



*Annual Report
of Financial Statements
2004*

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MISSION STATEMENT

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

CHAIRMAN'S MESSAGE

I would consider the year just completed a landmark one, in that the Malta Communications Authority (MCA) has now achieved a critical mass as an organisation. As with all new endeavours, it has taken a good deal of effort to get to this stage from its inception in 2001. We now have a full complement of staff that is well versed

Inqis l-għeluq ta' din is-sena ta' ħidma bhala waħda memorabbli, fejn l-Awtorita' ta' Malta dwar il-Komunikazzjoni (MCA) laħqet livelli ġodda bhala organizzazzjoni. Bħal ma hu l-każ għal kull entita' ġdida, kien hemm bżonn ta' sforz qawwi sabiex wasalna f'dan l-istadju mill-bidu ta' l-operat tagħna fl-2001. Illum l-Awtorita' hija mogħnija minn impjegati

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We can now boast
of communications
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This is what regulation
is all about.

in sector regulatory matters. They have earned their spurs, achieving a good deal of respect within their client base as well as in the context of the international regulatory networks in which we operate. This report is an attempt to capture the essence of the MCA's diverse activities and although these are impressive by any standards,

professjonali li huma esperti f'kull qasam regolatorju tas-settur. B'dedikazzjoni fil-ħidma tagħhom, irnexxilhom jiksbu r-rispett kemm tal-klijenti tagħhom, kif ukoll fil-qasam regolatorju internazzjonali li joperaw fih. L-għan ta' dan ir-rapport huwa li nwasslu l-qofol tal-firxa ta' l-attivitajiet ta' l-Awtorita', li għalkemm hija wiesa' hafna, dawn weħidhom ma

they do not on their own serve to convey readily the benefits of sector regulation and its context.

This latter is in my view of critical importance in the public's evaluation of the relative contribution of the Authority to national economic and social development. Regulatory bodies of MCA's ilk are a relative institutional innovation in our country and misconceptions prevail about precisely what they do. The MCA's role in bringing about, and most importantly sustaining competition, while at the same time creating an environment that is investment friendly is far from being universally understood.

There is no consistent view of the MCA, some see it as an extension of Government, others as a guardian of sector interests while a majority perception is that of consumer advocate. Each of these views is to an extent correct. The Authority is effectively all of these things and more; thus the very difficult role it performs in charting a course by way of decisions that it renders and rules and obligations it imposes, through what are frequently conflicting or competing interests. How do you make for competition, while at the same time encourage continuing investment by incumbent players? How do you make sure competition thrives and does not stutter and falter? How do you ensure more cost effective service provision? How do you enable new sector players to enter the fray with

jservux biex jispjegaw l-benefiċċji kollha tar-regolamentazzjoni f'dan is-settur.

Fil-fehma tiegħi, dan l-aħħar punt huwa importanti fil-mod kif il-pubbliku jħares lejn il-kontribuzzjoni li l-Awtorita` tagħti lejn l-iżvilupp ekonomiku u soċjali tal-pajjiż. Minhabba li l-istituzzjonijiet regolatorji bħal l-MCA huma relattivament godda għal pajjiżna, jeżistu fehmiert żbaljati dwar il-funzjoni tagħhom. Ir-rwol ta' l-MCA li tohloq filwaqt li ssostni l-kompetitivita, waqt li fl-istess hin tohloq ambjent attrajenti għal investment mhuwiex miftiehem minn kulhadd.

Hemm diversi perċezzjonijiet dwar l-MCA – hemm min iħares lejha bħala estenzjoni tal-Gvern, oħrajn bħala istituzzjoni li tieħu ħsieb l-interessi tas-settur filwaqt li l-maġġoranza jarawha bħala d-difensur tal-konsumatur. Dawn l-idejat sa ċertu punt huma kollha tajbin. Effettivament l-Awtorita` tieħu ħsieb dawn l-affarijiet kollha u aktar. Għalhekk għandha r-rwol diffiċli li thejji triq fuq id-deċizjonijiet li tieħu, u r-regoli u obligazzjonijiet li timponi. Dan kollu f'settur fejn ta'spiss jkun hemm interessi li huma konfligġenti. Kif tista' tkattar kompetizzjoni u fl-istess hin thegġeġ investment kontinwu mill-operaturi fis-suq? Kif tassigura li l-kompetizzjoni tkompli tissahħaħ u ma' tiddgħajjifx? Kif tassigura provizzjoni ta' servizz aktar effiċċjenti? Kif tgħin operaturi godda jidhlu fis-suq b'servizzi innovattivi? Kif tinkoraġġixxi l-użu ta' teknoloġiji godda? Kif tissimplifika u tnaqqas il-livell ta' burokrazija?

novel service offerings? How do you encourage new technologies to proliferate? How do you simplify and reduce the level of bureaucracy?

In giving an account of the MCA's activities, this report attempts to capture precisely how these questions are being tackled in sectors with an annual combined turnover exceeding Lm100 million. It is important that the cost of running the Authority is viewed in this context and its value to the nation assessed on the basis of substantive results it is able to produce. Viewed on a discrete basis, the activities described in this report may appear technical or at times obscure. When viewed as a coherent work programme however, these activities constitute a series of building blocks that have served to achieve and sustain competition. The result has been a host of services of a quality and at a price simply unimaginable just a few years back.

While access to mobile services is probably the best example of these regulatory developments, the level of Internet and broadband subscriptions is another remarkable development. Calling family and friends abroad is no longer the rare indulgence on very special or sad occasions thanks to affordable international tariffs we have seen of late. These developments in themselves have had an immeasurable impact on the quality of life of the average person. They have served to

Permezz tar-rendikont ta' l-attivitajiet ta' l-MCA, dan ir-rapport qed jipprova jindirizza kif dawn il-mistoqsijiet qed jiġu ttrattati f'settur bi dħul annwali ta' aktar minn Lm100 miljun. Huwa importanti li r-riżorsi meħtieġa biex topera l-Awtorita` jiġu mħarsa f'dan l-kuntest u li l-valur għan-nazzjon tal-kontribuzzjoni tagħha jiġi stmat skond ir-rizultati li kapaci tipproduċi. Meta tħares b'mod magħżul lejn l-attivitajiet spjegati f'dan ir-rapport, numru ta' attivitajiet jistgħu jidhru tekniċi jew f'xi mument, diffiċli biex jinftiehem. Madankollu, meta tħares lejhom bħala programm ta' xogħol koerenti, dawn l-attivitajiet jikkonsistu f'numru ta' elementi li servew biex il-kompetitivita tiġi milhuqa u sostenuta. Dan irriżulta f'numru ta' servizzi ta' kwalita għolja bi prezzijiet li sa f'tit snin ilu, hadd ma kien jobsorhom.

Filwaqt li ż-żieda fis-servizzi ċellulari x'aktarx hija l'ahjar eżempju ta' dawn l-iżviluppi regolatorji, avvanz iehor ta' ċertu mportanza huwa l-livell ta' l-użu ta' l-Internet u n-numru ta' abbonati għal servizzi tal-broadband. Minhabba roħs f'tariffi internazzjonali li rajna dan l-ahħar, illum il-gurnata m'għadux kapriċċ li iċċempel qraba u hbieb barra minn xtutna f'okkazzjonijiet speċjali jew ta' niket. Dawn l-iżviluppi fihom infushom kellhom impatt qawwi fuq il-kwalita` tal-hajja. Servew biex jinholqu mpjeggi godda. Qiegħdu wkoll lil Malta quddiem nett bħala destinazzjoni għall-kummerċ u wassluna verament biex naghmlu parti mill-villagġ globali. Illum il-gurnata, nistgħu nqisu li għandna servizzi ta

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create new jobs. They have also placed Malta in the vanguard as a business destination and made us truly form part of a global village. We can now boast of communications capabilities, which are second to none with price performance that is improving year on year. This is what regulation is all about.

Once again the work programme on the communications sector overshadows our equally committed endeavours in posts and e-commerce. The investment of effort is relative, bearing in mind that communications constitute the underpinning of our national development both social and economic. The report describes initiatives in train to ensure satisfactory postal performance.

Another factor that does not readily emerge from this report is the context in which we operate. Our rules of regulatory engagement emanate from the European Community but we now sit at the table where these rules are formulated. We now form part of the Independent Regulatory Group (IRG) and European Regulatory Group (ERG) and contribute to the extensive work programme of these entities. The implicit objectives of this work programme are the development of good regulatory practice and attainment of a harmonised pan European regulatory environment for the sector. MCA's website, provides details of our business plans and contains links to the IRG/ERG website.

kommunikazzjoni li jhabbtuha ma' dawk ta' l-izjed pajjizi zviluppati fejn il-prezzijiet jitjiebu minn sena għal sena. Dan huwa l-iskop tar-regolamentazzjoni.

Għal darb'ohra, l-programm ta' xogħol għas-settur tal-kommunikazzjoni jixhet dell fuq l-impenn tagħna fejn jidhlu l-posta u l-kummerċ elettroniku. L-investiment f'hidma f'dawn is-setturi huwa relattiv meta wieħed jikkonsidra li l-kommunikazzjoni hija l-pediment fl-izvilupp soċjali u ekonomiku tan-nazzjon. Ir-rapport jiddeskrivi inizzjattivi li għadhom għaddejnin biex jiġi assigurat servizz postali xieraq u sodisfaċenti.

Fattur ieħor li m'huwix evidenti mill-ewwel f'dan ir-rapport huwa l-kuntest li noperaw fih. Ir-regoli lokali jsegwu dawk tal-Komunita Ewropeja, iżda llum aħna wkoll niehdu sehem attiv fil-formulazzjoni ta' dawn l-istess regoli. Illum nagħmlu parti mill-Independent Regulatory Group (IRG) kif ukoll mill-European Regulatory Group (ERG) u nikkontribwixxu għall-programm estensiv ta' xogħol ta' dawn l-entitajiet. L-objettivi f'dan il-programm huma l-izvilupp ta' prattika regolatorja tajba kif ukoll l-armonizzazzjoni fl-ambjent regolatorju Ewropew f'dan is-settur. Is-sit ta' l-MCA tipprovdi dettalji tal-pjan ta' hidma tagħna kif ukoll links għal IRG u ERG.

