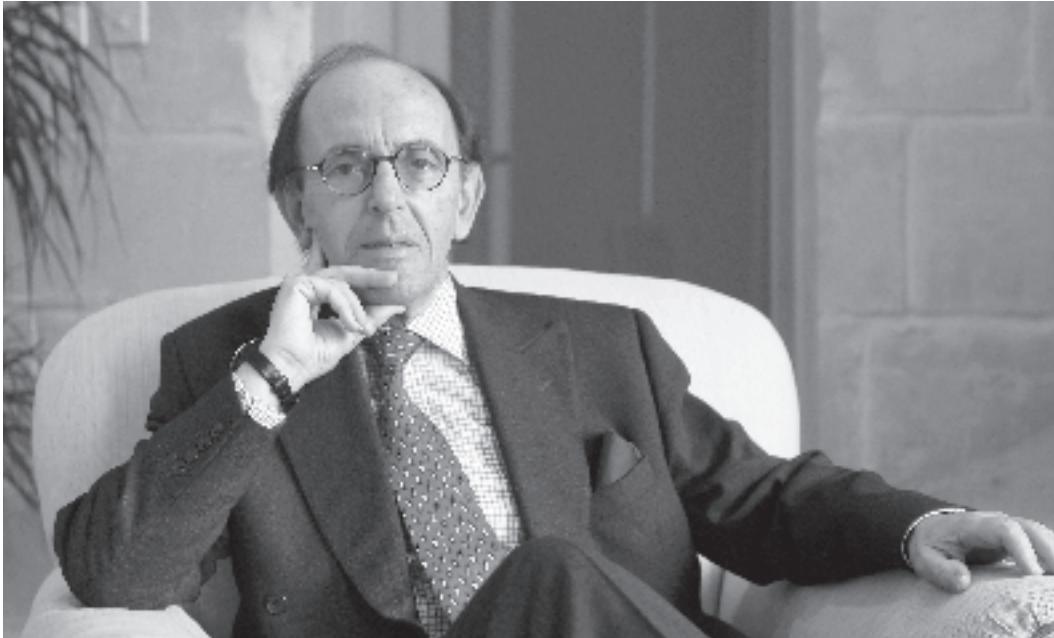


▶ annual report
and financial
statements
2006

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Chairman's Message



The Malta Communications Authority (MCA) is the national regulatory body tasked with the oversight of three sectors – electronic communications, postal services and eCommerce. These sectors generate in excess of Lm100m worth of economic activity or approximately 5% of Gross Domestic Product (GDP). Electronic communications, in particular, are the underpinning of today's economic and social development, thus making this report an important national reference document.

This is the fifth such report we are publishing and every year we strive to make the content more informative and easier for readers to assimilate. This year we are modifying the format precisely with this objective in mind. If we accept that the purpose of such reports is to give an accounting of an organisation's performance, we decided that the best way of doing this, is to do so against targets or objectives extracted

from the Authority's Strategic Plan. The latter is accessible on our website and is reviewed and extended every year.

I think it is fair to say that the role of regulatory bodies, such as the MCA, is not universally well understood. The reasons for this are manifold. Authorities are largely a recent phenomenon, at least in Malta; their work often appears to be highly technical; it is often difficult to measure the value of

their contribution against the cost of their operations; they are an emanation of Government but independent of it – and no doubt there are other reasons including the fact that some of our communications may not be up to scratch. Another misconception relating to these agencies is that their role is largely reactive. While no doubt that an element of their operations is reactive, the structure and content of this

document shows the opposite. In effect, the MCA sees its role as largely strategic, serving to bring about competition enabling consumer options, while at the same time, creating an environment that is conducive to sector investment and innovation.

Two major factors dominated our activities last year – the market reviews and our relocation to the Valletta Waterfront.

For the uninitiated, market reviews are the cornerstone of electronic communications regulation in Europe. There are presently eighteen designated markets. These have to be painstakingly analysed cyclically; the European Commission formally notified on the state of play of each of these and attendant remedies imposed on sector interests where findings of Significant Market Power (SMP) are manifest.

The purpose of these reviews is to take a measure of competition in a sector, which historically had been characterised by monopolies. Thanks to the efforts of the MCA, we have now put this behind us. 2006 will go down as a landmark year in that, for the first time, consumers have a choice of service provision for local fixed telephony, as well as for TV transmission networks. Regulation has been responsible for the successful proliferation of mobile telephony and the host of innovative services, which electronic communications brings to your home, school or place of work. Where three years ago, Malta had the reputation for the highest international calling tariffs, these are now amongst the lowest and have proved a spur to business and social interactions. Interconnection charges continue their downward trend as are roaming charges, though they still have some way to go.

After the market reviews, the other major factor was our move to new premises which was the subject of unwarranted media coverage in the early part of 2006. The move was necessitated by the Authority's planned expansion. This was partially the result of its broadened mandate with respect to radio spectrum matters, previously the domain of the Wireless Telegraphy Department, which was phased out in 2005. The rest of this was planned capacity building to achieve optimal operational effectiveness. The move was executed on schedule and within budget.

The year under review saw continued growth in mobile telephony take-up as well as broadband connections. A survey conducted on the subject of eCommerce revealed surprisingly high participation levels, meaning both business take-up as well as consumer adoption - from buying groceries to online banking.

We have also been working closely with Maltapost in line with our oversight responsibility for the postal sector. Outcomes include the implementation of a price-cap mechanism, a review of its universal service obligations and periodic checks on service levels to ensure that established targets for postal delivery are being met.

European rules stipulate the modality of financing of National Regulatory Authorities (NRAs) for electronic communications in an effort to safeguard their independence from Government. This is done through a turnover sensitive levy on operators via their licence fees to cover the MCA's annual operating costs. This mode of budgeting came into effect in the year under review and results in a dual accountability for the Authority, to Government and the sectors it oversees.

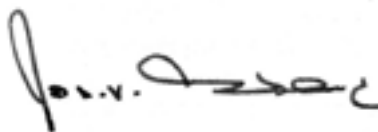
The Authority is required to provide Government with a business plan in advance of the start of each fiscal year and to give an accounting of its expenditure at the end. I am pleased to report that at the end of the fiscal year under review, the MCA was able to reimburse sector interests the amount of Lm 383,246 or 24.7% of its budget; this is a reflection of its operational effectiveness and results orientation.

My interest in highlighting this latter point is because it is something I am particularly proud of – the result of our independence and focus on efficiency. What makes this possible is an extremely talented and professional team of people working towards very clear objectives bringing with them a singular dedication to the way we do business. The results in this report are the fruit of this collective effort.

I would also like to thank the members of the Authority for their unstinting and insightful stewardship of the Authority.

Finally, I trust the report serves to meet the objectives I outlined at the beginning – that is to give an account in a simple, concise and informative manner.

Yours,



Joseph V. Tabone
Chairman



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

Board Members

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.



01 Peter Gatt
chief of corporate services

02 Paul E. Micallef
chief legal officer

03 Colin Camilleri
chief technology officer

04 Sandra Hyzler
personal assistant
to chairman

05 Patrick Vella
chief of policy & planning

06 Simon Mizzi
chief of operations

Management Committee

**Market
Overview**



Available statistics from the National Statistics Office (NSO) indicate that by the end of September 2006, the communications industry produced Lm 93.871 million worth of output, Lm 87.913 million of which were produced by the electronic communications sector, representing a 4.7% increase over the first nine months of the previous year. According to this data, private households consumed 67.2% of the industry's output, implying that this sector has come to be at the core of the typical Maltese household and business consumption pattern. As shown below, the share of household consumption of electronic communications services showed a decline

over the reviewed years. This could be attributed to lower general prices, the result of increased sector competition.

Evidence from the first nine months also suggests that the communications industry registered higher labour productivity rates when compared with the general economy. In fact, these figures suggest that on average, an employee in the communications industry produces almost double the output produced by counterparts in the economy as a whole.

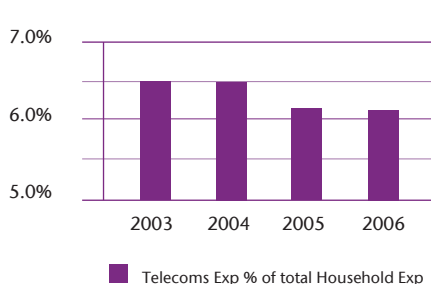
In 2006, a very significant milestone was achieved when a carrier pre-selection service provider started operating under the brand name 'Sky' and Melita Cable launched its Voice

over Internet Protocol (VoIP) telephony service – 'Hello'. This development marked the start of competition in the fixed local calls market, the highest volume market in the electronic communications sector. This development signals the attainment of competition in all retail electronic communications sectors.

As a result of competition and continued and rapid technological developments a number of bundled offerings are now available on the market. This is the outcome of convergence; triple and quadruple play that have now become a reality.

2006 was also characterised by further introduction of new services in the mobile sector. Go Mobile and Vodafone Malta

HOUSEHOLD EXPENDITURE AS A PERCENTAGE OF HOUSEHOLD FINAL CONSUMPTION EXPENDITURE



Household expenditure as a percentage of household final consumption expenditure for the first 9 months of each year by economic sector. All figures are provisional and therefore subject to change.

This inference is based on data from the first three quarters of each year and was worked out this way to provide a 'like-with-like' comparison between data throughout 2003, 2004 and 2005 on the one hand and 2006 (for which data was available until quarter 3 of 2006) on the other.

partially rolled out their Third Generation (3G) network, with Vodafone commercially launching 3G services in August and High-Speed Downlink Packet Access (HSDPA) later in the year. Intense preparation for the roll-out of Broadband Wireless Access (BWA) networks is also underway.

Number portability, which is a key facilitator of competition in the telephony market, became

available on 1st April 2006. In the 9 months since availability of this facility, in excess of 8000 subscribers have changed service provider and retained their phone number.

The growth of Broadband Internet and VoIP continued, however, the MCA notes that broadband penetration is not growing at rates achieved in previous years and that growth is mainly due to take-up of service

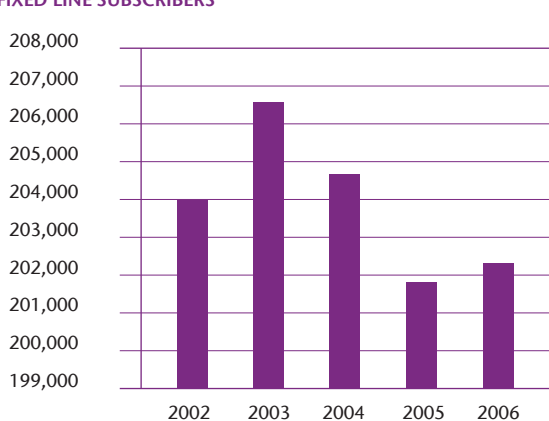
offerings at download speeds of less than 1Mbps. Fixed line telephony usage continued to decline while the mobile market and the TV distribution market displayed moderate growth.

According to data provided by the NSO, over the four years to 2006, the value added produced by the firms within this industry has hovered around a relatively stable 3.3% of GDP.

FIXED LINE TELEPHONY

At the end of 2006, the number of fixed line subscribers stood at 202,413, up by 630 over the previous year. 82.3% of subscribers were residential customers; the remaining 17.7% were business subscribers. This represents a per capita penetration rate of 50.1%.

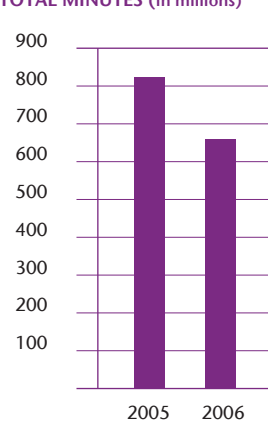
FIXED LINE SUBSCRIBERS



Locally-terminating fixed minutes registered a decrease of almost 58 million minutes, or 17% over 2005. The largest percentage drops in usage resulted from registered Internet-related calls and calls to freephone numbers. The drop in Internet-related calls is

mainly attributable to increased take-up of always-on Internet. The drop in locally-terminating fixed minutes is also ascribable to fixed-to-mobile substitution. Fixed call substitution by email and VoIP Internet based services are also considered to be contributing to the decline.

FIXED LINE TOTAL MINUTES (in millions)



Internationally terminating minutes are also on the decline. Year-on-year, decreases representing 36.7% and 35.8% were registered in minutes generated by directly-connected subscribers and by payphone users respectively.

MOBILE TELEPHONY

The number of mobile telephony subscribers reached 346,771, up by 22,881 (equivalent to 7.1% increase) from 2005. This represents a mobile telephony penetration rate of 85.83%. It is noted that even with a penetration rate above 80%, at the end of October 2006, Malta was still surpassed by all but one EU member state in terms of this statistic.

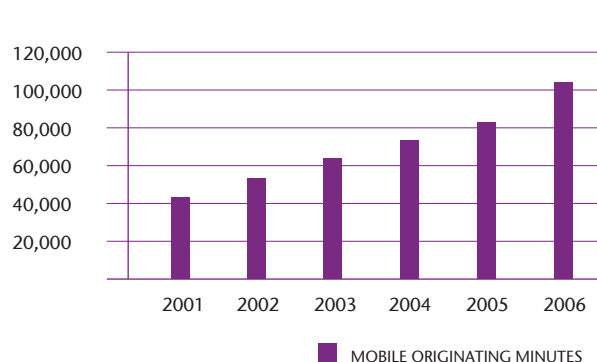
Prepaid subscribers accounted for 91.2 % of the total subscriber base. Contract subscribers accounted for the remaining 8.8%. This is quite different from the mobile subscriber structure reported by other EU countries where the majority of subscribers tend to be contract based. The Maltese subscriber base is more closely in line with that of Italy and Portugal.

