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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

Once again I am pleased to be introducing you to our Annual Report and Financial Statements, which this year covers a fifteen month period as a result of the Authority's change in its financial year from one ending September 30th to a new year-end of 31st December.

Ghandi l-pjacir inkellimkom għal darb' oħra dwar ir-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji li din is-sena jkopru perjodu ta' ħmistax-il xahar. Dan jirrizulta minħabba bidla fis-sena finanzjarja minn waħda li tin-temm fit-30 ta' Settembru għal waħda li tin-temm fil-31 ta' Dicembru.

**The Authority prides itself in the foresight reflected in its planning endeavors. We derive our yearly operational plans from a strategic plan, which we have formulated; this is our road map. We up-date this and extend it every year.**



**Kunsiderazzjoni importanti għall-Awtorita' hi li fit-ffassil tal-hidma tagħha dejjem tfares il-quddiem. Il-hidma ta' kull sena tiffassal skond pjan strateġiku. Ta' kull sena, nagħornaw u nestendu dan il-pjan.**

This has been an extraordinarily challenging year for the Authority, largely due to a combination of factors. The start of the period under review coincided with the adoption and implementation of the relevant European Union (EU) regulatory framework, which the Authority had to take on board following Malta's EU accession. The new framework came into effect on 14th September 2004.

Minħabba diversi fatturi, din is-sena kienet waħda ta' sfidi kbar għall-Awtorita'. Il-bidu tal-perjodu in kwistjoni inzerta fl-stess żmien tal-addozzjoni w l-implementazzjoni tal-qafas regolatorju tal-Unjoni Ewropea (UE) li l-Awtorita' kellha taddotta bħala konsegwenza tad-dhul ta' Malta fl-UE. Dan il-qafas regolatorju ġdid daħal fis-sehh fl-14 ta' Settembru 2004.

This was also the period during which we had to quickly assimilate the functions and responsibilities previously the domain of the Wireless Telegraphy Department (WTD). Quite apart from the very significant re-structuring and re-engineering this entailed, it was also a race against time to frame a body of policies for a range of wireless technologies and their subsequent implementation. All this had to be done in the face of very serious capacity build-

Dan kien ukoll perjodu fejn kellna nas-sumu l-funzjonijiet u r-risponsabilitajiet tad-Dipartiment tat-Telegrafija mingħajr Fili fi żmien pjuttost qasir. Filwaqt li din il-hidma kienet tisser bdil strutturali sinifikanti, kellna wkoll ġirja kontra l-hin sabiex infasslu kemm il-politika dwar firxa wiesja ta' teknologiji mingħajr fili kif ukoll l-implementazzjoni tagħhom. Dan kollu kellu jitwettaq minkejja limitazzjonijiet serji ta' riżorsi umani kaġun ta' fatturi li fuqhom, l-Awtorita' ma kellhiex kontroll.

ing restrictions, which were outside the control of the Authority.

In the past year, national regulatory agencies have come under an increasing amount of flak from the media, business community and the public for their ineffectiveness, particularly when it comes to enforcement, the cost to the tax payer and seeming lack of co-operation between them. Although the MCA has to a large extent been spared this criticism, nevertheless in giving an outline of its activities, the report is effectively attempting to address these issues.

I feel that both this report and our website speak volumes about wide-ranging initiatives and, more appropriately, outcomes of these, which in the end serve the better interests of consumers. In the execution of our business programme, one readily sees the close collaboration with;

- the Broadcasting Authority in matters relating to electronic communications networks serving broadcasting interests,
- the Office for Fair Competition in various competition matters including market reviews,
- the Malta Environment and Planning Authority (MEPA) with regard to the roll out of new networks,
- the Malta Security Service in the procurement of a cost effective technology for legal interception,
- the Malta Financial Services Authority (MFSA) in the vetting of prospective sector investors,
- the Malta Maritime Authority (MMA) in streamlining maritime related radio licensing; and
- the Lotteries and Gaming Authority on electronic communications services which the gaming industry is totally reliant on.

This is indeed a very good model of horizontal co-operation, which we should all be striving to build upon and which consumers and the business community have a right to expect.

Tul is-sena li għaddiet, kien hemm xi awtoritajiet regolatorji nazzjonali li attiraw l-attenzjoni tal-media, tas-settur kummerċjali kif ukoll tal-pubbliku minhabba li mhux dejjem ġew meqjusa bhala effettivi biżżejjed (l-iktar fil-qasam tal-inforzar tal-liġi), li kienu ta' piż fuq min iħallas it-taxxa u tal-impresjoni li l-kooperazzjoni bejn dawn l-awtoritajiet kienet pjuttost dgħajfa. Għalkemm fil-konfront tal-MCA ma kienx hemm xi kritika qawwija f'dawn l-aspetti, dan ir-rapport jipprova jindirizzhom ukoll.

Inhoss li kemm dan ir-rapport, kif ukoll il-website tagħna, juru ampjament in-numru wiesa' ta' inizjattivi, u iktar sinifikanti, ir-rizultati tagħhom li fl-aħħar mill-aħħar swew sabiex iħarsu ahjar l-interessi tal-konsumaturi. Fit-tweġtieq tal-pjan ta' hidma tagħna, wiehed malajr jintebah bil-kollaborazzjoni qawwija ma';

- l-Awtorita tax-Xandir fl-oqsma tan-networks tal-komunikazzjoni elettronika li jaqdu l-htigijiet tax-xandir;
- l-Uffiċċju għal Kompetizzjoni Ġusta f'diversi aspetti marbuta mal-kompetizzjoni ekonomika b' emfasi fuq l-analiżi tas-swieq li tirregola l-Awtorita';
- l-MEPA fir-rigward tar-roll out ta' networks godda;
- s-Servizz tas-Sigurta dwar ix-xiri ta' apparat għall-intercettazzjoni legali;
- l-MFSA dwar l-iskrutinju ta' investituri prospettivi fis-settur;
- l-MMA dwar sistema ta' licenzjar aktar effiċjenti fir-rigward ta' sistemi li jintuzaw fuq il-baħar u
- l-Awtorita' dwar il-Lotteriji u l-Logħob fuq il-kwalita' tas-servizzi ta' komunikazzjoni elettronika li tant huma kruċjali f'din l-industrija.

Dan huwa ta' bilhaqq mudell siewi ta' kooperazzjoni li flimkien irridu naghmlu sforz biex inkomplu intejbu, għaliex fl-aħħar mill-aħħar kemm il-konsumatur, kif ukoll is-settur kummerċjali, għandhom id-dritt jistennew li x-xogħol isir b'dan il-mod.

One other dimension of the Authority's work which is not always well understood and which accounts for a proportionate amount of our human resource capacity, is the extent of our international collaboration. This is both by virtue of our mandate, as well as a reflection of the global milieu in which we operate. It is also an area where as a small nation, the economies of scale work against us – we have no choice but to be involved in these international activities, but at the same time, there are too many of these for us to cover adequately. I attribute this lack of understanding to occasional critical commentaries about the Authority's expenditure on travel and extent of travel time of some of its professional staff members. Such travel is not a capricious indulgence, but is part and parcel of the job we perform. We do not exist as a regulatory island but function in the reality of a broader context – European at one level, Commonwealth or Mediterranean at other levels and ultimately global.

Thus, in this report we touch on the Authority's involvement with the Independent Regulators Group (IRG), the European Regulators Group (ERG), the International Telecommunications Union (ITU) and its various fora – in particular the Regional Radiocommunications Conference, the European Network and Information Security Agency (ENISA), the EU High Level Internet Governance Group, the Government Advisory Committee to the Internet Corporation for Assigned Names and Numbers (ICANN), the Radio Spectrum Policy Group and Communications Committee, the European Conference of Postal and Telecommunications Administration, the Mediterranean Region Regulatory Group and the Commonwealth Secretariat. Several of these organizations operate to annual work programmes, which we help formulate and subsequently assign personnel to work on or lead individual sub-projects.

This participation is an integral part of our existence; quite apart from our very meaningful contribution to these activities, this has also been a major source of development for our staff. It forms part of our identity. Working shoulder

Aspett ieħor tal-hidma ta' l-Awtorita' li mhux dejjem jiġi apprezzat biżżejjed u li għalih niddedikaw parti sostanzjali mir-riżorsi umani tagħna, hu dak tal-qasam internazzjonali. Dan jirrizulta kemm il-mandat tagħna kif ukoll bhala riless ta' dak li qed jiġri barra minn Malta. Hawnhekk iċ-ċokon tagħna bhala pajjiż jahdem kontrina – għaliex waqt li ahna obbligati li nagħtu s-sehem tagħna f'dawn l-attivitajiet internazzjonali sabiex inħarsu l-interessi tal-operaturi u konsumaturi Maltin, hemm wisq minn dawn l-attivitajiet biex inkunu nistghu nagħtu s-sehem tagħna kif jixraq. Inqis li hemm dan in-nuqqas ta' apprezzament minhabba ċertu kummenti li jsiru kultant żmien dwar l-infiq u r-riżorsi umani li l-Awtorita' tiddedika għas-safar. Is-safar mhuwiex xi kapriċċ, imma hu parti ntegrali mill-hidma ta' l-Awtorita'. Ahna ma nezistux f'qafas regolatorju iżolat, imma irridu nagġixxu f'kuntast ta' realta ferm iktar wiesa' – dik Ewropeja fuq livell wiehed, dak tal-Commonwealth jew tal-Mediterran fuq livell ieħor, u fl-aħħarnett fuq livell globali.

Għalhekk, f'dan ir-rapport, nkopru s-sehem tal-Awtorita' f'l-Independent Regulators Group (IRG), l-European Regulators Group (ERG), l-International Telecommunications Union (ITU) u l-fora varji tagħha partikolarment ir-Regional Radiocommunications Conference, l-European Network and Information Security Agency (ENISA), l-EU High Level Internet Governance Group, l-Government Advisory Committee, l-Internet Corporation for Assigned Names and Numbers, ir-Radio Spectrum Policy Group, r-Radio Spectrum Committee u Communications Committee, il-European Conference of Postal and Telecommunications Administration (CEPT), il-Mediterranean Region Regulatory Group kif ukoll is-Segretarjat tal-Commonwealth.

Uhud minn dawn l-entitajiet jimxu fuq bażi ta' programm ta' hidma mifruq fuq sena. L' Awtorita' tikkontribwixxi fit-tfassil ta' dawn il-programmi u wara wkoll tinkariga uffiċjali tagħha biex jassistu jew imexxu xi proġetti individwali.

Din il-partecipazzjoni hi parti integrali tal-hidma tagħna; apparti l-kontribuzzjoni siewja tagħna f'dawn l-attivitajiet, din serviet

to shoulder with international counterparts has served to accelerate our sector know-how, enhance our communications capabilities and boost our self confidence immeasurably. More than anything, it has served to keep the sectors we regulate apace with those of other European member states and beyond. Some of the cost of this participation is covered by the EU Commission or relative statutory body, but most comes out of the Authority's budget which is in turn derived from the administrative fees levied on sectors regulated. In all this, we are selective about events or activities we take part in and frugal in our travel and accommodation.

The market reviews stipulated in the European regulatory framework represented one of our most resource intensive activities of the year with much progress achieved by the end of the period under review. This was a very good example of learning from those countries who embarked on these reviews ahead of us. It is from this collective experience that we were able to develop a coherent and effective methodology including project structure – we used proportionately less people and were amongst those leading the pack of new member states by way of progress and satisfactory outcomes, all down to the quality and dedication of our staff and multi-disciplinary dynamics of the project team.

The competitive processes leading to the issuance of licenses and assignment of radio spectrum for Third Generation Mobile Telephony, Digital Terrestrial Television and Broadband Wireless Access were major milestones of the year. In all, following three discrete competitive processes, the Authority issued seven licenses, which will translate into a corresponding seven new electronic communications infrastructures, which will be rolled out in the coming years. These developments represent investments of several million liri and more importantly additional broadband, mobile telephony and TV distribution choices for consumers.

The Authority prides itself in the foresight reflected in its planning endeavors. We derive our yearly operational plans from a

bhala mezz ewlieni fit-taħriġ ta' l-impjegati tagħna. Dan kollu jagħmel parti mill-identità tagħna. Il-hidma tagħna flimkien ma' aġenziji regolatorji internazzjonali oħra, serviet biex inkatru l-gharfien tagħna dwar isettur kif ukoll intejbu l-kapaċitajiet tagħna fil-qasam tal-komunikazzjoni bir-riżultat li židna l-kunfidenza tagħna. Fuq kollox, dan serva biex fis-setturi li nirregolaw inżommu l-pass ma' dak ta' stati membri Ewropej u oħrajn. Il-Kummissjoni Ewropea jew entitajiet oħrajn ikopru parti minn din l-ispiza, iżda l-parti l-kbira toħroġ mill-*budget* ta' l-Awtorita' li hi magħmula mill-ġbir tal-hlasijiet amministrattivi applikabbli għad-diversi setturi regolati mill-istess Awtorita'. F'dan ahna naġixxu bi prudenza fl-ghażla ta' l-attivitajiet li niehdu sehem fihom waqt li noqghodu attenti li ma nidhlu fi spejjeż żejda fl-ghażla tal-mezzi ta' invjaġġar w akkomodazzjoni.

Għadd sostanzjali ta' riżorsi ta' l-Awtorita' ġew ddedikati biex isiru il-*market reviews* kif inhu indikat fil-qafas regolatorju l-ġdid. Għal daqstant, f'din is-sena, sar hafna progress f'dan ir-rigward. Dan kien eżempju tajjeb ta' kif wiehed jitgħallem minn dawk il-pajjiżi li kienu diġa għamlu hidma simili. Hi minn esperjenza bħal din li ahna nistaw niżviluppaw strutturi u metodoloġiji effettivi. B'saħħa ta' dan, ahna użajna inqas riżorsi minn haddiehor u issa qeghdin minn ta' quddiem minn fost l-istati membri godda għal dak li hu progress u riżultati sodisfaċenti. Dan kollu hu frott tal-kwalita' u d-dedikazzjoni tal-impjegati tagħna u l-hidma effettiva tal-membri tal-proġett.

