



ANNUAL
REPORT &
FINANCIAL
STATEMENTS
2016



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FOREWORD

CHAIRMAN'S MESSAGE

2016 marked the 15th anniversary for the MCA. The Authority was set up in 2001 with the mandate of fostering competition in the various electronic communications markets, including fixed and mobile telephony, internet access and television distribution services. Increased competition has spearheaded the robust and efficient deployment of modern telecommunication networks with sustained investment coming from the private sector.

Along the years, our mandate has grown to include greater responsibilities: apart from being entrusted with the regulation of electronic communications, postal services and eCommerce, the MCA was tasked with facilitating and promoting the development of a digital society spurred by innovation in ICT.



The last fifteen years have been colourful at times and challenging at others, both for the communications sector, as well as for the Authority. Last year was no exception. We delivered our objectives and work programme as set out in our published Annual Plan. During 2016, we:

- actively supported the Government in its preparations for the Maltese Presidency of the Council of the European Union;
- provided technical advice to Government and to the European Commission in preparation for the abolition of roaming surcharges and the implementation of Roam-Like-At-Home;
- monitored adherence of local mobile operators to the EU Roaming Regulation ensuring that consumer protection measures and pricing structures are adequately set in place;
- actively engaged in enforcing new net neutrality rules and raising public awareness on this subject;
- coordinated the transposition of EU Directive 2014/61/EU on reducing the cost of deploying high-speed electronic communication networks;
- issued a decision obliging GO to publish a reference offer to provide virtual unbundled access to its Fibre-to-the-Home network;
- issued a decision whereby all subscribers of electronic communication services who do not have internet access will be entitled to receive their bill in hard copy format free of charge;
- launched a review of TV transmission policy, and consequent redeployment of the 700MHz band;
- initiated a consultation process proposing the adoption of postcodes as an integral part of the postal address;
- undertook intelligence-gathering through consumer perception surveys in the eCommerce and postal services sectors;
- concluded discussions with Amazon, thus providing Maltese individual sellers and businesses with access to Amazon's platform and more than 240 million customers worldwide;
- organised the sixth edition of the eBusiness Awards, attracting a record number of nominations;

- organised ZEST, the largest national tech event with over 375 attendees, giving Malta an opportunity to present itself as a start-up friendly place, to attract more activity and talent to base their operations here;
- increased the number of free Wi-Fi hotspots to 300, including installation on the most popular beaches;
- launched an online Maltese dictionary, a measure aimed at sustaining our national identity, our culture and our language;
- trained 580 students in coding and organised a nationwide initiative, 'Hour of Code', during which approximately 40 schools and 6,000 students engaged in activities aimed at promoting coding;
- rolled out a host of initiatives focused on safer use of the internet by minors as part of the BeSmartOnline! Project; and
- launched a new corporate website and increased the MCA's presence and activity on social media platforms.

The list goes on. It has indeed been another very busy year, not unlike the previous one. Despite knowing that we have come a long way, it somehow feels that we are still at the very start of our journey.

We have just stepped into an era where communication technologies are characterised by the digitisation and connection of everything and everyone. Our industries are addressing a fresh wave of challenges and changes – from robotics and automation, to cyber-security and connected devices. The future of the communications industry will continue to be shaped by innovations in technology, changes in regulatory policy and social norms and, more critically, the pronounced demand for information services. Consumers will increasingly be reliant on hyper-connectivity, high-quality experience and service ubiquity. This will not only result in multiplying tenfold the connectivity and computing power; it will also cause major shifts in human behaviour as well as massive industrial and business disruption.



Guided by the vision of a connected and digital continent aspiring towards a Gigabit society, we are active participants in the EU structures currently undertaking the review and evolution of a modern telecoms framework. Together with our counterparts across the EU, we are working towards developing the appropriate regulatory tools to take timely action to stimulate investment, competition and innovation based on national circumstances. We want to see consumers benefitting from competitive markets which provide wide choice, fair prices and high-quality.

To this end, MCA is a regulator that always strives to keep consumers' interests at the heart of its work. We remain vigilant and open to discussions with operators to take prompt corrective action, where appropriate. Whilst favouring healthy conflict resolution, the MCA did not shy away from exerting its authority on operators through the imposition of fines, where necessary, in the case of breaches to legal obligations.

Despite our strong commitment towards safeguarding consumers' interests, our remit is limited to certain sector-specific provisions. The MCA does not have legal powers to regulate unfair commercial practice, misleading advertising or the use of unfair contract terms undertaken in the communications sector. Nor does MCA have the power to deal with competition issues, such as abuse or anti-competitive behaviour in the case of communication products which are not subject to *ex ante* regulation, and thus are subject to standard competition law. Not to mention the fact that network providers are jostling for position in a market where mergers invariably raise competition concerns.

The need for investment is not simply limited to networks: it is also crucial for efficient and appropriate customer service. We are continuously demanding that operators resolve customers' problems more quickly and effectively. We noted positive developments in this respect, with some operators promoting their commitment to better customer service as part of their selling proposition. In keeping with our values on the subject of customer service, we are planning to invest in tools that measure the quality of service of electronic communication services. In the interests of transparency and consumer empowerment, we will present our findings to consumers.

We further believe that consumers would be better served if the MCA were to be afforded the necessary powers to deal with competition and consumer protections issues in the sectors that it regulates. Several regulatory authorities across the EU have pursued the same path in order to promote competition and ensure that markets work better for everyone. We believe this can only be done by creating a one-stop-shop environment for both consumers and undertakings, reducing bureaucracy and creating greater legal certainty in the regulatory environment.

Indeed, with regulatory certainty in mind the MCA has also been working towards making available adequate bands to enable 5G which is set to change the ways in which consumers and business use the internet. We have made available the 800MHz radio frequency spectrum and started to clear the 700Mhz band with the aim of making this band available for mobile data as soon as practicably possible. We have adopted a flexible licensing framework for testing and trials of radio technologies and services, including 5G and IoT, aimed at placing Malta at the forefront of new communication technologies that underpin innovation and competitiveness across both the private and public sectors, and enable scientific progress in all disciplines.

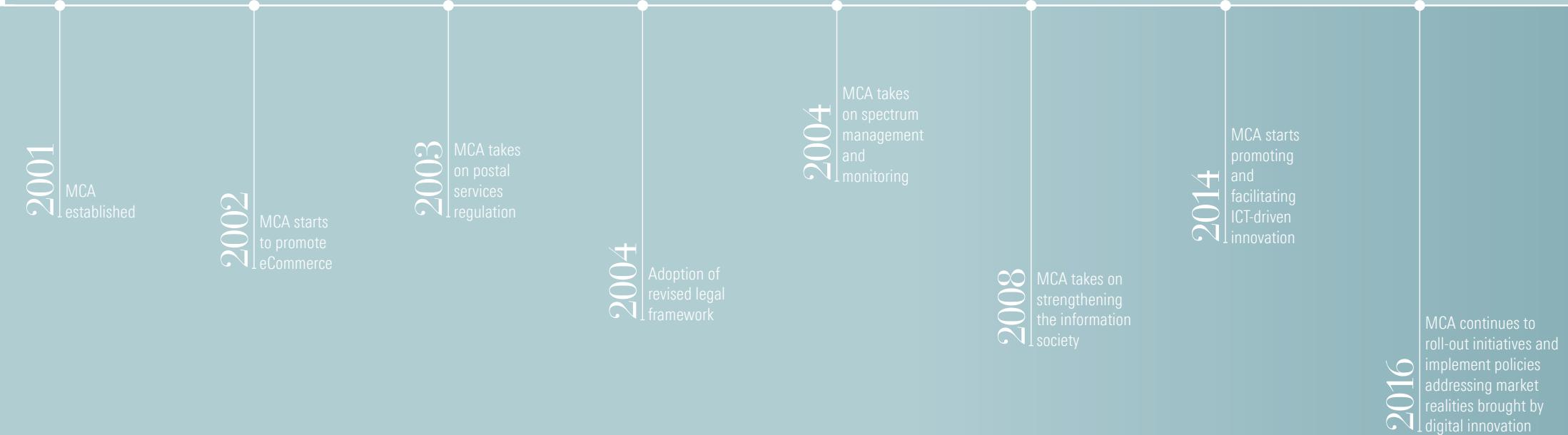
The biggest challenge in advancing innovation is the fact that it has to be a nationwide policy, backed by various competent bodies. Public authorities tend to be structured to reflect the way traditional businesses operate, oriented to target-specific economic sectors and traditional business models. If we want to champion notions of innovation, we must first innovate from within. Over the past three years, I have worked hard to transform the MCA from being exclusively a regulator to an effective facilitator and motivator of innovation in ICT. We have changed our internal structures and processes to institutionalise this concept by establishing a dedicated 'Business Innovation' function. We have taken a leading role in supporting the Maltese start-up ecosystem, valued at €770 million, to further develop its potential in line with our vision of positioning Malta as an ideal location for establishing and scaling a digital business. We established a growing number of partnerships and undertook joint initiatives with other like-minded public, educational and private stakeholders.

