

▶ annual report
and financial
statements
2007

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Chairman's Message



Looking back on the seven years I have been at the helm of this organization, the challenges of liberalising the telecoms sector have been unquestionably daunting, but the results have been gratifying. The electronic communications sector has been transformed beyond recognition in matters relating to competition, consumer choices, service offerings, ownership, investment, participation, quality and costs.

This transformation, which has contributed so much to our social and economic wellbeing, is undeniable; equally undeniable however, is the paucity of understanding of the role of the Authority and this from a broad swathe of constituencies – consumers, the industry itself, business and elements of the political establishment. We try, through a variety of means, to improve this awareness of what

we are about; this report, which is a synthesis of our activities, is merely one of these.

The year just past saw some frenetic regulatory activity reflected in continued sector growth and investment in electronic communications and electronic Commerce (e-Commerce), the formulation of relevant sector policies and strategies in conjunction with the Ministry for Competitiveness and Communications, the completion of the first round of market reviews which spilled over from 2006, a proliferation of new services and a marked downward trend in broadband tariffs.

In the compilation of this annual report, we are following the format established last year. We have structured it along the lines of the Authority's strategic plan which is published on our website. The report attempts

to give an accounting of our achievements or otherwise against objectives contained in the plan. While some regulatory interventions translate into readily obvious outcomes, such as the licensing of a new network, or the reduction of roaming tariffs, this is not always the case with very many of the Authority's activities.

We see the principal function of regulation as one of creating the conditions for competition and investment to the benefit of consumers. Competition is the spur to innovation and quality of service offerings. Quite apart from these inherent benefits, the electronic communications sector accounts for approximately 3% of Malta's GDP and constitutes much of the underpinning of the country's social and economic development. The Authority's operations need to be viewed in this context when assessing

whether it is providing the country and consumers with value for money.

From a regulatory perspective and with the passing of each year, the long heralded convergence of communications, media and information technology becomes increasingly more evident. This development is serving to blur boundaries on whether broadcasting issues which have emerged, such as those relating to the transmission of football matches, or TV advertising should be dealt with by the Broadcasting Authority or the MCA. While the two agencies collaborate quite effectively, relevant legislation has to be constantly up-dated to reflect the new realities at work. We attempt to anticipate these developments by ensuring in conjunction, with Government, a relevant and coherent body of policies and legislation to the extent possible, but the unabated pace of technological change makes this a challenging task indeed.

Last year, the Authority published a document titled "Policy Review and Strategic Framework for Spectrum Management". This sets out the radio spectrum environment in Malta, factors that influence its effectiveness and policy issues warranting consideration over the coming years. Given the proliferation of wireless technologies, there is a critical need to get the most out of the radio spectrum that is available to us. For example, last year alone, three new wireless networks were rolled out, a third Universal Mobile Telecommunications Services (UMTS) licence was issued and another licence for a Digital Audio Broadcasting network, which will be operational this year.

The radio spectrum strategy is needed to ensure that spectrum is managed in a flexible, transparent way with prompt decision making to meet the challenges of convergence, increased mobility and ubiquity of services. This is an important reference document for stakeholders; it attempts to take into account future developments and anticipated national and user needs, all of which constitutes vital information on which to base investment decisions.

Other important relevant policy initiatives focused on broadcasting meeting General Interest Objectives, (GIO) while another dealt with community radio.

The year under review saw the clear emergence of three vertically integrated operators, increased signs of convergence reflected in a host of bundled offers, significant foreign investment in the sector,

substantial improvements in broadband offerings and with more attractive pricing. As a result of competition and numbering portability, we also saw a fairly large number of subscribers switching to new service providers.

While the emphasis of this report remains on electronic communications, our activities covered a number of initiatives relating to postal services particularly those aimed at mail integrity and service standards.

E-Commerce is our third oversight responsibility where our work has mainly centred on creating an increased awareness and confidence in the business community and the public at large. A strategy has fast been taking shape and biannual surveys we have been conducting reveal a surprising number of Maltese citizens who conduct business over the Internet on a regular basis.

So I think in all, it has been a productive and successful year. In my opening paragraph I expressed my frustration at the little understanding there appears to be of the role of the Authority. This report outlines the manifestation of this role in myriad ways and ones which have impacted positively on our social and economic wellbeing. At the same time, the Authority seems well regarded. I would surmise this to be a reflection that it is largely perceived as a general cause for good, a committed and talented bunch of people working quietly in the background. Perhaps this is awareness enough!

Our year's achievements however were tinged with great sadness in the loss of two dear colleagues in quick succession, both very special individuals. Colin Camilleri who joined us in 2001 was our Chief Technology Officer and has contributed immensely to the Authority's development and achievements. Joe Spiteri joined us in 2005 when we added radio spectrum to our brief, and his background in broadcasting helped us in no small measure in the assimilation of this new area of responsibility. We shall remember these dear colleagues and the Authority will forever be in their debt.

Yours,

Joseph V. Tabone

Foreword

It is a great honour for me to be leading the Malta Communications Authority for the next three years. I would like to thank my predecessor Joseph V. Tabone for having setup this very professional organisation that has been a key contributor to the positive developments we have all seen in the communications sector.

Today we have a telecommunications sector that employs over 2,400 staff, with a total sector turnover of 263,883 million Euros. The share of private household consumption expenditure on electronic communication services has increased from 5.8% in 2006 to 6.4% in 2007.

Postal services remain critically important to the economy and impact directly the take up of e-Commerce by consumers. E-Commerce on the other hand continues to increase in popularity. Take up by consumers and businesses however must continue to be facilitated.

Competition shall continue to be the principle objective of the Authority. It is also the objective of the Authority to promote investments. Many factors such as GDP per capita, population density, regulatory framework and others have a significant influence on investment. However, available evidence suggests that competition remains its main driving force. Another area where the Authority will continue focussing its energy is the efficient use of spectrum - a precious resource that has contributed in no small way to the market developments experienced so far.

The Authority will continue creating an enabling environment and will undertake initiatives in the e-Security and e-Commerce areas to ensure the digital economy and investment in ICT continue to flourish. We now live in a society where new university graduates have never lived without Internet and people in their thirties have never experienced an office

without email. Even the most technology averse pensioners now have multi-channel television. This puts an onus on the Authority to ensure nobody gets left behind and that Malta continues progressing to become a 'smart island' where its geographical barriers are turned into an opportunity.

In this coming year, the Authority will be issuing a number of consultation papers on spectrum, broadband and Internet Protocol version 6 (IPv6) amongst others, to ensure Malta is equipped to face all the challenges in the communications area for the next ten years.



Philip Micallef
Chairman

Board Members

01 Joseph V. Tabone
chairman



02 Carmel Grima
member



03 Anthony P. Pavia
member



04 Reuben Balzan
member



05 Celia Falzon
chief of external relations
& board secretary



Mr. Mark Portelli is appointed as a Member of the Authority but has been unable to participate in its activities as circumstances do not permit his involvement.

Management Committee

01 Peter Gatt
chief of corporate services



02 Paul E. Micallef
chief legal officer



03 Ian Agius
chief of operations



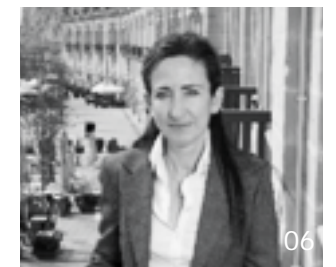
04 Denise Borda
personal assistant to chairman



05 Patrick Vella
chief of policy & planning



06 Helga Pizzuto
acting chief technology officer



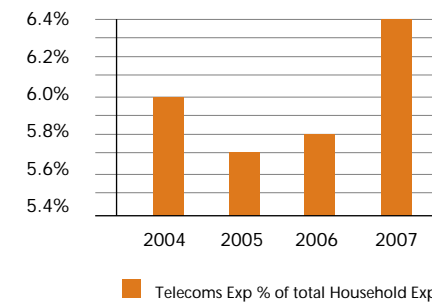
Market Overview



During 2007, the communications industry produced just under €263.9 million worth of output, which roughly accounts for 3% of the total output produced by the Maltese economy. According to revised National Statistics Office (NSO) data,

the share of private household consumption expenditure on electronic communications services increased from 5.8% in 2006, to 6.4% in 2007, despite a general tendency of falling prices registered across the whole industry. The fact that this share hovered

around the 6% mark over the four years leading to 2007, is an indication that electronic communications products and services have become an important expenditure item for a typical Maltese household. Industry data for 2007 continued to confirm a sustained higher labour-productivity rate registered for the communications industry vis-à-vis that recorded for the economy overall. In fact, spurred mainly by its capital-intensive electronic communications sector, the industry achieved roughly double the labour productivity rate recorded for the rest of the economy as a whole.



FIXED LINE TELEPHONY

As in previous years, the most highly used form of communication continued to be fixed telephony despite the ongoing reduction in volumes.

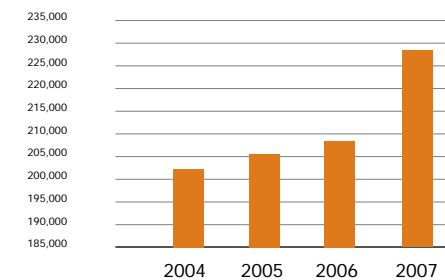
Fixed line¹ originating minutes terminating on both local fixed lines and mobiles, registered an overall decrease of 96.3 million minutes (14%) when compared to 2006, despite an increase in fixed to mobile terminating minutes.

Despite the overall drop in fixed line originating minutes, fixed-to-mobile minutes continued to exhibit a general upward trend that may be,

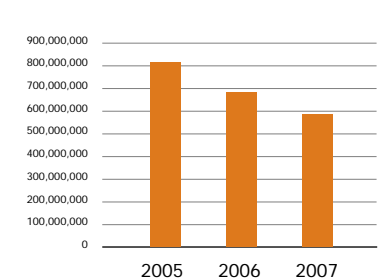
in part, attributable to fixed-to-mobile substitution. This hypothesis is reinforced by the upward trend in mobile-to-mobile traffic. Other fixed line substitutes, such as free-to-use Voice over Internet Protocol (VoIP) telephony applications and IP telephony systems set up over dedicated lines, might also be another factor accounting for the downturn in fixed telephony minutes, though the latter cannot be easily quantified. Meanwhile, at the end of 2007, fixed line subscribers had increased by 19,886, or 9.5% when compared

to 2006. This is mainly attributable to a number of subscribers who are choosing to hold multiple subscriptions with different service providers, as opposed to churning from one provider to the other. 2007 also saw the entry of Vodafone into this market when it launched its fixed telephony services over Worldwide interoperability for Microwave Access (WiMAX). As at the end of the current review period, a total of 2,200 fixed line number portings had been registered.

Fixed Telephony Subscriptions



Total Fixed Line Originating Minutes



¹ In this publication, fixed line originating minutes exclude minutes originating from payphones and freephones, as well as international outgoing minutes.

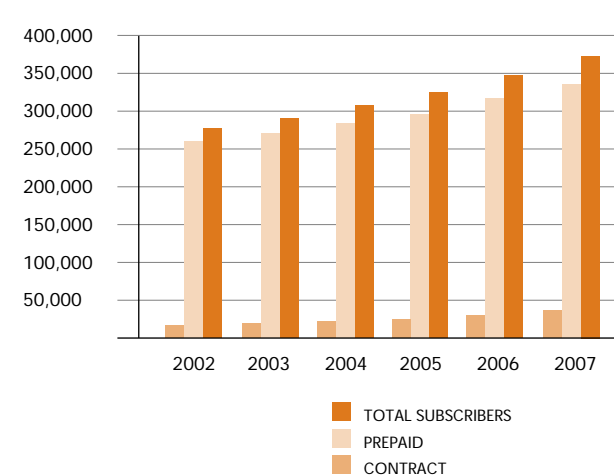
MOBILE TELEPHONY

During 2007, this market continued to show very healthy growth across all its sub-sectors. The mobile subscriptions base grew by 7% or 24,759, bringing the local mobile penetration rate to 92%. While the MCA notes that this figure remains one of the lowest in the EU member states, a penetration rate beyond this level can be related to subscribers having two or more SIM cards. This is a matter of national peculiarities and cannot infer

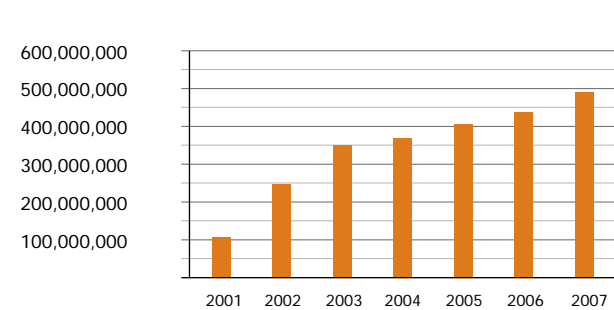
any particular characteristics of the mobile sector. Subscribers on post-paid plans amounted to 37,465 (10%) whereas the remaining 334,065 (90%) were on pre-paid plans. Meanwhile, during 2007, mobile-originating traffic rose by just over 31 million minutes (16.2%) when compared to a growth of 35.4 million minutes during 2006. SMS traffic also continued on an upward trajectory, growing by over 55.3 million units

(12.7%). The all-time high SMS usage is due to a host of factors including, but not limited to, the upward trend in subscriptions to mobile telephony services, the high price differential between SMS and voice tariffs, the myriad promotional offers featuring texts in bulk and the growth in the use of web portal SMS services. On the other hand, MMS traffic registered a decrease of 124,725 units (18.2%), from 2006. MMS was introduced in Malta towards the end of 2002 and this service was free of charge until March 2004. Tariff complexities, cost considerations and the perception of the need (or the lack thereof) to send an MMS, could all contribute to the minimal take-up. Limited knowledge of mobile handset interfaces might also be hampering MMS traffic. Voice traffic originated by Maltese mobile subscribers roaming abroad increased by almost 647,000 minutes (20.1%), over the previous 12 months. Meanwhile, voice traffic received by subscribers whilst abroad increased by almost 428,000 minutes (25.2%) when

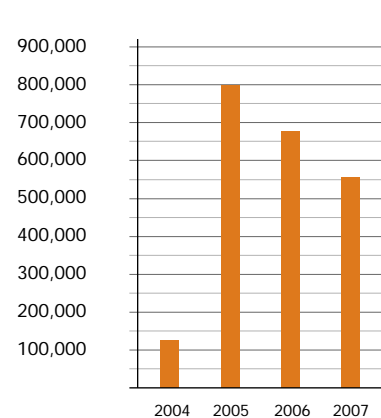
MOBILE TELEPHONY SUBSCRIBERS



TOTAL NUMBER OF SMS SENT



TOTAL NUMBER OF MMS SENT

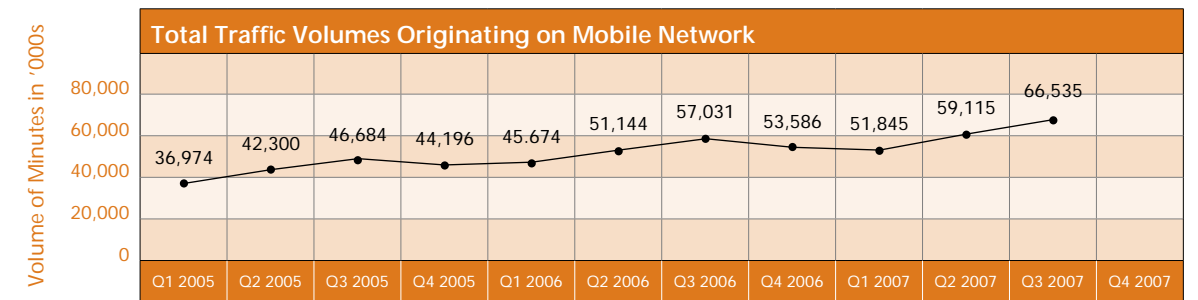
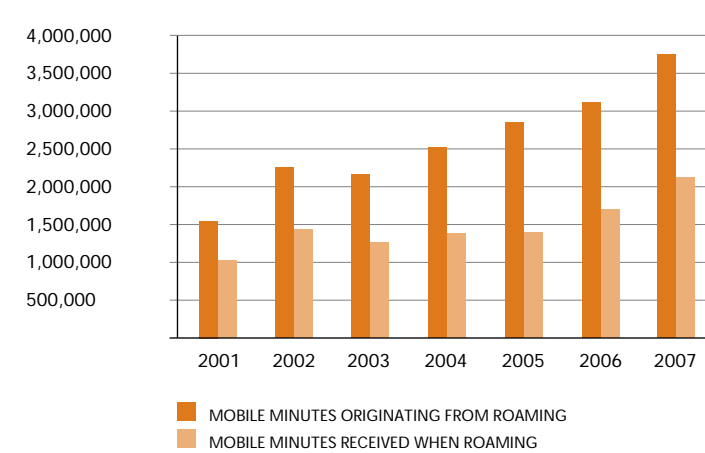


compared to 2006. During the period under review, the new EU roaming regulation was adopted with a view to reducing roaming tariffs across the EU. The new roaming tariffs were introduced locally over July and August 2007. Reflecting this drop in charges, the minutes originated while roaming

between June and December 2007 were almost 424,000. This is higher when compared to the same period in 2006. Melita Cable secured access to 3G spectrum when it took over 3G Telecommunications Ltd, which had been assigned this spectrum earlier in the year, thus making Melita the

second operator to be capable of offering quad-play services. The level of mobile number portings had reached the 27,000 mark by the end of 2007. The extensive use of number portability is reflective of the ease of use and popularity of this facility.

