

ANNUAL REPORT AND
FINANCIAL STATEMENTS 2003

CHAIRMAN'S MESSAGE

Joseph V Tabone



“A considerable part of our resources was this year taken up with putting in place the building blocks of telecommunications regulation...”

January 1st, 2003 marked the date of Malta's complete liberalisation in telecommunications. This was a process spanning three years, starting with the introduction of competition in mobile telephony, followed by cable TV and finally, fixed telephony, including international calling. In the course of this period we have witnessed sector growth, that is, customer spend, from Lm78 million in January 2000 to Lm92 million in 2003. Mobile subscribers have grown from 44,000 to 311,000 and Internet subscriptions have gone from 25,000 to 69,000. Cable access is available to 96% of Maltese households with 73% signed up. We have seen considerable reductions in mobile rates and the introduction of new services in both mobile and fixed telephony. Early this year we have seen competition emerging in international calling tariffs. This is what deregulation is about. And the Malta Communications Authority (MCA) is pleased to have been proactive in these achievements.

This report covers the second full fiscal year of our operations and attempts to highlight our major activities.

Id-data ta' l-1 ta' Jannar 2003 gabet magħha l-liberalizzazzjoni shiħa tas-settur tat-telekomunikazzjoni f'pajjiżna. Dan il-proċess infrex fuq tliet snin u jaf il-bidu tiegħu bl-introduzzjoni ta' kompetitur ieħor fis-settur tat-telefonija mobbli. Wara dan, dahlet il-kompetizzjoni fis-settur tal-*cable* u fl-aħħarnett f'dak tas-settur tat-telefonija fissa, inklużi s-sejħiet internazzjonali. Tul dan il-perjodu, osservajna tkabbir f'kull settur, li jfisser infieq tal-konsumatur, minn Lm78 miljun f'Jannar 2000 għal Lm92 miljun fl-2003. Il-persuni li jagħmlu użu minn *mobile* telgħu minn 44,000 għal 311,000 u n-numru ta' persuni li għandhom l-Internet kiber minn 25,000 għal 69,000. Il-*cable* huwa disponibbli għal 96% tad-djar Maltin, b'73% jagħmlu użu minnu. Rajna wkoll roħs drastiku f'dawk li huma rati tat-telefonija mobbli u l-introduzzjoni ta' servizzi ġodda kemm fit-telefonija fissa u dik mobbli. Aktar kmieni din is-sena seħħet ukoll il-kompetizzjoni fir-rati għal sejħiet internazzjonali. Dan kollu huwa sinjal ċar ta' xi tfisser id-deregolamentazzjoni, u l-Awtorità ta' Malta dwar il-Komunikazzjoni hija sodisfatta li kienet parti minn dawn il-kisbiet.

Once again, the major thrust of these has been telecommunications. A considerable part of our resources was taken up with putting in place the building blocks of telecommunications regulation including designating operators with Dominant Market Positions (DMPs) and overseeing the institution of accounting separation and cost-accounting systems. Changes in practice are usually initiated through a consultative process, and the year has seen a wide array of these on topics such as interconnection, tariff rebalancing, price-capping and Universal Service Obligations (USOs), to name a few. Although consultation of this nature locally is a relatively new experience, the level of participation is indeed quite remarkable and one that we encourage, its purpose being the shaping of regulation.

With the Postal Services Act coming into force in June of this year, we have also initiated a consultative process in this sector and, in conjunction with the Ministry for Transport and Communications, are working on the formulation of a licensing framework where none existed previously. With regard to eCommerce, we have been working very closely with the eMalta Commission and latterly, with the National Information Society Council, to ensure that the legal and oversight framework is in place, an essential prerequisite for development in this sector.

Internet service provision is a sector activity offering consumers a wide choice indeed. There is a concomitant array of plans and service quality differs. The MCA feels that there should be consumer safeguards to ensure acceptable service levels. There has been some preliminary work in the definition of quality of service levels which will shortly be promulgated and monitored for adherence.

One of the year's developments the MCA is very pleased with is Maltacom's divestment of its shareholding in Vodafone. This was a complex, long-standing issue. Telemalta, which

Dan ir-rapport ikopri t-tieni sena fiskali ta' l-operat tagħna u jagħti titwila lejn l-attivitajiet prinċipali ta' l-Awtorità. Għal darb'ohra, l-aktar settur attiv kien dak tat-telekomunikazzjoni. Parti sostanzjali tar-riżorsi tagħna matul din is-sena kienu ffukati fuq il-binja soda għar-regolamentazzjoni fit-telekomunikazzjoni. Din tinkludi n-nomina ta' l-operaturi li għandhom *Dominant Market Positions* (DMPs) u t-twaqqif ta' komputazzjoni separata tal-kotba finanzjarji ta' l-operaturi kif ukoll dawk li jissejhu *cost accounting systems*. Kwalunkwe tibdil li jseħh fil-mod kif noperaw normalment jibda bi proċess konsultattiv, u matul din is-sena varjetà kbira ta' temi kienu s-sugġett ta' konsultazzjoni bħal din, fosthom *l-interconnection*, *tariff rebalancing* u *l-Universal Service Obligations (USOs)*. Għalkemm konsultazzjoni ta' dan it-tip hija metodu kemmxejn innovattiv għal pajjiżna, il-livell ta' partecipazzjoni, kemm bħala kwantità, u kemm bħala kwalità, kien wiehed sodisfacenti. Ahna nheggu biex din il-partecipazzjoni tibqa' b'saħħitha għax l-għan tagħha huwa dak li tgħin fil-formazzjoni tar-regolamentazzjoni.

Minhabba li f'Ġunju ta' din is-sena daħal fis-seħh l-Att dwar is-Servizzi Postali, bdejna proċess konsultattiv dwar dan is-settur u flimkien mal-Ministeru għat-Trasport u l-Komunikazzjoni, qed naħdmu sabiex inwaqqfu struttura ġdida ta' liċenzjar - struttura li s'issa qatt ma kienet teżisti. Dwar *l-eCommerce*, ilna naħdmu fil-qrib mal-Kummissjoni eMalta u dan l-aħħar mal-Kunsill Konsultattiv sabiex nassiguraw li jkun hemm struttura legali, li hija l-pedament għal kwalunkwe żvilupp f'dan il-qasam.

Is-servizz ta' l-Internet huwa qasam li joffri għażla wiesgħa lill-konsumaturi. Hemm serje shiha ta' prospettu u l-kwalità tas-servizz tvarja. L-MCA tħoss li għandu jkun hemm miżuri li jharsu l-konsumatur sabiex ikun hemm livell aċċettabbli fis-servizz li jingħata. Sar xi xogħol preliminari dwar proġett għad-definizzjoni tal-kwalità tas-servizz, li nittamaw li nniedu dalwaqt u li fi żmien qasir jidhol fis-seħh ukoll.

was Maltacom's predecessor, had secured a stake in Vodafone when the latter started its operations locally in 1990.

On Maltacom's launching of *go mobile* in December 2000, competition rules required it to dispose of its Vodafone shareholding. This was easier said than done and the quest for a solution consumed an inordinate amount of time of the two operators and the MCA as mediator. This issue is now consigned to history with an outcome that is satisfactory to shareholders.

This report attempts to outline the Authority's activities in the year under review. But a frequently recurring question is, why do we need such an organization to administer these complex rules? Malta's regulatory regime is framed within the World Trade Organisation (WTO), International Telecommunications Union (ITU) Conventions and the EU's *Acquis Communautaire*. The *Acquis* is the body of common rights and obligations which bind all the member states together within the European Union. In this context, the MCA forms part of peer network groups such as the Independent Regulators Group (IRG), and the recently formed European Regulators Group (ERG), in the adoption of principles of best practice to promote competition and sector investment. Participation serves to ensure harmonisation of our laws and their subsequent implementation. This international collaboration has been salutary in accelerating our capacity-building endeavours through knowledge and practice transfer.

I hold the view, albeit a biased one, that the MCA has been able to establish an effective and credible presence in a very short period of time. This is due, in no small measure, to its slate of Board Members and the fine team of professionals and support staff who bring a commitment and work ethic to the organisation which is second to none. Such dynamics augur well for sector growth, the prospects of competition and, most importantly, consumer interests.



Joseph V Tabone
Chairman

Żvilupp ieħor importanti matul din is-sena kien dak tal-bejgħ ta' l-ishma li l-Maltacom kellha fil-Vodafone. Din kienet kwistjoni ferm kumplikata u li damet hafna biex tissolva. Il-predeċessur tal-Maltacom - il-Korporazzjoni Telemalta - kienet kisbet parti mill-ishma fil-kumpanija Vodafone meta din bdiet topera fl-1990. Meta f'Diċembru tas-sena 2000, il-Maltacom waqqfet il-*go mobile*, skond ir-regoli tal-kompetizzjoni, din kellha tbiegħ l-ishma li kellha fil-Vodafone. Izda biex mill-kliem ġejna għall-fatti, kien hemm bżonn ta' hafna u hafna hin kemm miż-żewġ operaturi u kif ukoll mill-MCA li kienet medjatur f'din il-kwistjoni.

Dan ir-rapport jipprova jagħti rendikont tax-xogħol li wettqet l-MCA. Izda hafna drabi jsaqsuna, għaliex għandna bżonn ta' organizzazzjoni bhal din? L-istruttura ta' regolamentazzjoni ta' Malta tiffirma parti minn dik tal-WTO, il-Konvenzjonijiet ta' l-ITU u l-*Acquis Communautaire* ta' l-U.E. F'dan il-kuntest, l-MCA hija membru f'diversi gruppi fosthom l-*Independent Regulators Group (IRG)* u l-*European Regulators Group (ERG)* li twaqqaf dan l-aħħar. F'dawn il-gruppi nsibu Awtoritajiet ta' pajjiżi oħra li jaħdmu flimkien sabiex jaddottaw prinċipji dwar x'inhu l-aħjar mod li bih jistgħu jippromwov u l-kompetizzjoni u l-investment fis-settur. Din il-kollaborazzjoni internazzjonali kienet waħda ferm pożittiva għaliex għenitna fl-isforzi tagħna.

Għalkemm għandi interess dirett, nemmen li f'perjodu daqshekk qasir, l-Awtorità rnexxielha tistabilixxi preżenza effettiva u kredibbli. Dan żgur li ma kienx ikun possibbli mingħajr il-Membri l-oħra tal-Bord, flimkien mat-tim eċċellenti ta' professjonisti u *support staff* li l-impenn u l-etika ta' xogħol tagħhom huma uniċi. Dan jawgura tajjeb sew għall-futur tas-setturi partikulari, għall-kompetizzjoni u l-iktar importanti għall-harsien ta' l-interessi tal-konsumaturi.