The risk for some of being disconnected through being unable to participate in the modern digital economy is still acute, with participation conditional, to a large extent, on accessing ICT with confidence and competence. Malta still lags behind other European partners with regard to technology usage, particularly amongst the older generation. Reaching these segments is no mean feat, and requires fresh and targeted approaches. This part of our mission is very close to our heart and our objective to eradicate, to the largest extent possible, the digital divide through our actions remains. We will continue rolling out diversified programmes and initiatives targeting not only individuals, but also businesses, to ensure that these recognise the benefits of ICT.

The consolidation of digital economy and innovation under a Parliamentary Secretariat within the Office of the Prime Minister is definitely a step in the right direction. We are convinced that this could lead to a greater sense of direction, more holistic policy frameworks and programmes for the new digital sectors, better organisation and increased synergies between stakeholders. Drawing on its technical expertise and experience, the MCA looks forward to being a lead partner with Government and achieving its vision for start-ups, blockchain, 5G, IoT, and other tech innovation fronts.

As the national agency responsible for the communications sector in Malta, we are in the thick of this digital revolution. The vision for first-class 5G, ultra-fast broadband connections, ever-more connected devices, better quality of service and positioning our nation as a hub for digital innovation is an exciting one. I appreciate that the task is not easy. However, I am confident that with our commitment and appropriate action, in partnership with Government and multiple public and private stakeholders, we can ensure progress in these areas to benefit all citizens and businesses for a truly inclusive digital society in Malta.

TIMELINE OF MCA'S INSTITUTIONAL REMIT



TIMELINE OF KEY DEVELOPMENTS IN SECTORS UNDER THE MCA'S PURVIEW



2

BOARD AND MANAGEMENT COMMITTEE

EDWARD WOODS
CHAIRMAN

MARIO FAVA
MEMBER

SARAH KENNARD
MEMBER

ALEXANDRA MIZZI
MEMBER

SIMON SALIBA
MEMBER

GODFREY VELLA
MEMBER

NORMAN VELLA
MEMBER

* THIS BOARD WAS APPOINTED IN MAY 2016

BOARD **MEMBERS***

MEMBERS:

EDWARD WOODS
CHAIRMAN

IAN AGIUS
CHIEF OF OPERATIONS

STEVE AGIUS
CHIEF OF INFORMATION MANAGEMENT AND DEVELOPMENT

ROBERT MIFSUD
CHIEF OF EXTERNAL RELATIONS

ANTOINE SCIBERRAS
CHIEF OF SPECTRUM MANAGEMENT AND TECHNOLOGY

PATRICK VELLA
CHIEF OF POLICY AND PLANNING

OTHER ATTENDEES:

JASON GALEA
SENIOR MANAGER FINANCE, HR AND ADMINISTRATION

PAUL MICALLEF
HEAD LEGAL ADVISOR

MANAGEMENT **COMMITTEE**



3

ELECTRONIC COMMUNICATIONS

This document contains information and statistics that have been obtained from sources believed to be reliable in regard to the subject matter covered.

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The MCA assumes no responsibility for any consequences that may arise in the absence of such changes and/or updates.

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MARKET OVERVIEW

3.1 MARKET OVERVIEW

The general picture that emerges for 2016 is generally consistent with long-term market trends, with uptake and usage growing for mobile telephony and fixed broadband. The notable rise in take-up of fixed telephony did not however translate in higher usage of the service, as end-users switched their demand for voice telephony services to mobile. On the other hand, demand for pay TV was down in 2016 compared to the previous year, as subscriptions for the service dipped by 1.1%.

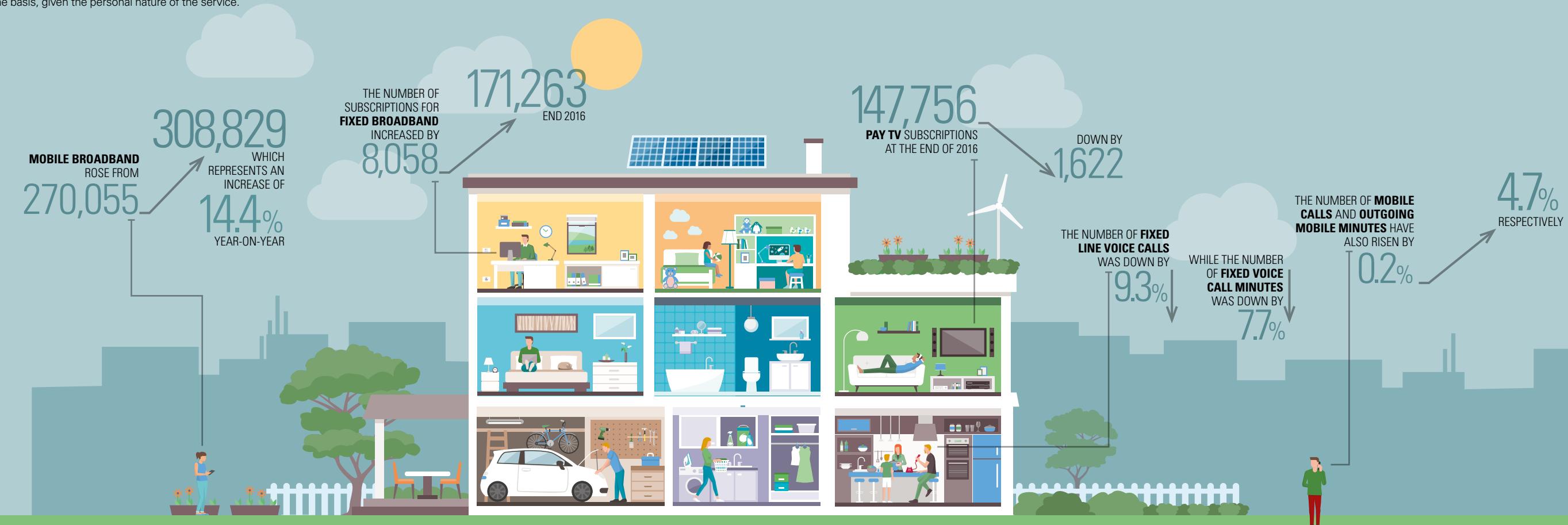
The year 2016 has also seen more end-users opting for the bundled subscription of electronic communications services, with fixed broadband and fixed telephony being the most popular services purchased in dual-play and triple-play packages, and pay TV increasingly purchased in triple-play packages. On the other hand, end-users stood with their preference in purchasing mobile telephony on a stand-alone basis, given the personal nature of the service.