ROAMING MOBILE MINUTES



INTERNET

By September 2007, Internet subscriptions as reported by the NSO amounted to 99,947. This implies a ratio of 24.7 subscriptions per 100 inhabitants. According to MCA data, there were 81,212 broadband subscribers. Implicitly, the remaining 18,735 subscribers had narrowband connections.

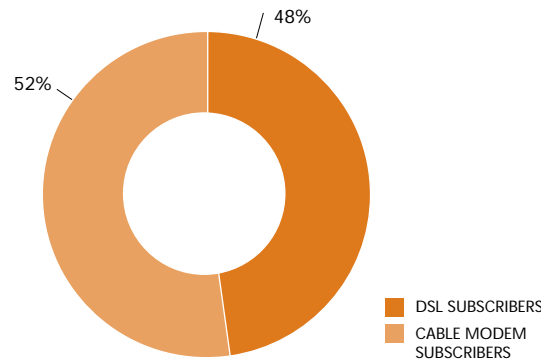
Internet dial-up minutes registered a drop of over 58 million minutes, or 58.9% over 2006. As at end of 2007, the ratio of DSL-to-cable subscriptions stood at 48% to 52%.

Broadband Wireless Access (BWA) services were rolled

out by Vodafone in June and by the end of 2007, the number of subscribers reached 1876. The entry by Vodafone brings the number of nationwide broadband networks to three, which is a very positive development for competition in this sector.

In November 2007, substantial changes were experienced in retail broadband offerings when service providers across the board increased speeds and download limits while retaining the same prices. Therefore, the value-for-money proposition in this sector continued to improve.

BROADBAND SUBSCRIPTIONS



TELEVISION

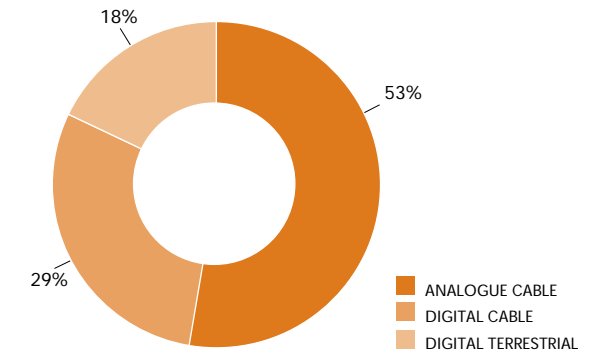
At the end of 2007, there were 119,552 registered subscribers for analogue and Digital Television (DTV), up by 12,344, or 11.5%, over 2006. This growth demonstrates that the combined digital and analogue TV markets remain healthy.

Since the introduction of Digital Terrestrial Television (DTTV) in the third quarter of 2005 and the entry of a new service provider, the subscriber base for analogue and digital TV increased by 16,738. Despite the significant drop in subscriptions to analogue TV services, the overall increase reflects buoyant demand for DTV services.

The cable TV subscription-to-household ratio at the end of 2007 stood at 93%, up from 83.8% in 2006. Digital subscribers accounted for 47.2% of the total subscriber base, with the remaining 52.8% being analogue TV subscribers.

Early in 2007, GO acquired Multiplus, rendering it the first operator in Malta to be capable of offering quadruple-play services.

REGISTERED SUBSCRIBERS



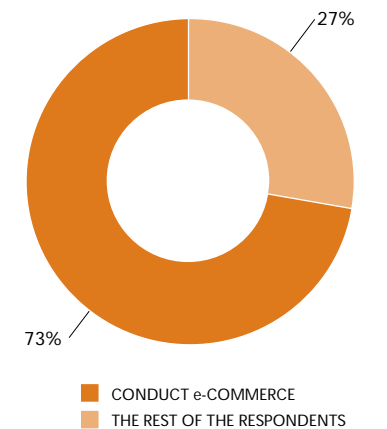
E-COMMERCE

The MCA conducts biannual surveys to gauge trends in Internet and e-Commerce usage. The results indicate that more than half of the Internet users (54%) have at some time or another, purchased online. This is equivalent to 26% of the sample size. Occupation-wise, professionals tend to have a higher propensity to purchase online. Males tend to buy online more often than females (57% vs 48%). Furthermore, younger populations have a higher tendency to engage in e-Commerce (61% of the 18-29 and 30-39 age cohorts vs. 46% of the 40-49 age bracket).

The number of e-Commerce users that purchase from foreign online shops only dropped by 8% from the previous 6 months to 71%. This indicates a possible trend towards the use of local e-Commerce services.

Survey results also show that credit cards were by far the most popular method of payment when conducting e-Commerce. Another popular source, which continued to register considerable increase, was the use of the PayPal facility. Furthermore, 78% of the respondents had never experienced any problems when buying online. The majority of difficulties

e-COMMERCE USERS AS A PROPORTION OF ALL RESPONDENTS

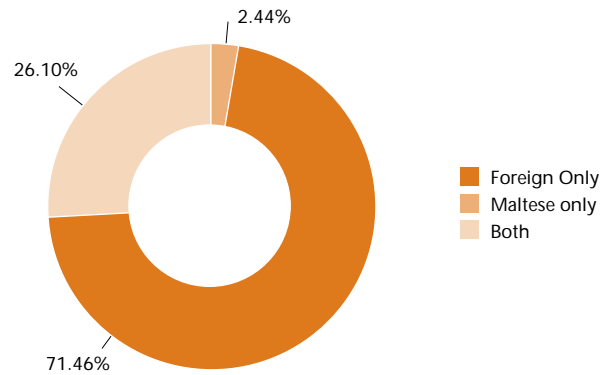


related to delivery services.

Not having a computer (34%) continues to be the predominant reason for not using the Internet. This is closely followed by lack of computer or Internet knowledge (28%).

The majority of respondents use the Internet from their homes (95%). In total, 39% of respondents who are gainfully occupied use the Internet from their workplace. According to the survey, professionals make a greater use of the Internet at work (48%), followed by other office workers (45%). Only 13% of the skilled and semi-skilled workers use the Internet at work.

SHOPPING TRENDS



POSTAL SERVICES

At the end of 2007, there were 13 registered postal operators outside the universal service area. Maltapost Plc, which is the designated Universal Service Provider (USP), provides services both within the reserved and non-reserved² part of the universal service area. Furthermore, in March 2007, Premiere Post Ltd was granted a licence to operate non-reserved postal services within the scope of the universal service area.

The universal service area includes those postal services to which a consumer is entitled, no matter where he or she lives. These services must be accessible, of a specified quality and affordable. At present in Malta, this includes the following services:

- (a) the clearance, sorting, transport and distribution of postal articles up to 2 kilograms;
- (b) the clearance, sorting, transport and distribution of postal packages up to 20 kilograms;
- (c) services for registered articles;
- (d) services for insured articles within Malta and to and from all countries; and
- (e) a basic counter service throughout Malta.

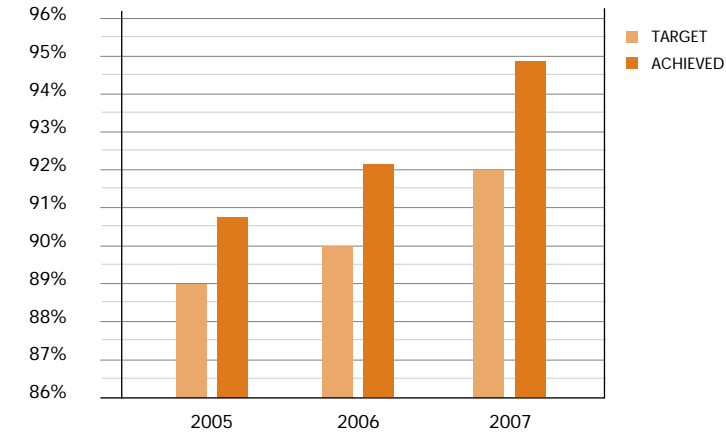
In July 2007, Lombard Bank Plc became the majority shareholder in Maltapost Plc, taking over another 25% of the company's shares from Government and

raising its stake to 60%. In January 2008, Government disposed of the remaining shares held in Maltapost plc through an initial public offering.

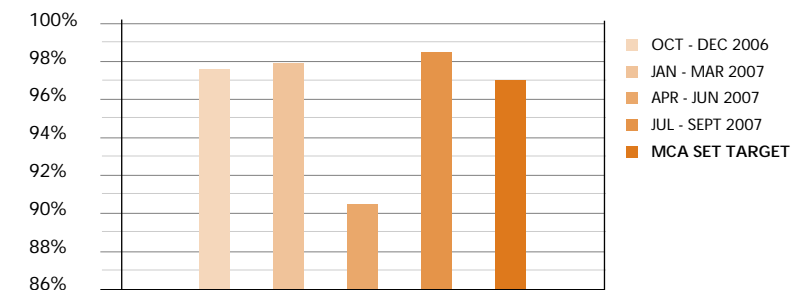
The Quality of Service (QoS) offered by the USP is monitored by the MCA. Up to June 2007 (i.e. the first three quarters of Maltapost's financial year), Maltapost had surpassed its QoS targets for local ordinary mail items.

The USP also took some important measures that should result in further improvements in its quality of postal services. These included the introduction of a new alpha-numeric post code and a drive to increase its network of local sub-post offices, specifically in those localities that did not have a Maltapost retail outlet.

D+1³ QoS FOR LOCAL ORDINARY MAIL



QoS TARGET FOR REGISTERED MAIL vs MCA SET TARGET



² The reserved area refers to mail weighing up to 50 grams and/or costing less than two and a half times the basic tariff, i.e. €0.19. Only the USP can operate within this area. The rationale behind the reserved area is that it compensates the USP for taking on the uneconomic burden of universal services. The reserved area will be removed following the full liberalisation of the sector which will take place no later than the end of 2012.

³ D+1 is defined as the mail quality standard that the provider should reach and which represents (1) working day from the day of deposit to delivery to the addressee.

Electronic Communications

The MCA identified four strategic objectives with respect to the electronic communications sector. Hereunder is an outline of the main regulatory inputs, outputs and outcomes.

STRATEGIC OBJECTIVE 1

Consolidating an electronic communications environment that is capable of **sustaining competition** among existing providers, whilst **ensuring ease of entry to new undertakings**.

MARKET ANALYSES AND IMPLEMENTATION OF REMEDIES

Conclusion of first round of market reviews

The MCA conducts market analyses based on competition law principles, in order to determine whether markets are effectively competitive. In all, there are 18 designated relevant markets, which require the cyclical, in-depth analysis. The MCA has successfully completed the review of the first 16 markets.

Towards the end of December 2006, the MCA notified the remaining two market reviews to the EU Commission. These two notifications concerned the wholesale broadband access market and the wholesale broadcasting transmission services market. In January 2007, the EU Commission informed the MCA that it had doubts on certain conclusions arrived at in the two notifications. Following discussions with the EU Commission, the MCA temporarily withdrew these notifications in order to address these doubts and re-notify at a later stage.

During 2007, the work on the revision of these two markets continued at a steady pace. In November 2007, the MCA was in a position to re-issue the revised report on the wholesale broadband market. However, following substantial changes in the retail offerings of the major broadband providers at around the time when the report was due to be issued, the MCA concluded that the report would have to take into consideration the latest developments.

Concurrently, the EU Commission also published its revised Recommendation on Relevant Markets, which no longer includes the wholesale broadcasting transmission market. The Authority took this into account, as well as developments in the local market, when revising its analysis in this regard.

The MCA is expecting to publish the two revised market reviews by the end of the second quarter of 2008. This would bring the first round of market reviews for Malta to an end.

Second round of market reviews begins

In November 2007, the MCA commenced a revision of the decision on wholesale termination services on mobile networks published in December 2005. The exercise opened the second round of market analyses. This decision is expected to be published by the end of the first quarter of 2008 and will outline the regulatory approach for wholesale termination rates for the period 2009 – 2010.

The second round of reviews will see the MCA revising all the market review decisions which it published during 2006 and 2007. The MCA will seek to publish revised decisions at around the same time that the two-year timeframe of the existing decision will come to an end. Nevertheless, the MCA will commence with the review of markets where significant changes have occurred during the past two years and therefore, take priority over less dynamic markets. This will ensure that all regulation in place remains justified and appropriate. It is a priority of the MCA to de-regulate markets once there is evidence that competition has taken hold and is sustainable.

Consumer Perception Surveys

During 2007, in preparation for the second round of market reviews, the MCA carried out a number of consumer perception surveys to gauge the performance of Internet,

mobile and fixed telephony and broadcasting services.

Results show that overall, end-users are satisfied with the choice and quality of the electronic communications services that they purchase. However, with regards to pricing, end-users still

believe that prices for certain services are too high. The surveys also show that end-users are becoming increasingly aware of the various services being offered, with many of the respondents indicating that they will purchase new services in the near future.

WHOLESALE PRICING AND ACCESS TO INTERCONNECTION

The regulation of interconnection is one of the key tools used by National Regulatory Authorities (NRAs) to ensure competition in a market. Fair and timely interconnection is essential as this allows subscribers of one network to connect to subscribers on different networks, without creating distortions in the market.

Extending the Bottom-Up Cost Model (BUCM) to include leased lines

Leased lines are telecommunications lines that permit an effective and efficient transfer of data between different locations, a crucial prerequisite for an information-based economy. Leased lines are utilised by a wide variety of users, including the providers of electronic communications services, as well as other sectors of the business community. Such a service is characterised by dedicated and secure point-to-point communications, enabling the transfer of data for the efficient conduct of everyday business. In the absence of effective competition in the provision of such an important service, regulation plays a pivotal role in ensuring that prices are fair and reasonable.