BOARD MEMBERS



Joseph V Tabone
Chairman



Carmel Grima



Anthony P Pavia



Reuben Balzan



Mark Portelli



Celia Falzon
Chief of External Relations & Board Secretary

MANAGEMENT COMMITTEE



Christine Apap
Chief of Corporate Services



Colin Camilleri
Chief Technical Officer



Joseph Cuschieri
Chief of Operations



Patrick Vella
Chief of Policy & Planning



Paul E Micallef
Chief Legal Adviser



Ian Gauci
PA to Chairman & Legal Adviser

MARKET OVERVIEW

Telecommunications continues to represent one of the critical underpinnings of a nation's economic and social development, for the transmission of knowledge, information and business transactions.

This is even more pronounced in the case of an island economy like Malta, where telecommunications removes the physical constraints of isolation and enables participation in a global economic *milieu* with its attendant opportunities.

The Maltese government's liberalisation programme for telecommunications, announced in 2000, was intended to beef up investment in the sector, with a view to enabling a wider choice of options in service provision, improved services, and, most importantly, lower costs with the concomitant benefits of added communications redundancy and resiliency. The last bastion of monopoly in the telecommunications sector was conquered on the 1st January 2003 when international gateway services, data services and the fixed telephony sector were also opened to new entrants.

This gradual market liberalisation was part of government's wide-ranging process of reform which included the introduction of measures to promote the development of an information society, an objective which is not achievable without having in place a strengthened regulatory structure.

ABOUT THE MCA

In July 2000, Parliament approved the Malta Communications Authority Act which established the Malta Communications Authority (MCA), set out its terms of reference, mode of operation, appointment of officers and financing. The MCA was also identified as the entity 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 taken by the MCA.

The MCA commenced operations on the 1st January 2001 and is today the national agency responsible for regulating telecommunications, eCommerce and postal services.

The main purpose of regulatory bodies, such as the MCA, is to ensure a smooth transition to liberalised markets, to promote sectoral investment, to stimulate competition in the market

and to safeguard the sustainability of those markets.

The *raison d'être*, and indeed, the scope of the MCA is to remove existing barriers with the overall objective of ensuring sustainable competition and consumers' value for money. So, quite apart from overseeing this market liberalisation, the MCA's role is strategic rather than interventionist, serving to shape the environment in such a way that competition will prevail, making for service choices.

The MCA is a regulator that is recognizably European in its mandate, functions and powers. It is legally distinct from any organisation providing electronic communications networks or services and is impartial and transparent in its activities. The MCA presently has a multi-disciplinary professional team of 18, with more capacity-building underway.

The MCA's challenges for the year under review included the continued development and implementation of regulatory structures, the implementation of the postal and eCommerce regulatory regimes and policies and the new EU Framework for Electronic Communications.

THE LOCAL SCENE

Malta's geographical position renders the need for global connectivity an absolute must for its socio-economic development. Now that the international gateway monopoly came to an end in December 2002, other operators are in a position to establish and maintain telecommunications systems between Malta and other countries.

The Maltese telecommunications sector is characterized by the presence of the following operators :

Maltacom plc is the incumbent fixed line operator with 60% government ownership. Maltacom currently owns the existing international gateway which is operated by a Maltacom subsidiary, DataStream Ltd. Maltacom operates other subsidiaries, including an Internet Service Provider (ISP) and the island's latest mobile telephony operator, Mobisle Communications Ltd.

Vodafone Malta Ltd, a mobile telephony operator, started operations in Malta in 1990. The company owns an ISP subsidiary and has announced its intention to operate another international gateway which is due to come onstream next year.

go mobile, the brand name used by Mobisle Communications Ltd, operates the country's second mobile network since December 2000.

Melita Cable plc is the cable TV service provider, present locally since 1991. Melita has now branched into the data services sector, using cable modem technology, through an ISP subsidiary.

In addition to the above, the sector also includes 18 other ISPs.

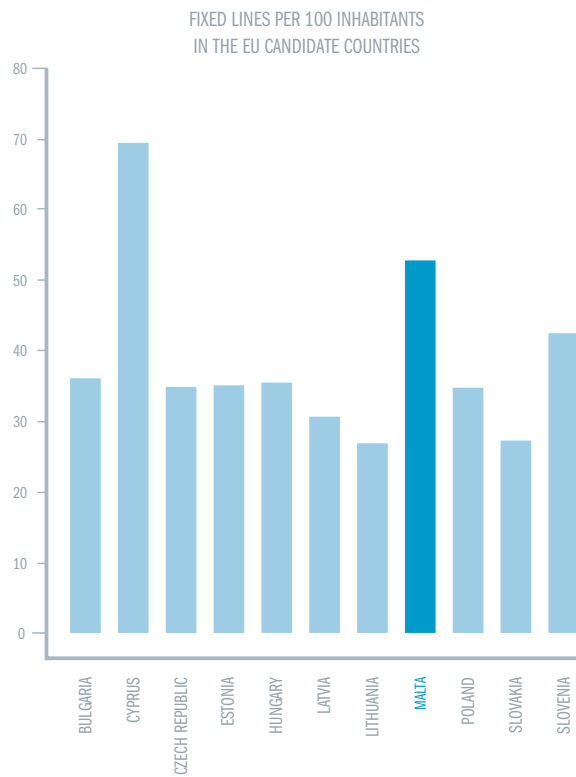
THE INTERNATIONAL BACKDROP

Fixed

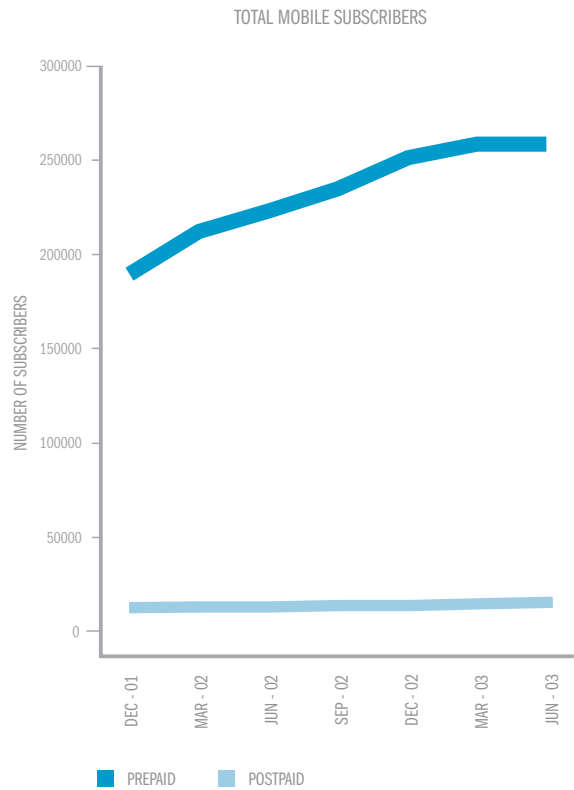
Malta and Slovenia are the only two EU accession countries that did not experience a drop in fixed line subscriptions between end 2001 and end 2002. Unlike the other accession countries, even though there is fixed-mobile substitution in terms of call minutes, the take-up of mobile phone lines has not replaced fixed lines. In Malta, fixed line rental tariffs are relatively low as a rebalancing process has not yet been

initiated. This may eventually have an impact on fixed line proliferation.

Malta compares well with other accession countries in terms of Digital Subscriber Lines (DSLs). In fact, whereas the relationship of DSLs to all fixed lines reaches 6% in Estonia, followed by Malta with 4.9%, the rest reach up to 2%.



SOURCE: 3RD REPORT ON MONITORING OF EU CANDIDATE COUNTRIES



SOURCE: MCA

Mobile

The increase in the number of postpaid (contract) users between June 2002 and June 2003 was slightly higher than the increase in the number of prepaid users during the same period. Even though the difference in growth rate of 3% may not be considered extensive, it is an indication that the gap between prepaid and postpaid users may start to narrow in the future.

The level of Short Message Services (SMSs) has increased to almost 79 million until the end of 2002, but it has stabilised

since then. In fact the number of SMSs in the second quarter of 2003 was slightly less than the figure for the last quarter of 2002.

Cable

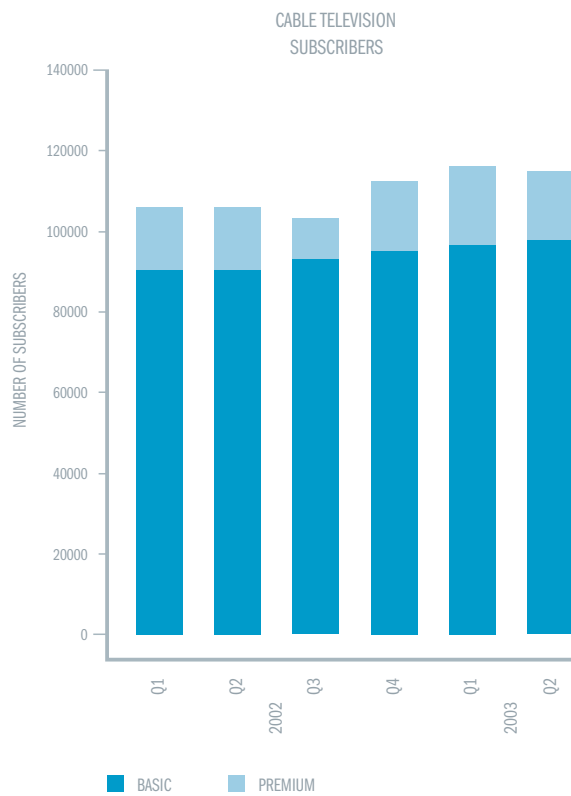
In some countries cable TV networks have been competing within the fixed telephony market. However, in spite of the very high penetration rate and the pervasiveness of the cable TV network, in Malta, there has not yet been a move towards the entry of the cable TV operator in the telephony market. At end December 2002, Malta had the highest percentage of households served by cable TV network amongst the EU accession countries, followed by Hungary.

Internet

The Internet market has been growing steadily and there seems to be further room for expansion. In comparing Malta's household Internet access penetration among EU accession countries, Malta lies third, following Slovenia and Cyprus respectively. Malta's broadband subscribers have been increasing faster than the dial-up subscribers. In fact, whilst broadband subscribers increased by 82.8% during 2002, dial-up subscribers increased by 14.5%. This indicates a higher percentage of users that are preferring faster and better-quality Internet. It may also be a result of higher usage which makes the higher costs of always-on Internet more economical than dial-up.