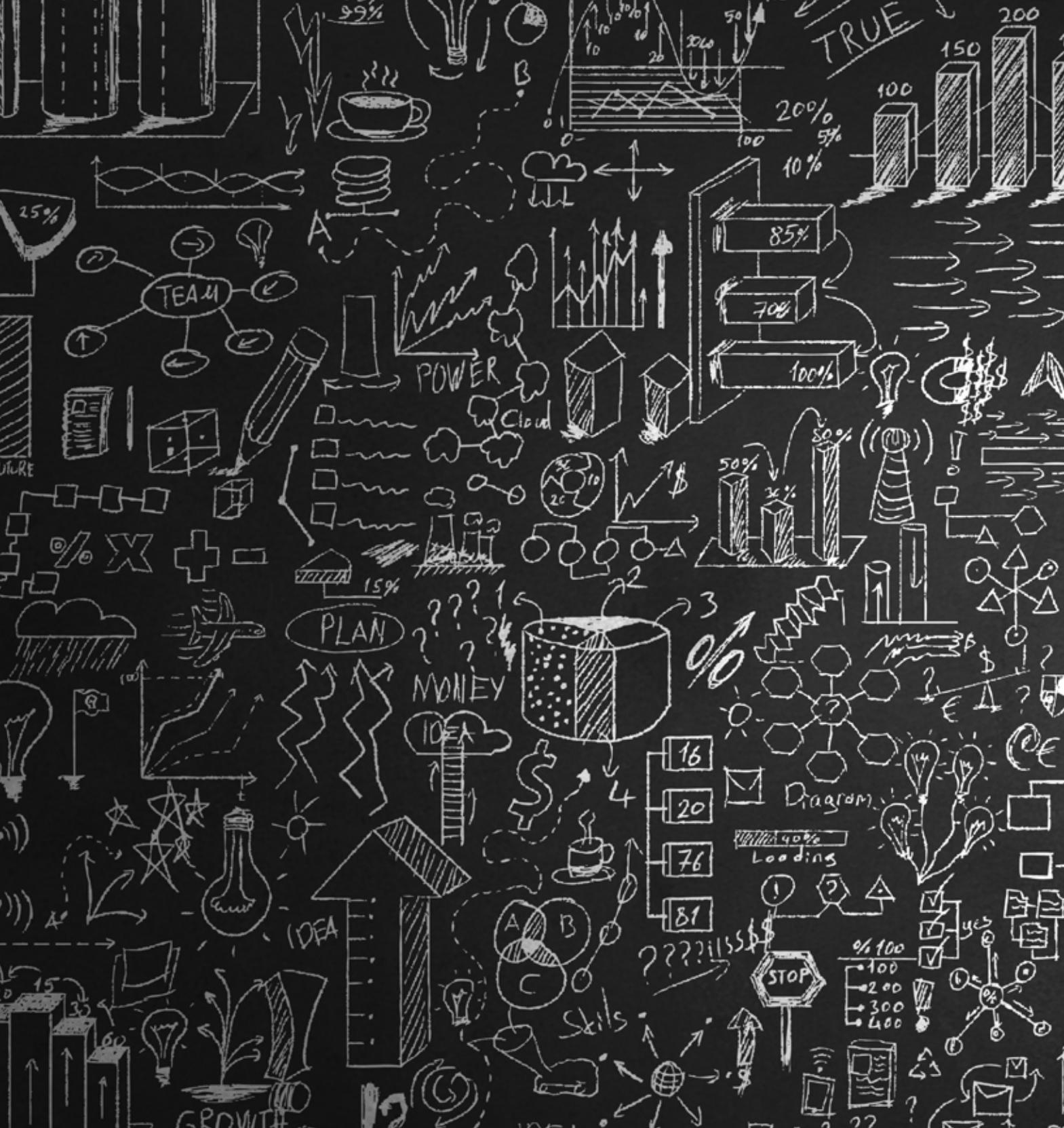
The continued fixed-to-mobile substitution in terms of voice telephony services reflects the falling rates per minute of communication for mobile telephony and higher penetration rates for mobile. The number of mobile subscriptions has now reached 585,470, representing a penetration rate of 133.44% and an increase of 5 percentage points year-on-year.

Also consistent with long-term market trends, the growing uptake of fixed broadband comes on the back of higher take-up of plans supporting fast and super-fast download speeds, the latter packages allowing for download speeds greater than 100Mbps. The number of fixed broadband subscriptions reached a total of 171,263 by the end of the year, which represents a 4.9% year-on-year increase in subscriptions. 6.2% of all fixed broadband subscriptions recorded at the end of 2016 supported download speeds of 100Mbps or more.

Active usage of mobile broadband services increased significantly in 2016. By the end of 2016, 308,829 subscriptions were making active use of mobile broadband data, an increase of 38,774 subscriptions year-on-year in absolute terms.

The number of pay-TV subscriptions at the end of 2016 decreased by 1,622. This decline comes at a time when more end-users are getting increasingly familiar with non-linear TV programming. The launch of services such as Netflix in early 2016 may have also contributed to the drop observed in the number of subscriptions for linear pay TV services.





THE COMMUNICATIONS MARKETS AT A GLANCE

| Economic contribution by electronic communications sector (as at end of year): | | 2015 | 2016 |
|--|--|---------------|---------------|
| Number of active fixed line subscriptions | | 230,226 | 234,368 |
| Fixed line portings | | 1,697 | 1,662 |
| Total number of outgoing fixed calls | | 152.6 million | 138.5 million |
| Total number of outgoing fixed minutes | | 536.6 million | 495.4 million |
| Number of mobile subscriptions | | 557,583 | 585,470 |
| Mobile portings | | 32,280 | 29,544 |
| Total number of outgoing mobile calls | | 534.3 million | 536.8 million |
| Total number of outgoing mobile minutes | | 767 million | 807.6 million |
| Total number of outgoing SMSs | | 457.3 million | 401.8 million |
| Fixed broadband subscriptions | | 163,205 | 171,263 |
| Subscriptions on speeds less than 10 Mbps (Mega Bits Per Second) | | 2,731 | 1,239 |
| Subscriptions on speeds equal to 10 Mbps but less than 30 Mbps | | 62,541 | 68,629 |
| Subscriptions on speeds equal to 30 Mbps but less than 100 Mbps | | 95,663 | 91,194 |
| Subscriptions on speeds equal to 100Mbps or more | | 2,270 | 10,561 |
| Pay TV subscriptions | | 149,378 | 147,756 |
| Number of analogue cable subscriptions | | 6,092 | 5,399 |
| Number of digital cable subscriptions | | 72,622 | 71,213 |
| Number of Digital Terrestrial TV (DTTV) subscriptions | | 51,390 | 45,640 |
| Number of Internet Protocol TV (IPTV) subscriptions | | 19,274 | 25,504 |

FIXED LINE TELEPHONY

The fixed telephony subscriber base has grown stronger in 2016 with 4,142 more subscriptions reported at the end of the current reporting period. This shows that people still value having a fixed line connection at home or at their business premises, regardless of the fact that usage of the service is falling. A notable change in the fixed telephony subscriber base is the increase in post-paid subscriptions, with service providers enhancing their efforts to switch end-users from pre-paid to post-paid plans. An additional factor contributing to these developments is the increasing proportion of end-users purchasing the fixed telephony service on a bundled subscription, given that only fixed line subscriptions on a post-paid contract can be purchased in a bundle along with other electronic communications services. The proportion of bundled fixed telephony subscriptions (on a post-paid contract) was up by around 5.3 percentage points year-on-year, from 63.1% at the end of 2015 to 68.4% at the end of the current reporting period.

In terms of traffic levels, the volume of originating fixed line calls and minutes in 2016 was lower than that recorded in the previous year. In this regard, the number of fixed line voice calls was down by 9.3% while the number of fixed voice call minutes was down by 7.7%. This decline in traffic volumes coincided with an increase in subscriber numbers for the sector. This is a clear indication that the number of end-users having a fixed telephony connection is increasing and voice telephony usage is shifting to mobile. As a result, voice activity levels per fixed telephony subscriber dipped in 2016 when compared to the same period a year earlier, with the number of voice calls per subscription falling to 591 from 663 and the number of voice call minutes per subscription falling to 2,113 from 2,330.

As more end-users purchase their subscription in a bundle, the minute allowances offered in these packages are becoming accessible to a larger segment of the local fixed telephony subscriber base. This has an impact on the average rate per minute of fixed line communications, with calculations showing that the overall ARPM in 2016 stood at €0.028, which is down by 6.7% from €0.030 in 2015.

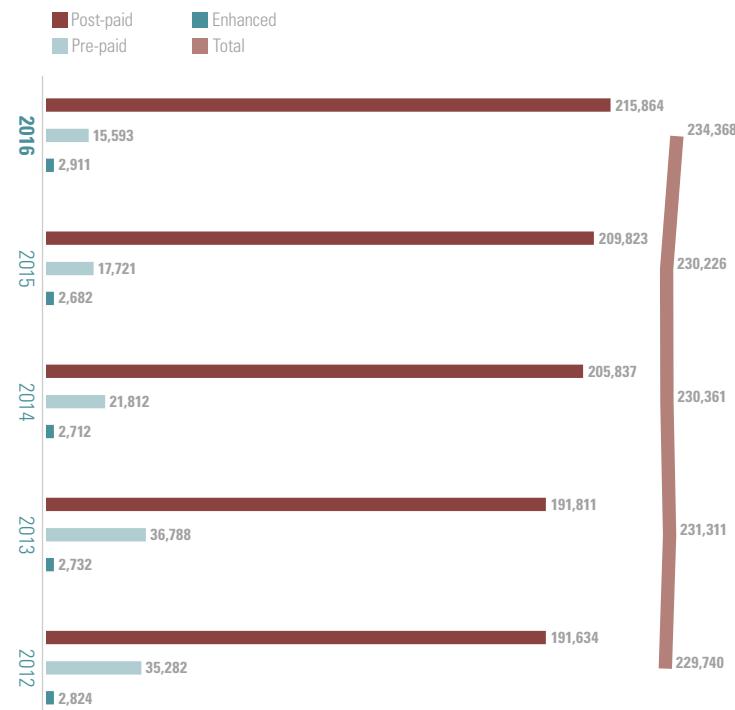
The fall in traffic volumes and the decline in the average rate per minute of fixed line communication translated into a lower average revenue per user (ARPU) for the sector in 2016 when compared to 2015. In this regard, fixed telephony ARPU was down by almost 6.0%, from €151.50 to €142.70.

