing unnecessary financial or other constraints, on existing or prospective service providers in the sector.

INTERNET USERS PER 100 INHABITANTS IN EU CANDIDATE COUNTRIES (2000-2001)



Source: National Statistics Office (Malta)

VoIP

The next generation of networks will offer combined voice and data communications over a single integrated platform using packet technology. Internet Protocol, the packet technology used on the Internet, has proven its ability to deliver voice and data services from a single network. Now that IP networks are able to offer the performance and reliability characteristics that voice services require, Voice over IP is ready to provide major benefits to service providers, enterprises and consumers.

In September 2002, the MCA issued a Consultation Paper on Voice over IP. The Authority was seeking to consult with all interested parties about a technology-neutral regulatory regime, applicable to packet-switched voice services, typified by VoIP.

Working for Consumers

ISP Code of Practice

Internet service provision is a relatively new local service industry with only a seven-year history. In contrast to the fixed and mobile telephony, and the cable television market, the need for liberalisation was never an issue, as no ISP had monopoly status.

ISPs act as a bridge between the content or service originators and the end users. Today, in view of the take-up of eCommerce, a stable environment in Internet service provision is not only essential but also crucial.

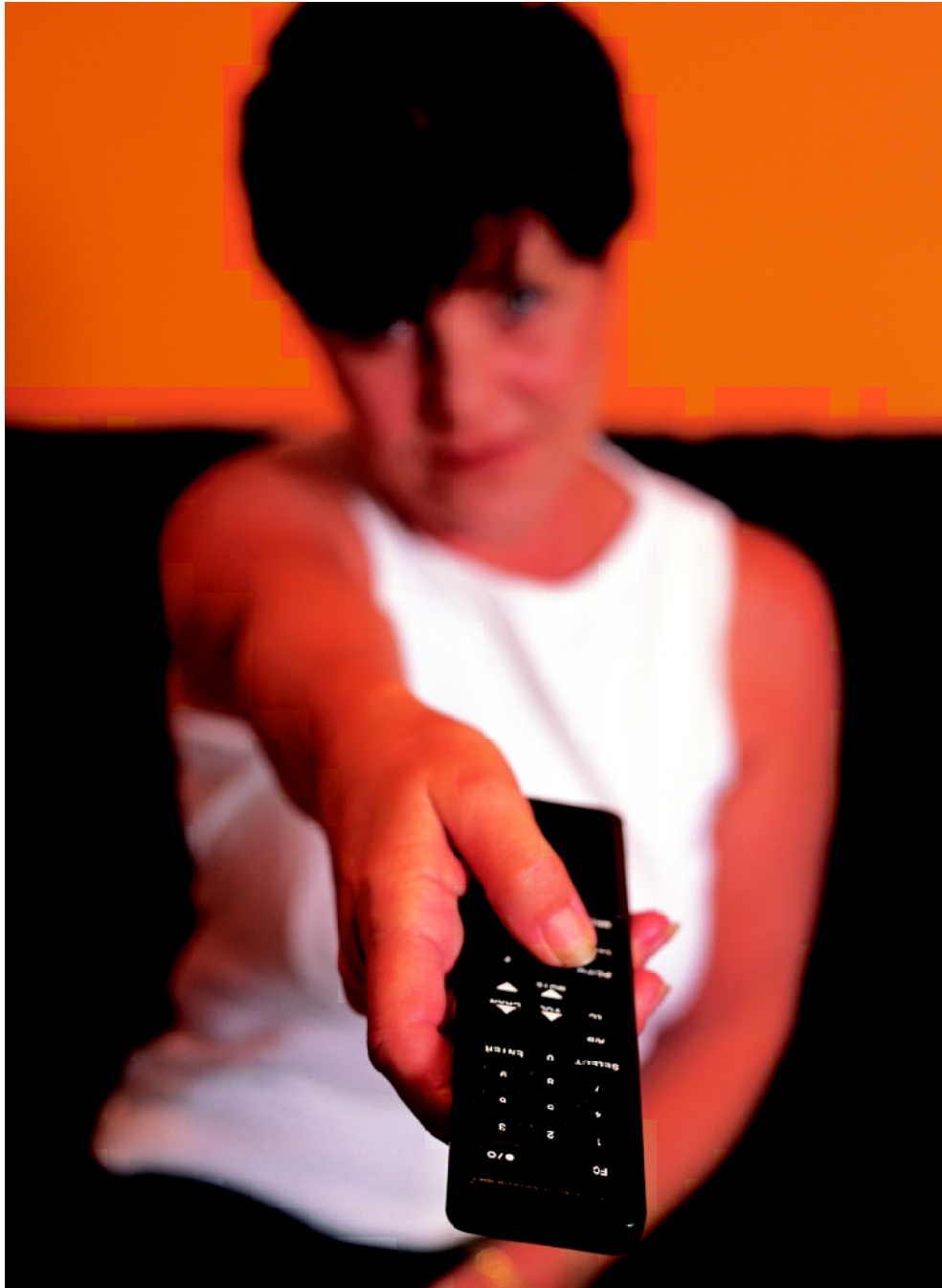
Late last year, the MCA had initiated discussions with the ISPSS to agree on a Code of Practice. The objective of the Code, launched in February 2002, is to enhance and maintain a high standard of ethical and professional practice within the ISP community. Furthermore, the Code also encourages and stimulates the use of the Internet by reassuring subscribers of a certain standard of service, data privacy, adequate levels of service quality and by outlining a means of redress in the eventuality of dispute.