In 2007, the MCA extended the existing BUCM in order

to determine the efficient cost of provision of leased lines. The extension of the BUCM to incorporate leased lines involved various work streams ranging from the analysis of GO's fibre network, as well as its ducts and trenches, and the dimensioning of the various transmission network elements, to the analysis of demand volumes by type of service. Furthermore, the MCA also conducted research on the leased lines prices currently deployed by other EU member states. At the time of compiling this Annual Report, the MCA had issued a public consultation and proposed decision on local leased lines prices. This consultation is proposing substantial reductions to the current prices of the various local leased line services at both the wholesale and retail level. Following the conclusion of this consultation process, the MCA shall publish a consultation paper on international leased lines.

Reference Interconnection Offers and the review of respective rates

In order to facilitate the interconnection process, in January 2007, the MCA consulted on a proposed decision on the review of GO's Reference Interconnection Offer (RIO). The proposed amendments include changes to specific

clauses of the RIO, revisions to the various timelines set out in the RIO, as well as revisions to the forecasting process. The final Decision will be published in the first quarter of 2008.

In December 2006, the MCA published a statement of proposed decision, which put forward the proposed fixed line interconnection rates for 2007. As a result the average interconnection rates were reduced by 32.7%, when compared to 2006. Mobile interconnection rates, which currently stand at €0.096, also continued to decrease in 2007, in line with the glide path for mobile termination rates, which was published in 2005.

Due to the extension of its BUCM to incorporate leased lines, the next review of fixed interconnection rates will be delayed until after the consultation on these services is finalised. This will ensure a consistent treatment of the interdependencies between these services and interconnection rates resulting from the common and joint costs applicable to leased lines and voice services in their use of the core network. In accordance with normal practice, it is being proposed to adopt the revised rates retrospectively with effect from 1 January 2008.

The introduction of Mobile Virtual Network Operators (MVNOs)

Following the market analysis process, in 2006, the MCA published its Decision regarding Significant Market Power (SMP) in the market for wholesale access and call origination on mobile networks. This decision obliges both local mobile operators to negotiate with potential MVNOs. An MVNO is a company that provides mobile telephony services but does not have all the elements of a mobile network infrastructure. Instead, the MVNO reaches agreement with an existing mobile network operator to have access to its radio network infrastructure. One of the local mobile operators reached a commercial agreement with Aspider, a Mobile Virtual Network Enabler (MVNE). Under this new scenario, the MVNE would be able to support multiple virtual undertakings operating as Enhanced Service Providers (ESPs). The ESPs would, in turn, be able to resell and repackage

their own mobile wireless service plans. This would serve to increase competition in the mobile telephony sector to the benefit of the general public and the business community. Guidance regarding the regulatory framework under which MVNOs, MVNEs and ESPs will operate will be finalised during 2008.

Review of single billing for fixed Carrier Pre-Selection (CPS) and Wholesale Line Rental (WLR)

In 2006, as a consequence of the market review process, the decision on SMP in the fixed telephony access market was published. GO was obliged to provide a solution whereby CPS operators would be able to provide a single bill to their customers for access and calls.

This decision was implemented during 2007 and resulted in a number of benefits to the consumer, particularly those of ease of payment, simplicity and clarity of operation. Experiences in other jurisdictions have confirmed

that the availability or otherwise of a single billing solution could determine which provider an end-user would ultimately select. This decision therefore enables new entrants to offer their customers a single bill for access and calls.

Development of Weighted Average Cost of Capital (WACC) methodology guidelines and calculations

In 2007, the MCA carried out a rigorous analysis of the responses to the consultation issued in December 2006 on the methodology to be used in estimating the WACC of the fixed, mobile and cable undertakings. The WACC is a calculation of a company's cost of capital that weights each category of capital proportionately, that is, the overall return a company must achieve in order to meet the requirements of all its investors. It is envisaged that a decision will be published in 2008, where revised WACC rates will be applicable retroactively to the 2007 regulatory accounts.

COMPETITION REGULATORY FUNCTIONS

Experience of recent years has revealed some ambiguity in the treatment of sector competition issues. Sector regulation is circumscribed in such a way that frequently a dispute between service providers falls outside the jurisdiction of the MCA and should be dealt with under competition law.

It is at best inconvenient for service providers to refer a matter to this organisation, which after investigation, transpires that the matter should be dealt with under competition law. This requires the filing of a fresh complaint with the Office of Fair Trading and subsequent investigation and treatment. In the course of this, precious time

is wasted to the detriment of service providers and consumers. It is for this reason that Government sought to extend the jurisdiction of the MCA to competition law in its efforts to reduce bureaucracy and increase simplification and efficiency.

To this end, in order to achieve effective and efficient regulation of competition in the fast evolving and dynamic environment of electronic communications, in April 2007, the Ministry for Competitiveness and Communications, in conjunction with the MCA and the Office of Fair Competition, embarked on a consultation process.

The consultation proposed amendments to the Competition

Act and the issue of regulations to enable the Authority to have powers under competition law in concurrence with the Office of Fair Competition. This consultation was subsequently complemented by another consultative paper proposing amendments to the existing enforcement regime under competition law. These, together with other proposals, are currently under consideration by Government. In the interest of the electronic communications sector, which is one of the underpinnings of our national development, it is earnestly anticipated that the appropriate legislative amendments are followed through.

Frequency monitoring and investigations

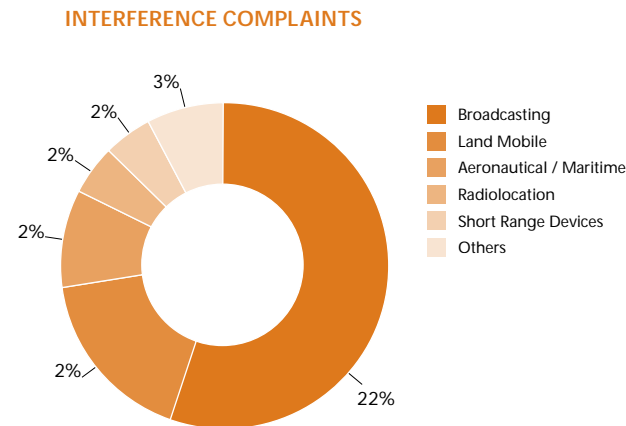
Spectrum monitoring provides information on the quality and actual use of frequencies. This activity also serves to ensure optimal and lawful use of radio spectrum. During 2007, the MCA continued to monitor the radio frequency spectrum to ensure that spectrum bands were free from any unlawful transmissions. During the year under review, the MCA also investigated several complaints concerning harmful interference from various radiocommunications services, which also included international transmissions.

The MCA held several meetings with the relevant Italian authorities to discuss harmful interference caused by Italian transmitters operating on channels registered in Malta's name. To date, the matter remains unresolved and it is intended that discussions

with these Authorities will be escalated in 2008.

Furthermore, due to international decisions relating to the allocation of radio spectrum, the MCA amended the rights of use of radio frequencies of the terrestrial digital television operator. Consequently, approximately 200 viewers using a booster to

improve reception of foreign free-to-air stations reported problems with their reception. Several cases were investigated by the MCA. This issue was successfully resolved by the end of October and, as at end of December 2007, there were no pending unresolved complaints of this nature.



Participation in ITU – WRC 07

The main purpose of the World Radiocommunication Conference (WRC), the top decision-making body of the radiocommunication sector of the International Telecommunications Union (ITU), is to revise the radio regulations and handle issues and questions of global significance. The conclusions of this conference are incorporated into the radio regulations, which is a treaty document that is binding on all ITU Member States.

Held every three to four years, the latest WRC was held during October and November 2007 in Geneva. Malta's active

participation in this conference is essential to safeguard its sovereign rights relating to radio spectrum utilization and management. Some 2,800 delegates representing 164 Member States and 104 observers discussed various spectrum management issues relating to terrestrial and space radiocommunications services.

Amongst the topics of greatest interest to Malta were the identification of spectrum for International Mobile Telecommunications (IMT) applications, the definition of adequate parameters to protect terrestrial systems from satellite networks operating in the 2.5 GHz frequency

band, the identification of new spectrum bands for the aeronautical industry, the review of maritime-related regulations and the re-organisation of the High Frequency (HF) bands.

The identification of spectrum for IMT proved to be the most controversial. After considerable deliberations, the conference decided to allocate a number of bands (or sub-bands), including part of the Ultra-High Frequency (UHF) band to IMT, whilst allowing full flexibility to national administrations on its implementation.

In terms of the protection of terrestrial systems operating in the 2.5 GHz band, technical parameters were established

which are to be adopted by future satellite systems so as to minimise the risk of interference. A number of bands were identified for a variety of aeronautical-related services.

The regulatory aspects of maritime radiocommunications services were revised. As for the re-organisation of the HF bands, there was limited support for a European proposal on this topic.

In the coming years, the MCA, in collaboration with the relevant authorities, will work on the implementation of the outcomes of the WRC 07 and start preparations for the upcoming conference, which is due to be held in 2011.

Development of a GIO broadcasting policy

In the Digital Broadcasting Policy that was published towards the end of February 2005, Government had reserved three frequencies (equivalent to three analogue channels) that could be assigned, in a digital environment, to local broadcast content providers that met specific conditions. The policy highlighted the need for specific conditions applicable to broadcast content, termed general interest objectives, to be established as the fundamental criteria for such an assignment to take place. Broadcasting content meeting GIOs could include official Government announcements, cultural or educational programming and special events, such as sports.

The purpose behind the reservation of three frequencies for broadcasting that meets GIOs, is mainly to safeguard local broadcasting content that meets defined quality standards. These frequencies are reserved for carriage of such broadcasting, other than on frequencies assigned to

commercial network operators. The purpose of this policy is to ensure the transmission of content meeting GIO criteria at no cost to the consumer.

That objective remains the central focus of a consultation on a proposed policy and strategy that was published by the MCA in conjunction with the Broadcasting Authority (BA) in September 2007, which consulted on proposals relative to:

- the criteria that will be used to classify a broadcast channel as one which meets GIOs;
- the process to be used by the BA to allot capacity to the qualifying broadcasts;
- the relationship between must-carry obligations and GIOs;
- the application of must-carry obligations across transmission platforms; and
- the conditions attached to the usage of frequencies reserved for broadcasting that meets GIOs.

The policy proposal covered both radio and television transmissions.

This consultation also proposed a revised broadcasting licence framework that took into consideration the potential for a fully commercialised broadcasting environment. The rationalisation exercise with respect to licence categories also sought to address the current anomalies between broadcast channels owned and run by multi-channel network operators, vis-à-vis the 'traditional' broadcasters.

The MCA, in conjunction with the BA, will submit a final policy proposal to Government for approval and adoption as official Government policy in 2008.

Review of old spectrum licences/ reassignment of GSM spectrum

The MCA is undergoing an extensive review of the existing spectrum licences with a view to ensuring that licences issued prior to the adoption of the 2004 legislative framework are updated as appropriate. This process started in 2007 with the review of the GSM licences, which are set to expire in 2010.

Looking at these within the context of the ever-increasing call for spectrum to cater for the unrelenting pace of wireless technology applications, such a policy has to strike a balance between consumer welfare, as well as market interests, whilst promoting innovation and efficient use of spectrum. This project is expected to continue well into 2008.

Assignment of 3G licence

In 2005, the MCA assigned rights of use of UMTS spectrum to Vodafone Malta and GO. A third licence was subject to a legal dispute, which was concluded in 2006.

On 16 August 2007, 3G Telecommunications Ltd was awarded the rights of use of spectrum in order to operate a third generation mobile network. The roll out obligations associated with this award gave 3G Telecommunications Ltd 24 months to roll out 50% of its network and stipulated that nationwide coverage must be achieved by 2012. The licence holder has since merged with Melita Cable plc which, apart from the prospect of an additional network infrastructure, bodes well for sector competition and consumer welfare.

Radio and Telecommunications Terminal Equipment (R&TTE)

The R&TTE Directive is part of the "New Approach" series of European Directives that simplifies the procedures for the placing on the market and putting into service, of radio and telecommunications terminal equipment. The Directive, which came into force in April 2000, was adopted into Maltese law as the "Radio Equipment and Telecommunications Terminal Equipment and the Mutual Recognition of their Conformity Regulations", under the Product Safety Act.

The Directive covers most equipment which uses the radio frequency spectrum 9 kHz to 3000 GHz. Such radio equipment includes items such as car door openers, cordless/ cellular telephones, Citizen Band (CB) radio, broadcast transmitters, as well as equipment attached

to public telecommunications networks such as ADSL modems, telephones and telephone switches.

The Directive specifies essential requirements that cover health and safety of the user and others, electromagnetic compatibility and effective use of the radio spectrum. Additional essential requirements may apply to certain types of equipment. Therefore, manufacturers must ensure that their equipment meets the requirements of the R&TTE Directive and should have available, technical records which demonstrate compliance to the essential requirements.

In order to facilitate the process, equipment is categorised in two classes. Class 1 equipment can be placed on the market without restrictions. Radio equipment which does not belong to Class 1, such as that which uses non-harmonised frequency bands,

falls into the Class 2 category. Class 2 radio equipment should be notified to the MCA at least four weeks prior to its placing on the market.

Under the European New Approach Directives, it is the person placing equipment on the market who is responsible to ensure compliance with the R&TTE Directive and any other applicable European Directives.

During 2007, the MCA processed close to 1500 notifications regarding radio equipment proposed for placement on the local market. This involved close examination of the characteristics of the notified equipment to ensure compliance with requirements concerning harmful interference, electro-magnetic compatibility (EMC) and safety.

Furthermore, the MCA contributed to the consultation on the review of the R&TTE Directive undertaken at a European level.

REGULATORY FRAMEWORK

Implementation of EU roaming regulations

During 2007, the European Commission adopted a Regulation on International Roaming Services provided by mobile telephony operators.

The Roaming Regulation determined the maximum rates operators are allowed to charge for roaming within the European Union and established certain requirements regarding transparency of prices to subscribers. In Malta, retail

tariffs were brought in line with the regulation. The MCA took action to ensure that both mobile operators provide subscribers with information on roaming tariffs on their arrival in another member state.

OUTCOMES

The following key performance indicators serve to illustrate the main outcomes of the MCA activities with respect to this strategic objective.

AVAILABILITY OF UPDATED INTERCONNECTION AGREEMENTS, REFERENCE INTERCONNECTION OFFERS AND COST ORIENTED CHARGES WHERE THESE ARE REQUIRED.