SUBSCRIPTIONS

The number of fixed telephony subscriptions totalled 234,368 by the end of 2016, which represents an increase of 4,142 subscriptions over a 12-month period. This increase comes on the back of a surge in post-paid subscriptions, which went up by 6,041 year-on-year. The proportion of all subscriptions on a post-paid contract stood at 92.1% by the end of the current reporting period, up from 91.1% a year earlier.

This trend is likely to persist in the medium-term, considering also that Melita no longer offers pre-paid telephony packages. Furthermore, service providers have successfully transferred pre-paid customers to a post-paid set-up by implementing marketing strategies that entice end-users to opt for a bundled subscription. By the end of 2016, 68.4% of all post-paid fixed telephony subscriptions formed part of a bundle. In absolute terms, the number of fixed telephony subscriptions on a bundle increased by 14,606 (or by 11.5%) between December 2015 and December 2016. The dual-play bundle containing fixed broadband and fixed telephony continues to be the most popular choice with end-users, with 54,412 subscriptions being recorded by the end of 2016. This represented an increase of 10,234 dual-play subscriptions over the previous year.

SUBSCRIPTIONS AS AT END OF PERIOD



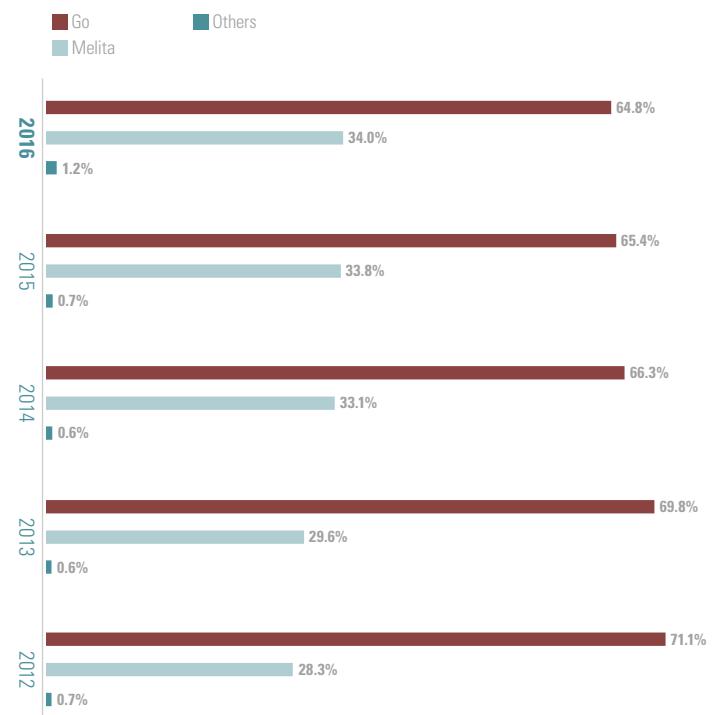
Another notable increase relates to the 'enhanced' segment of the market. These types of subscriptions encompass packages offering multiple (dual or more) channel connections. There were 2,911 enhanced subscriptions at the end of 2016. Compared to the end of the previous year, the number of enhanced subscriptions was up by 229 (or by 8.5%).

| | 2015 | 2016 |
|---|---------|---------|
| Fixed telephony subscriptions in a bundle | 132,383 | 147,655 |
| Dual play | 57,870 | 67,215 |
| Fixed telephony + Mobile telephony | 7,850 | 7,258 |
| Fixed telephony + Fixed broadband | 44,179 | 54,413 |
| Fixed telephony + Pay TV | 5,841 | 5,544 |
| Triple play | 27,525 | 30,540 |
| Fixed telephony + Mobile telephony + Fixed broadband | 139 | 58 |
| Fixed telephony + Fixed broadband + Pay TV | 27,386 | 30,482 |
| Quad play | 46,988 | 49,900 |
| Fixed telephony + Mobile telephony + Fixed broadband + Pay TV | 46,988 | 49,900 |
| Number of post-paid fixed line subscribers (end of period) | 209,823 | 215,879 |
| as a percentage of post-paid fixed line subscriptions | 63.09% | 68.40% |

MARKET SHARES IN TERMS OF SUBSCRIPTIONS

The positive change in the fixed telephony subscriber base brought about some changes in the market standing of local service providers. GO's market share was down by a 0.6 percentage point year-on-year, to 64.8%. Meanwhile, Vodafone and Melita gained a 0.5 percentage point and a 0.2 percentage point respectively in their market share. By the end of 2016, Melita accounted for 34.0% of the fixed telephony market, whilst Vodafone accounted for 0.8%. The latter's increase can be attributed to the release of new dual-play bundles (including fixed telephony) in the third quarter of 2016. Other service providers such as Ozone Malta, SIS and Vanilla together accounted for 0.4% of the market at the end of 2016.

MARKET SHARES IN TERMS OF SUBSCRIPTIONS AS AT END OF PERIOD

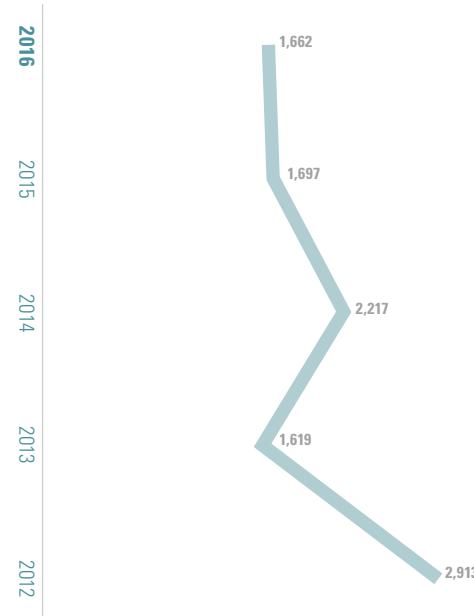


FIXED LINE INWARD PORTABILITY

A total of 1,662 fixed line portings were recorded in 2016. This is the smallest number of portings ever observed in a single year since 2013, notwithstanding the relative ease with which end-users can port their number when switching service provider.

It is understood that the increasing popularity of bundled subscriptions contributes to lower churn levels as end-users increasingly commit themselves to term agreements, typically of 2-year duration.

FIXED LINE PORTINGS



TRAFFIC VOLUMES

Lower fixed voice traffic volumes were reported in 2016 when compared to 2015, notwithstanding the increase in subscriptions. This goes to suggest that the uptake of fixed telephony is being sustained by the proliferation of bundled subscriptions, rather than by the voice telephony requirements of the end-user. Voice telephony usage patterns of local end-users also show that these are increasingly opting for their mobile subscription to make calls.

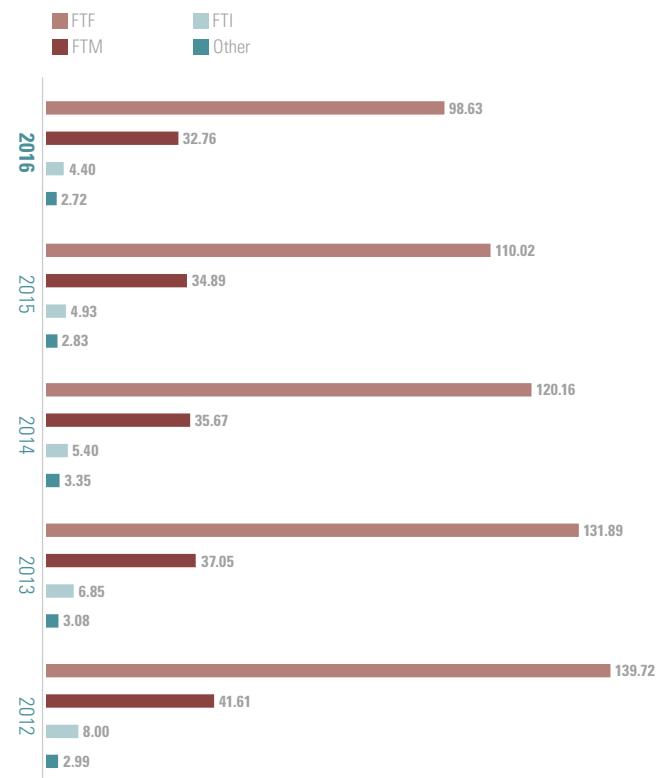
Voice calls

Fixed-to-Fixed (FTF) voice calls remain the most popular amongst subscribers. In 2016, these types of calls accounted for 71.2% of the total traffic volumes, with service providers recording 98.6 million FTF voice calls by year's end. The latter figure represents a drop of 11.4 million FTF voice calls compared to 2015.

