



ANNUAL REPORT &
FINANCIAL STATEMENTS 2010

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CHAIRMAN'S MESSAGE

TELECOMMUNICATIONS HAS PLAYED AN IMPORTANT ROLE IN 2010 IN SHAPING THE CHANGES WHICH WE ARE WITNESSING AROUND THE GLOBE. TELECOMMUNICATIONS IS RECOGNIZED AS HAVING BEEN KEY IN PROMOTING DEMOCRACY IN VARIOUS COUNTRIES. WITH THE DRAMATIC EXPANSION OF VARIOUS FORMS OF ELECTRONIC INTERCHANGE INCLUDING ELECTRONIC MAIL, INTERNET AND ONLINE SOCIAL NETWORKS, OPPORTUNITIES FOR COMMUNICATION WITHIN COUNTRIES AND ACROSS NATIONAL BOUNDARIES, RESULTING IN CROSS-FERTILIZATION OF IDEAS, ARE GREATER THAN EVER BEFORE.

WELL INTO ITS 10TH YEAR OF OPERATIONS, I FEEL THAT THE AUTHORITY CAN LOOK BACK ON THE PAST YEAR WITH SATISFACTION AT WHAT IT HAS MANAGED TO ACHIEVE.

During the course of the year, the MCA managed to fulfil key elements of its established work programme across all sectors under its responsibility, both in terms of new initiatives and the challenges that these bring with them, as well as with its ongoing regulatory activities.

In the electronic communications sector, the facilitation of a competitive environment remained the key focus of the Authority's activities.

We have continued to witness positive trends in terms of uptake and usage of all services, the most evident being in the mobile and broadband sectors. Mobile penetration reached 110.3% by the end of 2010 and the impasse in terms of the limited extent of price competition seems to have been broken. Better prices have resulted in an increased number of calls, which totalled 279.4 million. This means that each day, in excess of 765,000 calls were made. In terms of minutes, these have increased by 24.3% to reach 74.9 million.

Notwithstanding these very positive results, like all other regulators across Europe, the MCA continues to face not insignificant challenges in seeking to ensure fully competitive markets within this sector. These challenges are the result of inherent difficulties in opening up infrastructure based industries to competition, as well as constraints imposed by the EU regulatory framework that does not always effectively cater for the Maltese market situation, which is characterised by two fully integrated players having fixed infrastructures.

The workstreams in this regard focused on the refinement of the incumbent's local loop unbundling reference offer, which allows other undertakings access to the core network. Access to existing infrastructures is essential for competition to thrive. Equally important are fair mobile and fixed termination rates, which were reduced by 30% and 4% respectively during 2010. Furthermore, the MCA published a decision on the methodology to be used to determine both rates in the coming years.

The anticipated move to next generation access networks brought about a number of new regulatory challenges. In this regard, the Authority invested considerable effort in drawing up a regulatory strategy aimed at ensuring that, while all regulatory measures to encourage the deployment of such networks are in place, the Authority also takes the necessary safeguards so that such networks do not act as bottlenecks to competition.

The Authority also contributed to the Government's efforts in evaluating options for securing the earliest possible full coverage of the Maltese Islands by fibre networks by actively supporting the preparation of "A technical and economic analysis for a Fibre-to-the-Home infrastructure in Malta and Gozo," which will be presented to Cabinet in 2011.

It is clear that for this new reality to materialise, there will need to be collaboration between all the main operators, as the business case of such roll-outs depends on strategies that overcome the inherent diseconomies of scale of building a very costly network in Malta.

I trust that in facing this new reality, the market players will consider all options and be willing to think outside the proverbial box. I trust that old competitive strategies can be objectively assessed against alternative and possibly more effective competitive strategies, which allow for collaboration between parties where appropriate. I am convinced that this path could bring about economies of scale as well as very significant efficiencies in the roll-out and operation of underlying networks. Such strategies can also lessen the environmental impact of these networks, all in all, bringing about very material benefits to the industry players and consumers alike.

The effective management of spectrum is also essential for the development of value-added-services and plays a pivotal role in ensuring continued innovation and the resultant promulgation of competition in the electronic communications sector. It is becoming ever-more critical as demand for mobile data services continues to grow.

In this regard, the Authority embarked on a consultation process in order to seek views on how spectrum trading can be developed. The eventual introduction of spectrum trading will encourage the efficient use of spectrum by enabling it to be transferred to, and used by the user, that values it most, thus making it easier for businesses to access the radio spectrum they need to use.

The test and trial licensing scheme published during 2010 aims, in particular, to support innovative spectrum usages and to attract foreign investment by allowing Malta to act as a test-bed for new services. There are two types of licences available, one that covers technology tests and the other covering service trials involving third parties or the public.

The process to re-assign spectrum in the 900 MHz and 1800 MHz bands continued in full force throughout this past year. The reassignment of spectrum that is already in use for the provision of mobile services on which the entire population depends, presents particular and significant challenges. The Authority took pains to ensure that it could put in place an assignment mechanism that will enable existing operators to gain access to the spectrum they need to continue their operations, whilst at the same time enabling new entrants to have equal access to the spectrum. The full collaboration and cooperation of existing operators that we have witnessed so far, is very promising and I am convinced that the reassignment process will result in a more equitable distribution of this scarce and very

valuable resource amongst all parties concerned. The result should bring tangible benefits to consumers in terms of improvements in the quality of service, particularly indoor coverage.

On the radio and TV distribution front, the MCA continued to work towards the switchover of free-to-air transmissions from analogue to digital format by mid-2011. I am pleased to note that the network, which will transmit the national stations meeting general interest objectives, on a free-to-air basis, was up and running by the end of 2010.

With regard to Internet subscriptions, this sector registered a growth of 7.1%, reaching 119,379 subscriptions at the end of 2010. As at the end of July 2010, Malta had a broadband penetration rate of 28.5%, significantly above the EU average of 25.6%. It is interesting to note that 54% of all fixed broadband subscriptions were bundled with some other electronic communications service.

With a view to further facilitating competition in this market, the Authority published guidelines aimed at facilitating consumer switching between service providers, by allowing the free-of-charge forwarding of emails to a new email account for a 12 month period after a consumer switches service provider. It is expected that the provisions in the guidelines will become Law when revisions to the telecoms framework, due to be discussed in Parliament in 2011, will be adopted.

The proposed amendments to the local telecoms framework primarily aim to transpose the revised EU

framework adopted in 2009. This framework constitutes the basis for a supportive and consistent regulatory environment targeting remaining challenges in the development of a truly competitive telecoms sector. The new provisions reinforce competition while enhancing incentives to invest. The new Body of European Regulators for Electronic Communications (BEREC), established by the revised framework, will increase cooperation between European regulators, as well as with the European Commission and provides an opportunity for the MCA to contribute actively in the shaping of many EU-wide regulatory decisions. The revised EU framework will thus allow European regulators, including the MCA, to better meet the future challenges arising from this rapidly evolving sector.

Another very important workstream for the MCA, during 2010, resulted from its commitment to protect users within the ambit of the powers currently afforded to it by legislation. As a result of these efforts, the MCA issued a series of guidelines intended for consumers and industry players, as well as a consultation focusing on the information undertakings need to make available in subscriber contracts. Regulatory action was also taken against individual undertakings found to be in breach of their obligations at law. In light of its experiences, the MCA also proposed changes to the telecoms legislation, which should see a strengthening of the provisions, which aim to address consumer issues, when the said framework comes into effect during the course of 2011.

The eCommerce sector presented encouraging volume increases, with 79% of internet users now making regular use of eCommerce. The MCA picked up speed in terms of its monitoring role in ensuring that local

websites fully adhere to the eCommerce regulations. In this regard, the Authority is pleased to note that the vast majority of online operators notified by the Authority of breaches to the eCommerce Act, promptly responded by making the necessary changes to their website to ensure full compliance.

Closely linked to this sector is that of postal services, which essentially is the last leg in any online purchase. Quietly developing in the background, this sector is almost set for liberalisation at the end of 2012, after which, competition trends as experienced in other sectors are expected to emerge. The MCA has already carried out significant work in ensuring that changes that need to be made to the postal regulatory framework in order to cater for the new, fully liberalised environment are in place. Furthermore, during 2010, it worked on a decision that establishes more stringent parameters for the measurement of the universal service provider's quality of service. It is encouraging to note that developments in certain areas of the postal service have provided indications that competition is materialising. In addition, those areas which were never subject to monopoly rules remain highly competitive, particularly in the express mail service area, where there are fifteen operators offering such services, at present.

All the above efforts were complemented by another stream of activities resulting from the information society responsibilities that the MCA carries. In parallel to other EU member states, Malta has long held ICT at the forefront of its national agenda, implementing policies and initiatives with a view to getting everyone online and to equip each individual with, as a minimum, the basic level of ICT skills. The objective has been to facilitate the formation of a digital society that is open to everyone.

In a future society where communities form and interact online, Malta needs to ensure that access is not hindered and that everyone is able to participate and contribute to this new societal reality in a meaningful way.

To this end, during the course of 2010, the MCA, in collaboration with other entities, set up a total of 144 free Wi-Fi spots across Malta and Gozo. In addition, thanks to the ICTforALL scheme, approximately 6000 citizens were provided a grant to attend a course that would provide them with the basic ICT skills necessary in today's world. The overwhelming response to this initiative, confirms that the awareness raising initiatives carried out in the past have borne fruit and that those members of the public who are not yet computer literate have come to recognise the importance of gaining these skills. This project is expected to have a material influence on the percentage of the population having at least basic IT skills. On the eBusiness front, the Authority focused most of its efforts on two partially EU-funded initiatives, ICT-Value Networks and EPITOME. The latter is an ESF funded initiative through which, during 2011, the MCA aims to provide training to 300 employees or owners of micro-enterprises or self-employed individuals, on ICT skills for entrepreneurs.

Many of us have experienced the tangible benefits of fast and reliable communications tools, which are essential in today's fast paced living. Many business transactions and interactions are conducted online, data and other business intelligence is stored online, citizens can communicate with family and friends abroad at the touch of a button – more and more we are moving towards a global 'electronic' economy.

It is easy to take communications for granted. We tend to do so because connectivity is available, virtually all the time.

However, we must always learn from experiences of other countries. Recent disasters in other parts of the globe have shown that a combination of redundancy, resilience and disaster planning, appears to have paid off in restoring normality. In this regard, throughout 2009 and 2010, the MCA successfully tackled a very important component of this subject by ensuring that international link operators will be in a position to buy capacity from each other in case of connectivity problems on their own respective link. The MCA will, in 2011, work on improving the overall security and redundancy of the local public telecoms networks, ensuring a sufficient level of network integrity.

Apart from the more obvious benefits of communications technologies, the Internet in particular, is a powerful communications tool that can serve as a catalyst for change – a means to voice one's opinions, as well as an opportunity to find out what others have to say on particular subjects. Proof of this are the unfolding events across the globe, where we have seen the effects online social networks can have and the power of effective communication by the masses, in real time. Communication is now instant. The unthinkable has happened as millions have expressed themselves with fellow co-citizens and the outside world by means of the Internet, bringing about unprecedented and unpredictable change.

These events are direct evidence that the benefits of networked technologies go beyond opportunities such as eHealth, online shopping and eLearning.

Social media, alongside other ICTs are playing a vital role in giving people a voice, making societies more open and democratic. These events heighten our sense of responsibility as regulators of, and market players in, the communications sectors, as we take cognisance that the sector in which we operate is not only a means to improve the efficiency of business processes and provide citizens with improved communications, but are also a critically important catalyst in bringing about real and lasting positive societal changes.

The telecoms sector provides the key building blocks of our increasingly rich and complex information society. As private individuals, we rely on telecoms to keep in contact with our friends, our loved ones and the world around us. In the workplace, telecoms is an increasingly important component of business competitiveness. Looking ahead, if even a tenth of the claims being made for broadband by its champions are true, it will not only transform the way that we live and work, but will have profound effects on our shared culture.

Telecommunications will continue posing opportunities and challenges in 2011 and the MCA will need to provide some answers to the following questions:

In relation to the interests of citizen-consumers, what are the key attributes of a well-functioning telecoms market?

Where can effective and sustainable competition be achieved in the Maltese telecoms market?

Is there scope for a significant reduction in regulation, or is the market power of operators too entrenched?

How can the MCA incentivise efficient and timely investment in next generation networks and other technologies?

How will the growing importance of over-the-top applications impact the telecoms industry?

The MCA also faces challenges in the postal sector and has to ensure that the liberalization of the sector will increase competition, foster innovation and provide value-for-money quality of services to the consumers.

I take this opportunity to thank my fellow board members and all the staff at the Authority, for yet another successful year.



ING. PHILIP MICALLEF
EXECUTIVE CHAIRMAN

LIST OF BOARD MEMBERS & MANA- GEMENT COMMITTEE

BOARD MEMBERS

ANTOINETTE VASSALLO
MEMBER

ANTONIO GHIO
MEMBER

BERTA SULLIVAN
MEMBER

CELIA FALZON
BOARD SECRETARY &
CHIEF OF EXTERNAL RELATIONS

IVAN BARTOLO
DEPUTY CHAIRMAN

MARCEL CUTAJAR
MEMBER

PHILIP MICALLEF
EXECUTIVE CHAIRMAN

A TOTAL OF 12
BOARD MEETINGS
WERE HELD IN 2010

MANAGEMENT COMMITTEE

HELGA PIZZUTO
CHIEF TECHNICAL OFFICER

IAN AGIUS
CHIEF OF OPERATIONS

PATRICK VELLA
CHIEF OF POLICY & PLANNING

PAUL MICALLEF
CHIEF LEGAL ADVISOR

ROBERTA TABONE
PA TO CHAIRMAN

STEVE AGIUS
CHIEF INFORMATION OFFICER

GENERAL MARKET OVERVIEW

THE PERFORMANCE OF THE ELECTRONIC COMMUNICATIONS AND POSTAL SECTORS

1. Telecoms¹ sector

In 2010, the local telecoms industry made a satisfactory contribution to the economy, despite the recessionary spill-over of the international economic downturn experienced a year earlier.

The telecoms industry directly accounted for 2.1% of the national economy in 2010, slightly down from 2.3% in the previous year, as a result of a decline from €135.2 million to €130.8 million in gross value added.

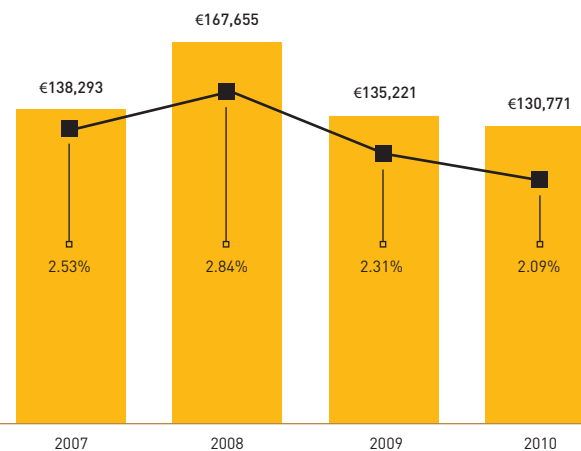
On the other hand, intermediate expenditure by the industry increased from €114 million in 2009 to €122.6 million in 2010. In contrast however, market players reported a 9.7% decline in their operating surplus, down from €47 million to €42.4 million. Market players also spent less in terms of compensation of employees.

The drop in compensation to employees reflects the level of direct employment in the sector, which decreased from approximately 1,900 full-time employees in Q4 2009 to around 1,600 in Q4 2010. This contrasts with previous years when generally the industry had a positive impact on employment levels. No significant changes were reported in terms of part-time employment.

CONTRIBUTIONS BY TELECOMMUNICATIONS TO GDP

SOURCE: NATIONAL STATISTICS OFFICE

- CONTRIBUTION IN NOMINAL TERMS (IN MILLIONS)
- CONTRIBUTION AS A PERCENTAGE OF GDP



1. 'Telecoms' and 'electronic communications' are used interchangeably throughout this report.

2. Postal Sector

The postal sector's contribution to GDP stood at 0.2% in 2010, slightly less than 0.22% a year earlier. Despite this marginal decline, intermediate consumption in the domestic economy by the sector increased to €14.9 million, up from €13 million in 2009, whilst compensation of employees increased from €10.4 million to €12.1 million.

Full-time employees in the postal sector amounted to around 700 in Q4 2010, slightly higher than in Q4 2009. No significant changes were reported in terms of part-time employment.

FIXED LINE TELEPHONY

The fixed telephony sector registered reasonable growth in 2010 in terms of subscriber numbers, however it experienced a slowdown in terms of traffic volumes.²

1. Subscriptions

The number of active fixed line subscriptions increased by 1,497 over a 12 month period, reaching 247,345 as at the end of December 2010. Standard telephony subscriptions stood at 244,438 and enhanced telephony subscriptions³ stood at 2,907.

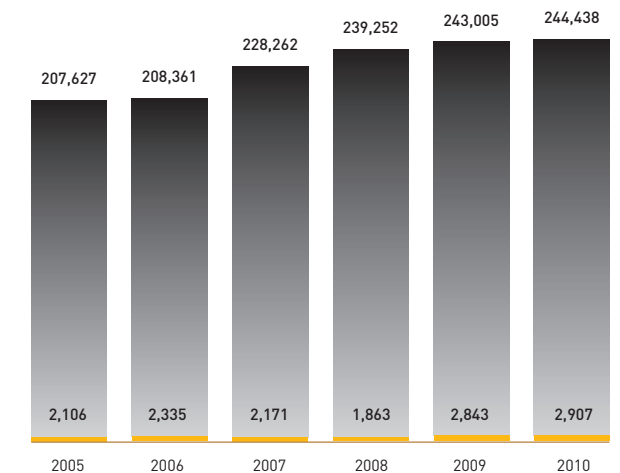
The number of users having a postpaid fixed line subscription bundled with another electronic communications service amounted to 70,021 as at the end of 2010, representing a 47.4% growth over the corresponding figure for 2009.

In 2010, a total of 4,095 portings were registered, a 4.9% increase over the corresponding figure in 2009.

Overall, the positive developments in the subscriber base show that the fixed sector in Malta is still important despite the overall perception of a declining market. The sector is however, not immune to an ever-increasingly competitive mobile market, as clearly evidenced by the decline in outgoing fixed traffic volumes.

FIXED TELEPHONY SUBSCRIPTIONS AS AT END OF PERIOD

- ENHANCED SUBSCRIPTIONS
- STANDARD SUBSCRIPTIONS



| Fixed postpaid subscriptions on a bundled offer | 2009 | | | | 2010 | | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| ...on a two play offer | 14,740 | 15,756 | 15,516 | 12,559 | 11,327 | 8,062 | 8,360 | 6,952 |
| ...on a triple play offer | 14,740 | 15,756 | 15,516 | 12,559 | 11,327 | 8,062 | 8,360 | 6,952 |
| ...on a quadruple play offer | 15,369 | 21,002 | 26,706 | 30,488 | 37,812 | 43,044 | 49,657 | 57,135 |
| ...in total on a bundled offer | 35,082 | 42,235 | 46,668 | 47,495 | 53,896 | 56,204 | 63,461 | 70,021 |
| ...as a percentage of active fixed postpaid subscriptions | 17.82% | 22.32% | 24.58% | 25.18% | 28.58% | 29.86% | 33.80% | 36.98% |

2. According to the latest E-Communications Household Survey, coordinated by the Directorate-General for Communications of the EU Commission and published in October 2010, all households in Malta have access to at least one telephone line, compared to 98% of all households of the EU27.

3. Standard fixed line subscriptions refer to those subscriptions offering a single fixed telephony connection. Enhanced fixed line subscriptions encompass those subscriptions offering multiple channel (dual or more) fixed telephony connections.

2. Traffic volumes

Fixed line originating calls declined from 219.3 million in 2009 to 211.6 million in 2010, a decrease of 3.5%.

This decline is mainly attributed to significantly less on-net⁴ Fixed-To-Fixed (FTF) calls, which decreased by 6.9 million (5.3%) and less Fixed-To-International (FTI) calls, which fell by 0.3 million (or 3.1%). These declines outweighed increases in terms of off-net FTF calls, which increased by 1.6 million and other fixed line originating calls⁵.

In terms of voice call minutes, fixed line originating traffic declined to 721.8 million in 2010 from 736.1 million in 2009. In this regard, national fixed line traffic declined by 9.3 million voice call minutes (1.4%), whilst international fixed line traffic declined by 4.7 million voice call minutes (8.1%). The former decline is attributable to a significantly weaker on-net traffic, with a decline of 18.6 million voice call minutes, outweighing gains in terms of off-net traffic, which increased by 11.7 million voice call minutes.

FIXED LINE SUBSCRIPTIONS AS AT THE END OF 2010

| | |
|------------------|--------|
| GO | 77.14% |
| MELITA | 22.22% |
| SKY TELECOM | 0.41% |
| VODAFONE (MALTA) | 0.16% |
| SIS | 0.07% |

Notable declines were also reported in terms of Fixed-To-Mobile (FTM) traffic, which decreased by nearly 2 million voice call minutes.

The other call minutes segment declined by 0.7 million (12.9%), as a result of a further drop in dial-up Internet minutes.



3. Market shares

During 2010, the market landscape for the fixed sector was very similar to that observed in the previous year.

In terms of active fixed telephony subscriptions as at the end of 2010, GO accounted to 77.1% of total subscriptions, slightly up from 76.9% as at the end of the previous year.

Melita's share on the other hand accounted for 22.2% of the total, slightly down from 22.5% as at the end of 2009. Other operators maintained their overall market standing.

In terms of voice call traffic minutes reported in 2010, GO's market share declined from 73.4% in 2009 to 72.6% in 2010. Meanwhile, Melita gained in market share, up from 25.4% in 2009 to 26.2% in 2010. Vodafone Malta and Solutions and Infrastructure Services Ltd (SIS), also made slight gains. In 2010, Vodafone accounted for 0.2% of the overall market share, whilst SIS accounted for approximately another 0.1%.

FIXED TELEPHONY MARKET SHARES NATIONAL VOICE CALL MINUTES, 2010

| | |
|------------------|--------|
| GO | 72.55% |
| MELITA | 26.17% |
| SKY TELECOM | 1.04% |
| VODAFONE (MALTA) | 0.15% |
| SIS | 0.1% |



In terms of international voice call minutes originated in 2010, GO's Ten21 Voice over Internet Protocol (VoIP) service accounted for the largest share at 67.22%, which is 1.7% higher than in the previous year. During the same period, small gains in market share were also reported by Melita, up by 0.2%, SKY Telecom, up by 0.61%, Vodafone Malta and SIS, up by 0.07% and 0.05% respectively.

On the other hand, declines in market share were reported by GO's International Direct Dialling (IDD) service, down by 1.06%, and third party Internet Service Providers (hereafter, referred to as "third party ISPs")⁶, down by 1.51%.

FIXED TELEPHONY MARKET SHARE INTERNATIONAL VOICE CALL MINUTES, 2010

| | |
|------------------|--------|
| GO - IDD | 8.23% |
| GO - 1021 | 67.22% |
| MELITA | 17.29% |
| VODAFONE (MALTA) | 0.19% |
| SIS | 0.37% |
| SKY TELECOM | 1.90% |
| OTHER ISPS | 4.80% |



4. Calls which are originated and terminated on the same network.

5. Including Internet calls, free-phone calls and premium calls.

6. Third party ISPs is a term which encompasses those business entities offering international telephone call services using VoIP. The service may be accessed from any fixed or mobile phone line by entering a PIN given to the customer at the time of purchasing an international phone card.

4. Average fixed line tariffs

The MCA monitors changes to on-net and off-net FTF call rates, as well as, FTM and FTI call rates in order to assess developments in actual price movements.

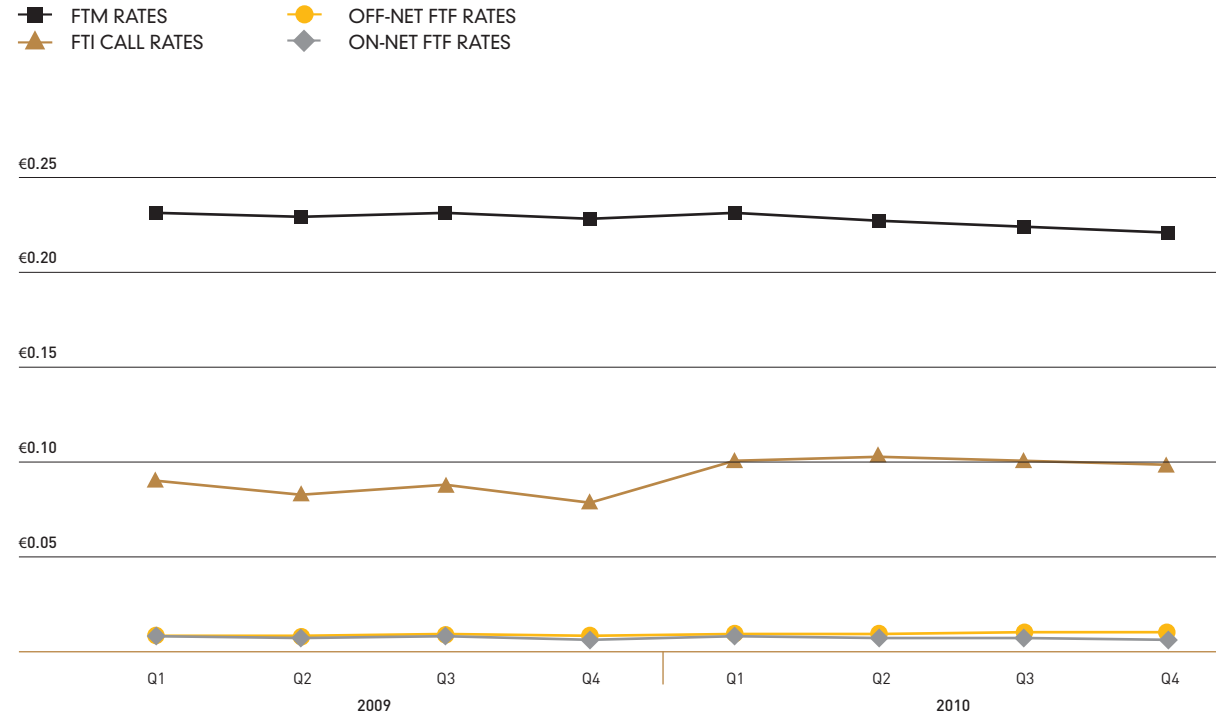
Overall, the MCA's findings suggest that the average rates for 2010⁷ were very similar to those observed a year earlier.

In Q4 2010, the average on-net FTF call rate stood at €0.013, the same as in Q4 2009, whilst the average off-net FTF call rate stood at €0.017.

The average FTM call rate was reportedly higher than an on-net or off-net FTF call and stood at €0.215⁸ in Q4 2010. The applicable rate as at Q4 2010 is also slightly lower than the corresponding figure in Q4 2009, which stood at €0.222.

The average FTI call rate stood at €0.10 in Q4 2010.

AVERAGE FIXED LINE TARIFFS
BASED ON REVENUES PER CALL MINUTE



7. Figures for years prior to 2009 are not available. Figures are exclusive of tax related revenues.

8. The rates quoted here are an average of revenue-based figures supplied by local fixed line network operators. These may therefore vary from actual rates quoted for different plans and schemes launched by local operators. Average rates are also exclusive of VAT and excise tax.