Il-proċessi kompettitivi jew komparattivi li wasslu għall-ħrug tal-liċenzji u l-ghoti tar-*radio spectrum* għat-Tielet Ġenerazzjoni tat-telefonija ċellulari magħruf bħala '3G', *Digital Terrestrial TV* u *Broadband Wireless Access* kienu oqsma ta' hidma oħra matul is-sena. B'kollox, wara li saru tlett proċessi ta' assenjazzjoni, l-Awtorita' harġet seba' liċenzji li fis-snin li ġejjin se jissarf u seba' infrastrutturi godda tal-komunikazzjoni elettronika. Dawn l-iżviluppi iffissru investimenti ta' diversi miljuni ta' liri w aktar importanti ta' iżjed kapaċita' ta' *broadband*, kif ukoll aktar għażla għall-konsumaturi f'dik li hi telefonija ċellulari u distribuzzjoni tat-televiżjoni.

strategic plan, which we have formulated; this is our road map. We update this and extend it every year. In this manner, we strive to shape sector developments rather than be forced to react or be overtaken by these to the extent possible. In the event of sector irregularities or disputes materialising, we try to be thorough in our investigations and speedy and clear in our decisions.

Unfortunately, the rewards for our swift and diligent interventions are frequently mounting challenges of these same decisions. Appeals emanating from these have been growing exponentially. This constitutes a vicious cycle of activity, which at the same time, increasingly serves to place the Authority's regulatory worth at the mercy of sector appeal boards and the judiciary. This is a disconcerting development for its manifold implications. It is no source of comfort that we are not alone in this. A large number of our international counterparts are in the same boat and at a loss as to how to deal with this phenomenon. I highlight this here, because although it is not a particularly positive development, it is nevertheless another essential preoccupation, requiring an increasing dedication of our resources.

It is widely acknowledged that this Authority has come a long way in its brief existence. Its value should be measured in the results and consequent respect it has been able to achieve. This is not something that just happened as a result of time or market forces, but is by dint of the excellent team of people that has been assembled, their professionalism, value system and commitment to the task. It is also a reflection of the wonderful direction and support of my fellow Board members. I am terribly proud of these achievements and confident of their enduring benefits, both economically and socially.

Kunsiderazzjoni importanti għall-Awtorita' hi li fit-tfassil tal-hidma tagħha dejjem thares il-quddiem. Il-hidma ta' kull sena titfassal skond pjan strateġiku. Ta' kull sena, naġġornaw u nestendu dan il-pjan. B'dan il-mod, naħdmu biex nassiguraw l-iżviluppi tas-settur minflok nirreġaxxu għal dak li jkun qed jiġri. F'każ ta' kwistjonijiet jew ksur ta' obbligi ahna nqisu kemm jista' jkun, li nħaffu l-proċess, niflu dettalji pertinenti u inkunu ċari f'dak li niddeciedu.

Sfortunatament, l-interventi għaqdin u mexxejja tagħna, qed jiġu ikkontestati dejjem aktar ta' spiss. Appelli mid-deċiżjonijiet ta' l-Awtorita' ždiedu b'mod sostanzjali. Dan qed jirriżulta f'ċirku vizjuż, fejn ir-riżorsi regolatorji ta' l-Awtorita' qed jintilfu fi proċeduri quddiem il-Bord ta' l-Appell u quddiem il-qrati. Dan hu żvilupp li iħassibna minhabba l-implikazzjoni tiegħu. Ma'ahnix wehidna f'din is-sitwazzjoni. Numru kbir ta' regolaturi barranin jinsabu fl-istess ilma u ma jafux kif jwieġbu għal dan il-fenomenu. Dan ma jfissirx li ahna nistgħu naċċettaw din is-sitwazzjoni. Qieghed insemmi dan, għaliex għalkemm mhuwiex xi żvilupp positiv, hu preokkupazzjoni ewlennija għall-Awtorita' li jirrikjedi parti sostanzjali tar-riżorsi tagħha.

Hu rikonoxxut minn hafna li l-Awtorita' žvilluppat bil-bosta tul iż-żmien qasir li ilha topera. Il-valur tagħha għandu jiġi imkejjejl fir-riżultati li kisbet u r-rispett li dan gab miegħu. Dan ma ġarax bħala riżultat taż-żmien jew tas-suq, imma ġara minhabba t-*team* eċċellenti ta' nies li hemm fi hdan l-Awtorita' u l-professjonalita' u dedikazzjoni tagħhom biex jitwettqu l-miri tal-Awtorita'. Dan hu anke riżultat ta' direzzjoni u għajuna għaqlija ta' shabi l-oħra fuq il-Bord. Jiena kburi ta' dak li irnaxxilna niksbu u kunfidenti li dawn ser ikunu ta' benefiċċju dejjiemi kemm ekonomikament kif ukoll soċjalment.

Joseph V. Tabone  
Chairman

## Board Members



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02



03



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01 Joseph V. Tabone  
CHAIRMAN  
02 Carmel Grima  
MEMBER  
03 Anthony P. Pavia  
MEMBER  
04 Reuben Balzan  
MEMBER  
05 Celia Falzon  
CHIEF OF EXTERNAL RELATIONS &  
BOARD SECRETARY

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

## Management Committee



01



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01 Peter Gatt  
CHIEF OF CORPORATE SERVICES

02 Paul E. Micallef  
CHIEF LEGAL OFFICER

03 Colin Camilleri  
CHIEF TECHNICAL OFFICER

04 Sonia Azzopardi  
A/PA TO CHAIRMAN

05 Simon Mizzi  
A/CHIEF OF OPERATIONS

06 Patrick Vella  
CHIEF OF POLICY & PLANNING



## Market Overview

The Authority's commitment towards the sustainability of a competitive market and the assignment of radio spectrum required to make way for new technologies and networks, underpinned the activities of the Malta Communications Authority (MCA) during 2005.

Access to mobile services, the increased take-up of broadband Internet, the rapid rise in the use of Voice over Internet Protocol (VoIP), the prospective introduction of Third Generation (3G) mobile technology and Broadband Wireless Access (BWA) networks and the assignment of two Digital Terrestrial Television (DTTV) licences are all examples of the developments in this sector which have rendered this year an extremely active one for both market players as well as the Authority.

Following amendments to the Malta Communications Authority Act, the Authority changed its fiscal year to end on the 31st December rather than 30th September. Thus this fourth publication of the MCA Annual Report and Financial Statements, covers activity for a period of fifteen (15) months. It gives an overview of the developments in the local communications sector encapsulating the period 1st October 2004 to 31st December 2005 providing an analysis of the role of the MCA and trends in terms of subscriber and revenue growth.

### Contribution of the communications industry to the Maltese economy

The communications industry comprises the provision of electronic communications, postal services and eCommerce. This industry has now established itself as a significant contributor to the Maltese economy. In fact, over the six years to 2005, the value added produced by the firms within this industry has remained stable at approximately 3% of Gross Domestic Product (GDP). The relative stability in this contribution rate suggests that the performance of this industry moves roughly in line with the cyclical movement of the general economy, particularly with domestic demand.

The contribution of the communications industry is not limited to the direct effects it has on GDP. Indeed, the industry is also an important producer of services that other firms consume in the day-to-day running of their business. Thus, the quality improvements in the communications services provided by this industry contribute directly to the efficiency of the rest of the firms in the economy. In fact, during 2005, 1.3% of the total expenditure on inputs by Maltese firms was spent on communications services.

In 2005, in line with the trend observed over the past three years, 26% of the electronic communications sector was consumed by other Maltese firms, further confirming the importance of this sector as a producer of inputs to the economy. This output in turn enhances the efficiency by which other industries conduct their day-to-day business, thus improving national competitiveness. This indirect benefit to the economy is very important although it cannot be tangibly quantified.

During the past three years, household spending on communications services has remained relatively stable demonstrating the central role that communications services play in household consumption patterns. During 2005, households' spending on communications products and services represented a significant 6.4% of total household expenditure. Notwithstanding this, the quality of services has increased and therefore consumers are getting better value for money when consuming such services.

Last year, the communications industry once again established itself as a leader in terms of productivity. On average, each employee in this industry produced almost double the output produced by employees in the rest of the economy. This positive result is a consequence of a capital-intensive industry and an environment conducive to investment. The difference in productivity is consequently reflected in higher average wages earned within the communications industry when compared to other sectors. Figures show that in 2005, the average wage in the communications industry was 32% higher than that earned in the Maltese economy in general. The positive performance of the industry is clearly resulting in superior employment conditions for its employees.

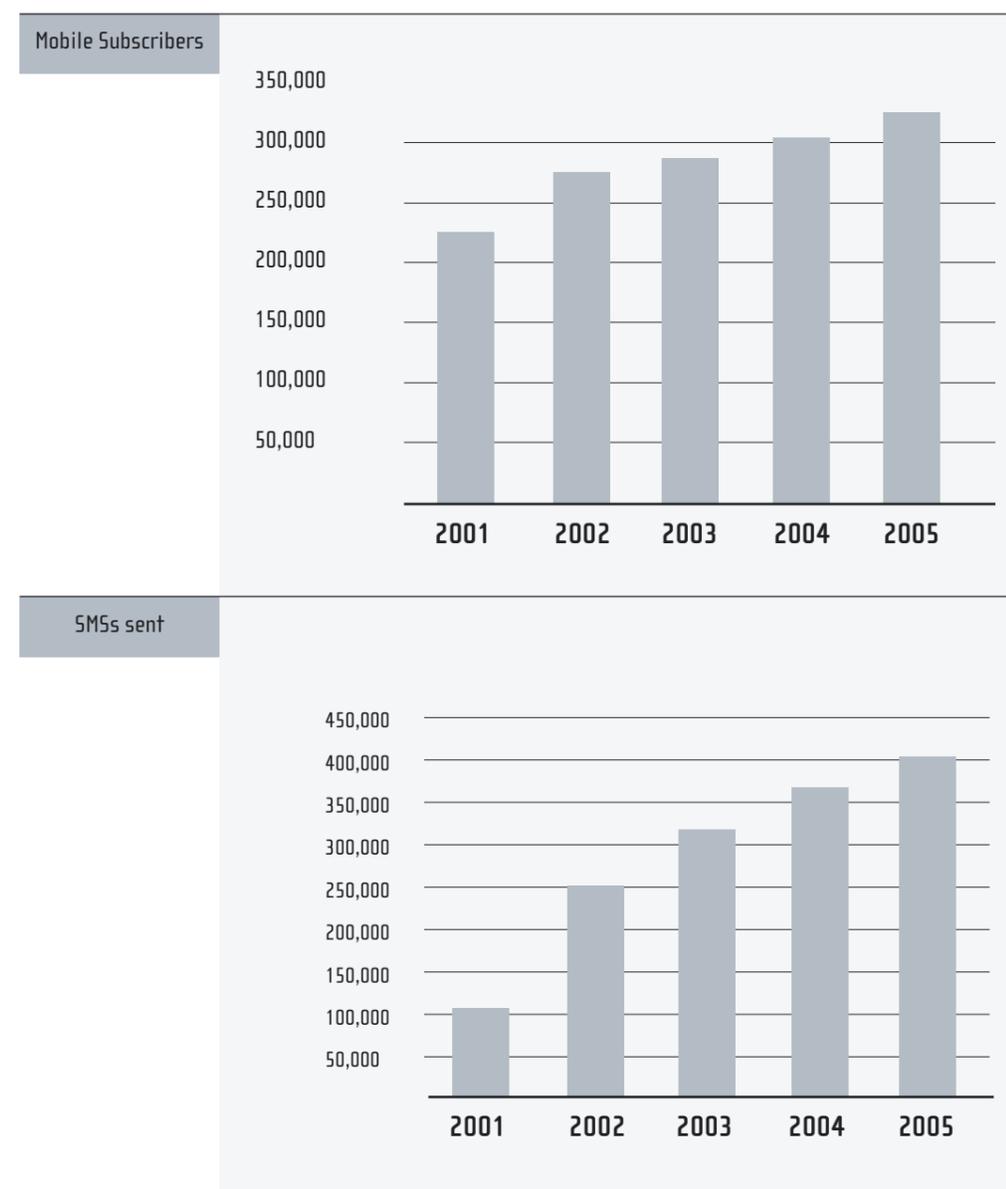
The steady growth and the positive trends that the communications industry has been recording over the past years are a clear indicator of a healthy industry. A major contributor to this success is the liberalisation process that brought about important changes in the sector. The positive performance of the sector is further reflected in innovative services and better value for money for the consumer, which is always at the heart of the industry and regulatory environment.

#### Fixed telephony

As in the previous year, 2005 has continued to show a downward trend in fixed line telephony. This business has been affected by a higher mobile substitution and the introduction of alternative services such as Voice over Internet Protocol (VoIP) and increased use of the Internet and e-mail. Despite this, fixed telephony remains the most highly used form of communication in terms of absolute volume of minutes consumed, reaching 797 million minutes during 2005. Total international outgoing minutes reached 51 million, mainly due to the proliferation of VoIP connectivity and the downward trend in international call tariffs. At the end of December 2005, fixed line subscribers amounted to 202,116, 18% of which were business subscribers. Penetration of fixed line telephony stood at 51 lines per 100 inhabitants.