In line with expectations, around 71% of all FTF voice calls took place on-net i.e. between numbers on the same network. In absolute terms, the number of on-net FTF calls was down by 7.8 million year-on-year, from 77.4 million to 69.6 million, equivalent to a 10.0% dip in traffic volumes. The number of calls taking place off-net i.e. between numbers on different fixed networks has also gone down, this time by 3.6 million (or by 11.0%), from 32.7 million to 29.1 million.

Declines were also registered in the other voice call traffic segments, including Fixed-to-Mobile (FTM) calling and Fixed-to-International calling. The former registered a 6.1% drop in volumes, whilst the latter recorded a drop of 10.8% in volumes. The 'other calls' traffic segment, which encompasses premium and freephone calls, also experienced a decline, with traffic volumes down by 3.7% year-on-year.

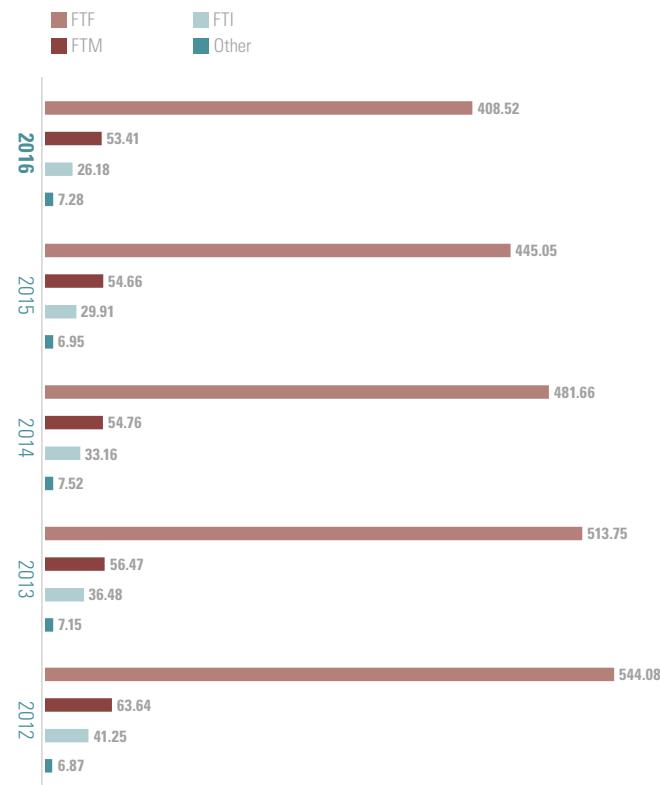
VOICE TRAFFIC VOLUMES NUMBER OF VOICE CALLS (IN MILLIONS)



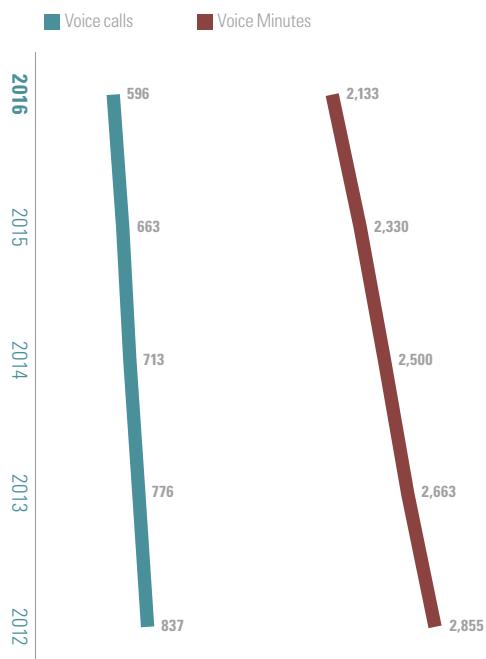
Voice call minutes

495.4 million fixed telephony voice call minutes were recorded in 2016. Year-on-year, volumes were down by 41.2 million (or by 7.7%). Most of the traffic took place on-net i.e. between numbers of the same fixed telephony operator. The decline in voice call minute volumes was significant, with on-net FTF minutes falling by 24.6 million, together with a drop of 11.9 million off-net FTF minutes and 3.7 million FTI minutes. The number of FTM voice call minutes was also down year-on-year, this time by 1.3 million. The 'other call' voice telephony segment was the only one to register a positive change, with traffic volumes in this case going up by 0.3 million.

VOICE TRAFFIC VOLUMES NUMBER OF VOICE CALL MINUTES (IN MILLIONS)



TRAFFIC ACTIVITY PER SUBSCRIBER



PRICE COMPETITION

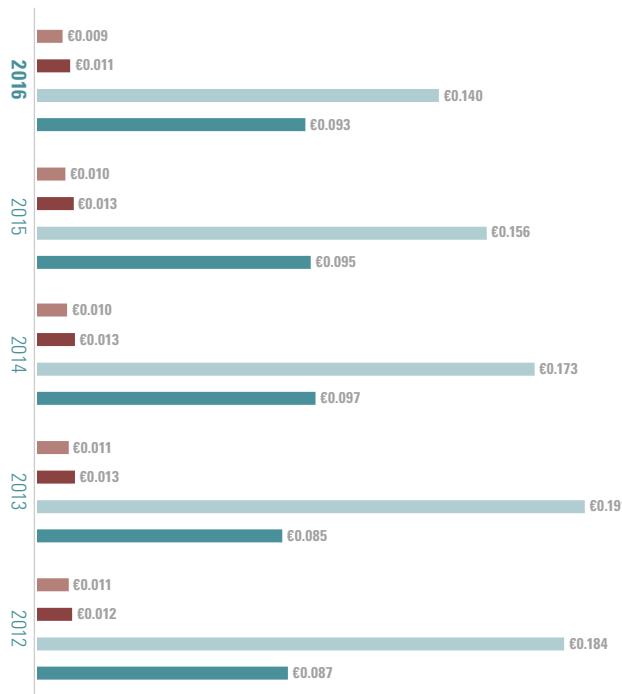
The Authority monitors fixed line telephony tariff trends through a revenue-based calculation, which is used to derive the Average Revenue per Minute (ARPM)¹ of fixed line communications.

Price movements for fixed telephony voice services in 2016 were generally in favour of the end-user. MCA calculations show that the ARPM was most visibly down for FTM calls, with the rate in this case dropping by almost 11%, from €0.156 in 2015 to €0.140 in 2016. Although the decline in the ARPM for on-net and off-net FTF calls may not look significant in absolute terms, MCA calculations show that the former was down by almost 10% and the latter by 9.5%.

¹The ARPM calculation divides voice traffic revenues (exclusive of revenues from access fees, VAT and excise tax) by the number of minutes reported under each respective heading.

AVERAGE RATE PER MINUTE OF FIXED LINE COMMUNICATIONS

on-net FTF call fixed-to-mobile call
 off-net FTF call fixed-to-international call



Average Revenue per Fixed User (ARPU)

ARPU indicators serve as a measure of the average monthly revenue for a particular electronic communications service on a per-user basis.

Fixed ARPU figures are derived by dividing total revenues of the operator by the average number of active subscriptions, for a given period². Revenue includes all revenues from access and voice calls (including revenues from freephone and premium calls, but excluding interconnection revenues).

In 2016, the number of calls and minutes for fixed telephony declined when compared to volumes recorded in the previous year. This change is mainly attributed to a persistent shift of voice traffic volumes to mobile. This decline in fixed voice traffic volumes also coincided with an increase in uptake of fixed

telephony in bundled subscriptions. The latter factor left an impact on ARPU, given that service providers occasionally offer discounts and promotional offers related to electronic communications services purchased in a bundle, apart from the fact that bundle access fees are lower than when the services in a bundle are purchased on a stand-alone basis. To this effect, fixed telephony ARPU in 2016 totalled €142.72, which is down by 5.8% compared to €151.46 in 2015.