- Average Interconnection charges reduced by 32.7% in January 2007.
- Mobile Interconnection rates decrease to 9.6 euro cents.
- Consultation on a review of GO (formerly Maltacom) Reference Interconnection Offer. Final decision is due in 2008.
- Consultation on revised leases lines charges. Final Decision to be adopted in first quarter 2008.

| MOVEMENTS IN NUMBER AND VARIETY OF MARKET PLAYERS | | | |
|--|--|---|---|
| Fixed Telephony | Mobile Telephony | Internet | TV Distribution |
| Vodafone started to provide fixed telephony services via its wireless broadband network. | 3G spectrum was assigned to 3G Telecommunications which later merged with Melita Cable. Services are expected to be provided in 2008. | Vodafone started to provide WIMAX services. | GO acquired Multiplus making it the first quadruple play operator in Malta. |
| NEW SERVICE OFFERINGS | | | |
| Wholesale | | | |
| Wholesale Line Rental introduced. | Commercial agreement on wholesale services related to MVNO reached between Vodafone and Aspider. | | |
| Retail | | | |
| | 3.5G HSDPA wireless broadband services by GO | | |
| GO, Melita Cable and Vodafone continued to provide new bundled offers | | | |
| Fixed number portability. | | 4 Mbps increased to 6 Mbps with no change in tariffs. Download limits increased substantially. | |
| CHANGES IN MARKET SHARES | | | |
| Due to increased competition, Maltacom's market share decreased by 12% over 2006, to 85.8%. On the other hand Melita Cable's market share increased considerably, from 2.1% to 13.1%. Sky, a carrier select operator, had a market share of 1.1% by the end of 2007. | Changes in market share trends were negligible over 2006. At the end of 2007, Vodafone's market share was 52.7% and Go Mobile had 47.3%. | The independent ISP's market share decreased by 4%. They held a market share of 12% by the end of 2007. This resulted in an increase of 2% for GO (Maltanet) and an increase of 1.2% for Melita Cable. Melita Cable's share of the market stood at 51.2% by the end of 2007. BWA was introduced by Vodafone – at the end of 2007 its market share was 2.3%. | Cable analogue market share continued to decrease to 52.9% (a decrease of 15%). Multiplus had a market share of 9.8% at the end of 2007. Digital cable also increased by 5% over 2006, to 29.2% |

STRATEGIC OBJECTIVE 2

Ensuring that residential and business consumers of electronic communications services get the best value-for-money from Maltese service providers, and that any social inclusion aspects as may be identified are addressed.

PRICE CONTROL AND MONITORING

GO's tariff rebalancing Phase II

With the onset of competition in the fixed line market, the MCA decided that a rebalancing in its traditional form was no longer the ideal way to achieve efficient pricing within this sector. This is because a rigid rebalancing exercise would have constrained the incumbent operator, GO, from competing effectively. This policy has proved to be appropriate as today, the consumer can choose from various innovative fixed line packages and bundles offered by the incumbent and the new entrants to this market.

Co-operation with NECC on Euro changeover

In view of Malta's adoption of the Euro in January 2008, the MCA worked towards the conversion of all regulations and legislation having Maltese Lira denominated figures. The Authority wanted to ensure that no party would be negatively affected as a result of the conversion of charges and fees established at law from the Maltese Lira to the Euro. This entailed a major smoothing exercise which was carried out in close liaison with the Ministry of Finance (MFIN) in line with guidelines issued by the National Euro Changeover Committee (NECC). A detailed analysis was undertaken to

identify cases where it was felt that appropriate smoothing should be applied, as opposed to a straight conversion to Euro amounts. As a result, all legislation and regulations related to the MCA and making reference to Maltese Lira denominated figures were brought in line with the approved guidelines of MFIN and NECC.

The Authority also co-operated with the NECC on a number of issues offering technical advice and support, where required. These areas included the conversion of regulated prices to Euro, together with the setting up of dual display mechanisms for certain electronic communications and postal services.

CONSUMER AFFAIRS

Review of consumer laws

Following a public consultation by Government in May 2007 regarding amendments to various consumer-related laws, the Authority submitted its comments in this regards. This consultation was issued with a view to transposing the EU Unfair Commercial Practices Directive. These amendments were enacted as per Act II of 2008.

Developing a strategic framework for consumer affairs management

Since its inception, the MCA has maintained as its ultimate objective, the need to ensure increased choice and value for money in the market place for the benefit of consumers. This must be coupled with an adequate form of redress when things go wrong. The tremendous pace of technological innovation, coupled with very significant developments in the marketplace, make

it increasingly important that consumer rights are safeguarded, undertakings' legal obligations are met and a balance is struck between the interests of the industry and those of the consumer. In this regard, during 2007, the MCA reviewed its strategic direction for the period 2008–2009, in order to continue building its consumer affairs function and ensure successful execution of identified key priorities, as underpinned by the Authority's business plan.

Emergency access obligations for Publicly Available Telephone Services (PATS)

Fixed telephony service providers are obliged to take all reasonable steps to ensure uninterrupted access to emergency services. To this end, the Authority is empowered to specify obligations that providers should comply with in order to ensure the continued availability of the service, even in adverse circumstances (such as a mains electrical power failure). In 2007, the MCA published a decision, following a consultation process undertaken in 2006. This decision ensures that users' rights are safeguarded, recognising that the availability of uninterrupted access to emergency services via telephone is a very important facility that must be made available to end-users. The decision outlined a number of requirements that service providers have to meet in the interest of consumers.

Development of guidelines on marketing and advertising for electronic communications service providers

Responsible advertising and marketing communications help to bring significant benefits for both end-users and service providers, as well as for society in general.

Following the decision published in January 2007 regarding the emergency services obligations of PATS providers at fixed locations, the MCA developed guidelines on marketing and advertising in this respect, particularly on the specification of any potential limitations relating to emergency call access. The guidelines were designed primarily as a guide to service providers with regards to any self-regulatory measures that may be taken in relation to advertising content.

Development of consumer information guides

During 2007, the MCA compiled a number of consumer guides on fixed and mobile telephony, Internet services and TV transmission services. The guides provide information on general principles to follow when selecting a service provider or specific services available on the market, how to lodge a complaint with service providers and how the MCA can assist in the resolution of difficulties that may arise. It is anticipated that the guides will be published and distributed during 2008. Guides covering e-Commerce and postal services will also be published during 2008.

REGULATORY OBLIGATIONS

112 Emergency services

The '112' short code is the common emergency number which is accessible from all EU member states. The single European emergency number ensures that emergency services are more accessible, especially for travellers within the Community. The MCA continued to liaise with the European Commission in the submission of related information on a periodic basis, also maintaining efforts to ensure that the operators' obligations to provide caller location information are met. The MCA is currently involved in a specially set-up task group

comprising all the entities involved in emergency services including the Police, the Civil Protection Division and Armed Forces, to mention a few.

Implementation of a policy for managing harmonised European short codes

The EU member states are required to reserve the number '116' from their national numbering plan for harmonised European short codes. This will enable the introduction of a number of harmonised 6 digit short codes for Europe-wide telephone services of social value, in particular those which

contribute to the well-being or safety of citizens, and which are potentially of value to visitors from other countries. The following harmonised European short codes have already been identified:

- 116 000 - Hotline to report missing children
- 116 111 - Child Helpline
- 116 123 - Emotional Support Hotline

The MCA has reserved the codes for these services and developed a policy on the technical administration of these numbers and the processes for deployment.

SAFETY AND SECURITY INITIATIVES

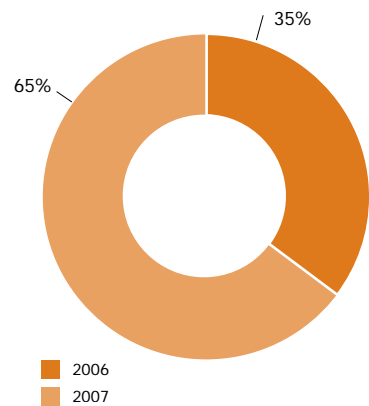
Electromagnetic Frequency (EMF) monitoring and auditing

The MCA continued its EMF monitoring activity to ensure compliance with the guidelines published by the International Commission on Non-Ionising Radiation Protection (ICNIRP).

In 2007, 85 sites were tested and these included mobile communications base stations, BWA base stations, broadcasting transmitters, as well as other sources of EMF. Repeat tests were also carried out on EMF sources tested in previous years to ensure continued compliance. In addition, a number of on-demand audits were carried out to address particular requests from the general public.

In all cases, the audited sites were found to be compliant with the relevant guidelines. In most cases, the maximum readings did not exceed 5% of the public exposure limits specified by the ICNIRP. The MCA will continue auditing EMF sources during 2008.

ON-DEMAND EMF AUDITS



e-Security Strategy

While the permeation of ICT has brought about increased efficiency and productivity in most parts of the economy, it also poses a number of new challenges, mainly related to the need to engender trust and confidence in the online environment. The emergence of new threats to the online environment continue to change the e-Security landscape at an increasing speed. An extensive harmful attack could seriously impact a nation's critical information infrastructure – i.e. those networked systems supporting public health, government, banking, energy and water supply amongst others - and could have a debilitating impact on the nation's economy and its governance structures.

The National e-Security Strategy will ensure that Malta's national policy and operational framework continues to be responsive to the changing e-Security environment now and well into the future. This strategy, developed by the MCA in collaboration with the Ministry for Investment, Industry and Information Technology and the Police Department within the ambit of the National Information and Communications Technology Strategy, identifies four pillars of information security:

- Creating a culture of security, both in terms of awareness-raising and education;
- Effective investigation and prosecution of cyber crime, taking into account not only the legislative framework, but also adequate resources;
- Secure use of ICTs by government and business, including initiatives dealing with Computer Emergency Response Teams (CERTs), Critical Information Infrastructure Protection (CIIP), Electronic Identification (eID); and
- Effective institutional arrangements.

This strategy is now being reviewed at Government level and is expected to be implemented between 2008 and 2010.

Implementation of Unified Lawful Interception System

During the year under review, the MCA continued its monitoring and review exercise, in collaboration with the Malta Security Services (MSS), to ensure that the lawful interception system is fully functional and effectively addresses the MSS' requirements. A manual listing the technical obligations that undertakings need to adhere to, was drafted and circulated amongst interested parties for their feedback. It is anticipated that the manual will be published by the end of the first quarter of 2008.

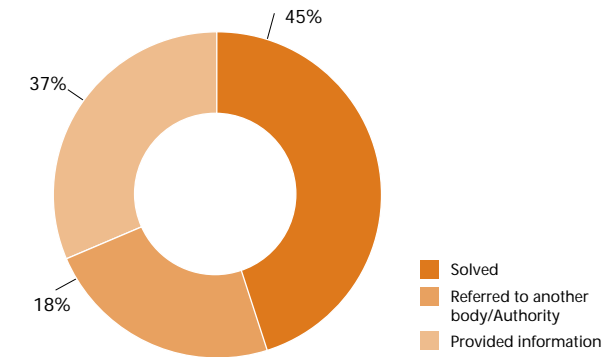
OUTCOMES

The following key performance indicators serve to illustrate the main outcomes of the MCA activities with respect to this strategic objective.

MOVEMENTS IN THE ELECTRONIC COMMUNICATIONS PRICE INDEX

- Nearly all low-end tier broadband packages were upgraded to a minimum download speed of 2 MB, with the exception of the 256 kbps product of OnVol. GO and Melita Cable attached a 12 GB and 10 GB download limit respectively to this product whilst leaving the price set at e13.86. 5 MB and 6 MB download speed have substituted existing 4 MB products together with significant increases in download limits with no change in price. GO maintained the existing 4 MB products though at lower prices.
- Competition results in a decrease in fixed telephony prices.
- A number of special offers were provided in the TV market, including bundled offers.

PERCENTAGE OF COMPLAINTS DEALT WITH SATISFACTORILY



STRATEGIC OBJECTIVE 3

Contributing to the ongoing discussion, at an international level, on the consistent implementation and ongoing development of the electronic communications regulatory framework and related issues.

ERG/IRG PARTICIPATION

The Authority continued to participate actively in the work programme of both the Independent Regulators Group (IRG) and the European Regulators Group (ERG). This activity ensures that the Authority fulfils its obligation to contribute to the harmonized application of the electronic communications framework at a European level. It also enables the Authority

to accelerate its capacity building through networking and information sharing. The Authority contributed directly to work related to:

- the review of the regulatory framework;
- international roaming;
- mobile termination rates; and
- convergence.

The MCA also contributed to initiatives associated with making the ERG more effective. This included establishing the IRG as a legal entity, installing its own secretariat to provide research, analysis and logistical support and extend the monitoring of compliance with common positions.

INTERNATIONAL ROAMING

The MCA was extensively involved in the discussions taking place in the EU and leading up to the adoption of the Roaming Regulation. This European law ensures that mobile phone users do not pay excessive prices for roaming services when making and receiving calls while travelling within the EU. Apart from ensuring transparency, this regulation enables users to benefit from a 'Eurotariff', which sets maximum per minute price limits that mobile operators can charge for calls made and received. These price caps will be further reduced in June 2008 and June 2009.

The MCA participated and continues to participate actively in the related activities of the ERG, with a view to ensuring that the work of this group on roaming

adequately takes into account the implications on local market players, small markets and small island nations such as Malta.

The Authority also provided advice to Government in the intensive work undertaken at a Council Working Party level, during the negotiation of the terms of this Regulation.

By 30 December 2008, the European Commission will evaluate whether the objectives of this Regulation have been achieved. It will also review developments in the wholesale and retail charges for the provision to roaming voice and data communication services, including SMS and MMS, and shall, if appropriate, include recommendations regarding the need to regulate these services.

The European Commission is also required to report on the effects of the Regulation on the competitive situation of smaller, independent or newly started operators.

Should the need arise, the European Commission is required to submit a proposal to the European Parliament and the Council.

The MCA shall be closely following the process leading up to the adoption of the report and subsequent actions at a European level.

The Regulation is set to expire in June 2010 unless the European Commission, the European Parliament and the member states believe that roaming regulations need to be maintained, or further strengthened.

VISIT BY COMMISSIONER VIVIANE REDING

In July, the Authority hosted the European Commissioner for the Information Society and Media, Viviane Reding, at its premises. Accompanied by members of her Cabinet, the Commissioner met with the Chairman, Board

Members and senior officials of the Authority. The visit provided both parties an opportunity to discuss matters of mutual interest, such as the impact of the electronic communications framework on the local market,

with particular emphasis on the broadband market, the impact of convergence on the competitive environment, as well as the upcoming review of the electronic communications framework.

ELECTRONIC COMMUNICATIONS FRAMEWORK REVIEW

The Electronic Communications Framework, made up of five directives, came into force in July 2003. In order to ensure that the framework reflects the developments of the market, the framework was to be reviewed within three years of the entry into force. The European Commission started this process in 2006 and following consultation with interested parties, in November 2007, published its proposals aimed at amending certain aspects

of the current directives.

This has started a long process of discussions at both a local and EU level which should lead to the adoption of amendments to the framework in 2010. The amendments will subsequently have to be transposed into national legislation. As indicated earlier, during 2007 the Authority contributed heavily to the work of the ERG in relation to the review of the framework including, the submission of the Group's views to the Commission. The

MCA also provided its advice to Government in relation to the latter's response to the consultation of the Commission in this regard. As the NRA, during the coming years, the MCA will continue its work as a member of the ERG and will also play the pivotal role of seeking the input and views of stakeholders on the proposed amendments and advising the Maltese Government about the various options and optimal way forward.

IMPLEMENTATION REPORT

The European Commission publishes a report about European electronic communications regulation and market developments on an annual basis. As in previous years, the Commission's review considered the latest developments in the main market segments

(particularly broadband, mobile and fixed services markets), the regulatory environment, as well as consumer issues. The report contains a general overview of the overall European electronic communications market, as well as detailed country reports covering the way each member

state fared during the past year. In gathering the information for the country reports, in 2007, the Commission met with interested parties in the sector, including the local Authorities and industry players. This report is expected to be published in March 2008.

MOBILE SATELLITE SERVICES

A mobile satellite service is a service provided by a satellite system, which communicates with portable terrestrial terminals. Mobile satellite services can include, high-speed Internet access, mobile television, portable satellite telephones allowing phone calls to be made and received, public protection and disaster relief.