#### Mobile telephony

The mobile telephony industry continued to experience an upward trend. The number of mobile subscribers reached 323,890 as at December 2005, reaching a penetration rate of just above 81%. This translates into an increase of 17,800 subscribers since December 2004. Mobile to mobile traffic also continued its upward trend increasing by 12% over the previous comparable year. The use of Short Message Service (SMS) has also continued its positive trend, with a total of 405 million messages sent during 2005, a record on a per capita basis throughout EU Member States.



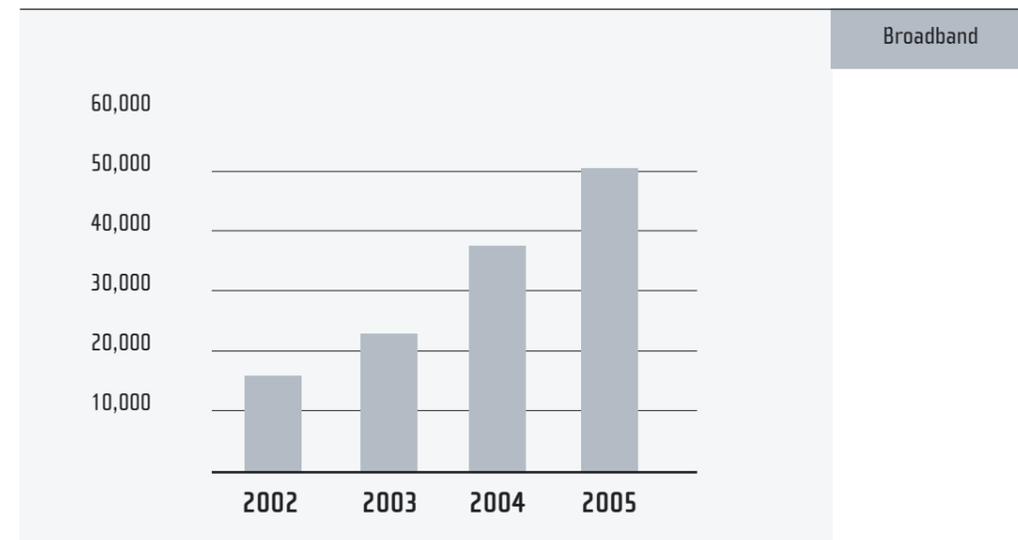
## Internet

At the end of December 2005, the total number of Internet subscriptions, both broadband and narrowband, amounted to 88,771. In 2005, a 45% decrease in dial-up Internet minutes was experienced. The major reason for this is a migration by users to broadband services which are increasingly becoming more cost effective.

Broadband connections exceeded 50,000 during 2005, representing a growth of 33% over 2004. Broadband growth is a primary Information Society objective and it is encouraging to note that Malta's rate of penetration is slightly higher than the average within the EU and significantly higher than that of the new EU entrants.

Furthermore, VoIP minutes in 2005 reached a staggering 38 million. In July 2005, Melita Cable, the incumbent operator in the cable television market entered the voice market with the launch of its 'Hello' service. Competition was further enhanced when Maltacom introduced a similar VoIP service – 'TEN21'.

In addition, Internet users are now experiencing the benefits resulting from the competition in the IP bandwidth market brought about since Vodafone launched its international gateway services.



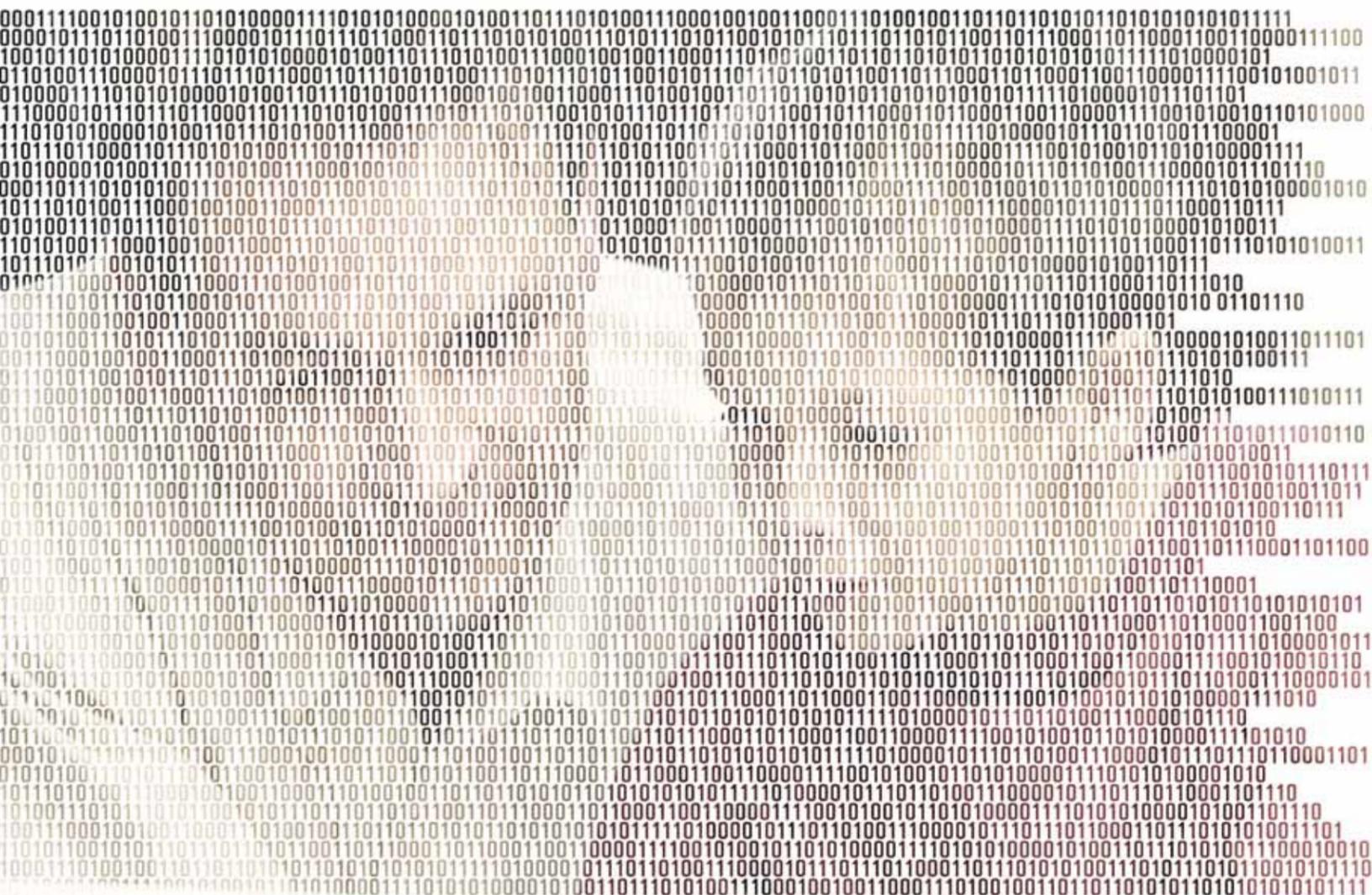
## Cable & digital terrestrial television

Melita Cable launched its digital television service in February 2005. At the end of September 2005, there were 99,917 cable television subscribers, both analogue and digital. 17,607 of those subscribers had a premium subscription.



At the end of September 2005, there were 99,917 cable television subscribers, both analogue and digital. 17,607 of those subscribers had a premium subscription.

When compared to September 2004, total Cable TV subscriptions decreased by 2.5%, whilst premium subscriptions decreased by 17%. This can be attributed to a new entrant in the market – Multiplus.



# Regulatory Framework

## Updating the legislative framework regulating electronic communications

A significant legislative intervention undertaken during the period under review was the reduction in the fixed element of the annual administrative charges paid by undertakings from a fee of Lm 20,000 to one of Lm5,000. This reduction relates to administrative charges paid for the provision of public communications networks, publicly available telephone services and television and radio distribution services. This change, which came about through an amendment to the Eleventh Schedule of the Electronic Communications Networks and Services (General) Regulations, 2004, should contribute towards a further reduction of potential barriers to new entrants in the industry.

## Legal developments in the postal sector

During the past year, the postal services sector witnessed substantial changes to its legal framework. Following a consultation process conducted by the Ministry for Competitiveness and Communications, regulations were issued modifying the licence of the incumbent undertaking (that is, Maltapost) to reflect the new rules applicable in the sector.

Subsequently, a complete overhaul of the several sets of existing postal regulations was implemented. Many of these regulations, which applied to a monopolistic environment were repealed and replaced by one coherent set of regulations designed to support the liberalisation of postal services in Malta. These changes were brought into force together with the amendments to the Postal Services Act of 2002 in October 2005. In essence, these regulations established:

- the conditions that must be satisfied for the collection and delivery of postal articles such as, prohibitions, packing and posting and irregular postal articles;
- the various provisions relating to the regulation of universal services;
- a comprehensive licensing and authorisation regime establishing the operating conditions of the different categories of postal services; and
- rules relating to fees to be paid on an annual basis to the Authority for authorisation to provide postal services.

## Developments in the regulatory framework for eCommerce

As from September 2005, the Authority assumed further responsibilities in the supervision of information society service providers. This resulted after the Ministry, in recognition of the developments in the eCommerce

sector since the adoption of the eCommerce Act in 2002, published draft regulations for consultation on aspects of eCommerce, not currently dealt with under the eCommerce Act. These draft regulations ensure full transposition of the EU Directives on eCommerce and eSignatures and ensure effective supervision of the provisions of the Act. They also propose the introduction of dispute resolution mechanisms applicable to eCommerce and cater for the implementation of the EU Injunctions Directive for the protection of the collective interests of consumers in so far as this relates to eCommerce. These regulations are currently under consultation at EU level. It is envisaged that they will be enacted in 2006.

#### Other legislative developments

As a result of the coming into force of the amendments to the Malta Communications Authority Act, specifically Part VIII establishing the Communications Appeals Board, the Minister for Competitiveness and Communications enacted the Communications Appeals Board (Procedure) Regulations setting out the rules of procedure to be followed in relation to lodged appeals. The Communications Appeals Board, which assumed the roles previously performed by the Telecommunications Appeals Board and the Postal Services Appeals Board, started to hear appeals lodged under the new legislation adopted in September 2004.

#### Market analyses

The new regulatory framework for electronic communications networks and services, brought into force in September 2004, transposes the current EU framework designed to create harmonised regulation across Europe and aims to reduce barriers to entry and foster effective competition for the benefit of consumers.

The new regulatory framework, requires National Regulatory Authorities (NRAs), to carry out market reviews of competition in eighteen specific communications markets. These reviews are required to ensure that regulation remains appropriate in the light of changing market conditions. Where effective competition is lacking, suitable remedies are imposed. The analyses is an important tool to identify remedies that could be applied to prevent players having significant market power from abusing such power to the detriment of other market players and consumers. The past year has seen a significant amount of resources dedicated to these market reviews with the Authority focusing its efforts on services provided over fixed line and mobile networks.

In July 2005, the MCA published its first market analysis report concerning the 'Wholesale voice call termination on individual mobile networks market'. In parallel with a national consultation, the MCA also carried out the notification process to the European Commission as required by law with the Authority eventually publishing a final decision in December 2005. Other reviews during the year included the wholesale fixed call origination, termination and transit services, access to the public telephone network at a fixed location and retail national calls provided at a fixed location. It is envisaged that reviews of all markets will be completed by the third quarter in 2006.

#### Licensing framework & review of spectrum licensing

In order to transpose and ensure the effective implementation of the 2002 EU framework for electronic communications, there were several amendments to Maltese legislation including that covering radio communications. Consistent with these changes, the MCA was assigned responsibility for the management of radio spectrum and concomitant responsibility for administering relevant licences for wireless technologies and equipment.