AVERAGE REVENUE PER FIXED TELEPHONY USER



Multi-play bundling of electronic communications services is now mainstream in Malta, with consumers increasingly receptive to packages that include fixed telephony services in combination with other electronic communications services. In fact, the proportion of post-paid fixed telephony subscriptions purchased as part of a bundle went up to 63.4% at the end of 2015, from 57.3% a year earlier.

This trend towards bundling of electronic communications services is seen to contribute towards price-competition in the fixed line telephony sector, as it is has become frequent for consumers to benefit from improved minute allowances when they opt for purchasing a post-paid fixed line contract plan in a bundle. It also explains the growth in post-paid fixed line telephony subscriptions in 2015.

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

MOBILE TELEPHONY

The mobile telephony sector continued to register positive results, with both subscriber numbers and traffic volumes rising at a steady pace. Mobile data consumption has also witnessed growth in terms of active usage among end-users.

The number of mobile subscriptions totalled 585,470 by the end of 2016. This represents a year-on-year increase of 5% in the number of subscriptions, with both the pre-paid and post-paid segments of the market registering growth. As expected, subscriptions to pre-paid plans remain the most popular amongst end-users, with 388,231 subscribers opting for such plans compared to 197,239 subscriptions on a post-paid contract plan. Notably, however, the rate of growth in the number of post-paid subscriptions by far exceeded the rate of growth in the number of pre-paid subscriptions. Smartphone subsidies, higher data caps and better call and SMS allowances by operators continue to attract subscribers towards post-paid plans.

As one would expect, the increase in the number of mobile subscriptions ultimately translated in an increase in the mobile penetration rate. By year's end, the mobile penetration rate reached 133.44%, an increase of 5.1% percentage points year-on-year.

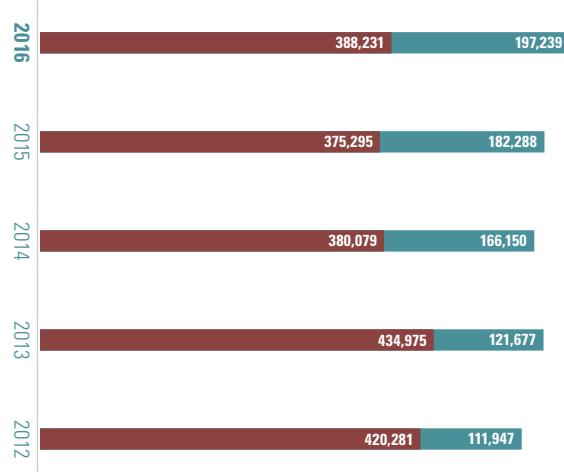
The MCA also observes that the average rate per minute of communication for both local and international mobile calls maintained a downward trend over the 12-month period under review. The average rate per minute of a locally-bound call was down by almost 8% to €0.072 whilst the average rate per minute of an internationally-bound call was marginally down by 1% to €0.09. As the increase in subscriptions outpaced revenue growth, mobile telephony ARPU in 2016 was down by 1.7% to €178.3 compared to €181.4 recorded in 2015.

MOBILE SUBSCRIPTIONS

The number of mobile telephony subscriptions totalled 585,470 by the end of 2016, which represents an increase of 27,887 subscriptions year-on-year. Pre-paid mobile subscriptions make up the largest segment of the mobile subscriber base, at 66.3% compared to 33.7% for post-paid subscriptions. In line with developments observed in previous years, demand for post-paid plan continues to grow at a faster rate than for pre-paid, as service providers launch new offers with improved allowances and end-users grow more accustomed to purchasing post-paid plans that allow them to make use of mobile broadband data allowances.

SUBSCRIPTIONS AS AT END OF PERIOD

■ Pre-paid subscriptions ■ Post-paid subscriptions



Only 9.8% of the local mobile subscriptions are purchased in a bundle with other electronic communications services, the main reason being that end-users are inclined to keep this service personal rather than sharing it in a bundle with other people in the same household.

| | 2015 | 2016 |
|---|---------|---------|
| Mobile telephony subscriptions in a bundle (end of period) | 54,977 | 57,216 |
| Dual play | 7,850 | 7,258 |
| Mobile telephony + Fixed telephony | 7,850 | 7,258 |
| Triple play | 139 | 58 |
| Mobile telephony + Fixed telephony + Fixed broadband | 139 | 58 |
| Quad play | 46,988 | 49,900 |
| Mobile telephony + Fixed telephony + Fixed broadband + Pay TV | 46,988 | 49,900 |
| Number of mobile subscribers (end of period) | 557,583 | 552,005 |
| as a percentage of post-paid fixed line subscriptions | 9.86% | 10.37% |

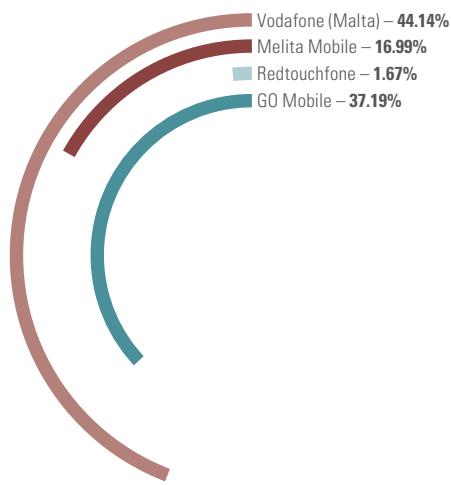
³ The mobile penetration rate corresponds to the proportion of Malta's population owning an active SIM card.

MARKET SHARE

There are five authorised undertakings providing retail mobile services in Malta. At the end of 2016, the three large mobile network operators (MNOs), namely are Vodafone (Malta), GO Mobile, and Melita Mobile accounted for 98.3% of the local mobile telephony subscriber base.

Year-on-year, Melita saw its market share improve by one percentage point to 17%. Vodafone also registered a slight improvement of 0.2 percentage points in its market share to 44.1%. Meanwhile, by the end of the current reporting period. On the other hand, GO's market share declined by one percentage point year-on-year to 37.2%. Redtouchfone accounted for 1.7% of the local subscriber base by the end of 2016.

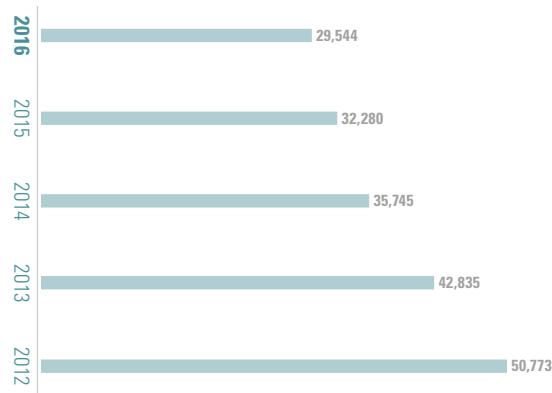
OVERALL 2016 MARKET SHARES, OPERATOR AS AT END OF PERIOD



MOBILE INWARD PORTABILITY

As was observed in previous years, the number of subscribers opting to port their mobile number porting between service providers continues to fall. In fact, the number of mobile inwards portings in 2016 was down by 2,736 year-on-year and totalled 29,544. It is noted that this decline is not attributed to any problems to the service of number portability but rather to the increased tendency of end-users to purchase SIMs from different service providers.

MOBILE INWARD PORTINGS



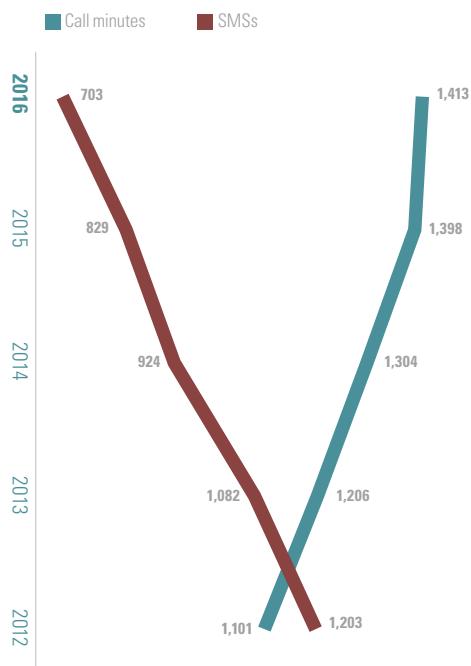
VOICE AND SMS ACTIVITY LEVELS

In terms of active mobile telephony usage in 2016, each mobile telephony subscriber making on average 78 voice calls and 118 voice call minutes per month in 2016. When compared to 2015, voice activity levels per subscription in 2016 were higher.