Launching the Code of Practice ... facilitating self-regulation

1957-1975 Setting up of automatic exchanges. In 1975, Telemalta Corporation, a fully state-owned parastatal organisation, was established to operate all telecommunications and broadcasting services.





Cable

MORE THAN JUST TV



The conditions for cable vary greatly from market to market. In the last two years, the cable market worldwide has been marked largely by its devaluation. As a consequence, a move to broadband was experienced, particularly in relation to provision of high-speed Internet. The European cable industry went through a reformation process in 2000/2001 and this has resulted in the cable industry being left in the hands of a few major players.

Cable

The large cable operators are shifting to the implementation of the triple-play proposition - television, telephony and Internet. However, in 2001, cable television services still accounted for a substantial 86% of all cable revenue.

In Malta there was an increase in cable TV subscribers of 5.7% in July 2002 in comparison to the same month in the previous year. However, the number of subscribers fell by 1.06% in the last quarter.

Tariffs increased in February 2002 by 4.86%. The increase may have been the principal cause of the fall in subscriptions of 1.3% in the second quarter of 2002. Notwithstanding the increase in prices, the average revenue per subscriber fell by 0.83% between June 2001 and the same month in 2002. This resulted from a move in subscriptions from Premium to Basic services.

The percentage of households served by the cable TV network at end 2001 was 71% in comparison to the median 60% in Sweden, 65% in Denmark and 70% in Germany.

Open Access

One of the key tenets of a competitive environment is the principle of access. 'Open Access' is a term usually used in relation to cable TV networks that have been upgraded to two-way systems in order to support data services and/or cable telephony provided by multiple operators.

The MCA has set up, in conjunction with the local cable operator, Melita Cable plc, a joint project group with the remit of investigating possible approaches to Open Access from technical, logistical and regulatory standpoints. Should Melita Cable be deemed to have a DMP in the data transport sector, then it would be expected to offer access to its networks to other service providers at cost-based rates. However, achieving this is subject to being able to overcome significant technical and operational hurdles.

Application to provide cable services

The cable TV sector was liberalised in June 2001. Subsequently, Techinvest Ltd lodged an application for a licence to operate cable and data services in Malta. The MCA encourages new commercial initiatives in the telecommunications sector. It is seeking to establish a regulatory framework that facilitates new applications within the parameters established by the law.

Working for Consumers

Cable transport and Internet provision

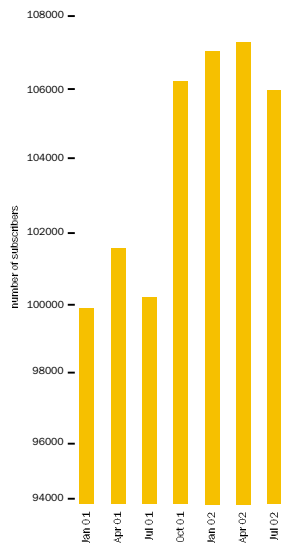
Melita Cable and Video on Line, a Melita Cable subsidiary, currently provide a broadband Internet access service using cable modems. Initially, there was no attempt on the part of the two companies to separate the costs of providing access to the Internet from the costs involved in transporting the Internet traffic across the cable network.

Following negotiations held by the MCA with the companies involved, the costs are now separated and customers will have a clear indication of what they are paying, for both access and transport.