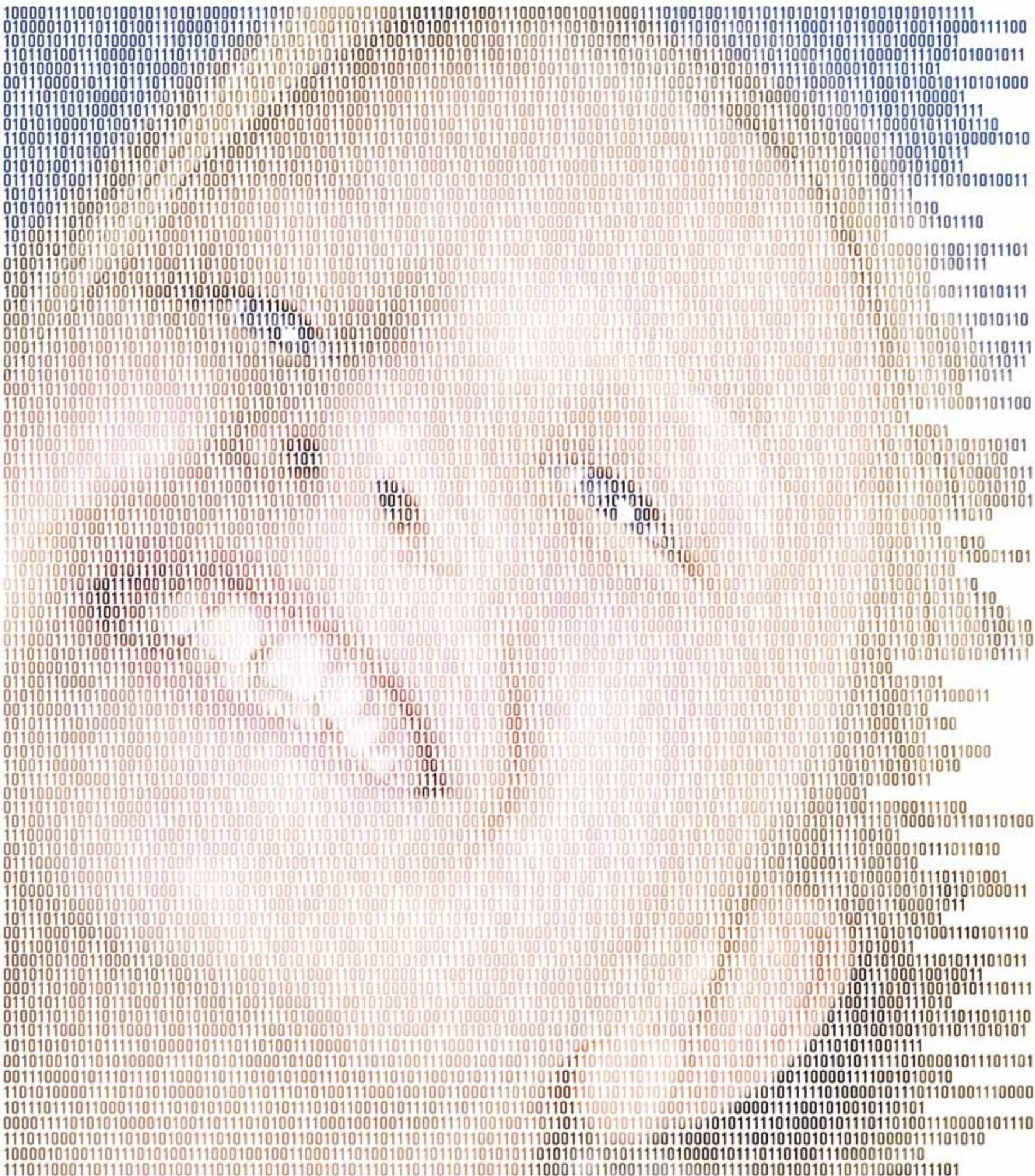
This development required the formulation of policies and strategies relating to these new technologies including 3G, BWA and DTTV followed by competitive processes leading to the assignment of radio spectrum and operating licences to successful applicants.

#### MCA participation in international fora

During 2005, the MCA's involvement in international fora intensified, largely the result of sector dynamics, but also due to the Authority's involvement in a range of European and global Internet Governance initiatives. These included the European Regulators Group (ERG), the Independent Regulatory Group (IRG), the Communications Committee, the Radio Spectrum Policy Group and the Radio Spectrum Committee, the International Telecommunications Union (ITU), the World Summit on Information Society (WSIS), the Government Advisory Committee (GAC) to the Internet Corporation for Assigned Names and Numbers (ICANN) as well as the European Network and Information Society Agency (ENISA), the Commonwealth Action Programme on the Digital Divide and the MEDA regulatory forum.

As a fully fledged member of the IRG and ERG, the Authority contributes to the annual programme by leading or participating in various work groups such as the Contact Network, Regulatory Accounting, Market Data Analysis and Fixed Network amongst others.

A considerable amount of resources were dedicated to preparatory meetings for the ITU's Regional Radiocommunications Conference to be held in June 2006. The purpose of this conference is to establish a new regional plan for digital broadcasting. Preparations for this have included intensive attempts at negotiations with neighbouring countries Libya, Tunisia and Italy with a view to securing agreement on the use of spectrum for digital terrestrial transmissions.



# Electronic Communications

The electronic communications sector is one that is subject to rapid and ongoing market and technological changes. Interventions by the MCA over the period of this report are indicative of this, with continuing progress in realising and sustaining competition in various relevant markets. One of the drivers of this is the assignment of radio spectrum for the deployment of a range of technologies including 3G, BWA and DTTV, in the coming years.

## Unbundling of the local loop – Maltacom's reference unbundling offer

The local loop is essentially the connection from a telephony exchange to a subscriber's premises. It is very costly for new entrants or existing service providers to replicate and therefore, gives an incumbent considerable advantage in the market place. As part of its regulatory obligations, Maltacom is required to publish a Reference Unbundling Offer (RUO) that provides other authorised service providers access to its local loops. The publication sets out the terms and conditions of access to the local loop including terms for equipment co-location. Following the publication of the RUO by Maltacom in 2005, the MCA reviewed the document with particular emphasis on the underlying cost structures establishing the respective prices to ensure that the terms being offered by Maltacom allow for fair competition in the marketplace. Subsequently, in August 2005, the MCA published a preliminary decision outlining its initial assessment of Maltacom's RUO.

## Modalities of payment for general authorisations and rights of use

In November 2004, the MCA published a Directive relating to modalities of payment for general authorisation and rights of use. The purpose of this Directive is to regulate the manner in which fees established under the Electronic Communications Networks & Services (General) Regulations, 2004 are paid to the MCA. The Directive also sets out the manner in which charges to be paid by individual undertakings are to be calculated as well as the manner in which administrative charges will be reconciled at year end. The system for administrative charges is fully in line with the provision of the EU framework for electronic communications. The past year was the first operational year in which the Authority was funded through administrative charges to the industry. In the interest of transparency, the MCA has published a high level overview of projected expenditures for 2005 in its Annual Plan.

## Review of general authorisation fees

The general authorisation fees payable by undertakings providing public communications networks, publicly available telephone services, and television and radio distribution services were reduced from Lm20,000 to Lm5,000 by Legal Notice 345 of 2005. It is expected that this reduction will provide more of an incentive for new market entrants.

## Price control mechanisms

*The development of a retail price index for the electronic communications industry*  
During 2005, the MCA, in collaboration with the National Statistics Office (NSO), finalised the development of a price index<sup>1</sup> for electronic communications services. Uses of the electronic communications price index are various. Apart from permitting consumers to monitor the price changes in electronic communications services, potential entrants in the market can use this information for their feasibility studies. Furthermore, the MCA will be able to directly measure the impact of its regulatory decisions on the prices of electronic communications products and services. The index is composed of six sub-indices, each of which measures price changes in a specific type of service classification. The service classifications are categorised as follows: fixed and mobile telephony, cable television and television licenses, Internet services and VoIP services. The index was published for the first time in the MCA's market review report for the period April to September 2005.

### *Price control strategy for fixed telephony – price-cap framework*

A price-cap is a price ceiling on a range of regulated fixed telephony services that is permitted to increase with the growth in the economy's inflation rate, as measured by the RPI; less an efficiency factor, known as the 'X' factor. Given these components of the price-cap formula, this regime is also known as the 'RPI-X' framework. The major prerequisites for the implementation of such a regime are the coverage of services falling under this framework, and the establishment of the 'X' factor. During the first quarter of 2005, the MCA concluded an efficiency review on the fixed telephony operator to establish a range of possible 'X' factors that can be used in the RPI-X formula. At the same time, in view of the market developments that unfolded during the year, the MCA decided that it would wait for the results of various market studies to be in a position to determine the coverage of the price-cap formula.

<sup>1</sup> *An index is a statistical tool that measures price changes in a given basket of services. A common example of such an index is the Retail Price Index (RPI) which the NSO uses to estimate the overall inflation in Malta.*

### *Price control strategy for postal services – price-cap framework*

The concept of the price-cap framework for postal services is similar to that for fixed telephony. During this year, the MCA concluded an efficiency review of Maltapost, which will serve as a basis for setting the 'X' factor in the RPI-X formula. The results of this review are currently under consultation with Maltapost.

## Interconnection

Interconnection is the process that allows different operators to establish voice and data transmission connections between each other. This is essential for users on one network to communicate with users on a different network. In March 2005, the MCA published a report outlining its strategy for interconnection for the electronic communications sector for the period 2004 to 2007. This strategy is aimed at making interconnection rates for fixed and mobile electronic communications more sustainable over the period of the strategy. It also determines that the trend throughout the EU of continuous and gradual reductions in interconnection rates towards efficient cost-based levels, should be followed by operators of electronic communications services in Malta, with a view to reducing the need for regulatory intervention in this field. A Decision regarding interconnection pricing was also published during the first quarter of 2005, wherein the MCA reduced the interconnection charges applied by Maltacom, Vodafone and Go Mobile. The reduction of interconnection rates is expected to increase the potential for sustainable competition and facilitate access to the market for new entrants. As a result of their current dominant status in the respective markets, these operators have an obligation to provide interconnection promptly and efficiently, while their interconnection charges must be sufficiently unbundled and supported by transparent cost accounting systems.

## Current cost accounting methodologies

In July 2005, the MCA published a consultation document to examine the various issues relevant to a transition from a historic cost base to a current cost base for regulatory accounting purposes. Information from cost accounting systems is used by the MCA to complement the application of regulatory measures such as transparency, non-discrimination and price controls on notified operators.

### *Bottom-up cost model*

In line with its interconnection strategy, the MCA has concentrated its efforts to develop a bottom-up cost model (BUCM) for Maltacom's next generation core network. The scope of the BUCM is to calculate the costs of an efficient operator and therefore estimate efficient interconnection charges. The BUCM has been developed following consultation with Maltacom and the MCA has used this model as the basis for the 2006 interconnection rates.

## Voice over internet protocol

VoIP has become an integral part of our day-to-day communications, offering an alternative to conventional telephony at lower rates. While the user may still use a conventional telephone set, the call is carried over the Internet as data packets. In July 2004, the MCA published a consultation document titled - 'VoIP: Regulatory Principles for Innovative Services'. The MCA is awaiting developments at a European level with regards to positions to be taken in the near future. In the meantime, the MCA is actively participating in an intensive series of meetings with its counterparts within the ambit of the ERG in an attempt to reach a viable common position that will harmonise the regulatory approach to the greatest degree possible.

Furthermore, in July 2005 the Authority published a statement of proposed decision dealing with the provision of VoIP services using a carrier selection facility. Carrier selection affords subscribers connected to one undertaking the option to have their calls carried by that same undertaking or by another undertaking on a call-by-call basis. The Decision specifically examines the legal basis under which Maltacom is providing VoIP services via a carrier selection facility using the brand name 'TEN21'. It obliges Maltacom to offer call origination and access services for VoIP services to third party electronic communications service providers at transparent, cost-oriented and non-discriminatory terms and conditions.

## Broadband strategy

Broadband is a data communications technology that provides a permanent, high throughput connection. It is 'fast' and 'always on' and bridges the gap between dial-up modems and leased line circuits. At the end of 2005, the MCA worked towards publishing a document with the aim of providing a review of the broadband environment at the mid-point of the 36-month timeframe that was established in a document entitled 'A Broadband Blueprint – Supply Side Initiative' published in May 2004. This document is intended to highlight achievements and shortfalls to date and make recommendations with regards to any changes required in strategic direction if necessary.

## Number portability

Number portability is essential if the benefits of a competitive electronic communications market are to be maximised as it allows consumers to retain their telephone number when changing their network operator or location. Without the possibility of number portability, subscribers are often reluctant to switch their network operator as this would mean that they would have to change their telephone number. In Malta, the obligation to provide number portability upon request has been incumbent on undertakings providing publicly available telephone services even prior to the adoption of the new EU framework for electronic communications. In March 2005, the MCA published its Decision establishing the way forward for number portability to be fully implemented by end March 2006 for both fixed and mobile numbers. The Decision directed operators to implement an interim



Without the possibility of number portability, subscribers are often reluctant to switch their network operator as this would mean that they would have to change their telephone number.

Photo: Go Mobile

solution, which enables subscribers to retain the value of the last six digits of their telephone number when changing their service provider, on condition that these digits are not already in use on the recipient network. The Decision also stated that detailed specifications would be needed for the implementation of full number portability by the target date of end March 2006, especially for inter-operator ordering processes. In this respect, the MCA set up a technical steering group comprising representatives from the network operators and the MCA with the aim of developing the specifications.

## Numbering plan allocations

In August 2005, the MCA published an updated numbering allocations table, depicting basic allocation information on the various number ranges within the national numbering plan. Furthermore, in December 2005, the MCA published three consultation documents namely, 'The Development of the Numbering Plan', 'A Framework for Special Tariff Services' and the 'Revised National Numbering Conventions'. The consultation assesses the development of the numbering plan and discusses the MCA's approach to numbering in light of technological and regulatory developments. The objective of the consultation documents is to provide an open and stable framework for numbering as a foundation for the furtherance of competition in Malta. It includes the development of criteria that will apply for allocations in different number ranges, the creation of new number ranges and number allocation processes. In addition, freephone and premium rate services were examined in the consultation on 'A Framework for Special Tariff Services'. Freephone services are services where the called party pays for the call, whilst with premium rate number services, the caller pays a relatively high rate for the call, a portion of which is passed by the operator to the content provider. Since the introduction of the numbering conventions published in 2001, a number of proposals for new services and applications have been received. The consultation on the 'Revised National Numbering Conventions' reviews these numbering conventions to ensure conformity with the proposed revised numbering plan and with the proposed framework for special tariff services.

## Legal intercept

Legal interception refers to the interception of electronic communications by Law Enforcement Authorities and intelligence services, in accordance with local law. In Malta, the Security Service (MSS) is the competent agency responsible for legal interception of electronic communications. The MCA is responsible for defining the parameters of equipment and data that operators and service providers need to make available to the MSS to enable that Agency to execute its mandate. In seeking to implement the most cost effective legal interception solution for the country, the MCA opted for a unified system that could interface with both circuit and packet switched networks. This means extended capabilities for the MSS to intercept Internet based communications. In 2005, the MCA and the MSS issued a request for proposal for a unified lawful interception system. An evaluation process followed and the selected vendor was notified at the end of 2005. The system is expected to be in operation by mid-2006. Consistent with their obligation at law, authorised operators and service providers will be contributing a proportionate amount based on their turnover towards the funding of the system. A modalities of payment document, outlining the way in which the funds will be collected and administered, was published for consultation in mid-2005. It was subsequently issued as a Directive in November 2005.