These services use radio spectrum that crosses national borders and are thus subject to

international or regional, rather than purely national regulation. Consequently, a coordinated single selection process is being developed to enable the selection of the satellite operators, which will use the spectrum in the same band throughout the member states. The European Commission has published a proposal outlining such procedures for the coordinated selection and authorisation process of part of the 2 GHz radio frequency

band at community level. This proposal, together with proposals made by other member states and the European Parliament, are currently being examined in detail by the MCA to enable it to advise Government on the various elements of the proposal with a view to ensuring that both EU-wide and national objectives for these services can be met.

EU COMMUNICATIONS RELEVANT TO THE ELECTRONIC COMMUNICATIONS SECTOR

The MCA provides input into the compilation of certain EU communications, either by responding to questionnaires from the European Commission, or directly through its participation in the various

Committees established under the EU legislative framework. Once adopted, the MCA analyses the final versions of these communications and takes internal steps when these directly impact its operations.

Furthermore, the Authority provides its views in relation to these communications to Government for any action deemed necessary at a national level. The MCA contributed to the following Communications.

| Key EU Communications relevant to the Electronic Communications Sector issued in 2007 | |
|---|----------------|
| European Electronic Communications Regulation and Markets 2006 (12th Report) | COM (2007) 155 |
| Radio Frequency Identification (RFID) in Europe: steps towards a policy framework | COM (2007) 96 |
| Rapid access to spectrum for wireless electronic communications services through more flexibility | COM (2007) 50 |
| The ITU World Radiocommunication Conference 2007 | COM (2007) 371 |
| Strengthening the Internal Market for Mobile TV | COM (2007) 409 |
| Market Reviews under the EU Regulatory Framework (2nd Report) – Consolidating the internal market for electronic communications | COM (2007) 401 |
| Proposal for a directive to repeal Council Directive 87/372/EEC on frequency bands to be reserved for the coordinated introduction of public pan-European cellular digital land-based mobile communications in the Community | COM (2007) 367 |
| Proposal for a Decision on the selection and authorisation of systems providing mobile satellite services | COM (2007) 480 |
| Progressing GALILEO: reprofiling the GNSS programme | COM (2007) 534 |
| Common Position of the Council on the adoption of a Directive of the European Parliament and of the Council amending Directive 97/67/EC concerning the full accomplishment of the internal market of Community postal services | COM (2007) 695 |
| Amended proposal for a regulation of the European Parliament and of the Council on the further implementation of the European satellite radionavigation programmes (EGNOS & GALILEO) | COM (2007) 535 |
| Report on the outcome of the review of the EU regulatory framework for electronic communications networks and services in accordance with Directive 2002/21/EC and summary of the 2007 reform proposals | COM (2007) 696 |
| Proposal for a Directive amending directives 2002/21/EC on a common regulatory framework for electronic communications and services, 2002/19/EC on access to, and interconnection of, electronic communications networks and services, and 2002/20/EC on the authorisation of electronic communications networks and services | COM (2007) 697 |
| Proposal amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks, Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector and Regulation (EC) No 2006/2004 on consumer protection cooperation | COM (2007) 698 |
| Proposal for a Regulation establishing the European Electronic Communications Market Authority | COM (2007) 699 |
| Reaping the full benefits of the digital dividend in Europe: A common approach to the use of spectrum released by the digital switchover | COM (2007) 700 |
| Proposal for a Regulation of the EP and of the Council amending Regulation (EC) No 460/2004 establishing the European Network and Information Security Agency as regards its duration | COM (2007) 861 |

STRATEGIC OBJECTIVE 4

Facilitating the proliferation of broadband, in line with the i2010 objectives, via the development of the necessary regulatory environment.

IPv6 MIGRATION

An IPv6 task force representing a range of stakeholders including the Ministry for Investment, Industry and Information Technology, the University of Malta, the Malta Standards Authority and all the telecommunications networks and service providers was set up. The objective of the Task Force, led by the MCA, is to lay the groundwork for an eventual nationwide transition to IPv6. It established

a test bed running IPv6, which allows interested parties to gain v6 experience before going live on their own networks. Another priority of the task force is the dissemination of technical information relating to IPv6. The IPv6 task force held several meetings with Governmental institutions and stakeholders to discuss national IPv6 deployment and the establishment of incentives that could aid in

this transition. Furthermore, a number of awareness-raising activities, including lectures delivered to educational institutions and articles in the media, were undertaken. During 2008, it is expected that the IPv6 task force will be launching a national IPv6 Strategy to guide stakeholders' plans for the eventual migration to this new platform.

REVIEW OF BROADBAND STRATEGY

Achieving a high degree of broadband rollout is central to a country's economic and social development. In this respect, in May 2004, the MCA published a broadband strategy aimed at ensuring the availability of broadband services to meet the anticipated demand and utilisation throughout the Maltese territory

in the following 3 years. In 2007, the MCA reviewed this strategy and assessed progress achieved towards attainment of the set objectives. Indeed, at the end of the three year strategy period, three of the four listed objectives had been broadly achieved. The last objective, namely, the number of users accessing the Internet

via a broadband connection, was still lagging behind the targeted 66%. The review of the broadband document and the objective attainment to date, enabled the development of a revised strategy for the subsequent 3 years. It is anticipated that the final draft of this strategy will be published for consultation in 2008.

REVIEW OF BROADBAND PROVISION

Towards the end of 2006, the MCA received requests for a further extension of the rollout obligations stipulated in the BWA licences. The MCA analysed these requests taking into account the commercial and social implications this decision would have. In March 2007, the MCA published its final decision, declining such requests. However, taking into consideration the time elapsed from date of original submissions, the MCA granted a 3-month extension.

Consequently, the first deadline for the rollout obligations was moved to July 2007. Vodafone launched its service in June 2007. During the second and third quarters of 2007, the MCA verified mobile operators' compliance with the above rollout obligations. This exercise confirmed that Vodafone is fully compliant with its rollout obligations. Cellcom and GO have not yet rolled out. A fine was imposed on these operators. The MCA is

concerned about this state of affairs for the following reasons:

- it impacts on consumer choices;
- does not assist in broadband proliferation; and
- under-utilises radio spectrum.

In 2008, the MCA will continue to closely monitor the developments in this field and take enforcement action if necessary.

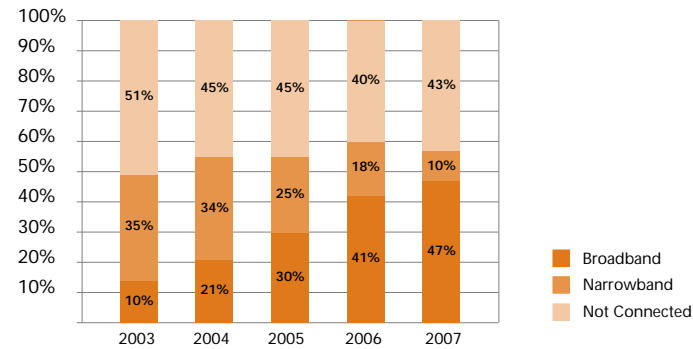
OUTCOMES

The following key performance indicators serve to illustrate the main outcomes of the MCA activities with respect to this strategic objective.

CHANGE IN BROADBAND PENETRATION IN TERMS OF SUBSCRIBER NUMBERS AND % OF POPULATION

INTERNET EVOLUTION AS % OF HOUSEHOLDS

Broadband uptake has increased in 2007. However, this has been due to a shift from narrowband to broadband. This scenario can change in 2008 if there is any take-up from that part of the population that have no connection whatsoever.



NUMBER OF BROADBAND INFRASTRUCTURES AND SERVICE PROVIDERS

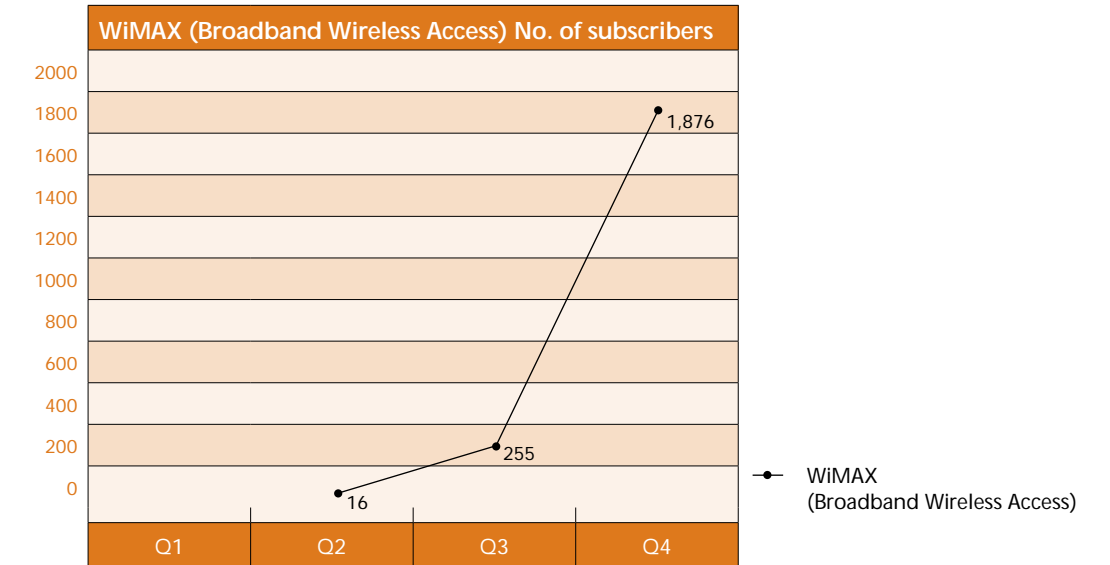
- Melita Cable (Cable Internet)
- GO (DSL/3G/HSDPA)
- Vodafone (3G/HSDPA/WiMAX)

Vodafone launched its WiMAX based BWA service in June 2007 and has been gradually extending the coverage throughout the Maltese islands.

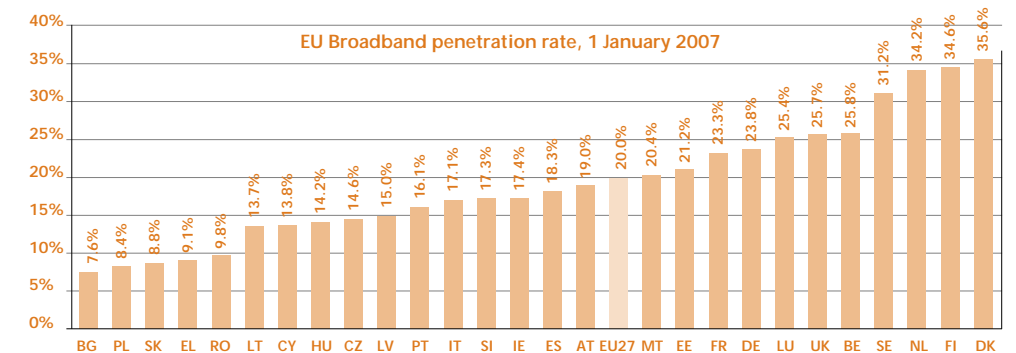
VARIETY OF TECHNOLOGY PLATFORMS ON WHICH BROADBAND SERVICES ARE OFFERED

An additional platform rolled-out in 2007.

Broadband services are currently offered through cable, DSL, HSDPA, 3G and WiMAX platforms.



ASSESSMENT OF MALTA'S PERFORMANCE IN THIS AREA VIS-À-VIS THE LISBON OBJECTIVES



Postal Services



STRATEGIC OBJECTIVE 1

Attaining, within envisaged timeframes, a liberalised postal market that ensures ease of entry to new undertakings and sustainable competition.

Protecting the integrity of mail

During 2007, a mail integrity audit was carried out in line with the decision published in June 2006. The audit indicated areas where Maltapost is in line with the minimum mail

integrity standards and areas where some improvements are required. During 2008, the MCA will continue to ensure that all postal operators comply with the established minimum standards for protecting the integrity of mail.

The obligations relating to mail integrity aim at minimising the exposure of postal articles to the risk of loss, theft, damage and/or interference, as well as minimising the risk of offences as outlined in the Postal Services Act.

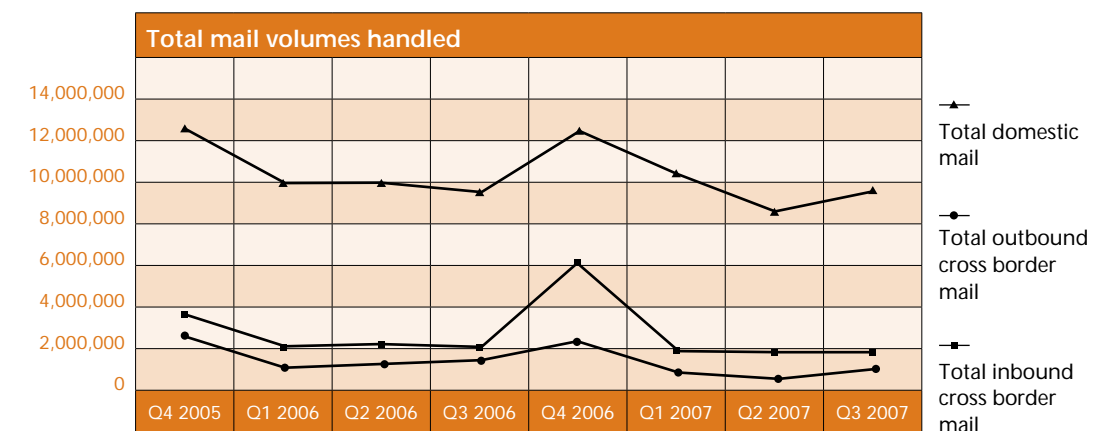
OUTCOMES

The following key performance indicators serve to illustrate the main outcomes of the MCA activities with respect to this strategic objective.

NUMBER OF POSTAL SERVICES PROVIDERS IN THE VARIOUS POSTAL AREAS

| | | |
|--------------------------------|--|--|
| Reserved area | Maltapost | |
| Universal Service area | Maltapost and Premier Post | |
| Outside Universal Service area | Airsped Express Ltd. Airswift Couriers Ltd. Aramex (Malta) Ltd. Arrow Express Ltd. C & C Express Ltd. DHL International Ltd. Gazelle Couriers Co. Gozo Express Services | Miles Express Cargo Systems Ltd. Pony Express (Malta) Ltd. Security Services Malta Ltd. Triton Logistics Ltd. Tubeline Ltd. World Express Logistics Ltd. Xpress Logistics Ltd. |

POSTAL VOLUMES IN THE VARIOUS AREAS OF THE POSTAL SECTOR



As in previous years, apart from the peaks that are normally experienced during the Christmas period, a substantial decreasing trend continued to be experienced in the domestic mail handled. Trends in outbound cross border mail and the inbound cross border mail have remained rather constant.

STRATEGIC OBJECTIVE 2

Ensuring that residential and business consumers of universal postal services get the best value-for-money from Maltese postal service providers.

SAFEGUARDING CONSUMER INTERESTS

Quality of Service monitoring

In December 2007, the MCA published its decision on the new QoS targets to be achieved by Maltapost. The decision takes into account the customer perception surveys carried out in 2006, Maltapost's overall performance and efficiency gains during the past years and the efficiency gains envisaged for the coming years.

In addition, the decision also includes the requirement for Maltapost to measure and monitor the bulk mail service. The ultimate aim of this decision is to enhance the customer's experience in relation to postal services.

Postal service schemes

Postal service schemes regulate the commercial relationship between Maltapost and its customers. These schemes outline the charges, terms and conditions of all products and services offered by Maltapost, as well as the procedures for dealing with complaints and related compensation mechanisms.