In terms of SMS messaging, activity levels continue on a downward trajectory as end-users shift to voice telephony and, in certain instances, they use over-the-top (OTT) services. For each active SIM card at the end of 2016, an average of 60 SMSs were sent per month. This represents a decline of 9 SMSs per month for each active subscription year-on-year.

Active usage of mobile broadband data services has also risen in 2016 compared to the previous year. In this regard, providers continue to enhance their portfolio of plans containing higher data allowances, thus enticing more end-users to avail of such products. By the end of 2016, 308,829 subscriptions were making active use of mobile broadband data, an increase of 38,774 subscriptions year-on-year in absolute terms.

AVERAGE NUMBER OF CALL MINUTES & SMS PER SUBSCRIBER



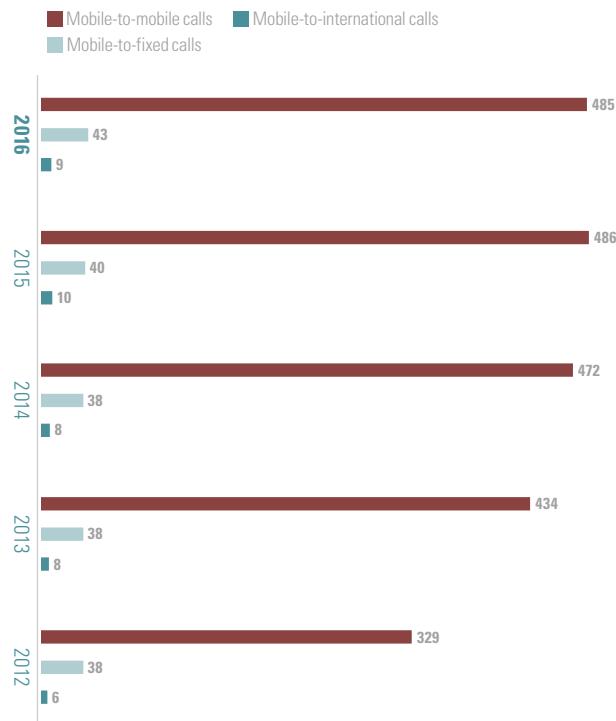
Voice and SMS traffic

At 90.3%, the majority of mobile voice calls are mobile-to-mobile (MTM), i.e. originating from a mobile number and terminating on another mobile number. The number of MTM calls was down by 0.2% year-on-year, from around 486 million in 2015 to 485 million in 2016.

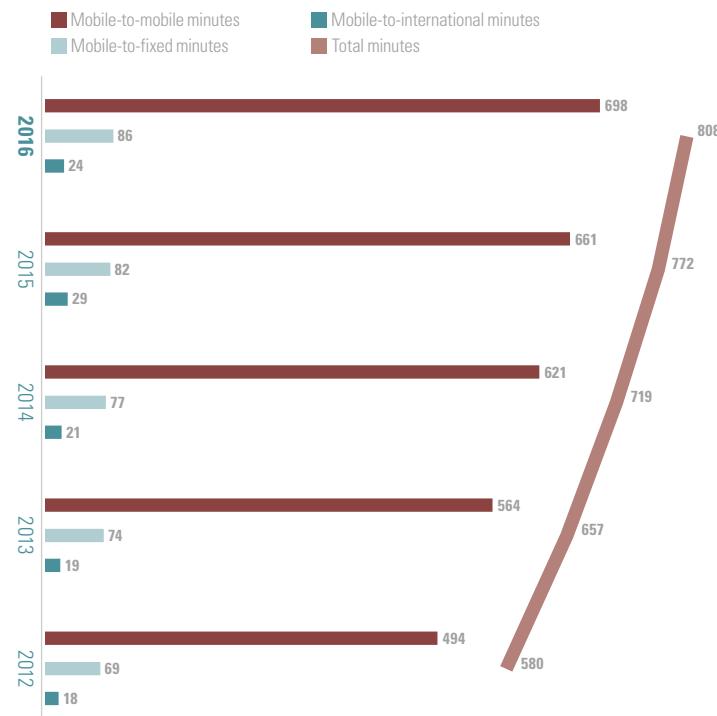
Most MTM calls take place between numbers of the same network operator (on-net MTM calls). The number of on-net MTM calls was down by 8.2 million (or by 2.3%) year-on-year. Meanwhile, the number of calls taking place between numbers of different operators was up by 7.2 million (or by 5.8%). In terms of minute volumes, traffic levels in 2016 were up by 4.7% compared to 2015, corresponding to an overall year-on-year increase of 36 million voice call minutes. In parallel to

the slight increase in the number of originating mobile calls, minutes volumes were up by 5.0%. The number of on-net MTM minutes was up by 1.5%, the number of off-net MTM minutes up by 15.9% and the number of mobile-to-fixed (MTF) minutes up by 4.0%. The only segment of voice call minutes registering a decline was that concerning calls to international numbers. In this regard, minute volumes were down by 16.6% year-on-year.

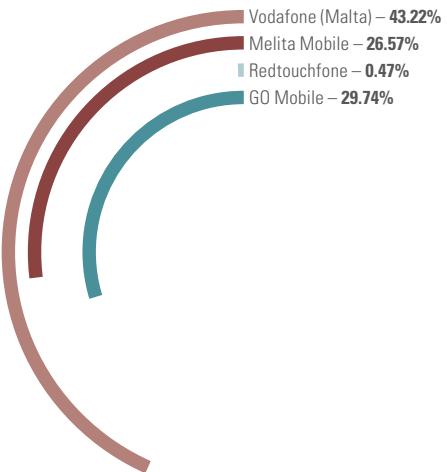
OUTGOING VOICE TRAFFIC VOLUMES – NUMBER OF CALLS (MILLION)



OUTGOING VOICE TRAFFIC VOLUMES – NUMBER OF MINUTES (MILLION)

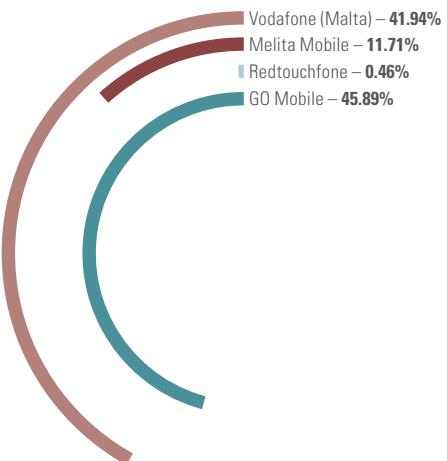


2016 MARKET SHARES, OPERATOR OUTGOING MINUTES



In contrast to higher voice traffic volumes, SMS traffic volumes registered a further decline in 2016. In fact, the number of SMSs in 2016 was down by 55.5 million (or by 12.1%) compared to the number of SMSs recorded a year earlier. Drops were notable in the case of on-net and off-net traffic, with volumes down by 11.7% and 11.3% respectively.

2016 MARKET SHARES, OPERATOR OUTGOING SMS

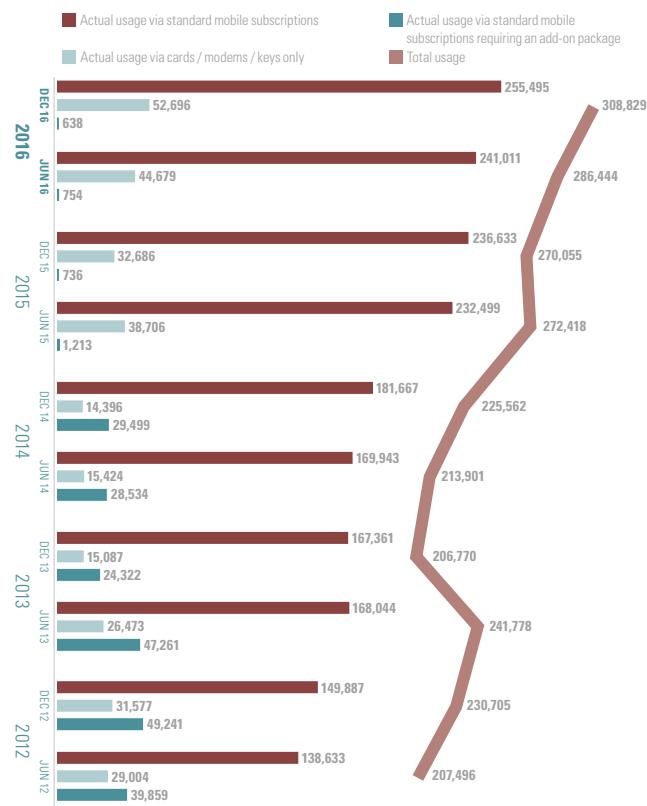


Mobile broadband data

The number of mobile telephony subscribers actively making use of mobile broadband continued to grow at a rapid pace in 2016. The number of end-users making use of mobile broadband data was up by 38,774 (or 14.4%) year-on-year, from 270,055 at the end of 2015 to 308,829 at the end of 2016.