MOBILE TELEPHONY

This sector registered further positive results in 2010 as confirmed by the rapid growth in subscriptions and usage.

1. Subscriptions

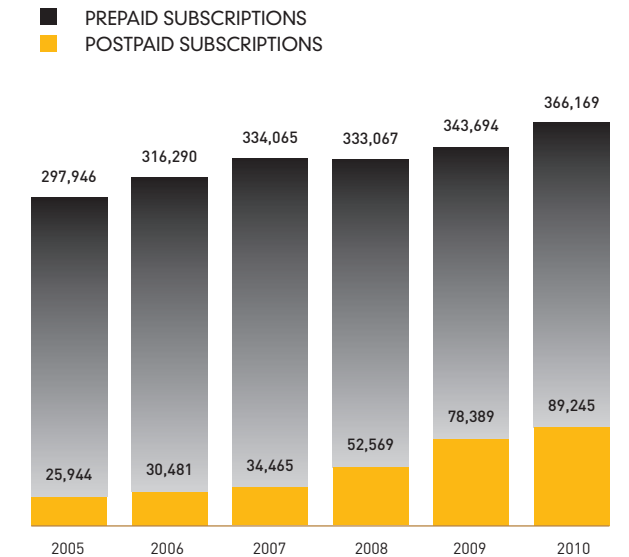
The year under review recorded a 7.9% growth in mobile subscriptions, up to 455,414 from 422,083 subscriptions as at the end of 2009. In absolute terms, growth in mobile subscriptions is accounted for by an increase of 10,856 postpaid subscriptions and 22,475 prepaid subscriptions. By the end of 2010, prepaid subscriptions increased by 6.5% to 366,169, whilst postpaid subscriptions increased by 13.8% to 89,245⁹.

However, the latter growth rate needs to be assessed against the background of a very low postpaid base.

In 2010, just over 53,000 mobile portings were recorded, down from 59,630 in the previous year.

The total number of subscriptions recorded as at the end of 2010 corresponds to a mobile penetration rate of 110.3%. The mobile penetration rate stood at 102.1% as at the end of the previous year.

MOBILE TELEPHONY SUBSCRIPTIONS
AS AT END OF PERIOD



9. Preliminary figures indicate that 53.6% of all postpaid subscriptions and 23.3% of all prepaid subscriptions were active over the 3G network during the period, having made at least one call, SMS, MMS or data activity. The corresponding figures as at the end of 2009, stood at 52.7% and 13.7% respectively.

2. Traffic volumes

Mobile telephony recorded significant growth in terms of traffic volumes.

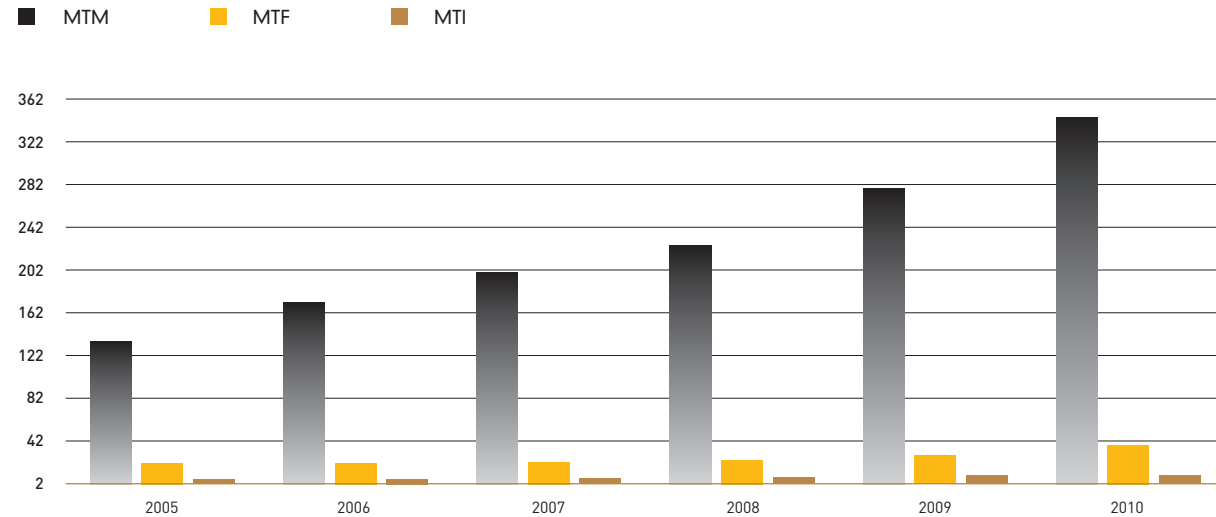
In absolute terms, the number of outgoing mobile calls increased from 250.3 million in 2009 to 279.4 in 2010. This growth is accounted for by increases in terms of on-net and off-net Mobile-To-Mobile (MTM) calls, which increased by 21.6 million and 5.2 million respectively, an increase of 2.1 million Mobile-To-Fixed (MTF) calls and another increase of 0.3 million Mobile-To-International (MTI) calls.

Significant growth was also recorded in terms of outgoing mobile voice call minutes. In absolute terms, traffic volumes increased by 24.3%, representing an overall increase of 74.9 million outgoing voice call minutes.

Nearly 67% of this increase is accounted for by gains in terms of on-net MTM traffic. In this regard, the number of outgoing on-net MTM voice call minutes increased by 50 million, from 182.2 million in 2009 to 232.2 million in 2010. Smaller gains, in absolute terms, were recorded for off-net MTM traffic and MTF traffic, with outgoing voice call minutes increasing by 15.5 million (17%) and by 9.5 million (35%), respectively.

In terms of SMS traffic levels, the number of outgoing SMSs in 2010 exceeded that recorded in 2009 by 70.6 million (13.9%). This development is, to a large extent, attributable to an increase of 72.7 million on-net SMSs which, together with an increase of 2 million off-net SMSs, outweighed a decline of 3.6 million SMSs sent from the Internet portal, a decline of 0.2 million SMSs sent to foreign mobile networks and another decline of 0.3 million premium SMSs.

MOBILE TELEPHONY TRAFFIC VOLUMES
NUMBER OF CALL MINUTES (MILLIONS)



3. International roaming activity

International roaming encompasses any activity registered by mobile subscribers whilst travelling abroad. When making or receiving calls while abroad, mobile subscribers would be using voice roaming services. When sending or receiving an SMS while abroad, mobile subscribers would be using SMS roaming services. Mobile subscribers can also send or receive data while abroad. These services are referred to as data roaming services.

When reporting on international roaming activity, local operators distinguish between inbound and outbound roaming activity.

Outbound roaming activity refers to call, SMS and data services operated on foreign mobile networks for local subscribers when roaming abroad.

Inbound roaming activity refers to call, SMS and data services operated on local mobile networks for foreign subscribers when roaming in Malta.

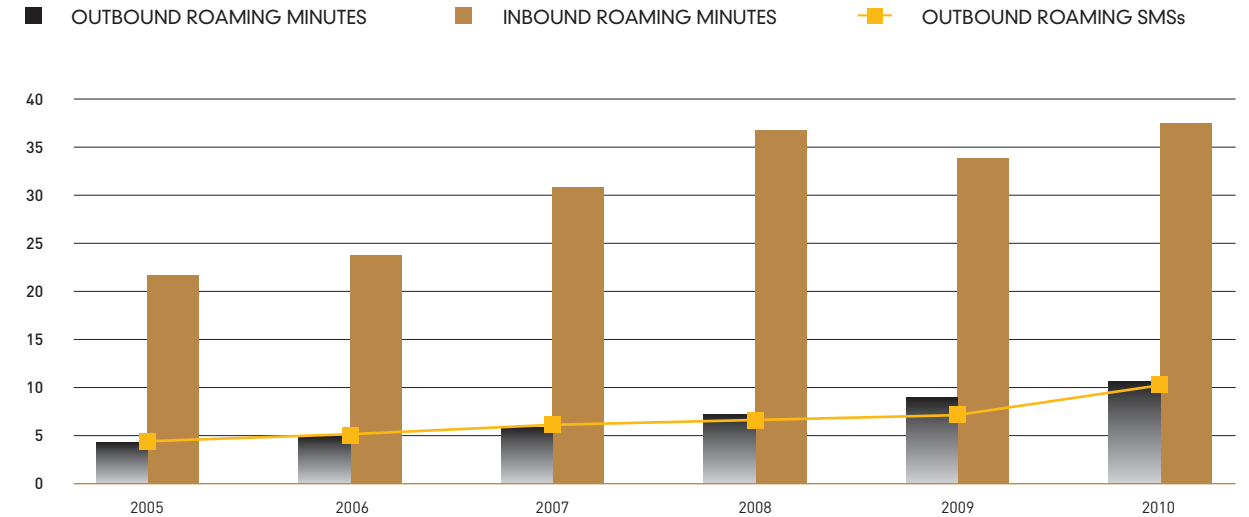
This report outlines developments in voice and SMS roaming activity but no information is yet available with regard to data roaming activity.

In this regard, international roaming activity, as reported in 2010, surpassed that reported in the previous year.

Inbound roaming activity increased by 10.5%, as inbound roaming traffic increased from 33.8 million minutes in 2009 to 37.4 million minutes in 2010. Outbound roaming activity also registered significant gains, up by 19%, from 8.9 million minutes in 2009 to 10.6 million minutes in 2010.

In terms of SMSs sent by local subscribers whilst abroad, traffic volumes increased from 7.8 million in 2009 to 10.3 million in 2010. These positive trends could possibly be the result of a higher influx of tourists during 2010, coupled with better pricing.

MOBILE TELEPHONY TRAFFIC VOLUMES
ROAMING ACTIVITY (MILLIONS)



4. Market shares

In terms of active mobile subscriptions, Vodafone Malta recorded the largest market share at 47.7%, down from 49.6% in 2009. GO Mobile's share stood at 42.1%, down from 43.2% in 2009 and that for Melita Mobile stood at 8%.

On the other hand, gains were recorded by Melita, up by 2.4%, and Redtouch Fone, up by 0.4%. Ping managed to obtain a 0.2% market share by the end of 2010.

In terms of outgoing mobile voice call minutes, Vodafone's lead over GO Mobile's market share is wider. In 2010, Vodafone Malta accounted for 50.1% of all outgoing mobile traffic recorded throughout the year, still down from 53.2% in 2009, whilst GO Mobile accounted for 35.8%, also down from 38.2% in 2009.

Market share outcomes are also considered in terms of outgoing SMS traffic. The difference between Vodafone Malta and GO Mobile is of a 2.3% margin. Vodafone Malta accounted for 47.8% of all outgoing SMSs recorded in 2010, whilst GO Mobile accounted for 45.5%.

Melita Mobile accounted for a market share of 5.9%, Redtouch Fone for 0.8% and Ping for less than 0.1%.

MOBILE TELEPHONY SUBSCRIPTIONS AS AT THE END OF 2010 BY OPERATOR

| | |
|------------------|--------|
| GO MOBILE | 42.13% |
| VODAFONE (MALTA) | 47.71% |
| MELITA MOBILE | 7.98% |
| RETOUCH FONE | 2.02% |
| PING | 0.16% |



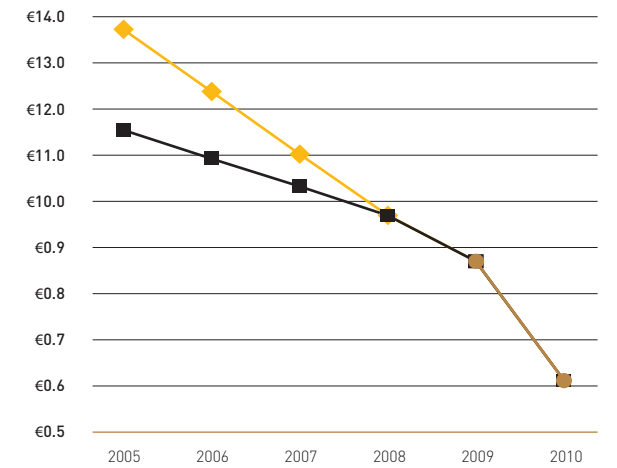
5. Wholesale mobile voice call termination rates

As a result of an ongoing process initiated by the MCA to revise local Mobile Termination Rates (hereafter, referred to as MTRs), these rates declined consistently since 2005, in line with EU developments.

A new rate of €0.0617 was enforced as from 1st September 2010, down from an earlier rate of €0.0866¹⁰.

WHOLESALE MOBILE VOICE CALL TERMINATION RATES

| |
|------------------|
| GO MOBILE |
| VODAFONE (MALTA) |
| MELITA MOBILE |



6. Average Revenue Per User, ARPU

ARPU figures are computed by dividing total revenues of service providers by the average number of active subscribers¹¹ during a given period.

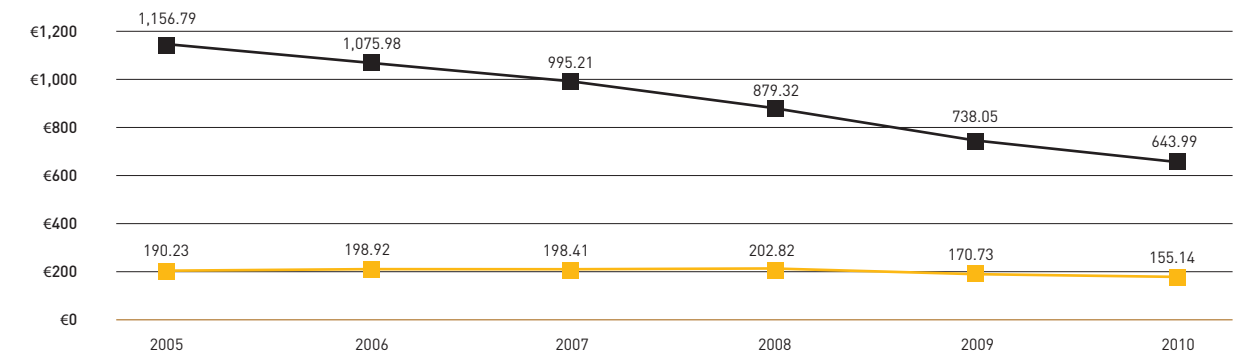
On an annual basis, postpaid ARPU¹² has declined steadily to €643.99 in 2010 from approximately €1156.8 in 2005.

Prepaid ARPU also experienced a decline, although at a much slower rate, from €190.23 in 2005 to €155.14 in 2010.

These decline patterns reflect the level of pricing of the two types of offerings in 2005 and are indicative of the fact that prepaid services were introduced in a competitive environment, whereas postpaid prices in 2005 were still inflated as a legacy from the days when the sector was still monopolised.

AVERAGE REVENUE PER USER

| | |
|----------|---------|
| POSTPAID | PREPAID |
|----------|---------|



10. The rate reduction was based on the proposed 75th percentile benchmarking methodology.

11. The average number of active subscriptions during the respective period is arrived at by adding the number of subscribers at the start of the period plus the number of subscribers at the end of the period, divided by 2.

12. Prepaid and postpaid ARPU figures are preliminary for 2010.

7. Average cost per minute and SMS of mobile communications

The MCA monitors developments in mobile tariffs by taking into consideration a series of revenue-based indicators, which evaluate operators' revenue submissions against the corresponding traffic levels.

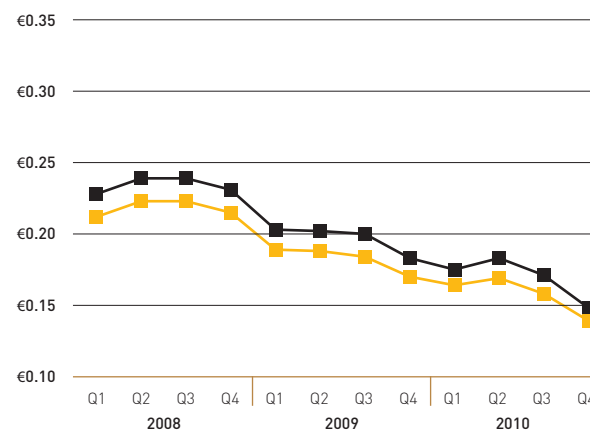
The first consideration refers to the average cost per minute of local mobile voice communications. This indicator has several variants depending on the revenue and traffic elements included in the workings.

This section refers to two such variants. One variant considers domestic voice call and access revenues¹³ per unit of domestic traffic i.e. per domestic call minute. This indicator shows that the average cost per minute of mobile communications stood at €0.139 as at Q4 2010, compared to €0.170 as at Q4 2009.

AVERAGE COST PER MINUTE OF LOCAL MOBILE VOICE COMMUNICATIONS

BASED ON TRAFFIC REVENUES (EXCL. VAT) PER CALL MINUTE

- DOMESTIC VOICE (INCL. ROAMING REVENUES) & ACCESS REVENUES PER DOMESTIC CALL MINUTE (INCL. OUTBOUND ROAMING MINUTES)
- DOMESTIC VOICE TRAFFIC & ACCESS REVENUES (EXCL. OUTBOUND ROAMING REVENUES) PER DOMESTIC CALL MINUTE



13. Exclusive of tax related revenues.

14. *ibid.*

15. It must be noted that local mobile operators offer free or low flat rate SMSs in bundles, on weekends and other schemes, which affect the final outcome for the average SMS rate. Figures have been derived by considering total revenues registered for outgoing SMS traffic (both to local and foreign mobile networks) over the number of outgoing SMSs registered in the respective period. Calculations include premium SMSs and SMSs sent from Internet portals.

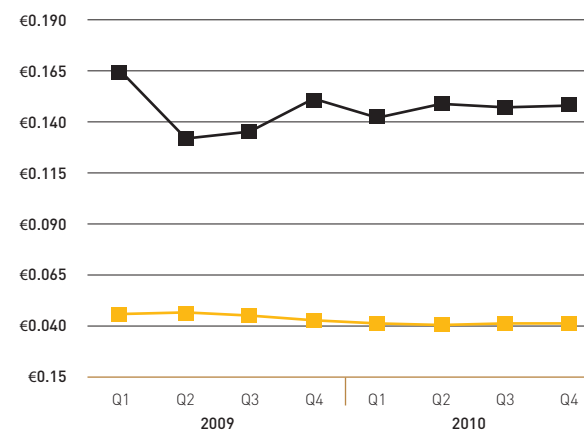
The other variant considers domestic voice, access and outbound roaming revenues¹⁴ per unit (i.e. per minute) of traffic, including domestic and outbound roaming minutes. Based on these workings, the average cost per minute of mobile communications stood at €0.148 as at Q4 2010, compared to €0.183 as at Q4 2009.

Revenue-based market trends have also been derived to track actual movements in SMS tariffs charged by local operators.

When considering revenues per SMS, MCA workings show that, on average, a subscriber spent €0.029 per local SMS and €0.152 per international SMS as at Q4 2010¹⁵.

AVERAGE RATE PER LOCAL AND INTERNATIONAL SMS BASED ON REVENUES (EXCL. VAT) PER SMS

- INTERNATIONAL SMS
- LOCAL SMS



8. Malta and the EU

This section provides information based on the 15th Progress Report on a single European Communications Market 2009, which was published in 2010. At the time of print of this report, the 16th Progress Report covering market data for 2010 was not yet available.

As at the end of 2009, Malta's ratio of prepaid to postpaid subscribers stood at 81.4% (down from 86.4% a year earlier) to 18.6% (up from 13.6%). The EU average ratio stood at 55.3% for prepaid, to 44.7% for postpaid.

In the area of pricing, the European Commission's 15th Progress Report provides an overview of the price per minute for mobile communications across the EU. The report underlines that the EU average price per minute of mobile calls declined from €0.14 in 2007 to €0.13 in 2008, a marginal decline of €0.01.

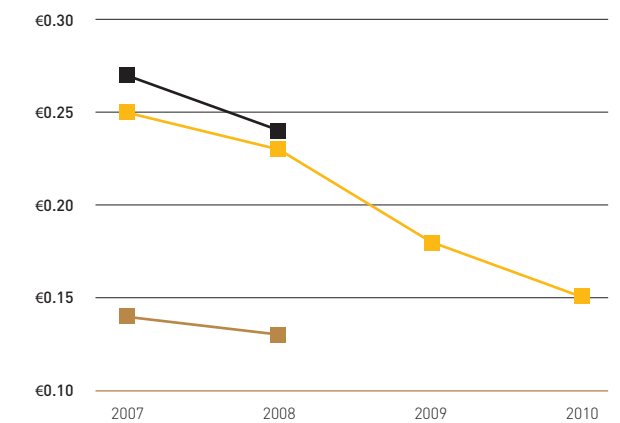
Malta's price per minute for mobile communications was reported as having declined by €0.03, from €0.27 in 2007 to €0.24 in 2008. This decline materialized prior to the launch of Melita Mobile, as this operator started offering its services in February 2009.

MCA preliminary workings suggest that, by the end of 2010, Malta's price per minute of mobile communications hovered around €0.139¹⁶ down from €0.170 as at end 2009.

In 2009 and 2010, well over 100,000 portings were recorded. More significantly, in 2009, it just took one day for local operators to execute mobile portability, compared to a European average of 4.1 days.

AVERAGE MOBILE TARIFFS

- IMPLEMENTATION REPORT: MALTA RANKING
- IMPLEMENTATION REPORT: EU AVERAGE
- MCA REVENUE-BASED WORKINGS: MALTA



16. This figure has been arrived at by subdividing domestic mobile voice call traffic and access revenues (but excluding outbound roaming revenues) by the total number of domestic mobile outgoing voice call minutes. Figures exclude VAT, SMS text messages and data services. The average price per revenue quoted by the EU 15th Progress Report is defined as the revenues from mobile voice communications divided by the total outgoing minutes of voice communication excluding VAT, but including access charges.

INTERNET AND ECOMMERCE

Internet and eCommerce continued to experience rapid growth in 2010. An ever-more technologically savvy population led to a further consolidation in the demand for broadband services and an increase in eCommerce transactions.

1. Internet subscriptions

The number of Internet subscriptions as at the end of 2010 amounted to 119,422 as opposed to the corresponding figure of 111,543 in 2009. This represents an increase of 7,879 Internet subscriptions (7.1%) over a 12 month period.

Growth is attributable to an increased uptake of fixed broadband, as subscriptions under this heading increased by 7.7%, to reach 119,372 at the end of 2010, from 110,849 as at the end of 2009.

Furthermore, nearly 54% of all fixed broadband subscriptions as at the end of 2010 were bundled with some other electronic communications service. In absolute terms, the

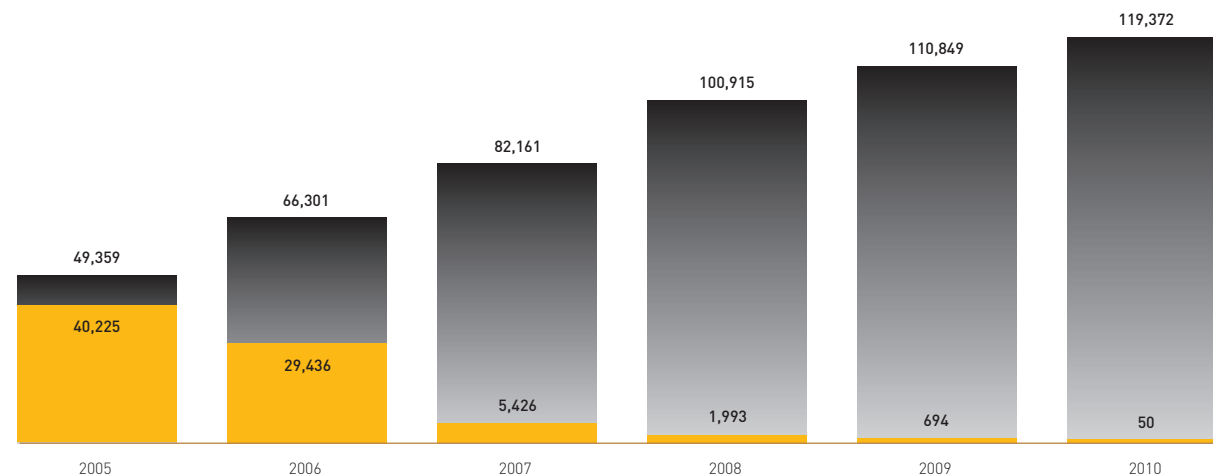
number of fixed broadband subscriptions purchased as part of a bundled offer nearly doubled to reach 64,115 as at the end of 2010 from 35,868 as at the end of 2009.

Disaggregating the latter figure would show that around 89% of fixed broadband subscriptions on a bundled offer formed part of a quadruple play package, including a fixed line connection, a mobile connection and a Pay TV package.

In terms of dial-up, the number of active subscriptions went down to negligible levels, from 694 as at the end of 2009 to around 50 as at the of the current review period, rendering this technology obsolete in Malta.

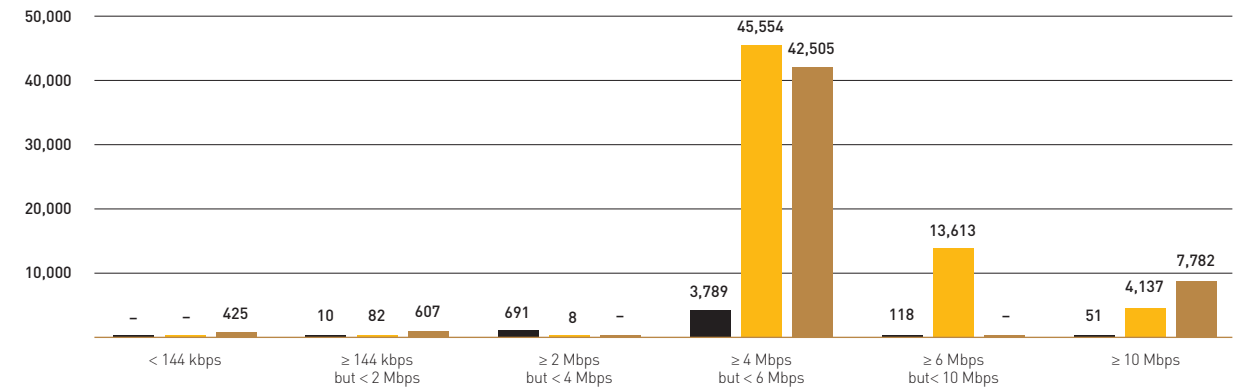
INTERNET SUBSCRIPTIONS AS AT END OF PERIOD

■ BROADBAND SUBSCRIPTIONS
■ DIAL-UP SUBSCRIPTIONS



BROADBAND SUBSCRIPTIONS BY DOWNLOAD SPEED AS AT END 2010, BY TECHNOLOGY

■ WIRELESS ■ DIGITAL SUBSCRIBER LINE (DSL) ■ CABLE



2. Fixed broadband speeds & penetration rate

Nearly 77% of all fixed broadband subscriptions at the end of 2010 had an average connection speed of greater than or equal to 4 Mbps but less than 6 Mbps. This amounts to 91,848 subscriptions, up from 79,893 a year earlier.

Correspondingly, 11.5% of subscriptions (equivalent to 13,731 broadband subscriptions) were reported as having a connection speed of greater than or equal to 6 Mbps but less than 10 Mbps.