## Litigation

The amendments to the various communications laws introduced in September 2004, meant that all new appeals relating to communications are heard before the Communications Appeals Board. Appeals still pending as on 14th September 2004 continue to be heard before the Telecommunications Appeals Board and the Postal Services Appeals Board respectively. Between September 2004 and end December 2005, twelve appeals were brought before the Appeals Board, all relating to electronic communications. Of these new appeals, one was decided by the Board confirming the MCA's decision; the Board's decision was



An important decision won by the Authority before the Court of Appeal related to the right of the Authority to request information in the course of the exercise of its functions at law.

not subsequently contested. New litigation before the Courts relating to the communications sector, include a constitutional application contesting a decision by the former Telecommunications Regulator on interconnection rates and two separate lawsuits, one of which contested the assignment of frequencies. An important decision won by the Authority before the Court of Appeal related to the right of the Authority to request information in the course of the exercise of its functions at law.



# Frequency Spectrum Management

Radio spectrum is a vital and finite national resource with significant economic value for Malta. It provides the means to convey audio, video or other information content over distances from a few meters to thousands of kilometres. This makes it a key resource upon which almost all modern electronic communications depend. It is essential for the provision of electronic communications services such as mobile telephony, the Internet, television as well as radio broadcasting. It is also fundamental for the safe operation of aviation and maritime transport and is utilised by the defence forces as well as emergency services.

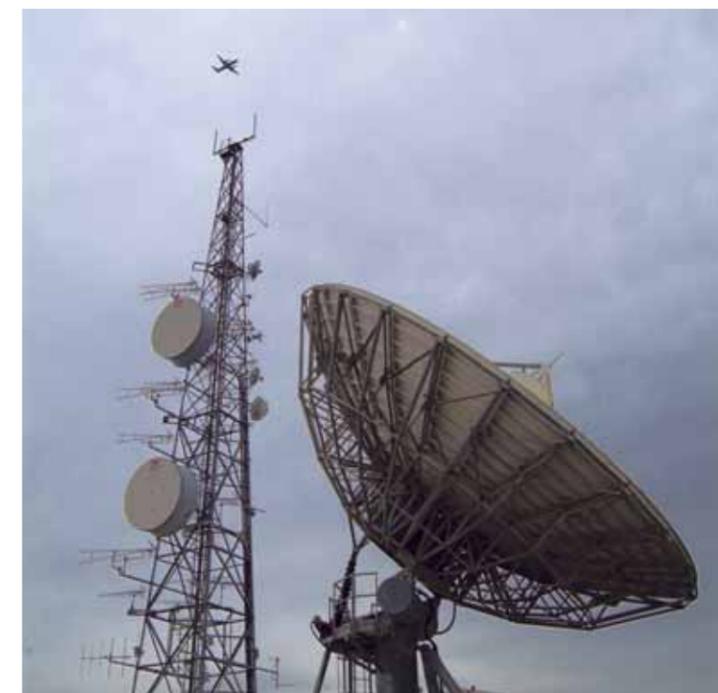


Photo: Melita Cable

The MCA regulates radio spectrum, including its management and monitoring<sup>2</sup>. In managing this spectrum, the MCA is particularly concerned with technical and economic efficiency as well as ensuring the optimal use of spectrum resources within the parameters of national and international legislation, technology considerations and national public policy objectives.

<sup>2</sup> With the exception of spectrum allocated to the Broadcasting Authority for assignment to broadcasting services.

The MCA's spectrum management activities encompass four main areas, namely policy advice to the Minister responsible for Competitiveness and Communications with respect to the national frequency allocations plan, the regulatory framework, frequency assignment to individual users and enforcement. The MCA also plays an active role in international fora to ensure that the international allocation and regulatory framework accommodates Malta's specific requirements and that Malta adheres to international recommendations where possible.

The MCA requires substantial investment in human capital to maintain its expertise in this field and needs to upgrade and replace technical equipment to appropriately deal with spectrum issues and enforce regulations regarding interference and technical requirements. Together, these resources enable the MCA to manage the use of radio spectrum in a way that maximises the benefit to individual users and the country as a whole, keep pace with technological developments and trends and promote the implementation of new spectrum management techniques and policies.

Some major local technological developments over the past year are the result of the assignment of frequencies for the development and deployment of 3G, BWA and DTTV.

#### The setting up of a policy and implementation strategy for wireless technologies

As a result of an extensive consultation process undertaken during 2004 in conjunction with the Ministry for Competitiveness and Communications, a policy direction in relation to new wireless technologies was defined. In February 2005, the MCA and the Ministry published a document setting out the policy relating to each technology, the strategy to be employed in each case, as well as the operational processes and timelines involved. In addition, the MCA also published a report for consultation purposes for each of the policy areas.

#### Third generation mobile telephony

3G technology will bring about an improved mobile telephony consumer experience with innovative services that will increase value for money and provide enhanced choice. Ubiquity in access to voice, data and video services and content is the ultimate objective. 3G technology will also offer faster and more efficient voice and data services and introduce a vast array of new services such as multimedia messaging with video clips and high-resolution pictures. 3G will also permit high-speed access to the Internet via a mobile handset, PDA or computer.

In March 2005, the MCA issued a call for applications for the assignment of 3G spectrum. Vodafone, Go Mobile and 3G Telecommunications each submitted an application to obtain one of the three available bands. A due diligence process was carried out for each undertaking. This process was completed in the cases of Vodafone and Go Mobile and the respective radio spectrum was subsequently granted. The operators have 60 months in which to complete their network rollout and achieve complete national coverage.

#### Broadband wireless access

BWA is a technology aimed at providing high-speed wireless access to data networks and is equivalent to wired broadband technologies such as Asymmetric Digital Subscriber Lines (ADSL) or cable modems. This will permit the introduction of new national broadband networks that could compete with the existing fixed Digital Subscriber Lines (DSL) and cable infrastructures. These broadband access networks could be used for the provision of triple-play, that is, voice, video and data services. The objective is to achieve broadband ubiquity, placing Malta at the vanguard of high-speed Internet access.

Three frequency bands were made available for the provision of BWA. In October 2005, access to rights of use of radio frequencies for the development and implementation of BWA networks in Malta were assigned to Cellcom, Go Mobile and Vodafone. These assignments are the outcome of a process commencing with a call for applications that was issued in April 2005. Seven expressions of interest were received in response to this call. As stipulated in the policy and strategy document, a comparative process had to be undertaken to determine the parties who would be granted these rights of use. An invitation to participate in a comparative process was published in April and by the deadline of 3rd June 2005, all seven companies had made their submission. A thorough examination of the submissions received led to the granting of respective frequencies. These operators have up to 48 months in which to complete their network rollout to achieve full national coverage in line with commitments made in their applications. As a result of these assignments, it is expected that the desired outcomes of enhanced competition, innovative services, increased choice and ubiquity of access will be achieved. Malta is therefore well placed to strengthen its position at the forefront of broadband utilisation.

#### Digital terrestrial broadcasting

DTTV is a technology that enables optimal use of assigned radio spectrum and allows for clearer pictures, high quality sound and eventually, interactivity over a wireless medium. A domestic antenna and a digital set top box are required to receive such transmissions. This technology reduces problems of interference and fading that the traditional analogue form is subject to. Sufficient frequencies were made available for up to two DTTV network operators and in May 2005, the MCA assigned these frequencies to Maltacom and Multiplus. Each operator was assigned eight channels on lease for the duration of eight years, with the possibility of an extension for a further eight years. These assignments are the outcome of another comparative process that was initiated in March 2004. Since demand for frequencies matched supply, consideration of assignments of access to rights of use of frequencies was made after the necessary vetting for compliance of the applications had been completed. These assignments continue to reinforce the liberalisation process of the electronic communications sector and will result in the proliferation of digital broadcasting services and technologies. Maltacom and Multiplus were granted rights of use in May 2005 and are expected to achieve nationwide coverage of their DTTV transmissions within 18 months from that date.

In a separate document, published jointly by the MCA and the Ministry for Competitiveness and Communications in August 2005, the policy and implementation strategy for Terrestrial Digital Audio Broadcasting (T-DAB) was established. The document describes the process that the MCA will adopt for the assignment of the available T-DAB frequencies to interested parties. Digital radio has, to date, enjoyed a relatively low level of penetration throughout Europe, although this scenario is expected to change in the coming years. The main benefits associated with digital radio are primarily additional programme channels resulting from a more efficient use of the spectrum; better digital sound quality which is less susceptible to interference and is capable of providing a higher quality of mobile reception and the potential to provide data services.

Four radio frequencies were available for the provision of T-DAB services. In January 2005, the MCA issued a call for expression of interest following the submission of an application by Digi B Networks for the grant of rights of use of the four available frequencies. Two other applications were received, one from Mediacoop and the second from Techinvest which led to a competitive procedure due to the increased interest. Assignments are due to take place in 2006.

Due consideration is being given to the wider contextual environment posed by the forthcoming Regional Radiocommunications Conference of the ITU, which will establish a final position with respect to national broadcasting frequency allotments and assignments for the forthcoming years.

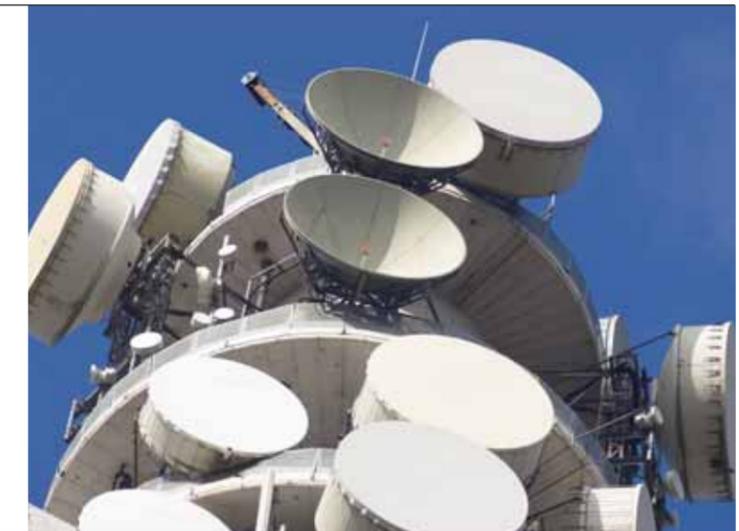
#### Radio & Telecommunications Terminal Equipment (R&TTE)

The MCA is responsible for ensuring that radio and telecommunications terminal equipment placed on the market complies with the essential requirements of the R&TTE and the Mutual Recognition of their Conformity Regulations, 2002. The aim of this is to prevent interference in communications systems.

Throughout 2005, the MCA processed more than 500 requests for placing on the market of radio and telecommunications terminal equipment. These requests were received from manufacturers and importers of such equipment.

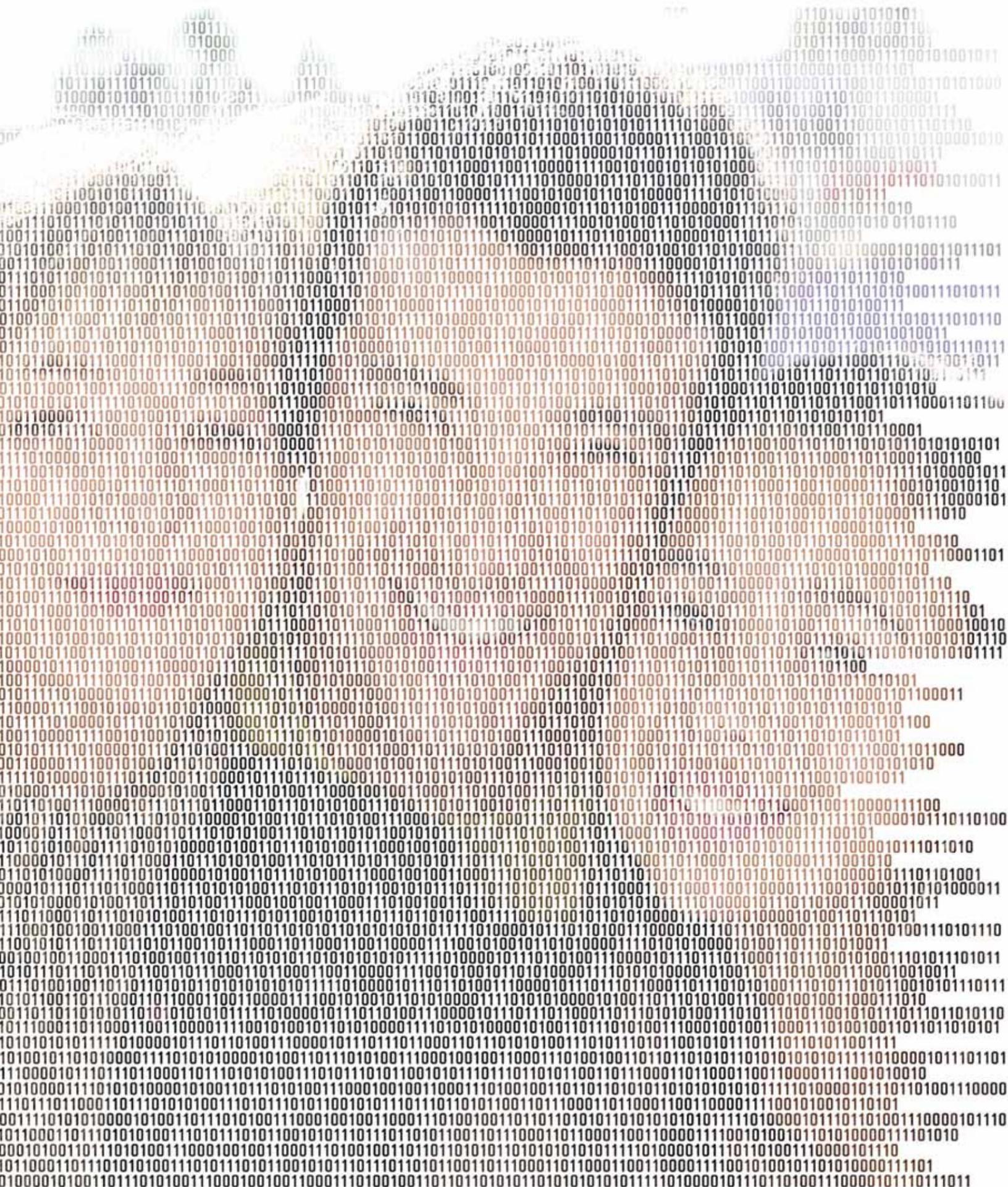
#### Regional Radiocommunications Conference related activities

In 2004, the ITU held the first session of the RRC. The objective of the RRC, the concluding session of which is scheduled for June 2006, is to agree on a common frequency plan for digital broadcasting services across Europe, Africa and other neighbouring countries. In this respect, during 2005, the MCA actively participated in various meetings organised by both the ITU and CEPT to discuss various technical and regulatory matters.