Il-partecipazzjoni ta' l-impjegati tagħna fil-fora internazzjonali kkontribwixxiet b'mod sinifikanti għal izvilupp tagħna bħala individwi kif ukoll bħala entita korporattiva. Aħna qed nagħmlu l-aħjar

The participation of our staff in an international business milieu has contributed in a most significant way to our development as individuals and as a corporate entity. We have capitalised on the experience of counterpart organisations. The benefits of this are immeasurable and manifest themselves in the remarkable results we have been able to achieve since the Authority's inception a mere three years ago.

Two other landmark developments the year under review have been the integration of the Wireless Telegraphy Department into MCA and the implementation of a new European regulatory framework that came with Malta's EU membership. There has been a considerable amount of diligent advance planning leading up to these developments and it is a mark of the quality and commitment of MCA that the transition in both instances has been most satisfactory.

Looking back I am satisfied that the Authority has achieved its objectives for the year under review and provided value for money to its varied client base. I hope that as a reader of this report, you will come to the same conclusion.

My thanks go to the Authority's committed staff and its Board of Directors for the results achieved.

Yours,

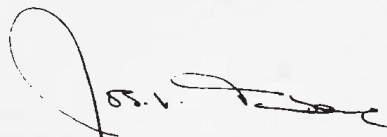
użu mill-esperjenza ta' organizzazzjonijiet oħrajn. Il-benefiċċji ta' dan kollu ma jistgħux jiġi mkejġla, iżda jidhru fir-risultati eċċellenti li rnexxielna niksbu minn meta twaqqfet din l-Awtorita` tlett snin ilu.

Żewġ żviluppi oħra importanti kienu l-integrazzjoni tad-Dipartiment tat-Telegrafija mingħajr Fili fl-MCA, kif ukoll l-implimentazzjoni tal-qafas regolatorju Ewropew ġdid wara li Malta saret membru ta' l-Unjoni Ewropeja. Sar hafna ppjanar bil-għaqal biex jintlaħqu dawn l-iżviluppi u huwa sinjal ta' kwalita` kif ukoll ta' l-impenn ta' l-MCA, li l-proċess fiż-żewġ każi kien sodisfaċenti hafna.

Meta nħares lura lejn ix-xogħol li sar din is-sena, jiena nħossni sodisfatt li l'Awtorita` rnexxielha tilhaq l-għanijiet tagħha u provdied ukoll valur tajjeb għal dak li jħallsu il-klijenti tagħha. Nispera li bhala qarrej ta' dan ir-rapport tasal għal l-istess konkluzjoni.

Nirringrazzja lil-impjegati dedikati ta' l-Awtorita` kif ukoll lill-Bord tad-Diretturi għar-risultat milhuq.

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Joseph V. Tabone
Chairman

BOARD MEMBERS



Joseph V. Tabone
Chairman



Carmel Grima
Member



Reuben Balzan
Member



Anthony P. Pavia
Member



Celia Falzon
Chief of External Relations & Board Secretary

MANAGEMENT COMMITTEE



Peter Gatt
Chief of Corporate Services



Paul E. Micallef
Chief Legal Officer



Patrick Vella
Chief of Policy & Planning



Joseph Cuschieri
Chief of Operations



Colin Camilleri
Chief Technical Officer



Anna Vella
PA to Chairman

Market Overview

This is the third publication of the Malta Communications Authority (MCA) Annual Report and Financial Statements. The report provides a review of developments in the various sectors that constitute the local communications sector for the period October 2003 to September 2004. It also presents an in-depth analysis of the role of the MCA in the sector and the main trends in terms of subscriber and revenue growth.

The year 2004 was characterised by Malta's accession to the European Union (EU) on the 1st of May. As a result, the MCA dedicated a significant amount of time, both prior and after this landmark date, to focus on the implementation of the new EU electronic communications regulatory framework and subsequent policies. This translated into an extremely active year for both the Authority and market players.

THE COMMUNICATIONS INDUSTRY IN THE MALTESE ECONOMY

The communications industry comprising of postal services, electronic communications and eCommerce, continued to contribute significantly to economic activity in Malta during the first nine months of the year under review. On average the value-added of the industry accounted for just over 3% of Gross Domestic Product (GDP) ⁽¹⁾ in the four years to 2003. Evidence from the first nine months of this year suggests that this rate should be sustained. Furthermore, between January and the end of September 2004, turnover stood at Lm81 million, 2.7% higher than in 2003.

During the same period, the profitability rate of the communications industry remained higher than that of the general economy. In fact, the gross operating rate ⁽²⁾ of the industry stood at 20.3%, 4.8 percentage points higher than the rate for the general economy. This reflects higher economies of scale brought about by the capital intensity characterising the electronic communications sector within the industry. In fact, if one had to consider the electronic communications sector on its own, profitability would increase to 21.2%.

(1) *Gross Domestic Product is defined as the aggregate value of all the goods and services produced by an economy.*

(2) *Gross operating rate is a measure of profitability and calculated as the ratio of gross operating profits to gross turnover.*

MOBILE TELEPHONY

The past year was characterised by continued upward growth in the mobile market. Subscriber growth in this market for the period under review was encouragingly steady, in spite of the fact that subscriber penetration was already extremely healthy the previous year. Local figures compare well with the rest of Europe with a promising penetration rate of approximately 73%.

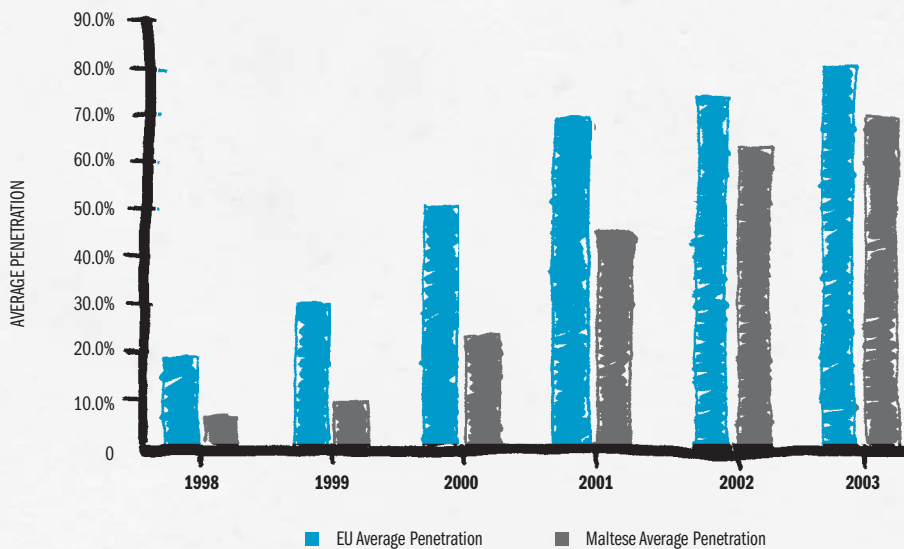
In terms of financial turnover, the increase was far more robust, growing by Lm5.9 million during the period July 2003 to June 2004 to reach Lm44.2 million - a staggering increase of 15.4%. Increases in the usage of mobile phones, as a result of new favourable price plans and the launch of innovative services for consumers, contributed to this dramatic increase in turnover. This augurs well for the future of the local mobile market.



Subscriber growth in the mobile telephony market
(Photo: Go Mobile)

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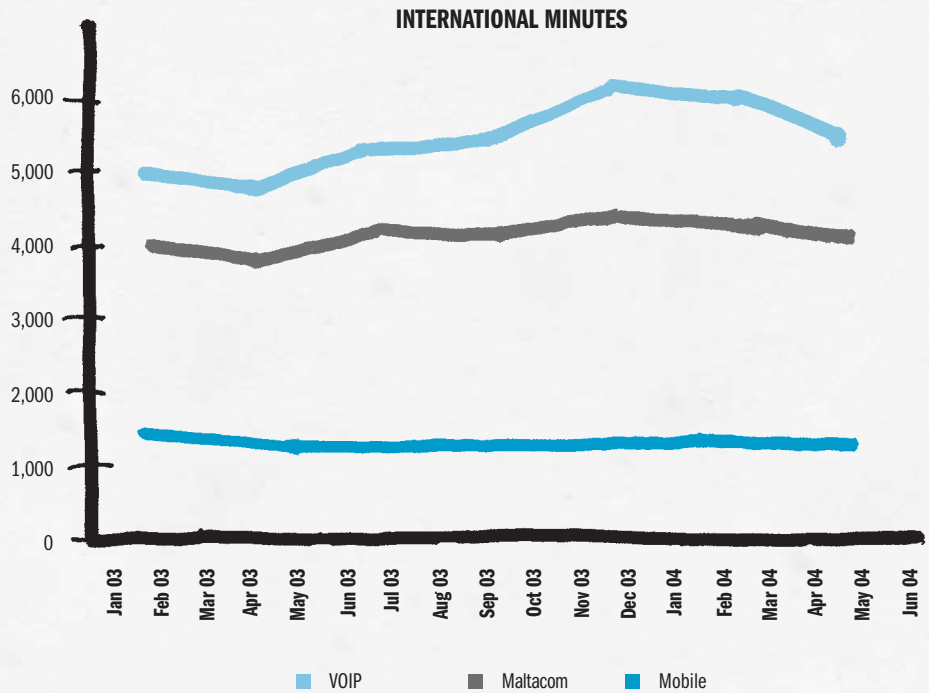
MOBILE AVERAGE PENETRATION



FIXED TELEPHONY

The period under review is characterised by a decline in the fixed telephony market, both in terms of subscriptions and traffic. Fixed line on-network minutes (excluding international minutes) experienced a drop of 23% for the period under review when compared to the previous year. However, promotional offers on international calls and subsequent reduction in international tariffs, as a result of tariff rebalancing exercise by Maltacom, the incumbent fixed telephony operator, continued to increase the volume of international traffic. This trend in international calls confirms the importance, if not the necessity, for individuals and businesses residing in Malta to communicate with friends, relatives and other businesses abroad.