Those subscriptions with an average connection speed of 10 Mbps or more, amounted to 10% of the total number of fixed broadband subscriptions (equivalent to 11,970 subscriptions).

Regarding Malta's fixed broadband take-up, the latest EU review on broadband access in the EU reports that Malta's penetration rate stood at 28.5% in July 2010, up from 25.3% a year earlier. Malta's standing vis-à-vis other Member States is that it benchmarks above the EU average rate of 25.6%¹⁷. As at end 2010, Malta's penetration rate stood at 28.9%

| Fixed Broadband subscriptions on a bundled offer | 2009 | | | | 2010 | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| ...on a two play offer | 1,165 | 1,100 | 703 | 932 | 861 | 641 | 865 | 1,046 |
| ...on a triple play offer | 4,973 | 5,477 | 4,446 | 4,448 | 4,757 | 5,098 | 5,444 | 5,934 |
| ...on a quadruple play offer | 15,369 | 21,002 | 26,706 | 30,488 | 37,812 | 43,044 | 49,657 | 57,135 |
| Number of users on multiple play offers including an Internet subscription | 21,507 | 27,579 | 31,855 | 35,868 | 43,430 | 48,783 | 55,966 | 64,115 |
| ...as a percentage of total broadband Internet subscriptions | 21.09% | 25.85% | 29.20% | 32.36% | 38.13% | 41.50% | 46.53% | 53.71% |

17. According to the latest CoCom Report on 'Broadband Access in the EU: situation at 1 July 2010', the EU fixed broadband penetration rate is measured as the total number of fixed broadband lines per 100 inhabitants. The said report also shows that Malta's mobile broadband penetration rate, as measured by dedicated mobile data service cards (but excluding mobile handsets), the figure stood at around 2.6% in July 2010, compared to an EU average of 6.1%. Albeit lower than the EU average, the figure reported for 2010 marks an improvement over 2009.

3. Market shares

This section reviews market share developments in 2010 for fixed broadband by type of platform and by operator.

BY PLATFORM

The number of fixed broadband subscriptions as at the end of 2010 amounted to 119,372. This figure encompasses 63,394 DSL subscriptions, 51,319 cable modem subscriptions and 4,659 Broadband Wireless Access (BWA) subscriptions.

This means that the DSL platform accounted for 53.1% of the total number of fixed broadband subscriptions, the cable platform accounted for nearly 43% and the BWA platform accounted for the remaining 3.9%. The DSL platform gained 5.5 percentage points over its market share standing as at the end of 2009, whilst the cable platform lost 5.9 percentage points. The BWA platform also registered a slight gain of 0.5%.

BY OPERATOR

Market share developments are also assessed according to how service providers perform in terms of their share of the local subscriber base. This review takes into consideration the following service providers: GO, Melita, SIS, SKY Telecom,

Vanilla Telecoms, Vodafone Malta and a number of other third party ISPs.

As at the end of 2010, GO reported 62,934 fixed broadband subscriptions, up from 49,395 subscriptions as at the end of 2009. This means that, by the end of 2010, GO represented 52.7% of the local subscriber base for fixed BB.

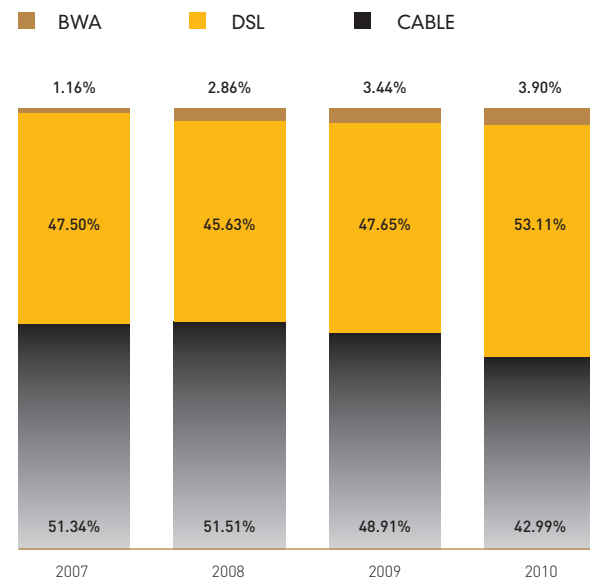
Melita followed with 51,319 fixed broadband subscriptions, corresponding to a 42.9% market share of the local subscriber base.

In turn, Vodafone accounted for a further 4,117 subscriptions, or 3.4% market share, whilst Vanilla Telecoms and SKY Telecom together reported 542 subscriptions, which translate into a market share of 0.2% and 0.3% respectively.

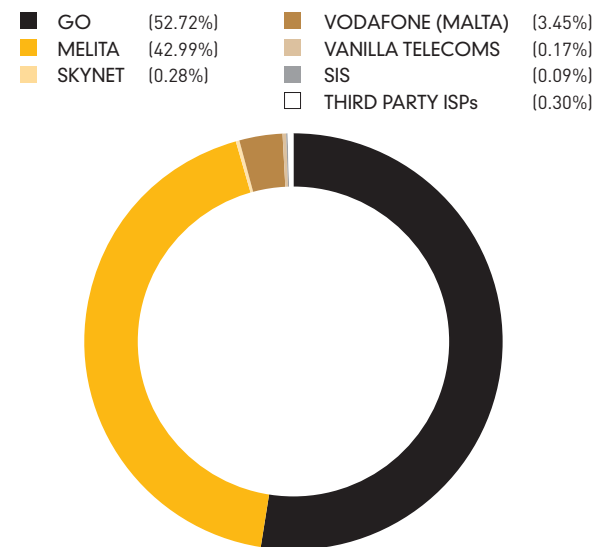
The number of fixed broadband subscriptions with SIS amounted to 106, signifying a 0.1% market share.

Third party ISPs accounted for the remaining 0.3% market share.

INTERNET SUBSCRIPTIONS
MARKET SHARES AS AT END OF PERIOD, BY TECHNOLOGY



2010 MARKET SHARES, BY OPERATOR
IN TERMS OF BROADBAND INTERNET SUBSCRIPTIONS



4. Pricing of fixed broadband internet

The MCA also considers the average price of broadband per unit of download speed (Mbps) as a proxy measure of how pricing for fixed broadband developed over time. Workings are undertaken on the basis of an evaluation of the price of a broadband product, as advertised by the service provider, against the advertised download speed.

The assessment identifies two types of fixed broadband products, those having a specified (or fixed) download limit and others for which no download limit is set (i.e. products with an unlimited download).

Different categories of broadband products are set according to advertised download speed.

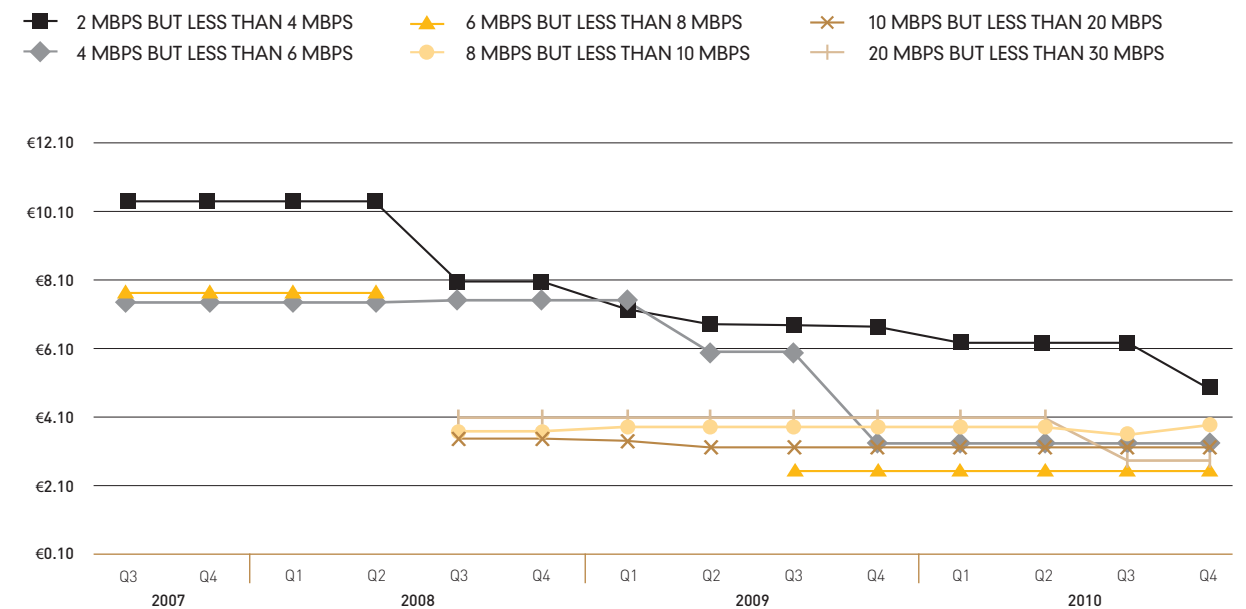
Seven categories were identified as follows:

- products with a download speed equal to or greater than 2 Mbps but less than 4 Mbps;
- products with a download speed equal to or greater than 4 Mbps but less than 6 Mbps;
- products with a download speed equal to or greater than 6 Mbps but less than 8 Mbps;
- products with a download speed equal to or greater than 8 Mbps but less than 10 Mbps;
- products with a download speed equal to or greater than 10 Mbps but less than 20 Mbps;
- products with a download speed equal to or greater than 20 Mbps but less than 30 Mbps; and
- products equal to or greater than 30 Mbps.

- products with a download speed equal to or greater than 6 Mbps but less than 8 Mbps;
- products with a download speed equal to or greater than 8 Mbps but less than 10 Mbps;
- products with a download speed equal to or greater than 10 Mbps but less than 20 Mbps;
- products with a download speed equal to or greater than 20 Mbps but less than 30 Mbps; and
- products equal to or greater than 30 Mbps.

With respect to the broadband category encompassing products with a download speed less than 4 Mbps, the average price per Mbps declined from €6.69 in Q4 2009 to €4.75 in Q4 2010, for those products advertised with a download limit. This is mainly a result of the ceasing of operations by Waldonet as from Q4 2010, thereby leaving only one product marketed by Vodafone in this broadband category. No broadband products having a download speed less than 4 Mbps were advertised with unlimited download in this review period.

AVERAGE PRICE PER MBPS
FOR PRODUCTS WITH A SPECIFIED DOWNLOAD LIMIT



For the broadband category encompassing products with a download speed equal to or greater than 4 Mbps but less than 6 Mbps, no price changes have been recorded. The average price per Mbps in Q4 2010 stood at €3.12 for products advertised with a specified download limit and €5.04 for those with unlimited download.

With respect to broadband products having a download speed equal to or greater than 6 Mbps but less than 8 Mbps, the average price per Mbps as at Q4 2010 stood at €2.26 for products advertised with a download limit and €5.90 for products with no advertised download limit. The average rate for 2010 were similar to those reported in Q4 2009.

The broadband category featuring products with a download speed equal to or greater than 8 Mbps but less than 10 Mbps showed no significant change in the average price per Mbps in the current review period. The average price per Mbps stood at €3.87 in Q4 2010, just slightly above €3.83 in Q4 2009. All broadband products in the said category were advertised with a set download limit.

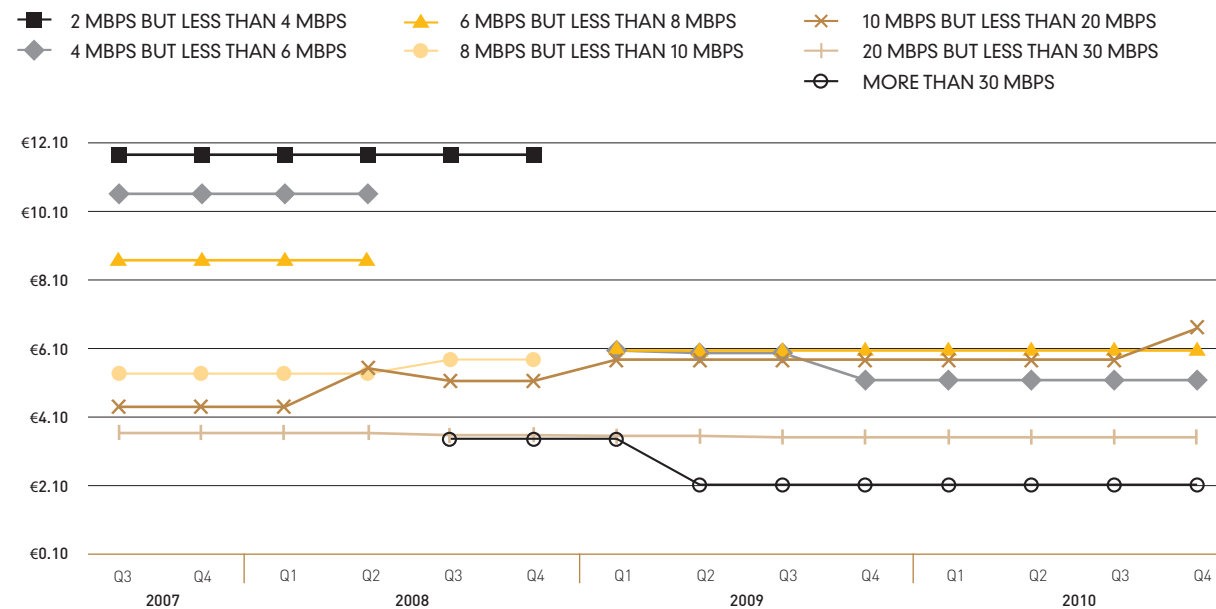
Developments were somewhat varied for the broadband category featuring products with a download speed equal to or greater than 10 Mbps but less than 20 Mbps. For those

products advertised with a set download limit the price per Mbps in Q4 2010 stood at €3.13, as in Q4 2009. However, the price per Mbps for products advertised with unlimited download, recorded an increase, up from €5.63 in Q4 2009 to €6.54 in Q4 2010. Again, this is a result of Waldonet's termination of its ADSL and internet services, as this operator advertised a number of products, which featured on the lower end of the price scale of the said category.

The average per Mbps for broadband products with a download speed equal to or greater than 20 Mbps, but less than 30 Mbps, went down from €4.13 in Q4 2009 to €2.82 in Q4 2010 for those products advertised with a set download limit. Those products advertised with unlimited download showed no decline in the average price per Mbps. The respective rate stood at €3.38 in Q4 2010.

The latest category under consideration refers to those broadband products with a download limit of 30 Mbps or more. Only Melita is active within this broadband category with its 50 Mbps product at a price of €100 per month with unlimited download. This works out to an average price per Mbps of €2 for this broadband category, unchanged from the prevailing rate in 2009.

AVERAGE PRICE PER MBPS
FOR PRODUCTS WITH AN UNLIMITED DOWNLOAD



5. eCommerce activity

The MCA carries out regular surveys to obtain an indication of eCommerce activity in Malta. The last survey was carried out in September 2010, which indicates that 79.1% of respondents cited eCommerce as a reason for making regular use of the Internet.

Survey results indicate an ever-larger share of the Maltese population making regular use of the Internet to carry out online purchases. Whilst in September 2006 only 68.7% of regular Internet users reported having made, at least, one online purchase in the previous six months, the figure has since increased to 73.7%¹⁸ as at September 2010.

The increase in the number of Maltese making online purchases is confirmed by figures published by Eurostat. Whilst in 2009 Eurostat reported that 34% of individuals in Malta, aged 16 to 74, ordered goods and services over the Internet, the figure increased to 38% in 2010, which is two percentage points lower than the EU27 average.

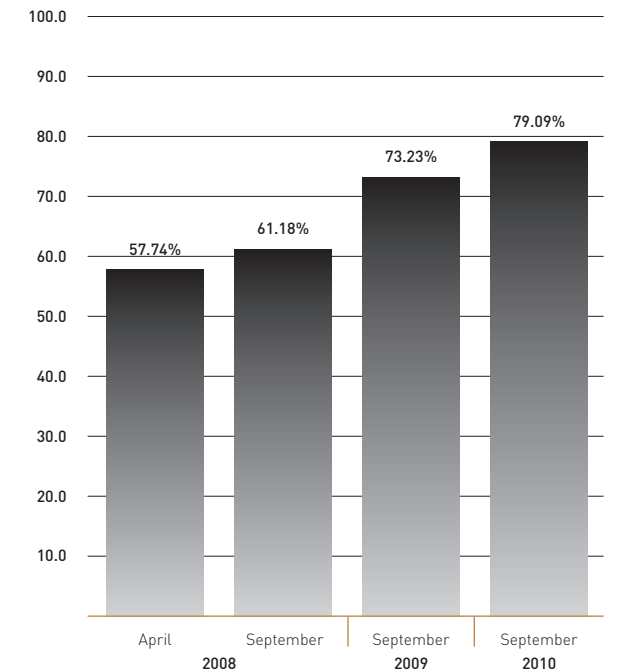
Around 37% of those claiming to have made at least one online purchase in the previous six months reported having spent between €25 and €120. Another 38% reported having spent between €120 and €600.

Payment by PayPal and credit card are the most popular online payment methods highlighted by respondents.

Survey results are also indicative of usage (or popularity) of Internet banking, the payment of bills over the Internet and eGovernment services. Between September 2008 and September 2010, the survey underlines an increase in the number of those making use of the Internet for banking activities and the payment of bills.

eCOMMERCE ACTIVITY

RESPONDENTS CITING ECOMMERCE AS A REASON FOR MAKING REGULAR USE OF THE INTERNET



18. This is equivalent to 47.6 % of the survey sample size.

6. Malta and the EU

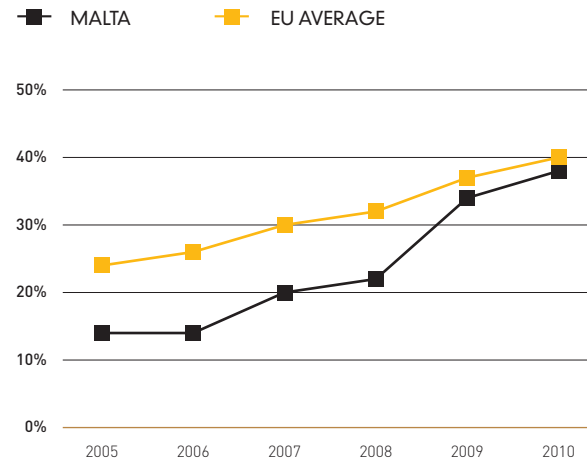
In many instances, Malta's performance in the various telecoms sectors compared relatively well with the EU27 average.

In terms of fixed broadband penetration, Malta's standing at 28.5% surpassed the EU27 average, which stood at 25.6%. Malta ranked in the 10th position amongst the EU27

With respect to eCommerce penetration, Malta's 2010 standing was only two percentage points lower than the EU27 average at 40%. This marked a strong improvement over previous years.

Latest available figures also suggest that in terms of the percentage of households and enterprises, which have fixed broadband access, Malta's standing is amongst the forerunners in the EU.

INDIVIDUALS USING THE INTERNET FOR ORDERING GOODS AND SERVICES ONLINE
PERCENTAGE OF INDIVIDUALS AGED 16 TO 74

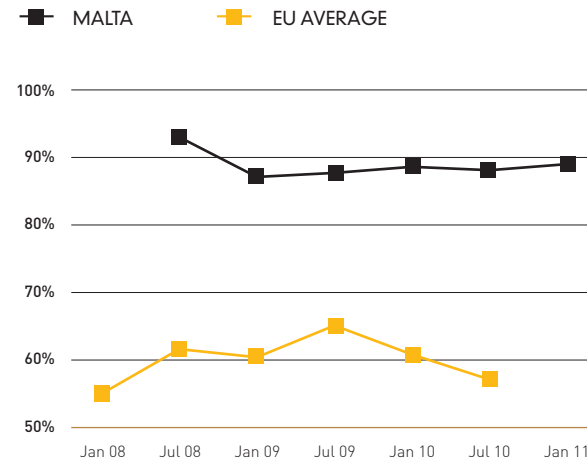


For 2010, Eurostat reports that 69% of all households in Malta (with at least one member aged 16 to 74 years) had access to broadband, compared to an EU average of 61%. With respect to enterprises¹⁹ in Malta having access to broadband, Eurostat 2010 figures are not yet available. However, Eurostat reports that, in 2009, 93% of all enterprises had access to broadband compared to an EU27 average of 83%.

Comparisons are also made in terms of market shares of the different fixed broadband technologies in Malta and the EU. Latest EU statistics²⁰ show that, as at July 2010, nearly 78% of all fixed broadband connections in the EU used DSL technology, compared to 50.4% for Malta.

This discrepancy is mainly a result of the nationwide presence of cable technology in the Maltese Islands. Indeed, Malta's cable operator market share was reported at 46.1% in July 2010, compared to an EU average cable technology market share of 15.6%.

FIXED BROADBAND - MARKET SHARES BY SPEED
CONNECTIONS EQUAL TO AND ABOVE 2 MBPS AND BELOW 10 MBPS



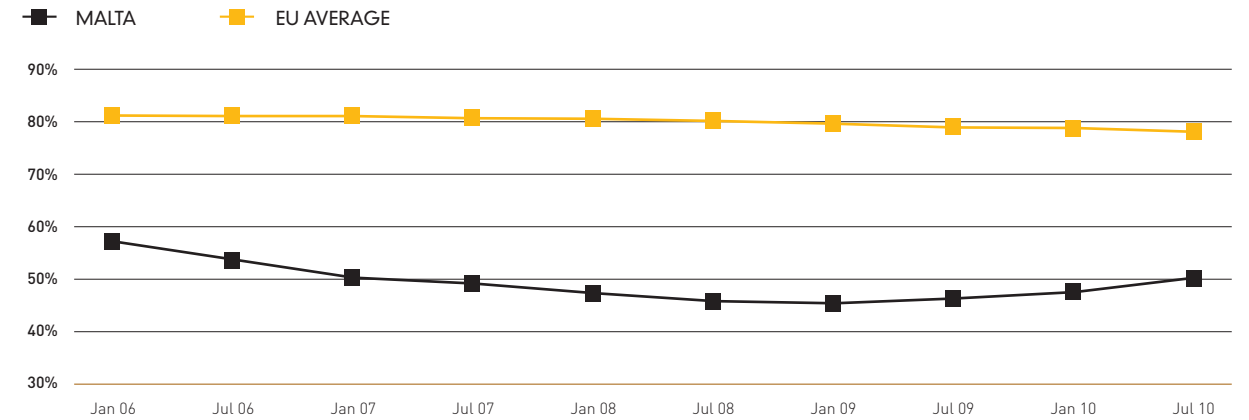
In terms of the presence of other broadband technologies (including BWA), Malta's market share was reported at 3.5%, below the EU average of 6.5%.

In terms of broadband speeds, statistics show that over 88.5% of all broadband connections in Malta as at July 2010 had a speed equal to or more than 2 Mbps but less than 10 Mbps. This is significantly above the EU average, as only

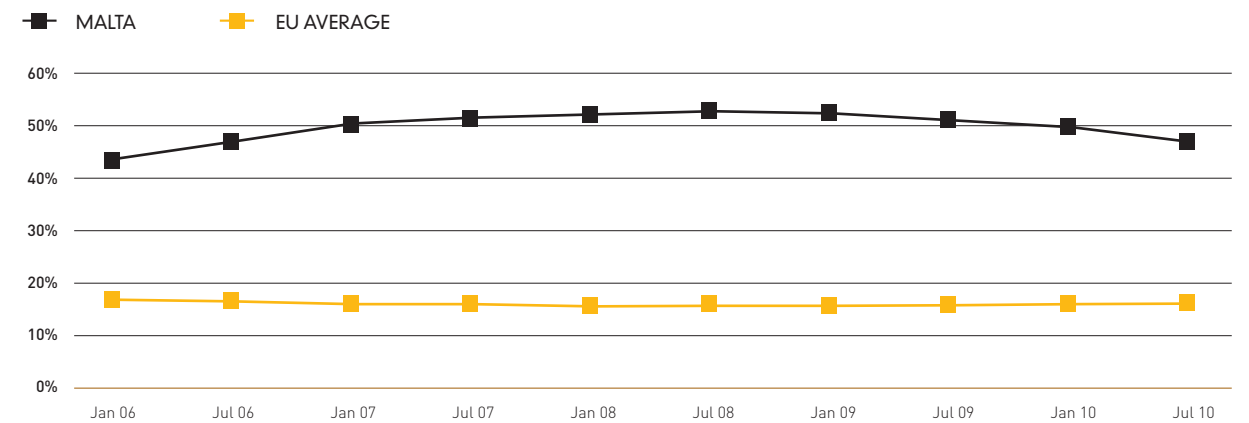
around 57.5% of all EU broadband connections were reported under this broadband speed category.

On the other hand, the percentage of users in Malta, which enjoyed a broadband speed equal to or exceeding 10 Mbps were reported at 10.7%, which is significantly lower than the EU27 average of 29.2%.

FIXED BROADBAND - DSL TECHNOLOGY MARKET SHARES
CONNECTIONS EQUAL TO AND ABOVE 2 MBPS AND BELOW 10 MBPS



FIXED BROADBAND - CABLE TECHNOLOGY MARKET SHARES
CONNECTIONS EQUAL TO AND ABOVE 2 MBPS AND BELOW 10 MBPS



19. Enterprises with at least 10 persons employed in the given NACE sectors.

20. Reference is being made to the latest COCOM report as outlined in previous footnotes.

PAY TV

The Pay TV sector emerged significantly stronger in 2010, as subscriptions on the digital platform increased by 18.7% and service providers kept repositioning themselves in terms of content offered with different Pay TV packages.

1. Subscriptions

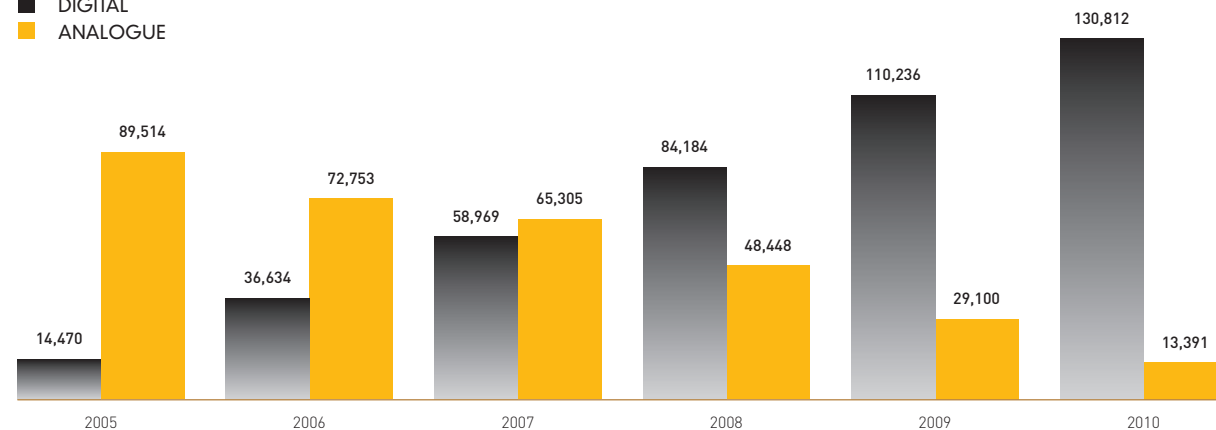
The number of analogue Pay TV subscriptions²¹ declined from 29,100 as at the end of 2009 to 13,391 as at the end of 2010. As a result, analogue Pay TV subscriptions accounted for only 9% of the Pay TV subscriber base as at the end of the year under review.