#### Review of the national frequency plan

The Electronic Communications (Regulation) Act requires the MCA to secure the efficient and effective use of radio frequencies. Hence, in 2005, the MCA embarked on a review of the National Frequency Plan (NFP). The NFP is the instrument which determines the allocation of radio frequency spectrum in Malta. In the third quarter of 2005, the review was completed and the MCA made recommendations to the Minister for Competitiveness and Communications regarding the proposed revision of the NFP.



## Electronic Commerce

Essentially, eCommerce is the conduct of business over electronic media, most commonly, over the Internet. It encompasses any transaction conducted electronically including the sale, lease, offer or delivery of goods and services (including information services), normally against payment.

As the competent authority responsible for eCommerce, the MCA has worked together with the Ministry for Competitiveness and Communications to develop enhancements to the current legislative framework for eCommerce. Furthermore, the MCA has also drawn up and consulted upon a proposed regulatory policy with respect to the implementation of these provisions.

### eCommerce legal structure

The Electronic Commerce Act (eCommerce Act) was conceived back in 2000 as one of a set of three laws intended to pave the way for the realisation of the information society. Since its enactment, Malta has witnessed a significant uptake of electronic commerce, though there is much room for improvement. For example, to date, research<sup>3</sup> has shown that approximately 88% of establishments in the hotel and restaurant industry have their own website in contrast to only 46.5% of manufacturing enterprises having their own web presence. This has indicated the need for a more robust framework for the take-up of eCommerce services. Consequently, during 2005, the Ministry for Competitiveness and Communications published draft regulations for consultation to be issued under the eCommerce Act.

The draft regulations focus on the requirement of information society service providers to furnish basic information so that customers may identify the service provider they are dealing with. They also introduce proposed obligations intended to ensure an appropriate level of transparency with respect to commercial communications provided on-line. These regulations avoid placing unnecessary regulatory burdens on service providers by establishing that they are only subject to the rules applicable in Malta, even if they provide services in other member states.

<sup>3</sup> Taken from statistics compiled by the NSO.

Furthermore, such services will not be subject to any form of licensing regime. The regulations provide for a light-touch supervisory regime that will serve to ensure that regulatory obligations are complied with, whilst reinforcing the consumer rights already enshrined in the Act. The regulations also provide for out-of-Court dispute settlement procedures enabling the Authority to hear disputes between service providers and their customers.

The regulations complete the transposition of the eCommerce Directive and the eSignatures Directive.

#### eSignatures and signature certification services

The eCommerce Act establishes that electronic signatures can have the same legal validity as written signatures provided they meet certain criteria. The most frequently adopted model for the use of eSignatures involves a signature Certification Services Provider (CSP). These providers issue electronic certificates that confirm that a specific device, such as a Smart Card, through which an eSignature may be attached to an eDocument, is held by a specific individual.

Although there are no CSPs operating in Malta, the eCommerce Act establishes the legal framework within which such organisations can operate. Moreover, the MCA is participating in a technical committee that is developing a voluntary accreditation scheme for electronic signature certification service providers. The technical committee was set up by the Accreditation Directorate of the Malta Standards Authority. It is planned that the scheme will be launched in 2006. The scheme will be open to any electronic signature certification service provider and will be able to cater for CSPs offering qualified certificates. Such providers may be asked to notify the Authority that they have commenced business, however they will not require a licence to operate. The Minister for Competitiveness and Communications appointed the MCA as the responsible authority for monitoring CSPs.

#### Information society services

Following the publication by the Ministry for Competitiveness and Communications of draft regulations on eCommerce, the Authority published a document for consultation, outlining its proposed approach to the regulation of information society services. The consultation document identified those services that would be impacted by the new regulations and discussed the principles that, in the Authority's opinion, should guide regulation in this sector. Furthermore, it set out possible approaches to the supervision of these regulations and solicited the views of interested parties on the most appropriate approach for implementing the regulations.

Under the eCommerce Act, information society services are those services provided, whether for consideration or not, at a distance, by electronic means and at the individual request of a recipient of the service. The following categories of services are among those considered to be information society services: the online sale of goods and services;

services offering online information, commercial communications or tools allowing for search access and retrieval of data; provision of access to a communications network; hosting services; video-on-demand; online newspapers and certain services provided over mobile phones such as Internet access, music or video and game downloads and access to information-based services.



#### Awareness campaign

In the latter part of 2005, the Authority collaborated with the Ministry for Investment, Industry and Information Technology in the development of an information campaign aimed at encouraging safe and secure take-up of eCommerce in Malta. The campaign had two key thrusts: on one part it aimed at informing small businesses on the benefits of eCommerce, as well as the rules that need to be adhered to in the provision of eCommerce based services; on the other hand, it was directed at informing consumers of the safeguards that need to be taken when conducting eCommerce and of the rights afforded to consumers when making use of on-line services.



## Postal Services

The Authority's activities in the postal services sector registered substantial progress in the course of 2005. This was mainly in the build-up of the main elements of the postal service regulatory framework. Sector liberalisation aimed at ensuring that residential and business consumers of postal services get the best value for money from service providers, is at the forefront of the Authority's agenda. Key initiatives in this direction have been the setting up of Quality of Service (QoS) standards including performance targets and the setting up of a licensing and general authorisations regime.

### Postal services regulation

The final step towards the implementation of a legislative framework aimed at liberalising the postal sector and guaranteeing quality in the provision of universal postal services was taken in October 2005 with the publication and enactment of the Postal Services (General) Regulations, 2005. This was the result of a thorough consultation process initiated by Government early in the year. One of the major and important changes in the new legislation is the clear distinction between the roles of Government, the Regulator and the Universal Service Provider (USP). The new Regulations also reduce the previous bureaucratic requirements for the USP; they also provide Maltapost with increased flexibility to deal with customer requirements for new and improved services.

In order to safeguard the interests of the consumer, Maltapost is now required to publish 'schemes,' which are essentially service level agreements between the company and its clients. These schemes will list the prices and other terms and conditions applicable to all the services provided. They will also detail procedures for dealing with customer complaints and specify the compensation that shall be awarded according to the nature of the complaint.

The new regulations also provide the necessary details relating to the manner in which other postal operators may be authorised to provide services.

### Amendments to Maltapost licence

In May 2004, the MCA designated Maltapost as the USP with the obligation to provide all the universal services required by or under the Postal Services Act. Universal services encompass a minimum range of services of a specified quality at an affordable price for the benefit of all users, irrespective of their location in Malta. In December 2004, the Minister for Competitiveness and Communications in consultation with the MCA published, by Legal Notice, a modified licence for the USP. The licence requires Maltapost to adopt minimum standards of service, complaint handling procedures, compensation schedules and mail integrity procedures. It also regulates the pricing of the universal service.

## The establishment of Quality of Service (QoS) standards

In June 2005, the MCA published a Decision Notice on the QoS requirements incumbent on Maltapost. This decision represents a significant step in the rationalisation of postal QoS standards, measurements and redress mechanisms. This Decision is the result of a consultation process initiated in January 2005. QoS targets will be the average to be achieved over Maltapost's financial year as a whole. The MCA will be monitoring the situation in order to verify the robustness of this decision and may make periodic adjustments as necessary should circumstances warrant.

## Mail integrity standards

Postal services provide vital infrastructural support for various economic and social activities. Therefore clients need to be assured that the mail they entrust to any postal operator will arrive at its destination and not be interfered with, lost, damaged or stolen. Postal operators should have in place appropriate policies, procedures and measures to ensure that the integrity of mail is protected. Mail integrity constitutes a key element in ensuring consumer confidence in the market. In addition to the physical infrastructure, mail integrity refers to policies, procedures and work practices relating to the security of mail that need to be in place to ensure, as far as possible, that mail sent by a customer reaches its intended recipient.

The MCA is responsible for ensuring that postal operators have considered and addressed those areas which are likely to present risks to the safe and secure handling of mail from a preventive perspective, and that postal operators are able to take appropriate action when incidents occur. In line with Maltapost's licence obligations, in June 2005 Maltapost submitted its procedures adopted for protecting the integrity of mail for approval by the MCA. These were examined by the MCA to ensure that all the mail integrity elements established in the licence have been catered for. Having examined Maltapost's submission, the MCA drafted a discussion paper in order to set out - and discuss with Maltapost - the MCA's proposals on the minimum standards to be established by Maltapost. It is intended that a consultation process will be initiated in the first quarter of 2006 to seek the views of all interested parties with regard to the minimum standards to be achieved for the protection of the integrity of mail by postal operators.

## Maltapost efficiency review

In 2005, the MCA started developing its price cap framework for postal services. A price cap regime is a price ceiling on a selected basket of regulated postal services.

The price cap relates the changes within this basket of services to the general inflation rate, whilst at the same time, accounting for the efficiency gains that the incumbent, in this case Maltapost, is expected to achieve during the regulatory period. Thus, the price cap acts as an incentive for Maltapost to achieve the expected efficiency gains, reduce costs and ultimately improve profits without increasing retail prices.

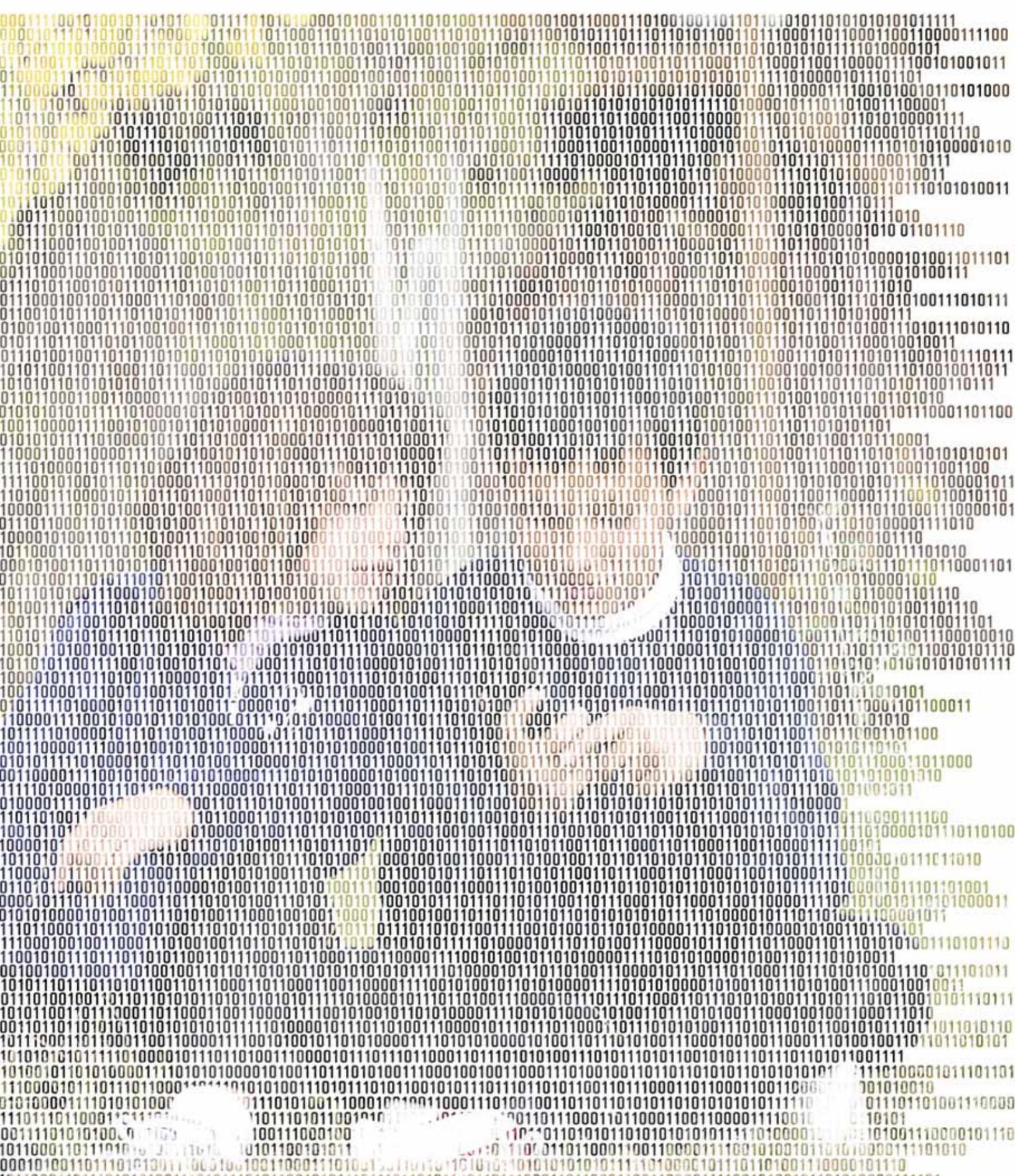
The price cap relates the changes within a basket of services to the general inflation rate, whilst at the same time, accounting for the efficiency gains that the incumbent, in this case Maltapost, is expected to achieve during the regulatory period.