During 2007, the MCA reviewed and approved the postal service schemes related to the following products and services;

- business reply service;
- newspaper post;
- P.O. box;
- private posting box;
- redirection of mail; and
- temporary mail custody.

The MCA will review and approve additional postal schemes during the course of 2008.

Review of new postcode system

Postcodes are important not only to ensure that a postal item can be delivered to the person for whom it is intended, but also because they contribute to quality of service in terms of timely delivery. This is because as a unique, universal identifier, a postcode unambiguously identifies the addressee's locality and assists in the sorting and delivery of mail items.

During 2007, Maltapost introduced a new postcode system. The MCA reviewed the new postcode system to ensure that it is based on best practice. Furthermore, the Authority also monitored the associated public information campaign to ensure an effective transition to the new system in the interest of consumers. It is anticipated that this new postcode system will lead to an overall reduction in the time taken to deliver postal items and a reduction in incidences of misdelivery of mail.

Review of postal operators' postmarking obligations

The identification of the postal operator is fundamental to the effective management of postal operational issues. The USP is therefore obliged to clearly mark all postal items,

primarily to indicate the service provider and prepayment of postage. During 2007, the MCA worked with Maltapost to devise a postal service scheme that ensures that all postal articles delivered by Maltapost carry its postmark together with the date when it acknowledged receipt of the postal article. The MCA published a directive in this respect.

Postal sector survey

The MCA published the results obtained from three customer perception surveys regarding the postal sector. The surveys measured the perception of households, small businesses and large bulk mailers. Overall, results show that there is a general level of satisfaction with the quality of the postal services provided by Maltapost, particularly the time of delivery, availability of public letter boxes, time taken to deliver letters and information available regarding services, amongst others. The surveys also indicated the importance of services offered by the post offices. The surveys highlighted areas where more public awareness is required, such as the complaint handling procedures and awareness of the appropriate size of private letter boxes. Consumer guides addressing these issues will be issued in 2008.

REGULATORY OBLIGATIONS

Establishment of Universal Service Obligations (USOs)

One of the Authority's main responsibilities with regards to the postal sector is to ensure an affordable, high quality, universal postal service in Malta. During 2007, the MCA reviewed the obligations incumbent on Maltapost as the USP and the rights of the consumer with

respect to access to services, the guarantee of daily delivery and the publication of information on available postal services. The MCA intends to publish a consultation paper during 2008.

Business reply service scheme

Following a complaint lodged by the Inland Revenue

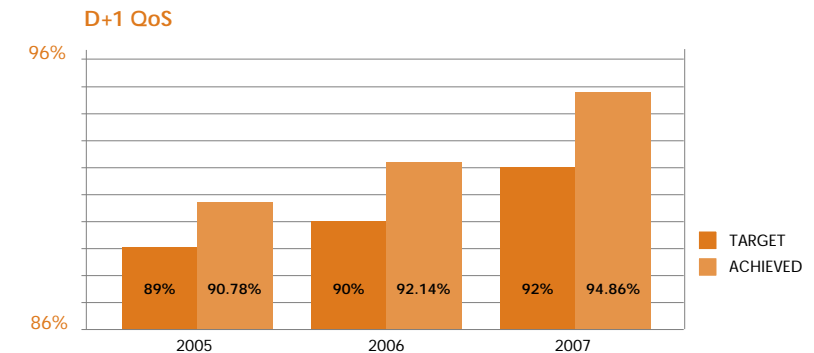
Department (IRD) against Maltapost with regards to the delivery of letters to the IRD without postage, the operator was directed to amend its business reply service scheme, or to establish a new scheme to address the delivery of such correspondence. Subsequent to the intervention of the MCA, the parties arrived at an amicable agreement and the IRD withdrew its complaint.

OUTCOMES

The following key performance indicators serve to illustrate the main outcomes of the MCA activities with respect to this strategic objective.

QoS PERFORMANCE STATISTICS IN RELATION TO SET TARGETS

In a 3-year succession, Maltapost exceeded its QoS targets for D+1. A positive variance was also registered in the D+2 and D+3 targets in the same period.



STRATEGIC OBJECTIVE 3

Contributing to the ongoing discussion, at an international level, on the consistent implementation and development of the postal regulatory framework and related issues.

REVIEW OF THE REGULATORY FRAMEWORK FOR POSTAL SERVICES

During 2007, the MCA advised the Ministry for Competitiveness and Communications on the review of the EU postal directive. The review focused on the European Commission's proposal to open EU postal markets fully to competition whilst safeguarding the universal

service provision. This will mean that national operators will no longer have a monopoly on mail below 50 grams, known as the 'reserved area'.

The revised Postal Services Directive establishes 31 December 2010 as the final date for achieving full market liberalisation. However, it

introduces the possibility for some member states, including Malta, to postpone this date by a maximum of two years. The new Directive is the final step in a long reform process that has already seen large areas of EU postal markets opened to competition, with very positive results.



STRATEGIC OBJECTIVE 1

The consolidation of the institutional and organisational elements on a national scale, that are required for the achievement of a solid e-Commerce environment that inspires trust in all those who use it.

AWARENESS-RAISING

E-Commerce Guidelines

The MCA's role with regards to e-Commerce is predominantly determined by the provisions of the e-Commerce Act. However, it is recognised that legal compliance by service providers is not enough for the full potential of e-Commerce to be realised. Existent barriers to the provision of e-Commerce need to be addressed.

In a survey carried out by the MCA, it resulted that one of the barriers identified by Maltese service providers is the lack of availability of a single repository for information on matters relevant to e-Commerce service provision. Consequently, during 2007, the MCA, with input from the Ministry for

Investment, Industry and Information Technology (MIIT) and Malta Enterprise, worked on the development of a set of guidelines which explain the key fields of law pertinent to online services, the relevant licensing requirements and procedures, as well as government services and initiatives intended to facilitate the take-up of e-Commerce.

It is intended that the guidelines will be launched in 2008. The publication of these guidelines will be accompanied by an information campaign, in order to ensure awareness of the existence of the guidelines and an improved understanding of the key messages contained therein.

E-Commerce forum

With the increased take up of e-Commerce services during 2007, the MCA launched its first e-Commerce forum. This was held in June 2007 and was well attended by representatives of the industry, policy makers and the general public. The forum provides a platform for discussion on a range of topics, as well as an opportunity for stakeholders to network. The second forum will be held in 2008.

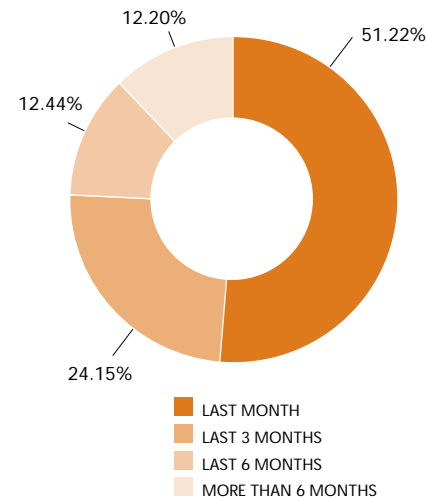
MARKET RESEARCH

Three surveys were conducted during 2007 aimed at measuring trends in e-Commerce usage and perceptions.

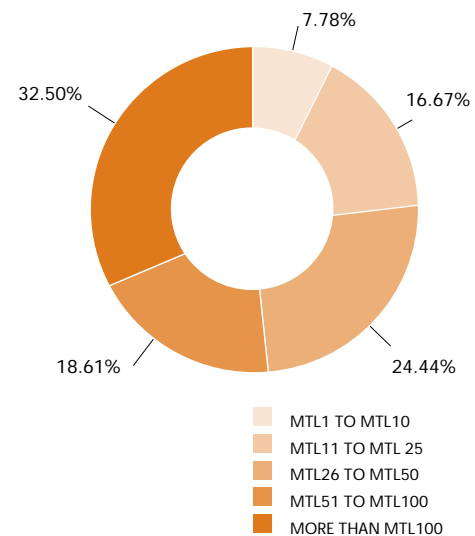
The surveys collected information regarding what types of products are purchased online, the frequency of e-Commerce transactions and online expenditure. Furthermore, the surveys also looked into consumers perceptions regarding security issues and problems encountered online.

The results of these surveys enabled the Authority to identify areas where increased awareness is required with regards to e-Commerce. This information provided the basis for the compilation of an e-Commerce awareness strategy, which will be implemented during 2008.

FREQUENCY OF ONLINE PURCHASING



AMOUNT SPENT DURING THE LAST 6 MONTHS



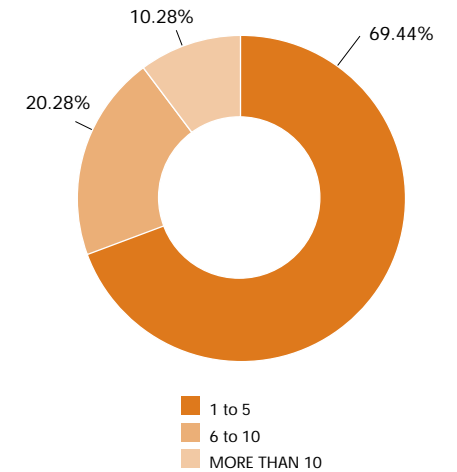
Monitoring exercise

During 2007, the MCA embarked on an exercise to obtain a general indication of the number of Maltese enterprises that have a website and how many offer information society services (online services). The exercise also enabled the MCA to gauge compliance with the obligations set out in the e-Commerce Regulations. The exercise indicated that in excess of 25% of businesses have a website, with a substantial amount offering information society services, none of which however, are fully compliant with the regulations.

In this respect, during the course of 2008, the MCA will be embarking on a comprehensive communications campaign, primarily targeting businesses with the aim of raising awareness with regards to the obligations at law and the role of the MCA in monitoring compliance.

During 2008, the Authority shall also continue with an exercise, initiated in 2007, which aims to provide definitive statistical data on the number of Maltese enterprises, including micro enterprises, offering e-Commerce services.

NO. OF ITEMS PURCHASED DURING THE LAST 6 MONTHS





Inside MCA

INFORMATION MANAGEMENT STRATEGY – CREATING A CLEAR VISION

Information management and the application of IT in the pursuit of this, have a marked impact on the performance of the Authority. During 2007, the MCA launched its Information Management (IM) Strategic Plan 2007-2009. The plan provides a context for the application of ICT in the conduct of the Authority's business operations. The IM strategy looks at the activities of the organisation and rationalises the internal processes, holistically integrating people, processes and technology and therefore, facilitating the use of the information resources of the Authority. The plan is intended to attend to the needs of the

Authority and will consequently be reviewed annually.

Knowledge management initiative

Following a feasibility analysis, the Authority embarked on a project to develop a coherent approach to the management of information resources. This project focuses programmatically on:

- strengthening the communications infrastructure;
- improving tools for using data and information;
- providing tools for collaborative action and

- information sharing;
- initiating steps for integrating information systems; and,
- improving the knowledge sharing culture within the organisation.

This environment will introduce increased efficiency and reduce complexity of the Authority's core processes.

Enterprise resource planning initiative

The enterprise resource planning initiative has the objective of integrating business processes across

functional units onto a single enterprise-wide information system. This application shall be integrated within a unified collaborative application environment and will deliver measurable business results and optimisation of processes.

Regulatory information management system

The regulatory information management system is another innovative strategic initiative undertaken in order to provide quick and easy access to up-to-date information and statistics. During 2007, a

feasibility study was conducted, leading to an invitation to tender in early 2008.

The Authority will continue its efforts to improve its knowledge management with the aim of rendering a better service to its stakeholders, whilst increasing its efficiency.

EXTERNAL RELATIONS

Revision of radio communications licences & processes

Historically, all boat owners, ranging from the smallest leisure craft to ships on the Malta register were required to secure licensing for their radio equipment from the Wireless Telegraphy Department (WTD) and to have such licences renewed annually. A priority of the MCA on assuming responsibility for this activity was to simplify these processes in the interest of boat owners. Rather than requiring them to deal with the MCA for their radio licence and the Malta Maritime Authority for their maritime licence, the MCA proposed an overhaul of procedures to Government such that owners will deal with one agency, with the attendant fees where appropriate, being folded into one licence.

To this end, the Authority continued with intensive work related to the rationalisation of radiocommunications licensing and related processes. It proposed the introduction of a general authorisation to replace individual licences for VHF maritime radios. The Authority also worked in close collaboration with the Maritime Authority and the Fisheries and Conservation Department to ensure the provision of marine radio-related services on a one-stop-shop basis by vessel registration authorities. As a result of the general authorisation, which came into force on 1st January 2008, VHF radio owners will no longer be required to pay the annual fee associated with the individual licence and the conditions of use of the equipment are now reflected

in an informative manner in the general authorisation. The licence fees associated with other marine radio equipment were also rationalised. The one-stop-shop services are expected to be fully operational by the end of the 1st Quarter 2008.

Streamlining of MCA & NSO data collection activities

An agreement was reached with the NSO in order to streamline the respective data collection procedures. This is aimed at reducing duplication in the data collected by the two organisations and also reducing the risk of material discrepancies in this regard. This agreement also reduced the administrative burden on the parties concerned as well as the reporting agents.

HR INITIATIVES

FHRD award

In December 2007, the MCA was granted the Excellent People Initiative award by the Foundation for Human Resources Development. The MCA submitted its report in light of the migration of the technical staff of the ex-WTD employees to the MCA. The MCA was granted this award on

the basis of the implementation strategy, employees' involvement and participation in the Authority's activities, as well as performance and quality measures and results.

Training activities

The MCA organised a number of technical and regulatory

training programmes for its staff through funding obtained from the European Union. The lecturers providing the training were all internationally recognised. The areas covered included new wireless technologies, maritime communications, EMF measurement methodologies and spectrum management policies and regulation.

The MCA also engaged in a secondary twinning light project. Two technicians visited BNetzA, the German NRA for practical training focusing on market surveillance regarding radio and telecommunications terminal equipment.

The MCA continued to utilise various employment and traineeship schemes, including the Job Employment Scheme, the Technical Apprentice Scheme, Student Internships and the International Association for the Exchange of Students for Technical Experience (IAESTE).

Corporate social responsibility

The MCA organised various activities with a view to raising funds for charity. It donated in excess of e 2700 to organisations such as the Hospice Movement, SPCA and Razzett tal-Hbiberija.

MCA FORA

Half-day legal forum

In February 2007, a half-day forum entitled “Electronic Communications – The Legal Challenges” was organised by the Authority and the Chamber of Advocates aimed primarily at stakeholders and legal practitioners.

Annual conference

The MCA’s 5th Annual conference was held on 26th October 2007. It addressed the topic of Convergence and considered the impact of this phenomenon on networks and services, as well

as regulation. The conference contributed important input into this very topical debate and enabled an exchange of views, in particular with regards to anticipated future developments and challenges as a result of convergence.