This decline was offset by a significant margin as digital Pay TV subscriptions increased by 20,576 to reach 130,812 as at the end of 2010.

Digital Pay TV packages are also offered as part of a bundle with other electronic communications services. As at the end of 2010, 51.5% of all digital Pay TV subscriptions were in fact bundled with some other electronic communications service, nearly 10% more than the corresponding figure as at the end of 2009.

PAY TV SUBSCRIPTIONS
AS AT END OF PERIOD

■ DIGITAL
■ ANALOGUE



21. All analogue Pay TV connections related to Melita subscriptions, which is currently phasing out this Pay TV platform so that existent connections are switched to digital.

2. Market share outcomes

As at the end of 2010, Melita accounted for 58.1% of the local Pay TV subscriber base (including both analogue and digital subscriptions), whilst GO accounted for the remaining 41.9%. In absolute terms, Melita (digital cable) subscriptions amounted to 70,366 whilst GO (digital terrestrial or DTTV) subscriptions amounted to 60,446.

If only digital Pay TV subscriptions are considered, the market share outcomes would differ, such that Melita would account for 53.8% of the total (or 70,366 digital cable subscriptions), down from 59.2% as at the end of 2009, whilst GO would account for the remaining 46.2% (or 60,446 DTTV subscriptions), up from 40.8% a year earlier.

PAY TV MARKET SHARES AS AT THE END OF 2010
IN TERMS OF ALL PAY TV SUBSCRIPTIONS

■ GO 41.92%
■ MELITA 58.08%



PAY TV MARKET SHARES AS AT THE END OF 2010
IN TERMS OF DIGITAL PAY TV SUBSCRIPTIONS

■ GO - DTTV 46.21%
■ MELITA - DIGITAL CABLE 53.79%



3. Pay TV package tariffs²²

Tariffs for Pay TV packages are generally structured according to the number of channels featuring under each respective package.

In this regard, five Pay TV categories have been identified.

In Q4 2010, the average tariff for Pay TV packages listing not more than 24 channels stood at €2.99. This reflects the rate²³ charged by GO for its long-standing Free+ digital package,

which was the only product featuring under this category in Q4 2010.

Some months earlier however, Melita was also present in the Pay TV category featuring products listing not more than 24 channels. In Q4 2009, Melita advertised a Reception package, which was offered over the analogue cable platform and listed 24 channels and a Medium package, which was offered over the digital cable platform and again listed 24 channels.

22. All rates are inclusive of VAT.

23. Rate includes access charge.

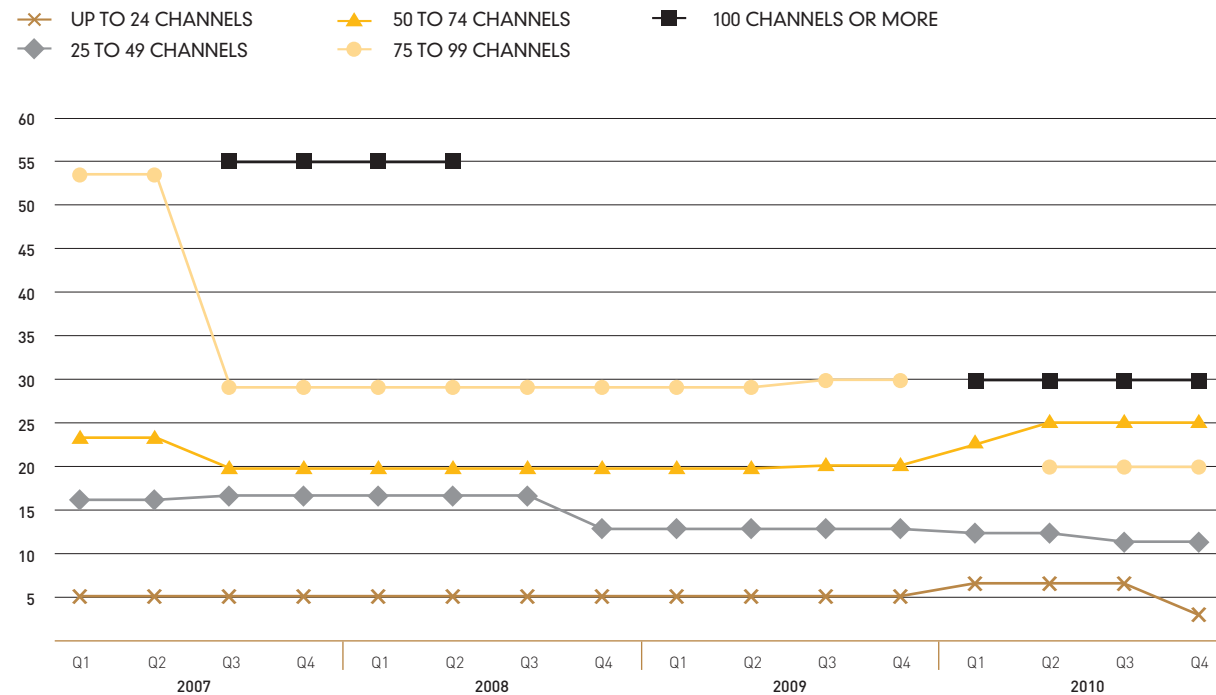
Melita's analogue Pay TV package was priced at €7.76 prior to 2010 and €9.99 as from January 2010. As from Q4 2010, this product was no longer advertised. Melita's Medium Pay TV package was upgraded in Q4 2009, with the number of channels listed in this package increasing to 38.

Throughout 2010, downward price movements were observed for the category including Pay TV packages listing 25 to 49 channels. This category was originally characterised by GO's Silver+ package, listing 37 channels and priced at €13.98²⁴. However, as from Q1 of 2010, Melita started offering its own product in this category, the Medium package, listing 38 channels and priced at €7.76. This pushed the average market rate for this channel category downwards, from around €12/€13 to €11.38 by the end of 2010.

On the other hand, the average market rate for the category including Pay TV packages listing 50 to 74 channels went up, from €20.14 as at end 2009 to €24.99 as at end of 2010. This increase is mainly a result of Melita shifting its Large package, which originally featured under this category, under the category including 75 to 99 channels, thereby leaving GO's Gold+ Package standing alone within this bracket.

In 2009 and 2010, only one offer featured under the category of Pay TV packages listing 75 to 99 channels. In this regard, the average tariff rate has gone down to €19.99 in 2010 from €29.99 as at end 2009 as Melita upgraded its Large package into this channel category and moved its Extra Large package, then priced at €29.99, from this category to the one listing 100 or more channels. Melita's offer under the latter category included 150 digital TV channels.

AVERAGE MARKET RATES FOR PAY TV PACKAGES
BASED ON ACTUAL RATES (ADVERTISED BY OPERATORS)



24. Tariff is inclusive of network access fee. This package was available at €13.98 in 2009. However, the rate was increased to €14.99 as from Q1 2010. GO also implemented a rate increase for its Free+ and Gold+ packages, up from €2.33 to €2.99 in the former case, and up from €23.29 to €24.99 in the latter. Rate increases were also implemented in 2009 and 2010 by Melita, as was the case with the Large and Extra Large packages. However, in most instances the said rate increases were also accompanied by changes and upgrades in the channel line-up.

POST

Developments in 2010 for the postal sector show that there has been no reversal in the sector's fortunes in terms of activity levels. Declines in postal volumes were reported notwithstanding stronger eCommerce activity and emerging demand for postal services, which goes well beyond the parameters of traditional postal activities.

1. Postal activity

Postal activity encompasses the delivery of letter, bulk, registered and parcel mail.

In 2010, overall postal activity was slightly lower than that reported in the previous year.

This development is mainly attributable to a fall in bulk mail and parcel mail volumes, which outweighed slight increases in activity for registered mail and letter mail.

The number of registered mail items delivered in 2010 amounted to 0.9 million, up by 11.1% when compared to the previous year, whilst the number of parcel mail items declined from 82,165 in 2009 to 75,653 items in 2010.

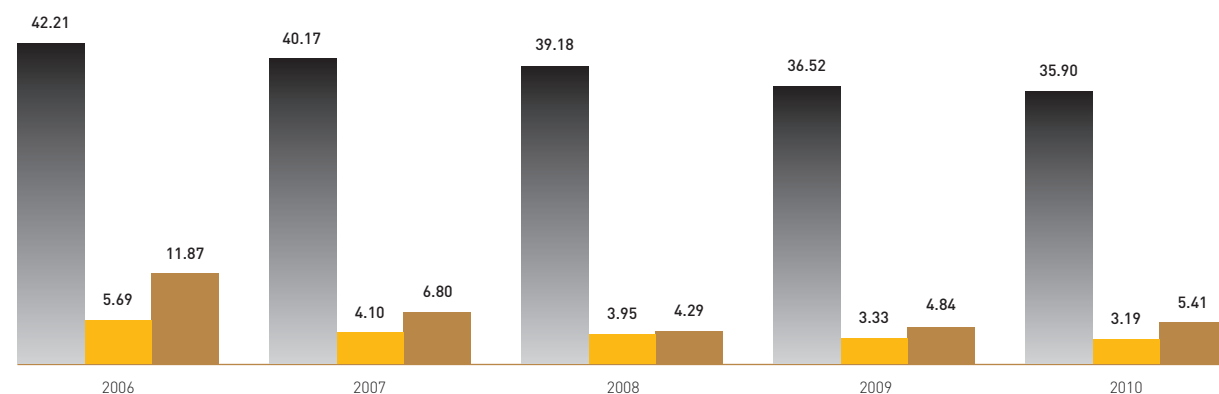
When categorized by type of mail stream, domestic postal activity declined from 36.5 million mail items delivered in 2009 to 35.9 million items in 2010. During the same period, outbound cross border mail also declined from approximately 3.3 million items to 3.2 million items. On the other hand, inbound cross border mail increased from 4.8 million items to 5.4 million items.

In terms of quality of local postal services, the MCA set a series of Quality of Service (QoS) standards to monitor how the Universal Service Provider (USP), currently MaltaPost, is performing with respect to the delivery of local ordinary mail (QoS target for D+1²⁵ set at 93%), bulk mail (QoS target for D+1 set at 93%) and local registered mail (QoS target for D+1 set at 97%). In 2010, MaltaPost surpassed all the QoS targets set for the above.

25. 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 addressee.

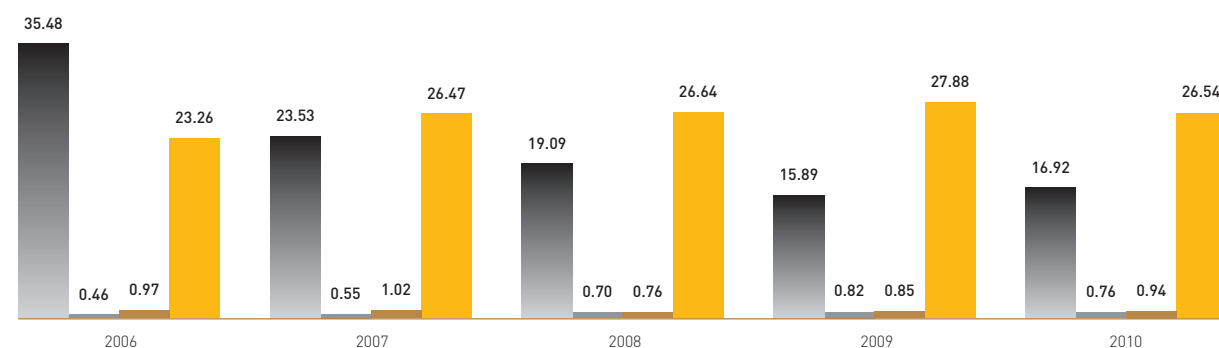
POSTAL ACTIVITY
VOLUMES BY TYPE OF MAIL (MILLIONS)

- DOMESTIC MAIL ITEMS
- OUTBOUND CROSS BORDER MAIL ITEMS
- INBOUND CROSS BORDER MAIL ITEMS



POSTAL ACTIVITY
VOLUMES BY TYPE OF MAIL ITEM (MILLIONS)

- LETTER POST ITEMS
- PARCEL MAIL ITEMS
- REGISTERED MAIL ITEMS
- BULK MAIL ITEMS



2. Postal rates in Malta and the EU

The MCA makes use of Deutsche Post's annual comparative analyses on letter prices in Europe to assess how Malta's postal rates compare with that of other EU Member States.

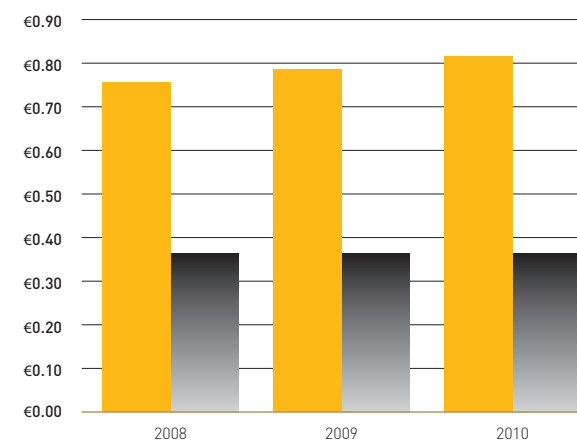
According to figures released by Deutsche Post's report, published in March 2011, Malta's nominal stamp price for a domestic standard letter featured as the cheapest across the EU at €0.19²⁶, well below the EU27 average of €0.49.

In terms of nominal stamp prices for letter mail items to Europe, the said report underlines that Malta stood at the bottom of the 2009 and 2010 nominal price rankings for letter mail directed to EU countries. Malta's rate in 2010 stood at €0.37, well below an EU average of €0.83²⁷.

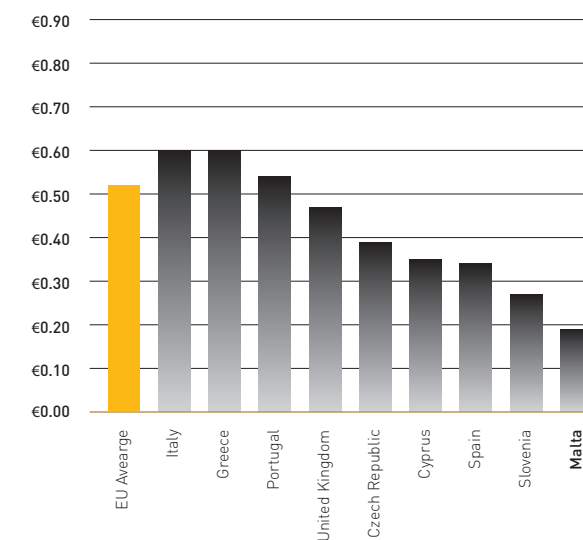
The report also identifies a number of countries²⁸ which, in 2010, registered an increase in the stamp price for letters directed to other EU countries.

NOMINAL STAMP PRICES IN MALTA AND THE EU FOR LETTER MAIL WITHIN EUROPE

- MALTA
- EU AVERAGE



NOMINAL STAMP PRICES FOR A DOMESTIC STANDARD LETTER



26. Malta's nominal stamp price for domestic letter items (not weighing more than 20 grams) actually registered a slight increase from €0.16 in 2006 to €0.19 in the following years.

27. The Report also undertakes calculations based on purchasing power parities published by the EU statistical office, Eurostat. The comparative price levels are applied to the said calculations to determine 'the actual price of the same representative basket of consumer goods and services in each country in a comparable currency unit. When letter prices are adjusted for purchasing power, Malta still emerges with the cheapest letter price in Europe, at €0.27, compared to an EU average of €0.64.

28. These countries include: Greece, Italy, Spain, Slovenia and the United Kingdom. This list is not exhaustive.

STRATEGIC OBJECTIVES

& KEY PERFORMANCE INDICATORS

THE MCA'S MISSION IS TO 'REGULATE THE ELECTRONIC COMMUNICATIONS, ECOMMERCE AND POSTAL SECTORS WITH A VIEW TO ACHIEVING SUSTAINABLE COMPETITION, ENABLING CUSTOMER CHOICE AND VALUE-FOR-MONEY; TO FACILITATE THE DEVELOPMENT OF AN ENVIRONMENT THAT IS CONDUCIVE TO INVESTMENT, INNOVATION AND CONTINUED SOCIAL AND ECONOMIC GROWTH.'

This section provides a general overview of the MCA's mandate, mission and strategic objectives, as well as an assessment of ongoing trends in the sectors the MCA regulates, namely electronic communications, radiocommunications, postal services and eCommerce, at both national and international levels. It also provides a view to the MCA's non-regulatory workstreams, such as the information society initiatives emanating from the National ICT Strategy and other ad hoc assignments by the Ministry for Infrastructure, Transport and Communications (MITC).

ELECTRONIC COMMUNICATIONS

STRATEGIC OBJECTIVE 1:

REGULATING AN ELECTRONIC COMMUNICATIONS ENVIRONMENT THAT IS CAPABLE OF SUSTAINING COMPETITION AMONG EXISTING PROVIDERS WHILST ENSURING EASE OF ENTRY TO NEW UNDERTAKINGS.

The pursuance of Government in the establishment and more importantly, the implementation of ambitious ICT policies, has created a thriving information economy that is based on a strong telecoms infrastructure and widespread e-skills. It's been a relatively long journey however, today, both the industry and the citizen can enjoy a robust and efficient supply of networks and services. The proliferation of sustainable competition is paramount for the continued success of this sector. The sustained deployment of networks and services means that Malta today offers a highly infrastructural competitive telecoms sector with four international submarine cables, one nationwide copper network, one nationwide cable network, three nationwide third generation (3G) mobile networks, two nationwide WIMAX networks, one DAB+ digital radio network and one DVB-T digital terrestrial TV network. Despite being a small island state, Maltese consumers have a choice amongst two quad-play operators, one triple play operator, one carrier-select service provider and three mobile virtually enhanced service providers. The competing operators invest heavily in state-of-the-art equipment on an ongoing basis.

In order to further facilitate the competitive development of the market, it is important that, in its operations, the Authority continues to ensure that barriers to entry remain low by, regulating the provision of wholesale access products and by ensuring that essential interconnection agreements are in place and that enforcement tools in this regard are readily available when necessary. During 2010, the MCA undertook a detailed review of GO's local loop unbundling offer and price model. In addition, the interconnection strategy was revisited and reviewed to determine the methodology to be used to calculate the mobile and fixed termination rates in coming years.

The move to Next Generation Access (NGAs) networks brought about a number of new regulatory challenges that the MCA tackled during 2010. In this regard, the Authority had to strike a balance with a view to ensuring that, while all regulatory measures encourage the deployment of such networks, the Authority also ensures that NGAs do not act as bottlenecks to competition.

Effective management of spectrum remained a strong component of the Authority's workstream in relation to this strategic objective. The MCA continued with the process of reassigning spectrum in the 900 MHz and 1800 MHz bands, reviewed the spectrum in the 800 MHz band and examined how elements of spectrum trading can be developed within the ambit of the existing regulatory environment.

The Authority proceeded with the second round of market reviews to assess whether markets in this sector are effectively competitive and in instances where these are not, imposed regulatory remedies as required.

The following are the main outputs related to this strategic objective.

OUTPUTS

1. Regulatory Remedies

Publication of an interconnection pricing strategy: In May 2010, the MCA published a decision aimed at addressing the current level of wholesale interconnection termination rates over the short to medium term.

Interconnection rates reviewed and reduced further: In September 2010, the mobile interconnection termination rates were reduced by nearly 30% from €0.0866 to €0.0617. This rate stood slightly below the 2009 European average of €0.067 as presented in the 15th Progress Report on the Single European Communications Market 2009, published by the European Commission. Mobile Termination Rates (MTR) will be reduced further in mid-2011. As a result of a decision published in August 2010, the peak Fixed Termination Rate (FTR) per minute was decreased by nearly 4% to €0.00802.

Review of Local Loop Unbundling (LLU): The MCA undertook a comprehensive review of GO's Reference Unbundled Offer (RUO) in order to ensure that this offer remains appropriate for current market circumstances. This review culminated in a decision that was published in June 2010. This decision considered a number of elements of GO's RUO including; the provision of information by GO to the other authorised operators unbundling processes; Service Level Agreements (SLAs); amendments to clauses including, but not limited to, the main body; inclusion of related request forms; and decisions related to the availability and content of GO's access network frequency plan. Further information on this decision is available on page 78.

Number portability: Since its launch in April 2006, this service continued to be popular with the number of mobile portings reaching just over 53,000 in 2010, whilst that for fixed telephony reached 4,095. During 2010, after consulting with the industry players, the MCA reviewed the number portability wholesale charges. More information in this regard is available on page 76.

Publication of a framework for premium rate services: A new framework for premium rate services in the '5' numbering range, specifically for voice services, was published in November 2010. The main elements of this decision included; the obligation on terminating operators to interconnect with other operators; their roles and responsibilities; measures to provide adequate consumer protection and the allocation of specific number ranges to such services. By ensuring interconnection obligations on operators, all subscribers are now in a position to access all premium rate services.

Strategic framework and work programme for NGAs: The MCA undertook a review with a view to establishing the regulatory implications of the anticipated migration to NGA networks. This workstream took into account the EU Commission recommendation on NGA, published in September 2010. As part of the review, the MCA drew up a high-level work programme for the Authority. The envisaged way forward will entail a mix of asymmetric and symmetric regulatory measures and has been incorporated in the 2011 business plan.

2. Market Analysis

The following market reviews were carried out during 2010.

Publication of a decision on wholesale fixed call origination market: By means of this decision, the MCA reconfirmed GO as having Significant Market Power (SMP) in this market. Consequently, the MCA imposed a number of obligations on GO, including the obligation to provide wholesale call origination services, in particular, carrier select and pre-select services and wholesale line rental services. This decision also obliged GO to publish a reference offer, which must comply with specific price controls for these types of access services, as guided by the MCA. Further detail on this decision is available on page 76.

Retail fixed access services market: During 2010, the MCA continued to monitor this particular market and held discussions with the EU Commission in this regard. It is anticipated that a new consultation process on this market will be initiated during 2011.

Publication of decision on wholesale fixed call termination services markets: Following the analysis of these markets, the MCA found that all operators providing fixed telephony services held SMP in their respective markets for the provision of wholesale fixed call termination services. The decision in this regard was published in

May 2010, whereby the MCA identified a number of competition issues that may arise in these markets and therefore imposed specific remedies in each respective market to mitigate these problems. These remedies include the obligation to interconnect with other networks, the setting of a cost-oriented termination rate and the obligation that every operator needs to publish a Reference Interconnection Offer (RIO).

3. Spectrum Management

Management of available spectrum:

- **3400 – 3800 MHz Band:** In 2009, one of the licensees of spectrum in the 3400 – 3800 MHz band rescinded its right-of-use. As a result, the Authority issued a consultation on the methodology for the re-assignment of this spectrum. During 2010, the MCA analysed the responses received and closely monitored the international developments in this band. These will now feed into the Authority's decision on the subject. This is scheduled to be published in 2011.
- **2500 – 2600 MHz Band:** In 2008, the Authority published a document, which indicated that it was ready to initiate a re-assignment process should there be market demand for spectrum in these bands. To date, there has been no request for spectrum in the 2500 MHz band. However, during 2010, the Authority continued to monitor the international developments in this band.
- **Reassignment of the 900 MHz and 1800 MHz bands:** The extensive consultation process launched during 2009, was concluded in July 2010 with the publication of the Authority's decision, 'The Future of the 900 MHz and 1800 MHz Bands (MCA/10/44/D)'. Subsequently LN 449 of 2010 was published by Government establishing the fees for spectrum in these bands. In October 2010, the Authority published a call for applications for spectrum in these two bands. The re-assignment process is scheduled to be concluded in 2011.

Radiocommunications licence review:

In 2009, the Authority initiated an exercise to review the licensing regime of radio

links and satellite earth stations in order to rationalise the licensing process and, at the same time, incentivise the efficient use of radio spectrum. The exercise also aimed to establish a new licensing regime that could cater for the testing and trialling of innovative wireless technologies.

This process was completed in 2010 through the publication of legislative amendments to the regulations governing radiocommunications/spectrum licence fees. Guidelines relating to these licence types were also published. With regard to the licence fees for satellite earth stations, further legislative amendments are expected to be adopted in 2011.

In addition, the Authority made recommendations to Government proposing that certain radio-communications equipment be regulated via a general authorisation. Such equipment mainly comprised short-range devices and certain satellite related equipment, which does not require frequency planning prior to being put into service. The MCA recommendations were approved and consequently, amendments to the General Authorisation (Radio-communications Apparatus) Regulations were implemented. This revision in the licensing regime removed the individual licensing requirement and the related administrative burden on users.

The MCA also proposed a one-stop-shop process for radiocommunications equipment licensing. These recommendations also included a review of the licensing process of certain equipment types, which are subject to harmonised technical parameters. Implementation of the new process is

expected to take place in 2011. This will include legal amendments to the current licence fees, whereby the relevant equipment will be regulated by a general authorisation and consequently, the licence fee will be removed. Apart from the financial gain associated with the removal of the licence fee, this will be beneficial to users as these will no longer be required to apply for a licence before installing and operating equipment.

Review of the National Frequency Plan (NFP): The NFP was revised twice during 2010 in order to adopt a number of decisions of the EU concerning radio frequencies. The review process also served to further align national spectrum allocations with those of the European common allocation table of the European Conference of Postal and Telecommunications Administrations (CEPT). The review of the NFP was followed by an update to Malta's spectrum management information published in the European Frequency Information System (EFIS).

Spectrum trading consultation published: The introduction of spectrum trading will help to encourage efficient use of spectrum by enabling it to be transferred to and used by the user that values it most. This should make it easier for businesses to access the radio spectrum they need to use. Following a consultation process carried out in the first half of 2010, the MCA will, next year, issue a decision to put in place a process to support spectrum trading with the necessary safeguards against anti-competitive conduct and speculative use, after the necessary recommendations to Government in this regard have been made.

KEY PERFORMANCE INDICATORS

1. Availability of updated interconnection agreements, reference interconnection offers and cost oriented charges where these are required.

- LLU agreement signed between Go and Vodafone: During 2010, the MCA noted positively that an Unbundled Access to the Local Loop (UALL) agreement has been signed between GO and Vodafone, representing a landmark in the take-up of the LLU offer since its introduction in 2004.
- No cost orientation in broadband.

2. Electronic communications authorisations during 2010

| Public Communications Network | Publicly Available Telephone service | Radio & TV distribution service | Other Public ECS | Non-Public ECS | Private EC Networks and/or services | Terminated Authorisations |
|-------------------------------|--------------------------------------|---------------------------------|---|----------------|-------------------------------------|---------------------------|
| 0 | 0 | 0 | 2 [Direct Net Ltd] & [Studio 7 productions] | 0 | 1 [EneMalta Corporation] | 5* |

* Kemmnet, Melitanet, Studio 7 (re-notified in 2010, see above), Direct Net Ltd, Waldonet.