Keeping an eye out for glitches

CABLE TV SUBSCRIBERS

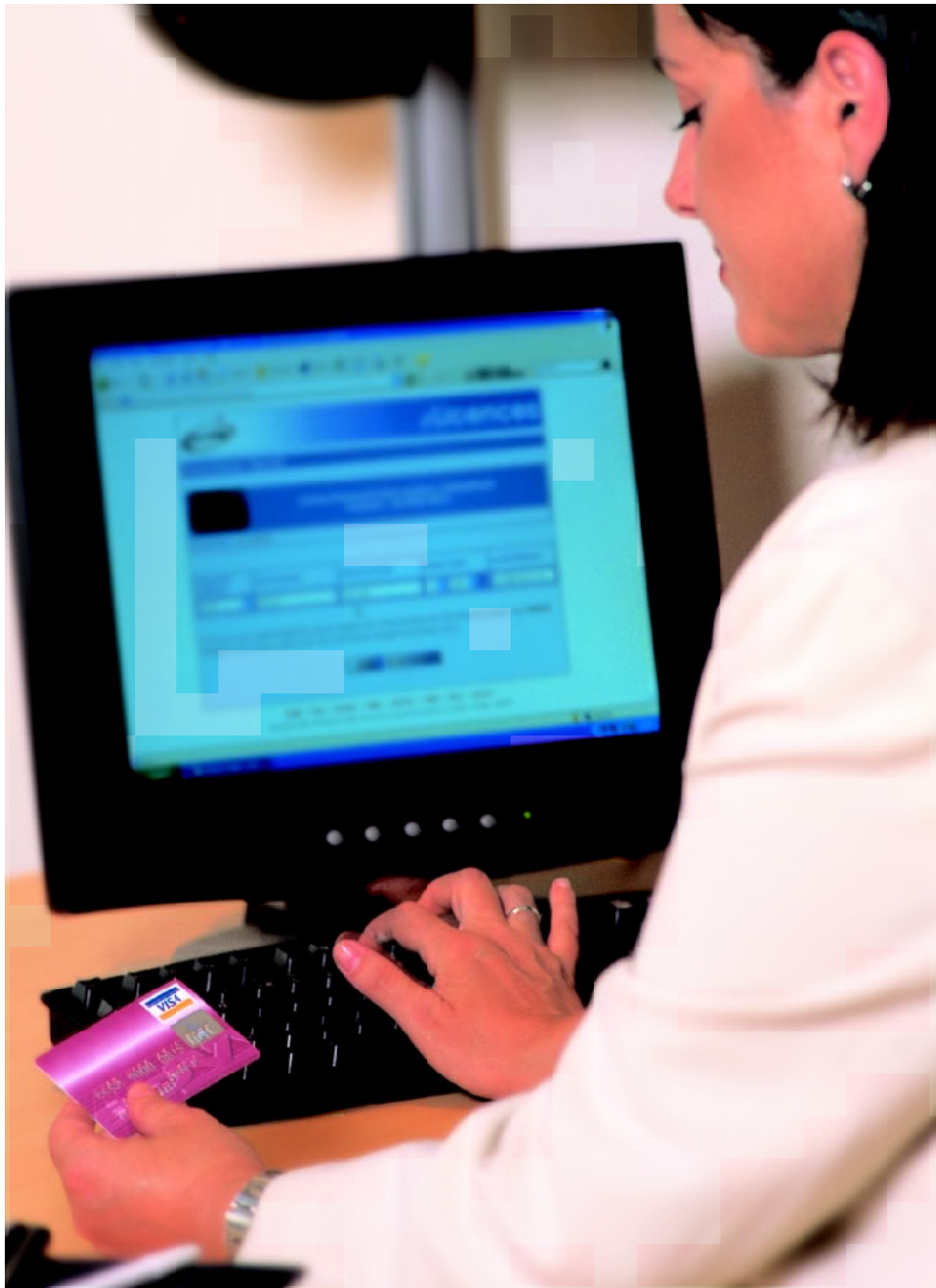


Source: MCA

1989-1991

The first mobile phone operator **Telecell Ltd**, later to become **Vodafone Malta Ltd** in 1998, was awarded a licence to provide mobile telephony services. In 1991, **Melita Cable plc** was awarded a licence to operate a cable network in Malta and Gozo.





eCommerce

UPDATED LEGISLATION FOR A NEW MARKET PLACE

A survey of consumer attitudes towards the Internet, showed that, in 2002, confidence in the medium was significantly higher than a year ago. According to the quarterly survey published by AC Nielsen and Yahoo, a strong correlation between higher confidence and higher consumer spending emerged. Credit for the improvements goes to increasing numbers of broadband users and growing feelings of security when it comes to protecting personal information online.

eCommerce

A survey by Accenture reveals that 60% of European senior business executives will increase their spending on eCommerce initiatives by an average of 15% in the next year. According to a forecast by Jupiter Research, around 56% of Internet users in Europe will shop online by 2007. Total online consumer spending in Europe is expected to grow at a Compound Annual Growth Rate (CAGR) of 32% to reach EUR80 billion by this time.

In Malta, eCommerce is still in an early stage of development. The most active sector has been betting and gaming with a total of about 15 betting and gaming eCommerce operations. A venture worth mentioning is in the supermarket business, whereby a leading supermarket succeeded in increasing its customer-base significantly by selling food, household goods and perfumery products online to shoppers all over the Island.

Malta's new law – Institutional Implications

Across Governments, programmes are currently being implemented, directed at accelerating the uptake of digital technologies. These initiatives seek to increase opportunities for economic development resulting from the convergence of information and telecommunications technology.

In this respect Malta has put in place a new legislative framework intended to "enable Malta to embrace the advance of the information society and the information economy".¹ This framework comprises the Electronic Commerce Act, 2001, the Data Protection Act, 2002 and a set of provisions in the Criminal Code, which deal with Computer Misuse.

The eCommerce Act was brought into force in May 2002. This piece of legislation seeks to facilitate electronic transactions. Legislation of this nature is needed primarily because many Acts of law account only for traditional methods of authentication, and information and records management, and do not contemplate the use of electronic transactions.

Secondly, the traditional legal regime was not perceived sufficient to answer and judicially resolve issues vis-à-vis the legal effect of electronic communications and transactions.