The first step for the implementation of a price cap is an efficiency review aimed at assessing the potential efficiency gains that are achievable by Maltapost. During the reviewed year, the MCA concluded a draft of the efficiency review and started preliminary consultations with Maltapost on the results.

## Modalities of payment

The Schedule to the Postal Services (General) Regulations establishes the fees payable for the Authorisation to provide Postal Services. The MCA has published the Modalities of Payment Directive in order to regulate the manner in which such fees are paid by postal operators. Another purpose of this Directive is to ensure that payment for the different categories of Authorisation is effected in compliance with the regulations.



## Working for Consumers

Rapid progress in communications technology requires the regulator to strive to ensure that the entire community benefits from the unlimited potential that this sector provides.

The focus of the MCA's activity has always been to establish the appropriate conditions that drive operators to provide optimal services to the consumer. The MCA maintains vigilance on the markets whilst ensuring that its regulatory framework remains current, flexible, simple, effective and conducive to new investment.

### Consumer perception surveys

In November 2004, the MCA commissioned a postal customer satisfaction survey to assess whether services being offered by providers of postal services such as Maltapost were meeting the needs of their customers. Attitudes, expectations and experiences of residential consumers and small businesses towards the local postal services were examined and provided significant insight to support the regulatory process.

The survey indicated that the majority of residential consumers are generally satisfied with the services provided by Maltapost, distribution times, regularity of deliveries, terms of commitment for next day delivery and proximity of post boxes to one's residence.

97% of small businesses expect all post to be delivered within two days of mailing. The survey also indicated perceptions and expectations with regards to post office services, customer care, complaints handling and performance improvements. This market research exercise complemented the consultation process initiated in January 2005, aimed at setting quality of service targets for Maltapost. Similar surveys will be conducted on a yearly basis to take a pulse of consumer perception.

In addition, the MCA conducted a number of other surveys gauging consumers' perception of mobile and fixed telephony, VoIP as well as broadband. These have enabled the Authority to capture valuable information from end-users. The results of the surveys were not only an important tool to enable the MCA to identify areas where consumers would like to see improvements, but the data collated was also used in various market analysis reports published by the MCA.

## MCA annual conference

In May 2005, the MCA held its third annual conference, on the topic of VoIP, its opportunities and benefits, as well as costs and associated risks. As in previous years, a number of highly respected speakers, both local and international, from well-established communications organisations contributed their thoughts on the subject. Speakers covered the different technologies, services and regulations associated with VoIP besides network design and rollout experiences. The growing number of registrations for the MCA annual conferences is reflective of the interest in the sector and we have now made this a regular event in the electronic communications events calendar.

## IPv6 – Migrating to the next generation internet

Internet Protocol Version 6 (IPv6) is the 'next generation' protocol designed to replace the current version of the Internet Protocol, IP Version 4 (IPv4). Most of today's Internet connections use IPv4. This protocol has been in use for over twenty years and has been remarkably resilient despite its age. However, with the Internet's continued proliferation, problems are beginning to emerge, particularly a growing shortage of IPv4 addresses. In order to address this, it has become necessary to migrate to an improved version of the address protocol able to accommodate such growth. IPv6 is designed to meet these requirements while at the same time ensuring that addressing rules of the network are fair and transparent. In June 2005, the MCA issued a consultation paper aimed at increasing the awareness of IPv6 and to propose the setting up of a test-bed to which interested undertakings can connect in order to commence the testing of IPv6. In October 2005, the Authority in conjunction with the Ministry for Industry, Investment and Information Technology, appointed an implementation Task Force which will ultimately be responsible for an eventual nationwide migration to IPv6. Stakeholders appointed to the Task Force include the Ministry for Industry, Investment and Information Technology, the Malta Standards Authority and all the electronic communications networks and service providers, amongst others. It is anticipated that the Task Force will collaborate with similar groups in other jurisdictions to ensure that Malta remains at the forefront of best practice in this area. An official IPv6 information website will be launched early in 2006.

## Monitoring of Electro-Magnetic Frequencies (EMF)

During 2005, the MCA extended the remit of the EMF monitoring project to cover other sources of emissions to those from mobile base stations such as broadcasting transmitters. The project aims to ensure that these sites comply with the guidelines published by the International Commission on Non-Ionising Radiation Protection (ICNIRP). Given this broader remit, besides the routine checks performed to date on sites hosting one or two antennas, the MCA audited specific areas of interest that host a greater number of EMF sources. In fact, in 2005 an extensive audit of the Gharghur tower and its surroundings was carried out. Moreover, the MCA also conducted a number of on-demand audits, to attend to particular requests from the general public.

In all cases, the sites were found to be compliant with the relevant guidelines. In most cases, the maximum readings did not exceed 5% of the public exposure limits specified by ICNIRP. Given the encouraging response by the general public, the MCA will maintain its active role in the area in the coming years.

## Customer complaints handling

During 2005, the MCA continued to mediate differences and concerns between the general public and the communications service providers as they arise. Apart from resolving complaints, the MCA also provided information to its various customers. The Authority will continue to develop its customer relationship role by identifying customers' needs and addressing them accordingly. During 2005 various meetings with operators' customer personnel were held with a view to establishing sound communication channels for the effective and efficient management of customer complaints and queries.

## Quality of service performance indicators

In June 2005, the MCA published a Decision Notice entitled 'Measuring Authorised Operator Quality of Service Performance – Electronic Communications Sector'. Easily accessible QoS indicators are important to consumers when choosing or assessing electronic communications service providers. This Decision was based on careful consideration of the feedback to the consultation paper issued during 2004. Existing legislative obligations, as well as an assessment of the current QoS standards in the provision of electronic communications services, were also examined before proceeding to mandate the minimum performance requirements as established by the applicable legislation.



# Inside MCA

## MCA - A dynamic environment

The MCA is an organisation that operates in a highly dynamic environment, which calls for inbuilt flexibility to adapt to ever changing circumstances. During 2005, the MCA maintained such flexibility via a matrix mode of operation that cuts across functional organisational boundaries and brings together staff from its various units and disciplines to work on specific projects and assignments. The MCA has built a team of professionals capable of handling the work programme and ongoing tasks that it has to undertake in line with its mission and mandate.

As at December 2005, the MCA employed thirty-five members of staff; an additional eight technical staff members previously forming part of the Wireless and Telegraphy Department (WTD) were detailed to the Authority. Three of these have accepted employment with the MCA. Currently two apprentices are involved in a training programme on spectrum monitoring. During 2005, the MCA participated in the Job Experience Scheme sponsored by the Employment and Training Corporation, whereby two individuals spent three months gaining practical work experience with the Authority.

### Operating Environment

In June 2004, the functions of the ex - WTD were devolved to the MCA with the Authority assuming responsibility for the functions of the monitoring and management of radio spectrum and the commensurate staff complement. Since this integration, the MCA has been operating both from its premises in Sliema and from the former WTD offices in Valletta. Since neither of these could suitably accommodate the Authority's organisational requirements and since the lease agreement for the Sliema office was due to expire, relocation to one administrative office became an urgent priority.

In February 2004, the MCA issued a call for expressions of interest, followed by a request for proposals and, after negotiations, the MCA concluded a lease agreement for new office premises with Viset Malta. Consequently, the MCA will relocate both its present offices to the Valletta Waterfront in April 2006.

### Performance-based activities

During 2005, the MCA was committed to continue to maintain its strategic and business planning function together with the monitoring of actual performance against set targets. Two workshop sessions were conducted to review its strategic and business objectives and to draw up its business and financial plan for 2006 – 2008. Performance-based activity permeates down to the individual level by means of individual performance-based assessments, which tie in to the achievement of both unit and organisational goals.

The MCA is committed to maintaining an environment that brings out the best in the people it employs. During 2005, existing legal and economic in-house capacity was reassessed in light of the envisaged increase in related activities. Overall, the MCA has to cater for a sector that is currently in a state of significant expansion, in terms of range of technologies, turnover and market players. At this critical stage, it is imperative that the MCA has sufficient resources to effectively regulate this dynamic environment, hence in the coming year, the MCA will concentrate on strengthening its legal, economic and spectrum management capacity.

### Managing information

Recognising the benefits of information technology and its ability to deliver a more efficient, timely, transparent and user-friendly service to stakeholders, the MCA has encouraged a proactive and effective approach to providing up-to-date information via its website. The MCA website [www.mca.org.mt](http://www.mca.org.mt) is updated daily and includes the publication of consumer guidelines, market research and surveys, consultations and annual reports, amongst others.

The MCA staff have access to an excellently maintained intranet giving them the capability of being on-line anywhere, making available at all times, a document library, information systems, business contacts and communications. This has had a marked impact on the networking capabilities and effectiveness of all members of staff.

During 2005, the MCA also established an integrated electronic and physical filing and record management process with all correspondence being stored electronically.

### Industry fora

During 2005, the Authority continued to hold regular meetings with market players with the aim of ensuring effective informal dialogue between the industry and the Authority.

To this effect, the Electronic Communications Regulatory Forum met on three occasions. It discussed diverse matters such as spectrum assignment, legal intercept and competition issues. The Forum also

provided the platform for dialogue between the industry and other key regulatory authorities such as the Office for Fair Competition. Furthermore, the Forum was instrumental in instigating the establishment of an industry led working group to deal with content in electronic communications services. The Forum regularly discusses on-going regulatory activities such as market analyses as well as the MCA's participation in international regulatory fora.

Following this initiative, a Postal Services Regulatory Forum was also established. The new Postal Regulations and amendments to existing legislation were presented at this Forum. The responses to the consultation on the proposed new Regulations were also discussed. The Forum focused particularly on key features of the proposed regulations namely those dealing with the universal service obligations, the proposed authorisation framework and modalities of registration and payment.

### Memorandum of understanding with the Office for Fair Competition

In May 2005, the MCA signed a Memorandum of Understanding (MoU) with the Office for Fair Competition. This MoU is intended to bring about greater collaboration between the two authorities. It is also intended to provide a clearer picture to sector players and other stakeholders as to the *modus operandi*, including legal parameters, of the two authorities in sector matters. Amongst others, the MoU addresses the procedure to be adopted by the two authorities with respect to investigations on issues of concurrent jurisdiction, market analyses and the sharing of information.

### Bi-lateral agreement with the Irish NRA

In May 2005, the Authority formally concluded a bi-lateral agreement with the Irish NRA – ComReg. The agreement formalises the excellent relations already enjoyed between the two Authorities and allows for greater collaboration in day-to-day regulatory matters as well as in matters of international representation. The agreement also provides for greater cooperation in matters related to spectrum management.

### Confidentiality guidelines

In December 2004, the MCA published guidelines on confidentiality aimed at providing clarity to stakeholders with regard to the treatment by the MCA of information that is submitted by operators.



# Financial Statements

## GENERAL INFORMATION

The Malta Communications Authority was established by virtue of the Malta Communications Authority Act, 2000.

### MEMBERS OF THE AUTHORITY

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

### BANKERS

Bank of Valletta plc  
Preluna Towers,  
Tower Road,  
Sliema  
MALTA

### HEAD OFFICE

43/44, Il-Pjazzetta  
Tower Road,  
Sliema SLM 16  
MALTA

### AUDITORS

Ernst & Young  
Certified Public Accountants  
Regional Business Centre  
Achille Ferris Street  
Msida MSD 04  
MALTA

## REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Authority submit their report together with the audited financial statements for the period ended 31 December 2005.

### PRINCIPAL ACTIVITY

The Malta Communications Authority was established by virtue of the Malta Communications Authority Act, Cap 418 for the purposes of carrying out the functions defined in the said Act. By virtue of Legal Notice 280 of 2000 the Minister for Transport and Communications nominated the Malta Communications Authority to be the Competent Authority to regulate communications services in Malta with effect from 1 January 2001.

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

Following amendments to the Malta Communications Authority Act, the Authority changed its financial year end from a 30 September to a 31 December year end.

### 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 operating income generated by the Authority during the period amounted to Lm9,121,755 out of which licencing and usage fees for scarce resources, amounting to Lm7,901,614, were transferred to the Government of Malta. After meeting all expenditure of Lm1,233,652, the Authority closed off the period with a surplus, net of taxation, of Lm109,390.

### MEMBERS

The Members who served during the period under review were as noted on page 52. In accordance with Part II, Section 3 of the Malta Communications Authority Act 2000, 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.

## REPORT OF THE MEMBERS OF THE AUTHORITY – *Continued*

### STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE AUTHORITY

The Malta Communications Authority Act, 2000 section 20 requires the Authority to keep proper books of accounts and other records in respect of its operations and to prepare a statement of accounts in respect of each financial year.

### AUDITORS

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

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



**J. V. TABONE**  
Chairman



**A. P. PAVIA**  
Member

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

21 March 2006

## REPORT OF THE AUDITORS

TO THE MEMBERS OF THE MALTA COMMUNICATIONS AUTHORITY

We have audited the financial statements of Malta Communications Authority for the period ended 31 December 2005 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes set out on pages 56 to 68.