3. Number and variety of market players

| Fixed Telephony | Mobile Telephony | Broadband | Radio & TV Distribution |
|--|--|--|-------------------------|
| Key markets remain in multi-player mode. | | | |
| 5 undertakings offering fixed telephony services | 3 mobile network operators 1 mobile virtual network enabler 3 enhanced service providers | 3 vertically integrated undertakings 3 third party ISPs 4 underwater international links 2 WiMax networks 12 third party service providers** 3 ISPs terminated operations | 2 service providers |

** Third party service providers include those undertakings providing customised solutions.

4. Market Shares

| Fixed Telephony | Mobile Telephony | Broadband | Radio & TV Distribution |
|---|--|---|---|
| Market shares in fixed telephony remain very strong in favour of incumbent at 77.1%. Melita lost some ground in this area. | Vodafone occupies the largest market share in terms of subscriptions (47.7%). GO lost some ground in this area, whilst Melita gained slightly from the previous year. | GO took leading market position in Q2 and exceeded the 50% market share in Q4 2010. Melita occupied 43% of market share. Vodafone gained some ground, reaching a 3.5% market share. | Melita increasing market share in digital TV, reaching 53.8% market share whilst GO accounted for the remaining 46.2%. Analogue TV subscriptions on the decline as expected. |

5. New Service Offerings

| Fixed Telephony | Mobile Telephony | Broadband | Radio & TV Distribution |
|-----------------|------------------|--|-------------------------|
| Wholesale | | | |
| Retail | | | |
| | | Cable Broadband – 50 Mbps. WiMax speed doubled [2-4 Mbps]. HSDPA and HSUPA offering download speeds up to 14.4 Mbps. | Cable HDTV. |

6. Price Movements

| Fixed Telephony | Mobile Telephony | Broadband | Radio & TV Distribution |
|--|--|---|---|
| Overall no significant price increase in any service. Retail bundle phenomenon continues to increase in influence – difficult to ascertain price movements. | | | |
| Interconnection rates down by nearly 4%. | Interconnection rates down by nearly 30%. | Download and speed limits continue to increase but prices remain the same. | Pay TV rates increased slightly but package upgrades were frequent. |
| Retail rates are stable. | Reductions in international roaming prices – EU motivated. | Nominal prices may not be decreasing but operators continue to increase download limit. | |
| Retail rates declining. | | | |

STRATEGIC OBJECTIVE 2:

ENSURING THAT ELECTRONIC COMMUNICATIONS UNDERTAKINGS PROVIDE A TRANSPARENT, VALUE-FOR-MONEY SERVICE TO USERS WHILST ADHERING TO INCUMBENT SOCIAL OBLIGATIONS.

Although the MCA has limited powers with regard to consumer rights, it does have the general obligation to ensure that all users derive maximum benefit from communications services in terms of choice, price and quality. It also has the obligation to ensure that all citizens have access to a universal service; that consumers are afforded a high level of protection in their dealings with suppliers of communications services; to ensure that consumers of such services are sufficiently informed in order to make the right purchase decisions; and are aware of their rights vis-à-vis the service providers' service obligations.

The Authority invested significant effort into a review of telecoms providers' universal service obligations, especially the need for a comprehensive printed directory of all telephone numbers in Malta. A call for expression of interest in this regard was issued in 2010 and its evaluation is due to be concluded in 2011.

The MCA also continued with its drive to improve quality of service, in particular that related to broadband performance. In addition, the Authority continued with its ongoing monitoring of radio spectrum and corrective actions to prevent harmful interference from negatively impacting end-users' experiences. To this end, the monitoring programme of electromagnetic emissions continued with a view to ensuring that levels of electromagnetic radiation are in conformity with the International Commission on Non-Ionising Radiation Protection (ICNIRP) guidelines.

Preparations for the eventual switch to digital broadcasting continued unabated during 2010. A comprehensive public information campaign was devised and an official launch was planned for January 2011, while the general interest network, commenced test transmissions at the end of 2010.

A very productive year for the Authority in terms of consumer empowerment activities, the MCA took regulatory action against Melita on two separate occasions. It also published guidelines on email portability and electronic communications service contract obligations.

The following are the key outputs achieved from the workstreams outlined above.

OUTPUTS

Customer care function well established:

2010 was a very active and exciting year for the Authority with regard to pro-consumer regulatory actions and consumer protection and empowerment initiatives. Consumer complaints in 2010 amounted to 204. It is to be noted that all these cases relate to instances where the complainant had already addressed his/her issue to the service provider without obtaining a satisfactory resolution to the issue. The most common complaints related to billing, contractual issues, termination of services and quality. The MCA received a further 272 enquiries, most of which related to the electronic communications services sector.

Consumer guidelines published and distributed:

At the end of 2009, the MCA embarked on a comprehensive consumer information campaign that continued well into 2010. This campaign culminated in the distribution of a consolidated consumer guide booklet to every household across Malta and Gozo. The booklet contained advice as to how to choose the best service according to particular needs and usage habits; what services are available on the market; and how to lodge complaints effectively. The sectors addressed in this booklet include, fixed and mobile telephony, Internet and TV distribution services. It is anticipated that a comprehensive consumer guide in relation to the postal sector will be published in Q2, 2011.

Digital switchover programme management:

- **Chairing of the Digital Switchover (DSO) Committee** - Throughout 2010, the Digital Switchover Steering Committee (DSOSC), under the chairmanship of the MCA, continued with its programme of works, set at implementing the transition of broadcasting meeting General Interest Objectives (GIOs), from analogue to digital format. The Committee is made up of the key institutional players, namely the MCA and the Broadcasting Authority, as well as, the Ministries responsible for communications, culture and public service broadcasting and meets once a month to coordinate the activities of the various players involved.

The Committee oversaw the various developments leading up to the launch of the general interest network, which commenced test transmissions by the end of the year. This effectively paved the way for the full migration of general interest broadcasting to digital during 2011. The Committee also coordinated the various preparatory activities in the legislative, technical and public relations areas, with the technical input of the Public Broadcasting Services (PBS), which has been assigned the responsibility of managing the network.

- **Information campaign** - Implementation of the communications strategy drafted in 2009 commenced in early 2010 and entered into full swing during the second half of the year, ahead of commencement of digital transmissions. Implementation was carried out in four workstreams, each with a clearly defined goal:

- **Market research:** to obtain market information for the development and implementation of an effective public information campaign.
- **Branding:** to give the digital switchover its own unique identity, thus ensuring easy recognition by the public.
- **DSO public information campaign:** to inform the public on what it needs to do to watch free-to-air Maltese TV in digital and by when.
- **Customer support:** to offer the necessary customer support services to provide information about the digital switchover to the general public.

Market research was largely concluded in 2009, the results of which guided both the drafting of the strategy and the subsequent implementation.

A local public relations agency was contracted in February 2010 to manage a public information campaign, planned for official launch in January 2011. With regard to customer support, an agreement was reached with the Ministry for Gozo and the Department for Information, for the Freephone 153 to be employed as the official call centre. Furthermore, with the support of the General Retailers and Traders Union (GRTU), TV equipment retailers have been enrolled as partners in this initiative to offer technical assistance to the general public regarding preparations for receiving and watching free-to-air Maltese TV channels in digital. It is anticipated that public information sessions, in collaboration with local councils, will be held closer to the analogue switch-off date set for 1 June 2011. A local TV station, TVM, commenced test transmissions during December 2010.

Review of electronic communication Universal Service Obligations (USOs): This decision was published in April 2010 with the aim of re-establishing the USOs, which include the provision of access at a fixed location; directory and directory enquiry services, including the printed directory; public payphones; measures for disabled users; provision of reduced tariffs and ensuring that users have the means to control expenditure. This decision is also aimed at designating undertakings with the obligation to provide such services. Following this decision, the MCA received a number of expressions of interest from interested parties to provide the printed and comprehensive directories universal services. A formal

adjudication process was initiated and a decision with regard to the designation of the respective undertakings is envisaged to take place in 2011. In the meantime, GO has been designated with the obligation to provide all remaining services.

Broadband Quality of Service (QoS): During 2009, the Authority initiated a process by which it would establish a set of QoS parameters for broadband services. This process was suspended during 2010 due to the intense involvement of the Authority in the preparation and execution of the digital switchover programme. The process related to the broadband QoS will be resumed during 2011.

Electromagnetic Frequency (EMF) monitoring: In 2010, the Authority performed 145 on-site audits, which included mobile communications and BWA base stations, broadcasting transmitters and other sources of EMF. These audits included a number of repeat visits on sites, which were already audited in previous years, to ensure continued compliance with the pertinent regulations.

Frequency coordination activities: During 2010, the Authority continued with its efforts to strengthen the relationship with its neighbouring states in the field of electronic communications, including spectrum management. In particular, this liaison included negotiations with Italy in matters relating to the provision of broadcasting services, as well as, to cases of harmful interference.

Monitoring of harmful interference: The MCA continued to monitor the radio frequency spectrum to ensure that spectrum bands were free from any unlawful transmissions predominantly emanating from Malta. During the year under review, the MCA also investigated and solved 45 complaints concerning alleged harmful interference to a number of radiocommunications services. The top three most reported interfered services were broadcasting, private mobile radios and cellular communications.

Publication of guidelines for service providers and consumers: The MCA published a set of guidelines intended for service providers, outlining what information should be provided in the service contracts and how these contracts should be made available to end-users. Another set of guidelines published by the Authority related to the implementation of email mobility services by undertakings. These guidelines are intended to facilitate consumer switching between Internet Service Providers (ISPs) by ensuring that email services do not act as a barrier to switching between ISPs. Further information on these guidelines is provided on page 66.

KEY PERFORMANCE INDICATORS

1. Publicly available information relative to existing QoS parameters – movement in the USP’s fixed telephony performance (GO) [source, GO]

| | Measure | Statistics 2008 | Statistics 2009 | Statistics 2010 |
|--|---------------------------|-----------------|-----------------|-----------------|
| Supply time for initial connection | Time for fastest 95% | 8.58 days | 20.58 days | 34.33 days |
| Fault rate per access line | Reports per 100 lines | 1.43 reports | 1.35 reports | 1.30 reports |
| Fault repair time | Average fault repair time | 48.40 hrs | 54.45 hrs* | 49.15 hrs* |
| Response time for operator services | Mean time to answer | 25.40 seconds | 15.33 seconds | 45.41 seconds** |
| Response time for directory enquiry services | Mean time to answer | 09.73 seconds | 15.22 seconds** | 28.75 seconds** |
| Proportion of coin and card operated public pay telephones in working order. | % in full working order | 99.81% | 99.87% | 99.6% |

*Calendar hours, including major cable faults.

**Queued time + ringing time.

2. Percentage of complaints dealt with satisfactorily

The Authority received a total of 204 complaints and 272 enquiries during 2010, all of which were dealt with satisfactorily.

| 3. Number of spectrum related inspections/site visits and outcomes | | | |
|--|---------------|---------------|---------------|
| Service | Quantity 2008 | Quantity 2009 | Quantity 2010 |
| EMF measurements (planned) | 88 | 70 | 107 |
| EMF measurements (non-planned) | 55 | 55 | 38 |
| R&TTE notifications | 2103 | 1459 | 1232 |
| Interference complaints | 39 | 34 | 45 |
| Inspections of radio installations | 285 | 197 | 192 |
| Radio monitoring & support | 28 | 96 | 84 |
| R&TTE customs' assistance | - | - | 65 |

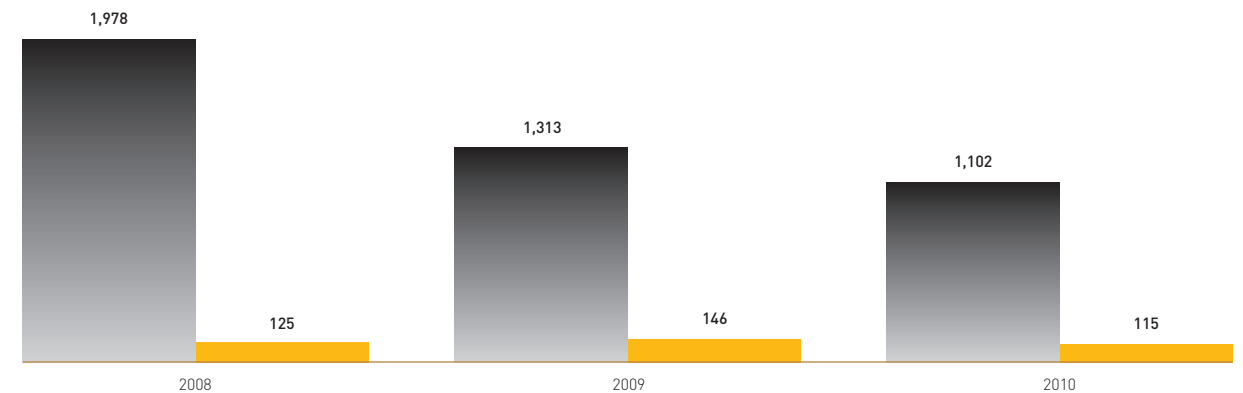
| EMF Audits/Complaints | | | |
|-----------------------|------|------|------|
| Year | 2008 | 2009 | 2010 |
| Audits | 88 | 70 | 107 |
| Complaints | 55 | 55 | 38 |
| TOTAL | 143 | 125 | 145 |

| Inspection of Radio Installations | | | |
|-----------------------------------|------|------|------|
| Year | 2008 | 2009 | 2010 |
| Private Mobile Radio | 230 | 180 | 165 |
| Maritime | 38 | 12 | 20 |
| Broadcasting | 13 | 5 | 7 |
| Other | 4 | - | - |
| TOTAL | 285 | 197 | 192 |

| 4. Interference investigations | | | |
|--------------------------------|--------------------|------|------|
| Year | 2008 | 2009 | 2010 |
| Broadcasting | 19 | 13 | 18 |
| GSM / 3G / BWA | 4 | 1 | 4 |
| Private Mobile Radio | 2 | 1 | 15 |
| Short Range Devices (SRDs) | Included in other* | 3 | 2 |
| Other services | 14 | 16 | 6 |
| TOTAL | 39 | 34 | 45 |

* Separate data for SRDs not available

R&TTE NOTIFICATIONS
 ■ APPROVED EQUIPMENT
 ■ NON-APPROVED EQUIPMENT



STRATEGIC OBJECTIVE 3: CONTRIBUTING TO THE ONGOING DISCUSSION AT AN INTERNATIONAL LEVEL ON THE CONSISTENT DEVELOPMENT OF THE ELECTRONIC COMMUNICATIONS REGULATORY FRAMEWORK AND RELATED ISSUES.

The MCA operates within a number of legal frameworks pertaining to the sectors falling within its competence. These frameworks take into account the different European regulations, directives and various European Commission decisions and Recommendations applicable to the regulated sectors. Within this context, the Authority is responsible for ensuring effective international cooperation,

harmonisation and standardisation, as applicable and necessary, in the sectors which it regulates. The Authority invests a considerable amount of its resources in this function, which also involves participation in the relevant EU fora in particular, the activities of BEREC, as well as other international fora. During 2010, a total of 428 person days were spent on international activity.

OUTPUTS

The transposition of the amended electronic communications framework:

The European framework for electronic communications was updated via a number of directives approved by the European Parliament and the Council of Ministers and published in December 2009. These amendments are to be transposed into national law by all Member States by May 2011, at the latest.

During 2010, the MCA provided its advice to Government in view of the transposition of the revised framework into national legislation. In June 2010, the Government published a public consultation, which attracted a number of submissions from the relevant stakeholders. At the end of 2010, a draft Bill containing the recommended changes to the Electronic Communications Act and the MCA Act, amongst others, was presented in Parliament.

KEY PERFORMANCE INDICATORS

1. The MCA will evaluate on a periodic basis, the effectiveness of participation in international fora particularly in relation to issues concerning Malta's interests

A total of 55 instruction notes issued for the Communication Committee (COCOM), the Radio Spectrum Committee (RSCOM), the Radio Spectrum Policy Group (RSPG) and the Postal Directive Committee were issued during the course of 2010, as opposed to 32 issued in 2009.

European Commission Legislative Proposals, Policy Proposals and Reports published during 2010

COM 2010 253 – Progress Report on the Single European Electronic Communications Market 2009 (15th Report)

COM 2010 271 – Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on 'Market reviews under the EU Regulatory Framework (3rd report) - Further steps towards the consolidation of the internal market for electronic communications'

COM 2010 245 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on 'A Digital Agenda for Europe'

COM 2010 472 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on 'European Broadband: investing in digitally driven growth'

COM 2010 356 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on 'The interim report on the state of development of roaming services within the European Union'

COM 2010 471 – Proposal for a Decision of the European Parliament and of the Council establishing the first Radio Spectrum Policy Programme

COM 2010 308 - Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions on the 'Action Plan on Global Navigation Satellite System (GNSS) Applications'

2. Official fora attended on behalf of Government.

| | |
|---|--|
| Communications Committee (COCOM) | GNSS Programmes Committee |
| COCOM Working Group on Authorisations | GNSS Working Group Public Regulated Service (PRS) |
| COCOM Working Group on Mobile Satellite Services | Radio Spectrum Committee (RSCOM) |
| COCOM Working Group on Mobile Satellite Services (Implementation of framework for pan-European systems providing MSS) | Radio Spectrum Policy Group (RSPG) |
| COCOM Working Group on Market Data | RSPG Working Group on digital dividend |
| eCommerce Expert Working Group | RSPG Working Group on coordination of EU spectrum interests |
| eInclusion sub-group | RSPG Working Group on radio spectrum policy programme (RSPP) |
| Global Navigation Satellite System (GNSS) Supervisory Authority (GSA) | Safer Internet Management Committee |

STRATEGIC OBJECTIVE 4:

FACILITATING INNOVATION IN THE PROVISION OF BROADBAND AND OTHER SERVICES, VIA ONGOING RESEARCH AND THE CONTINUED DEVELOPMENT OF THE POLICY AND REGULATORY ENVIRONMENT.

This strategic objective is primarily aimed at ensuring the continued promotion and implementation of regulatory policies that drive innovation as well as putting additional focus on research and the monitoring of global technological developments.

The following initiatives contributed to this objective.

OUTPUTS

Wireless roll-out monitoring: During 2010, the Authority continued with its activity to ensure that operators continue to satisfy the roll-out and coverage obligations set out in their licences. It revised the methodology it uses to measure coverage, with the objective of establishing a common set of randomly selected test points that could be applied to any service. These new test points cover all the Maltese territory and take into consideration population density.

KEY PERFORMANCE INDICATORS

1. Change in broadband penetration in terms of subscriber numbers and % of population

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------|-------|-------|-------|-------|------|
| Fixed line broadband penetration rate (%) | 12.19 | 16.26 | 20.03 | 24.40 | 26.80 | 28.9 |

2. Number of broadband infrastructures and service providers

- 3 vertically integrated undertakings
- 3 third party ISPs
- 4 underwater international links

3. Variety of technology platforms on which broadband services are offered

- DSL
- Cable
- BWA/WiMax
- Mobile broadband technologies

4. New services on the market

- Vodafone increases its mobile 3G speed from 7.2 Mbps to 14.4 Mbps

ECOMMERCE

STRATEGIC OBJECTIVE:

FACILITATING ECOMMERCE UPTAKE AND THE USE OF ELECTRONIC SIGNATURES, VIA THE ONGOING DEVELOPMENT OF THE LEGAL, INSTITUTIONAL AND REGULATORY FRAMEWORKS AND RELATED PUBLIC AWARENESS-RAISING.

MCA's regulatory role in the eCommerce sector is twofold – on the one hand, it ensures compliance with the eCommerce Act and Regulations and on the other, endeavours to facilitate eCommerce uptake by both businesses and consumers alike.

The MCA is working towards implementing a monitoring process that will enhance the Authority's capability to regulate eCommerce more effectively. More information on this process is available on page 69

Furthermore, the Authority commissions a number of surveys to monitor developments and trends in the eCommerce market. These provide valuable insight into the changes taking place in the online market, besides making available useful data, which is then fed into other eCommerce related initiatives that the MCA decides to take up.

OUTPUTS

eSignatures: In 2010, the Authority drew up its regulatory strategy for the supervision of signature certification service providers offering qualified certificates, in anticipation of the imminent provision of such services by Government as part of its eID project. The MCA consulted with the prospective certification Authority - Malta Information Technology Agency (MITA) on the subject. The assistance of the Norwegian Post and Telecommunications Authority, in drawing up this framework, was invaluable.

eCommerce Forum: The eCommerce forum met three times during 2010. The topics discussed were: Internet as a new marketing tool; the challenges and opportunities of distribution channels; and B2B – exploring the potential of ICT to grow one's business respectively. The MCA also hosted an ad hoc forum in June, which tackled the issue of intellectual property rights. This forum has proved to be a well-established event, with approximately 80 regular attendees.

KEY PERFORMANCE INDICATORS

1. eCommerce uptake figures

Overall positive trends indicate a higher degree of confidence in eCommerce by the public, with 79% of Internet users actually purchasing online, equivalent to 51% of the population.

2. Public awareness on the role of the MCA

Awareness of the MCA's role as the eCommerce regulator continues to increase, however at a very slow pace. Only 7% of eCommerce users are aware that the MCA regulates the eCommerce sector. This figure is up by 3% from 2009.

3. Public perception with regard to the security of eCommerce transactions

- 50% of non-eCommerce users are concerned about security.
- 44% of the population agree that online buying is riskier than buying from shops (1% down from 2009).
- 99% of online buyers claim to take precautionary measures.

4. Internet usage vs eCommerce usage as a percentage of the population

| | Internet Usage | eCommerce Usage |
|---------|----------------|-----------------|
| Sept'10 | 65% | 51% |
| Sept'09 | 59% | 43% |
| Sept'08 | 49% | 30% |
| Sept'07 | 48% | 26% |
| Sept'06 | 27% | 20% |

5. Online purchases made in the 6 months preceding the survey

| | |
|---------|-----|
| Sept'10 | 74% |
| Sept'09 | 69% |
| Sept'08 | 50% |
| Sept'07 | 47% |

POSTAL SERVICES

STRATEGIC OBJECTIVE 1:

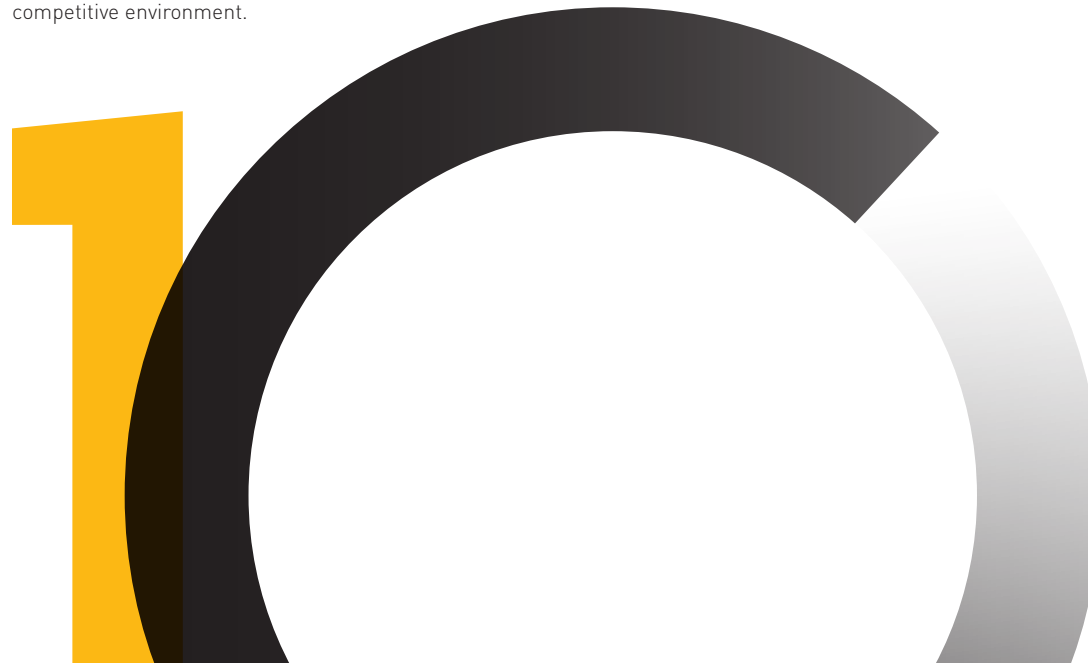
ATTAINING, WITHIN ENVISAGED TIMEFRAMES, A LIBERALISED POSTAL SERVICES ENVIRONMENT THAT ENSURES EASE OF ENTRY TO NEW UNDERTAKINGS AND SUSTAINABLE COMPETITION.

The postal sector is one that has been developing quietly in the background, but has made considerable strides nonetheless. Despite being a partially liberalised sector, we have seen increasing competition in the areas open to competition. Full liberalisation will take place on 1st January 2013 and most of the MCA's activities in relation to this strategic objective is in preparation for this new scenario.

OUTPUTS

Cost-accounting system: Accounts are a crucial regulatory tool to ensure transparency and non-discrimination in the provision of postal services. In view of the liberalisation of postal services, the MCA felt the need to assess the robustness of the data presented in the regulatory accounts of the designated Universal Service Provider (USP) for postal services, currently MaltaPost. To achieve this, the MCA undertook a detailed review of MaltaPost's cost accounting system with the aim of addressing areas of uncertainty in the accounting separation process and ensuring that the cost accounting system meets all the regulatory requirements. The output of this workstream was a directive on the USP's accounting system, which was issued in July 2010.

Tariff rebalancing: In 2010, the MCA appointed independent consultants to prepare a report on possible price-control regulatory options for postal services in Malta. The MCA is currently evaluating the recommendations in this report. The aim of this project is to devise a framework, which will facilitate efficient market operations and pave the way for effective price regulation in a competitive environment.



KEY PERFORMANCE INDICATORS

1. Number of postal service providers in the various postal areas

New Authorisations during 2010:

- i. DHL International Ltd (Licence) – Feb 2010
- ii. Global Parcels Ltd (General Authorisation) – July 2010
- iii. Gozo Link Services (General Authorisation) – July 2010
- iv. Connect Express Couriers (General Authorisation) – December 2010

Terminated Operations during 2010:

- i. Triton Logistics (General Authorisation) – October 2010
- ii. Gozo Link Services (General Authorisation) – December 2010

2. Ease of entry to market

In addition to the new authorisations outlined above, DHL International Ltd was granted a licence to extend its operations to include postal services, which are not reserved for MaltaPost, but which are within the Universal Postal Service Area.

During the year under review, Connect Express Couriers and Gozo Link Services started providing postal services outside the universal postal service area.

3. Postal volume trends in the various areas of the postal sector

- a. Increase in inbound cross border mail items.
- b. Fall in bulk mail volumes between 2009 and 2010 from 27.9 million items in 2009 to 26.5 million items in 2010.
- c. Increases in registered mail (11.1% increase in 2010 over corresponding period in 2009) and a slight decline in parcel mail items (from 82,165 items in 2009 to 75,653 items in 2010).
- d. Decline in domestic postal activity and outbound cross border mail (constant decline experienced between 2006 and 2010).

4. New service offerings

- a. No new service offerings

STRATEGIC OBJECTIVE 2:

ENSURING THAT POSTAL UNDERTAKINGS PROVIDE A TRANSPARENT, VALUE-FOR-MONEY SERVICE TO USERS WHILST ADHERING TO INCUMBENT SOCIAL OBLIGATIONS.