MOBILE TELEPHONY SUBSCRIBERS



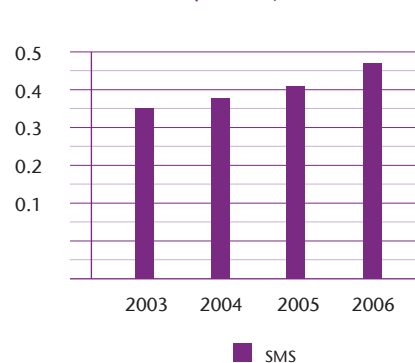
Mobile originating minutes increased by 22.95% over the previous year. This growth can be attributed mainly to an increase of 26.65% in mobile-to-mobile traffic. Mobile international traffic rose by 3.07%.

MOBILE ORIGINATING MINUTES



SMS usage registered a substantial year-on-year increase of 7.53%. 435,941,893 SMSs were sent during 2006. This translates into a per capita average of 89 SMSs per month.

TOTAL NUMBER OF SMS SENT (in billions)



INTERNET

In 2006, 53.8% of broadband connections were Digital Subscriber Line (DSL) connections, with the remaining 46.2% being cable modem connections. The broadband Internet penetration rate amounted to 16.42%.

During 2006, broadband subscriptions continued on their upward trajectory. The increase was driven mainly by products aimed at low-end users. In particular, this seemed to have been fuelled by the introduction of an always-on 128 kbps cable Internet product introduced by Onvol and a similar DSL product introduced by Maltanet (previously Datastream) in quarter 2 of 2006.

In June 2006, DSL products

available at speeds of 2 Mbps saw a doubling of speeds without a corresponding change in pricing. At the same time, the 2 Mbps products were removed from the market so that the available DSL products were the 128 kbps, 256 kbps, 1 Mbps and the 4 Mbps, downstream services. Cable internet was available at download speeds of 128 kbps, 2 Mbps and at 4 Mbps. By the end of 2006, the DSL-to-telephone line penetration rate stood at 17.6%.

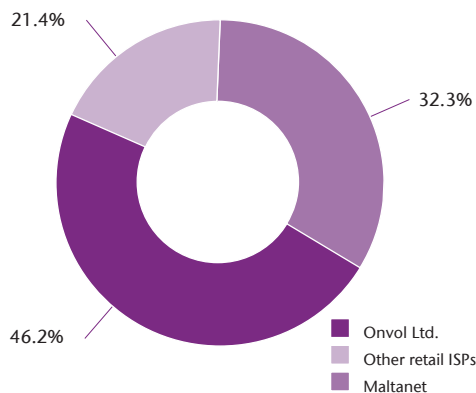
A number of exits from the market, as well as a merger between two ISPs and by Maltacom's wholly-owned subsidiary Datastream, were registered during 2006.

As at the end of 2006, 46.1% of the total broadband Internet subscriber base, connected using a cable modem. Of these, 37% accessed the Internet at a downstream speed of under 512 kbps or less, whereas the remaining 63% had connections capable of a 2 Mbps to 4 Mbps download bandwidth.

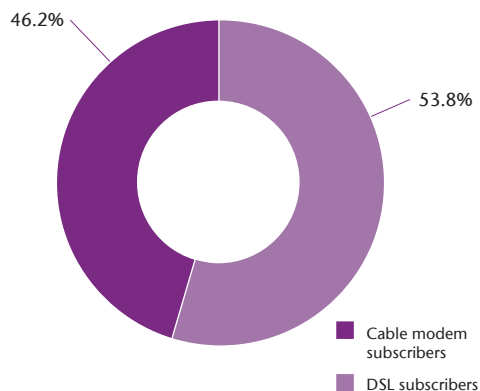
At the same time, of the 53.8% broadband Internet subscriber base that connected using DSL, 35.7% did so at a downstream speed of 256 kbps or less, 7.6% were connected at a downstream speed of 1 Mbps and 56.7% were connected at a downstream speed of 4 Mbps.

Dial-up subscribers hovered at around the 10,000 mark.

BROADBAND MARKET SHARE



BROADBAND SUBSCRIPTIONS



VoIP

VoIP continued to play a pivotal role in the market for international fixed minutes. As from the second quarter of 2006, the number of VoIP minutes registered, driven mainly by

Maltacom's carrier selection service branded 'Ten21', amounted to 57,583,911. Available statistics indicate that the average call duration has gone up almost twofold to just over 7 minutes since the introduction of this service in 2005.

eCOMMERCE

The first prerequisite for the proliferation of electronic commerce is a high level of Internet penetration. The growth in broadband penetration and statistical findings indicating that 81% of the residents in the 18 to 29 years age bracket have access to the Internet, are therefore very encouraging. An even more encouraging indicator is that 96% of students have access to the Internet. At the other end of the spectrum, only 31% of residents aged 50 and over were found to

have access to the Internet.

The most predominant reasons for not having access to the Internet are not having a personal computer (35%) and a perceived lack of need of access to the Internet (33%).

52% of Internet users, which account for 27% of the local adult population, conduct eCommerce. The most popular products purchased online are books, followed by CDs and electronic goods, whilst e-banking services are the most popular online services. It is interesting to note that people

who conduct eCommerce tend to do this on a fairly regular basis, with 55% of those who buy online doing so on a monthly basis, whilst 12% carry out approximately 10 or more purchases over a 6 month period.

Online shoppers also take precautions when conducting eCommerce. These tend to reflect traditional approaches to shopping with 44% purchasing from companies which they consider trustworthy.

TELEVISION

Cable and Digital Television (DTTV) subscribers registered a year-on-year increase of approximately 10,000 subscribers, reaching a total of 112,676 subscribers by the end of 2006.

Melita Cable reported a year-on-year decrease in subscribers, whereas Multiplus registered a rise in subscribers. This does not necessarily mean that Multiplus secured market share

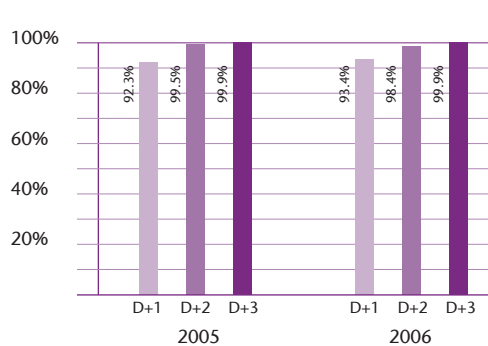
from Melita Cable, as satellite television, for which no statistics are available, also impacts this market significantly.

POSTAL SERVICES

A marginal decrease in local postal volumes and an increase in international incoming and outgoing postal volumes was registered.

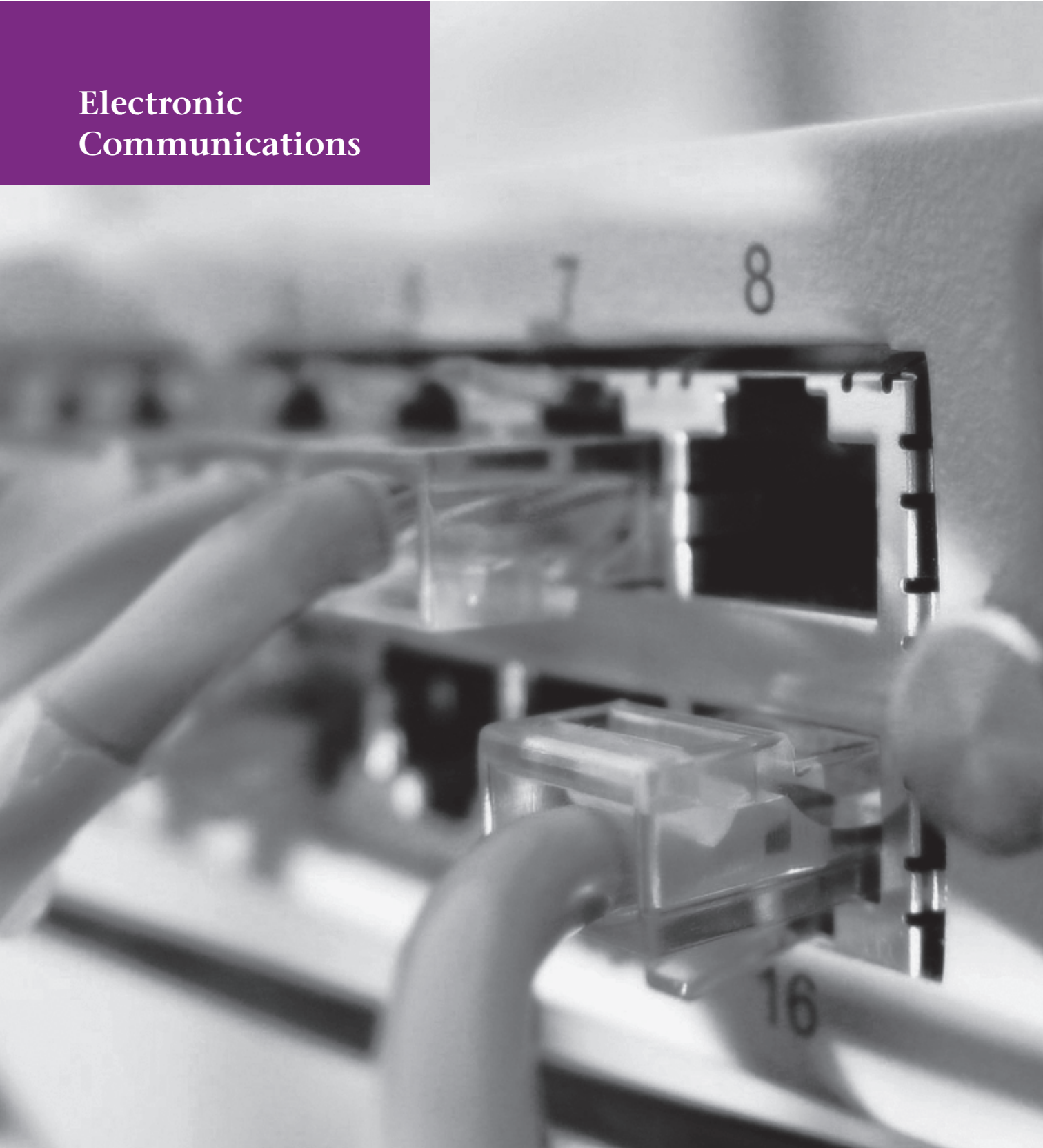
With respect to quality of service, 2006 produced mixed results. The percentage of postal items delivered within 1 day (D+1) increased by 1.7% to 93.43%, whereas the cumulative percentage of postal items delivered within 2 days (D+2) decreased by 1.15% to 98.37%. 99.9% volume delivery was achieved within 3 days.

POSTAL SERVICES QUALITY OF SERVICE STATISTICS



- Maltapost Percentage of Postal Items Delivered Within D+1
- Maltapost Percentage of Postal Items Delivered Within D+2
- Maltapost Percentage of Postal Items Delivered Within D+3

Electronic
Communications



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

STRATEGIC OBJECTIVE 1

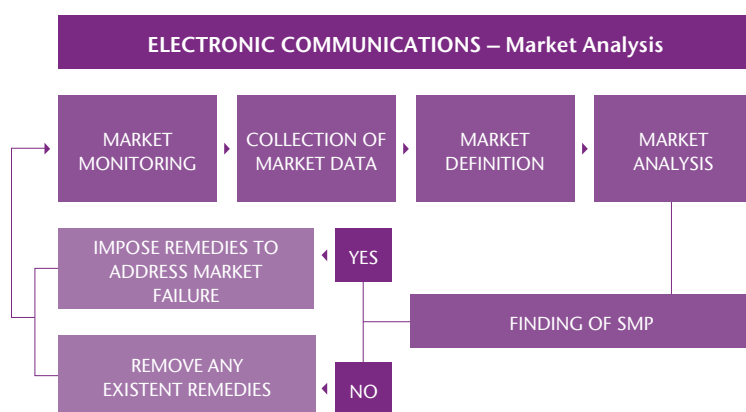
Consolidating an electronic communications environment that is capable of **sustaining competition** among existing providers, whilst ensuring **ease of entry to new undertakings**.

The promotion of competition is the primary objective of the Authority with respect to the electronic communications sector. This objective is premised on the concept that a competitive market which is sustainable in the long term, maximises consumer welfare through improved value for money, innovation and choice.

This was amply evidenced in 2006 when competition continued to drive the downward trend in retail prices as well as growth in the number of different products and tariff schemes available on the market. The year was characterised by increased public uptake of mobile, digital TV and broadband services.

The work carried out during 2006 under this strategic objective, related primarily to the facilitation of competition by identifying and regulating players having Significant Market Power (SMP) and by ensuring the availability of the necessary inputs to enable the entry of new market players.

REVIEWING MARKET REMEDIES



The EU regulatory framework for electronic communications adopts a number of competition policy tools that allow much of the current sector-specific regulation to be replaced with a general competition law discipline. Key to this process is the requirement for the MCA to carry out market reviews aimed at verifying whether or not relevant markets are effectively competitive.

In 2006, the MCA finalised the first wave of market reviews (18 market reviews in all)¹.