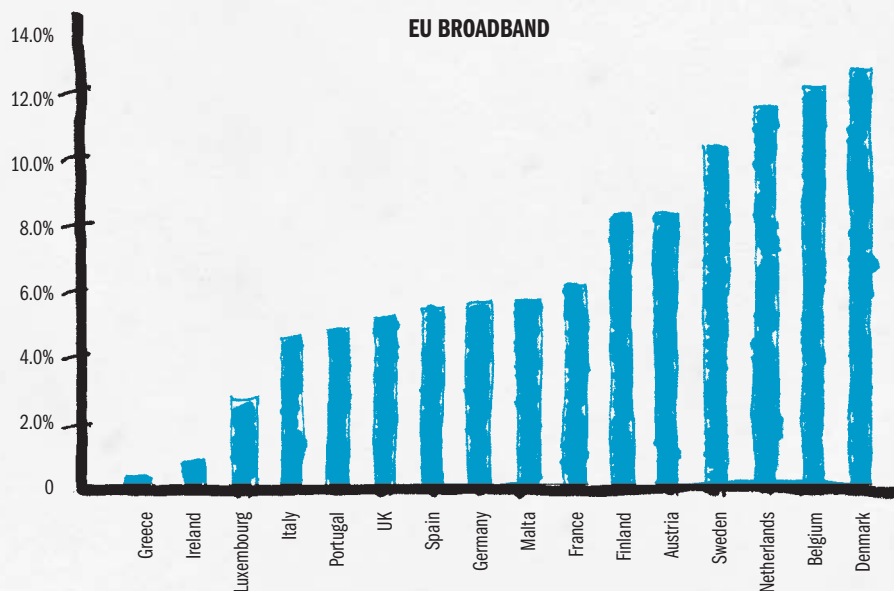
In fact, as from June this year, Maltacom reduced their international charges by an average of approximately 50%. Tariffs to the more frequent destinations such as United Kingdom, France, Italy and Germany were reduced even further.



INTERNET

Another very encouraging development of the electronic communications sector during 2004 was the Internet market – more specifically the take up of broadband services by both business and home users. The advantage of broadband is that it allows users to be online at all times and encourages increased use of the Internet. Both Government and service providers in this market have placed great emphasis on the importance of Information Technology (IT) literacy and Internet usage. The results of this consolidated effort are evident. The market has seen a surge in Internet subscribers, particularly broadband subscribers, with a level reaching over 31,000 connections at the end of September 2004. The past year has seen both Asymmetric Digital Subscriber Line (ADSL) and Cable Internet service providers aggressively targeting the market with a number of promotions and discounts, an approach that seems to be reaping dividends in terms of subscriber growth. Malta stands at just under the EU average for broadband penetration. However with the focus that is being placed on this service in particular, it is expected that this benchmark will soon be surpassed.

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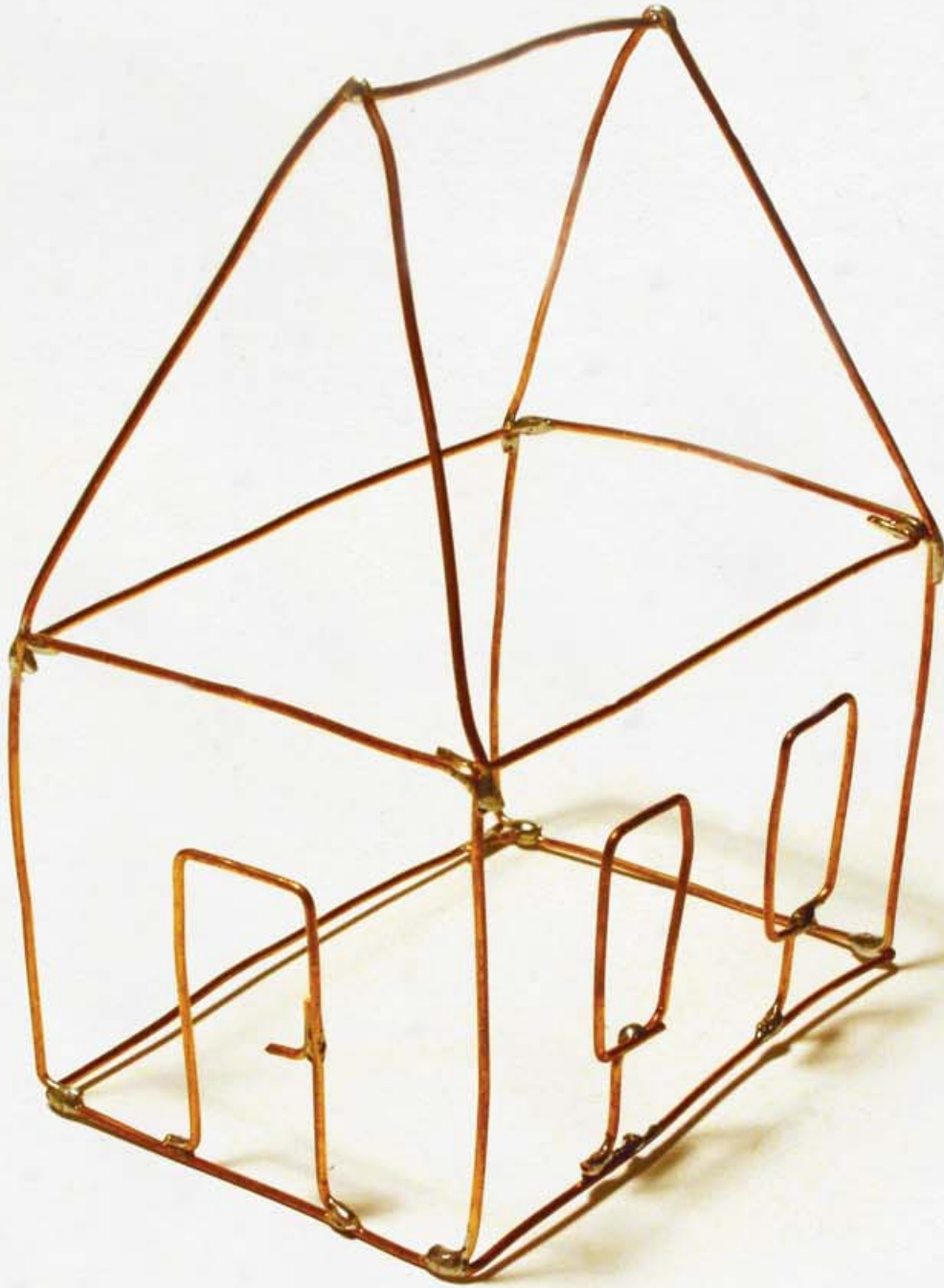


Furthermore, the past year has seen a significant change in the number of international calls due to the proliferation of Voice over Internet Protocol (VoIP). The low per minute tariffs offered by VoIP service providers resulted in a huge increase in international call minutes. This complimented the increase in fixed telephony minutes experienced by Maltacom.

The introduction of an additional international gateway by Vodafone will have a further positive impact on Internet users. This is because Internet Service Providers (ISPs) now have an alternative supplier for international bandwidth. The advent of competition has already translated into price drops in bandwidth rates for ISPs and an improvement in the level and quality of service offered to end-users. This second international link represents a very important strategic development for Malta, ensuring critical redundancy in global communications.

CABLE

Cable television subscriptions continued to grow and at September 2004 stood at 102,515. Premium subscribers amount to 21,240.



Regulatory
Framework

Regulatory Framework

UPDATING THE LEGISLATIVE FRAMEWORK REGULATING THE TELECOMMUNICATIONS SECTOR

Prior to September 2004, the Authority's responsibilities in the telecommunications sector were set out in the regulatory framework enacted in 1997. This framework had the objective of paving the way for the liberalisation of the telecommunications market. It was a landmark framework that created structural separation between service provision and regulation of the sector – a distinction previously not deemed essential. The framework established an authorisation regime for the sector and introduced the concept of Universal Service Obligations (USOs), to ensure that certain essential requirements continue to be met by commercial organisations operating in a competitive environment. It also empowered the Authority to impose certain obligations on operators having a dominant position in the market.

Sector dynamics, technology convergence and not least of all Malta's accession to the EU and the introduction of a new and broader regulatory framework encompassing the electronic communications sector, created the need for a re-modelled regulatory framework. An inter-ministerial task force appointed by the Ministry for Competitiveness and Communications, in which the MCA actively participated, concluded that a comprehensive review of the legal provisions applicable to the sector was inevitable if legal consistency and more importantly, clarity, were to be assured. The task force also recommended to the Minister a number of institutional changes that would need to take place in order to ensure the effective regulation of the sector.

As a result of these recommendations, in February 2004, the Ministry published a white paper proposing significant amendments to the Malta Communications Authority Act, Cap 418 and the Telecommunications (Regulation) Act, Cap 399. Following consultation and debate in parliament, amendments to the MCA Act, the Telecommunications (Regulation) Act - renamed the Electronic Communications (Regulation) Act and the Utilities and Services (Regulation of Certain Works) Act, were adopted and brought into force in September 2004.

Simultaneously, new subsidiary legislation regulating the electronic communications sector was also brought into force.

The key changes brought about relate to, among others:

- *the replacement of the individual licensing regime with general authorisations;*
- *the introduction of a new methodology for market definition and market analysis;*
- *the designation of Significant Market Power (SMP) and the imposition of obligations on undertakings found to have SMP;*
- *the management and allocation of radio frequencies in the electronic communications sector;*
- *the appellate mechanisms applicable in the communications sector;*
- *the obligations of the Authority vis-à-vis the National Regulatory Authorities (NRAs) in other member states; and*
- *the obligations of the Authority vis-à-vis the European Commission.*

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eCOMMERCE AND eSIGNATURES REGULATORY STRUCTURES

Electronic Commerce (eCommerce) is the process of doing business over the Internet. It is often accomplished through the use of encryption and digital or electronic signatures.

The MCA is the designated competent authority responsible for the supervision of signature certification service providers established in Malta. Work is currently underway to establish the appropriate regulatory structures for the implementation of relevant legislation and the supervision of the respective service providers. This includes the establishment of appropriate notification schemes (for information society service providers and certification service providers), drafting of subsidiary legislation, establishment of the appropriate supervisory and investigation frameworks and related administrative capacities.

EU PROPOSALS AND CONSULTATIONS

The regulation of the electronic communications sector must be set within both the technical and regulatory contexts of international developments. Furthermore, as

Malta's NRA for the electronic communications sector, the MCA fully participates in a number of fora having executive and/or advisory powers established within the structures of the European Commission, as well as a number of bodies operating at a broader international level.