As with the electronic communications sector, the MCA also assigns a number of its resources to consumer-centric initiatives in the postal sector. To date, these have mainly related to measures to ensure mail integrity, consumer information awareness initiatives and reviews of complaints handling mechanisms.

OUTPUTS

Monitoring mail integrity: The MCA carried out a number of monitoring exercises in order to ensure that MaltaPost fulfilled its regulatory obligations. The ongoing monitoring focused on MaltaPost's QoS standards, access to universal postal services and protecting the integrity and security of mail.

Towards the end of 2010, the MCA commissioned an independent consulting agency to carry out a review of the mail integrity procedures adopted by MaltaPost. The objective

of this review was to analyse the status of implementation of the recommendations emanating from the first mail integrity review, which was carried out in 2007 and ensure that these procedures are in line with the MCA's established minimum requirements.

Review of QoS standards & targets:

The MCA continued to monitor MaltaPost's USO through, amongst others, the measurement of QoS targets that MaltaPost has to achieve in the delivery of local ordinary mail,

registered mail, bulk mail and priority inbound parcels. During the financial period October 2009 to September 2010, MaltaPost attained all QoS delivery targets set by the MCA for the delivery of postal items. This year, the MCA published a revised decision on the QoS targets to be achieved by MaltaPost for the coming three years. The decision introduces provisions for the measurement of lost and/or substantially delayed mail.

KEY PERFORMANCE INDICATORS

1. Movement in postal prices

No price movement of regulated postal prices were recorded during year under review.

2. QoS performance statistics in relation to set targets

In 2010, MaltaPost surpassed all the QoS targets set for local ordinary mail (QoS target for D+1 set at 93%), bulk mail (QoS target for D+1 set at 93%) and local registered mail (QoS target for D+1 set at 97%).

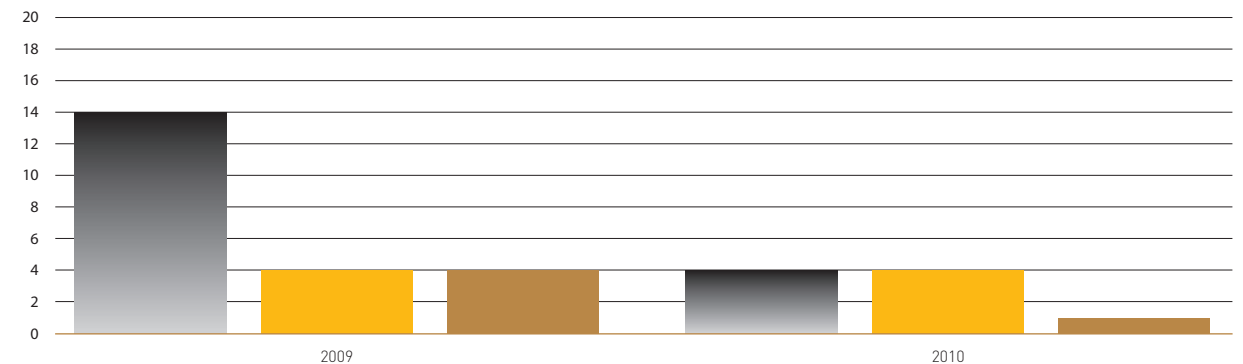
3. USP & MCA complaints statistics

COMPLAINTS BY ISSUE

■ QUALITY OF SERVICE

■ SERVICE PROVISION

■ OTHERS



STRATEGIC OBJECTIVE 3:

CONTRIBUTING TO THE ONGOING DISCUSSION, AT AN INTERNATIONAL LEVEL, ON THE CONSISTENT IMPLEMENTATION AND ONGOING DEVELOPMENT OF THE POSTAL REGULATORY FRAMEWORK AND RELATED ISSUES.

With regard to postal services, the Authority's international activities include participation in the European Committee for Postal Regulation (CERP) and the recently established European Regulators Group for Postal Services (ERGP). This allows the Authority to share experiences with counterpart regulators, as well as, provide advice to Government on the interpretation

and application of any new Directives, recommendations and other EU documents, as well as, any related issues that may arise.

Setting up a new regulatory framework for a fully liberalised environment: The postal sector remains dominated by the incumbent operator, but developments in niche postal markets have provided a

preliminary indication that competition may be emerging in this sector, for example, the inbound cross-border parcel post services. During the remaining two years to liberalisation, the MCA will continue working on the setting up of the necessary regulatory provisions required for a fully liberalised environment.

KEY PERFORMANCE INDICATORS

1. The MCA will constantly evaluate the effectiveness of participation in international fora particularly in relation to issues concerning Malta's interests.

During the course of 2010, the MCA actively participated in 3 Postal Directive Committee Meetings, 3 workshops on postal services, two of which were related to BEREC activities and also attended 3 international conferences.

INFORMATION SOCIETY

STRATEGIC OBJECTIVE 1:

ACHIEVING WIDESPREAD E-LITERACY, DIGITAL INCLUSION AND THE USE OF ICTS AS A TOOL TO IMPROVE QUALITY OF LIFE FOR ALL CITIZENS, IN PARTICULAR, DISADVANTAGED GROUPS.

In an age where Information and Communications Technology (ICT) plays a central role in everyday life and where those who actively engage in online activity enjoy significantly more opportunities than those that are not ICT literate, it is imperative that each and every citizen has both access to ICTs and the skills required to fully participate in a digital society.

ICT may serve as a social equaliser as it opens new opportunities for the vulnerable and the socially excluded to become more active and accepted within their community. It is essential that society ensures that no one lags behind, as failure to embrace such technologies may lead to social exclusion and a significantly impaired quality of life for the impacted individuals, whilst negatively impinging national economic growth and competitiveness.

Over the past years, the Authority has embarked on a series of initiatives that have attempted to bring every citizen online, paying particular attention to specific sectors of society that are more distanced from technology than others.

The Authority has based its work on the expansion and consolidation of the Community Training and Learning Centres (CTLCs) programme, which today supports 14 centres that are operated by Non-Government Organisations (NGOs) and public entities that serve the needs of specific communities. The Authority also supported the setting up of a training centre at the Corradino Correctional Facility.

During 2010, the MCA intensified its work programme in targeting the disabled, elderly and individuals risking unemployment with a new ICTforALL education programme that was launched in Q3.

The national Wi-Fi project that serves all towns and villages in Malta and Gozo with at least one free Wi-Fi public connection continued well into 2010. This project is aimed at ensuring increased accessibility to the Internet, taking advantage of mobile technologies, as well as, the Maltese climate which favours an outdoor lifestyle.

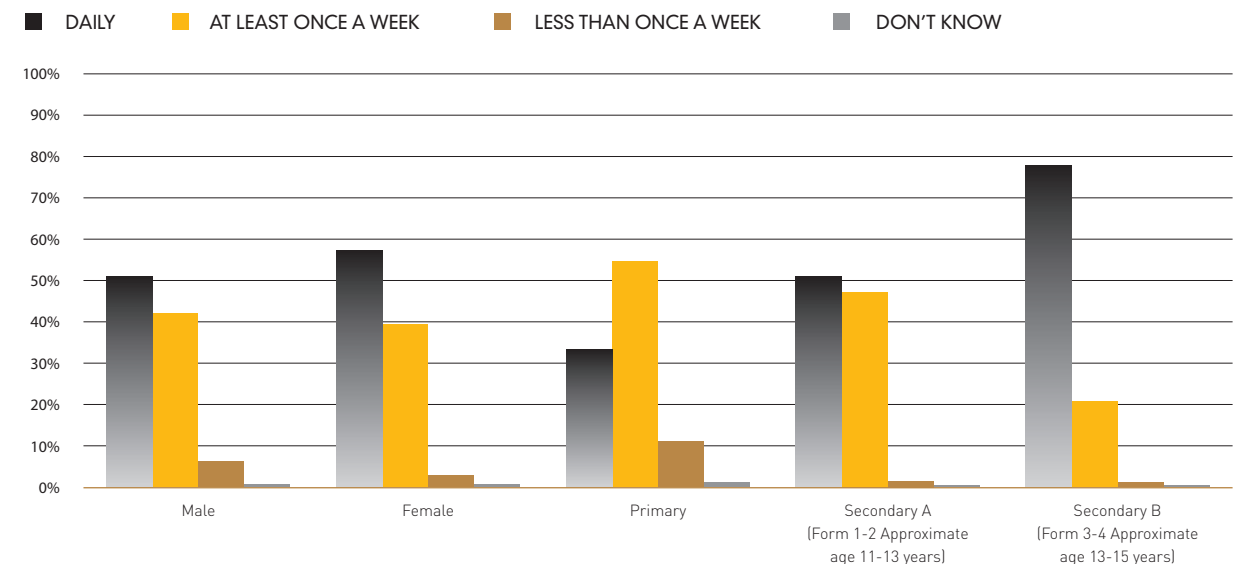
With 96% of youths and children having access to the Internet from home and 85% being registered on a social network, the need to safeguard this vulnerable section of our society from the risks posed by the Internet is paramount. Besides its regulatory role, the Authority, in partnership with key local stakeholders, embarked on an awareness and educational programme intended to equip minors, parents and the public with the skills and tools to prevent and combat online abuse, thanks to the EU part-funded BeSmartOnline! project.

The following are the main performance indicators with regard to the Authority's information society activities.

KEY PERFORMANCE INDICATORS

1. 144 Wi-Fi points set up across Malta and Gozo.
2. Approximately 200,000 people make use of the Wi-Fi service, during 2010.
3. 10 CTLCs were upgraded with new computer equipment and software.
4. Three new CTLCs launched, which are at the Farmers Association (Ta' Qali), the Local Council Association (Lija) and the ATTIC (Qawra).
5. A total of 1665 refurbished PCs were distributed amongst 156 NGOs rendering services within specific communities.
6. 13 audiovisual educational clips were aired on local TV stations and made available online for free download.
7. The ICTforALL programme was launched and subsequently, 6044 applications were received and processed. Such applicants will be benefitting from subsidised training in 2011.
8. The initial work programme for the BeSmartOnline! project was launched.
9. Survey on the use of ICT by minors was carried out and results published.
10. 98 senior citizens were provided with focused training at specialised day care centres.
11. The Authority signed a Memorandum of Understanding (MoU) with the University of Malta to support research related to eBusiness, eCommerce, digital divide, telecom technologies and regulation policy.

FREQUENCY OF INTERNET USE BY MINORS

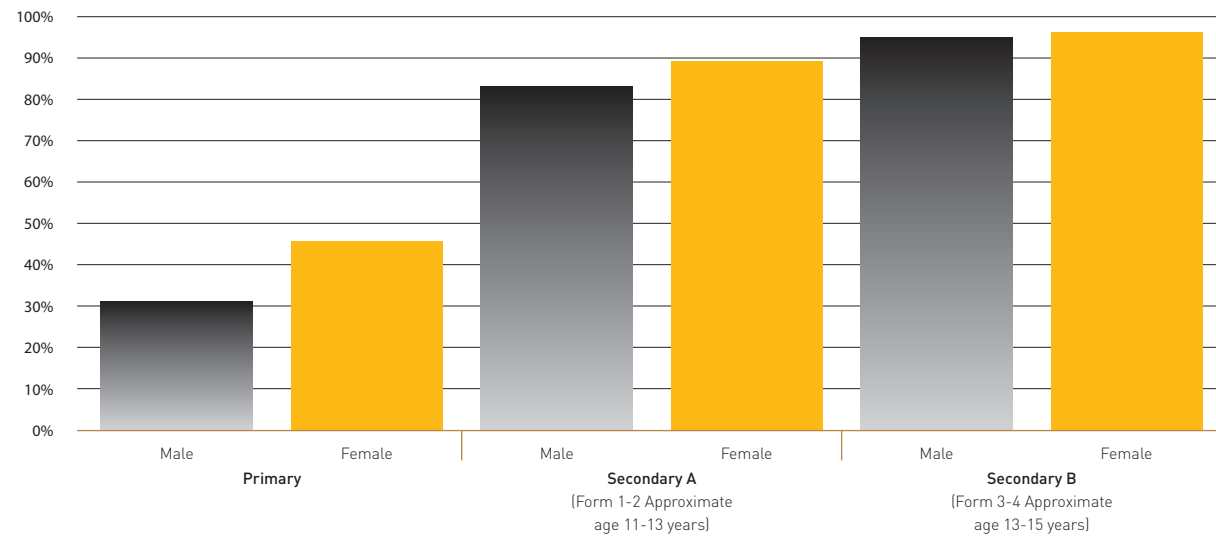


LOCATION OF COMPUTER FROM WHERE INTERNET IS ACCESSED

| | |
|---------------------|-----|
| ■ BEDROOM | 32% |
| ■ STUDY | 22% |
| ■ LIVING | 21% |
| ■ KITCHEN | 10% |
| ■ CORRIDOR/HALL | 7% |
| ■ LAPTOP - ANYWHERE | 1% |
| ■ OTHER | 7% |



MOBILE PHONE OWNERSHIP BY MINORS



**STRATEGIC OBJECTIVE 2:
ENCOURAGING THE USE OF E-BUSINESS MODELS BY LOCAL ENTERPRISES AS A MEANS TO IMPROVE COMPETITIVENESS.**

In complimenting its regulatory role in the eCommerce sector, the Authority is also engaged in encouraging Maltese businesses to adopt and integrate ICT solutions in their business processes. This is achieved through awareness and education initiatives and interventions that facilitate the proliferation of ICTs.

During 2010, the Authority concentrated its efforts on raising awareness on the

benefits of ICT in B2B scenarios. This has been achieved by showcasing best practices through diverse initiatives.

The Authority has also focused on initiatives aimed at micro-enterprises, assisting them to get the right ICT skill-set and knowledge, to enable them to become more entrepreneurial and competitive in an ever-more global market, which is heavily reliant on ICT.

The Authority contributes to the development of national eBusiness policy by advising Government and by entering into discussions with key stakeholders on a regular basis.

OUTPUTS

Trustmark: By the end of 2010, nine websites previously holding the trustmark, renewed their subscription. The Authority undertook a review of the Trustmark and made proposals to Government for the introduction of revisions to the current trustmark with a view to rendering it more appealing.

Gap analysis study completed: The MCA engaged the services of external consultants to carry out a gap analysis of ICT skills as an entrepreneurial tool for micro-enterprise employees. This study was undertaken as part of the ESF part-funded EPITOME project.

Participation in the ICT-VN programme: The MCA identified and showcased five eBusiness best practices in the tourism and agrifood sectors both locally and abroad as part of the Interreg IVC ICT-VN programme.

ICT training facilities: The Farmers Association was set-up with an ICT training facility as an example of how indigenous micro-businesses can be brought closer to technology.

SUPPORTING THE STAKEHOLDERS

THIS SECTION PROVIDES A GENERAL OVERVIEW OF ALL THE AUTHORITY'S ACTIVITIES IN FAVOUR OF ITS VARIED STAKEHOLDER BASE, WHICH ESSENTIALLY INCLUDES END-USERS AND CONSUMERS, THE INDUSTRY PLAYERS IT REGULATES, AS WELL AS THE INFORMATION SOCIETY.

Consumer related activities have intensified during the past year. Consumers have become more savvy in terms of their rights in the communications sectors. This is reflected in the types of complaints received, where upon further investigation, specific regulatory action was necessary. In some cases, such actions have resulted in litigation cases in front of the Communications Appeals Board.

In support of its regulatory activities, the MCA regularly undertakes market research, which provides valuable insight into some areas that might require particular attention or alternative courses of action. This research also provides an indication of how the Maltese sectors are performing against other countries.

The eCommerce forum, as well as the electronic communications forum, are now well established, allowing for improved informal interaction between the Authority and the industries it regulates, as well as providing networking opportunities for industry players.

Activities in relation to its information society arm continued unabated with a view to ensuring that the digital divide is reduced further year-on-year.

THE CONSUMER

1. Guidelines regarding subscriber contracts in the electronic communications sector

Investigations by the MCA identified a number of lacunae in terms of information provided in subscriber contracts in the electronic communications sector. In addition, some undertakings were failing to carry out a number of standard practices, such as the provision of the applicable full terms and conditions to the subscriber, prior to subscription. In order to counter such practices, the MCA published a set of guidelines for service providers, which address the following:

- provisions that are legally required to be included in contracts related to electronic communications;
- the form such contracts should take;
- the means by which the contracts should be made available to consumers; and
- any necessary additional transparency rules related to contracts and terms and conditions, for example, their availability on websites, from retail outlets and so on.

It is intended that these Guidelines will be amended as necessary following the adoption of the amendments to the Electronic Communications (Regulation) Act, which are to be tabled in Parliament in 2011.

2. Email mobility guidelines

In January 2010, the MCA published a consultation document to seek views on the implementation of measures that would oblige ISPs to forward email traffic to new email addresses designated by customers for a temporary period following switching to an alternative ISP. Such measures would ensure that email services do not act as a barrier to switching. After evaluating the responses received, the MCA published a set of guidelines on the subject. This obligation is expected to become law once the revisions to the electronic communications framework are adopted by Parliament in 2011. The adoption of such measures will make Malta one of the first countries to implement email mobility services.

3. Regulatory actions following consumer complaints investigations

a. Decision regarding Melita's failure to provide comfort letter in relation to its billing system

During 2009 and continuing into 2010, the Authority received a disproportionate number of justified complaints regarding billing issues experienced by Melita subscribers, when compared to the subscribers of other market players. Consequently, the Authority requested Melita to provide a letter of comfort from an independent auditor stating that

Melita's billing system is operating satisfactorily and is meeting generally accepted standards with regard to accuracy of bills issued to consumers.

Melita failed to provide the Authority with the requested letter of comfort and the Authority, in addition to a letter of warning, published a decision whereby Melita was fined a one-off administrative fine of €5,000 and a daily administrative fine of €100 until such information was provided. Melita appealed this decision, which appeal is still pending before the Communications Appeals Board.

b. Decision regarding Melita's XL TV Package

On the 1st of July 2010, Melita removed four football club channels, namely the Roma, Juventus, Milan and Inter Channels from its TV XL package. This was done without any prior notice to the impacted subscribers and/or the Authority. The Authority established that, in this particular case, Melita was in breach of MCA's decision on 'Proposed modifications to subscriber contracts' and thus, further to a letter of warning, the MCA imposed an administrative fine of €5,000 on Melita. Melita appealed this decision, which appeal is still pending before the Appeals Board.

4. Ongoing market surveillance in accordance with Radio & Telecommunications Terminal Equipment (R&TTE)

Manufacturers and importers of radio and telecommunications terminal equipment have to provide certain information regarding the safety aspects and proper use of their equipment. This information is analysed by the Authority and if conformity with the necessary requirements is established, then the equipment can be placed on the Maltese market. During 2010, the Authority processed more than 1,200 notifications on radio equipment, which operates on non-harmonised frequency bands. This involved close examination of all characteristics of the notified equipment to ensure compliance with the said requirements. Furthermore, the Authority assisted the customs department in 65 inspections to verify that products being imported were compliant with the R&TTE Regulations. The MCA performs this function in close collaboration with the Market Surveillance Directorate within the Malta Standards Authority.

5. EMF Review

The Authority continued its EMF monitoring activity to check that emissions from radiocommunications stations are within the exposure standards established by the ICNIRP. In 2010, the MCA performed 145 on-site audits, which included mobile communications and BWA base stations, broadcasting transmitters and other sources of EMF. These audits included a number of repeat visits on sites, which were already audited in previous years to ensure continued compliance with the pertinent regulations. A number of audits were also carried out following requests from the general public. In all cases, the audited results were found to be compliant with the relevant standards, whilst in the majority of cases, the measured levels on-site did not exceed 5% of the public exposure levels specified by the ICNIRP. The MCA maintained ongoing liaison with the department responsible for public health on EMF related issues. The MCA will continue its EMF auditing programme during 2011.

THE INDUSTRY

1. eCommerce forum

The 3rd eCommerce Forum held in March focussed on 'The Internet as a new marketing tool' - a topic that was chosen by attendees of the previous forum. It addressed issues pertinent to online marketing, with local speakers from design and communications agencies and industry players sharing their experiences. Upon request by previous attendees, this forum also tackled taxation issues with regard to eCommerce. The following forum, held in July, addressed delivery issues in eCommerce and the challenges that online traders are facing when it comes to delivering products in an efficient and effective manner. In addition, this forum was also selected as the venue for the soft launch of Trolleymania, a web-based virtual shopping mall. The findings of the supply-side study on eCommerce, that the MCA carried out to investigate the evolution of eCommerce services in Malta and assess developments and progress in this area, were also shared. The final forum for 2010 was held in November and sought to explore the benefits derived from investing in B2B technology, whilst looking at the challenges associated with its implementation. It addressed the reasons why businesses use ICT and how this can be beneficial for day-to-day operations. Company representatives shared their experiences in implementing ICT solutions in their business operations to facilitate transactions with suppliers and clients.

As an extension to this forum, an ad hoc forum was organised in June, in collaboration with Microsoft to address the issues of intellectual property rights.

2. Electronic communications forum

During 2010, the MCA hosted four regulatory fora for electronic communications undertakings. These fora provide an opportunity for an exchange of views on current topics. A number of other ad hoc meetings were also held with undertakings to discuss the proposed changes to local legislation in view of the recently amended EU framework for electronic communications.

3. MCA Annual Conference

Many preparations were undertaken during 2010 for the MCA's Annual Conference planned for January 2011, which is also a celebration of the Authority's 10 years of operations. A highly respectable line-up of international speakers was secured to address the conference with the theme, 'The next 10 years in telecoms'.

4. The Trustmark scheme expansion

The Authority felt the need to revise the existing eCommerce trustmark currently available in Malta in order to increase its value to online merchants and give it more visibility amongst the general public. This entailed the review and streamlining of the existing documentation that regulates the trustmark. In addition, the Authority also undertook the preparatory work for extending the trustmark to include websites that do not offer eCommerce services, that is, websites that only promote products and/or services and websites that provide information but do not cater for online transactions. The aim is to promote self-regulation amongst businesses, which are not engaged in eCommerce activities but have an online presence. It is anticipated that this project will be concluded in 2011.

5. eSignatures – supervision and monitoring regime

In light of the planned deployment by the Malta Information Technology Agency (MITA) of electronic signature certification services based on qualified certificates, the MCA revived the process for the development of a regulatory framework to supervise this operation, in line with the provisions of the eCommerce Act related to eSignatures.

The MCA collaborated with the Norwegian regulator for electronic signatures in the development of this framework. The regulatory approach is intended to be a light-touch approach based on compliance with a number of well accepted standards in the industry, that have been developed at an EU level and provide a framework for assessing compliance with the provisions of the eSignatures Directive. Compliance will be verified by means of regular audits. Certification services providers in Malta will be required to be notified under a general authorisation regime, which register will be published on the Authority's website.

6. Developing a monitoring and enforcement process for eTraders

In order to ensure that eCommerce service providers in Malta are compliant with the relevant provisions of the Electronic Commerce Act, during 2010, the Authority conducted spot checks of local eCommerce websites. Those service providers whose websites were found to be in breach of the obligations set out in the eCommerce Act, were requested to either effect the necessary changes, or to advise the Authority of any contestations in the event that the trader did not concur with the Authority's findings. Fines will be imposed on traders that, despite warnings by the Authority, persisted in not rectifying the breach to the regulations.

7. Ensuring the regulatory framework supports Foreign Direct Investment (FDI)

The MCA initiated a review of the regulatory framework related to eCommerce, as well as, other regulatory measures, which may have a significant impact on the attractiveness of Malta as a destination for investment in the eCommerce field. This study is expected to be completed in 2011.

8. Market Research

a. eCommerce use by Individuals – September 2010 - a quantitative study:

This survey revealed that 72% of the Maltese population has access to the Internet whilst 65% of Maltese use the Internet. The Internet is mainly used for shopping, sending and receiving emails, researching information, browsing for products or services and reading newspapers. 73% of Internet users claim to use the Internet for 7 hours or more per week, an increase of 16% from 2008. For the first time, in this particular study, respondents were asked where they typically look for information about products and services. Almost all Internet users claim to use search engines, whilst more than half said that they refer to eBay. Lack of interest or need and not knowing how to operate a PC and/or Internet, still remain the main reasons why 35% of the Maltese population is reluctant to use the Internet, with the latter being more prevalent amongst the female and the 66+ age groups.

The statistics gathered by the MCA continue to depict a positive picture of eCommerce in Malta. In fact, half of the Maltese population now shops online, with 48% claiming that they did so in the last 6 months. In addition, 64% of eCommerce users claimed that they had shopped online in the 3 months preceding the survey. Online shopping continues to increase across all demographic groups. However, it is interesting to note that males tend to do more online shopping than females, 57% and 45% respectively. Half of the eCommerce users claim to spend €120 or more over a period of 6 months. This survey also saw an increase in those that claimed to have bought on behalf of others.

The most popular items that people seek to buy online include clothing, IT/electronic goods, books and flight reservations. It is encouraging to note that online purchases from Maltese websites doubled from previous years, with items such as flight reservations and concert or event tickets topping the list. PayPal remains the most sought after payment method in online shopping. Although 27% of eCommerce users claimed to have encountered a problem in the 6 months prior to the survey, only 3% still had an outstanding issue. Delays, undelivered items and damaged items still remain the most common type of problems that online buyers encounter. The survey

revealed that people are becoming more knowledgeable as to whom to contact in case of eCommerce difficulties and/or eCommerce scams or fraud. 69% refer to the vendor if an item is delayed, undelivered or damaged whilst 41% would contact the bank if they were to fall victim to some scam or fraud.

Preferring to see and try on items before buying remains the main deterrent from buying online, followed by security issues and concern that items will not be delivered, or will be delivered damaged or not as shown on website.

b. Supply-side eCommerce study 2009/2010:

Following-up on a previous qualitative study carried out in 2006, as well as to complement its parallel eCommerce-related initiatives, the MCA felt the need to; gauge developments amongst the different 'commercial operators' in the field; assess whether the implementation of the 2006 recommendations has had any positive impact on the sector; identify any remaining or new barriers to the take-up of such services; and make new recommendations both to Government and public sector entities, the industry, as well as, constituted bodies, where appropriate. Interviews were held with a number of eCommerce service enablers and drivers in the

supply chain for the provision of online services such as suppliers of eCommerce solutions, commercial banks, ISPs, postal, courier and shipping service providers and communications service providers, as well as, online retailers.

Ensuring mobile connectivity throughout the Maltese Islands and measures to keep costs of data transfer contained, were amongst the recommendations put forward by the participants in this exercise. The need for specialised eCommerce mentors was also called for. Whilst some respondents welcomed a more competitive postal market, others called for more service delivery controls on all delivery service providers to ensure a level playing field. Moreover, it was widely agreed that an educational campaign about the benefits of eCommerce and suggestions on how to mitigate risk with the aim of increasing eCommerce uptake should be on the Government's agenda. In addition, this study also highlighted the need for incentives to encourage consumers to resort to electronic payments and hence decrease the use of cheques and cash payments.

The findings were presented during the eCommerce Forum held in July.