¹ Office of the Prime Minister (2000) White Paper on the Vision and Strategy for the Attainment of eGovernment.

The eCommerce Act is, therefore, considered to be a critical lynchpin in Government's efforts to inculcate an information economy and society in that it seeks to address this lacuna.

It establishes:

- the legal equivalence of paper-based transactions with electronic ones
- the regulatory framework for the provision of electronic signature certification and intermediary services²
- the parameters within which electronic contracts are to be concluded.

The MCA will predominantly be concerned with electronic signature certification services and the supervision of organisations providing such services.

This new legislation will play a major role in facilitating the uptake of eCommerce by providing the necessary framework to enable eCommerce to flourish.

A national eCommerce Action Programme

The MCA has been working closely with the eMalta Commission, a commission set up by the Ministry for Justice and Local Government, to drive the identification, promotion and coordination of the initiatives required for the attainment of an information society and economy and to develop a cohesive and coordinated eCommerce Action Programme for Malta.

This Action Programme, which will seek to ensure that the right environment is established for the proliferation of eCommerce, is being compiled with input from all the stakeholders. Activities that the MCA plans to undertake over the coming months include the development of a regulatory framework for electronic signatures and information society service providers and the implementation of a communications campaign aimed at raising awareness on eCommerce in general.

² Intermediary services are those which involve the transmission, storage or the provision of access, to information in a communications network.



Doing business ... settling online

1992-1995 The University of Malta awarded authority for the top-level country domain for Malta. In 1995, Internet Service Providers were awarded licences to provide Internet services, upon subscription, in a competitive market.



Regulatory Framework

LEGISLATIVE FORESIGHT ... TODAY

The current Maltese regulatory framework for the communications sector was essentially designed to bring about the liberalisation of the market and to cater for the transition from a monopoly to a competitive market. It was also designed to be in line with the Telecommunications Acquis of the European Union.

The rapid developments in the sector, both as a result of technological changes and the liberalisation programme itself, require a constant review of this legal framework to ensure that it is conducive to the promulgation of competition in the sector and improved services to consumers. During the year under review, the MCA carried out a number of activities in this regard, in its advisory capacity to the Ministry for Transport and Communications.

Transposition of 1998 EU Acquis into local legislation

In June 2002, the MCA carried out an internal exercise to identify any remaining gaps between the local legislative framework and the Acquis. An action plan, covering all outstanding legal and administrative tasks, has been drawn up and is being implemented. Key actions, to be concluded by December 2002, include the transposition of the Directives on leased lines, local loop unbundling and data protection in telecommunications.

New EU Acquis for Electronic Communications

The MCA is mindful of the recent introduction of the new EU Framework on Electronic Communications consisting of five directives¹. The framework is complemented by a sixth Directive dealing with Competition in the sector. It places great emphasis on the need to remove any barriers to entry into the telecommunications market and on the application of regulatory measures that are proportionate and effective in achieving a freely competitive market.

In March 2002, a Task Force was constituted to analyse the implications of Malta's adoption of the new EU framework and specifically how it impacts extant legislation, present structures of government, current licensing regimes and market surveillance requirements.

The MCA was represented on the Task Force and also provided it with administrative support. The Task Force has made its recommendations to Government. Activities in preparation for the adoption of the new Acquis are expected to be undertaken during 2003.

¹ The Framework Directive, Universal Services Directive, Access Directive, Authorisation Directive and Directive on Privacy and Electronic Communications.

Licensing Regime

The current licensing regime in Malta, in terms of the TRA, allows for individual licensing or general authorisations as the basis under which an operator can legally operate. No general authorisations are, as yet, operative. The new EU framework will require the implementation of a licensing regime based on general (class) authorisations. To ensure a smooth transition to an authorisation regime, the MCA has secured the services of a specialist international consulting firm to devise the new authorisation framework including a transitional plan that factors in the Maltese particularities.

Coming into force of remaining provisions of Legal Notice 151

In the third quarter of 2000, the Telecommunications Services (General) Regulations 2000, Legal Notice 151, was issued to provide the general framework under which industry players operate. At the time, it was decided that, given local circumstances, it was advisable to stagger the introduction of certain regulations. As the liberalisation programme progresses, the outstanding regulations need to be implemented. The remaining provisions of this Legal Notice were, therefore, brought into effect in July 2002.

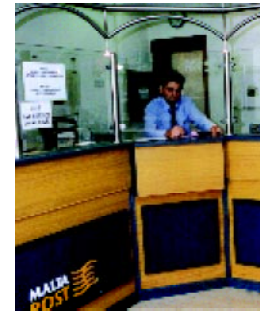
MCA Input to National Development Plan

The MCA has, in the year under review, participated in the National Development Plan, which is coordinated by the Ministry for Economic Services. The Plan, which covers the period up to 2006, is aimed at spearheading developments at a national level to bring these in line with community norms. In drawing up its submission into the National Development Plan, the MCA consulted with key stakeholders in the communications sector. It continues to participate in various meetings associated with the development of this Plan.