Bodies operating at a global level:

- *International Telecommunications Union (ITU)*
- *Universal Postal Union (UPU)*

Bodies operating at a pan European level:

- *European Conference of Postal and Telecommunications Administrations (CEPT)*
- *European Committee for Postal Regulation (CERP)*

Bodies operating within the European Union:

- *The Radio Spectrum Policy Group (RSPG)*
- *Radio Spectrum Committee (RSC)*
- *Communications Committee (COCOM)*
- *European Regulators Group (ERG)*
- *Independent Regulators Group (IRG)*

SETTING UP A MARKET REVIEW FUNCTION

An innovative aspect of the new electronic communications regulatory framework, is the adoption of competition policy tools that will allow much of the current sector-specific regulation to be replaced with general competition law. Key to this process is the requirement that NRAs like the MCA carry out market reviews aimed at verifying whether each market is effectively competitive or not. NRAs will be allowed to maintain ex-ante⁽³⁾ regulatory obligations, exclusively in those markets that are deemed not to be effectively competitive such as markets in which one or more operators are considered to have SMP. As such, the new regulatory framework considers the identification of one or more SMP operators sufficient for the imposition of ex-ante regulatory obligations, although these must be proportionate and justified.

In September 2004, the MCA published a document outlining the methodology for carrying out market reviews. The first market review is to start in the last quarter of 2004 and the entire exercise is planned to be completed by the end of 2005.

(3) *Ex-ante regulation refers to the imposition of sector-specific obligations on SMP operators in a relevant market in order to avoid the possibility of such operators engaging in anti-competitive behaviour.*

PUBLIC RIGHTS OF WAY

Access to public rights of way, such as conduits, corridors, trenches, tower sites, and other physical passageways that modern communications networks traverse, is critical for the deployment of modern electronic communications services. Government has a legitimate interest in regulating such use of public rights of way whilst ensuring fair compensation for that use. Therefore, appropriate rules and procedures need to be in place to reduce administrative burdens and ensure timely and appropriate actions vis-à-vis rights of way permission - thus removing obstacles that may impede the deployment of electronic communications technologies.

In July 2004, the MCA worked in conjunction with the Malta Transport Authority, as the competent Authority responsible for the management of the public rights of way, in the articulation of the concept as well as the implications involved in implementation. The MCA input was given by means of a document aimed at identifying the different costs incurred by government in managing the public rights of way and modern approaches for their efficient and effective management.

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REVIEW OF SUBSIDIARY LEGISLATION

POSTAL SERVICES ACT

During the period under review, the MCA carried out an analysis of the existing subsidiary legislation falling under the Postal Services Act. In September 2004, the review was completed and the MCA will be making recommendations to the Minister for Competitiveness and Communications regarding any amendments that may be required to align the subsidiary legislation with the Primary Act.

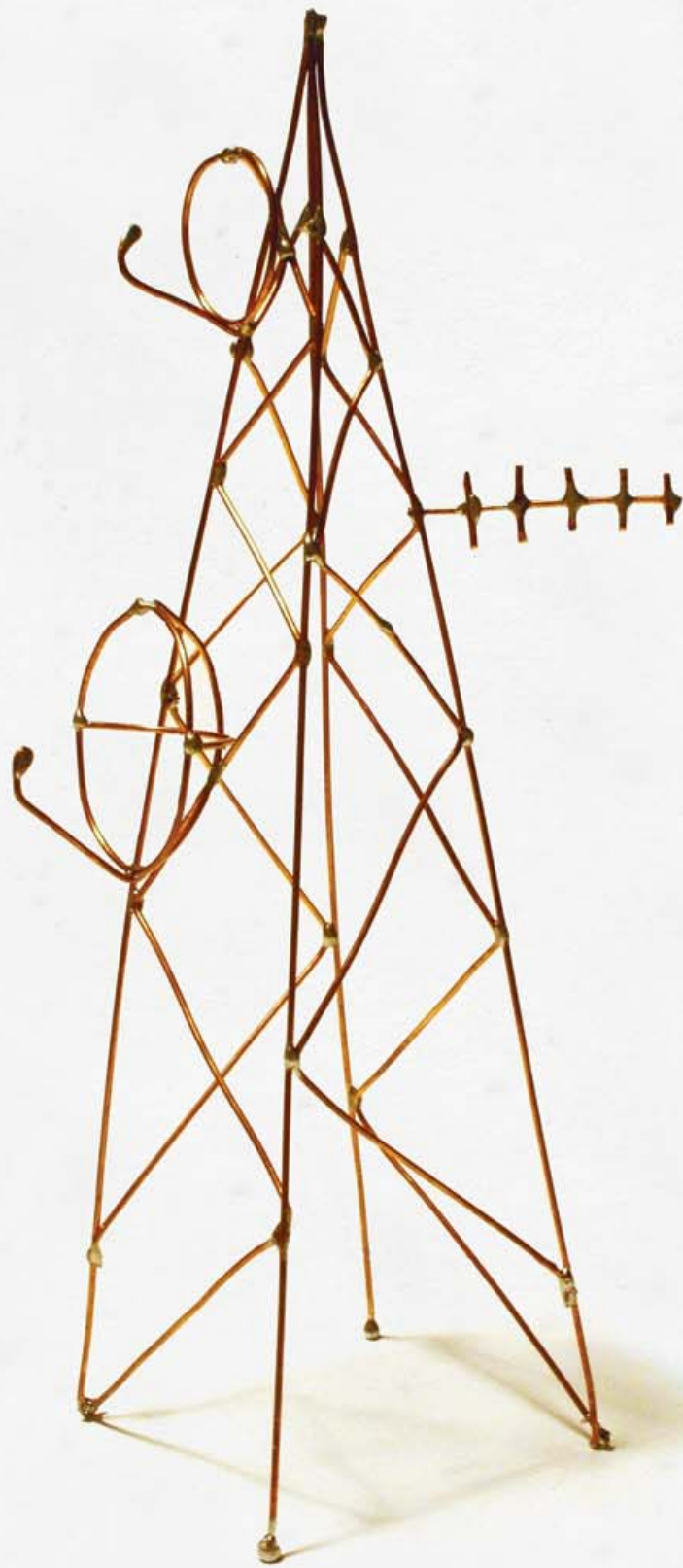
LICENSING FRAMEWORK

The new liberalised environment necessitates the setting up of an authorisation framework that clarifies the rights and obligations of the respective players in the postal services market. The authorisation framework consists of an individual licensing regime for operators, whose activities are deemed as falling within the scope of the universal service. Universal services are postal services or products which a consumer is entitled to, irrespective of locality. This means that regulations regarding

the universality of services are imposed on the incumbent operator. A separate general authorisation regime for postal operators operating outside the universal service area has also been set up. Typically, courier service operators would fall within such a market.

The MCA has been active in designing a more detailed framework to further define what is required at an operational level. Given that Maltapost's operations go beyond the universal service area, detailed discussions have taken place to identify: which products fall within the scope of the universal service and are therefore subject to price regulation; which products fall within the competitive area, therefore outside the bounds of postal regulation. The final list of universal services has been drafted and will be published in due course as an annex to the Maltapost licence.

In September 2004, the MCA completed a number of essential modifications to the Maltapost licence, reflecting the shift from a monopolistic to a liberalised environment, as well as the new regulatory obligations that result from the new regulatory framework. The MCA has submitted the proposed modified licence to the Minister for Competitiveness and Communications for his approval and subsequent issuance to Maltapost.



Electronic
Communications

Electronic Communications

The electronic communications market comprises all networks and services related to the transmission of voice and data. These include fixed telephony, mobile telephony, Internet services and broadcasting transmission services.

TARIFF REBALANCING

Tariff rebalancing consists of structured changes in the prices for fixed telephony services intended to reflect charges that are in line with the cost of service provision.

Considered as a fundamentally important service, fixed telephony consists of the provision of telephony services originating from landlines. These services include calls to both local and international destinations and related services. Maltacom is the incumbent operator in this market and, in spite of full market liberalisation in 2003, to date remains the only fixed line operator. In order to ensure the affordability of such services for local subscribers, as well as Maltacom's long term sustainability in this new competitive environment, a tariff rebalancing exercise was carried out. Being a key enabler of competition, the process of tariff rebalancing is fundamental in the liberalisation of the electronic communications industry.

Landline operators like Maltacom are obliged by law, both local and European, to rebalance their tariffs. Maltacom submitted an application to rebalance its tariffs in November 2003, and after much consultation and investigation, the MCA published its decision on 30 April 2004. In evaluating Maltacom's proposal, the MCA took into consideration the various representations made by stakeholders during the consultative process undertaken. The MCA's overall approach towards tariff rebalancing was to ensure that any increase in tariffs for local calls was premised on the cost for providing this basic service and compensated for by substantial reductions in the tariffs charged for international calls. Before taking a final decision, the MCA carried out a detailed analysis of the financial impact that the proposed tariffs would have on both residential and business subscribers. The result of the MCA's decision on the rebalancing of Maltacom's tariffs led to a substantial decrease in international call tariffs and a minimal increase in tariffs charged for local calls.

THE DEVELOPMENT OF A RETAIL PRICE INDEX FOR THE ELECTRONIC COMMUNICATIONS INDUSTRY

A retail price index is an index based on prices paid for a group of items used to measure changes in the cost of living.

During 2004 the MCA, together with the National Statistics Office (NSO), embarked on a project to develop a price index for electronic communications services. The price index reflects changes in prices for goods and services in a given market. Such an index has a variety of uses. Apart from permitting consumers to monitor the costs of electronic communications services and therefore be in a position to allocate their expenditure more effectively, potential entrants to the market can use this information for market research and feasibility studies. Such information will also be useful for macro-economic research, as electronic communications price movements are important indicators of the level of technological development in the economy. Furthermore, with this index, the MCA will be able to directly measure the impact of its regulatory decisions on the prices for electronic communications products and services.

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PRICE CONTROL STRATEGY

Underpinning the MCA's mandate are its objectives to achieve efficiency and affordability for the service providers and the consumers, coincident with competition in the market. This will lead to improved prices and customer choice. In January 2003, the MCA published a decision to introduce a price-cap regime, or price control strategy, for certain fixed telephony services. A price-cap regime is a price ceiling on a certain range of services, based on the general inflation levels. This will constrain service providers from increasing prices beyond a certain level, whilst acting as an efficiency driver for the dominant operator.

INTERCONNECTION

The linking of electronic communications networks so that subscribers of one operator can communicate with those of another.

In a document entitled: *Interconnection Strategy for the Electronic Communications Sector in Malta*, published in July 2004, the MCA provided an overview of proposed short and medium to long-term goals and objectives for interconnection services in Malta.