¹ In all cases except markets 12 and 18, the findings were notified to, and accepted by, the European Commission. The European Commission expressed concerns regarding the findings with respect to the latter two markets. The MCA withdrew these notifications and will be re-notifying in 2007.

In 2006, the MCA finalised the first wave of market reviews and applied remedies exclusively to those markets that were not effectively competitive, i.e. those markets where one or more operators were designated as having SMP.

It applied remedies exclusively to undertakings having SMP in markets that were not found to be effectively competitive. The remedies imposed were designed to specifically address the market failures identified.

The next section provides an overview of the work done by the Authority in this regard during 2006.

NOTIFICATIONS IN 2006			
MONTH	MARKET	OUTCOMES	REMEDIES IMPOSED*
April	Leased lines markets (Markets 7, 13, 14)	Maltacom found to have SMP	1,2,3,4,5
May	Access to the fixed network (Markets 1, 2)	Maltacom found to have SMP	1,2,3,4,5,6,7,8,9
	Retail national fixed calls markets (Markets 3, 5)	Maltacom found to have SMP	1,2,3,4,5,6,7,8,9
	Wholesale call origination, termination and transit services (Markets 8, 9, 10)	Maltacom found to have SMP in all markets. Melita Cable has SMP in the wholesale call termination market only	1,2,3,4,5 (Maltacom) 1,2,3,4 (Melita Cable)
July	Wholesale access and call origination on mobile networks (Market 15)	Vodafone and Go Mobile found to have joint dominance	1,2,3,4,5
October	Retail international fixed calls market (Market 4, 6)	Maltacom found to have SMP	1,2,3,4,5,6,7,8,9
November	Local loop unbundling (Market 11)	Maltacom found to have SMP	1,2,3,4,5
December	Wholesale broadband access (Market 12)	Withdrawal	
	Wholesale broadcasting market (Market 18)	Withdrawal	

*** REMEDIES IMPOSED**

Wholesale Remedies:

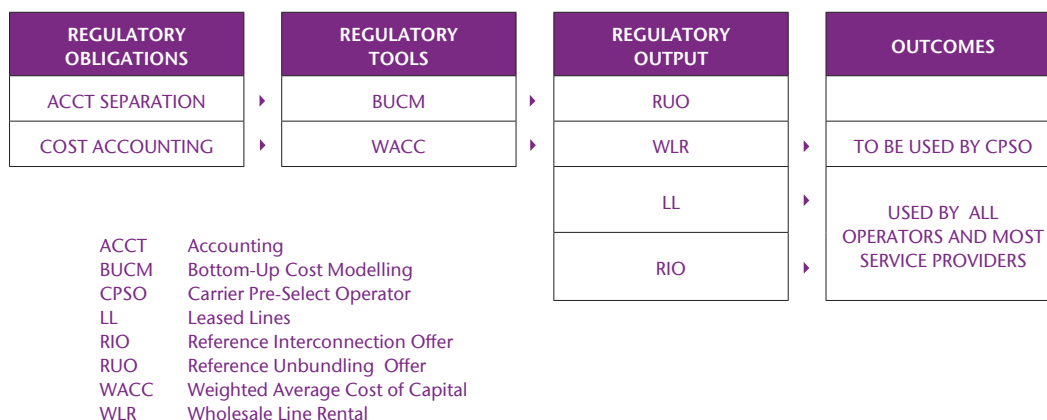
1. Access to products/services falling within the defined market
2. Transparency
3. Non-discrimination
4. Price control and cost accounting
5. Accounting separation

Retail Remedies:

6. Price control and cost accounting for retail prices
7. Accounting separation
8. Transparency and non-discrimination
9. Restricting unreasonable bundles of products and services

The work undertaken with respect to these remedies is discussed in the following sections.

WHOLESALE PRICING AND ACCESS TO INTERCONNECTION



Interconnection is the linking of one electronic communications network to another, allowing users on one network to communicate with those on another network. It is a prerequisite of competition in communications markets. For this reason, all undertakings on the market have an obligation to interconnect with each other. Maltacom, as the undertaking having SMP in the relevant market, is obliged to provide interconnection under regulated terms.

Beyond ensuring effective interconnection on fair terms and conditions, the Authority seeks to facilitate service-based competition by ensuring that existent and prospective service providers are granted access to networks that are very difficult to replicate in the short to medium term. Infrastructure operators having SMP are consequently required to make available a number of regulated wholesale products such as Reference Unbundled Offers (RUO), Wholesale Line Rental (WLR) and Leased Lines (LL).

The Authority applies a

number of regulatory tools such as Bottom-Up Cost Modelling (BUCM) and Weighted Average Cost of Capital (WACC) methodologies (estimating the cost of capital) to enable it to determine the cost of providing regulated services. This ensures that where an operator is required to make these available at cost-oriented rates, the Authority can ensure compliance with this obligation.

Maltacom - BUCM

During 2006, the MCA continued to refine its BUCM of Maltacom's core network. In this revision, the MCA adopted a more aggressive approach towards efficiency gains in operational expenditure.

WACC methodology guidelines

The WACC is one of the determining parameters used for calculating cost-oriented charges. A reasonable rate of return is one which is sufficient to reward and incentivise

investment but does not include monopoly or SMP profits. In December 2006, the MCA consulted on a methodology on the estimation of the cost of capital of mobile, fixed and cable undertakings having SMP.

Reference Interconnection Offer

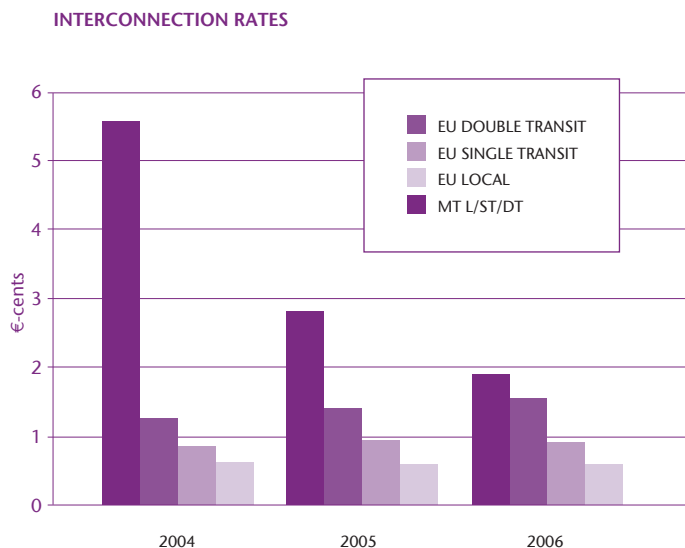
Maltacom is required to publish a reference interconnection offer which sets out the terms and conditions of interconnection to its network.

The refinements to the BUCM undertaken in 2006 led to a drop of around 30% in Maltacom's interconnection rates. This revision, which follows a number of interventions in past years, brought this rate in line with international benchmarks.

RUO Review

The local loop is essentially the connection from a telephone exchange to a subscriber's premises. Unbundled access to the local loop provides access

The refinements to the BUCM undertaken in 2006 led to a drop of around 30% in Maltacom's interconnection rates. This revision, which follows a number of interventions in past years, brought this rate in line with international benchmarks.



to the local loop or local sub loop of a network operator. The local loop is one of the hardest assets to replicate and therefore undertakings having SMP are required by law to publish a RUO. Even though this RUO has been available for a number of years, no undertakings have yet requested access to Maltacom's local loop. The MCA reviewed the RUO during 2006 and mandated a reduction in most prices. This should present a greater potential for the take-up of this product.

Single billing of WLR for carrier pre-selection

Extensive work was carried out in the last quarter of 2006 with a view to facilitating the entry of operators on a carrier select/pre-select basis (CPSOs). In this regard, Maltacom was first required to provide a single billing solution to CPSOs. Subsequently, Sky Telecom, the first CPSO to enter

the local market, came to an arrangement on an interim single billing solution with Maltacom. This arrangement will apply until a WLR solution, approved by the MCA, is made available by Maltacom.

Review of LL prices and Interconnection²

Leased Lines are communications lines that have been leased for private use. They permanently connect two points allowing private voice or data transmissions. Typically, undertakings in the electronic communications sector lease lines from the incumbent to interconnect different geographic locations securely.

Consequently, the availability of wholesale leased lines at cost-oriented prices and on a non-discriminatory basis, is a vital input into the competitiveness of the sector. The MCA mandated these obligations on Maltacom following its review

of the LL market in April 2006.

In this regard, the MCA formulated a comprehensive strategic review of national and international LL and related prices. This review is based on the MCA's BUCM as well as additional information provided by Maltacom. The review of prices for LL is expected to be finalised in 2007.

Review of accounting separation and current cost accounting decisions

Accounting separation and cost accounting are obligations imposed on undertakings having SMP in order to enable the Authority to determine the actual cost of providing a particular service.

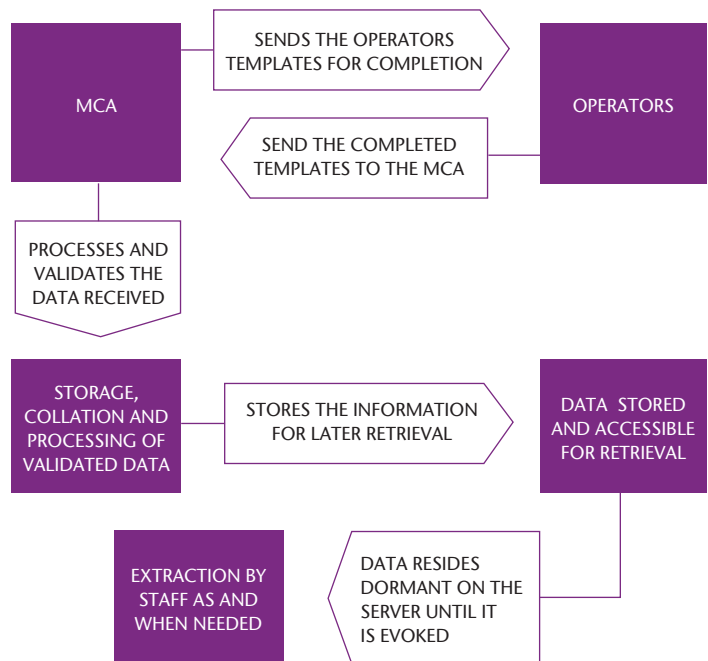
A review of the existing Accounting Separation and Cost Accounting Decisions was planned for 2006, however this project has been moved forward to 2007.

² Ongoing activity

MARKET MONITORING

The dynamic nature of the electronic communications industry requires that the Authority has an adequate decision making process supported by factual data. Market data collection and management is therefore a fundamental tenet of regulation.

In the last quarter of 2006, the MCA undertook an exercise to consolidate its core data framework. Using state-of-the-art data modelling techniques, the construction of a robust central repository for data is now well underway.



NUMBERING

The Authority must provide a coherent national framework for the management of numbers. This function triggers an ongoing stream of activities aimed at ensuring that numbers are managed in such a way as to support the competitive environment, whilst also taking into account consumer needs.

Review of numbering conventions and numbering plan

In June 2006, the MCA revised the National Numbering Conventions, which address the MCA's responsibilities to develop and administer the Numbering Plan. The processes involved in the allocation of numbers and the responsibilities

of the operators who are assigned numbers are also set out in the conventions.

During 2006, the MCA reviewed the Numbering Plan taking into account the impact of long-term trends and developments taking place in the electronic communications sector. The principles underpinning the numbering plan are tariff transparency and ease of use. A short code utilisation matrix and the National Numbering Allocations Plan was first published on the MCA website in June 2006.

During this period, the MCA also consulted on a wide range of issues concerning Freephone and Premium Rate Services. Its final decision will be issued in 2007.

Implementation of full number portability

Mobile number portability became available on 1st April 2006. By the end of 2006, over 8000 subscribers had 'ported' their mobile number.

A good part of this success is attributed to the development of specifications for number portability by a technical steering group comprising representatives from network operators and MCA officials.

With the emergence of competition in the fixed telephony market during the latter part of 2006, fixed line subscribers can now also benefit from number portability.

IMPLEMENTATION OF NEXT GENERATION NETWORKS

Review of Next Generation Networks (NGNs)

During 2006, the MCA worked on a policy on NGNs in conjunction with its European counterparts, the European Commission and other international bodies.

The MCA contributed actively to the European Regulators

Group's (ERG) work programme in this field. This work is still underway and has been identified as one of the key deliverables of the ERG for 2007.

The MCA will continue to participate actively in these activities during 2007 with a view to ensuring that its final policy will be in line with the overall Europe-wide policy.

Review of new voice services

The MCA had planned to carry out a policy review of the implications and impact of the evolution of VoIP and Voice over Broadband (VoBB) across new platforms and emerging technologies in 2006, however it has postponed this review to 2007.

POLICY REVIEW OF RADIO SPECTRUM AND IMPLEMENTATION

Radio spectrum is a scarce national resource that calls for diligent policies aimed at maximising its potential social and economic benefits. Consequently, during

2006, the MCA conducted a comprehensive review of the radio spectrum management utilisation taking into account emerging applications and approaches to spectrum

management, valuation, pricing as well as assignment. The outcome is an all-embracing strategy for managing radio spectrum aimed at achieving the objectives outlined above.