Postal Services

In 1998, the Government published a National Plan for the Adoption of the Acquis (NPAA) with a view to Malta joining the European Union. In the postal sector, the Plan identified the need to re-structure the incumbent operator, Maltapost plc, to enable further liberalisation, and to strengthen the regulatory structures for the sector. After intensive research and consultation, the MCA made its recommendations for legislative amendments to the Minister.

In July 2001, a Bill amending the Postal Services Act (Cap 254) was published. It is currently being discussed at Committee Stage in the House of Representatives. The law reforming the postal sector will place specific regulatory responsibilities for the sector on the MCA. It will also see to the setting up of structures that will safeguard quality standards and the right of redress and will cater for establishing the relevant parameters for a new authorisation regime. It is envisaged that the Act will come into force by December 2002.



Maltapost Branch



Snail mail holds its own

1996-1997 By the end of 1996, there were less than 100 .mt domain names. Today there are almost 2,000 domain names registered under .mt and almost 10,000 hosts.



Inside MCA

LAYING THE FOUNDATIONS ... PLANNING FOR THE FUTURE

The evolution from Public Service Departments to autonomous Authorities started out rather slowly in the early nineties but has now gathered momentum. The main reason for such a move stemmed from a dire need to split policy, regulation and operations.

The privatisation drive has also brought about an increasing need for the mediatory role of regulatory bodies. Autonomy in regulation is meant to ensure freedom from vested interests to enable a higher degree of independence in decision-making.

Capacity Building

The MCA came into being on 1st January 2001, assuming the previous responsibilities of the Office of the Telecommunications Regulator. Capacity building had to start from scratch.

Fast-tracking the development of institutional capacity has been the MCA's priority in its first full fiscal year of operations. While the legal framework provides the foundation, it is the people who will shape the organisation and in turn inform the continuing evolution of the telecommunications sector locally.

The strategy so far has been to bring together a critical mass of pertinent skills from a range of disciplines. By providing the opportunity to attend study tours, courses, secondments and participate in various regulatory fora, the MCA is now well-equipped to oversee the process of market liberalisation, to ensure sustainability of competition and to develop a climate conducive to sectoral investment. The MCA is ensuring that it has adequate resources to implement its strategy. It is striving to maintain the right mix of full-time staff and utilise outsourcing of services, where this is more cost-effective.

MCA Strategic Plan

The Strategic Plan, that has been formulated by the MCA, sets out a series of objectives that will focus the agency's activities in the respective policy areas, which are embodied in the MCA's mission statement.

The means of attaining these strategic objectives are articulated by way of a series of tasks that include continuing the building of the regulatory infrastructure, strengthening and refining the ongoing regulatory and support processes, contributing to the development of the Maltese socio-economic environment and adopting the new EU Framework on Electronic Communications. These tasks serve to quantify the MCA's resource requirements to enable it to execute its mandate. The Plan has been drawn up against a backdrop of events and situations, which serve to inform its direction, time frames and deliverables.

Continued environmental monitoring will serve to ensure that objectives stay on track and strategy remains current.

Telecommunications constitute one of the critical underpinnings of our contemporary existence. There is a direct correlation between national economic development and telecommunications infrastructure investments. In this regard, the Plan is geared towards ensuring the creation of conditions that are conducive for continuing investment in this vital sector to ensure a sustainable economic well-being.

MCA Business Plan

The MCA is accountable to the general public and to Government for the delivery of the policy results it has been entrusted with and for the effective use of public resources in performing its responsibilities. The business planning and budgeting cycle, coupled with the performance management cycle, lies at the heart of resource allocation and management.

The MCA has adopted an outputs/outcomes approach to business planning because this approach provides a framework within which the MCA can focus on the results it achieves rather than the tasks it performs.

The MCA has adopted a three-year business planning cycle. The Business Plan covers all current and planned activities of the Authority including both recurrent activities and projects and comprises discrete programmes of activities aimed at delivering the key thrusts of the Authority as identified in the strategic plan.

Performance Management

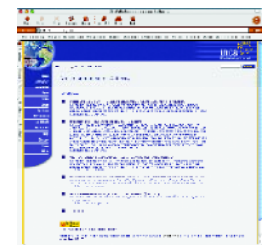
Corporate Performance Management is the process of determining to what extent an organisation's outputs contribute to the achievement of its strategic objectives and of realigning activities in order to maximize contribution to these objectives.

Through this process, the MCA is tracking results against planned targets, taking stock and reviewing as necessary. It is planned that, by the end of 2002, the internal structures needed to undertake corporate performance management will all become operative.

Corporate performance planning aims to achieve continuous improvement within the organization and is intrinsically linked to another performance management tool adopted by the MCA, the Staff Performance Management Programme.



MCA Forum on Clients' Rights...
its role in a liberalised market



Virtual presence

1997-2000

Telemalta Corporation is partly privatised under the corporate name of Maltacom plc and its shares are listed on the Malta and London Stock Exchanges. Spurred on by the advent of liberalisation, Mobisle Communications Ltd was established, and commenced operations in 2000, under the brand name of *go mobile*.