*In Malta, in a year
1.13 billion minutes
are spent on the
telephone, whether
land lines or mobile,
local or international
or on the Internet.*

*This translates into
18,866,866 hours per year,
a total of 786,111 days, that
is a total of approximately
2 days per annum spent
on the phone, per man,
woman and child.*

In recent years, average interconnection rates in EU member states have been experiencing a steady downward trajectory. The MCA aims to bring local interconnection rates more closely in line with those of the EU for both fixed and mobile telephony through various regulatory interventions, one of which is the building of a bottom-up cost model – a model that will calculate the interconnection costs of a network. It is expected that the calculation process of the interconnection rates for Maltacom's wholesale services will be completed in July 2005 following which, a consultation process with Maltacom will commence. Such regulatory initiatives are intended to achieve reasonable reductions to fixed and mobile interconnection rates.

NUMBER PORTABILITY

The ability to retain the existing telephone numbers when changing operator.

To date, subscribers wanting to change a service provider, would also have to change their telephone number, making such a move most inconvenient. This will no longer be the case in the near future. Number portability allows end-users to retain their telephone number when changing their network operator, for example from Vodafone to Go Mobile or vice versa, or when changing from one locality to another. In October 2003, the MCA issued a consultation paper on number portability. A steering committee comprising of members from the MCA and the telephony operators was created to facilitate the implementation process. In August 2004, the MCA, on behalf of this steering committee, issued a request for proposals for the services of an expert consultant to oversee and assist the group in identifying the most effective solutions for the earliest possible implementation.

CARRIER SELECTION / CARRIER PRE-SELECTION

Select your telephony operator

In the event that a second landline operator enters the local market, the MCA has provisioned for the availability of carrier selection and carrier pre-selection in Malta, in a decision published in May 2004. Carrier selection enables telephone subscribers to select an operator on a 'per call' basis. This is attained by dialling a pre-assigned four-digit prefix before dialling a standard telephone number. On the other hand, carrier pre-selection allows subscribers the choice of having their calls carried by a chosen operator by default, this time not requiring any prefix dialling. The MCA will

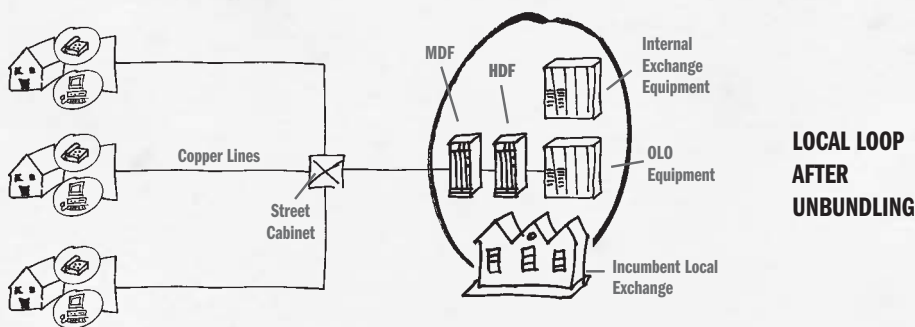
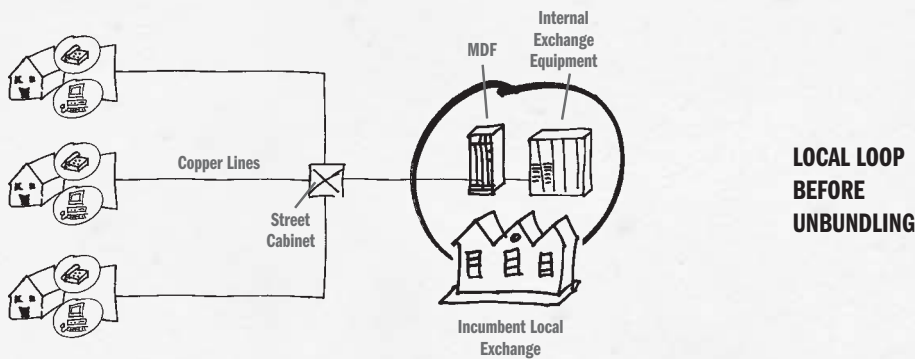
be considering the possibility of enabling carrier selection and carrier pre-selection services accessed through mobile telephony operators. This could take place subject to the result of a comprehensive market review to be carried out during 2005.

UNBUNDLING OF THE LOCAL LOOP

The "local loop" is essentially the physical twisted metallic pair circuit or network in the fixed public telephone network connecting the users' telephone to the main distribution frame or equivalent facility.

The MCA published Maltacom's Reference Unbundling Offer (RUO) for public consultation in September 2004. Unbundled access to the local loop, allows new entrants to the market to compete with existing operators in offering high bit-rate data transmission services for continuous Internet access and multimedia applications based on Digital Subscriber Line (DSL) technology as well as voice telephony services.

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Local Loop Unbundling (LLU) presents new entrants to the market with another way of delivering choice and new services to consumers without the need to implement a separate infrastructure. Looking at the experience in other jurisdictions, LLU can be particularly useful in the early stages of competition when new entrants have limited networks of their own. Although commercial negotiations are the preferred method for reaching agreement on technical and pricing issues for local loop access, experience has shown that, in most cases, regulatory intervention was necessary due to imbalances in negotiating power between the new entrant and the operator offering access to the local loop, compounded by a lack of other alternatives in the market. In this respect, the publication of a RUO is a critical regulatory requirement in ensuring transparent and non-discriminatory market conditions.

VOICE OVER INTERNET PROTOCOL

VoIP is a service which essentially enables voice conversations to be undertaken across data networks, such as the Internet, instead of traditional switched telephony systems, at substantial cost savings to users.

VoIP has become synonymous with the rapid change in the electronic communications sector. The VoIP user still uses the traditional telephone set to make the call however, the call is carried over the Internet rather than through traditional telephony systems. Consequently, this area of the market has seen unprecedented growth in this last year, with little signs of abating. In order to ensure the best possible acceptance and alignment of this new technology within the existing communications sector, the MCA published a consultative document entitled "*Voice over IP: Regulatory Principles for Innovative Services*" in July 2004. The aim of this document was to consult on issues such as providing VoIP access to those with disabilities, access to emergency services, cooperation with law enforcement agencies, consumer education and protection as well as a reform of inter-carrier connection regimes. The goal is to ensure that the right environment exists to encourage the adoption and transition of this new technology to enable the maximum beneficial economic effects. However, this has to be achieved in a manner that is equitable and that respects operators' investments and their right to make a suitable return on these.

3G MOBILE TELEPHONY

3G mobile networks are capable of transmitting both voice and data at higher transmission rates, thus allowing new and innovative services like video messaging and Internet browsing from new 3G mobile handsets.

The advent of mobile electronic communications has caused a profound change in the method and frequency of how people communicate. This demand for communication has led to the evolution of new standards in mobile communication networks, primarily 3rd Generation Mobile Telephony (3G). In June 2004, the MCA published a consultative paper titled "3rd Generation (3G) Mobile Telephony". It outlined proposals leading to the development of a supply-side regulatory framework that would support the successful deployment of next generation mobile telephony in Malta. This transition will allow the provision of new and enhanced mobile communication services, that will serve to strengthen the already well-developed local mobile telephony market.

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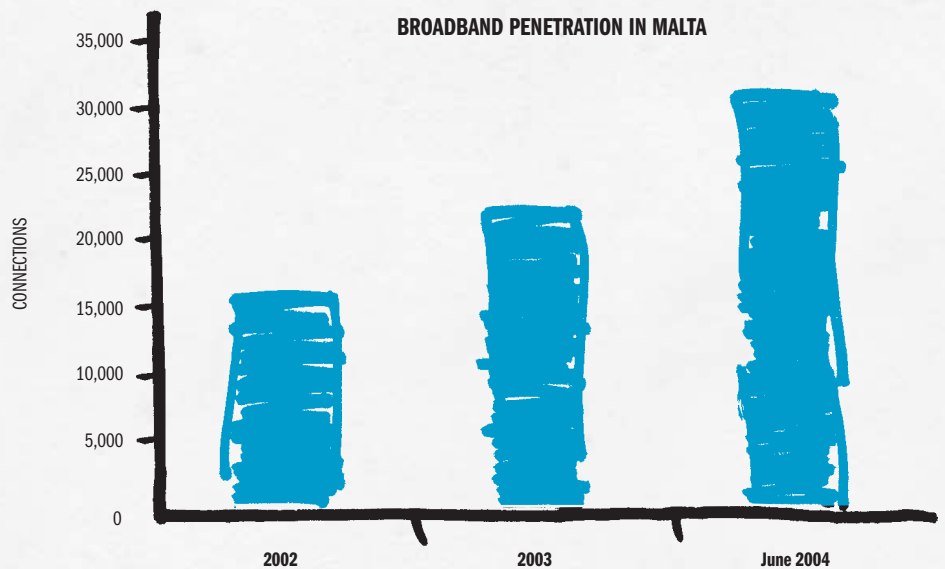
NATIONAL BROADBAND STRATEGY

Broadband-based technologies heralded the introduction of high speed, always on, Internet connectivity. They provided the corner stone for the development of an information-based society, which would underpin social and economic growth in future years. Consequently, the national broadband strategy, a co-development of the Ministry for Investment, Industry and Information Technology and the MCA, was released for consultation in April 2004. This document focused on a number of strategic objectives both from a content and infrastructure perspective, which sought to encourage the proliferation and increased usage of broadband services to bring about increased economic activity within the business sector and a better quality of life for users. In conjunction with the national broadband strategy, the MCA published an additional, specific supply side consultative document termed "Broadband Blueprint – Supply Side Initiatives" in May 2004. This document provided a more in-depth analysis of the differing infrastructure and technological options for broadband development and adoption, in the context of local market sustainability concepts. The successful attainment of the objectives laid out in both consultative documents will see Malta building ubiquitous, highly-available and cost-effective broadband infrastructures that will be used to deliver reliable, affordable, secure, enhanced and value-added services in the fields of education, health, business and government.

In Malta, 343 million SMSs, are sent per year, a staggering 870 per man, woman and child! There are 502 thousand telephone lines in Malta.

The average Maltese spends 2 days per annum on the phone. This is equivalent to going to London and back approximately 7 times and New York and back twice.

This will in turn amplify the economic, cultural and social benefits derived from broadband connectivity.