RADIO SPECTRUM AND RADIOCOMMUNICATIONS EQUIPMENT LICENSING

The review of the radio spectrum management framework included a rationalisation of the licensing regime of radiocommunications equipment. The intention was to harmonise spectrum and specifications where

applicable and replace the individual licensing regime with general authorisations in accordance with Government policy. This will minimize the administrative burden associated with this function, whilst improving customer

service. As part of this review, the MCA is seeking the introduction of incentives for the efficient use of spectrum in conjunction with a rationalisation of spectrum usage and equipment licensing fees.

COMMUNITY RADIO STATIONS

In another activity related to its spectrum management functions, the Authority is looking into the use of spectrum by community radios. These were introduced in 1991 under the Broadcasting Act. They have proved to be extremely popular so that to date, 25 permanent and 18 temporary licenses have been issued while a further

19 applications are pending. Frequency assignment and management is however proving to be difficult due to congestion on the FM band, lack of legal clarity in the radio station technical parameters outlined in the Act and the actions of some radio station operators serving to create interference. Consequently, the MCA is

making sure that licence holders comply with the conditions of issuance. Representatives from the Broadcasting Authority and the MCA have therefore formed a task force to examine the situation and formulate a policy proposal to Government. A consultation process is targeted for 2007.

OUTCOMES

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

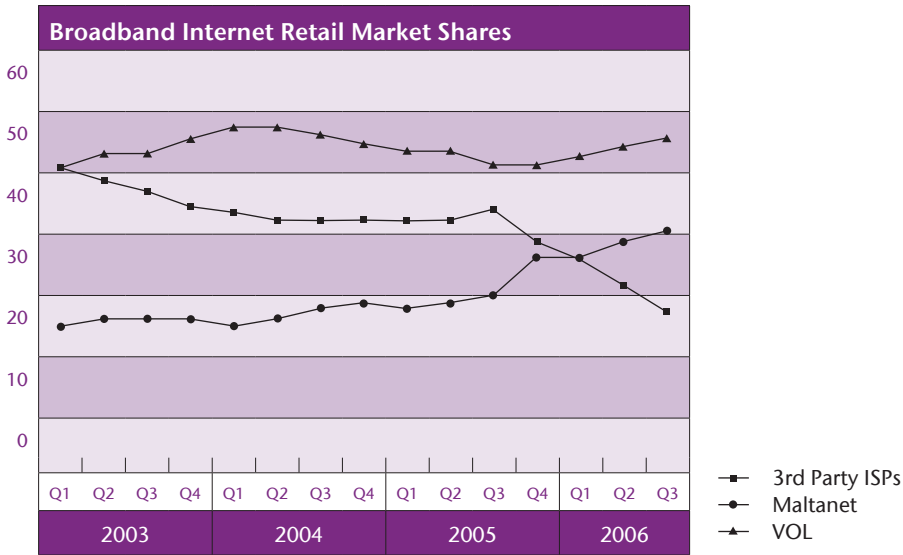
MOVEMENTS IN NUMBER AND VARIETY OF MARKET PLAYERS			
Fixed Telephony	Mobile Telephony	Internet	TV Distribution
Melita Cable introduced Hello Services	A number of mobile virtual network operators are in discussions with the mobile operators	A number of market exits, one merger	No new entrants
Sky Telecom introduced carrier select services		Cellcom was formed and assigned spectrum to provide BWA services	
		Vodafone and Go Mobile awarded spectrum to provide BWA services	
NEW SERVICE OFFERINGS			
Wholesale			
WLR product under development			
Retail			
Carrier pre-select Services	3G services by Vodafone	2 Mbps products doubled to 4 Mbps with no change in tariff	
VoIP telephony	HSDPA by Vodafone		
	TV over mobile		
	Number portability		
*Various special offers and a number of cross-sector bundled offers were placed on the market			
CHANGES IN MARKET SHARES			
Changes in market share were negligible given that competition is still at a very early stage	2006 saw a reversal in the market share trends exhibited in 2005, with Vodafone gaining a 1.1% share of the market. At the end of 2006, Go Mobile's market share was 47.3%, whilst Vodafone had 52.7%	Independent ISPs lost substantial ground in 2006. The lost market share was mainly captured by Maltanet, the incumbent's retail Internet arm	Due to the relatively recent entry of Multiplus into this market, validated data on changes in market share in this market were not available as at the end of 2006

* Say Hello with Onvol

Vodafone - Melita @ home package

Free TV set-top box for Maltacom subscribers

Go Mobile Talk & Surf



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

- Fixed interconnection charges reduced by 30% in January 2006.
- Reference unbundling tariffs reviewed.
- Reductions in mobile termination rates were implemented during 2006 as envisaged in the glide path for mobile termination rates which was published in December 2005.

STRATEGIC OBJECTIVE 2

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

The MCA seeks to safeguard consumer interests primarily through the fostering of a competitive environment. Healthy competition is often sufficient to ensure choice, value

for money and good quality of service. Where competition is insufficient to provide effective consumer protection, consumer interests must be protected through regulatory

interventions, complaints handling mechanisms, awareness raising and sector self-regulation.

PRICE CONTROL AND MONITORING

Cooperation for Euro Changeover

In 2006, the MCA initiated its preparations for the planned adoption of the Euro as the national currency on 1st January 2008.

In this regard, one important

area of work relates to the dual display and conversion of tariffs for electronic communications.

This is particularly important in this sector as the effect of rounding and smoothing on tariffs quoted in small denominations of high volume transactions could be

significant, both to service providers as well as to customers. It will be up to the National Euro Changeover Committee (NECC) to coordinate dual display and changeover of prices, however the Authority is providing advice and assistance, where necessary.

EMERGENCY SERVICES OBLIGATIONS – CONSULTATION

Following the welcome increase in the number of authorised undertakings providing Publicly Available Telephone Service (PATS) at fixed locations, the Authority consulted on the subject

of uninterrupted access to emergency services. The Authority is taking prompt action to ensure that users' rights are safeguarded, recognising that the availability of uninterrupted access to

emergency services via fixed telephone lines is a legal obligation of operators who need to ensure such access to end users at all times.

CONSUMER AFFAIRS MANAGEMENT

Increased competition and therefore the proliferation of special offers during 2006, saw the first sets of cross-sector bundled offers which served to heighten the need for a more strategic approach in the way the Authority deals with

consumer affairs. In response to these developments, in late 2006, the Authority initiated a comprehensive strategic review of its consumer affairs function. During this period, the MCA dedicated significant resources to complaints

handling. It also focused on responsible advertising by market players with a view to ensuring that adverts provide adequate and factual information to consumers.

SAFETY AND SECURITY INITIATIVES

Today, Malta's economic and social activities are dependent on public and private electronic communications networks and services, which are perhaps more liable to security breaches and service disruptions or failures than traditional infrastructures. Achieving network and information security is therefore inevitably, a critical public policy objective.

Network integrity and information security policy

In the first quarter of 2006, the MCA, in collaboration with the Ministry for Investment, Infrastructure and Information Technology (MIIT) and the Malta Police Force, established the National eSecurity Working Group with the primary aim of formulating a national electronic security strategy for the period 2006 – 2008.

Consequently, in December 2006 the MCA, with input from the working group, drafted a consultation paper on the subject. The consultation period ends in April 2007. A final strategy is expected to be published by the end of 2007.

EMF monitoring and auditing

During the past year, the MCA continued to audit radiocommunications base stations to ensure that emissions are within the levels contained in the guidelines established by the International Commission on Non-Ionising Radiation Protection (ICNIRP). More than 80 sites were audited including a combination of GSM and 3G mobile base stations, broadcasting transmitters, as well as other sources of EMF.

Furthermore, in July 2006, the MCA organised a half-day forum on the subject. Topics such as health implications, the basis for the development of EMF standards and the WHO recommendations on EMF were discussed.

Implementation of Unified Lawful Interception (ULI)

The implementation of the ULI system commenced in October 2006 and the system became operational in November 2006. A technical manual on the operation of the ULI system is under development and will be finalised in 2007.

Universal service obligations – Maltacom

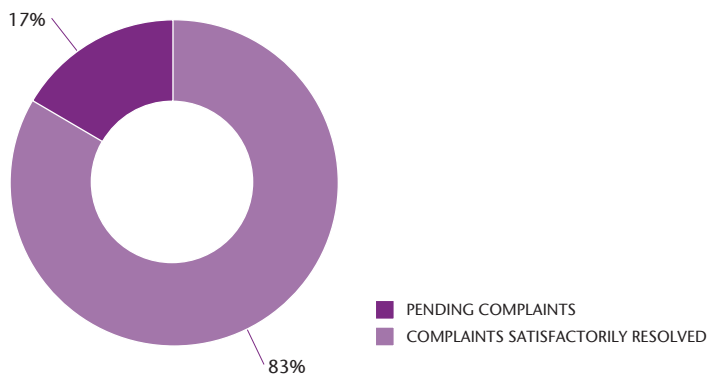
A review of existing Universal Service Obligations in light of the current framework was planned to take place in 2006. This has been carried forward to 2007.

OUTCOMES

MOVEMENTS IN THE ELECTRONIC COMMUNICATIONS PRICE INDEX

Statistics provided by the NSO indicate that household expenditure on electronic communications services as a percentage of total consumption has declined. This, coupled with MCA data demonstrating increased volumes of traffic, points to a reduction in overall cost of electronic communications for consumers.

PERCENTAGE OF COMPLAINTS DEALT WITH SATISFACTORILY.



STRATEGIC OBJECTIVE 3

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

The regulatory framework for the electronic communications sector is harmonised at an EU level. This means that similar rules are applied in this sector in all member states in order to facilitate the creation of a single EU-wide market for electronic communications services.

At an EU level, particular attention is given to the need to achieve an appropriate level of harmonisation in the application of these rules. The ERG, which comprises

all the regulators in the EU has been established with this specific objective. Furthermore, the European Commission is empowered to take specific actions, including infringement proceedings, to ensure the correct application of this framework.

During 2006, the MCA participated in the activities of this Group as well as other European fora in a substantive way in order to contribute to the formulation of European

regulatory policy, while at the same time ensuring that local peculiarities are addressed. Participation also serves to ensure the consistent application of the framework.

The MCA also plays an active role in advising Government on EU initiatives in this sector. It provides advice on all communications issued by the Commission and in particular, on draft EU legislation.

Key EU Communications relevant to the Electronic Communications Sector issued in 2006

EU Spectrum Policy Priorities for the Digital Switchover in the context of the ITU Regional Radiocommunications Conference (RRC-06)	COM (2005) 461
Reviewing the interoperability of digital interactive TV services	COM (2006) 37
Market reviews under the EU regulatory framework – consolidating the internal market for electronic communications	COM (2006) 28
11th Implementation report	COM (2006) 68
Bridging the broadband gap	COM (2006) 129
Report on the outcome of the universal service in accordance with Article 15 (2) of Directive 2002/22/EC	COM (2006) 163
A strategy for a Secure Information Society – Dialogue, Partnership and Empowerment	COM (2006) 251
Review of the EU regulatory framework for electronic communications networks and services	COM (2006) 334
Proposal on roaming on public mobile networks within the Community and amending Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services	COM (2006) 382

2006 REVIEW OF THE REGULATORY FRAMEWORK FOR ELECTRONIC COMMUNICATIONS

In June 2006, the European Commission published a communication on the review of the 2002 EU regulatory framework for electronic communications. The communication, as well as a number of ancillary documents, were published for consultation.

The review of the electronic communications framework is a primary activity that will shape regulation in Malta and in the EU in the coming years. The review is focusing on the following key areas:

- the reduction in the procedural burden associated with the reviews of markets susceptible to ex-ante regulation;
- the consolidation of the internal market;
- the application of a common EU approach to spectrum management which is less restrictive and more responsive to increasing demands for this critical resource; and
- proposals related to consumer protection and security which are becoming increasingly more important due to the sophistication of the electronic communications market.

The MCA responded to this consultation as part of the ERG. It also provided advice to the Ministry for Competitiveness and Communications (MCMP) with respect to its response to this consultation.

INTERNATIONAL ROAMING

The retail charges for international roaming have long been high on the EU agenda. In this regard, the European Commission has:

- used its own investigative and enforcement powers to combat anti-competitive behaviour; and
- published a website aimed at improving tariff transparency for consumers.

NRAs are also empowered to intervene in this market, however have so far been unable to do so effectively under the current framework.

Consequently, the Commission consulted on a draft EU regulation on roaming. The MCA contributed to this consultation both through the ERG and by providing advice to the MCMP in the formulation of its various interactions with the Commission.

The MCA participated in Council working party meetings where the Commission's draft regulation is under intense debate. It also provided advice to the MCMP with respect to discussions at a Council level with a view to ensuring that the regulation caters for the particular circumstances of the Maltese international roaming market, where roaming revenues make up a large chunk of total mobile revenues.

REGIONAL RADIO CONFERENCE

In May/June 2006, the International Telecommunications Union (ITU) held a Regional Radio-communications Conference (RRC) in order to construct a new digital transmission plan and assign frequencies for digital TV and radio transmission to various European, Asian and North African regions based on the principle of equitable access.

Malta sought to confirm and

consolidate the availability of frequencies that had recently been coordinated to ensure no disruption to the national DTTV strategy and to the business plans of the two licensed operators. The high demand for spectrum by all nations and the need to coordinate assignments with all neighbouring countries render these negotiations very difficult.

Malta has been designated as an allotment area and consequently

assigned 8 UHF channels and one VHF channel for digital TV and one VHF block (and 1 L-Band channel) for digital radio. Further channels may be assigned to Malta following the successful outcome of renewed coordination with neighbouring countries. This re-coordination process was initiated immediately on conclusion of the Conference and was still underway at the end of 2006.