VOICE OVER INTERNET PROTOCOL (VoIP)

January 2003 has seen the emergence of Internet Protocol (IP) voice services in Malta. There was a swift uptake in VoIP usage during the first six months of the year, with total minutes during the month of January totalling 305,000, rising to four times the amount (1,218,000 minutes) for the month of June.



SOURCE: MCA





TELECOMMUNICATIONS

TELECOMMUNICATIONS

The telecommunications market is undergoing a period of dynamic change, following the transition from a legacy monopolistic environment to a fully liberalised market, post 1st January, 2003.

The Strategic Plan 2002 - 2005 has been significantly effective in providing the direction that has been followed by the MCA. Nevertheless, the sector remains one that is subject to rapid and ongoing market and technological changes. The main strategic thrust, undertaken by the MCA during the period under review, focused on the deliverables required to realize the first of the milestones identified in the Plan - that of achieving full liberalisation.

REVIEW OF DOMINANT MARKET POSITION (DMP) DETERMINATIONS

The designation of operators with DMP status is an extremely important regulatory first step as it triggers additional obligations on such operators, with the objective of securing a healthy competitive environment. DMP designations are published at least once a year. An operator is normally designated as a DMP when its share in the relevant market exceeds 25%. In August 2003, the MCA updated its register of operators having a Dominant Market Position in the relevant telecommunications markets. On the basis of a market analysis

carried out earlier in 2003, the following were the designations of licensed operators having a DMP in the relevant markets for 2002 : Maltacom in the fixed telephony, leased lines, and Telecommunications Transport Provider (TTP) markets; Vodafone in the mobile telephony and TTP markets; *go mobile* in the mobile telephony and TTP markets; Melita Cable in the cable TV & Radio Services and TTP markets.

PUBLICATION OF REFERENCE INTERCONNECTION OFFERS (RIOs)

Interconnection allows different telecommunications operators to establish voice and data transmission connections between each other. A RIO consists primarily of the technical, commercial, procedural and financial terms and conditions for providing interconnection services to other telecommunications operators, and, in particular, to new entrants in the market.

Following the DMP designations of Maltacom and Vodafone for the first time in May 2002, the MCA had directed both operators to publish a cost-based RIO. The MCA initiated a

1889 *Invention of the first automatic telephone switch.*

1866 *Landing of the first transatlantic cable.*

1934 *Transatlantic facsimile service inaugurated.*

comprehensive review of documentation submitted by the operators to determine the veracity of the costing methodologies used in determining the interconnection rates. In May 2003, the MCA published its Decision, citing RIOs from Maltacom and Vodafone to come into effect on 1st October 2003. Interconnection rates were reduced from 2.25c per minute to an average of 1.55c per minute for Maltacom and from 8.50c per minute to 6.85c per minute for Vodafone respectively.

DEVELOPMENTS IN THE LEASED LINES MARKET

Leased lines are an essential transport infrastructure used by service providers for the provision of voice and data communications services. In a Decision published in June 2003, the MCA designated Maltacom as having a DMP in the leased lines market in accordance with existing legislation. As a DMP leased lines provider, Maltacom has the obligation of publishing information in respect of technical characteristics, tariffs and usage conditions applicable to the provision of leased lines.

PROVISION OF DATA SERVICES

A Telecommunications Transport Provider (TTP) provides access over its infrastructure for data services. Dominant TTP operators are obliged, amongst other things, to negotiate

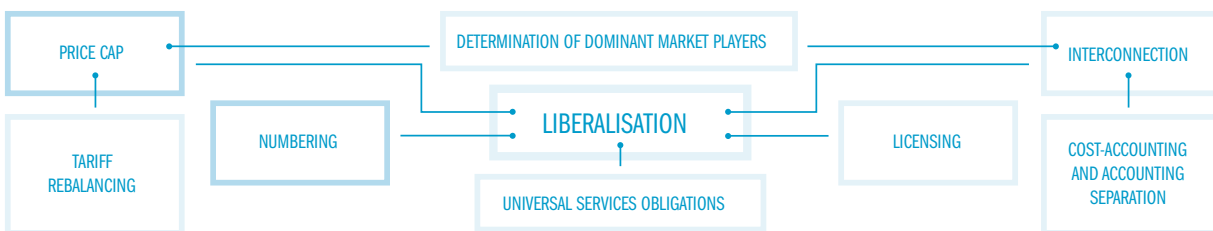
interconnection agreements with third parties requesting access to their infrastructure.

Maltacom plc, Mobisile Communications Ltd and Vodafone Malta Ltd were designated as operators having a DMP in the TTP market on the basis of their holding a voice telephony licence. Within the parameters afforded by the above regulations, Melita Cable plc was designated as a DMP in the TTP market, by virtue of the fact that its subsidiary Internet Service Provider (ISP) holds a market share in excess of 25%. In effect, Melita Cable is now also obliged to provide cost-oriented, transparent and non-discriminatory third party infrastructure access for TTP services by the 1st June 2004.

RE-DEFINITION OF UNIVERSAL SERVICES OBLIGATIONS (USOs)

The objective of stipulating USOs is to ensure the provision of a defined set of services to all end-users at an affordable price. A Consultation Paper on the subject was published in March 2002 and, after extensive consultations with the major stakeholders, the MCA published its Decision on the re-definition of USOs in July 2003.

The Decision re-defines USOs in line with extant legislative requirements as well as EU Directives. It places a legal obligation on the two dominant telephony players at the time - Maltacom and Vodafone - to provide specific Universal Services



1948 Cable TV, formerly known as Community Antenna TV or CATV, was born in the USA.

1954 Telex network created.

set out in the Decision and suggests how these could be financed. Such a Decision ensures that access to Universal Services will be available to all telecommunications services users, including those in high-cost areas and vulnerable groups.

PRICE CONTROL STRATEGY

The MCA's price control strategy for cable TV, mobile telephony and fixed telephony tariffs was laid out in its Decision, published in January 2003. The Decision stated that fixed telephony tariffs will be regulated through an RPI-X price cap mechanism. An RPI-X price cap measures the cost of a "basket" of services that attempts to capture the average usage of customers. A typical basket might include, for example, line rentals, local calls and international calls. The MCA also decided to maintain the existing regulatory controls of prior approval of retail prices in the mobile telephony and cable TV markets.

TARIFF REBALANCING EXERCISE

Tariff rebalancing is defined as the structured process of moving the retail prices for the different telecommunications services more closely in line with the underlying cost of provision. This rebalancing exercise is fundamental to the process of liberalising the telecommunications market, rendering it more attractive for competition.

Maltacom submitted an application for tariff rebalancing in November 2002. The application was premised on a one-time immediate adjustment to local and international retail fixed telephony tariffs. An analysis of the application was conducted in the light of legal requirements where a dominant fixed telephony operator is obliged to adopt cost-oriented and non-

discriminatory tariffs. In February 2003, the MCA officially informed Maltacom that their proposed tariff rebalancing application was not approved.

Subsequently, in May 2003, the MCA published its Consultation Paper "*Introduction of an RPI-X Price Cap mechanism on certain telecommunications services*" proposing the establishment of a price control mechanism on Maltacom's fixed telephony services retail tariffs. In order to facilitate tariff rebalancing, a joint steering group consisting of MCA and Maltacom appointees was set up to moot options and scenarios for rebalancing Maltacom's retail tariffs over a three-year period and to evaluate the underlying cost structures. The MCA's Decision is expected to be published during the first quarter of 2004.

REQUEST FOR REVISION OF TARIFF PACKAGES - MELITA CABLE PLC

In August 2002, Melita Cable submitted an application for an increase in its tariffs. This application was turned down by the MCA, in November 2002, on the basis that the proposed tariffs were not supported by the requisite costing information.

In May 2003, Melita Cable submitted a fresh proposal to revise its tariff packages, based on a detailed cost accounting model in line with the MCA's directions. The MCA conducted an examination of this model in the light of Melita Cable's obligations according to law. In June 2003, the MCA approved Melita's request, subject to certain terms and conditions.

DIVESTMENT OF MALTACOM'S SHARES IN VODAFONE MALTA LTD.

When Maltacom launched *go mobile* in December 2000, it was obliged to divest itself, in terms of competition regulations, of the shares it held in Vodafone. The MCA continued to be an active intermediary in the process, leading to the eventual shedding of this shareholding. An agreement was finally reached on an equitable price in August 2003, thus bringing satisfactory closure to this long-outstanding issue.

OPERATION OF A SECOND INTERNATIONAL GATEWAY

The liberalisation of international gateway services created a competitive market for international voice and IP services. Vodafone declared its interest in providing international telecommunication services between Malta and other countries. This project will undoubtedly increase data bandwidth availability and international voice and data capacity, by virtue of a high-capacity fibre-optic link that is expected to be operational by summer 2004.



SOURCE: VODAFONE MALTA plc

LEGAL INTERCEPTION CAPABILITIES

In Malta, the Security Service is the competent authority responsible for legal interception of electronic communications, while the MCA is the competent authority responsible for specifying the equipment and data that operators must furnish to the law enforcement agency under current legislation.

To date, proprietary systems are being provided by each telephony equipment vendor. This is not a particularly cost-effective arrangement and continuing down this path could lead to a situation where the Security Service is not able to carry out its mandate. The two agencies are therefore reviewing, together with a consultant team of experts, the capabilities of the systems currently in use. The aim of the project is to secure a coherent set-up for the Security Service, that is more cost-effective and less dependent on operators. A Request for Information (RFI) has been made and once this has been processed, an invitation to tender will be issued.

THIRD GENERATION CELLULAR TECHNOLOGY

Roll-outs of third generation (3G) cellular mobile phone systems have begun to occur worldwide. In addition, regulatory obligations, imposed by the European Commission, require member countries to have in place a well-defined Universal Mobile Telecommunications Systems (UMTS) strategy by the end of this year. These considerations have prompted the Ministry for Transport and Communications, in conjunction with the MCA, to initiate a project with the specific objective of devising an appropriate policy for government. This policy will seek to maximise spectrum allocation revenues to enable launching of the requisite networks.

MARITIME COMMUNICATIONS SERVICES

The basic concept of a Global Maritime Distress and Safety System (GMDSS) is that search and rescue authorities, as well as shipping in the vicinity of a ship in distress, can be rapidly alerted and deployed to assist in a co-ordinated operation.

Maritime communications have historically been provided by Maltacom. The Consultation Paper on Universal Service Obligations (USOs), issued in 2002, stated that Maltacom would be freed from its commitment of providing maritime communications services since these are incompatible with its core business. With Maltacom's legal monopoly coming to an end on the 31st December 2002, it was vital that an alternative provider was identified and a smooth handover carried out, to ensure continued availability of such services. In view of this, in May 2003, a Task Force was set up, bringing together experts from the Armed Forces of Malta (AFM), the Malta Maritime Authority (MMA) and the MCA.