LITIGATION AND LEGISLATIVE AMENDMENTS

During 2007, seven new appeals were filed before the Communications Appeals Board, of which three dealt with postal services and the others related to electronic communications:

| Decision appealed | Appellant | Status |
|--|-----------|--------------------------|
| Decision imposing an obligation on Maltapost to ensure that all postal articles delivered bear a mark or stamp that identifies the postal operator | Maltapost | Decided |
| Decision regarding the establishment of schemes to cater for postage free delivery of mail | Maltapost | Withdrawn |
| Directive regarding the establishment of schemes to cater for postage free delivery of mail | Maltapost | Withdrawn |
| Decision on Winback | Vodafone | Pending |
| Decision on Emergency Services | GO | Pending |
| Decision on the imposition of sanctions further to the carriage of advertisements in breach of the Cable Systems (General) Regulations. | Melita | Pending |
| Fine for failure to interconnect in a reasonable time. | GO | Closed on 25th June 2007 |

A new lawsuit was filed against the Authority and the Office of the Attorney General contesting the requirement that undertakings in electronic communications contribute towards the cost of the unified

legal interception system. This case is currently being heard. As with the previous year, 2007 was characterised by disputes involving different operators alleging anti-competitive practices. This

incidence of disputes has continued to highlight the need to update the existing regulatory regime relating to the regulation of sectoral competition issues.

| Inter-operator complaints and disputes being addressed by the MCA | | | | |
|---|-----------------|------------|--|-------------------------------|
| Complaint Date | Complainant | Against | Subject | Status |
| | ISPs | Datastream | Electronic Point of Sale (EPOS): various | Awaiting outcome re Market 12 |
| 04/10/06 | ISPs | Datastream | Requirement of prepayment | Awaiting outcome re Market 12 |
| 04/10/06 | ISPs | Datastream | Lack of provision of service level agreement | Awaiting outcome re Market 12 |
| 12/03/07 | Sky | Melita | Unfair commercial practices, including cross-subsidisation and discrimination between Onvol and Hello | Closed on 10th January 2008 |
| 28/03/07 | Melita | GO | Alleging breach of cost orientation and unreasonable bundling by GO’s special offer of free set top box to GO fixed subscribers who subscribe to Multiplus | Under investigation |
| 13/02/07 | Sky | Melita | Melita’s Hello service does not fulfil PATS requirements – in particular access to emergency service | Closed on 10th Jan 2008 |
| 15/06/07 | Mobile Ventures | GO | Lack of access to MVNOs | Dispute withdrawn |
| 15/06/07 | Mobile Ventures | Vodafone | Lack of access to MVNOs | Dispute withdrawn |
| 17/07/07 | Sky | GO | Unwarranted delays in processing CPS applications in order to carry out winback | Closed on 10th January 2008 |
| 20/07/07 | Sky | GO | Winback tactics | Dispute rejected. No appeal |
| 01/08/07 | Sky | GO | Misuse of rejection codes in breach of interconnection agreement | Closed on 10th January 2008 |
| 06/09/07 | Vodafone | GO | Winback of Gozo Channel | Closed on 12th November 2007 |

Amendment to communications laws

On the 28th December 2007 Act XXX of 2007 was published amending various communications laws administered by the Authority.

Important changes brought about by these amendments include a common dispute resolution process applicable to the sectors falling within the remit of the Authority, a review of the sanctions to ensure more effective compliance,

including an upward change to the amount of administrative fines that may be imposed and changes to the authorisation of radiocommunications apparatus facilitating the process applicable thereto.

Financial Statements



GENERAL INFORMATION

The Malta Communications Authority was established by virtue of the Malta Communications Authority Act, Cap. 418.

MEMBERS OF THE AUTHORITY

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

BANKERS

Bank of Valletta plc
Preluna Towers
Tower Road
Sliema
MALTA

HEAD OFFICE

Valletta Waterfront
Pinto Wharf
Valletta FRN 1913
MALTA

AUDITORS

Ernst & Young
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
MALTA

REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Authority submit their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITY

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 1 January 2001.

Furthermore, by virtue of Legal Notice 835 of 2004, the Minister for Competitiveness and Communications nominated the Malta Communications Authority to fulfil the functions for the management of authorisations in respect of apparatus for which a frequency assignment is required, or used by merchant ships or other seagoing vessels, with effect from 30 July 2004.

RESULTS

By virtue of the Electronic Communications (Regulation) Act and in accordance with the Electronic Communications Networks and Services (General) Regulations, 2004 a new regulatory framework came into force as from 14 September 2004, which replaced the individual licensing regime. Authorised undertakings shall pay the Authority administrative charges to cover the costs incurred by the Authority and fees for rights of use of scarce resources.

The total net operating income generated by the Authority during the year amounted to Lm3,335,309 out of which licensing and usage fees for scarce resources, amounting to Lm2,144,153, were transferred to the Government of Malta. After meeting all expenditure of Lm1,212,180, the Authority closed off the year with a surplus, net of taxation, of Lm8,453.

MEMBERS

The Members who served during the year under review were as noted on page 49.

In accordance with Part II, Section 3 of the Malta Communications Authority Act, Cap. 418, the Chairman and the other Members of the Authority are appointed by the Minister responsible for communications. The Members of the Authority are appointed by the Ministry for a maximum period of three years but may be re-appointed on the expiration of their term of office.

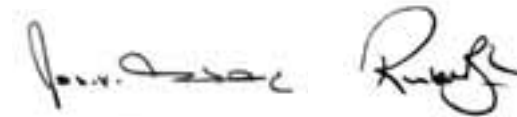
STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE AUTHORITY

The Malta Communications Authority Act, Cap. 418 section 20 requires the Authority to keep proper books of accounts and other records in respect of its operations and to prepare a statement of accounts in respect of each financial year.

AUDITORS

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

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



J. V. TABONE
Chairman

R. BALZAN
Member

Valletta Waterfront
Pinto Wharf
Valletta FRN 1913
MALTA

18 March 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MALTA COMMUNICATIONS AUTHORITY

We have audited the financial statements of the Malta Communications Authority, which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set on pages 57 to 70.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Malta Communications Authority Act, Cap. 418.

This copy of the audit report has been signed by Anthony Doublet (Partner) for and on behalf of

Ernst & Young
Certified Public Accountants

18 March 2008

INCOME STATEMENT

| | Notes | 2007 Lm | 2006 Lm |
|---------------------------------------|-------|--------------------|-------------|
| Income | | | |
| Revenues | 4 | 3,358,177 | 3,242,914 |
| Other (expense)/income | 5 | (22,868) | 42,800 |
| | | 3,335,309 | 3,285,714 |
| Expenditure | | | |
| Staff costs | 6 | (583,501) | (531,270) |
| Depreciation | 12 | (77,841) | (70,621) |
| Operating and administrative expenses | 7 | (550,838) | (473,269) |
| | | 2,123,129 | 2,210,554 |
| Operating surplus | | | |
| Finance revenue | 8 | 37,858 | 35,188 |
| Finance costs | 9 | (2,624) | (1,746) |
| | | 2,158,363 | 2,243,996 |
| Transfer to government | 10 | (2,144,153) | (2,164,711) |
| | | 14,210 | 79,285 |
| Surplus before taxation | | | |
| Taxation | 11 | (5,757) | (1,364) |
| | | 8,453 | 77,921 |

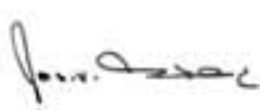
The accounting policies and explanatory notes on pages 57 to 70 form an integral part of the financial statements.

BALANCE SHEET as at 31 December 2007

| | Notes | 2007 Lm | 2006 Lm |
|-------------------------------------|-------|------------------|------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 229,978 | 253,901 |
| Current assets | | | |
| Trade and other receivables | 13 | 1,015,572 | 1,091,656 |
| Cash at bank and in hand | | 548,942 | 536,095 |
| | | 1,564,514 | 1,627,751 |
| TOTAL ASSETS | | 1,794,492 | 1,881,652 |
| EQUITY AND LIABILITIES | | | |
| Reserve | | | |
| Retained earnings | 14 | 76,409 | 67,956 |
| Non-current liabilities | | | |
| Finance lease liability | 18 | 22,206 | 28,270 |
| Current liabilities | | | |
| Trade and other payables | 15 | 1,695,877 | 1,785,426 |
| Total liabilities | | 1,718,083 | 1,813,696 |
| TOTAL EQUITY AND LIABILITIES | | 1,794,492 | 1,881,652 |

The accounting policies and explanatory notes on pages 57 to 70 form an integral part of the financial statements.

The financial statements on pages 53 to 70 have been authorised for issue by the Members on 18 March 2008 and were signed on their behalf by:



J. V. TABONE
Chairman



R. BALZAN
Member

STATEMENT OF CHANGES IN EQUITY

| | Retained earnings Lm |
|--|-------------------------|
| FINANCIAL YEAR ENDED 31 DECEMBER 2006 | |
| Balance as at 31 December 2005 | (9,965) |
| Surplus for the year | 77,921 |
| Balance at 31 December 2006 | 67,956 |
| FINANCIAL YEAR ENDED 31 DECEMBER 2007 | |
| Balance as at 31 December 2006 | 67,956 |
| Surplus for the year | 8,453 |
| Balance at 31 December 2007 | 76,409 |

The accounting policies and explanatory notes on pages 57 to 70 form an integral part of the financial statements.

CASH FLOW STATEMENT

| | Notes | 2007 Lm | 2006 Lm |
|---|-------|----------------|-------------|
| Cash flows from operating activities | | | |
| Surplus before taxation | | 14,210 | 79,285 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 77,841 | 70,621 |
| Transfers to government | | 2,144,153 | 2,164,711 |
| Loss on disposal of property, plant and equipment | | - | 3,921 |
| Interest receivable | | (37,858) | (35,188) |
| Interest payable | | 2,624 | 1,746 |
| Provision for bad debts | | (9,718) | 9,718 |
| Operating surplus before working capital changes | | 2,191,252 | 2,294,814 |
| Decrease/(increase) in trade and other receivables | | 87,890 | (24,277) |
| Increase in trade and other payables | | 106,914 | 206,337 |
| Cash generated from operations | | 2,386,056 | 2,476,874 |
| Interest received | | 36,858 | 33,038 |
| Interest paid | | (3,712) | (2,838) |
| Taxation refund | | - | 3,256 |
| Taxation paid | | (1,085) | (1,364) |
| NET CASH FROM OPERATING ACTIVITIES | | 2,418,117 | 2,508,966 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (53,918) | (232,691) |
| Cash flows from financing activities | | | |
| Funds paid to government | | (2,345,288) | (2,199,441) |
| Payment of finance lease liability | | (6,064) | - |
| NET CASH USED IN FINANCING ACTIVITIES | | (2,351,352) | (2,199,441) |
| NET MOVEMENT IN CASH AND CASH EQUIVALENTS | | 12,847 | 76,834 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 536,095 | 459,261 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 17 | 548,942 | 536,095 |

The accounting policies and explanatory notes on pages 57 to 70 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SCOPE AND FUNCTIONS OF THE AUTHORITY

The Malta Communications Authority was established on 1 January 2001 by virtue of the Malta Communications Authority Act Cap. 418 of the Laws of Malta. The Authority is a body corporate having a distinct legal personality with its legal representation jointly vested in the Chairman and the Director General.

The purpose of the Authority is to ensure freedom of communication and that communication 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, Cap. 418 of the Laws of Malta, 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 Electronic Communications (Regulation) Act, Cap. 399 of the Laws of Malta 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. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared under the historical cost convention and are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Malta Communications Authority Act, 2000. The accounting policies adopted are consistent with those applied during the previous years.

Reporting currency

These financial statements are presented in Maltese Lira. However, following Malta's entry into the Euro Zone (note 21), as from next year, the Authority's reporting currency will be in Euro.

3. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

3.1 CHANGES IN ACCOUNTING POLICIES

Standards, interpretations and amendments to published standards effective in 2007

The accounting policies that have been followed were those followed in the previous year except that the Authority has adopted these newly revised standards and interpretations effective for accounting periods beginning on 1 January 2007. The changes in accounting policies result from adoption of the following new or revised standards.

- IFRS 7- Financial Instruments: Disclosures
- IAS 1- Amendment-Presentation of Financial Statements
- IFRIC 8- Scope of IFRS 2
- IFRIC 9- Reassessment of Embedded Derivatives
- IFRIC 10- Interim Financial Reporting and Impairment

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3.1 CHANGES IN ACCOUNTING POLICIES - *continued*

IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Authority's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

The amendment made to IAS 1 did not have any effects on the financial performance or position of the Authority. It did however give rise to additional disclosures. The amendment to IAS 1 requires the Authority to make new disclosures to enable users of the financial statements to evaluate the Authority's objectives, policies and processes for managing capital. These new disclosures are shown in Note 20.

The adoption of these revisions to the requirements of IFRS did not result in substantial changes to the Authority's accounting policies.

IFRIC 8, 9 and 10 are not applicable to the Authority's operations and hence did not have any effect on the financial performance and position of the Authority neither did they give rise to additional disclosures.

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

Certain new standards, amendments and interpretations to existing standards have been published that would have been effective for the Authority's accounting periods beginning on or after 1 January 2008 or later periods. The Authority has not early adopted these provisions and the Authority's members are of the opinion that there are no requirements that will have a possible impact on the Authority's financial statements in the period of initial application.

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

IFRS 2 – Share Based Payments (*effective for financial years beginning on or after 1 January 2009*). IFRS 2 is not relevant to the Authority's operations.

IFRS 3 - Business Combinations (*effective for financial years beginning on or after 1 July 2009*). IFRS 3 is not relevant to the Authority's operations.

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

IAS 1-Presentation of Financial Statements – Revised (*effective for financial years beginning on or after 1 January 2009*). The Authority assessed the impact and concluded that certain additional disclosures would be necessary upon its application.

IAS 23-Borrowing Costs – Revised (*effective for financial years beginning on or after 1 January 2009*). IAS 23 will have no impact on the Authority's financial statements.

IAS 27-Consolidated and separate financial statements (*effective for financial years beginning on or after 1 July 2009*). IAS 27 will have no impact on the Authority's financial statements.

IAS 32- Financial Instruments: Presentation (*effective for financial years beginning on or after 1 January 2009*). The amendments to IAS 32 are not relevant to the Authority's operations.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3.1 CHANGES IN ACCOUNTING POLICIES - *continued*

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

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

IFRIC 13-Customer Loyalty Programmes (*effective for financial years beginning on or after 1 July 2008*). IFRIC 13 is not relevant to the Authority's operations.

IFRS 14- IAS 19- The Limit of Defined Benefit Asset, Minimum Funding Requirements and their interaction (*effective for financial years beginning on or after 1 January 2008*). IFRIC 14 is not relevant to the Authority's operations.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

Revenue from licences is recognised on the issue of a new licence or on the renewal date. Such revenue is recognised in the income statement over the year to which the licence relates. The unexpired portion of annual fees billed in advance is recognised as deferred income in the balance sheet.

Administration charges consist of amounts receivable from operators in respect of costs incurred by the Authority in ensuring compliance with the regulatory framework.

Usage fees consist of amounts collected by the Authority for rights of use of scarce resources as established under Part B of the Eleventh Schedule of the Electronic Communications Networks and Services (General) Regulations, 2004.

Amounts contributed by the Government of Malta are recognised when the Ministry of Finance approves such allocation.

Interest income is recognised as the interest accrues.

Retirement benefit costs

The Authority contributes towards the state pension in accordance with local legislation and does not provide for other contributions or retirement benefit plans or pensions. 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 and accumulated impairment. The initial cost of property, plant and equipment comprise its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to the income statement in the period when they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

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 | 17 - 33 |
| Fixtures, fittings and equipment | 10 - 20 |
| Motor vehicles | 20 |

The useful life and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of tangible assets.

Collectables and antiques are not depreciated

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

Impairment of assets

The Authority assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Authority makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount. A provision for impairment is made when there is objective evidence that the authority will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, trade and other accounts receivable and payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Authority has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The de-recognition of a financial instrument takes place when the Authority no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Cash and cash equivalents

Cash in hand and at bank 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.