STRATEGIC OBJECTIVE 4

Facilitating the proliferation of **Broadband**, in line with the e-Europe mission and objectives, via the development of the necessary regulatory environment.

The MCA recognises the central role played by broadband services in today's economic and social environment. It seeks to facilitate the delivery of an adequate supply of broadband infrastructures and services.

IPv6 TEST-BED

The IPv6 test-bed was set up in 2006. The test-bed is hosted at the University of Malta and connects to the 'IPv6 world' via GEANT (a pan-European network). A number of IPv6-

related tests focusing on basic networking concepts were carried out in 2006 by the various stakeholders. In parallel with this, a number of IPv6-related events were undertaken in 2006

with the aim of disseminating IPv6 knowledge and aid entities to start planning for the eventual transition from IPv4 to IPv6.

REVIEW OF WIRELESS TECHNOLOGIES

The Supply-Side Broadband Blueprint document, issued by the MCA in May 2004, outlined the broadband technologies available at the time. It also set out a number of broadband goals

to be achieved over the following 3 years. A mid-point review of this document was issued in January 2006. The document highlighted the broadband status in Malta in terms of adoption

and technologies being utilised, following 1.5 years from the issue of the initial strategy. A final review will take place in Q2 of 2007, at the end of the 3-year period suggested in the strategy.

REVIEW OF THE DEVELOPMENT OF BROADBAND COMPETITION BETWEEN FIXED AND WIRELESS ACCESS

A policy review of the issues of convergence and the impact of fixed/wireless substitution will have on the current telephony and broadband markets definition was scheduled for 2006 but has been postponed to 2007.

REVIEW OF BROADBAND QUALITY, PRICING AND BUNDLING

A review of the consumer aspects of broadband provision was scheduled to take place in 2006 however this has been carried forward to 2007. The review will include issues such as reviewing quality (transfer rate, billing accuracy) pricing and bundling.

EXTENSION OF ROLL-OUT OBLIGATIONS OF BROADBAND WIRELESS ACCESS NETWORKS

In early 2006, the MCA received a request from one of the BWA licensees for an extension to the roll-out and coverage obligations stipulated in the original license. This request was based on the fact that certification of certain BWA technology standards was delayed.

In view of the virtually unanimous position of the

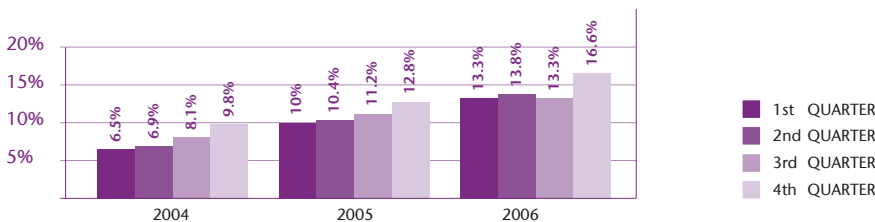
three licensees in favour of the extension and of the fact that it was envisaged that certification of the said BWA technology standards was to be completed in the near future, the MCA directed that it was justifiable and practical for the roll-out periods for the authorised operators to be modified by

a six-month extension.

In October and November 2006, the MCA received requests from two of the licensees requesting a further significant relaxation of the roll-out and coverage obligations. As at the end of 2006, the MCA was preparing to consult on these requests.

OUTCOMES

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



NUMBER OF BROADBAND INFRASTRUCTURES AND SERVICE PROVIDERS

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

In August 2006, Vodafone launched 3G services providing broadband-like download speeds of up to 384kbps.

December 2006, Vodafone launched its HSDPA service.

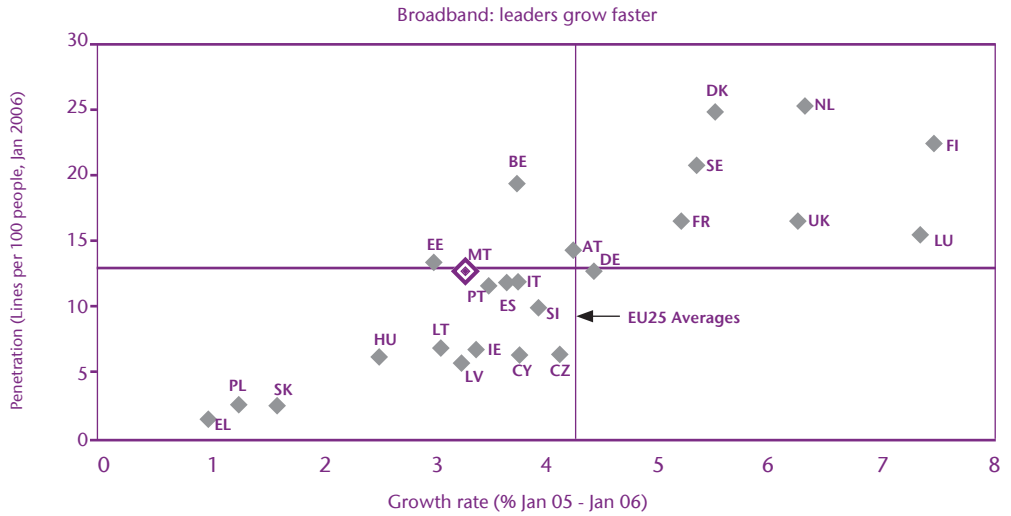
Go Mobile, Cellcom and Vodafone are expected to roll-out BWA infrastructures in 2007.

VARIETY OF TECHNOLOGY PLATFORMS ON WHICH BROADBAND SERVICES ARE OFFERED

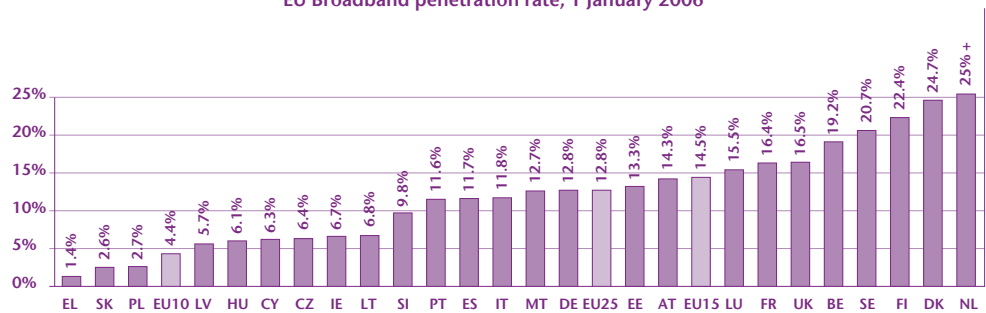
Broadband services are currently offered through a Cable, DSL, HSDPA or 3G platform.

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

Recent findings published by the Commission clearly indicate the relationship between broadband penetration and overall economic growth. Malta's performance in terms of broadband penetration is a positive one however, it is clear that significant effort must be invested in order to continue driving penetration as Malta has lost some ground in this regard, as demonstrated by the following charts.

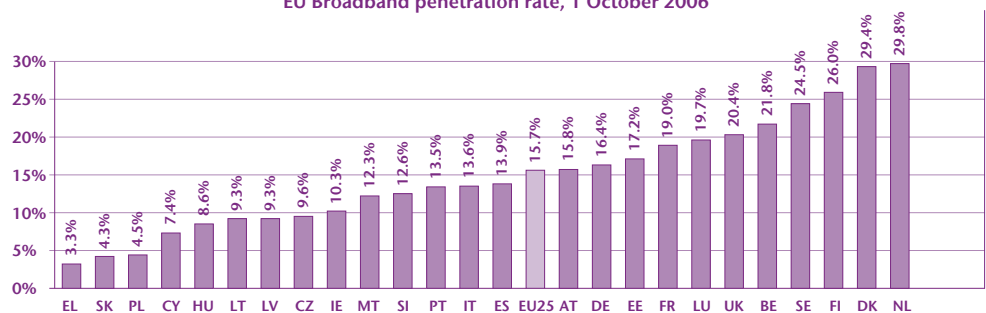


EU Broadband penetration rate, 1 January 2006



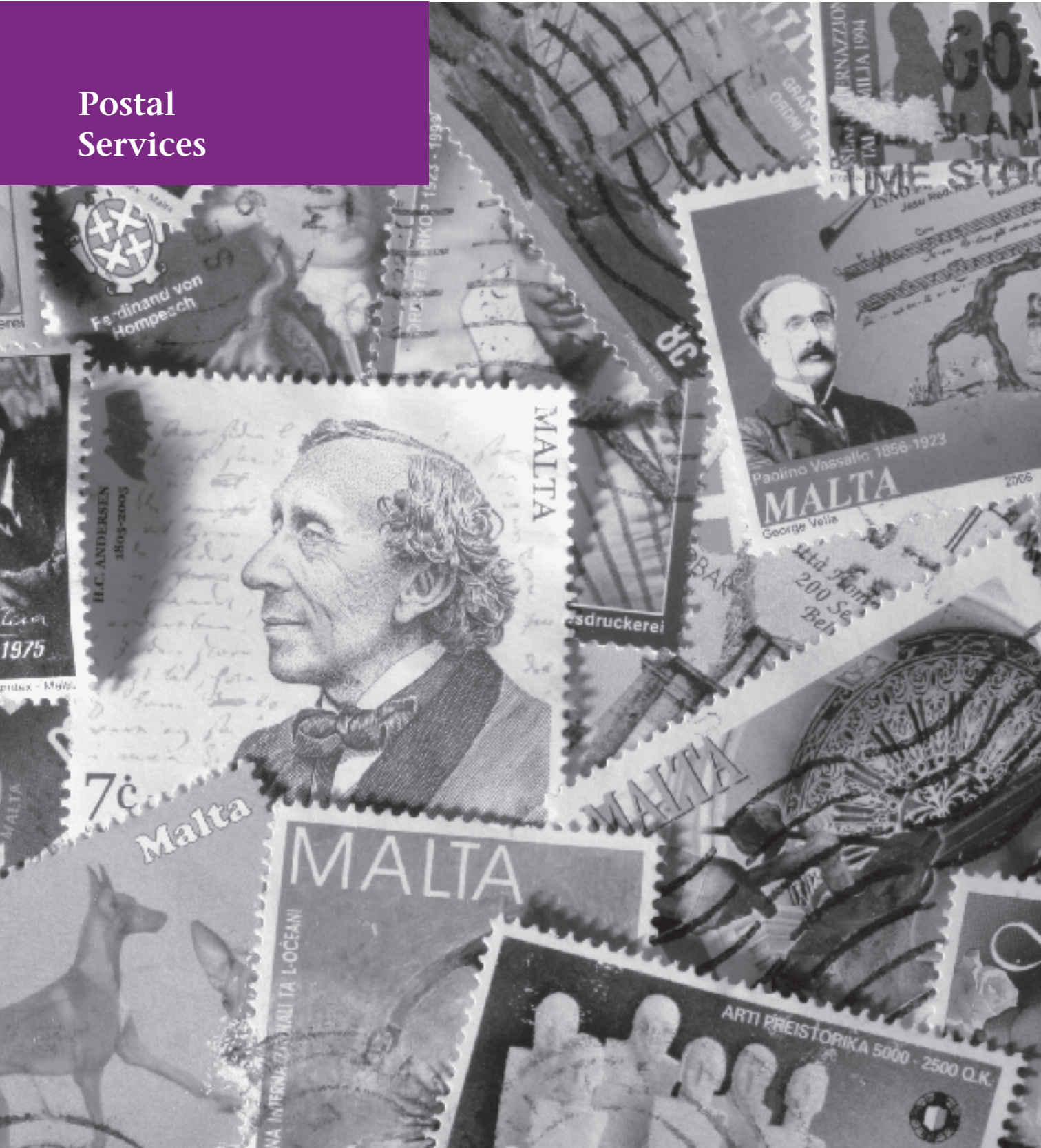
Source: Commission services based on data from COCOM. Annex to EU Information Society Developments 2005-2006 i2010 - First Annual Report on the European Information Society SEC(2006) 604

EU Broadband penetration rate, 1 October 2006



Data for Austria as of July 2006. The estimate for the Austrian NRA for October 2006 is 16.42%
 Source: 12th Implementation Report on the Electronic Communications Sector in the EU.

Postal Services



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

STRATEGIC OBJECTIVE 1

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

While it is recognised that the introduction of competition in the postal universal services area is very difficult to achieve, it is necessary for the MCA to continue to

create an environment that is conducive to competition where possible or feasible.

There have been a number of key developments in the postal sector during 2006. Further

liberalisation has occurred this year as competitors to Maltapost are permitted to deliver letters, so long as the weight exceeds 50g.

POSTAL REGULATORY ACCOUNTING

Price control strategy for postal services – price-cap framework

During 2006, the MCA embarked on a review of a number of proposals from Maltapost aimed at rebalancing the tariffs of various regulated services. This led to a decision published by the Authority in September 2006, permitting an increase of Lm 0.01 on the standard letter (0-50g). The Authority came to this decision after concluding that such an increase was warranted to safeguard the provision of such an important component of postal services. A pricing review of other regulated

postal services is expected to be concluded during 2007. This will precede a consultation process, which in turn will lead to the implementation of the RPI-X framework in 2008.

Review of cross-border terminal dues

The MCA had planned to undertake a review of issues related to cross-border mail agreements. This project was not undertaken in 2006 and has been carried forward to 2007.