On conclusion of its work, the Task Force presented a report of its findings and a proposed transition, to a Steering Committee composed of the heads of the agencies involved.

GUIDELINES ON VOICE OVER INTERNET PROTOCOL (VoIP)

Throughout 2002, the MCA received several enquiries as to the treatment of the packet-switched voice services (exemplified by VoIP). At that stage, Maltacom still enjoyed a monopoly over telephony services which are rigidly defined at law. The MCA issued a Consultation Paper in September 2002 to obtain feedback from the market as to how it intended to treat the various service types. From this consultation, and from looking



SOURCE: GO MOBILE

at approaches taken by regulators in other jurisdictions, it was concluded that voice services that traverse the public Internet could not be considered as telephony but rather as a data service and would be regulated accordingly.

BITSTREAM ACCESS

Bitstream access refers to the situation where an incumbent operator installs a high speed access link to a customer's premises and then makes this access link available to third parties, to enable them to provide high speed services to customers. As a wholesale product, bitstream access is being considered a key regulatory mechanism for permitting alternate operators and new entrants to provide broadband solutions in competition with infrastructure owners and incumbents. Within European peer network groups, the MCA has contributed to the formulation of a Consultation Paper on the subject. The MCA is also giving due consideration as to how bitstream access can be applied within the local broadband environment. This initiative forms part of the MCA's overall strategy for broadband.

BROADBAND STRATEGY

The MCA considered that, given the increasingly high profile that the development of broadband is attracting as a major EU objective, it should be included as an individual strategic thrust insofar as those aspects (largely supply side) which are direct MCA responsibilities. During the year under review, the MCA focused on facilitating the proliferation of broadband, in line with the eEurope mission and objectives, via the development of the necessary regulatory environment.

CARRIER SELECTION FACILITIES

In August 2002, the MCA published a Consultation Paper with the objective of obtaining the views of operators and other interested parties on the phased introduction of Carrier Selection (CS) and Carrier Pre-Selection (CPS) facilities in Malta. A final decision is expected by the end of 2003.

LITIGATION

The first half of the year under review saw a substantial increase in litigation both before the Telecommunications Appeals Board and before the Law Courts, which subsequently tapered off in the last half.

Telecommunications Appeals Board (TAB)

Ten new appeals against various Decisions issued by the MCA were filed, of which eight were presented by Maltacom, one by Mobisle Communications and another by Melita Cable.

Law Courts

First Hall Civil Court

Two applications for the issue of warrants of prohibitory injunction were filed by Maltacom and Vodafone respectively against the MCA and the Minister for Transport and Communications. Both warrants related to proceedings the MCA had initiated for the possible imposition of administrative fines on operators for alleged non-compliance with Decisions issued. In both instances the Court ultimately refused the applications made.

Three separate lawsuits were filed by Maltacom, contesting the MCA's Decisions. A constitutional application was also filed by Maltacom, contesting, amongst others, the legality of Legal Notice 231 of 2002 relating to administrative fines and sanctions. This constitutional application was withdrawn following settlement on various issues and the withdrawal of Maltacom's letter relating to the blacklisting of Vodafone.

Court Of Appeal

The Authority filed two appeals contesting two Appeals Board's Decisions. The appeal on blacklisting was subsequently dropped following Maltacom's withdrawal of its constitutional application and attendant conditions.

Maltacom filed another appeal contesting the Appeals Board's ruling further to the MCA's Itemised Billing Decision.





eCOMMERCE

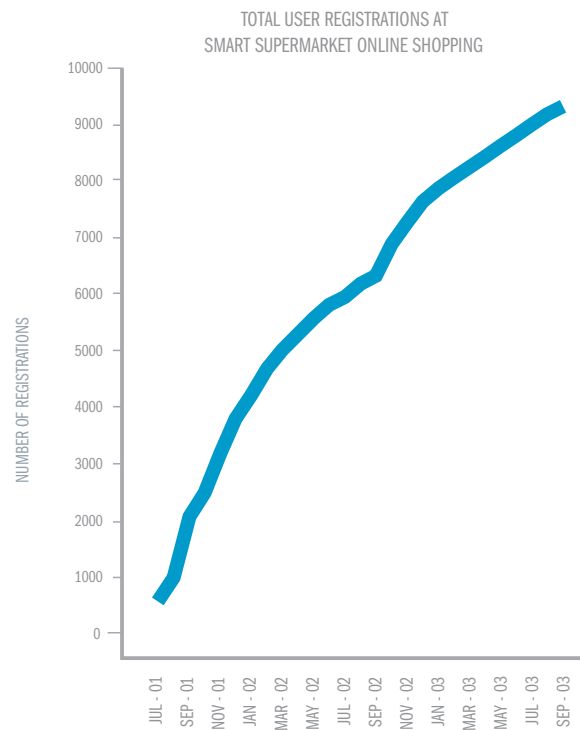
eCOMMERCE

The eCommerce Act, brought into force in May 2002, is an enabling Act intended to facilitate, rather than impose, rules on electronic commerce. It is a technology-neutral piece of legislation, intended to withstand the test of time, in the face of ongoing technological change.

Given its objectives, awareness of the opportunities afforded by this Act is critical. Towards the end of 2002, articles were published in the local media, aimed at raising exposure levels. The articles dealt with how the eCommerce Act addresses the legal issues posed by eCommerce, the trends related to the use of commercial communications as well as the rights and obligations of key players in eCommerce.

ASSISTANCE FOR THE SETTING UP OF REGULATORY STRUCTURES FOR THE IMPLEMENTATION OF THE eCOMMERCE ACT

In May 2003, the MCA submitted a project that qualified for assistance under the General Technical Assistance provision of the 2003 National Pre-Accession Programme for Malta. This project will be undertaken during the last quarter of 2003 and will assist the MCA in fully adhering to the obligations emanating from the Electronic Commerce Directive with the aim of achieving an increased uptake of information society services in Malta, and establishing the capacity to supervise Electronic Signatures Certification Service Providers according to the Electronic Signatures Directive.



SOURCE: ACROSSLIMITS LTD.

1963 International Direct Dialling introduced.

1969 The Internet, originally called ARPANet, began as a military academic network in the USA.

The MCA proposes to introduce a light-handed approach to the regulation of these sectors, which will focus mainly on ensuring that customers are in a position to make informed choices with regard to service providers based in Malta. It also aims to ensure that regulation introduces the necessary safeguards and contributes towards increased levels of trust in service providers.

As part of the exercise, the MCA is reviewing the overall local regulatory regime applicable to information society service providers in general and specifically, Electronic Signature Service Providers. The MCA has already identified areas where this regime needs to be further developed. In this regard, it will be making recommendations to government for the introduction of subsidiary legislation to the eCommerce Act.

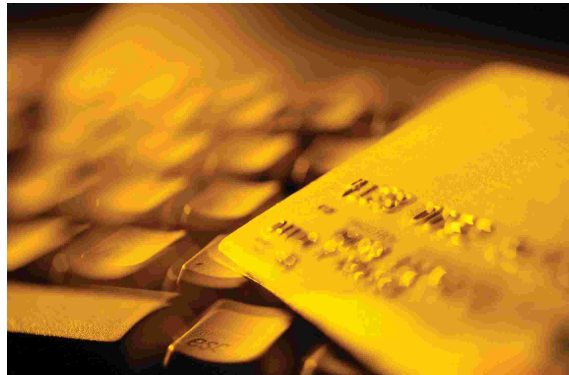
The MCA is also developing its strategy for ensuring effective implementation of the regulatory framework. It is considering, for example, the introduction of notification schemes for Information Society Service Providers. Such a scheme would allow the MCA to fulfil its supervisory duties without placing any regulatory burdens on service providers. Once its strategy has been developed, the MCA plans to submit it to public consultation.

During 2004 the MCA will develop the internal structures, processes and procedures required to fulfil the regulatory functions associated with the supervision of Information Society Service Providers. These internal structures will cater for day-to-day supervision and complaints handling, as well as enforcement.

ACTION PLAN - eCOMMERCE

The work initiated by the MCA and the eMalta Commission was folded into the activities associated with the development of a national strategy for information technology being championed by the Ministry for Information Technology and Investment. The MCA will continue to contribute towards the development and implementation of a comprehensive and cohesive eCommerce strategy for Malta through its participation in the National Information Society Council (NISCO).

The recently appointed Council brings together the major ICT stakeholders. Besides helping to implement the national ICT strategy, the Council will be devising specific initiatives aimed at promoting the information society. In so doing, it will also serve as a forum to analyse major information society themes.



SOURCE: ITU

1970 *Digital Technology introduced.*

1973 *First public demonstration of a call from a handheld wireless phone.*





POSTAL SERVICES

POSTAL SERVICES

The MCA Strategic Plan highlights two main objectives with regard to the postal services sector: attaining a liberalised environment that is capable of sustaining competition among the respective players and ensuring that residential and business consumers get the best value for money, coincident with addressing social inclusion aspects.

The means of achieving these objectives is through the building of the regulatory framework for postal services. This will gradually take place via the implementation of a series of co-ordinated tasks. These can be summarised as follows:

- identifying those services that qualify as postal services and are therefore subject to regulation;
- defining the Universal Service;
- determining the reserved area and the principles governing the provision of non-reserved services;
- ensuring quality in the provision of postal services, and
- establishing principles governing transparency of accounts, and non-discrimination in tariffs.

An important element in the new legislation is the concept of Universal Service Provision in the postal services market.

The operator designated as the Universal Service Provider (USP) is granted exclusive rights to provide certain services termed 'reserved services' relating to the clearance sorting, transport and delivery of articles of inland correspondence, cross-border and direct mail. The designated USP is essentially the incumbent postal services provider, and in Malta this role

is carried out by Maltapost plc. The Postal Services Act grants the power to the MCA to prescribe quality standards for inland mail. The legislation also envisages that the USP has to ensure that prices are geared to costs and are transparent and non-discriminatory.

Another critical element of the regulatory framework is the licensing regime. The MCA is considering possible options in this regard. In essence, the MCA is proposing that the distribution of postal articles on a commercial basis will require a licence or authorisation while the distribution of non-addressed mail will not.

FIRST CONSULTATION PAPER ON POSTAL SERVICES

In December 2002, amendments were made to the Post Office Act (1975) to align it to the EU Postal Services Directive. The main thrust of the Act, now titled the "Postal Services Act", as amended, was to establish the MCA as the postal services regulator. These amendments were brought into force on the

1979 *Integrated Services Digital Network (ISDN) concept defined.*

1989 *Commercial access to the Internet begins.*

1st June 2003. As from that date, the MCA became responsible for regulating the postal services sector.