Job Analysis Exercise / Performance Management Programme

Given the nature and size of the organisation, the MCA operates largely in a team matrix mode to maximise human resources capacity. In February 2002, a job analysis exercise was carried out to create job descriptions of all positions with an emphasis on broad and generic specifications.

Concurrently a Performance Management Programme (PMP) was launched. It is intrinsically tied to the achievement of organisational objectives whilst recognising the individual's performance and professional development objectives. For the MCA, the key to the success of the PMP essentially lies in the integration of two important factors: the ability of the organisation to apply the process in a consistent and transparent manner, and to consolidate the crucial links the programme has with the business planning and Corporate Performance Management processes of the organisation.

Internal IT environment

Underpinning the operations of the MCA is an IT environment that maximises efficiency in daily operations. In December 2001, the MCA installed a new groupware and records management system, based on Lotus Domino. This is providing the MCA with a shared knowledge environment, enabling sharing of files and data with co-workers, clients, government and the public. All MCA staff benefit from secure teleworking facilities provided via a broadband Internet connection.

Website

In November 2001, the MCA announced the launch of its web presence to facilitate access to information about its activities. The MCA is committed towards creating a website that is of value to stakeholders. The site has been intentionally designed to encourage discussion and interaction between users and the MCA as well as between the users themselves. The MCA's website is being continually expanded and updated, reflecting the breadth of the organisation's activities.



MALTA COMMUNICATIONS AUTHORITY

Members' Report

General

The Malta Communications Authority was established by virtue of the Malta Communications Authority Act, Cap 418, for the purposes of the said Act to carry out the functions defined in the Act. By virtue of Legal Notice 280 of 2000 the Minister for Transport and Communications nominated the Malta Communications Authority to be the Competent Authority to regulate communications services in Malta with effect from 1 January 2001. These financial statements cover the financial year ended 30 September, 2002.

Results

During the year under review, contributions amounting to Lm396,013 were received from the Government of Malta. Income from telecommunications licensing amounted to Lm1,814,502, and is all being transferred to the Government. The total expenditure incurred during the year under review amounted to Lm457,763. At the year end, there was a deficit of Lm40,265. This has been deducted from the general fund such that, at the end of the year, the general fund amounted to a surplus of Lm52,397.

Members

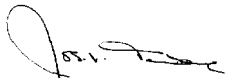
The members who served during the year under review were as follows:

Mr. J. V. Tabone (Chairman)
Dr. R. Balzan (appointed 01.04.02)
Mr. C. Grima (appointed 01.04.02)
Mr. A. P. Pavia (appointed 01.04.02)
Mr. M. Portelli (appointed 01.04.02)

Auditors

Our auditors MSD & Co informed us that with effect from 1 September 2002 they have combined their practice with Ernst & Young. Ernst & Young have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the next Members' Meeting.

The Members' Report was approved by the Members and was signed on their behalf by:



J. V. TABONE
Chairman



A. P. PAVIA
Member

43/44, Il-Piazzetta
Tower Road
Sliema SLM 16
24 October 2002

AUDITORS' REPORT

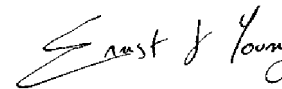
To the Members of the Malta Communications Authority

We have audited the accompanying balance sheet of the Malta Communications Authority as of 30 September 2002 and the related statements of income, cash flows and changes in equity for the year then ended, which are set out on pages 42 to 51.

These financial statements are the responsibility of the Authority's management. Our responsibility is to express an independent opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as of 30 September 2002 and of the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the Malta Communications Authority Act, 2000.



Ernst & Young
Certified Public Accountants and Auditors
Sliema SLM 15
MALTA

24 October 2002

INCOME AND EXPENDITURE ACCOUNT
for the year ended 30 September 2002

		01.10.01 to 30.09.02 Lm	01.01.01 to 30.09.01 Lm
	Note		
Income			
Telecommunications licensing	3	1,814,502	1,721,495
Government contributions	3	396,013	218,300
		2,210,515	1,939,795
Expenditure			
Staff costs	6	(182,610)	(52,041)
Depreciation		(26,589)	(18,615)
Operating and administrative expenses		(248,564)	(56,146)
Operating surplus	5	1,752,752	1,812,993
Interest receivable	7	21,485	1,164
		1,774,237	1,814,157
Transfers to Government	4	(1,814,502)	(1,721,495)
(Deficit)/surplus for the financial year/period		(40,265)	92,662

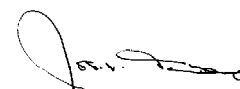
The accounting policies and explanatory notes on pages 46 to 51 form an integral part of the financial statements.