Review of the Universal Service Provider's annual regulatory accounts

As the Universal Service Provider (USP), Maltapost is required to keep separated accounts for each of the services within the reserved and non-reserved areas as well as any services or activities not comprising the conveyance of postal services.

In 2006, Maltapost submitted its separated accounts for the financial year ending September 2005. These accounts were reviewed by the MCA to ensure that they comply with the pertinent cost accounting guidelines and methodologies.

OUTCOMES

NUMBER OF POSTAL SERVICES PROVIDERS IN THE VARIOUS POSTAL AREAS

Airsped Express Ltd.	Gazelle Couriers Co.	Pony Express
Airswift Couriers Ltd.	Gozo Express Services	Premiere Post Ltd.
Arrow Express Ltd.	Maltapost Plc.	Security Services Malta Ltd.
C & C Express Ltd.	Marvic Couriers	Tubeline Ltd.
DHL International Ltd.	Miles Express Cargo Systems Ltd.	World Express Logistics Ltd.

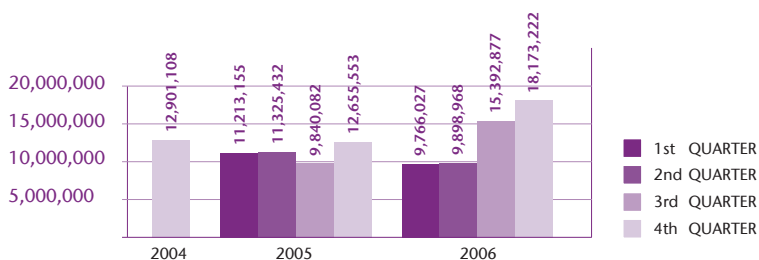
POSTAL VOLUME TRENDS IN THE VARIOUS AREAS OF THE POSTAL SECTOR

An overall decrease in the letter post items was registered from 2005 to 2006, whilst there was an overall increase in the parcel post service from 2005 to 2006.

This is in line with international trends, where due to the increasing popularity of email, there is a gradual reduction in traditional mail. On the other hand, due to the increasing popularity of eCommerce the area of parcel post is experiencing growth.

The data for bulk mail and registered mail is not conclusive at present.

TOTAL DOMESTIC POST ITEMS (Non-Homogenous Units)



STRATEGIC OBJECTIVE 2

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

The MCA's key statutory objective is to promote the availability of a universal postal service in Malta at an affordable price for the benefit of all users.

SAFEGUARDING CONSUMER INTERESTS

Development of mail integrity standards

In June 2006, the MCA published a Decision Notice on the minimum mail integrity standards which all postal operators must meet.

The standards address:

- the prevention of unauthorised access to mail;
- the management of authorised access to mail; and
- the prevention and management of damage and/or injuries resulting from natural disasters, accidents and the transmission of dangerous and prohibited goods.

To ensure Maltapost's compliance with these standards, in December 2006, the MCA commissioned an independent audit of the policies and procedures adopted in this regard.

Review of universal obligations / access points – Maltapost

The MCA intends to establish criteria against which to assess compliance with universal service obligations in 2007.

USP's quality of service measurements

In setting the three-year Quality of Service (QoS) targets, the MCA considered the outcomes of a specifically designed customer perception survey. The table below depicts the QoS targets that were to be achieved by Maltapost between October 2005 to September 2006.

OUTCOMES

MOVEMENT IN POSTAL PRICES

- 50g increased by 1c to 8c.

QoS PERFORMANCE STATISTICS IN RELATION TO SET TARGETS

LOCAL ORDINARY MAIL QoS TARGETS			
Financial year	D*+1	D+2	D+3
2005/06	90%	96%	98%

The D+1 results achieved on local ordinary mail during 2005/06, stood at 92.14%. This is a substantial improvement on those achieved during the previous year 2004/05 which amounted to 90.78%.

*D denotes day (i.e. D+1 = Next day service)

STRATEGIC OBJECTIVE 3

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

As with the other sectors falling under the Authority's remit, the MCA must adopt policies which are consonant with international rules and best practice. For this reason, the MCA participates in the work taking place at an

EU level, in particular in the drafting of legislation pertaining to the postal sector and within the context of the Postal Services Committee. At a broader level, the Authority participates in the activities of the European

Committee for Postal Regulation (CERP), European Conference of Postal and Telecommunications Administration's (CEPT) postal arm and also refers to the work of the Universal Postal Union.

REVIEW OF THE REGULATORY FRAMEWORK FOR POSTAL SERVICES

The European Commission has recently undertaken a review of the regulatory framework for postal services and has now published a draft directive that will amend the current directive

on postal services. This amending directive has the main objective of securing the full opening of the internal market for Community postal services by 2009.

In this regard, the MCA has

submitted its views on the draft Directive to the European Commission and in 2006 started participating in the Council working party meetings discussing this draft Directive.

eCommerce



eCommerce is an intrinsic element of the broad array of activities which underpin the information society.

The MCA's role in this field is primarily determined by its statutory functions as set out within the Electronic Commerce Act. However, the Authority is mindful of the fact that achieving legal compliance by service providers

will not be sufficient for the full potential of eCommerce, in terms of economic and social gains to be realised.

This strategic objective therefore requires the Authority to contribute, directly and indirectly, to the

establishment of a coherent national operating framework that encourages, facilitates and supports the appropriate take-up of eCommerce by consumers and businesses alike.

STRATEGIC OBJECTIVE 1

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

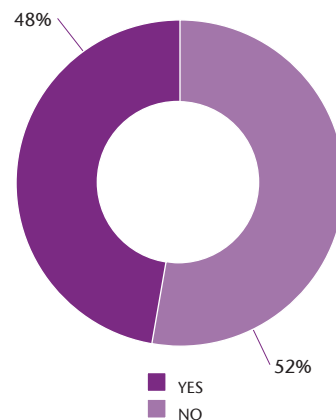
In 2006, the MCA undertook a number of activities that will serve to ensure that a level of compliance with eCommerce rules is achieved in Malta. It also undertook activities aimed at laying the groundwork for engendering trust in eCommerce.

eCOMMERCE REGULATIONS

Electronic Commerce (General) Regulations were enacted in October 2006. These regulations focus on the requirement of information society service providers to furnish basic information to consumers so that these may identify the service providers they are dealing with. They also establish obligations to ensure an appropriate level of transparency with respect to commercial communications provided online.

These Regulations avoid placing unnecessary regulatory burdens on service providers; they also provide for a light-touch supervisory regime that will serve to ensure that regulatory obligations are complied with.

eCOMMERCE USERS AS A PROPORTION OF INTERNET USERS



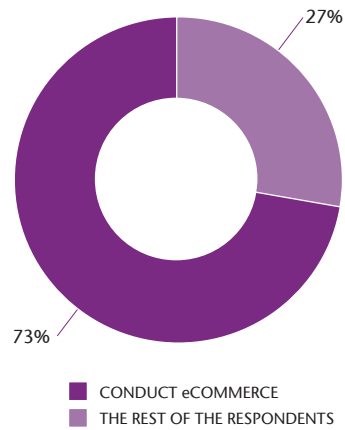
AWARENESS RAISING

MCA provided input into an awareness campaign conducted by the Ministry for Investment, Industry and Information Technology (MIIT) during 2006. Awareness brochures were produced regarding safe online shopping aimed at disseminating information on sound practices that consumers should adopt when shopping online.

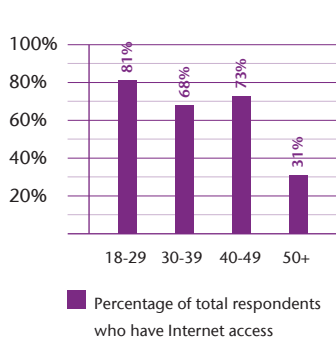
EURO LABEL TRUST MARK SCHEME

During the year under review, the MCA provided input into the preparatory work for the launch of the Euro Label Trust Mark scheme in Malta. It assisted the MIIT, the lead Ministry on this initiative, in establishing the terms and conditions to be met by service providers who are awarded this Trust Mark. The certification will therefore provide the assurance that service providers are fully compliant with the applicable legislative framework. The MCA will also have a representative on the Eurolabel Trust Mark Scheme Complaints Committee Board set up for the handling of complaints and enquiries in this regard.

eCOMMERCE USERS AS A PROPORTION OF ALL RESPONDENTS

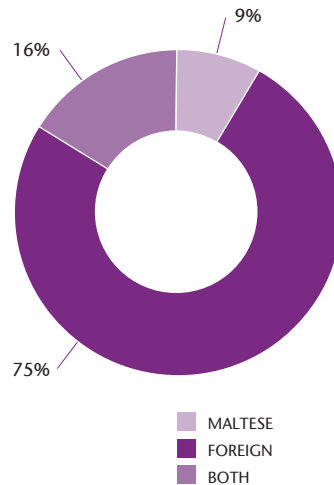


INTERNET ACCESSORS ACCORDING TO AGE BRACKET



Internet penetration is high amongst all ages apart from the 50 plus bracket.

SHOPPING TRENDS



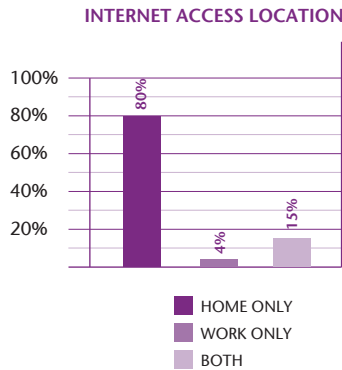
MARKET RESEARCH

In September 2006, the MCA undertook a consumer survey aimed at drawing a composite picture of eCommerce use by consumers. This survey is the first in a series of ongoing surveys that the Authority aims to undertake with a view to monitoring market developments and trends. The results of these surveys will complement the statistical data already published on a regular basis by the NSO. The results, which will be published in 2007, will serve to inform the MCA's communications and regulatory interventions in this sector.

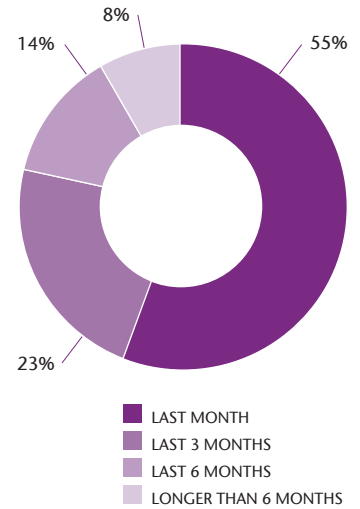
eSIGNATURES SUPERVISION

During 2006, the MCA participated in a project led by the Malta Standards Authority, aimed at establishing a high level framework for a national accreditation scheme for electronic signature services providers. The framework has been finalised and will serve as the basis for an accreditation scheme if such service providers commence operations in Malta and demonstrate interest in being accredited locally.

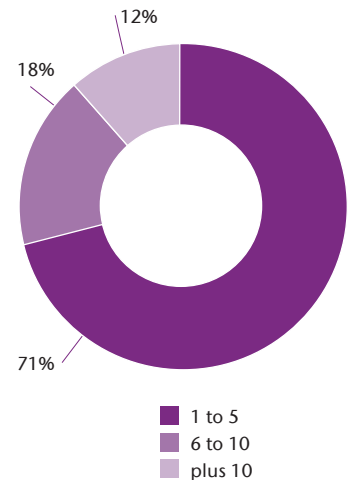
The framework for the accreditation scheme would eventually also serve as the foundation for the MCA's regulation of electronic signature certification service providers.