In line with its new regulatory responsibilities, in May 2003, the MCA published a Consultation Paper entitled *"Introduction of a new regulatory regime for the Postal Sector"*. The Consultation Paper aimed, on the one hand, to gather information on the sector at this preliminary stage. It also served the purpose of informing the public on the MCA's work programme for the sector, and its perceived direction in respect of the different policy areas to be addressed. It is felt that this dual purpose has been, to a large extent, achieved. It is encouraging to note, from the responses received, that operators are showing an interest in the gradual liberalisation of postal services, as well as an appreciation of the MCA's role and mandate.

From the Consultation feedback, it transpired that there is an overall concern about the need to have a regulatory framework for the sector, with a licensing framework as the primary tool. Viewpoints as to what shape the licensing framework should take, however, vary distinctly. It is the MCA's intention that the regulatory framework should be aimed at gradually opening the sector to competition while ensuring a universal service.

ASSISTANCE FOR THE SETTING UP OF A REGULATORY FRAMEWORK

In February 2003, the MCA submitted a project that qualified for assistance under the General Technical Assistance provisions of the 2003 National Pre-Accession Programme for Malta. The specific objectives of the project were to establish a licensing regime for Malta that is in line with the provisions of the relevant legislation; to establish quality of service standards; to determine the USP and establish the Universal Service; to

introduce a system for accounting separation and cost accounting; to assist both in the drawing up of a tariffs regime, and in the consultation process, until the publication of the MCA's Decision.

It is envisaged that the work programme will be achieved through a twinning arrangement with a regulatory authority from an existing EU Member State. Such an arrangement would be beneficial to the MCA in that it would result in a knowledge-transfer exercise, thanks to the field experience that the selected EU partner would bring into play.

REVIEW OF SUBSIDIARY LEGISLATION - POSTAL SERVICES ACT

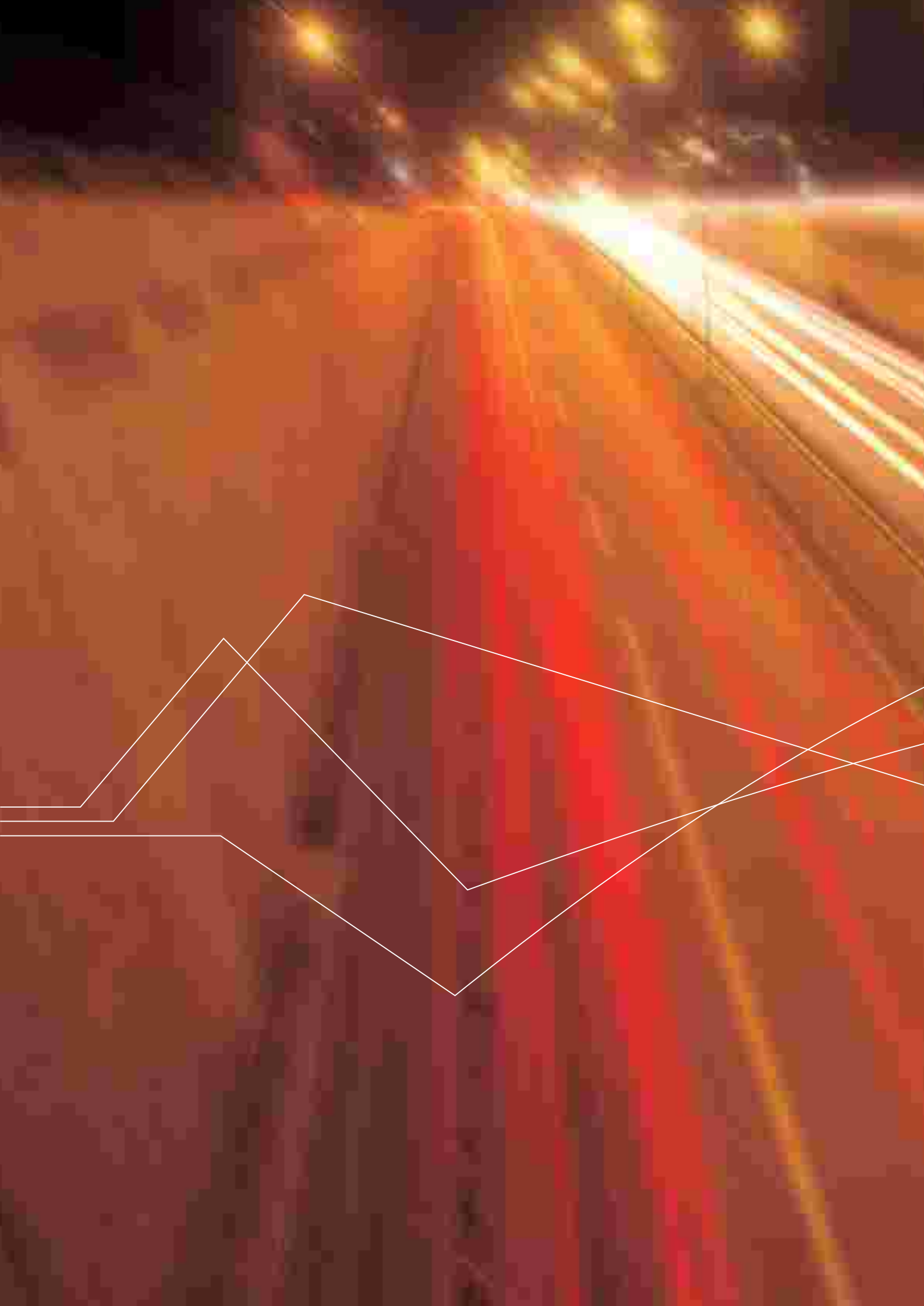
The extant subsidiary legislation under the Postal Services Act is currently under review. The MCA will be making recommendations to the Minister for Transport and Communications regarding any amendments that may be required to align the subsidiary legislation to the Primary Act.

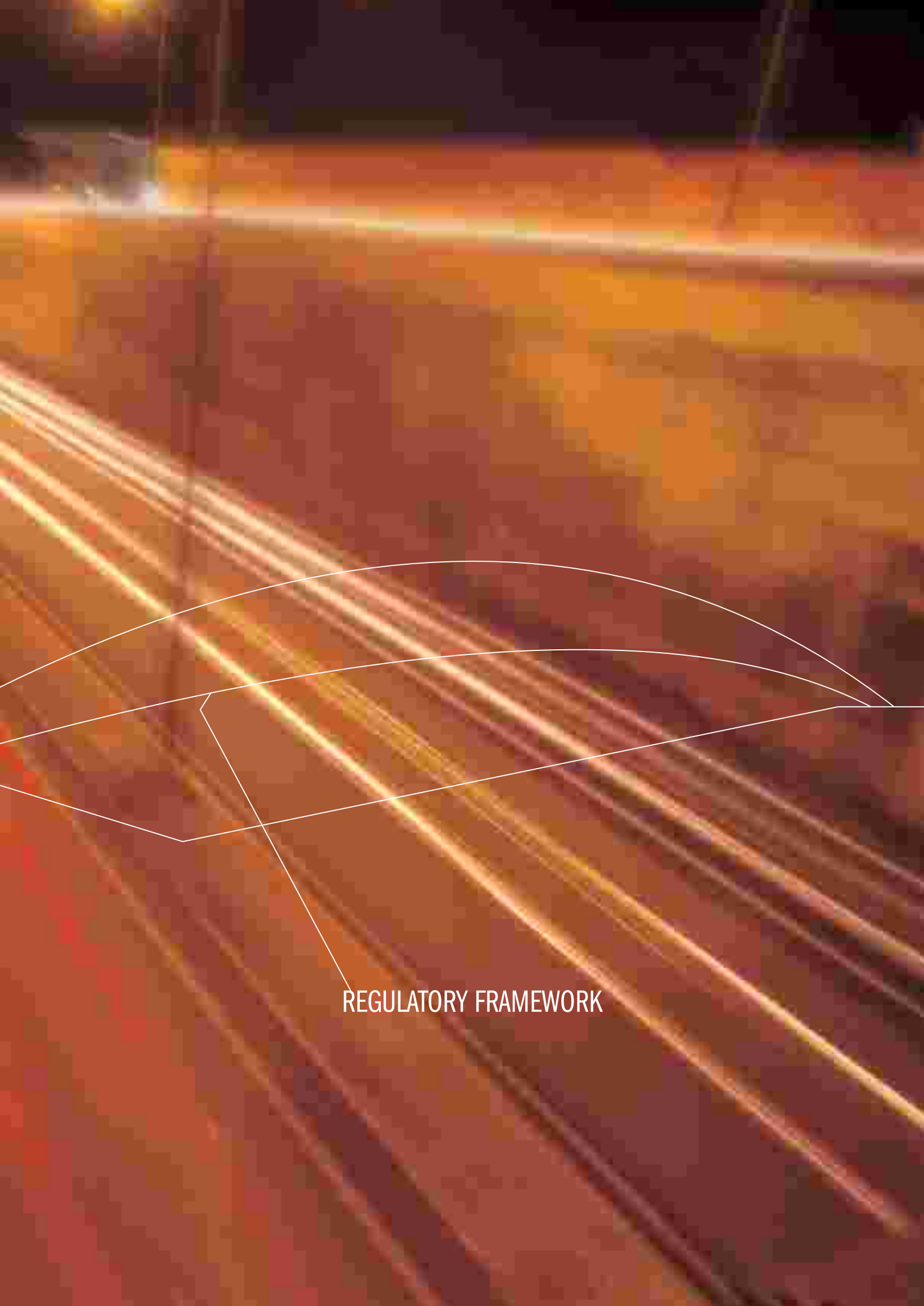


SOURCE: MALTAPOST plc

1991 *First European roaming mobile call made.*

1992 *First SMS sent.*





REGULATORY FRAMEWORK

REGULATORY FRAMEWORK

During the year under review, the MCA continued to develop the regulatory infrastructure. This exercise is an essential component in an environment that is moving from monopoly to open competition.

Unlike an open competitive environment, (which is subject to “*ex-post*”, or retroactive, regulation by the Competition Authority), telecommunications and postal services demand “*ex-ante*” regulation, based on anticipated changes, targeted at ensuring that incumbent operators, who still have a substantial advantage over new entrants, are restrained from abusing of that advantage, while still enjoying fair competition.