BALANCE SHEET
as at 30 September 2002

	Notes	2002 Lm	2001 Lm
ASSETS			
Fixed assets			
Property, plant and equipment	8	71,477	71,115
Current assets			
Debtors	9	1,491,997	1,504,070
Cash at bank and in hand		499,297	431,211
		1,991,294	1,935,281
Total assets		2,062,771	2,006,396
EQUITY AND LIABILITIES			
Reserves			
General fund		52,397	92,662
Creditors: Amounts falling due within one year			
Creditors	10	2,010,374	1,913,734
Total equity and liabilities		2,062,771	2,006,396

The accounting policies and explanatory notes on pages 46 to 51 form an integral part of the financial statements.

The financial statements on pages 42 to 51 have been authorised for issue by the Members on 24 October 2002 and were signed on their behalf by:



J. V. TABONE
Chairman



A. P. PAVIA
Member

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2002

	General fund Lm
Balance on establishment	-
Surplus for the period	92,662
	<hr/>
Balance as at 30 September 2001	92,662
Deficit for the financial year	(40,265)
	<hr/>
Balance at 30 September 2002	52,397

The accounting policies and explanatory notes on pages 46 to 51 form an integral part of the financial statements.

CASH FLOW STATEMENT
for the year ended 30 September 2002

	01.10.01 to 30.09.02 Lm	01.01.01 to 30.09.01 Lm
Cash flows from operating activities		
(Deficit)/surplus for the year/period	(40,265)	92,662
Adjustments for:		
Depreciation of tangible assets	26,589	18,615
Government contributions	(396,013)	(218,300)
Transfers to government	1,814,502	1,721,495
Interest receivable	(21,485)	(1,164)
	<hr/>	<hr/>
Operating surplus before working capital changes	1,383,328	1,613,308
Decrease/(increase) in debtors	21,937	(1,504,070)
Increase in creditors	26,665	680,595
Licences received by the office of the telecommunications regulator	-	(471,812)
	<hr/>	<hr/>
Cash generated from operations	1,431,930	318,021
Interest received	11,621	1,164
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	1,443,551	319,185
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of tangible assets	(26,951)	(86,747)
	<hr/>	<hr/>
Cash flows from financing activities		
Government contributions	396,013	218,300
Funds paid to government	(1,744,527)	(19,527)
	<hr/>	<hr/>
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(1,348,514)	198,773
	<hr/>	<hr/>
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	68,086	431,211
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	431,211	-
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	499,297	431,211

The accounting policies and explanatory notes on pages 46 to 51 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 September 2002

1. COMPARATIVE FIGURES

The Authority commenced its operations on 1 January 2001. Accordingly, the comparative figures cover the period from 1 January 2001 to 30 September 2001.

2. SCOPE AND FUNCTIONS OF THE AUTHORITY

The purpose of the Authority is to ensure freedom of communication and that communications shall not be limited except when this is necessary for any of the reasons set out in Section 4 (1)(a) of the Malta Communications Authority Act, and to ensure non-discrimination and equality of treatment in matters related to communications. It shall in particular be the duty of the Authority to exercise such regulatory function in the field of communications under the provisions of the Telecommunications (Regulation) Act and as may from time to time be assigned to the Authority by or under an Act of Parliament. The Authority shall also carry out various other related functions and duties as set out in Section 4 (3) of the Act.

3. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Board. A summary of the more important accounting policies which have been applied consistently, is set out below:

Accounting convention and basis of preparation

These financial statements have been prepared under the historical cost convention.

Revenue recognition

Income from licences is recognised on the issue of a new licence or on the renewal date. Such income is brought to account over the period to which the licence relates.

Amounts contributed by the Government of Malta are recognised when the Ministry of Finance approves such allocation. Funds claimed for the implementation of the NPAA (National Plan for the Adoption of the European Union Acquis) are recognised on a cash basis.

Employee benefits

The company contributes towards the State pension in accordance with local legislation. Related costs are expensed during the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives as follows:

	%
Building improvements	20
Computer equipment	20-33
Fixtures, fittings and equipment	10-20
Motor vehicles	20

Debtors

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

Cash and cash equivalents

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

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

Creditors

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

NOTES TO THE FINANCIAL STATEMENTS

30 September 2002

4. TRANSFERS TO GOVERNMENT

These amounts represent the gross telecommunications licensing income which is being transferred to the Government as provided by section 14 (4) of the Malta Communications Authority Act.

5. OPERATING SURPLUS

The operating surplus is stated after charging/(crediting):

	01.10.01	01.01.01
	to	to
	30.09.02	30.09.01
	Lm	Lm
Auditors' remuneration	575	575
Depreciation	26,589	18,615
	<u>27,164</u>	

6. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	01.10.01	01.01.01
	to	to
	30.09.02	30.09.01
	Lm	Lm
Members' emoluments	25,078	14,914
Wages and salaries	147,792	34,682
Social security costs	9,740	2,445
	<u>182,610</u>	<u>52,041</u>

b. Staff numbers

The average number of persons, excluding members, employed by the Authority during the year was 15 (2001 : 9).