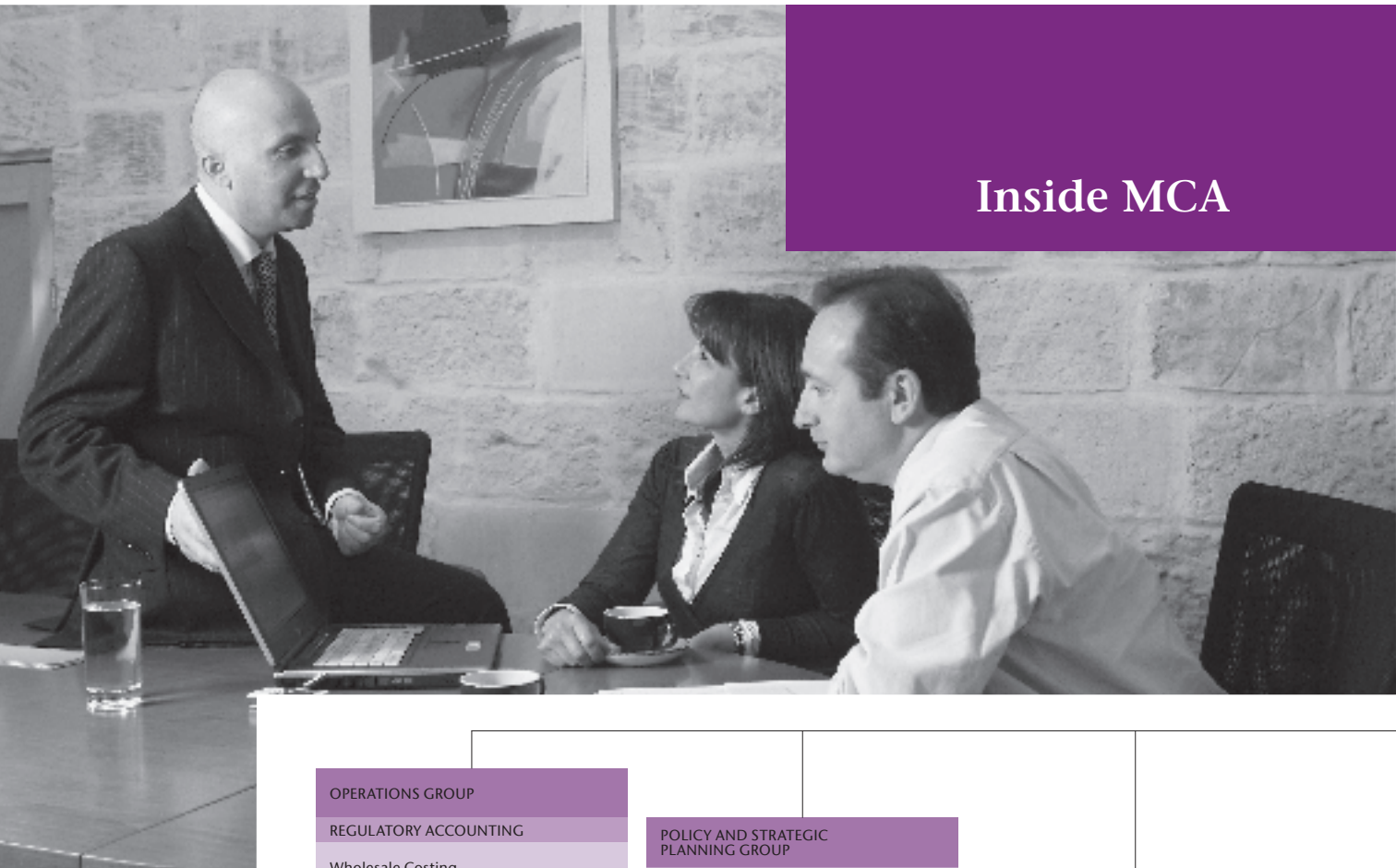
FREQUENCY OF ONLINE PURCHASING



FREQUENCY OF ONLINE SHOPPING IN THE LAST 6 MONTHS

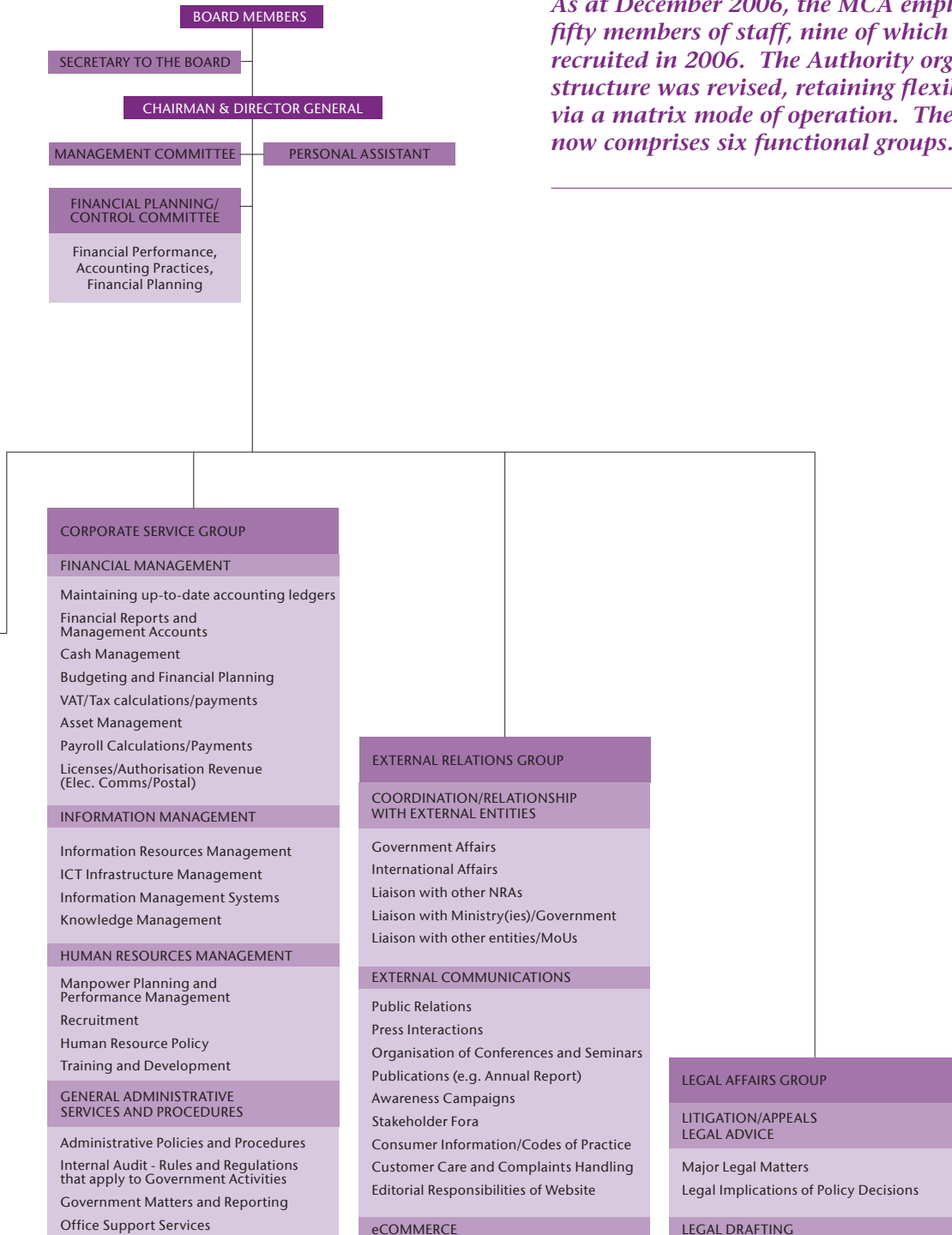


Inside MCA



OPERATIONS GROUP		
REGULATORY ACCOUNTING	POLICY AND STRATEGIC PLANNING GROUP	
Wholesale Costing	STRATEGY AND BUSINESS PLANNING	
Retail Pricing and Competitiveness	Research of Local/International Developments	
Cost Accounting/Accounting Separation	Strategic and Business Planning	
Cost Modelling	Performance Measurement	
Legal Interception Fund Management	Strategic Projects	
REGULATORY OPERATIONS	Programme Support, Tracking and Reporting	SPECTRUM MANAGEMENT AND TECHNOLOGY GROUP
Access and Interconnection	POLICY REVIEW/DEVELOPMENT/ADVICE	RADIO SPECTRUM MANAGEMENT
LLU, RUO, RIO	Research and Evaluation	International Coordination and Liaison
Supervision of Pricing	Policy Advice/Review to Government	Spectrum Engineering
Ensuring a Universal Service	Regulatory Policy Advice/Review	Spectrum Planning, Allocations and Assignment
Quality of Service	MARKET DEVELOPMENT	Maritime and Aeronautical Radiocommunication Issues
Network Integrity/Security	Market Reviews and Analysis	R&TTE Obligations/Market Surveillance
MARKET FRAMEWORK	Market Information and Research	Radiocommunications Licences/General Authorisations
General Authorisations/Licensing	Forward Looking Analysis	Spectrum Monitoring and Enforcement
Number Allocation/Management	Market Information Updates	TECHNOLOGY
Dispute Resolution	Biannual Market Reviews	Industry Standards - ETSI, CEN
Compliance, Enforcement and Investigations	Consumer Surveys	Security and Data Protection Standards
Market Information Requirements/Statistics		New and Emerging Technologies and Services
		Internet Health Monitoring

As at December 2006, the MCA employed fifty members of staff, nine of which were recruited in 2006. The Authority organisation structure was revised, retaining flexibility via a matrix mode of operation. The MCA now comprises six functional groups.



During 2006, a Financial Planning and Control Committee was also established. The Committee reports to the Management Committee and is responsible for the management of the MCA's financial performance, corporate accounting practices and financial planning.

RELOCATION TO NEW PREMISES

In April 2006, the MCA relocated to new office premises at the Valletta Waterfront. The

relocation was required due to increased staff complement and in order for the Authority

to have one office to house all its members of staff.

EXCELLENCE IN PEOPLE MANAGEMENT

In November 2006, the MCA was presented with an award for 'Excellence in People Management'. Key factors that led to achieving the award included:

- Leadership;
- Organisational values;
- Communications and information dissemination;
- Employee participation;
- Learning, development and training;
- Performance management; and
- Equal opportunities.

TRAINING AND DEVELOPMENT

During 2006, the MCA finalised agreements with the technical members of staff previously employed by the former Wireless and Telegraphy Department. These employees are currently undergoing an extensive training programme aimed at upgrading their skills to enable

them to perform their functions more effectively. The MCA also continued to support the training needs of its staff through its staff development programme. Two University students reading for a degree in engineering and law respectively were engaged to participate in a number of projects

during the summer months. In addition, the MCA supported a number of initiatives set up by the Employment and Training Corporation, such as the Technical Apprentice Scheme and the Job Experience Scheme and employed 1 and 4 students respectively.

INFORMATION MANAGEMENT

Information is integral to all the Authority's business inputs, processes and outcomes. Like any resource, information needs to be managed in accordance with legislation, regulations and organisational policies. An Information Management Strategy was drawn up in

2006 to ensure that the MCA makes the most efficient and effective use of this resource.

Regulatory Information

In September 2006, the MCA published a request for proposals

for the conduct of a feasibility study on implementing a suitable regulatory information management system. The study was commissioned in December 2006 and will be concluded during the second quarter of 2007.

LAUNCH OF NEW WEBSITE

In September 2006, the MCA launched its updated website which was designed to provide a personalised service to its audience, both end-users and industry players. In

addition, the re-design also catered for feature-rich online services that make for better communications between the MCA and the general public. The site now offers a dedicated

section to consumers and online complaint and enquiry handling. Further developments are planned for 2007.

MCA ANNUAL CONFERENCE

On 30th November/1st December 2006, the MCA, in collaboration with the European Network and Information Security Agency (ENISA) held its fourth Annual Conference on the topic of eSecurity. The topic chosen complemented the theme established by the ITU for 2006 and was aimed specifically at identifying best practice with the objective of raising the level

of network and information security at a national level.

Once again, a number of key, high-level, local and international speakers in the industry shared their views and experiences on the subject. This year's forum was held over two days with the second day addressing industry, Government and user-related security issues in three

separate workshop sessions. The outcomes and key issues elicited during the conference and workshop sessions were used as the starting-point for the compilation of a strategy that identifies key priorities to be tackled at a national level, as well as mechanisms for ensuring effectiveness and coherence in implementation.

LITIGATION

During 2006, five new appeals were filed before the Communications Appeals Board. In three of these appeals, appellants contested decisions taken by the Authority imposing administrative fines following instances, which in the opinion of the Authority, constituted non-compliance with regulatory obligations. Appellants, in all three instances, paid the fines under protest and these appeals are currently pending before the Communications Appeals Board, two of which have been adjourned for a final decision by the Board. The remaining other new appeals relate to a contestation of a decision by the Authority following a dispute between two operators in the electronic communications

sector and an appeal contesting the determination of market power and setting of remedies in markets one, two and three.

New lawsuits introduced before the ordinary Courts against the Authority include an application contesting the quantum of charges that may be imposed in relation to rights of way. Another application contesting the legality of regulation 26 of Cable Systems (General) Regulations, which regulation prohibits a cable operator from carrying advertisements on its cablecast channels if not without the written consent of the competent Minister, was also lodged.

During the period under review, the Court of Appeal required the Authority to

continue processing an application for the award of a third generation frequency licence. The Authority is consequently continuing with the processing of the said application as directed by the Appeals Board.

This period was also characterised by disputes by different operators linked to the emergence of new fixed line operators and complaints alleging anti-competitive practices. The latter has highlighted the need to consider revising the current regulatory regime insofar as the regulation of sector competition issues are concerned, primarily to ensure a more effective mode of dealing with such issues.

Financial Statements



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Pre-forma
24

GENERAL INFORMATION

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

MEMBERS OF THE AUTHORITY

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

BANKERS

Bank of Valletta plc
Preluna Towers
Tower Road
Sliema SLM 08
MALTA

HEAD OFFICE

Valletta Waterfront
Pinto Wharf
Valletta VLT 01
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 year ended 31 December 2006.

PRINCIPAL ACTIVITY

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

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

RESULTS

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

The total operating income generated by the Authority during the year amounted to Lm3,285,714 out of which licensing and usage fees for scarce resources, amounting to Lm2,164,711, were transferred to the Government of Malta. After meeting all expenditure of Lm1,075,160, the Authority closed off the year with a surplus, net of taxation, of Lm77,921.

MEMBERS

The Members who served during the year under review were as noted on page 43. In accordance with Part II, Section 3 of the Malta Communications Authority Act, Cap. 418, the Chairman and the other Members of the Authority are appointed by the Minister responsible for communications. The Members of the Authority are appointed by the Ministry for a maximum period of three years but may be re-appointed on the expiration of their term of office.

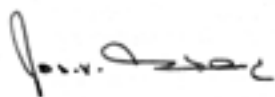
STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE AUTHORITY

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

AUDITORS

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

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



J. V. TABONE
Chairman



C. GRIMA
Member

Valletta Waterfront
Pinto Wharf
Valletta VLT 01
MALTA

13 March 2007

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

We have audited the financial statements of the Malta Communications Authority, which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes set on pages 47 to 62.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Authority as of 31 December 2006 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Malta Communications Authority Act, Cap. 418.