It is crucial that the MCA continues to build this regulatory environment by implementing vital components, in line with the current Maltese and EU legal framework, such as:

- securing an effective General Authorisations framework that replaces the current individual licensing regime;
- securing an effective interconnection regime;
- introducing carrier selection facilities;
- introducing number portability;
- designating USOs;
- implementing Local Loop Unbundling (LLU);
- reviewing tariffs via price caps and other mechanisms;
- setting and ensuring adherence to quality of service.

Aspects of these major components have already been amplified elsewhere in this report.

LICENSING REGIME

The present licensing regime was not flexible enough to cater for a liberalised environment and one that is consistently moving towards technology-neutrality. The new Acquis is also unequivocal in stating that a licensing regime should not, in any way, constitute a barrier to entry. The MCA is proposing a new licensing regime that is fully based on a system of General Authorisations, as against individual operator licensing. The new regime is tailored on simple, technology-neutral categories and structured to facilitate market entry by way of easing the administrative and financial burdens involved. The new licensing regime will be fully compliant with the EU electronic communications framework. This is a significant sectoral policy review initiative, in line with stated liberalisation commitments, and EU requirements. The MCA has forwarded

1994 *Electronic transactions become a novelty.*

1997 *First public TV station goes on air with a digital television (DTV) system.*

its recommendations to government, as the basis for the eventual policy direction to be taken by the latter, following consultations with the MCA itself, as well as with sector stakeholders and the general public.

IMPLEMENTATION OF THE NEW EU ELECTRONIC COMMUNICATIONS FRAMEWORK

Following the report of an interdepartmental Task Force, recommendations to government are being finalised. It is envisaged that substantial changes to the existing legal regime will be introduced by government, including notably new norms dealing with General Authorizations, access to, and inter-connection of, electronic communications, Universal Service and users' rights, and radio spectrum. It is envisaged that these changes will be in place by the second quarter of 2004.

AMENDMENTS TO THE TELECOMMUNICATIONS ACT AND SUBSIDIARY LEGISLATION

Amendments, enacted in December 2002, to the Telecommunications (Regulation) Act included new provisions defining the grounds for the removal of the members of the Telecommunications Appeals Board and an increase in the fines that may be imposed in case of certain criminal offences under the Act.

Various amendments were made to the Telecommunications General (Services) Regulations including notably the deletion of the requirement that an operator has to be listed and traded in the Malta Stock Exchange and the extension of the right to appeal Decisions of the Authority taken under these

Regulations. The Cable Systems (General) Regulations were amended. The Stock Exchange listing requirement was deleted, and the right of appeal also extended. The provisions dealing with Universal Service Obligations were deleted, whereas a new licence for operators providing cable television services was included. The General Authorisations (Private Telecommunications Systems and Services) Regulations were enacted establishing a simple notification procedure for those operating a private telecommunications system or service.

Other Regulations enacted during this period include the Telecommunications (Unbundled Access to the Local Loop) Regulations, the Telecommunications (Leased Lines) Regulations, the repeal of the Telephone Service Regulations, the repeal of the Malta Internet Exchange Regulations, and amendments to the Internet and Other Data Networks (Service Providers) Regulations and to the Interconnection (Obligations and Rates) Regulations.

DATA PROTECTION IN TELECOMMUNICATIONS

The subject of data protection and privacy is of key interest to the telecommunications sector, as this sector not only has responsibilities associated with the processing of personal data of subscribers, users and employees, but is also entrusted with ensuring the confidentiality of electronic communications.

In January 2003, four separate Legal Notices were enacted to regulate different aspects of data protection in telecommunications. The responsibility for enforcing these laws falls within the remit of the MCA and of the Commissioner for Data Protection who, in joint consultation, administer different parts of the relevant legislation.

1999 First phase of testing for VoIP services successfully completed.

1999 Finland gives out the world 's first 3G mobile technology licences.

WORKING FOR CONSUMERS

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

COMPLETION OF FIRST PHASE OF ELECTRO-MAGNETIC FREQUENCY (EMF) AUDIT PROJECT

EMF emissions remain a very topical issue in the electronic communications sector. The MCA has continued to maintain its commitment towards ensuring that appropriate standards are respected.

EMF & Human Health – Updated Report

In a bid to address the public's need for objective information on EMF emissions, in 2000, the government had commissioned a study to determine whether emissions by mobile base stations pose a risk for human health. The team reported that there was no scientific evidence of increased public health risks, provided that exposure limits were adhered to and respected.

In 2002, the Scientific Advisory Committee, tasked with advising government on EMF and human health, revisited its original

report. The Committee accepted the scientific validity of the International Commission for Non-Ionising Radiation Protection (ICNIRP) exposure limits. The ICNIRP is the expert advisory group to the World Health Organization. It noted that regulatory measures need to be extended to take into account not only emissions from mobile phone base stations but also TV or radio transmitting antennae.

Monitoring of Mobile Phone base stations

The monitoring of mobile phone base stations continued throughout 2002 and November marked the end of the first phase of the audit programme. Readings, taken from the 53 base stations audited that year, have shown that the average level of electro-magnetic radiation emitted, constantly registered significantly below five percent of the recommended public exposure limit stipulated by the ICNIRP. The tests are being carried out using ICNIRP- calibrated equipment. The audit programme started last year and is spread over a three-year period. All results are available from the MCA website.

On-Demand Testing

In response to requests for *ad hoc* monitoring of base stations, the MCA, in collaboration with the Malta National Laboratory, in July 2003, launched “on-demand” EMF exposure measurement services.

These services are being offered, against a token payment, at the request of anyone, living in the vicinity of a mobile phone base station, who wishes to test the radiation emission levels. Take-up, to date, has not been as high as anticipated which may be indicative of public reassurance in light of the audit results.

INTERNET STATISTICS BY CONNECTION (DECEMBER 2002)



MISREPRESENTATION OF VoIP SERVICES

Following media reports about the availability of cheap international call services in the new year, the MCA felt it expedient to reiterate publicly that VoIP services offered by ISPs are integrated Internet services and cannot therefore be marketed as “telephony” since the legal criteria required for classification, as such, are not met. VoIP services typically use the public Internet and can therefore suffer from degradable conditions in the quality of voice conservation in transmission.

The MCA is committed to ensuring that VoIP services are marketed in an appropriate manner without false or exaggerated claims being made as to service quality or reliability. Adherence to relevant Codes of Practice will be closely monitored to deliver a substantial degree of consumer protection.

BANDWIDTH RESTRICTIONS

In the first quarter of 2003 a number of factors contributed to a significant deterioration in the performance levels of broadband Internet services. On investigation, the MCA found that most ISPs had introduced bandwidth management practices unilaterally without the required notification to subscribers.

The MCA directed that ISPs perform bandwidth management in a way that ensures the most equitable distribution of available bandwidth and required them to review terms and conditions of service in line with the ISP Code of Practice. ISPs were also exhorted to review marketing claims that may raise user expectations to unrealistic levels, especially with regard to access speeds.

INTRODUCTION OF FREE ITEMISED BILLING FACILITY

The MCA's Decision on Itemised Billing was, for a number of months, the subject of an Appeal filed by Maltacom before the Telecommunications Appeals Board. In May 2003, the Appeals Board found in the MCA's favour and stipulated that Maltacom had an obligation to provide its subscribers with an itemised bill at no extra charge. Although some of the legal processes contesting this ruling are still pending, Maltacom has written to subscribers asking them to indicate their billing preference.

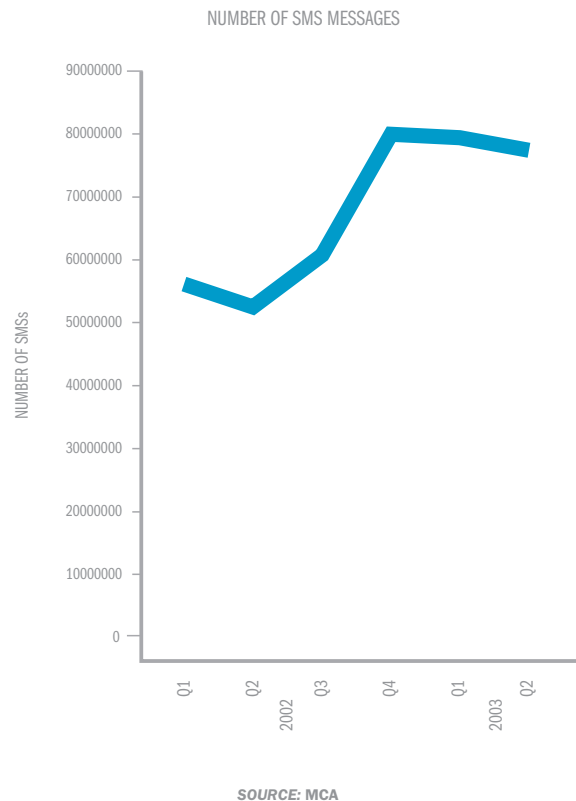
PROVISION OF DIRECTORY SERVICES

In July 2002, the MCA published its Decision on Directory Information Services, which obliged Maltacom to offer subscribers, amongst others, a directory listing and a printed directory. The Decision also encourages mobile operators to collect directory information from pre-paid users. Maltacom contested this Decision before the Telecommunications Appeals Board and the ordinary courts. These proceedings are still pending.

SHORT MESSAGE SERVICE (SMS) CODE REGULATION

Value-added SMSs - the use of SMSs to provide content services to users - have recently seen a significant increase in popularity. This required the MCA to develop a suitable administrative framework to ensure that consumers would be in a position to differentiate between normal SMSs and those which attract a premium charge. After public consultation, the MCA announced an update to the National Numbering Plan which has made available six to eight digit ranges - with leading

digits 50 - to mobile telephony service providers for use with Value-Added SMS services.



HEALTH MONITORING SERVICES

Health status monitoring services for the elderly or for people with special needs have, for the last 12 years, been provided by Maltacom, in conjunction with the Department for the Care of the Elderly. These services are better known locally as Telecare Services. Up to 2002, Maltacom provided these facilities as a Universal Service. As from 1st January 2003 Maltacom was freed from its obligation to provide this service

at no charge. Following the liberalisation of the market, while it now falls outside the scope of applicable Universal Services, Maltacom is required to provide these, subject to negotiation of suitable terms with government.

In this regard and in line with government's commitment to continue providing such services, the MCA sought to identify potential alternative service providers. The MCA has presented a report mooted a number of options to the Ministry for Social Policy.