7. INTEREST RECEIVABLE

	01.10.01	01.01.01
	to	to
	30.09.02	30.09.01
	Lm	Lm
On bank balances	4,336	1,164
On amounts due from debtors	17,149	-
	<u>21,485</u>	<u>1,164</u>

NOTES TO THE FINANCIAL STATEMENTS

30 September 2002

8. PROPERTY, PLANT AND EQUIPMENT

	Building improvements	Computer equipment	Fixtures, fittings & equipment	Motor Vehicles	Total Lm
	Lm	Lm	Lm	Lm	Lm
Year ended 30 September 2002					
Opening net book amount	2,002	26,660	25,003	17,450	71,115
Additions	249	21,689	5,013	-	26,951
Depreciation	(550)	(16,833)	(4,843)	(4,363)	(26,589)
Closing net book amount	1,701	31,516	25,173	13,087	71,477
At 30 September 2002					
Cost	2,751	58,052	34,065	21,813	116,681
Accumulated depreciation	(1,050)	(26,536)	(8,892)	(8,726)	(45,204)
Net book amount	1,701	31,516	25,173	13,087	71,477
At 30 September 2001					
Cost	2,502	36,363	29,052	21,813	89,730
Accumulated depreciation	(500)	(9,703)	(4,049)	(4,363)	(18,615)
Net book amount	2,002	26,660	25,003	17,450	71,115

9. DEBTORS

	2002 Lm	2001 Lm
Accrued income (note i)	941,711	1,189,270
Debtors	543,293	310,000
Prepayments	3,393	1,200
Other debtors	3,600	3,600
	1,491,997	1,504,070

i. Accrued income comprises estimated annual licence fees payable by telecommunications operators on the basis of a fixed percentage of their gross revenues.

10. CREDITORS

	2002 Lm	2001 Lm
Falling due within one year		
Amount due to Government	1,300,131	1,230,156
Deferred income (note i)	676,139	677,494
Accruals	34,104	2,095
Other creditors	-	3,989
	2,010,374	1,913,734

i. Deferred income comprises the unexpired portion of annual licence fees billed annually in advance.

Licensed Operators

TELECOMMUNICATIONS OPERATORS

Maltacom plc
Spencer Hill
Marsa, CMR 01
www.maltacom.com

Melita Cable plc
333 Rue D'Argens
Gzira, GZR 04
www.melitacable.com

Mobisile Communications Ltd (go mobile)
Fra Diego Street
Marsa, HMR 12
www.go.com.mt

Vodafone (Malta) Ltd
Vodafone House
Msida Road
Birkirkara, BKR 14
www.vodafone.com.mt

LICENSED INTERNET SERVICE PROVIDERS (ISPs)

Camline Internet Services Ltd
A.E. Caruana Street
Birkirkara, BKR 08
www.camline.net.mt

EuroWeb Ltd
Business Centre
219-221 Parija Street
St. Venera, HMR 16
www.euroweb.net.mt

IT & T Ltd
Level 3, De Tighe Complex
Tigne Seafront
Sliema, SLM 15
www.ittelecom.ws

Kemmnet Ltd
Panta House
Birkirkara Road
Msida, MSD 03
www.kemmnet.net.mt

Keyworld Ltd
UB42 Industrial Zone
San Gwann, SGN 09
<http://site.keyworld.net>

Malibu Telecommunications Ltd
136 St. Christopher Street
Valletta, VLT 05

Maltanet Ltd
Dolphin Centre
Balzan, BZN 08
www.maltanet.net

Melitanet Ltd
Ball Street
Paceville, STJ 06
www.melita.net

MITTS Ltd
Gattard House
National Road
Blata I-Bajda, HMR 02
www.mitts.gov.mt

Next Generation IT Ltd
Baxa Buildings
Nr. 1 Valletta Road
Mosta, MST 09
www.nextgen.com.mt

Primatele Ltd
Vodafone House
Msida Road
Birkirkara, BKR 14
www.vodafone.com.mt

Telemail Ltd
Suite 1 Cali House
Naxxar Road
San Gwann, SGN 07
www.telemail.com.mt

Video On Line
333 Rue D'Argens
Gzira, GZR 04
www.vol.net.mt

Waldonet Ltd
27 Triq iz-Zaghfran
Attard, BZN 03
www.waldonet.net.mt

Webwaves Ltd
111 Old Railway Track
St. Venera, HMR 16
www.webwaves.net

INTERNATIONAL DATA SERVICES

Societé International de Telecommunications Aéronautiques (SITA)
7 Loredana Court
Guzeppi Cali Street
Ta' Xbiex MSD 14
www.sita.int

INTERNATIONAL MARITIME DATA COMMUNICATIONS SERVICES

Globe Wireless
7 Loredana Court
Guzeppi Cali Street
Ta' Xbiex MSD 14
www.globewireless.com

PAGING

Telepage Ltd
Fino Buildings
Mriehel Industrial Estate
Qormi, QRM 09
www.telepage.com.mt

PUBLIC RADIO TRACKING TELECOMMUNICATIONS SYSTEMS AND SERVICES

Datatrak Systems Ltd
F26 Mosta Technopark
Mosta, MST 13
www.datatrak.com.mt

"Il-Plazzetta", Suite 43/44, Tower Road, Sliema SLM 16, Malta, Europe.

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