Trade and other payables

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. Trade and other payables are recognised when the authority has a present obligation whether or not billed to the Authority.

Taxation

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable to or disallowed for tax. It is calculated using tax rates that were applicable at the balance sheet date.

Deferred taxation

Deferred taxation is determined under the liability method in respect of all material temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised as income or expense and included in the income statement for the period, except to the extent that the tax arises from a transaction or event which is recognised directly in equity.

Deferred tax assets are recognised only to the extent that future taxable profits will be available such that realisation of the related tax benefit is probable.

NOTES TO THE FINANCIAL STATEMENTS - continued

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

The Authority's financial statements are presented in Maltese Lira, which is the Authority's functional and presentation currency. Transactions in foreign currencies have been converted into Maltese Lira at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into Maltese Lira at the rates of exchange ruling at the balance sheet date. All resulting differences are taken to the income statement.

Leases

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

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether fulfillment is dependant on the specified assets; or
- There is a substantial change to the asset.

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

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

4. REVENUES

The revenues generated by the Authority are made up of:

| | 2007 | 2006 |
|--|------------------|-----------|
| | Lm | Lm |
| Telecommunications, postal licensing and right of way (note i, ii) | 317,270 | 315,746 |
| Administrative charges | 1,100,971 | 1,042,374 |
| Usage fees for scarce resources (note ii) | 1,936,883 | 1,878,965 |
| Application fees and other income | 3,053 | 5,829 |
| | 3,358,177 | 3,242,914 |

- Fees for right of way are collected by the Authority and transferred to Government under the Utilities and Services (Regulation of Certain Works) Act (Cap 81) under the delegation of the Malta Transport Authority.
- All revenue generated from telecommunications, postal licensing, and right of way income and usage fees for scarce resources is transferred to the Government of Malta (note 10), except for an amount of Lm110,000 intended to finance expenses incurred by the Authority not in connection with electronic communications.

NOTES TO THE FINANCIAL STATEMENTS - continued

5. OTHER (EXPENSE)/INCOME

Other (expense)/income relate to fines imposed by MCA on two operators in 2006, where such fines had amounted to Lm42,800. During 2007, both operators appealed such fines, resulting in MCA having to pay back the amount of Lm22,868.

6. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

| | 2007 | 2006 |
|-----------------------|----------------|---------|
| | Lm | Lm |
| Members' emoluments | 28,397 | 28,459 |
| Wages and salaries | 523,601 | 472,323 |
| Social security costs | 31,503 | 30,488 |
| | 583,501 | 531,270 |

b. Staff numbers

The average number of persons, excluding board members, employed by the Authority during the year was 51 (2006 : 50).

7. OPERATING AND ADMINISTRATIVE EXPENSES

| | 2007 | 2006 |
|---|----------------|---------|
| | Lm | Lm |
| Outsourced project costs | 170,701 | 102,044 |
| Corporate administrative expenses | 198,391 | 162,426 |
| Public relations and communications | 16,561 | 36,313 |
| Travelling expenses | 55,596 | 54,704 |
| (Decrease)/increase in provision for doubtful debts | (9,718) | 9,718 |
| Auditors' remuneration | 575 | 575 |
| Rental expenses | 32,284 | 26,434 |
| Loss on disposal of property, plant and equipment | - | 3,921 |
| Administrative Services rendered by Ministry for Competitiveness and Communications | 76,882 | 77,134 |
| Bad debts | 9,566 | - |
| | 550,838 | 473,269 |

NOTES TO THE FINANCIAL STATEMENTS - continued

8. FINANCE REVENUE

| | 2007 | 2006 |
|---------------------------------|---------------|--------|
| | Lm | Lm |
| On bank balances | 19,682 | 8,756 |
| On amounts due from receivables | 18,176 | 26,432 |
| | 37,858 | 35,188 |

9. FINANCE COSTS

| | 2007 | 2006 |
|----------------------------|--------------|-------------|
| | Lm | Lm |
| On finance lease liability | 2,624 | 1,746 |

10. TRANSFERS TO GOVERNMENT

These amounts represent the gross telecommunications, postal licensing and rights of way income and usage fees for rights of use of scarce resources which is being transferred to the Government as provided by section 14 (4) of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta.

11. TAXATION

| | 2007 | 2006 |
|-----------------------|--------------|-------|
| | Lm | Lm |
| Current tax | 5,757 | 1,364 |
| Deferred tax (note i) | - | - |
| | 5,757 | 1,364 |

- i. Under the legislation in force governing the operations of the Authority, the Authority charges administrative fees to the service providers equivalent to its cost. Moreover, all the license fees collected are transferred to the Government. Since the Authority is not expected to generate any taxable profits, management is of the opinion that no deferred tax should be accounted for. Keeping in view this fact, the potential deferred tax asset amounting to Lm15,136 has not been accounted for in these financial statements.

11. TAXATION - continued

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

| | 2007 | 2006 |
|---|------------------|-----------|
| | Lm | Lm |
| Profit before transfers to Government and taxation | 2,158,363 | 2,243,796 |
| Theoretical taxation expense at 35% | 755,427 | 785,329 |
| Tax effect of | | |
| - excess of depreciation of property, plant and equipment over capital allowances | 6,739 | 9,788 |
| - income not subject to tax | (758,802) | (757,148) |
| - lower tax rate on local interest income on bank balances | (1,449) | (1,818) |
| - absorbed capital allowances brought forward | - | (2,124) |
| - unabsorbed capital allowances carried forward | 6,007 | - |
| - absorbed tax losses brought forward from prior years | (2,165) | (32,663) |
| Tax charge | 5,757 | 1,364 |

12. PROPERTY, PLANT AND EQUIPMENT

| | Building improvements | Computer equipment | Fixture, fitting & equipment | Motor vehicle | Total |
|----------------------------------|------------------------------|---------------------------|---|----------------------|----------------|
| | Lm | Lm | Lm | Lm | Lm |
| Cost | | | | | |
| At 1 January 2007 | 121,933 | 144,040 | 127,671 | 32,123 | 425,767 |
| Additions | 317 | 41,144 | 5,657 | 6,800 | 53,918 |
| At 31 December 2007 | 122,250 | 185,184 | 133,328 | 38,923 | 479,685 |
| Depreciation | | | | | |
| At 1 January 2007 | 24,386 | 87,439 | 36,061 | 23,980 | 171,866 |
| Depreciation charge for the year | 24,450 | 31,173 | 18,804 | 3,414 | 77,841 |
| At 31 December 2007 | 48,836 | 118,612 | 54,865 | 27,394 | 249,707 |
| Net book value | | | | | |
| At 31 December 2007 | 73,414 | 66,572 | 78,463 | 11,529 | 229,978 |
| At 31 December 2006 | 97,547 | 56,601 | 91,610 | 8,143 | 253,901 |

NOTES TO THE FINANCIAL STATEMENTS - continued

13. TRADE AND OTHER RECEIVABLES

| | | |
|-------------------|------------------|------------------|
| | 2007 | 2006 |
| | Lm | Lm |
| Trade receivables | 957,222 | 1,023,188 |
| Accrued income | 2,800 | 8,543 |
| Prepayments | 40,550 | 44,925 |
| Other receivables | 15,000 | 15,000 |
| | 1,015,572 | 1,091,656 |

Past due but not impaired

| | Neither past due nor impaired | | Past due but not impaired | | | |
|-------------|-------------------------------|----------------|---------------------------|---------------|---------------|---------------|
| | Total Lm | Lm | <30 days Lm | 30-60 days Lm | 60-90 days Lm | >90 days Lm |
| 2007 | 957,222 | 193,869 | 629,200 | 1,102 | 38,053 | 94,998 |
| 2006 | 1,023,188 | 499,034 | 3,141 | 15,110 | 150,460 | 355,443 |

14. RESERVE

The balance on the retained earnings in the Balance Sheet as at 31 December 2007 represents a resulting accumulated surplus over the years.

15. TRADE AND OTHER PAYABLES

| | | |
|---|------------------|-----------|
| | 2007 | 2006 |
| | Lm | Lm |
| Amount due to Government | 117,664 | 318,799 |
| Deferred income (note i) | 1,270,023 | 1,110,417 |
| Accruals | 25,532 | 30,621 |
| Social security contributions and other taxes | 13,141 | 24,647 |
| Other payables (note ii) | 250,095 | 286,192 |
| Finance lease liability (note 18) | 14,750 | 14,750 |
| Current tax payable | 4,672 | - |
| | 1,695,877 | 1,785,426 |

i. Deferred income comprises the unexpired portion of annual fees billed in advance together with the surplus of administrative charges, amounting to Lm125,169 paid by undertakings authorised to provide electronic communication services and/or operate electronic communications networks, over the administrative expenses incurred by the Authority in the discharge of its functions. The Authority shall make appropriate repayments or compensation in relation to such surplus in accordance with the Electronic Communications (Regulation) Act and the Directive of 2004 on modalities of payment for general authorisations and rights of use.

NOTES TO THE FINANCIAL STATEMENTS - continued

15. TRADE AND OTHER PAYABLES - continued

A non-monetary government grant, representing assets transferred to the Authority during 2007 by the Government of Malta, amounting to Lm6,810 (2006: Lm8,513) is also included with deferred income.

ii. Other payables consist of the following:

Funds due to the Malta Security Services in respect of Legal Intercept funds collected on its behalf. As per Directive No.2 of 2005 on Modalities of Payment for Contributions to the Cost of Legal Intercept Obligations and in accordance with Regulation 13 of the Electronic Communications Networks and Services (General) Regulations, the authority had introduced a fund mechanism for the sharing of the cost of legal interception obligations. As at 31 December 2007, Legal Intercept funds amounted to Lm214,719. These are non interest bearing and are paid to Malta Security Services upon presentation invoice.

Trade payables which are non-interest bearing and are normally settled on 60-day terms.

16. RELATED PARTY DISCLOSURES

Transactions with key management personnel

During the year ended 31 December 2007, short term employee benefits to key management personnel amounted to Lm151,986.

Other related party transactions

The Authority has undertaken the following transactions with the Government of Malta as follows:

| | | |
|---------------------------------|------------------|-----------|
| | 2007 | 2006 |
| | Lm | Lm |
| Payments to Government of Malta | 2,345,288 | 2,199,441 |

Related company balances

Outstanding balances with related parties at 31 December 2007 are disclosed in note 15 on amount due to Government.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand and balance with bank.

| | | |
|--------------------------|----------------|---------|
| | 2007 | 2006 |
| | Lm | Lm |
| Cash at bank and in hand | 548,942 | 536,095 |

The Authority holds interest earning and non-interest earning bank current accounts. An average interest of 3.63% per annum is earned on the bank interest earning account.

NOTES TO THE FINANCIAL STATEMENTS - continued

18. COMMITMENTS

Capital commitments

| | 2007 | 2006 |
|---|---------------|-------|
| | Lm | Lm |
| Capital expenditure contracted but not provided for | 13,299 | 8,808 |

Operating lease commitment

As of 15 December 2005, the Authority has entered into a commercial lease agreement relating to new premises, commencing on 1 May 2006. This lease may be terminated at the end of the first lease period of four years. The future minimum rentals payable, excluding VAT, under these operating leases as at 31 December 2007 are as follows:

| | 2007 | 2006 |
|---|---------------|---------|
| | Lm | Lm |
| Within one year | 32,000 | 30,400 |
| After one year but not more than five years | 42,521 | 73,467 |
| | 74,521 | 103,867 |

Finance lease commitment

The Authority has a finance lease over the building improvements carried out on the leased premises by VISET Malta plc. Future minimum payments under finance leases together with the present value of the net minimum lease payments are as follows:

| | 2007 | | 2006 | |
|---|-------------------------|----------------------------------|------------------|---------------------------|
| | Minimum payments | Present value of payments | Minimum Payments | Present value of payments |
| | Lm | Lm | Lm | Lm |
| Within one year | 17,370 | 14,750 | 17,370 | 14,750 |
| After one year but not more than 5 years | 24,613 | 22,206 | 33,298 | 28,270 |
| Total minimum lease payments | 41,983 | 36,956 | 50,668 | 43,020 |
| (Loss) amounts representing finance charges | (5,027) | - | (7,648) | - |
| Present value of minimum lease payments | 36,956 | 36,956 | 43,020 | 43,020 |

NOTES TO THE FINANCIAL STATEMENTS - continued

19. CONTINGENT LIABILITIES

Guarantees

As at 31 December 2007 the Authority has provided bank guarantees in favour of third parties, amounting to Lm39,500. Lm3,000 of these guarantees expire in January 2008 while the remaining Lm36,500 expire in January 2009.

Legal claims

The Authority presently has a pending court case filed by Melita Cable plc, contesting a decision given by the Authority in respect of open access obligations, in respect of which plaintiff is also claiming unquantified damages. The decision under appeal has not yet been enforced and no provision has been made in these financial statements since the outcome of such claim is unknown and cannot be quantified.

Melita Cable plc is contesting a fine imposed by the Authority, one with regard to adverts carried out by Melita on its Sports Channel (Lm10,000).

20. FINANCIAL INSTRUMENTS

At year-end, the Authority's main financial assets on the balance sheet comprise of trade and other receivables and cash at bank and in hand. At the year-end, there were no off-balance sheet financial assets.

At the year-end, the Authority's main financial liabilities on the balance sheet consisted of payables. The Authority's off-balance sheet financial liabilities at year-end are described in note 18 Contingent liabilities.

Timing of cash flows

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

Credit risk

Financial assets which potentially subject the Authority to concentrations of credit risk consist principally of certain trade and other receivables and cash at bank.

The Authority's cash at bank are placed with quality financial institutions. Carrying amounts for trade receivables are stated net of the necessary impairment provisions which have been prudently made against bad and doubtful debts in respect of which management reasonably believes that recoverability is doubtful. Credit risk with respect to debts is limited due to a number of customers comprising the Authority's receivable base and the Authority has no significant concentration of credit risk.

Fair values

At 31 December 2007 and 31 December 2006 the carrying amounts of cash at bank, receivables, payables and accrued expenses approximated their fair values.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

21. DUAL CURRENCY PRESENTATION

On 10 July 2007, the European Council of Finance Ministers (Ecofin) approved unanimously Malta's entry in the Euro zone. Ecofin set the Irrevocable Fixed Conversion Rate at 0.4293 Maltese Lira to the Euro. In accordance with legal notice 4 of 2007 - Euro Adoption Act, the Exchange is required to apply dual display of key financial information, as follows:

| | 2007 | 2006 | 2007 | 2006 |
|--|--------------------|-------------|--------------------|-------------|
| | EUR | EUR | Lm | Lm |
| Income statement | | | | |
| Revenue | 7,822,448 | 7,553,958 | 3,358,177 | 3,242,914 |
| Profit before tax | 33,100 | 184,684 | 14,210 | 79,285 |
| Balance sheet | | | | |
| Total assets | 4,180,042 | 4,383,070 | 1,794,492 | 1,881,652 |
| Total liabilities | 4,002,057 | 4,224,775 | 1,718,083 | 1,813,696 |
| Cash flow statement | | | | |
| Net cash flow from operating activities | 5,632,697 | 5,844,319 | 2,418,117 | 2,508,966 |
| Net cash flow used in investing activities | (125,595) | (542,024) | (53,918) | (232,691) |
| Net cash flow used in financing activities | (5,477,177) | (5,123,319) | (2,351,352) | (2,199,441) |