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

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

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2005 and of the results of its operations and its cash flows for the period 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

21 March 2006

## INCOME STATEMENT

	Notes	01.10.04 to 31.12.05 Lm	Year to 30.09.04 Lm
<b>Income</b>			
Revenues	4	9,121,755	2,333,142
Government contributions		129,318	433,160
		<b>9,251,073</b>	<b>2,766,302</b>
<b>Expenditure</b>			
Staff costs	5	(596,662)	(310,717)
Depreciation		(39,597)	(31,207)
Operating and administrative expenses		(597,393)	(216,897)
		<b>8,017,421</b>	<b>2,207,481</b>
<b>Operating surplus</b>	6	<b>8,017,421</b>	<b>2,207,481</b>
Interest receivable	7	16,955	3,999
		<b>8,034,376</b>	<b>2,211,480</b>
<b>Transfers to Government</b>	8	<b>(7,901,614)</b>	<b>(2,272,029)</b>
		<b>132,762</b>	<b>(60,549)</b>
<b>Surplus/(deficit) before taxation</b>		<b>132,762</b>	<b>(60,549)</b>
Taxation	9	(23,372)	(12,318)
		<b>109,390</b>	<b>(72,867)</b>
<b>Surplus/(deficit) for the financial period/year</b>		<b>109,390</b>	<b>(72,867)</b>

The accounting policies and explanatory notes on pages 60 to 68 form an integral part of the financial statements.

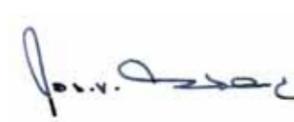
## BALANCE SHEET

As at 31 December 2005

	Notes	31.12.05 Lm	30.09.04 Lm
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	52,729	46,041
<b>Current assets</b>			
Trade and other debtors	11	1,076,046	705,962
Cash at bank and in hand		459,261	106,769
		<b>1,535,307</b>	<b>812,731</b>
		<b>1,588,036</b>	<b>858,772</b>
<b>Total assets</b>		<b>1,588,036</b>	<b>858,772</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Reserve</b>			
Accumulated Deficit	12	(9,965)	(119,355)
<b>Current liabilities</b>			
Creditors	13	1,598,001	965,809
Current taxation		-	12,318
		<b>1,598,001</b>	<b>978,127</b>
		<b>1,588,036</b>	<b>858,772</b>
<b>Total equity and liabilities</b>		<b>1,588,036</b>	<b>858,772</b>

The accounting policies and explanatory notes on pages 60 to 68 form an integral part of the financial statements.

The financial statements on pages 56 to 68 have been authorised for issue by the Members on 21 March 2006 and were signed on their behalf by:



**J. V. TABONE**  
Chairman



**A. P. PAVIA**  
Member

## STATEMENT OF CHANGES IN EQUITY

	Accumulated Deficit Lm
<b>FINANCIAL YEAR ENDED 30 SEPTEMBER 2004</b>	
Balance as at 1 October 2003	(46,488)
Deficit for the financial year	(72,867)
	<hr/>
Balance at 30 September 2004	(119,355)
	<hr/>
<b>FINANCIAL PERIOD ENDED 31 DECEMBER 2005</b>	
Balance as at 1 October 2004	(119,355)
Surplus for the financial period	109,390
	<hr/>
<b>Balance at 31 December 2005</b>	<b>(9,965)</b>

*The accounting policies and explanatory notes on pages 60 to 68 form an integral part of the financial statements.*

## CASH FLOW STATEMENT

	01.10.04 to 31.12.05 Lm	Year to 30.09.04 Lm
<b>Note</b>		
<b>Cash flows from operating activities</b>		
Surplus/(deficit) before taxation	132,762	(60,549)
Adjustments for:		
Depreciation of property, plant and equipment	39,597	31,207
Government contributions	(129,318)	(433,160)
Transfers to government	7,901,614	2,272,029
Loss on disposal of property, plant and equipment	4,371	-
Interest receivable	(16,955)	(3,999)
	<hr/>	<hr/>
Operating surplus before working capital changes	7,932,071	1,805,528
(Increase)/decrease in debtors	(475,784)	418,780
Decrease in creditors	633,650	(122,015)
	<hr/>	<hr/>
Cash generated from operations	8,089,937	2,102,293
Interest received	14,470	3,999
Taxation paid	(37,880)	-
	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>8,066,527</b>	<b>2,106,292</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(40,441)	(28,112)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Government contributions	239,693	397,784
Funds paid to government	(7,913,287)	(2,469,375)
	<hr/>	<hr/>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(7,673,594)</b>	<b>(2,071,591)</b>
	<hr/>	<hr/>
<b>NET MOVEMENT IN CASH AND CASH EQUIVALENTS</b>	<b>352,492</b>	<b>6,589</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR</b>	<b>106,769</b>	<b>100,180</b>
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR</b>	<b>459,261</b>	<b>106,769</b>

*The accounting policies and explanatory notes on pages 60 to 68 form an integral part of the financial statements*

## NOTES TO THE FINANCIAL STATEMENTS

### 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. COMPARATIVE INFORMATION

The Authority changed the financial year end from 30 September to 31 December. Accordingly, these financial statements cover a 15 month financial period ended 31 December 2005. The comparative figures cover a 12 month period to 30 September 2004.

### 3. 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. The accounting policies adopted are consistent with those applied during the previous periods.

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

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

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

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

Interest income is recognised as the interest accrues, unless collectibility is in doubt.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. ACCOUNTING POLICIES - continued

#### Employee benefits

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. 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

#### Trade and other 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.

#### Taxation

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

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. ACCOUNTING POLICIES - continued

#### Leases

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

### 4. REVENUES

The revenues generated by the Authority are made up of:

	01.10.04 to 31.12.05 Lm	Year to 30.09.04 Lm
Telecommunications, postal licensing and right of way (note i, ii)	352,940	2,197,395
Administrative charges	1,165,462	61,113
Usage fees for scarce resources (note ii, iii)	7,578,674	74,634
Application fees and other income	24,679	-
	<u>9,121,755</u>	<u>2,333,142</u>

- (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.
- (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 Malta (note 8), except for an amount of Lm30,000 intended to finance expenses incurred by the Authority not in connection with electronic communications.
- (iii) Included in the usage fees is an amount of Lm5,000,000 that comprise upfront fees collected on behalf of the Government of Malta, from mobile telephone network operators for the right of use of 3G radio spectrum covering a period of 15 years.

### 5. EMPLOYEE INFORMATION

#### a. Staff costs

The total employment costs were as follows:

	01.10.04 to 31.12.05 Lm	Year to 30.09.04 Lm
Members' emoluments	33,754	27,955
Wages and salaries	527,532	265,384
Social security costs	35,376	17,378
	<u>596,662</u>	<u>310,717</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 5. EMPLOYEE INFORMATION - continued

#### b. Staff numbers

The average number of persons, excluding board members, employed by the Authority during the period was 51 (2004 : 27). As of July 2004, a number of public officers previously posted at the Wireless and Telegraphy Department were detailed with the Malta Communications Authority following the migration of certain functions which are now the responsibility of the Authority.

### 6. OPERATING SURPLUS

The operating surplus is stated after charging:

	01.10.04 to 31.12.05 Lm	Year to 30.09.04 Lm
Auditors' remuneration	575	575
Depreciation	39,597	31,207
Rental expenses	18,720	18,830
Loss on disposal of property, plant and equipment	4,371	-
Administrative Services rendered by Ministry for Competitiveness and Communications	100,000	-
	<u>100,000</u>	<u>-</u>

### 7. INTEREST RECEIVABLE

	01.10.04 to 31.12.05 Lm	Year to 30.09.04 Lm
On bank balances	11,564	1,548
On amounts due from debtors	5,391	2,451
	<u>16,955</u>	<u>3,999</u>

### 8. TRANSFERS TO GOVERNMENT

These amounts represent the gross telecommunications, postal licensing and right 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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**9. TAXATION**

	01.10.04 to 31.12.05 Lm	Year to 30.09.04 Lm
Tax charge - current period	1,362	1,399
- under provision in prior periods	22,010	10,919
	<u>23,372</u>	<u>12,318</u>

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

	2005 Lm	2004 Lm
Profit before transfers to Government and taxation	8,034,376	2,211,480
Theoretical taxation expense at 35%	2,812,032	774,018
Tax effect of		
- excess of depreciation of tangible fixed assets over capital allowances	4,916	10,922
- income not subject to tax	(2,766,435)	(784,940)
- lower tax rate on local interest income on bank balances	(1,816)	1,399
- absorbed capital allowances brought forward	(23,320)	-
- absorbed tax losses brought forward from prior years	(24,015)	-
- adjustment in respect of current income tax of previous years	22,010	10,919
Tax charge	<u>23,372</u>	<u>12,318</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**10. PROPERTY PLANT AND EQUIPMENT**

	Building improvements Lm	Computer equipment Lm	Fixtures, fittings & equipment Lm	Motor vehicles Lm	Total Lm
<b>Period ended 31 December 2005</b>					
Opening net book amount	601	23,067	17,916	4,457	46,041
Additions	-	34,807	5,634	-	40,441
Assets transferred from the Ministry for Competitiveness and Communications (note i)	-	-	10,215	-	10,215
Disposals	-	(7,354)	(3,238)	-	(10,592)
Depreciation released on disposal	-	4,534	1,687	-	6,221
Depreciation	(563)	(27,672)	(6,960)	(4,402)	(39,597)
<b>Closing net book amount</b>	<u>38</u>	<u>27,382</u>	<u>25,254</u>	<u>55</u>	<u>52,729</u>

<b>At 31 December 2005</b>					
Cost	2,751	116,321	49,680	21,973	190,725
Accumulated depreciation	(2,713)	(88,939)	(24,426)	(21,918)	(137,996)
<b>Net book amount</b>	<u>38</u>	<u>27,382</u>	<u>25,254</u>	<u>55</u>	<u>52,729</u>

<b>At 30 September 2004</b>					
Cost	2,751	88,868	37,069	21,973	150,661
Accumulated depreciation	(2,150)	(65,801)	(19,153)	(17,516)	(104,620)
<b>Net book amount</b>	<u>601</u>	<u>23,067</u>	<u>17,916</u>	<u>4,457</u>	<u>46,041</u>

i. These represent assets previously belonging to the Wireless and Telegraphy Department which were transferred, by way of a non-monetary grant, by the Government to the Malta Communications Authority during December 2005 as a result of certain functions being migrated to the Authority. Since no consideration was paid in respect of these assets, this non-monetary government grant was credited to deferred income (note 13).

**11. TRADE AND OTHER DEBTORS**

	31.12.05 Lm	30.09.04 Lm
Trade debtors	1,030,427	195,476
Accrued income	3,616	390,313
Government contributions	-	110,375
Prepayments	36,213	6,198
Other debtors	3,600	3,600
Tax recoverable	2,190	-
	<u>1,076,046</u>	<u>705,962</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**12. INCOME STATEMENT**

The balance on the Accumulated Deficit in the Balance Sheet as at 31 December 2005, represents a resulting net deficit after the surplus made during the period ended 31 December 2005 was absorbed by the deficit which had accumulated between the years 2001 and 2004. This brought forward accumulated deficit was the result of a shortfall between contributions advanced by Government and the Authority's expenditure in connection with the regulation of the communications industry.

**13. CREDITORS**

	31.12.05	30.09.04
	Lm	Lm
<b>Current liabilities</b>		
Amount due to Government	353,529	922,367
Deferred income (note i)	1,218,456	-
Accruals	23,987	18,259
Social security contributions and other taxes	-	8,360
Other creditors	2,029	16,823
	<u>1,598,001</u>	<u>965,809</u>

i. Deferred income comprises the unexpired portion of annual fees billed in advance together with the surplus of administrative charges, amounting to Lm383,246, paid by undertakings authorised to provide electronic communication services and/or operate electronic communications networks, over the administrative expenses incurred by the Authority in the discharge of its functions. The Authority shall make appropriate repayments or compensation in relation to such surplus in accordance with the Electronic Communications (Regulation) Act and the Directive of 2004 on modalities of payment for general authorisations and rights of use.

A non-monetary government grant, representing assets transferred to the Authority by the Government of Malta, amounting to Lm10,215 is also included with deferred income (note 10).

**14. CASH AND CASH EQUIVALENTS**

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

	31.12.05	30.09.04
	Lm	Lm
Cash at bank and in hand	<u>459,261</u>	<u>100,769</u>

The Authority holds interest earning and non-interest earning bank current accounts. An average interest of 1.25% per annum is earned on the bank interest earning account.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**15. COMMITMENTS**

	31.12.05	30.09.04
	Lm	Lm
Capital expenditure contracted but not provided for	150,000	-
Capital expenditure authorised but not contracted for	<u>50,000</u>	<u>-</u>

**Operating lease commitment**

The commercial lease agreement on the premises currently being used as offices by the authority expired on 31 January 2006. This agreement is being extended temporarily until the Authority moves to new premises during 2006.

As of 15 December 2005, the Authority has entered into another 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 are as follows:

	Lm
Within one year	31,636
After one year but not more than five years	91,200
	<u>122,836</u>

**16. CONTINGENT LIABILITIES**

The Authority has given a bank guarantee, in favour of third parties amounting to Lm3,600.

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

## **NOTES TO THE FINANCIAL STATEMENTS - *continued***

### **17. FINANCIAL INSTRUMENTS**

At period-end, the Authority's main financial assets on the balance sheet comprise of trade and other debtors 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 creditors. The Authority's off-balance sheet financial liabilities at year-end are described in note 15 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 debtors and cash at bank.

The Authority's cash at bank are placed with quality financial institutions. Carrying amounts for trade debtors 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 debtor base and the Authority has no significant concentration of credit risk.

#### **Fair values**

At 31 December 2005 and 30 September 2004 the carrying amounts of cash at bank, debtors, creditors and accrued expenses approximated their fair values.