THE INFORMATION SOCIETY

1. Supporting the community

The Authority believes that NGOs and public bodies established to serve specific communities are best suited to understand and serve the needs of their respective communities. In its drive to combat digital illiteracy and exclusion, the MCA has partnered with a number of such entities and supported them in setting up a computer lab with Internet access, whilst also providing the means for them to deliver basic training. Such initiatives were also supported by sponsorships from the private sector in the form of hardware and software donations.

During 2010, the Authority also developed the new ICTforALL curriculum which consists of 20 hours of training aimed at providing basic digital literacy. The curriculum includes training manuals and resources in both Maltese and English and is designed to appeal to Maltese adults aged 25 and over. The training based on this curriculum is being provided predominantly by the CTLCs and in some cases, by the Employment and Training Corporation.

Further to the above, the Authority has also provided 156 NGOs with refurbished computers and equipped 18 day-care centres for the elderly with computers and internet access. In addition, the MCA also organised special training classes for the elderly. During 2010, 772 individuals were trained by these centres.

2. Wi-Fi in public spaces

The successful rollout of 144 Wi-Fi points across Malta and Gozo involved collaboration between the Authority and a large number of public entities. As a result of this collaborative initiative, all village and town centres, local councils premises and the key public areas in both Malta and Gozo, are today served with a free Wi-Fi service. During 2010, approximately 200,000 people made use of these free public Wi-Fi spots.

3. ICT use amongst minors

Carried out in May, this study investigated the level of ICT use amongst students aged between 8 and 15 years and the levels of awareness and perceptions of both the children and their respective guardians. Results show that 97% of Maltese students have access to the Internet from home, with more than half (54%) accessing the Internet on a daily basis. Primary school students between year 3 and 6, use the Internet mostly to play games (86%), for school related research (66%) and social networking (45.1%). Secondary school students between the ages of 11 and 12 use the Internet for research (82%), playing online games (69%) and for social networking (67%), whilst those aged between 13 and 15 years

mostly favour social networking (86%), followed closely by school research activity (83%), chatting (80%) and non-academic related browsing (79%). Most minors use a computer that is either located in the bedroom (32%) or in the study (22%), indicating that these could possibly have very little supervision by adults when accessing the Internet. This study enables the MCA to address such issues in an awareness campaign aimed towards engendering safer use of the Internet to be rolled-out in 2011.

4. Donation of computers to Egypt mission

As part of the PCs for NGO initiative, last year the MCA donated 30 used computers to a charitable institution run by Jesuit Fathers in Minya, Egypt. The computers will be used for teaching children coming from socially depressed areas. This is in line with the MCA policy to contribute to measures to address the digital divide across different strata of the society even outside our national boundaries where possible.

5. EU part-funded projects

During 2010, the MCA continued with the works related to a number of EU part-funded projects, namely, BeSmartOnline!, EPITOME and ICT-VN.

a. BeSmartOnline!

Coordinated by the MCA and co-funded by the European Commission through the Safer Internet Programme, the BeSmartOnline! 20 month project brings together a number of entities including Aġenzija Appoġġ*, the Office of the Commissioner for Children, the Directorate for Educational Services, the Secretariat for Catholic Education and the Malta Police Force.

The partners are working together towards raising awareness amongst minors, carers and educators on the safer use of the Internet. The project also aims at establishing, operating and promoting reporting facilities for internet abuse through a Hotline, which shall be internationally certified. It also aims to support respective victims through a Helpline. These services will be promoted to ensure that potential victims as well as the general public are well informed about these services and facilities.

The project also includes an advisory board, where different stakeholders can discuss pertinent subjects. The project will be launched officially in February 2011, following which a comprehensive public information campaign will be implemented.

b. EPITOME

EPITOME is aimed at providing training in ICT to enable individuals employed in micro-enterprises to improve the entrepreneurial performance of their businesses. The deliverables of the training programme aim to re-train, re-skill and adapt the labour force and hence make it potentially responsive to the continuous challenges of market changes and the ongoing introduction of new technologies.

The project has a number of critical phases, the first of which is the identification of the gap in the ICT skills of local micro-enterprises. For this purpose, a skills gap analysis was conducted, which led to the construction of an ideal skills-set and a benchmarking exercise establishing the gap between this skills-set and the actual skill levels of local entrepreneurs. The remaining phases of the project, namely the

development of course material and the delivery of training shall be based on the recommendations emanating from the study.

c. ICT-VN

ICT-VN is an Interreg IVC project intended to promote the use of ICTs by SMEs, whilst also serving as an enabler to value networks. The project brings together nine European regions from across the EU with a view to identifying good regional policies that enhance competitiveness of SMEs in agrifood, tourism and the services sector. The project also promotes the transfer of best policies across the participating regions.

*Aġenzija Appoġġ forms part of the Foundation for Social Welfare Services. The ultimate aim of the Agency is the enhancement of the lives of people in need, through the provision and availability of professional care and support. Offering over 25 specialised and generic social welfare services, Appoġġ has become the central national agency for families and children in need.

2010

MAIN

ACTIVITIES

THE MCA REMAINS COMMITTED TO ONGOING CONSULTATION WITH A BROAD RANGE OF STAKEHOLDERS WHEN DEVELOPING POLICY AND REGULATORY INITIATIVES AND SEEKS TO ADHERE TO BEST PRACTICE IN THIS REGARD.

Its major stakeholders include citizens, consumers, industry, Government, the EU, interest groups and other regulatory Authorities. The maintenance of open, effective and timely communications with stakeholders is key to the effective design and implementation of regulatory measures. The following section provides information on the consultative procedures undertaken and the decisions published, as well as an overview of the legal and legislative activities, which took place during the course of the year. Furthermore, an outline of other corporate initiatives is also provided.

DECISIONS PUBLISHED – ELECTRONIC COMMUNICATIONS

1. Wholesale fixed call origination market – market analysis.

Published in January, this decision provides a review of the fixed call origination market and defines one market that incorporates all network operators providing call origination services for the purpose of providing fixed retail calls. The MCA identified GO as the undertaking that still holds a position of SMP despite a number of other undertakings operating in this market. Amongst other factors, the MCA found that GO still holds a very high market share, in excess of 50%, is a vertically integrated operator that enjoys significant economies of scale and scope and that there is no sufficient countervailing buyer power to constrain it. The MCA concluded, that given the position held by GO, a number of competition problems may arise in this market. To mitigate such problems, the MCA imposed on GO, a number of remedies including the obligation to provide wholesale call origination services, in particular carrier select and pre-select services and wholesale line rental services. GO must also publish a reference offer and comply with specific price controls for these types of access services.

2. Review of numbering conventions

In 2010, the MCA reviewed the national numbering conventions and issued a revised decision, which specifies processes and timeframes for applications for new numbering resources, as well as, those for applications for number blocks in ranges previously allocated to the same applicant. The revised decision published in February also lists the general responsibilities for all the parties involved.

3. Review of number portability wholesale charges

The MCA reviewed the charging arrangements amongst operators that result from number portability. The revised charging arrangement defines in detail what may be charged and lists the options of how the charges may be calculated. This decision resulted in a substantial decrease in number portability wholesale charges to the benefit of the recipient operators.

4. Universal service obligations review

In April 2010, the MCA published its decision on the USO related to electronic communication services, which include the provision of access at a fixed location; directory and directory enquiry services including the printed directory; public payphones; measures for disabled users; provision of reduced tariffs; and measures to ensure that users have the means to control expenditure. This document also covered the financing and designation processes and criteria for the USO. In this decision, the MCA invited parties interested to provide a universal service to submit an expression of interest. In total, three expressions of interest were received for the printed directory and two for the electronic directory. Evaluation of the said expressions of interest is underway.

5. Electronic communications networks and services – interconnection strategy

The main aim of this decision is to provide visibility of the short to medium term interconnection pricing strategy for the electronic communications sector and the approaches to be used in order to calculate the regulated wholesale fixed and mobile termination rates. The decision also makes specific reference to the EU Commission recommendation on the regulatory treatment of fixed and mobile termination rates in the EU, published in May 2009.

6. Wholesale fixed termination market

In May 2010, the MCA issued a final decision related to the fixed call termination markets, with the aim of establishing an appropriate regulatory regime for this particular market. The MCA identified that the provision of fixed termination rates by each individual fixed operator constitutes a separate market, therefore the decision identifies five distinct markets related to the provision of wholesale fixed termination rates and thus, each market was analysed individually. Based on a number of economic criteria, the MCA concluded that every fixed operator providing termination services held SMP in its respective market. The analysis concluded, amongst others, that each

operator held a 100% market share, no consumer could exert sufficient countervailing buyer power and that no signs of prospective competition were present. The MCA identified a number of competition problems that may arise and therefore imposed specific remedies in each market to mitigate these problems. These remedies include the setting of a cost-oriented termination rate and the obligation that every operator publishes a RIO.

7. Review of test & trial licences

In 2009, the Authority consulted on the introduction of a new licensing scheme for the test and trial of wireless technologies and the related grant of right-of-use of radio frequencies. In this regard, in May 2010, the Authority published a decision, which outlined the assignment methodology that will be adopted. Guidelines to assist prospective applications were also published. This preceded the publication by Government, of a Legal Notice to establish the relevant licence fees. Due to the country's limited size and geographical location, Malta offers an optimal setting to study and test specific technology and service implementations on a national scale. To this end, Malta provides an ideal test-bed for wireless system testing and service trials.

8. Local loop unbundling review

This decision is the result of a comprehensive review of GOs RUO. The MCA intends to keep this process under review as it envisages further iterations to address other specific areas of GO's LLU offer particularly with regard to Sub-Loop Unbundling (SLU), as GO has embarked on a phased programme to install active DSL equipment in its cabinets (which is also known as a Fibre-to-the-Cabinet (FTTC) upgrade). As a first step in its review, the MCA surveyed the international evidence in a bid to identify the success factors or critical aspects of SLU deployment, so as to be able to prioritise its regulatory focus. These areas of focus will be the subject of a specific consultation and decision that the MCA intends to publish during 2011. Further information on this decision is available on page 39.

9. Rationalisation of radio licences – satellite earth stations

In 2009, the Authority initiated an exercise to review the licensing regime pertaining to satellite earth stations in order to rationalise the licensing process. In this context, the Authority's recommendations to Government to revise the licensing framework were considered positively. This entailed the publication of a regulation to revise the spectrum/radio equipment licensing fees as well as of another regulation to regulate certain types of satellite earth stations under a general authorisations licensing scheme. The revised licensing framework therefore provides for

attracting new investment in Malta in the delivery of satellite related services. In addition, this is also beneficial to end-users, since these can make use of certain satellite transmitting equipment in a light licensing environment. It should be noted that further revisions to the said licensing framework are expected to be adopted in 2011.

10. Re-assignment of 900 MHz - 1800 MHz spectrum

The extensive consultation process, launched during 2009, was concluded in July 2010 with the publication of the Authority's decision 'The Future of the 900 MHz and 1800 MHz Bands (MCA/10/44/D)', which established amongst others that;

- a. the spectrum in the 900 MHz and 1800 MHz band would be re-assigned through an open assignment process; and
- b. the assignment process would include a qualification phase, brokered meetings in the event that demand exceeds supply and an auction in the event that brokered meetings failed.

Fees applicable to channels in the 900 MHz and 1800 MHz band were established by Government through the publication of LN 449 of 2010.

On 27th October 2010, the Authority published the Call for Applications for spectrum in these two bands. The re-assignment process is scheduled to be concluded in 2011.

11. Price control for mobile and fixed termination rates

Two decisions establishing mobile and fixed termination rates were published in August. Both rates were reviewed in line with the interconnection strategy published in May. With regard to mobile terminations rates, these were reduced by nearly 30% from €0.0866 to €0.0617 per minute. Fixed termination rates were reduced by 4% to €0.00802 per minute reflecting the 2010 updated WACC rates. The revised termination rates came into force in September.

12. Framework for special tariffs – Premium rate services

The main objective of this decision was to ensure effective interconnection amongst operators, for voice related premium rate services. The decision establishes the roles and responsibilities of the operators, as well as, adequate consumer protection requirements. It also specifies numbering arrangements. One of the principal elements of this decision was the introduction of a new tariff regime for the provision of these services, which separates the premium rate element from the conveyance element. Whilst the premium rate element is not duration dependent, the conveyance tariff applicable shall be the same as a call to a fixed line, irrespective of whether such a voice call is originating from a mobile or a fixed telephone. Specific tariff bands were set for the premium rate element. This new framework is applicable from February 2011 and accommodates legacy premium rate numbers.

CONSULTATIONS ISSUED – ELECTRONIC COMMUNICATIONS

1. Spectrum Trading

As part of the MCA's objective of ensuring optimal use of the radio spectrum, the MCA issued this consultation document to seek views on rules to be applied to spectrum trading. Spectrum trading will allow holders of licences to transfer all, or part of their rights, to use spectrum. Trading may involve the outright transfer of rights and obligations in relation to spectrum use, or a range of other arrangements such as leasing. The proposed approach is intended to support various commercial arrangements between parties, which can be adapted as necessary to reflect market conditions. It is the MCA's intention to introduce a simple and predictable process

to support spectrum trades. This should encourage take-up of trading and maximise the benefits that can be obtained. Recommendations to Government on the legal provisions required for spectrum trading are expected to be made by the end of Q2 2011.

2. Review of USO obligation – Broadband

Published in September, this consultation sought to define the term 'functional internet access' with respect to the provision of access at a fixed location as a universal service,

which obliges the universal service provider - currently GO Plc - to provide 'a connection capable of supporting functional Internet access at a specified minimum broadband data rate' (i.e. the access line speed). The consultation also addressed the requirements to be complied with by the USP in this regard.

A final decision is expected to be published by the end of Q2 2011

CONSULTATIONS ISSUED – POSTAL SERVICES

1. Defining the scope of the universal postal service

This consultation made proposals to address a number of issues related to the effective regulation of postal services by providing a definition on how to classify postal products and services falling within the scope of the universal service. The document also proposed the introduction of priority bulk mail as a specific universal service product in

the USP's licence and tariff regulation for services which do not form part of the USO but fall within the scope of the universal service. Furthermore, the MCA also proposed a definition for express mail service. A decision is expected to be published by the end of Q1 2011.

LEGAL MATTERS

1. Legislative Amendments

The following is a list of legal amendments carried out during the year under review. These amendments were introduced by Government on the advice of the Authority.

- **Integration of the Radiocommunications Act into the Electronic Communications Services Act:** With these amendments, the Radiocommunications Act was repealed and the provisions relating to radiocommunications equipment were integrated in the Electronic Communications [Regulation] Act. These amendments were brought into force by virtue of Legal Notice 453 of 2010 made on the 15th October 2010. Attendant subsidiary legislation relating to different aspects of radiocommunications were also made, namely the Radiocommunications [Broadcast Receiving Licence Charges] Regulations, Use of Radiocommunications by Merchant Ships Regulations, Use of Radiocommunications by Foreign Warships and Service Aircraft Regulations. These regulations are similar, though not identical, to the previous provisions under the former Radiocommunications Act.
- **Review of legal framework for postal services:** A revised Law was brought into force in October 2010 and attendant amendments to the Postal Services [General] Regulations were made by virtue of Legal Notice 457 of 2010. This was part of a comprehensive review of the postal services regulatory regime whereby the main laws – primarily the Postal Services Act [Cap. 254] and the Postal Services [General] Regulations [SL254.01] were revised, both to reflect changes in the EU postal services directive, as well as, domestic requirements with more emphasis on administrative sanctions vis-a-vis non-compliant operators and the inclusion of measures gradually leading to a more competitive environment.
- **Amendments to the Electronic Communications Networks and Services [General] Regulations:** These amendments provided for fees relating to provisional licences for testing purposes and for a provisional licence for trials on a non-commercial basis for a period, not exceeding two years.
- **Amendments to the Fees [Radiocommunications] Regulations:** These amendments relate to fees for radio-relay links and broadcasting services in certain frequency bands and for the use of private mobile radio.
- **Amendments to the Roaming on Public Mobile Network Regulations:** these amendments were made to reflect minor amendments further to Regulation [EC] No. 544/2009 thereby bringing current provisions in line with the changes in the EU Regulation.
- **Amendments to the General Authorisations [Radiocommunications Apparatus] Regulations:** Radiocommunications Apparatus Exemption Order was revised to add a number of radiocommunications apparatus to the list of equipment exempted from having a licence.

2. Disputes & litigation during 2010

- A total of seven inter-operator disputes were filed with the MCA during the course of the year, of which three were decided.
- One new civil case was filed by SESCO Investments before the Court of Magistrates [Malta] relating to the payment of fees as an authorised undertaking providing electronic communications services, on the basis that this operator maintains that it is not providing an electronic communications service and therefore does not require a general authorisation to operate.
- **Seven new appeals were filed before the Communications Appeals Board:** One related to an appeal by MaltaPost following a regulatory decision about QoS [this appeal was subsequently withdrawn] and the others related to electronic communications services. The issues related to the appeals concerning electronic communications were the following:
 - Contestation by Melita of an administrative fine imposed following failure to comply with its international resiliency requirements;
 - Contestation by GO of certain decisions by the MCA with regard to applicable USOs on a particular operator;
 - Contestation by GO of fees established in the contest of the GSM assignment process;
 - Contestation of MCA's determination following a complaint by Melita against a commercial offer by GO relating to bundled products;
 - Two appeals by Melita related to administrative fines imposed by the MCA. The first relates to the failure by Melita to undertake an independent audit of its billings system and the second relates to the withdrawal of four TV channels without affording subscribers the possibility to terminate the service, given such changes.

The following is a list of pending cases as at the end of December 2010:

- 12 cases before the Communications Appeals board, seven of which were those filed in 2010.
- Four cases remain outstanding before the former Telecommunications Appeals Board.
- One lawsuit remains before the Court of Magistrates [Civil].
- Four lawsuits remain pending before the First Hall Civil Court.
- One case before the Civil Court Constitutional.
- One appeal remains outstanding before the Constitutional Court.

ONGOING REGULATORY ACTIVITY

1. Short-codes awarded

A total of three short codes were awarded in 2010, namely 1572, 116000 and 116123.

2. Review of regulatory accounts

Regulatory accounts are one of the tools used by the MCA to ensure that undertakings having SMP comply with the obligations arising from various market analyses. The MCA regularly makes reference to information presented in the regulatory accounts when formulating decisions, such as those on termination rates, leased lines and the assessment of retail tariffs amongst others. It is therefore essential, that the data submitted in the regulatory accounts, conforms to the decisions issued by the Authority to ensure that data submitted by different service providers is comparable. During 2010, the MCA undertook reviews of the regulatory accounts to ensure compliance with the pertinent cost accounting guidelines and methodologies used in preparing the regulatory accounts; analyse underlying results and performance of business segments and identify those areas where the MCA needs to provide further regulatory guidance.

3. Award of NGN tender – economic analysis of FTTH network

During 2010, the MCA provided assistance to Government in the preparation of a tender for the provision of consultancy services related to an economic analysis of the possible options for the deployment of an FTTH network in Malta. An adjudicating Committee chaired by the MCA submitted its report to the Department of Contracts in December. The study is expected to be commissioned and completed by the end of the 2nd Quarter of 2011.

4. Migration of paging network

The decision was taken that the national paging service, which currently operates in the 900 MHz band, be switched off in 2011. The current paging licence was granted to Telepage Ltd in 1994 and expires in 2011. This decision will allow the 900 MHz band to be allocated in its entirety to mobile services in line with the EU Directive 2009/114/EC.

5. WRC 2012 preparation

For a period of four weeks, between January and February 2012, the International Telecommunication Union (ITU) is holding the next World Radiocommunication Conference (WRC-12) in Geneva, Switzerland. This Conference is mandated to revise the radio regulations and to deal with any questions concerning the radio frequency spectrum and satellite orbits. As part of the preparatory process, the MCA is following activities taking place in Europe concerning this event and is also liaising with local authorities on specific agenda items to be discussed during the Conference.

INTERNATIONAL AND EUROPEAN COLLABORATION

MCA participation in EU and international fora

The Authority participates in a number of European and other international fora. These fall into two categories; meetings relating directly to the MCA's regulatory remit as an independent Authority; and meetings that the MCA

participates in, as an expert on behalf of Government. The year 2010 saw the establishment of two very important fora related to the regulatory work carried out by European national regulatory authorities. These are

the Body of European Regulators in Electronic Communications (BEREC) and the European Regulators Group for Postal Services (ERGP).

Electronic communications:

1. The BEREC

The revised electronic communications framework introduced a Regulation of the European Parliament and the Council establishing the BEREC. BEREC replaced the former European Regulators Group (ERG) for electronic communications networks and services. The BEREC has a legally established office and is able to provide its formal opinion to the European Institutions. The revamped forum of European Regulators is in a better position to play a direct role in the implementation of the EU telecoms rules across Europe.

BEREC and its support Office were created to build on the ERG experience and further improve the consistency of implementation of the EU regulatory framework. It operates through working groups composed of experts from the different regulatory Authorities, which implement its annual work programme

and any formal request for opinions by the European Council, Parliament or Commission. Where it deems it to be necessary, BEREC may also offer advice to these institutions on its own initiative. BEREC is made up of a Board composed of the heads of the 27 NRAs. The Office of the BEREC, which is based in Riga, Latvia, is a community body managed by a Management Committee in which all regulatory Authorities and the Commission are represented.

The MCA is represented in the BEREC Board and Management Committee by its Chairman. A number of MCA experts participate actively in its specialised working groups.

2. Net Neutrality

During 2010, the Authority participated in BEREC's Expert Working Group on Net Neutrality. The Expert Working Group has prepared a document internal to BEREC, presenting both the different discussions on the subject, as well as highlighting the areas which need to be discussed further within BEREC. Furthermore, the Expert Working Group has drafted BEREC's reply to the consultation process launched by the Commission. The Authority is also following closely the debate on this subject, taking place at the European Level.

3. Pan-European Mobile Satellite Services (MSS)

A mobile satellite service is a service provided via a satellite system, which communicates with portable terrestrial terminals. Mobile satellite services can, amongst other things, provide wireless broadband, mobile television and mobile telephony applications.

Following the completion of the European Commission's competitive process on the provision of pan-European mobile satellite services in the 2 GHz frequency band, pursuant to Decisions 626/2008/EC and 2009/499/EC, the MCA embarked on the identification of the conditions linked to the rights-of-use of radio frequencies for the provision of the said services in Malta. These rights are expected to be granted to the two successful operators, namely Inmarsat Ventures Limited and Solaris Mobile Limited.

4. GALILEO

The Galileo programme is Europe's initiative for a state-of-the-art global satellite navigation system, providing a highly accurate, guaranteed global positioning service under civilian control. The MCA is the national contact for all European-led Galileo initiatives.

Throughout 2010, the MCA embarked on a number of initiatives to maximise Malta's involvement and return of investment from Galileo, as well as, promote the involvement of the local industry in this project. MCA's work programme in relation to GALILEO is listed hereunder.

a. Proposal for the hosting of a MEOLUT site

On behalf of the Maltese Government, the MCA put forward a bid to the European Commission for the hosting and operation of a European Medium Earth Orbit Location User Terminal (MEOLUT). Malta was selected together with other six European countries to participate in this bid following an expression of interest that Malta submitted in May 2010. Malta was not amongst the four countries selected to host the MEOLUT station.

b. Participation in Public Regulated Service (PRS) pilot projects

In March 2010, the European Commission embarked on an initiative to establish a number of PRS Pilot Projects over the 2010-2014 period and invited interested Member States to present their proposals for participating in these pilot projects. In July 2010, the MCA presented its proposed PRS Pilot Project Strategy to the EU. The strategy outlined a series of plans to maximize industry involvement and the return on investment in the PRS Pilot Project.

c. Information session and conference

In September 2010, the Authority, in conjunction with the Malta Chamber of Commerce, Enterprise and Industry organised an information session on the progress of Galileo and related funding, grants and knowledge-transfer opportunities of interest to local industry players. Following this information session, in October 2010, the MCA organised a half day conference, with the direct participation of the European Commission, the European GNSS Supervisory Authority and Logica Space & Defence. The European Commission committed in excess of €60 million in the form of grants, direct funds and FP7 funds to the various Galileo initiatives and the MCA is working very closely with the Commission and other Member States to assist stakeholders interested in these initiatives.

Postal Services:

1. The establishment of the European Regulators Group for Postal Services

In August 2010, the European Commission established the European Regulators Group for Postal Services (ERGP). Its main tasks are to advise and assist the European Commission in consolidating the internal market for postal services and ensuring the consistent application of the regulatory framework for postal services. In this context, ERGP will

facilitate consultation, coordination and cooperation between the independent national regulatory Authorities in the EU Member States and between these Authorities and the European Commission.

ERGP is made up of the heads of the 27 national postal regulators and will be assisted by a secretariat providing the necessary administrative support to its work. With its role in developing best regulatory principles, ERGP will become a key element of the single postal market and a driving force in ensuring

that European citizens have access to high quality, customer oriented postal services.

The annual work programme of the ERGP is implemented by its various expert working groups. The MCA is represented by its Chairman at ERGP Plenaries. A number of MCA experts participate in its specialised working groups.

Information Society Services:

1. eInclusion i2010 sub group meeting

The i2010 eInclusion subgroup brings together a representation from across the EU to discuss the progress of the implementation of the i2010 programme. MCA has been representing Malta at this sub-group for the past two years and hosted a meeting in January 2010.

2. Telecentre Europe

The MCA has become a member of the Telecentre Europe network. The network brings together organisations from across Europe running ICT community centres. Through this network, the MCA will be able to share experiences and resources with other European counterparts.

3. Participation in Join the DOT project (UK)

The Authority is participating in a UK Project titled 'Making IT Personal – Joining the Dots'. The project brings together people who want to share their skills with those who require help with various technological tools. It is run by the local Authorities of Barnsley, Doncaster, Rotherham and Sheffield with funding from the European Social Fund and is supported by many of the colleges and other organisations in the respective regions. Through this partnership the Authority has benefited from resources and experience sharing. The UK consortium also visited Malta and organised a workshop for Maltese practitioners.

4. Insafe membership

As part of the BeSmartOnline! project, Malta has joined the Insafe European network. The network of Awareness Centres promotes safe, responsible use of the Internet and mobile devices by young people and includes a representation from all Safer Internet Centres set up across Europe.

HUMAN RESOURCES AND OTHER CORPORATE INITIATIVES

1. Information Management

The management of knowledge, information and technology is essential to ensure the effective delivery of services. The MCA's vision for information management is to provide high-quality and affordable information analysis, information technology services and information management leadership to effectively support the Authority's programs and services.

Throughout the last two years, the Authority continued to build on its strategic planning and management process through a series of initiatives. The Information Management Unit has established a strong governance mechanism for the MCA's investment in, and future directions for, information assets.

A number of significant information initiatives were completed in 2010, including:

- A revised Internet strategy to improve communication and relationship with external stakeholders by implementing new Internet technologies;
- The introduction of Information systems to dynamically present data from corporate data sources;
- Revised principles to guide IT strategic planning;
- Improved infrastructure security;
- Improved accessibility for all staff;
- Continued revision of policies and procedures for all core IT functions;
- Phase two of the business continuity plan to cover all potential threats;

- Improved technical infrastructure; and
- More workflow systems supporting the core processes of the organisation.

2. Statistical Analysis Management System (SAMS)

The implementation of the SAMS has reached its final stages. The SAMS project is a very challenging one that requires substantial infrastructure, consulting services, implementation effort and on-going support.