BROADBAND STRATEGY WORKSHOP

One of the MCA's strategic thrusts is facilitating the proliferation of broadband. Broadband is a relatively cheap and simple way of ensuring adequate interconnection for residential, government and business communities to be able to interact efficiently and to the mutual benefit of all parties. In May 2003, the MCA organised a strategy workshop to discuss the issues related to the roll-out of broadband as well as to bring all the stakeholders up to speed with the proposed regulatory instruments. Healthy discussion was generated and there was general consensus that the provision of broadband is key to the development of the knowledge economy in Malta.

TELECOMMUNICATIONS FORUM

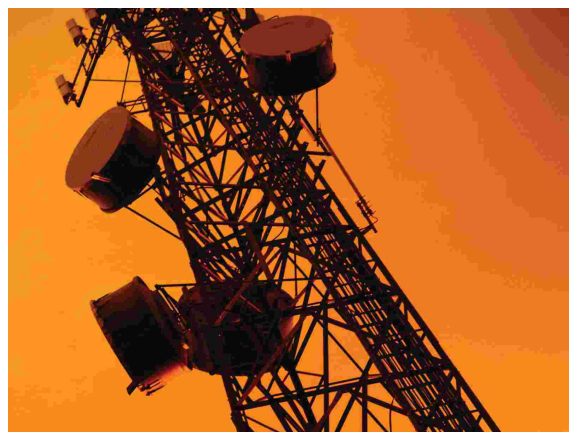
In December 2002, due to the imminent full liberalisation of the telecommunications sector, as well as the new EU regulatory framework for electronic communications, the MCA organised a forum for telecommunications operators and service providers to present its proposed roadmap for a new authorisation regime to be introduced over the next two years.



The Minister for Transport and Communications, the Hon. Censu Galea, delivering the opening address at the Telecommunications Forum
SOURCE: DEPARTMENT OF INFORMATION, MALTA

DATA PROTECTION SEMINAR

The MCA is currently drawing up a proposed implementation schedule for the Legal Notice dealing with Data Protection, issued under the TRA. As part of this exercise, the MCA organised a half-day workshop for the operators in the telecommunications sector. This was intended to elaborate on the interpretation of the sector specific data protection regulations, and to provide a forum for operators to identify issues related to the compliance with these regulations.



SOURCE: MALTACOM plc

INSIDE MCA

During 2003 the MCA continued to provide developmental opportunities to its staff in line with its human resource policy that focuses on staff development through practical experiences in consonance with the requirements of the MCA's business strategy.

In January 2003, one of the Legal Advisers followed a two-month intensive training programme, dealing with International Communications Services in Japan. The scholarship was made possible under the Technical Assistance Bilateral Agreement between Japan and Malta, through the Japan International Co-operation Agency (JICA).

RELATIONSHIPS WITH OTHER NRAs

Two Regulatory Analysts were seconded to the Office of the Director for Telecommunications Regulation (ODTR) in Ireland, now known as Comm Reg, for successive periods of six weeks between August and November 2002, attached to the Marketing and the Finance & Regulatory Accounts Departments respectively. Good working relations with the Finnish Authority FICORA led to a "hands-on" training opportunity for the Chief Legal Adviser. Items covered focused essentially on legal issues that included ensuring compliance, handling of disputes as well as implementing the new General Authorisations regime. In July 2003, the MCA Chairman accepted an invitation extended

by his Slovenian counterpart to exchange ideas on how to tackle spectrum management responsibilities.

WIRELESS TELEGRAPHY DEPARTMENT (WTD) MIGRATION

As a prospective EU member, Malta is committed to harmonise its legislation with the new EU communications regulatory framework which was implemented in EU Member states in July 2003. Malta is required to adopt this framework by end 2004. To this end the Minister for Transport and Communications appointed a cross-departmental Task Force to analyse the implications of the implementation of the new EU directives relating to electronic communications. The Task Force noted that, under current local legislation, the responsibility for the regulation of radio communications was split between the MCA and the WTD. The Task Force recommended that it would be more appropriate for these functions to be performed by one regulatory authority. Government endorsed this recommendation and it was agreed that all relevant radio-communications functions and activities, currently carried out by the WTD, should be migrated to the MCA.

An Operations Review was commissioned to review the present functions carried out by this Department and make recommendations for the migration of these and associated human resources to the MCA or other Government departments or entities as appropriate. The Operations Review recommended that the statutory responsibility for radio regulatory functions, currently performed by WTD, be transferred to the MCA. It also recommended that some of these functions could be performed on behalf of the MCA by other entities in line with government policy which advocates one-stop-shop services. The Operations Review was concluded in July 2003 and its recommendations were approved by government. This migration process is currently underway.

PARTICIPATION IN INTERNATIONAL FORA

The Independent Regulators Group - IRG - was established in 1997 by a group of European telecommunications National Regulatory Agencies (NRAs) to share experiences and points of view on issues of common interest. It has also produced a number of Principles of Implementation and Best Practices (PIBs) which outline a non-binding common position of the members. On 1st January 2003, the independent regulators of the accession countries, including Malta, were invited to join the IRG.

In the course of its mission, IRG has set up a number of work-groups dealing with topics ranging from Regulatory Accounting to Market Data Analysis and from Fixed Networks to End Users. In 2003, one of the key areas of the IRG work programme has been the implementation of the new regulatory package. The MCA is participating actively in these work groups, and this included hosting a meeting of the Regulatory Accounting Work Group in July 2003.

The MCA is also a member of the European Regulators Group (ERG). The ERG is a formal body constituted by the European Commission in accordance with European Parliament and Council Directives. It is an independent body providing policy and advice in the electronic communications field and is composed of the heads of the relevant national authorities. It is the interface between NRAs and the European Commission, advising the Commission in consolidating the internal market for electronic communications networks and services. The ERG aims at ensuring a consistent implementation of the new regulatory framework.

PUBLICATION OF A BIENNIAL MARKET REVIEW

In January 2003, the MCA published its first Telecommunications Market Review for the period April - September 2002. The report gives an overview of the telecommunications market in terms of regulatory development including market statistics and tariff comparisons. The review analyses the fixed and mobile telephony, cable TV and Internet services markets. The second report, published in June, covered the period October 2002 – March 2003. The MCA will continue to produce the Market Review on a biennial basis.

MCA WEB SITE

In a bid to maintain the currency of the MCA's website, enhancements were carried out, that included re-organising the navigation menu for better usability, redesigning the news publishing system and creating an automated mailing list advising registered users of site updates. Interest in the website has continued to grow. Hits between January 2002 and January 2003 registered an upsurge of 221%.

MALTA EMPLOYERS' ASSOCIATION MEMBERSHIP

In March 2003, the MCA was invited to form part of the Malta Employers' Association (MEA). The MEA is a constituted body, bringing together employers from all sectors of industry and commerce in Malta. It is an Association dedicated to the promotion of healthy industrial relations by providing members with a range of advisory services enabling them to be better informed about their rights, and the obligations of their employees.

RECRUITMENT DRIVE

As part of its continuing capacity-building effort, the MCA sought to recruit personnel to fill a number of positions. These calls generated significant interest and resulted in the engagement of three additional staff members.

TRAINEESHIP

In Summer 2003, the MCA entered into a traineeship agreement with the International Association for the Exchange of Students for Technical Experience (IAESTE) for a period of two months.

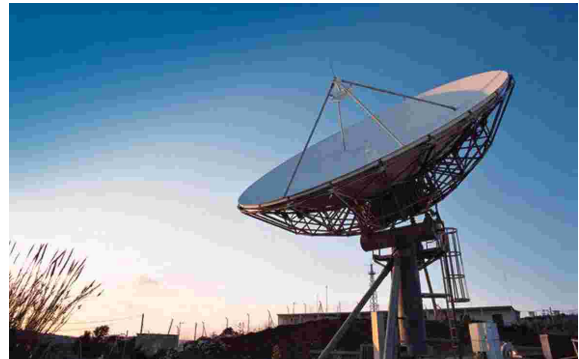
PERFORMANCE MANAGEMENT PROGRAMME CYCLE

Being a small organisation, effective team dynamics can have a marked impact on the broader MCA performance. The programme, adopted by the MCA for the first time last year,

ensured a balance between individual performance targets and the attainment of the MCA's corporate goals. An innovation to this year's cycle saw the inclusion of peer reviews within the framework of broader assessment criteria.

INFORMATION TECHNOLOGY SERVICES

As firm believers in employee empowerment through information availability, the MCA continued to invest in a leading-edge IT environment. To boost performance and availability, a new high-performance server was deployed. To further improve the efficiency and responsiveness of IT support, a web-based Trouble Ticketing system was also developed.



SOURCE: MELITA CABLE plc

MEMBERS' REPORT

GENERAL

The Malta Communications Authority was established by virtue of the Malta Communications Authority Act, Cap 418 for the purposes of carrying out the functions defined in the said 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 1st January 2001. These financial statements cover the financial year ended 30th September, 2003.

RESULTS

During the year income from telecommunications licensing amounted to Lm1,881,655, and is all being transferred to the Government. Contributions amounting to Lm410,522, receivable from the Government of Malta were allocated against expenditure which amounted to Lm517,954. This resulted in a deficit for the year of Lm98,885. This deficit has been deducted from the general fund such that, at the end of the year, the deficit in the general fund amounted to Lm46,488.

MEMBERS

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

Mr. J. V. Tabone (Chairman)

Dr. R. Balzan

Mr. C. Grima

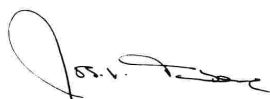
Mr. A. P. Pavia

Mr. M. Portelli

AUDITORS

Ernst & Young have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the Members' Meeting.

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



J. V. TABONE

Chairman



C. GRIMA

Member

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

DATE: 11 November 2003

AUDITORS' REPORT

to the Members of the Malta Communications Authority

We have audited the financial statements of Malta Communications Authority for the year ended 30 September 2003 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes set out on pages 42 to 51.

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

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

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as of 30 September 2003 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Malta Communications Authority Act, 2000.