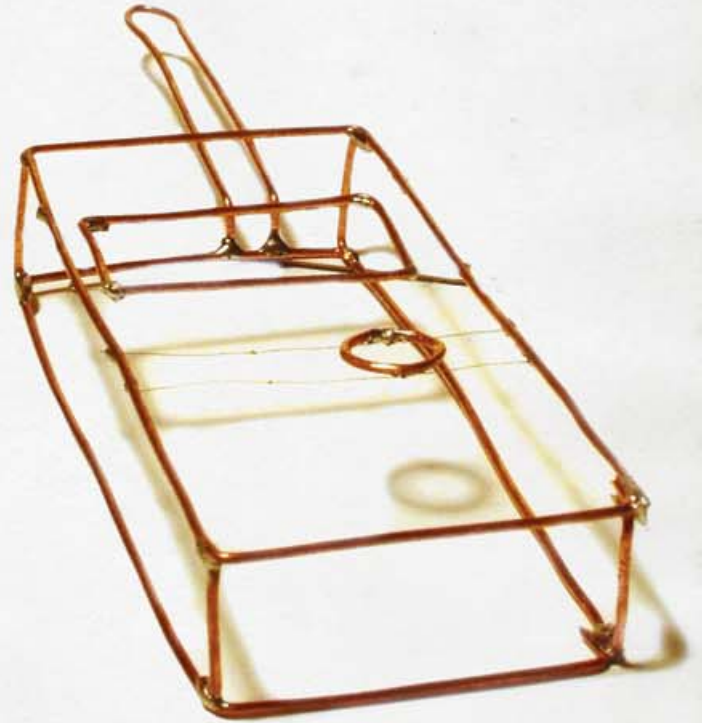
FIXED WIRELESS ACCESS

Use of wireless technology, replacing copper to connect subscribers to telephone networks and the Internet.

Fixed Wireless Access (FWA) provides an important alternative method of delivering broadband Internet and data services through radio waves instead of a physical cable. It can be used as an effective platform from which to either expand existing products and services or provide infrastructure in hitherto previously under-served areas. The FWA consultative paper published in June 2004, outlined a number of possibilities regarding the local introduction of FWA while providing an insight into the market itself. This consultative paper further augments and reinforces the National Broadband Strategy.

LITIGATION

The amount of litigation remained at par with that of the previous twelve months. Significantly various lawsuits were withdrawn following negotiations held between the parties involved. Six new appeals were filed with the Telecommunications Appeals Board against various decisions taken by the Authority. An application for the issue of a prohibitory injunction and a separate lawsuit were filed against the MCA within the First Hall.



Frequency
Spectrum
Management

Frequency Spectrum Management

Radio spectrum consists of the entire spectrum of Electro-Magnetic Frequencies (EMF) used for communications. It is essential for the provision of any mobile telephony service, radio broadcasting as well as terrestrial and satellite television. Radio spectrum is of considerable economic importance, both in terms of market values and employment. The functions relating to the allocation and management of radio frequencies, traditionally carried out by the Wireless Telegraphy Department (WTD) were migrated to the MCA as from July 2004.

IMPLEMENTATION OF AUTOMATED FREQUENCY MANAGEMENT SYSTEM

The liberalisation of all electronic communications networks and services resulted in a greater demand for radio spectrum resources, which without adequate tools cannot be managed efficiently and effectively. In this regard, a request under the EU pre-accession funding programme was made to purchase an automated spectrum management software tool that would assist the MCA in the coordination and allocation of frequencies, band planning and interference analysis. Funds were made available and in July 2004 the automated spectrum management system was installed.

Due to better planning in spectrum allocation, additional services can be introduced and consequently offered to the public, providing better choice and value for money for consumers and economic gain for operators.

GSM SPECTRUM ALLOCATION REVIEW

Mobile telephony operators in Malta, namely Vodafone and Go Mobile, are allocated spectrum within two separate GSM frequency bands, the 900 MHz band and the 1800 MHz band. As the number of mobile subscribers increases and new value added services are offered, more spectrum is required by these operators. Moreover, the

MCA is committed to ensuring that the services provided by the operators are of a good quality. It was therefore felt that a review of the current assignments should take place. This resulted in the assignment of more spectrum to both operators, in both portions of the GSM bands, allowing them to operate in dual mode. The allocation of additional spectrum will result in better network coverage, as well as more efficiencies. This review ensures that sufficient spectrum is reserved for a potential third operator.

DIGITAL TERRESTRIAL TELEVISION (DTTV)

For many years, television signals utilised the analogue form, sending out signals in the form of waves, indicating to the TV set which colours and sound to produce. These waves, however, were subject to interference and fading. Digital TV will reduce such problems by converting sound and pictures into a digital format. Additionally, it serves to expand the number of television channels we shall be able to receive. A consultation paper on digital broadcasting was published in July 2004 and applications to carry out field trials were submitted by Multiplus Ltd, Smash Communications Ltd and Maltacom plc. In this regard, temporary licences to carry out such trials were granted and frequency channels were assigned. DTTV broadcasting is already a reality in many countries around the world. Locally, the provision of DTTV is expected to provide a wider choice of channels, better quality and the facility for data transmissions and interactive services through television sets. DTTV transmissions are more cost effective than analogue transmissions and should therefore result in a reduction in the cost of existing network operations coupled with the opportunity to offer new programme channels and interactive services.

The objective of these trials is to analyse the performance of a DTTV network in Malta to enable the provision of such services in the near future.

TV CHANNEL COORDINATION WITH NEIGHBOURING COUNTRIES

The continued increase in demand for additional value added services puts a strain on available radio spectrum in Malta. A frequency coordination mechanism has been devised to maximise frequency re-use, while minimising operational interference between radiocommunication systems. According to international and regional treaties on radiocommunication services, a radiocommunication station must be successfully

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coordinated with neighbouring countries before commissioning. During the period under review, several requests from neighbouring countries were received to approve planned radiocommunication transmissions. The majority of these requests concern television broadcasting services. Several compatibility studies were carried out and subsequently, the results were communicated to these countries. Several requests for frequency coordination to approve new DTTV stations were made and resulted in an additional fifteen new broadcasting frequencies being allocated to Malta. A considerable amount of effort has been devoted in negotiations with neighbouring countries to ensure radio frequencies allocated to Malta are unencumbered.

SIMPLIFICATION OF LICENSING OF LOW POWER RADIO DEVICES

During the past year, the subsidiary legislation regulating the fees levied with regard to radiocommunication equipment was amended. Besides aligning Malta with other EU member states, this exercise exempted users of various low power radio devices from paying an annual licence fee. Such devices can vary from wireless alarms to remote controls. Consumers are now free to purchase these low power radio devices without the additional cost of a licence fee.

MARKET SURVEILLANCE

Market surveillance is a process of investigating and presenting abusive, manipulative or illegal practices in a given market.

As a result of the transposition of the EU directive on Radio and Telecommunications Terminal Equipment (R&TTE) market surveillance is used as a means to ensure adherence to this. A working group, comprising of representatives from various organisations was formed, to promote and implement an effective network and coordination of government entities involved in the many aspects of market surveillance. Over one hundred inspections have taken place and randomly chosen equipment was surveyed of which, 80% was radio equipment, such as mobile and cordless phones and wireless microphones and 20% were telecommunications terminal equipment for example, faxes, phones, and PABXs. Corrective measures were taken on the 5% of the tested equipment, which resulted to be non-compliant.

INTERFERENCE

Interference occurs when unauthorised radio frequency signals impair the reception of desired signals.

Such disturbances to our local radio and television reception originate from a range of sources. The most common problems are caused due to faulty TV mast-head amplifiers, more commonly known as boosters. Other problems are due to reception of unwanted signals that are emanating from foreign countries, mostly during hot weather which causes variations in the transmission conditions.

It is the Authority's responsibility to assist in keeping the radio frequency spectrum free from interference as much as possible. In this regard, the MCA is equipped with two monitoring stations, an interference source locator, a direction finder vehicle, and spectrum analysers, amongst others. Fifty cases of interference throughout the past year were corrected effectively. A substantial amount of time was spent monitoring the aeronautical band and the VHF-FM band with the aim of assisting the Malta Air-Traffic Services whilst identifying new 'clean' frequencies to be assigned for Community Radio services.

In the event that problems of interference originate from abroad, ITU reports are sent to respective foreign administrators indicating the corrective measures to be taken. Because of the rapid pace of development in the electronic communications sector, the Authority has been proactive in attaining the latest technological equipment required to monitor and correct interference to ensure compliance with spectrum management requirements for the benefit of all radio users.

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Postal
Services

Postal Services

Regulation of the postal sector seeks to ensure the gradual and controlled liberalisation of the postal market by allowing for the provision of services by multiple operators in the postal sector. Concurrently, regulation is essential to guarantee that the universal postal service which encompasses a minimum range of services of a specified quality, is provided in Malta at an affordable price for the benefit of all users, irrespective of their location in Malta. The aim of the universal services is to offer all users easy access to the postal network through the provision, in particular, of a sufficient number of access points and by ensuring satisfactory conditions with regard to the frequency of collections and deliveries.

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UNIVERSAL SERVICE PROVISION

An important element in the Postal Services Act is the concept of universal service provision in the postal services market. The MCA designated Maltapost as the Universal Service Provider (USP) in May 2004. This designation entails a number of obligations which Maltapost has to honour.

The minimum components of Universal Service Obligations (USOs) require Maltapost to ensure at least one delivery to each postal address or delivery point and one collection for each current access point every working day; oblige Maltapost to provide a service for registered and insured postal articles and provide for the collection and onward transmission of postal articles for destinations outside of Malta and the receipt and delivery of postal articles originating outside of Malta destined for local addresses. Maltapost



(Photo: Maltapost)

is also obliged to provide services for the blind or partially sighted persons.

Since Maltapost is designated as the USP, it is granted exclusive rights to provide certain services termed, 'reserved services', relating to the clearance, sorting, transport and delivery of articles of inland correspondence, cross-border and direct mail within specific weight and price limits. The reserved area, which serves to protect the USP from the potentially disruptive effects of open competition is being reduced over time and is planned to be removed by 2009. It is the MCA's obligation to ensure that Maltapost provides the universal services, whilst also ensuring that Maltapost's reserved area is not infringed.



(Photo: Maltapost)

QUALITY OF SERVICE REQUIREMENTS

The EU Postal Directive lays out the minimum Quality of Service (QoS) requirements that incumbent operators like Maltapost are obliged to meet. These requirements were amended and transposed in the Postal Services Act, following which, in September 2004, the MCA completed a discussion document on the minimum QoS requirements for Maltapost.

This document addresses the implementation of these QoS requirements and reflects the MCA's intentions on the way forward towards the establishment of QoS standards and the ongoing monitoring in relation to the transit times for the delivery of local and overseas mail. This document also addresses complaint management and compensation as well as reporting requirements. It is expected that discussions between the MCA and Maltapost will lead to the setting up of appropriate objective standards and processes by both parties, in line with their respective roles. Ultimately the outcome of such an exercise should manifest itself in the provision of a more efficient service to the public.