The SAMS information system caters for the coordinated, architected and periodic collating of data, such as market statistics and operators' data into a data warehouse environment that is optimized for analytical and informational processing. Analytical data is used to produce standard publications, like the market review reports and other ad hoc documents. Furthermore, such data is also necessary to allow the MCA to respond to EU and International data requests, which in turn is useful for benchmarking purposes.

The system will also be pivotal for the wide spectrum of users of market statistics, ranging from one-time visitors searching for a specific most recent statistic or a single data series to more frequent users such as market players, journalists, analysts and researchers. SAMS features robust and simple-to-use interfaces that allow users to quickly find, display and chart statistical data. The data and their descriptions are presented in a harmonised and integrated way, thus ensuring a better understanding and accessibility of statistics.

3. Human resource management

Over the past year, the human resource function continued to support the Authority in sustaining and delivering the strategic objectives of the organisation through the following initiatives:

- Development of an extensive training and development programme including a revised induction programme;
- Occupational health processes were reorganised to reflect good practices.
- Recruitment of nine staff members;
- A new Summer Students Recruitment programme was launched. The recruitment was highly successful and seven graduates joined the MCA for four months; and
- The initiation of a corporate-wide Training Needs Analysis Programme to assist in the identification of areas where employees would benefit from training in order to become more efficient at achieving the objectives of the organisation.

4. MCA website revamp

Given the additional responsibilities the Authority has assumed over the previous years, the current website is no longer effectively addressing the communications needs of the Authority. During 2010, the MCA issued a tender for the redesign of its current website. The new website is expected to be launched by Q2 2011.

OTHER WORKSTREAMS

Exclusive TV rights:

With the introduction of competition in the TV distribution market, consumers are being faced with situations where a dual subscription would be necessary in order to view the same content they were accustomed to watching with just one subscription.

This situation spurred extensive discussion within the Social Affairs Committee in Parliament, which subsequently called GO and Melita, as well as, the Office of Fair Competition, the Broadcasting Authority and the MCA, for a specific meeting. Several meetings were held before it was decided to consult the Copyrights Board for its opinion on whether copyright regulations were being breached. Although the Law clearly stipulates that the MCA does not have any remit with regard to audiovisual rights issues, the MCA produced the following reports on request of the Committee:

- Study on European football TV rights in UK, France, Italy, the Netherlands, Spain, Denmark, Belgium, Germany and Norway; and
- Feasibility of applying carriage of premium pay TV football channels as a USO obligation.

ANNUAL FINANCIAL STATEMENTS

FOR THE
YEAR ENDED
31 DECEMBER
2010

GENERAL INFORMATION

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

MEMBERS OF THE AUTHORITY

Ing. P. Micallef - Chairman
Mr. I. Bartolo
Mr. M. Cutajar
Dr. A. Ghio
Ms. B. Sullivan
Ms. A. Vassallo

HEAD OFFICE

Valletta Waterfront
Pinto Wharf
Floriana FRN 1913
MALTA

BANKERS

Bank of Valletta plc
Preluna Towers
Tower Road
Sliema
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 2010.

Principal activity

The MCA was established by virtue of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta 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 MCA 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 MCA 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 EUR9,155,956 out of which licensing and usage fees for scarce resources, amounting to EUR5,404,154, were transferred to the Government of Malta. After meeting all expenditure of EUR3,672,545 the Authority closed off the year with a surplus, net of taxation, of EUR66,970.

Expenditure incurred by the Authority not in connection with electronic communications, amounting to EUR765,859, has been deducted from usage fees for scarce resources forwarded to government.

Members of the Authority

The Members who served during the year under review were as noted on page 89.

In accordance with Part II, Section 3 of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta, 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 of the Laws of Malta 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.

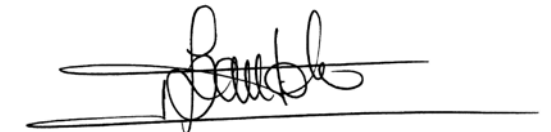
Auditors

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:



P. MICALLEF
CHAIRMAN



I. BARTOLO
MEMBER

Valletta Waterfront
Pinto Wharf
Floriana FRN 1913
MALTA

21 March 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCA

We have audited the financial statements of the MCA set out on pages 93 to 112 which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Members' Responsibility for the Financial Statements

The members are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta. As described in the statement of members' responsibilities on page 91 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the members, 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 at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta.

This copy of the audit report has been signed by Mario P. Galea for and on behalf of



ERNST & YOUNG
CERTIFIED PUBLIC ACCOUNTANTS
21 March 2011

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

| | Notes | 2010 EUR | 2009 EUR |
|--|-------|------------------|-------------|
| Income | | | |
| Revenues | 3 | 9,131,546 | 12,416,333 |
| Other income | 4 | 24,410 | 99,587 |
| | | 9,155,956 | 12,515,920 |
| Expenditure | | | |
| Staff costs | 5 | (2,005,996) | (1,841,679) |
| Depreciation | 11 | (281,425) | (272,456) |
| Operating and administrative expenses | 6 | (1,385,124) | (1,391,955) |
| | | 5,483,411 | 9,009,830 |
| Operating surplus | | | |
| Finance income | 7 | 56,357 | 72,244 |
| Finance costs | 8 | (2,034) | (6,086) |
| | | 5,537,734 | 9,075,988 |
| Transfer to government | 9 | (5,415,350) | (8,857,684) |
| Surplus before taxation | | 122,384 | 218,304 |
| Taxation | 10 | (55,414) | (73,129) |
| | | 66,970 | 145,175 |
| Surplus for the financial year | | | |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year, net of tax | | 66,970 | 145,175 |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

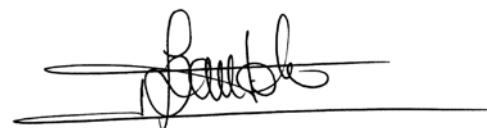
| | Notes | 2010 EUR | 2009 EUR |
|-------------------------------------|-------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 351,087 | 506,795 |
| Current assets | | | |
| Trade and other receivables | 12 | 1,868,723 | 2,085,233 |
| Cash and short-term deposits | 16 | 3,779,257 | 2,166,028 |
| | | 5,647,980 | 4,251,261 |
| TOTAL ASSETS | | 5,999,067 | 4,758,056 |
| EQUITY AND LIABILITIES | | | |
| Reserve | | | |
| Retained earnings | 13 | 507,426 | 468,156 |
| Current liabilities | | | |
| Trade and other payables | 14 | 5,489,755 | 4,228,236 |
| Income tax payable | | 1,886 | 61,664 |
| | | 5,491,641 | 4,289,900 |
| Total liabilities | | 5,491,641 | 4,289,900 |
| TOTAL EQUITY AND LIABILITIES | | 5,999,067 | 4,758,056 |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

The financial statements on pages 93 to 112 have been authorised for issue by the Members on 21 March 2011 and were signed on their behalf by:



P. MICALLEF
Chairman



I. BARTOLO
Member

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Retained earnings EUR |
|--|-----------------------------|
| FINANCIAL YEAR ENDED 31 DECEMBER 2010 | |
| Balance as at 31 December 2009 | 468,156 |
| Surplus for the year | 66,970 |
| Other comprehensive income | - |
| Total comprehensive income | 66,970 |
| ISS unutilised subvention (note 2.3) | (27,700) |
| Balance at 31 December 2010 | 507,426 |
| FINANCIAL YEAR ENDED 31 DECEMBER 2009 | |
| Balance as at 31 December 2008 | 331,313 |
| Surplus for the year | 145,175 |
| Other comprehensive income | - |
| Total comprehensive income | 145,175 |
| ISS unutilised subvention (note 2.3) | (8,332) |
| Balance at 31 December 2009 | 468,156 |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

| Notes | 2010 EUR | 2009 EUR |
|--|--------------------|-------------|
| Operating activities | | |
| Surplus before taxation | 122,384 | 218,304 |
| Non-cash adjustment to reconcile surplus before tax to net cash flows: | | |
| Depreciation of property, plant and equipment | 281,425 | 272,456 |
| Transfers to government | 5,537,734 | 8,857,684 |
| Loss on disposal of property, plant and equipment | - | 896 |
| Finance income | (56,357) | (72,244) |
| Finance costs | 2,034 | 6,086 |
| Decrease in provision for doubtful debts | - | (5,947) |
| Working capital adjustments: | | |
| Decrease in trade and other receivables | 218,245 | 399,302 |
| (Decrease)/increase in trade and other payables | (470,435) | 745,667 |
| | 5,635,030 | 10,422,204 |
| Interest received | 54,622 | 73,421 |
| Interest paid | (2,034) | (6,086) |
| Income tax paid | (115,192) | (63,991) |
| Net cash flows from operating activities | 5,572,426 | 10,425,548 |
| Investing activities | | |
| Purchase of property, plant and equipment | (125,717) | (202,577) |
| Net cash flows used in investing activities | (125,717) | (202,577) |
| Financing activities | | |
| Funds paid to government | (3,833,480) | (9,451,142) |
| Payment of finance lease liability | - | (34,358) |
| Net cash flows used in financing activities | (3,833,480) | (9,485,500) |
| Net increase in cash and cash equivalents | 1,613,229 | 737,471 |
| Cash and cash equivalents at 1 January | 2,166,028 | 1,428,557 |
| Cash and cash equivalents at 31 December | 3,779,257 | 2,166,028 |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The MCA (the 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.

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements have been prepared under the historical cost convention and are presented in Euro. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with the provisions of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta. The accounting policies adopted are consistent with those applied during the previous years.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards, Revised and restructured, effective for annual periods beginning on or after 1 July 2009
- IFRS 1 – First-time Adoption of International Financial Reporting Standards, Amendments relating to oil and gas and determining whether arrangement contains a lease, effective for annual periods beginning on or after 1 January 2010
- IFRS 2 – Share-based payments, Amendments relating to group cash-settled share-based payment transactions, effective for annual periods beginning on or after 1 January 2010
- IFRS 3 – Business Combinations, Revised, effective for annual periods beginning on or after 1 July 2009
- IAS 27 – Consolidated and Separate Financial Statements, Amendments consequential to amendments to IFRS 3, effective for annual periods beginning on or after 1 July 2009
- IAS 28 – Investments in Associates, Amendments consequential to amendments to IFRS 3, effective for annual periods beginning on or after 1 July 2009
- IAS 31 – Interests in Joint Ventures, Amendments consequential to amendments to IFRS 3, effective for annual periods beginning on or after 1 July 2009
- IAS 39 – Financial Instruments: Recognition and Measurement, Amendments for eligible hedged items, effective for annual periods beginning on or after 1 July 2009
- IFRIC 17, Distribution of Non-cash assets to owners, effective for annual periods beginning on or after 1 July 2009
- Improvements to IFRS (issued by the IASB in April 2009)

NOTES TO THE FINANCIAL STATEMENTS – CONT.

None of these adopted standards or interpretations had any impact on the accounting policies, financial performance or performance of the company.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published and endorsed by the EU but are not yet effective for the current reporting period and which have not been adopted early. None of these standards, interpretations and amendments are expected to have an impact on the financial position or performance of the Company. These are as follows:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards, Limited Exemption from Comparative IFRS7 Disclosures for First time Adopters, effective for annual periods beginning on or after 1 July 2010
- IAS 24 – Related party disclosures amendments, effective for annual periods beginning on or after 1 January 2011
- IAS32 – Financial Instruments: Presentation, Amendments relating to classification of rights issues, effective for annual periods beginning on or after 1 February 2010
- IFRIC 14 – IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, Amendments with respect to voluntary prepaid contributions, effective for annual periods beginning on or after 1 January 2011
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010

STANDARDS, INTERPRETATIONS AND AMENDMENTS THAT ARE NOT YET ENDORSED BY THE EU

- IFRS 1 – First-time Adoption of International Financial Reporting Standards, Amendments – Severe Hyperinflation and Removal of fixed Dates for first-time Adopters, effective for annual periods beginning on or after 1 July 2011

- IFRS 7 – Financial Instruments: Disclosures, Amendment – Transfer of Financial Assets, effective for annual periods beginning on or after 1 July 2011
- IAS 12 – Income Taxes, Amendment – Tax Recovery of Underlying Assets, effective for annual periods beginning on or after 1 January 2012
- IFRS 9 – Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after 1 January 2013
- Third omnibus improvement to IFRS issued by IASB in May 2010 (various effective dates, earliest for financial years beginning on or after 1 January 2011).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 statement of comprehensive income over the year to which the licence relates. The unexpired portion of annual fees billed in advance is recognised as deferred income in the statement of financial position.

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.

Government subvention contributed to the Authority through a vote in parliament is accrued for in accordance with the Authority's approved budget for the year.

Interest income is recognised as the interest accrues using the effective interest method.

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 losses. 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 statement of comprehensive income 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 capitalised as an additional cost.

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 profit and loss 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

NOTES TO THE FINANCIAL STATEMENTS – CONT.

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.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities carried on the statement of financial position 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 SHORT-TERM DEPOSITS

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, 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.

ISS UNUTILISED SUBVENTION

Information Society Services (ISS) is financed via an annual Government Subvention which is used to finance all ISS related work-streams together with any required ISS related Capital Expenditure. The unutilised subvention relates to the resulting accounting surplus following the deduction of ISS related expenditure (including depreciation) from the subvention received. The accounting surplus differs from the actual ISS cash flow surplus as a result of the difference between ISS depreciation charge, the ISS Capital Expenditure incurred and tax effect thereon.

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 statement of financial position 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 statement of financial position 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 statement of comprehensive income 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.

FOREIGN CURRENCIES

The Authority's financial statements are presented in Euro, which is the Authority's functional and presentation currency. Transactions in foreign currencies have been converted into Euro at the rates of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Euro at the rates of exchange ruling at the statement of financial position date. All resulting differences are taken to the profit or loss.

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:

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

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

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Finance leases which substantially transfer all risks and benefits incidental to ownership of the leased items are capitalised at the inception of the lease at the fair value of the leased property. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the estimated useful life of the asset if there is reasonable certainty that the Authority will obtain ownership by the end of the lease term. Finance charges are recognized in the profit or loss.

RELATED PARTIES

The term 'related party' refers to other Government controlled entities.

NOTES TO THE FINANCIAL STATEMENTS – CONT.

3. REVENUES

The revenues generated by the Authority are made up of:

| | 2010 EUR | 2009 EUR |
|--|------------------|-------------|
| Telecommunications, postal licensing and right of way (note i, ii) | 765,859 | 736,401 |
| Administrative charges | 2,471,584 | 2,472,073 |
| Usage fees for scarce resources (note ii) | 5,347,342 | 8,738,771 |
| Application fees and other income | 69,761 | 9,088 |
| Government subvention (note iii) | 477,000 | 460,000 |
| | 9,131,546 | 12,416,333 |

- i. 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. Malta (note 9), except for an amount of EUR765,859 intended to finance expenses incurred by the Authority not in connection with electronic communications.
- ii. All revenue generated from telecommunications, postal licensing, and right of way income and usage fees for scarce resources is transferred to the Government of
- iii. The subvention received from government is used to finance ISS operations. This subvention is approved annually through a vote in parliament.

4. OTHER INCOME

Other income relate to fines imposed by the Authority in 2010, where such fines had amounted to EUR24,410 (2009: EUR99,587).

5. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

| The Authority | 2010 EUR | 2009 EUR |
|--|------------------|-------------|
| Members' emoluments | 120,718 | 121,730 |
| Wages and salaries | 1,725,630 | 1,544,598 |
| Social security costs | 97,367 | 91,894 |
| Authority's staff costs recharged to ISS operations (note i) | (53,714) | (67,176) |
| Authority's staff costs recharged to EU funded projects | (3,958) | - |
| Authority's staff costs reimbursed from other entities | (61,317) | - |
| | 1,824,724 | 1,691,046 |

- i. This amount relates to staff costs incurred by the Authority for ISS related activities. This is included in ISS Operating and administrative expenses in note 6.

Others:

| ISS | 2010 EUR | 2009 EUR |
|---|------------------|-------------|
| Wages and salaries | 165,218 | 139,957 |
| Social security costs | 12,096 | 10,676 |
| ISS staff costs recharged to EU funded projects | (24,726) | - |
| | 152,588 | 150,633 |
| EU funded projects | | |
| Staff costs recharged by the Authority | 3,958 | - |
| Staff costs recharged by ISS | 24,726 | - |
| | 28,684 | - |
| Total staff costs | 2,005,996 | 1,841,679 |

b. Staff numbers

The average number of persons, excluding board members, employed by the Authority during the year was 74 (2009: 70).

NOTES TO THE FINANCIAL STATEMENTS – CONT.

6. OPERATING AND ADMINISTRATIVE EXPENSES

| The revenues generated by the Authority are made up of: | 2010 EUR | 2009 EUR |
|--|------------------|------------------|
| The Authority | | |
| Outsourced project costs | 300,576 | 376,769 |
| Corporate administrative expenses | 479,889 | 444,951 |
| Public relations and communications | 66,953 | 55,886 |
| Travelling expenses | 111,000 | 98,077 |
| Decrease in provision for doubtful debts | - | (5,947) |
| Auditors' remuneration | 8,500 | 8,500 |
| Rental expenses | 70,192 | 68,882 |
| Loss on disposal of property, plant and equipment | - | 895 |
| Administrative Services rendered by Ministry for Infrastructure, Transport and Communications | 58,078 | 81,737 |
| Bad debts | - | 3,806 |
| | 1,095,188 | 1,133,556 |
| Others: | | |
| ISS | | |
| Public relations and communications | 118,311 | 102,166 |
| Travelling expenses | 2,846 | 1,190 |
| Audit fees | 1,200 | 1,200 |
| Professional fees | 29,685 | 36,749 |
| Gain/loss on exchange | - | 33 |
| Bank charges | 9 | 27 |
| Staff costs recharged by the Authority | 53,714 | 67,176 |
| Corporate administrative expenses | 55,085 | 43,757 |
| Rental expenses | 8,217 | 6,101 |
| Self financing portion of EU projects | 1,910 | - |
| | 270,977 | 258,399 |
| EU funded projects | | |
| Travelling expenses | 10,767 | - |
| Audit fees | 590 | - |
| Consultancy | 4,500 | - |
| Corporate administrative expenses | 3,102 | - |
| | 18,959 | - |
| Total operating and administrative expenses | 1,385,124 | 1,391,955 |

7. FINANCE INCOME

| | 2010 EUR | 2009 EUR |
|-----------------------------|---------------|---------------|
| On bank balances | 33,297 | 58,040 |
| On amounts due from debtors | 23,060 | 14,204 |
| | 56,357 | 72,244 |

8. FINANCE COSTS

| | 2010 EUR | 2009 EUR |
|-----------------------------------|--------------|--------------|
| On finance lease liability | | |
| - The Authority | 1,811 | 5,556 |
| - ISS | 223 | 530 |
| | 2,034 | 6,086 |

9. 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.

NOTES TO THE FINANCIAL STATEMENTS – CONT.

10.
TAXATION

| | 2010 EUR | 2009 EUR |
|-----------------------|---------------|---------------|
| Current tax | 55,414 | 73,129 |
| Deferred tax (note i) | - | - |
| | 55,414 | 73,129 |

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 asset should be accounted for. Keeping in view this fact, the potential deferred tax asset amounting to EUR23,615 (2009: EUR15,172) has not been accounted for in these financial statements.

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

| | 2010 EUR | 2009 EUR |
|--|---------------|---------------|
| Profit before transfers to Government and taxation | 5,537,734 | 9,075,988 |
| Theoretical taxation expense at 35% | 1,938,207 | 3,176,596 |
| Tax effect of | | |
| - non-deductible expenses | - | (2,081) |
| - income not subject to tax | (1,908,266) | (3,120,836) |
| - excess of depreciation over capital allowances | 25,931 | 19,913 |
| - income subject to different tax rates | (458) | (463) |
| | 55,414 | 73,129 |

11.
PROPERTY, PLANT AND EQUIPMENT

| | Building improvements EUR | Computer equipment EUR | Fixtures, fittings & equipment EUR | Motor vehicle EUR | Total EUR |
|----------------------------------|---------------------------------|------------------------------|---|-------------------------|------------------|
| Cost | | | | | |
| At 1 January 2009 | 288,163 | 661,215 | 322,189 | 86,509 | 1,358,076 |
| Additions | - | 178,565 | 24,012 | - | 202,577 |
| Disposals | - | (67,979) | (2,262) | - | (70,241) |
| At 31 December 2009 | 288,163 | 771,801 | 343,939 | 86,509 | 1,490,412 |
| Additions | - | 119,761 | 5,956 | - | 125,717 |
| Disposals | - | (8,713) | - | - | (8,713) |
| At 31 December 2010 | 288,163 | 882,849 | 349,895 | 86,509 | 1,607,416 |
| Depreciation | | | | | |
| At 1 January 2009 | 171,390 | 384,840 | 172,566 | 51,710 | 780,506 |
| Depreciation charge for the year | 57,633 | 155,755 | 47,212 | 11,856 | 272,456 |
| Disposals | - | (67,978) | (1,367) | - | (69,345) |
| At 31 December 2009 | 229,023 | 472,617 | 218,411 | 63,566 | 983,617 |
| Depreciation charge for the year | 57,633 | 165,182 | 46,754 | 11,856 | 281,425 |
| Disposals | - | (8,713) | - | - | (8,713) |
| At 31 December 2010 | 286,656 | 629,086 | 265,165 | 75,422 | 1,256,329 |
| Net book value | | | | | |
| At 31 December 2010 | 1,507 | 253,763 | 84,730 | 11,087 | 351,087 |
| At 31 December 2009 | 59,140 | 299,184 | 125,528 | 22,943 | 506,795 |

Included in the additions for the year is an amount of EUR15,567 in relation to ISS capital expenditure, which is financed through the Government subvention.

NOTES TO THE FINANCIAL STATEMENTS – CONT.

12. TRADE AND OTHER RECEIVABLES

| | 2010 EUR | 2009 EUR |
|----------------------------|------------------|-------------|
| Trade receivables (note i) | 1,696,330 | 1,948,254 |
| Accrued income | 41,069 | 15,093 |
| Prepayments | 131,324 | 86,945 |
| Other receivables | - | 34,941 |
| | 1,868,723 | 2,085,233 |

i. Trade receivables are non-interest bearing and are generally on a 30 day term.

| | Total EUR | Neither past due nor impaired EUR | Past due but not impaired | | | |
|------|--------------|--|---------------------------|-------------------|-------------------|-----------------|
| | | | < 30 days EUR | 30-60 days EUR | 60-90 days EUR | >90 days EUR |
| 2010 | 1,696,330 | 1,068,571 | - | 264,506 | 80,327 | 282,926 |
| 2009 | 1,948,254 | 479,254 | - | 1,189,779 | 962 | 278,259 |

13. RESERVE

The balance on the retained earnings in the statement of financial position as at 31 December 2010 represents the resulting accumulated surplus over the years.

14. TRADE AND OTHER PAYABLES

| | 2010 EUR | 2009 EUR |
|---|------------------|-------------|
| Amount due to Government | 1,609,714 | 95,818 |
| Deferred income (note i) | 3,267,895 | 3,213,471 |
| Accruals | 170,744 | 235,094 |
| Social security contributions and other taxes | 48,111 | 42,940 |
| Other payables (note ii) | 393,291 | 635,186 |
| Finance lease liability (note 17) | - | 5,727 |
| | 5,489,755 | 4,228,236 |

i. Deferred income comprises the unexpired portion of annual fees billed in advance together with the surplus of administrative charges, amounting to EUR785,964 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, as amended by Directive No. 1 of 2007, on modalities of payment for general authorisations and rights of use.

A non-monetary government grant, representing assets transferred to the Authority during 2005 by the Government of Malta, amounting to EUR3,969 (2009: EUR7,934) 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 2010, Legal Intercept funds amounted to EUR40,284 (2009: EUR420,599). These are non interest bearing and are paid to Malta Security Services upon presentation of the invoice.

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

iii. In 2011 the MCA will be deducting EUR252,500 from the amount due to Government as at 31 December 2010. This amount relates to the expenditure which will be incurred in relation to the Fibre-to-the-Home and the digital switchover projects, which will be carried out in 2011. The projected deductions are in line with the MCA's 2010-2013 approved strategic business plan.

NOTES TO THE FINANCIAL STATEMENTS – CONT.

15. RELATED PARTY DISCLOSURES

Transactions with key management personnel

During the year ended 31 December 2010, short term employee benefits to key management personnel amounted to EUR419,020 (2009: EUR434,713).

Other related party transactions

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

| | 2010 EUR | 2009 EUR |
|--------------------------------------|-------------|-------------|
| Government Subvention – ISS (note i) | 477,000 | 460,000 |
| Payments to Government of Malta | 3,833,480 | 9,451,142 |

(i) A total of EUR448,914 has been incurred during the year in relation to ISS operations. The remaining balance is shown in note 14 as amounts due to government.

Related party balances

Outstanding balances with related parties at 31 December 2010 are disclosed in note 14 on amount due to Government.

16. CASH AND SHORT-TERM DEPOSITS

| | 2010 EUR | 2009 EUR |
|--------------------------|------------------|------------------|
| Cash at bank and on hand | 1,231,019 | 1,004,867 |
| Short-term deposits | 2,548,238 | 1,161,161 |
| | 3,779,257 | 2,166,028 |

The Authority holds interest earning and non-interest earning bank current accounts. An average interest of 3.73% per annum is earned on the bank interest earning account.

17. COMMITMENTS

Capital commitments

| | 2010 EUR | 2009 EUR |
|---|-------------|-------------|
| Capital expenditure contracted but not provided for | 134,966 | 44,972 |

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 2010 are as follows:

| | 2010 EUR | 2009 EUR |
|---|-------------|-------------|
| Within one year | - | 24,506 |
| After one year but not more than five years | - | - |
| | - | 24,506 |

Finance lease commitment

The Authority had 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:

| | Minimum payments EUR | 2010 Present value of payments EUR | Minimum Payments EUR | 2009 Present value of payments EUR |
|---|----------------------------|---|----------------------------|---|
| Within one year | - | - | 6,809 | 5,727 |
| After one year but not more than 5 years | - | - | - | - |
| Total minimum lease payments | - | - | 6,809 | 5,727 |
| (Loss) amounts representing finance charges | - | - | (1,082) | - |
| Present value of minimum lease payments | - | - | 5,727 | 5,727 |

NOTES TO THE FINANCIAL STATEMENTS – CONT.

18. CONTINGENT LIABILITIES

LEGAL CLAIMS

The Authority presently has a pending court case filed by Melita 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 plc is contesting a fine imposed by the Authority, with regard to adverts carried out by Melita on its Sports Channel (EUR23,290).

19. 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 2010 and 31 December 2009 the carrying amounts of cash at bank, receivables, payables and accrued expenses approximated their fair values.

CAPITAL MANAGEMENT

The primary objective of the Authority's capital management is to ensure that it maintains adequate capital to support its operations. To maintain or adjust its capital structure, the Authority may adjust Government's Appropriations or its borrowings. There were no changes in the Authority's approach to capital management during the period.

20. COMPARATIVE INFORMATION

Where applicable, comparative information was adjusted to conform with the current period's presentation.

ANNUAL REPORT & FINANCIAL STATEMENTS 2010



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