Ernst & Young

Certified Public Accountants and Auditors

Sliema SLM 15

MALTA

DATE: 11 November 2003

INCOME AND EXPENDITURE ACCOUNT

for the year ended 30 September 2003

		2003	2002
		Lm	Lm
Income	Notes		
Telecommunications licensing	2	1,881,655	1,814,502
Government contributions	2	410,522	396,013
		<hr/>	
		2,292,177	2,210,515
 Expenditure			
Staff costs	3	(208,814)	(182,610)
Depreciation		(28,209)	(26,589)
Operating and administrative expenses		(280,931)	(248,564)
		<hr/>	
 Operating Surplus	4	1,774,223	1,752,752
Interest receivable	5	8,547	21,485
		<hr/>	
 Transfers to Government	6	(1,881,655)	(1,814,502)
		<hr/>	
Deficit for the financial year		(98,885)	(40,265)
		<hr/>	

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 2003

		2003 Lm	2002 Lm
ASSETS			
Fixed assets			
Tangible assets	7	49,136	71,477
Current assets			
Debtors	8	1,089,366	1,491,997
Cash at bank and in hand		100,180	499,297
		1,189,546	1,991,294
Total assets		1,238,682	2,062,771
EQUITY AND LIABILITIES			
Reserves			
Accumulated deficit/General fund		(46,488)	52,397
Creditors: Amounts falling due within one year			
Creditors	9	1,285,170	2,010,374
Total equity and liabilities		1,238,682	2,062,771

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

The financial statements on pages 46 to 51 have been authorised for issue by the Members on 11 November 2003 and were signed on their behalf by:



J. V. TABONE
Chairman



C. GRIMA
Member

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2003

	Accumulated Deficit/ General Fund Lm
FINANCIAL YEAR ENDED 30 SEPTEMBER 2002	
Balance as at 31 October 2001	92,662
Deficit for the financial year	(40,265)
Balance at 30 September 2002	52,397
FINANCIAL YEAR ENDED 30 SEPTEMBER 2003	
Balance as at 31 October 2002	52,397
Deficit for the financial year	(98,885)
Balance at 30 September 2003	(46,488)

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 2003

	2003	2002
	Lm	Lm
Cash flows from operating activities		
Deficit for the year	(98,885)	(40,265)
Adjustments for:		
Depreciation of tangible fixed assets	28,209	26,589
Government contributions	(410,522)	(396,013)
Transfers to government	1,881,655	1,814,502
Interest receivable	(8,547)	(21,485)
Operating surplus before working capital changes	1,391,910	1,383,328
Decrease in debtors	467,767	21,937
(Decrease)/Increase in creditors	(37,620)	26,665
Cash generated from operations	1,822,057	1,431,930
Interest received	18,411	11,621
NET CASH FROM OPERATING ACTIVITIES	1,840,468	1,443,551
Cash flows in investing activities		
Purchase of tangible fixed assets	(5,868)	(26,951)
Cash flows in financing activities		
Government contributions	335,522	396,013
Funds paid to government	(2,569,239)	(1,744,527)
NET CASH USED IN OPERATING ACTIVITIES	(2,233,717)	(1,348,514)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(399,117)	68,086
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	499,297	431,211
CASH AND CASH EQUIVALENTS AT END OF YEAR	100,180	499,297

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 2003

1. 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 Telecommunication (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.

2. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting 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 recognized 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 recognized 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 recognized 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.

Tangible fixed assets

Tangible fixed assets 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 recognized 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 (CONTINUED)

30 September 2003

3. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2003	2002
	Lm	Lm
Members' emoluments	28,366	25,078
Wages and salaries	169,270	147,792
Social security costs	11,178	9,740
	<hr/> 208,814	<hr/> 182,610

b. Staff numbers

The average number of persons, excluding directors, employed by the Authority during the year was 18 (2002 : 15).

4. OPERATING SURPLUS

The operating surplus is stated after charging:

	2003	2002
	Lm	Lm
Auditors' remuneration	575	575
Depreciation	28,209	26,589
	<hr/> 28,784	<hr/> 27,164

5. INTEREST RECEIVABLE

	2003	2002
	Lm	Lm
On bank balances	4,810	4,336
On amounts due from debtors	3,737	17,149
	8,547	21,485

6. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 September 2003

7. TANGIBLE FIXED ASSETS

	Building improvements	Computer equipment	Fixtures, fittings & equipment	Motor vehicles	Total
	Lm	Lm	Lm	Lm	Lm
Year ended 30 September 2003					
Opening net book amount	1,701	31,516	25,173	13,087	71,477
Additions	-	4,212	1,496	160	5,868
Depreciation	(550)	(18,237)	(5,027)	(4,395)	(28,209)
Closing net book amount	1,151	17,491	21,642	8,852	49,136
At 30 September 2003					
Cost	2,751	62,264	35,561	21,973	122,549
Accumulated depreciation	(1,600)	(44,773)	(13,919)	(13,121)	(73,413)
Net book amount	1,151	17,491	21,642	8,852	49,136
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

8. DEBTORS

	2003	2002
	Lm	Lm
Accrued income (note i)	990,876	941,711
Government Contributions	75,000	-
Debtors	16,250	543,293
Prepayments	3,640	3,393
Other debtors	3,600	3,600
	1,089,366	1,491,997

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

9. CREDITORS

	2003	2002
	Lm	Lm
Falling due within one year		
Amount due to Government	562,547	1,300,131
Deferred income (note i)	697,254	676,139
Accruals	13,832	34,104
Social security contributions and other taxes	10,054	-
Other creditors	1,483	-
	1,285,170	2,010,374

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

10. CONTINGENT LIABILITY

The Commissioner of Inland Revenue is claiming the amount of Lm1,050 in estimated tax for the year of assessment 2002. The Authority is disputing this assessment on the basis that it should be exempted from income tax.

LICENSED OPERATORS

TELECOMMUNICATIONS OPERATORS

Maltacom plc
Spencer Hill
Marsa, HMR12
www.maltacom.com

Melita Cable plc
Gasan Centre
Mriehel By-Pass
Mriehel, BKR 14
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)

Bellnet Ltd.*
10 Triq ic-Ċawqli
Qormi, QRM 11
www.bellmed.net

Callzone Services Ltd.*
St. Paul's Street
Naxxar, NXR 03

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

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

International Call Management Ltd.
Gozo Technopark
Xewkija, Gozo VCT 110
www.icm.com.mt

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

Kemmunet Ltd.
Panta House
Birkirkara Road
Msida, MSD 03
www.kemmunet.net.mt

Keyword Ltd.
UB42 Industrial Zone
San Ġwann, SĠN 09
<http://site.keyword.net>

Malibu Telecommunications Ltd.
136 St.Christopher Street
Valletta, VLT 05
www.e-bdo.com/bdomalta

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

Melitanet Ltd.
117 St.George's Street
Paceville, STJ 06
www.melita.net

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

Next Gen.net 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 Ġwann, SĠN 07
www.telemail.com.mt

Video On Line Ltd.
Gasan Centre
Mriehel By-Pass
Mriehel, BKR 14
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

Societe International de Telecommunications Aeronautiques (SITA)
143 Archbishop Street
Valletta, VLT 07
www.sita.int

Global Communications. Ltd.*
111 Old Railway Track
St.Venera, HMR 16
www.global.net.mt

PAGING

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

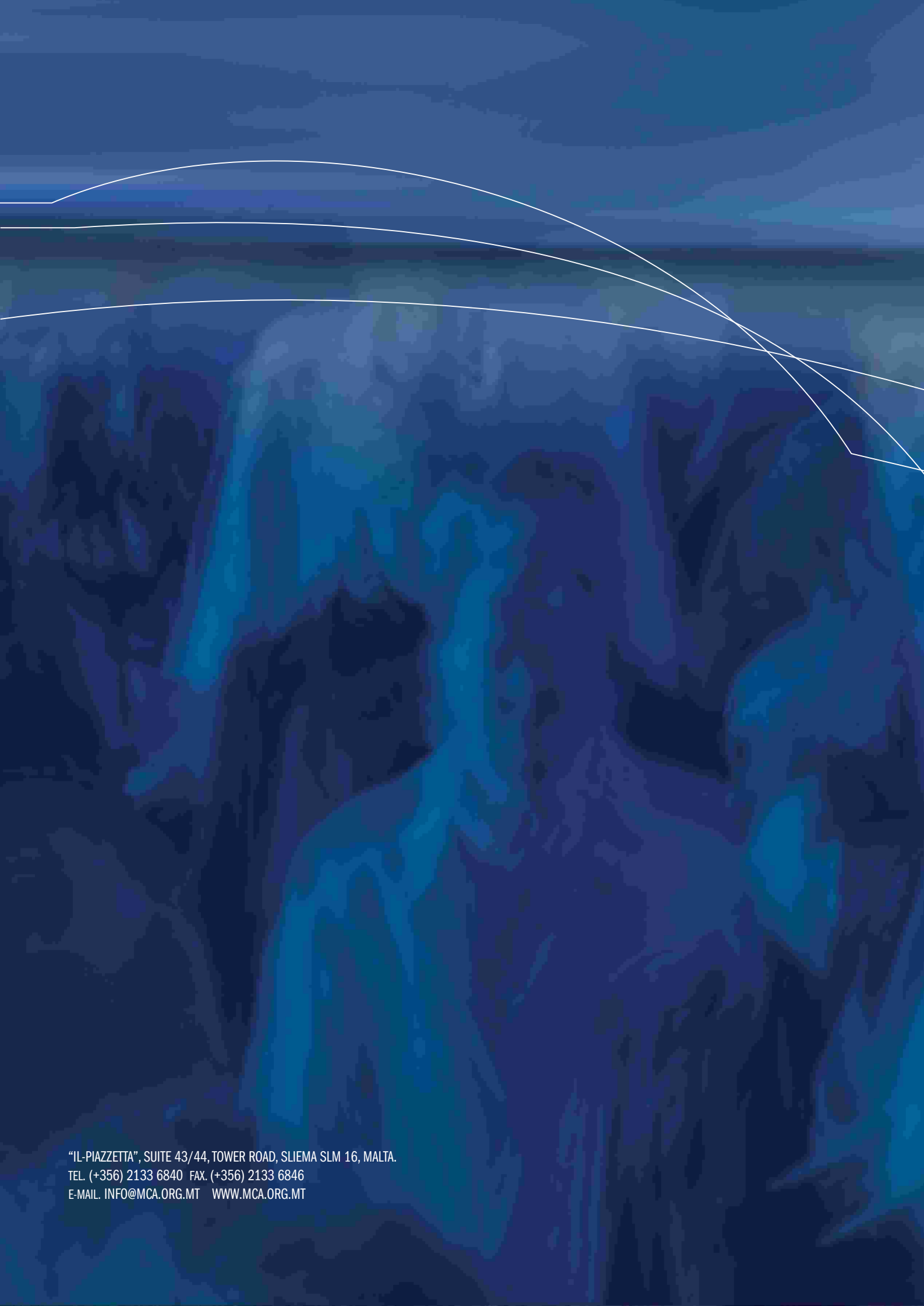
PUBLIC RADIO TRACKING TELECOMMUNICATIONS SYSTEMS AND SERVICES

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

INTERNATIONAL MARITIME DATA COMMUNICATION SERVICES

Globe Wireless
143 Archbishop Street
Valletta, VLT 07
www.globewireless.com

* licences issued during period under review



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