REGULATING TARIFFS

Tariffs of universal postal services are approved in the first instance by the regulator. Tariffs define the established price of the universal services based on the costs incurred in providing the service and the affordability of such services. When there is no or limited competition, tariff regulation is necessary. Such regulation aims to protect the consumers from excessive tariffs and also protects competitors that are active in the market. Tariff regulation therefore requires proper balancing of the objectives to be achieved. However, in the reserved areas, strict tariff regulation must go hand in hand with control of the quality of the services provided.

The MCA is legally bound to play an effective role in ensuring that tariffs for different services are fixed objectively and in accordance with sound principles which will sustain business and not subject consumers to any burdens or inconvenience. In this respect, the MCA worked with Maltapost to ensure that a detailed accounting framework for all the services (reserved, universal, unregulated) is put in place and that separate accounting for these different services is diligently observed. The implementation of separated accounts is one of the main elements of the regulatory framework for postal services. This will ensure transparent and non-discriminatory tariffs.

In May 2004, the MCA initiated discussions with Maltapost in relation to the implementation of accounting separation. By July 2004, the MCA had drawn up a discussion memorandum regarding the preparation of separated accounts and publication of financial information. This was designed to facilitate the discussions and promote feedback from the incumbent. It is anticipated that a decision on accounting separation and publication of financial information will be published towards the end of 2004.

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A postperson's walking
beat in Malta is
approximately 9.75 km.
There are 472 public
letterboxes in Malta
and Gozo.

On average, a postperson
effects the following
deliveries daily (Malta &
Gozo) - 642 standard-size
letters, 59 A4-size items,
6-5 bulky packets, 21
registered items.

Working for Consumers

MONITORING OF MOBILE PHONE BASE STATIONS

During the year under review, auditing of EMF emissions from mobile phone base stations continued. The positive results were very reassuring, where 88% of all readings were rated below 5% of the accepted level of emissions established by the International Commission on Non-Ionizing Radiation Protection (ICNIRP). People's attitudes towards mobile phone base stations is changing for the better and greater importance is now being given to tests for compliance with the ICNIRP guidelines. The MCA has received a number of complaints pointing to increased concerns of other possible sources of emissions. The MCA is extending the current monitoring of mobile phone base stations for a further three years and shall also cover other sources of EMF emissions, such as those from broadcasting sources.

INTERNET HEALTH MONITORING SYSTEM

The MCA commissioned the implementation of an Internet Health Monitoring System (IHMS) - a web server, accessible by the general public, which provides information regarding the status of Internet connectivity both domestically and overseas, in an easy to use and understandable manner. Found at www.nethealth.com.mt, the IHMS enables users to carry out Internet connection speed tests whilst providing the means for simple troubleshooting.

ISPs participating in the system have the facility of posting service announcements on the IHMS site, giving users advance notice of scheduled maintenance or current problems. A month after its launch, the IHMS had already been the host of 5679 speed tests, evidence to how vital such a mechanism is to Internet users. The implementation of the IHMS is a collaborative effort that is just one initiative to boost the quality of Internet services in Malta.

MCA ANNUAL CONFERENCE



MCA Chairman, Joseph V. Tabone addressing the conference

In May 2004, the MCA hosted its second annual international conference, this year focusing on 'Building the Information Society, Broadband, 3G Mobile and Digital TV'. The conference was aimed at outlining national policies and strategies relating to broadband based technologies, 3G mobile telephony and Digital TV in the context of Malta's newly acquired EU membership. It also served to provide a forum for discussion on the regulatory environment necessary to foster such

development, explain how networks of the future will function and describe how supply and demand side issues will be tackled. A number of respected foreign speakers, as well as several distinguished local speakers, all from leading electronic communications companies, presented their views on the subject. The high degree of interest in this conference was clearly indicated by the large number of registrations including attendees from all over Europe. The MCA will continue to strive to provide such opportunities for topical discussion both for the public and the operators.

MCA WEBSITE – FOCUSING ON THE CONSUMER

As a result of an increase in consumer complaints and requests for information, the MCA increased its support to the general public through establishing a one-stop-shop process for dealing with consumer complaints on matters relating to communications and related sectors. In April 2004, the MCA modified its site to provide a user-friendly customer complaints/enquiry system. A member of staff was assigned to handle customer complaints and enquiries and champion the importance of consumer awareness.

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Apart from consumer complaints, the MCA received various requests for information on marketing trends, statistics and other technical information from both local and foreign individuals and organisations. Furthermore, the MCA has acted as a mediator between consumers and service providers and strives to solve matters amicably in the fastest possible way. A total of 148 complaints and enquiries have been handled successfully since January 2004.

**MEETING THE SERVICE PROVIDERS'
CUSTOMER CARE PERSONNEL**

In order to enhance and facilitate communication between the MCA and the service providers, a number of meetings were held with the customer care staff of the main operators. The aim of the meetings was to acquaint MCA staff with the operators' customer care personnel and to establish the customer care policy and procedures in general. Consumers have since benefited from this approach as they now have set procedures that allow for the logging of complaints and enquiries as well as for appropriate follow-up. This has contributed towards a healthier relationship being established with the operators in dealing with customer complaints.

Inside MCA

RESPONSIBILITY FOR RADIO FREQUENCY MANAGEMENT

One of the main recommendations emanating from the cross-departmental task force established to review the implications of implementing the new EU directives on electronic communications, was that responsibility for radio frequency management should fall under the MCA. An operations review was subsequently commissioned to review the functions carried out by the WTD and to identify the specific functions and administrative resources that should be migrated to alternative entities. It was agreed that the statutory responsibility for radiocommunication functions, then performed by the WTD would be transferred to the MCA and that a portion of these functions be performed by other entities such as the Malta Maritime Authority (MMA).



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Consequently, on the 30 July 2004, a Notice was published in the Government Gazette outlining the administrative functions associated with the licensing or authorisation of all wireless telegraphy apparatus which require spectrum allocation as well as radio maritime equipment. The Government Notice established that these functions be migrated to the MCA with the objective of creating an effective and efficient one-stop-shop service. Whilst the MCA will now act with the assistance of the MMA in the issuance of the maritime radio communications licences, the Department of Corporate Services within the Ministry for Competitiveness and Communications

will be responsible for the issuance and management of licences for broadcast receiving apparatus.

Following the publication of the Government Notice in July 2004, the WTD ceased to exist with its staff being deployed to the MCA, MMA and the Ministry for Competitiveness and Communications. Twelve technical public officers were detailed to the MCA and an organisational development programme was carried out in order to re-engineer the business processes and to identify new positions for the functions of spectrum management and spectrum investigations. The Government Notice was followed by legislative provisions introduced in the Electronic Communications (Regulations) Act. The provisions deal with radio frequency management and give the MCA responsibility for the effective management of radio frequencies assigned to it under the National Frequency Plan.

TRAINING NEEDS ANALYSIS

The MCA embarked on a training needs analysis in 2004 to identify individual and group training needs that are required to effectively meet its overall business and strategic objectives. The training needs analysis, coupled with the growth of the MCA's human resource complement, led to the establishment of a training and development policy. Investment in training this year was also targeted towards the MCA's corporate functions, including human resource management, internal and external communications and customer care. The MCA also enhanced its in-house training capacity by providing staff with periodic workshops on various core business activities.

RECRUITMENT DRIVE

The past year has seen the strengthening of the MCA's core competency through an extensive capacity-building exercise. A number of professional positions including market, legal, regulatory and policy analysts were filled, resulting in the engagement of an additional 15 members of staff. Two additional technical specialist positions within spectrum management and spectrum investigations respectively were filled from amongst staff detailed to the MCA. The MCA has built up a team of professional and highly skilled staff and will concentrate on strengthening its support and administrative functions in the coming months.

FOUNDATION OF HUMAN RESOURCE DEVELOPMENT MEMBERSHIP

In April 2004, the MCA became a corporate member of the Foundation of Human Resource Development (FHRD). The FHRD commits itself to promote best practice in human resource management. The MCA has taken full advantage of its membership by attending a number of presentations and meetings aimed towards promoting best human resource management practices.

A MATRIX ORGANISATION STRUCTURE

The MCA has a matrix organisation structure consisting of six units – Corporate Services, External Relations, Legal, Operations, Policy and Planning and Technical/Spectrum Management, headed by the Chairman/Director General. The enhancement of team-building resulting from such a structure, allows for the management of cross-unit projects requiring different skills and competencies to be carried out effectively. The matrix structure also enables the MCA to adapt to change and maximise its expertise by shifting emphasis from a functional to a project-based approach.

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STRATEGIC INFORMATION MANAGEMENT

The MCA continued to enhance its leading IT environment by initiating the development of an Information Management Strategy in July 2004. This strategy aims to build on the MCA's current information management system of capturing, handling, distributing, storing and analysing data in a coherent manner with the aim of generating appropriate reports and processing information from production to storage, to retrieval and dissemination of information.

RELATIONSHIPS WITH OTHER NRAs

During the past year, three Regulatory and Policy Analysts as well as the MCA's Customer Relationship Officer were seconded to ComReg, the Commission for Communications Regulation in Ireland. Members of staff have worked interactively with ComReg over the past years.

BILATERAL AGREEMENT WITH THE ITALIAN NRA

A bilateral agreement between the MCA and its Italian counterpart, *l'Autorità per le Garanzie nelle Comunicazioni (AGCOM)* was signed late this year with the aim of promoting cooperation between the two entities in the field of electronic communications. The cooperation between MCA and AGCOM will be carried out through exchange of information, bilateral consultations, joint working groups as well as exchanges of staff. This bilateral agreement has continued to strengthen the already excellent relations with Italy's NRA and is expected to bring significant benefits through increased collaboration on matters of mutual interest.

MCA STRATEGIC PLANNING PROCESS

In order to effectively perform its regulatory responsibilities, the MCA needs to efficiently allocate its resources to the various activities it undertakes. At the heart of the MCA's resource allocation and management lies a sound strategic and business planning process, together with a performance management programme. The MCA adopts an output/outcome approach to its business planning cycle based on a five-year strategic plan, a three-year business plan and a corporate performance management process. These provide a framework within which the MCA can review, track and measure the results it achieves. During 2004, two workshop sessions were conducted to review its strategic and business objectives and to draw up its business and financial plan for 2005 – 2007.