Anthony Doublet (Partner) for and on behalf of

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

13 March 2007

INCOME STATEMENT

		Year to 31.12.06 Lm	01.10.04 to 31.12.05 Lm
Income			
Revenues	5	3,285,714	9,121,755
Government contributions		-	129,318
		3,285,714	9,251,073
Expenditure			
Staff costs	6	(531,270)	(596,662)
Depreciation	12	(70,621)	(39,597)
Operating and administrative expenses	7	(473,269)	(597,393)
		2,210,554	8,017,421
Operating surplus			
Finance revenue	8	35,188	16,955
Finance costs	9	(1,746)	-
		2,243,996	8,034,376
Transfers to Government	10	(2,164,711)	(7,901,614)
Surplus before taxation		79,285	132,762
Taxation	11	(1,364)	(23,372)
Surplus for the financial year/period		77,921	109,390

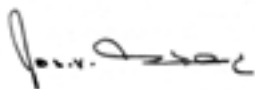
The accounting policies and explanatory notes on pages 51 to 62 form an integral part of the financial statements.

BALANCE SHEET As at 31 December 2006

	Notes	2006 Lm	2005 Lm
ASSETS			
Non-current assets			
Property, plant and equipment	12	253,901	52,729
Current assets			
Trade and other receivables	13	1,091,656	1,076,046
Cash at bank and in hand		536,095	459,261
		1,627,751	1,535,307
Total assets		1,881,652	1,588,036
EQUITY AND LIABILITIES			
Reserve			
Retained earnings/(accumulated deficit)	14	67,956	(9,965)
Current liabilities			
Payables	15	1,813,696	1,598,001
Total equity and liabilities		1,881,652	1,588,036

The accounting policies and explanatory notes on pages 51 to 62 form an integral part of the financial statements.

The financial statements on pages 47 to 62 have been authorised for issue by the Members on 13 March 2007 and were signed on their behalf by:



J. V. TABONE
Chairman



C. GRIMA
Member

STATEMENT OF CHANGES IN EQUITY

**Retained earnings/
(accumulated deficit)
Lm**

FINANCIAL PERIOD ENDED 31 DECEMBER 2005

Balance as at 1 October 2004	(119,355)
Surplus for the financial period	109,390
	<hr/>
Balance at 31 December 2005	(9,965)
	<hr/>

FINANCIAL YEAR ENDED 31 DECEMBER 2006

Balance as at 31 December 2005	(9,965)
Surplus for the financial year	77,921
	<hr/>
Balance at 31 December 2006	67,956
	<hr/>

The accounting policies and explanatory notes on pages 51 to 62 form an integral part of the financial statements.

CASH FLOW STATEMENT

	Note	Year to 31.12.06 Lm	01.10.04 to 31.12.05 Lm
Cash flows from operating activities			
Surplus before taxation		79,285	132,762
Adjustments for:			
Depreciation of property, plant and equipment		70,621	39,597
Government contributions		-	(129,318)
Transfers to government		2,164,711	7,901,614
Loss on disposal of property, plant and equipment		3,921	4,371
Interest receivable		(35,188)	(16,955)
Interest payable		1,746	-
Provision for bad debts		9,718	-
Operating surplus before working capital changes		2,294,814	7,932,071
Increase in debtors		(24,277)	(475,784)
Decrease in creditors		206,337	633,650
Cash generated from operations		2,476,874	8,089,937
Interest received		33,038	14,470
Interest paid		(2,838)	-
Taxation refund		3,256	-
Taxation paid		(1,364)	(37,880)
NET CASH FROM OPERATING ACTIVITIES		2,508,966	8,066,527
Cash flows from investing activities			
Purchase of property, plant and equipment		(232,691)	(40,441)
Cash flows from financing activities			
Government contributions		-	239,693
Funds paid to government		(2,199,441)	(7,913,287)
NET CASH USED IN FINANCING ACTIVITIES		(2,199,441)	(7,673,594)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		76,834	352,492
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD		459,261	106,769
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	17	536,095	459,261

The accounting policies and explanatory notes on pages 51 to 62 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

During 2005, the Authority changed its financial year end from 30 September to 31 December. Accordingly, the comparative figures cover a 15 month financial period ended 31 December 2005.

3. BASIS OF PREPARATION

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

4. PRINCIPAL ACCOUNTING POLICIES

During the year the Authority has adopted new standards and interpretations which became applicable for December 2006 year-ends. Adoption of revised standards did not have any effect on the financial statements of the Authority, except for additional disclosures required by IFRIC 4 – ‘Determining whether an Arrangement Contains a Lease’.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Authority has not early adopted. These are as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective for financial years beginning on or after 1 January 2007). IFRS 7 is not relevant to the Authority’s operations.

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

- **IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies** (effective for financial years beginning on or after 1 March 2006). IFRIC 7 is not relevant to the Authority’s operations.

- **IFRIC 8, Scope of IFRS 2** (effective for financial years beginning on or after 1 May 2006). IFRIC 8 is not relevant to the Authority’s operations.

4. PRINCIPAL ACCOUNTING POLICIES - *continued*

- **IFRIC 9, Reassessment of Embedded Derivatives** (*effective for financial years beginning on or after 1 June 2006*). IFRIC 9 is not relevant to the Authority's operations.

- **IFRIC 10, Interim Financial Reporting and Impairment** (*effective for financial years beginning on or after 1 November 2006*). IFRIC 10 is not relevant to the Authority's operations.

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

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

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

Revenue recognition

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

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

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

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

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

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

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

Retirement benefit costs

The Authority contributes towards the state pension in accordance with local legislation and does not provide for other contributions or retirement benefit plans or pensions. Related costs are expensed during the period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES - *continued*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. The initial cost of property, plant and equipment comprised its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to the income statement in the period when they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost.

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

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

Collectables and antiques are not depreciated

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

Impairment of assets

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

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

4. PRINCIPAL ACCOUNTING POLICIES - *continued*

Trade and other receivables

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.

Financial instruments

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

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

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

Cash and cash equivalents

Cash in hand and at 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.

Payables

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

Taxation

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

4. PRINCIPAL ACCOUNTING POLICIES - *continued*

Deferred taxation

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

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

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

Foreign currencies

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

Leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

5. REVENUES

The revenues generated by the Authority are made up of:

	Year to	01.10.04
	31.12.06	to
	Lm	31.12.05
		Lm
Telecommunications, postal licensing and right of way (note i, ii)	315,746	352,940
Administrative charges	1,042,374	1,165,462
Usage fees for scarce resources (note ii, iii)	1,878,965	7,578,674
Application fees and other income	48,629	24,679
	3,285,714	9,121,755

- (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 10), 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 for the financial period ended 31 December 2005 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.

6. EMPLOYEE INFORMATION

a. **Staff costs**

The total employment costs were as follows:

	Year to	01.10.04
	31.12.06	to
	Lm	31.12.05
		Lm
Members' emoluments	28,459	33,754
Wages and salaries	472,323	527,532
Social security costs	30,488	35,376
	531,270	596,662

b. **Staff numbers**

The average number of persons, excluding board members, employed by the Authority during the year was 50 (2005 : 46).

NOTES TO THE FINANCIAL STATEMENTS - *continued*

7. OPERATING AND ADMINISTRATIVE EXPENSES

	Year to 31.12.06 Lm	01.10.04 to 31.12.05 Lm
Outsourced project costs	102,044	228,431
Corporate administrative expenses	162,426	160,344
Public relations and communications	36,313	24,656
Travelling expenses	54,704	60,296
Increase in provision for doubtful debts	9,718	-
Auditors' remuneration	575	575
Rental expenses	26,434	18,720
Loss on disposal of property, plant and equipment	3,921	4,371
Administrative Services rendered by Ministry for Competitiveness and Communications	77,134	100,000
	473,269	597,393

8. FINANCE REVENUE

	Year to 31.12.06 Lm	01.10.04 to 31.12.05 Lm
On bank balances	8,756	11,564
On amounts due from debtors	26,432	5,391
	35,188	16,955

9. FINANCE COSTS

	Year to 31.12.06 Lm	01.10.04 to 31.12.05 Lm
On capital creditor	1,746	-

10. 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

11. TAXATION

	Year to 31.12.06 Lm	01.10.04 to 31.12.05 Lm
Current tax	1,364	1,362
- current year		
- under provision in prior years	-	22,010
Deferred tax (note i)	-	-
	1,364	23,372

(i) Under the legislation in force governing the operations of the Authority, the Authority charges administrative fees to the service providers equivalent to its cost. Moreover, all the license fees collected are transferred to the Government. Since the Authority is not expected to generate any taxable profits, management is of the opinion that no deferred tax should be accounted for. Keeping in view this fact, the potential deferred tax asset amounting to Lm10,748 has not been accounted for in these financial statements.

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

	2006 Lm	2005 Lm
Profit before transfers to Government and taxation	2,243,996	8,034,376
Theoretical taxation expense at 35%	785,399	2,812,032
Tax effect of		
- excess of depreciation of property, plant and equipment over capital allowances	9,788	4,916
- income not subject to tax	(757,148)	(2,766,435)
- lower tax rate on local interest income on bank balances	(1,818)	(1,816)
- absorbed capital allowances brought forward	(2,124)	(23,320)
- absorbed tax losses brought forward from prior years	(32,733)	(24,015)
- adjustment in respect of current income tax of previous years	-	22,010
Tax charge	1,364	23,372

12. PROPERTY, PLANT AND EQUIPMENT

	Building improvements Lm	Computer equipment Lm	Fixture, fitting & equipment Lm	Motor vehicle Lm	Total Lm
Cost					
At 1 January 2006	2,751	116,321	49,680	21,973	190,725
Additions	121,933	55,980	87,648	10,150	275,711
Disposals	(2,751)	(28,261)	(9,657)	-	(40,669)
At 31 December 2006	121,933	144,040	127,671	32,123	425,767
Depreciation					
At 1 January 2006	2,713	88,939	24,426	21,918	137,996
Depreciation charge for the year	24,387	26,454	17,718	2,062	70,621
Depreciation released on disposal	(2,714)	(27,954)	(6,083)	-	(36,751)
At 31 December 2006	24,386	87,439	36,061	23,980	171,866
Net book value					
At 31 December 2006	97,547	56,601	91,610	8,143	253,901
At 31 December 2005	38	27,382	25,254	55	52,729

13. TRADE AND OTHER RECEIVABLES

	2006 Lm	2005 Lm
Trade debtors	1,023,188	1,030,427
Accrued income	8,543	3,616
Prepayments	44,925	36,213
Other debtors	15,000	3,600
Tax recoverable	-	2,190
	1,091,656	1,076,046

14. RESERVE

The balance on the retained earnings in the Balance Sheet as at 31 December 2006 represents a resulting net surplus, after the surplus made during the year ended 31 December 2006 was partly absorbed by the deficit which had accumulated between the years 2001 and 2005. 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.

15. PAYABLES

	2006	2005
	Lm	Lm
Current liabilities		
Amount due to Government	318,799	353,529
Deferred income (note i)	1,110,417	1,218,456
Accruals	30,621	23,987
Social security contributions and other taxes	24,647	-
Other creditors	286,192	2,029
Capital creditor	43,020	-
	1,813,696	1,598,001

- i. Deferred income comprises the unexpired portion of annual fees billed in advance together with the surplus of administrative charges, amounting to Lm275,993, 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 during 2005 by the Government of Malta, amounting to Lm8,513 (2005: Lm10,215) is also included with deferred income.

16. RELATED PARTY DISCLOSURES

Transactions with key management personnel

During the year ended 31 December 2006, short term employee benefits to key management personnel amounted to Lm 151,873.

Other related party transactions

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

	2006	2005
	Lm	Lm
Payments to Government of Malta	2,199,441	7,913,287

Related company balances

Outstanding balances with related parties at 31 December 2006 are disclosed in note 15 on amount due to Government.

NOTES TO THE FINANCIAL STATEMENTS - continued

17. CASH AND CASH EQUIVALENTS

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

	2006	2005
	Lm	Lm
Cash at bank and in hand	536,095	459,261

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.

18. COMMITMENTS

Capital commitments

	2006	2005
	Lm	Lm
Capital expenditure contracted but not provided for	8,808	150,000
Capital expenditure authorised but not contracted for	-	50,000

Operating lease commitment

The commercial lease agreement on the premises previously used as offices by the Authority expired on 31 January 2005.

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:

	2006	2005
	Lm	Lm
Within one year	30,400	31,636
After one year but not more than five years	73,467	91,200
	103,867	122,836

19. CONTINGENT LIABILITIES

Guarantees

As at 31 December 2006 the Authority has provided bank guarantees in favour of third parties, amounting to Lm39,500. The guarantees will expire in January 2008.

Legal claims

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

Melita Cable plc is also contesting two separate fines imposed by the Authority, one with regard to adverts carried out by Melita on its Sports Channel (Lm10,000) and another one with regard to adverts carried out by Melita on its Weather and Information Channel (Lm19,400).

Maltacom plc is contesting a fine of Lm13,400 imposed by the Authority for the failure to finalise an inter-connection agreement with Melita Cable plc within a period deemed to be reasonable to the Authority.

20. FINANCIAL INSTRUMENTS

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

At the year-end, the Authority's main financial liabilities on the balance sheet consisted of payables. The Authority's off-balance sheet financial liabilities at year-end are described in note 19 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 2006 and 31 December 2005 the carrying amounts of cash at bank, debtors, creditors and accrued expenses approximated their fair values.