ELECTRONIC COMMUNICATIONS REGULATORY FORUM

Since its establishment, the MCA has sought to foster effective working relationships with market players in the sectors that it regulates. In order to facilitate and encourage more informal interactions, debate and information sharing, in September 2004 the MCA established an Electronic Communications Regulatory Forum. This forum is expected to meet on a quarterly basis and should serve to provide a venue in which both the industry players and the MCA can bring forward and discuss matters of interest. The Forum should contribute towards a better understanding of developments in the industry and matters of concern to market players. It should also serve to ensure that the industry is appropriately informed of developments of a regulatory nature, both locally and within the international context.

Financial Statements

REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Authority submit their annual report together with the audited financial statements for the year ended 30 September 2004.

GENERAL

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

During the year, the total operating income received by the Authority amounted to Lm2,333,142. With the exception of administrative charges imposed by the Authority, which amounted to Lm61,113, all other operating income is being transferred to the Government. Contributions amounting to Lm433,160, receivable from the Government of Malta were allocated against expenditure which amounted to Lm558,821. This resulted in a deficit for the year net of taxation of Lm72,867. This deficit has been added to the accumulated deficit brought forward such that, at the end of the year, the deficit amounted to Lm119,355.

MEMBERS

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

Mr. J. V. Tabone (Chairman)
Dr. R. Balzan
Mr. C. Grima
Mr. A. P. Pavia
Mr. M. Portelli (resigned 31 May 2004)

AUDITORS

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

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



J. V. TABONE
Chairman



R. BALZAN
Member

REPORT OF THE AUDITORS

To the Members of the MCA

We have audited the financial statements of MCA for the year ended 30 September 2004 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes.

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

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

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as of 30 September 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Malta Communications Authority Act, 2000.



Ernst & Young

Certified Public Accountants

Regional Business Centre

Achille Ferris Street

Msida MSD 04

Malta

23 November 2004

INCOME AND EXPENDITURE ACCOUNT
for the year ended 30 September 2004

	Notes	2004 Lm	2003 Lm
Income			
Revenue	3	2,333,142	1,881,655
Government contributions		433,160	410,522
		<hr/> 2,766,302	<hr/> 2,292,177
Expenditure			
Staff costs	4	(310,717)	(208,814)
Depreciation		(31,207)	(28,209)
Operating and administrative expenses		(216,897)	(280,931)
		<hr/> 2,207,481	<hr/> 1,774,223
Operating surplus	5	2,207,481	1,774,223
Interest receivable	6	3,999	8,547
		<hr/> 2,211,480	<hr/> 1,782,770
Transfers to Government	7	(2,272,029)	(1,881,655)
		<hr/> (60,549)	<hr/> (98,885)
Deficit before taxation		(60,549)	(98,885)
Taxation	8	(12,318)	-
		<hr/> (72,867)	<hr/> (98,885)
Deficit for the financial year		(72,867)	(98,885)

The accounting policies and explanatory notes on pages 52 to 57 form an integral part of the financial statements.

BALANCE SHEET
for the year ended 30 September 2004

	Notes	2004 Lm	2003 Lm
ASSETS			
Fixed assets	9	46,041	49,136
Tangible assets			
Current assets			
Debtors	10	705,962	1,089,366
Cash at bank and in hand		106,769	100,180
		812,731	1,189,546
		858,772	1,238,682
Total assets			
EQUITY AND LIABILITIES			
Reserve			
Accumulated deficit	11	(119,355)	(46,488)
Creditors: Amounts falling due within one year			
Creditors	12	965,809	1,285,170
Current taxation		12,318	-
		978,127	1,285,170
Total equity and liabilities		858,772	1,238,682

The accounting policies and explanatory notes on pages 52 to 57 form an integral part of the financial statements.

The financial statements on pages 48 to 57 have been authorised for issue by the Members on 23 November 2004 and were signed on their behalf by:



J. V. TABONE
Chairman



R. BALZAN
Member

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2004

Accumulated deficit
Lm

FINANCIAL YEAR ENDED 30 SEPTEMBER 2004

Balance as at 31 October 2002	52,397
Deficit for the financial year	(98,885)
Balance at 30 September 2003	(46,488)

FINANCIAL YEAR ENDED 30 SEPTEMBER 2004

Balance as at 31 October 2003	(46,488)
Deficit for the financial year	(72,867)
Balance at 30 September 2004	(119,355)

The accounting policies and explanatory notes on pages 52 to 57 form an integral part of the financial statements.

CASH FLOW STATEMENT
for the year ended 30 September 2004

	2004	2003
	Lm	Lm
Cash flows from operating activities		
Deficit before taxation	(60,549)	(98,885)
Adjustments for:		
Depreciation of tangible fixed assets	31,207	28,209
Government contributions	(433,160)	(410,522)
Transfers to government	2,272,029	1,881,655
Interest receivable	(3,999)	(8,547)
Operating surplus before working capital changes	1,805,528	1,391,910
Decrease in debtors	418,780	467,767
Decrease in creditors	(122,015)	(37,620)
Cash generated from operations	2,102,293	1,822,057
Interest received	3,999	18,411
NET CASH FROM OPERATING ACTIVITIES	2,106,292	1,840,468
Cash flows from investing activities		
Purchase of tangible fixed assets	(28,112)	(5,868)
Cash flows from financing activities		
Government contributions	397,784	335,522
Funds paid to government	(2,469,375)	(2,569,239)
NET CASH USED IN FINANCING ACTIVITIES	(2,071,591)	(2,233,717)
Net movement in cash and cash equivalents	6,589	(399,117)
Cash and cash equivalents at beginning of year	100,180	499,297
Cash and cash equivalents at end of year	106,769	100,180

The accounting policies and explanatory notes on pages 52 to 57 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2004

1. SCOPE AND FUNCTIONS OF THE AUTHORITY

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

2. ACCOUNTING POLICIES

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

Accounting convention and basis of preparation

These financial statements have been prepared under the historical cost convention and are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Revenue recognition

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

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

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

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

Employee benefits

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

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write off the cost of the assets to their residual values over their estimated useful lives as follows.

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

Debtors

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

Cash and cash equivalents

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

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

Creditors

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2004

3. REVENUE

The revenue generated by the Authority is made up of:

	2004	2003
	Lm	Lm
Electronic Communications and postal licensing	2,197,395	1,881,655
Administrative charges	61,113	-
Usage fees for scarce resources	74,634	-
	2,333,142	1,881,655

4.

EMPLOYEE INFORMATION

a. **Staff costs**

The total employment costs were as follows:

	2004	2003
	Lm	Lm
Members' emoluments	27,955	28,366
Wages and salaries	265,384	169,270
Social security costs	17,378	11,178
	310,717	208,814

b. **Staff numbers**

The average number of persons, excluding board members, employed by the Authority during the year was 27 (2003 : 18).

5.

OPERATING SURPLUS

The operating surplus is stated after charging:

	2004	2003
	Lm	Lm
Auditors' remuneration	575	575
Depreciation	31,207	28,209

6. INTEREST RECEIVABLE

	2004	2003
	Lm	Lm
On bank balances	1,548	4,810
On amounts due from debtors	2,451	3,737
	3,999	8,547

7. TRANSFERS TO GOVERNMENT

These amounts represent the gross electronic communications and postal licensing 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.

8. TAXATION

	2004	2003
	Lm	Lm
Tax charge - current year	1,399	-
- prior year under provision	10,919	-
	12,318	-

In accordance with Article 4(1)(c) of the Malta Income Tax Act, the Authority is taxable on interest received.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2004

9. TANGIBLE FIXED ASSETS

	Building improvements Lm	Computer equipment Lm	Fixtures, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 30 September 2004					
Opening net book amount	1,151	17,491	21,642	8,852	49,136
Additions	-	26,604	1,508	-	28,112
Depreciation	(550)	(21,028)	(5,234)	(4,395)	(31,207)
Closing net book amount	601	23,067	17,916	4,457	46,041
At 30 September 2004					
Cost	2,751	88,868	37,069	21,973	150,661
Accumulated depreciation	(2,150)	(65,801)	(19,153)	(17,516)	(104,620)
Net book amount	601	23,067	17,916	4,457	46,041
At 30 September 2003					
Cost	2,751	62,264	35,561	21,973	122,549
Accumulated depreciation	(1,600)	(44,773)	(13,919)	(13,121)	(73,413)
Net book amount	1,151	17,491	21,642	8,852	49,136

10. DEBTORS

	2004 Lm	2003 Lm
Accrued income (note i)	390,313	990,876
Government contributions	110,375	75,000
Debtors	195,476	16,250
Prepayments	6,198	3,640
Other debtors	3,600	3,600
	705,962	1,089,366

- i. Accrued income comprises estimated net fees payable by electronic communications and postal operators.

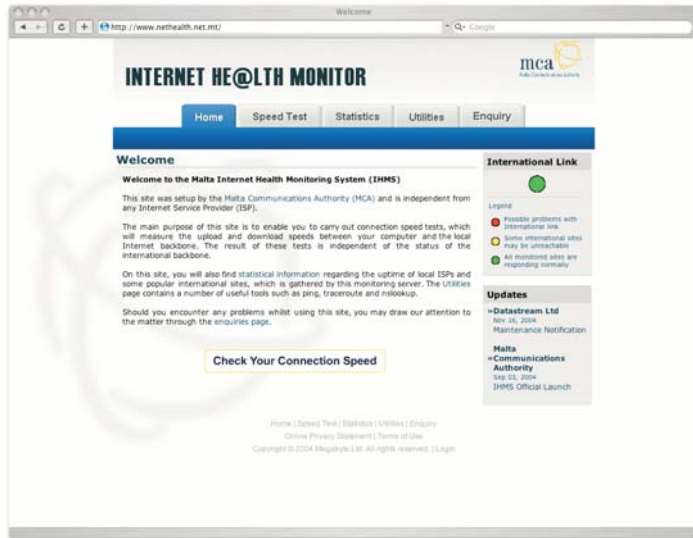
11. ACCUMULATED DEFICIT

The balance on the accumulated deficit account represents the shortfall between contributions advanced by Government and the Authority's expenditure in connection with the regulation of the communications industry. This deficit was carried forward year on year in agreement with the Ministry of Finance between the years 2001 and 2004.

12. CREDITORS

	2004	2003
	Lm	Lm
Falling due within one year		
Amount due to Government	922,367	562,547
Deferred income (note i)	-	697,254
Accruals	18,259	13,832
Social security contributions and other taxes	8,360	10,054
Other creditors	16,823	1,483
	965,809	1,285,170

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



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