The number of active mobile connections accessing mobile broadband via dedicated data service cards/modems/keys was up markedly during the same period, increasing by 20,010 (or by 61.2%) from 32,686 to 52,696. In line with this increase, Malta continued to improve on its mobile broadband penetration rate, as confirmed by figures published by the European Commission.

MOBILE BROADBAND – ACTIVE USAGE OF MOBILE BROADBAND CONNECTIONS



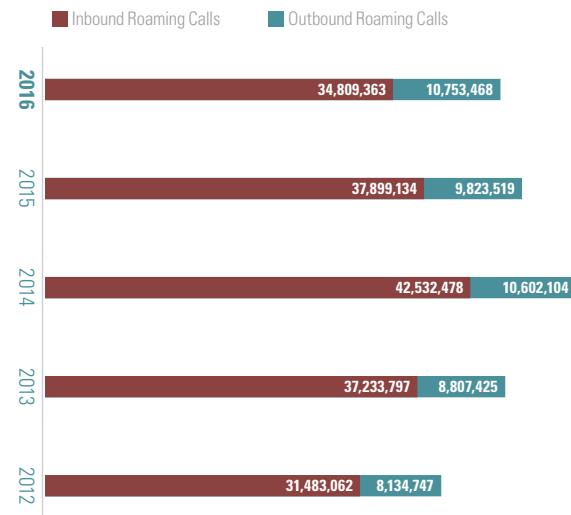
International roaming

International roaming is a service that allows a subscriber to a particular mobile operator in one country to obtain voice, data, and/or SMS services from another operator in a country being visited, using the same handset and the same telephone number, facilitated by a common technology and a wholesale inter-operator contract⁴.

In comparison to the previous year, the number of inbound roaming calls in 2016 was down by 8.2%, whilst the number of inbound roaming minutes was up by 17.6%. During the same period, the number of outbound roaming calls and the number of outbound roaming minutes was up by 9.5% and 14.9% respectively.

SMS roaming activity has once again dropped in 2016 when compared to 2015. In this regard, the number of SMSs sent by Maltese subscribers whilst roaming abroad was down by 2%.

ROAMING ACTIVITY



⁴Available data distinguishes between inbound and outbound roaming activity. Inbound roaming activity refers to call, SMS and data services made on local mobile networks by foreign subscribers when roaming in Malta. Outbound roaming activity refers to call, SMS and data services made on foreign mobile networks by local subscribers when roaming abroad.

PRICE COMPETITION

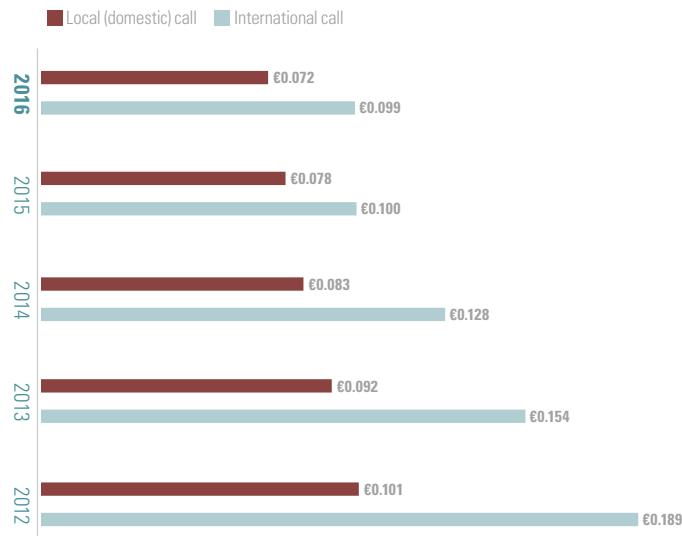
MCA revenue-based workings⁵ show that trends observed in previous years largely continued to persist throughout 2016. The ARPM for mobile telephony calls, both local and international, declined along with the average rate of international SMS. The average rate per local SMS, on the other hand, has remained relatively unchanged. This decline in rates is largely due to the increased allowances subscribers receive when purchasing plans with their operators. Greater broadband speeds and data limits have also aided subscribers in seeking alternatives to traditional calling and messaging services which in some cases may be free to use. These ongoing improvements have, nonetheless, to be seen in the context of the corresponding situation in comparable jurisdictions. There is therefore margin for further improvements in retail prices.

The ARPM of mobile voice call communications

The ARPM of mobile communications is derived by dividing domestic and international mobile voice traffic revenues (including voice and access revenues), by the number of minutes reported under each respective traffic type heading.

The ARPM of a domestic call over a mobile network has been steadily declining for the last few years. Our most recent data indicates that by the end of 2016 the ARPM stood at €0.072, which is 7.7% less compared to the ARPM recorded at the end of 2015. The ARPM for international calls also declined albeit marginally. On average, international mobile calls cost subscribers €0.099 at the end of 2016, down marginally year-on-year.

AVERAGE RATE PER MINUTE OF MOBILE COMMUNICATIONS



The average rate per SMS

The average rate per SMS is derived by dividing SMS revenues, by the number of SMSs reported for the period⁶.

On average subscribers spent €0.031 per local SMS, which is the same rate subscribers spent in 2015. On the other hand, the rate per international SMS has risen significantly from €0.061 to €0.135.

⁵Revenue-based market trends serve the purpose of tracking actual movements in mobile voice call rates and SMS tariffs charged by local operators.

⁶Calculations include relevant figures for premium SMSs and SMSs sent from Internet portals. Revenues from VAT and excise tax are excluded.

AVERAGE RATE PER SMS



Average Revenue per Mobile User (ARPU)

The ARPU⁷ for the mobile telephony sector was down by €177 per user from the €181 recorded in 2015. This drop in ARPU can be attributed to the increased take-up of mobile telephony subscriptions along with the increased voice traffic levels, which outweighed the effects on revenues from the falling ARPM for mobile telephony.

AVERAGE REVENUE PER MOBILE TELEPHONY USER



⁷Mobile ARPU figures are derived by dividing total revenues of the operator by the average number of active subscriptions, for a given period. The average number of active subscriptions during the respective period is arrived at by adding the number of subscribers at the start of the period to the number of subscribers at the end of the period, divided by 2.

The revenue heading takes into account revenues from all outgoing voice activity (excluding interconnection revenues), revenues from SMS and MMS activity, revenues from monthly access fees, revenues from data services, revenues from outbound roaming activity but excluding revenues from inbound roaming activity.

FIXED BROADBAND

Developments for fixed broadband in 2016 were underpinned by higher take-up of the service and stronger demand for high-speed broadband products. Year-on-year, the number of subscriptions increased by around 8,000 (or by 5.0%), with this change being reflected in an improvement of the fixed broadband penetration rate, from 37.6% at the end of 2015 to 39.0% at the end of the current reporting period. At the end of 2016, the number of fixed broadband subscriptions supporting download speeds of 30Mbps or more outnumbered the number of connections with lower speeds. Subscriptions with a 30Mbps connection or higher totalled to 101,755 and thus accounted for 59.4% of the local fixed broadband subscriber base at the time. On the other hand, subscriptions making use of a fixed broadband connection of lower than 30Mbps accounted for the remaining subscribers at 40.6% of total fixed broadband subscriptions.

The number of fixed broadband subscriptions purchased in a bundle also increased steadily in 2016. Compared with the end of 2015, the proportion of fixed broadband subscriptions purchased in a bundle to the total fixed broadband subscriber base recorded at the end of last December was up by 5.6 percentage points, from 73.1% to 78.7%. Fixed broadband is the service that is most purchased in a bundle when compared to other electronic communications services. For the end-user, the purchase of a fixed broadband subscription in a bundle typically helps in reducing the monthly access fees that would have been paid in case the products involved were purchased on stand-alone basis.

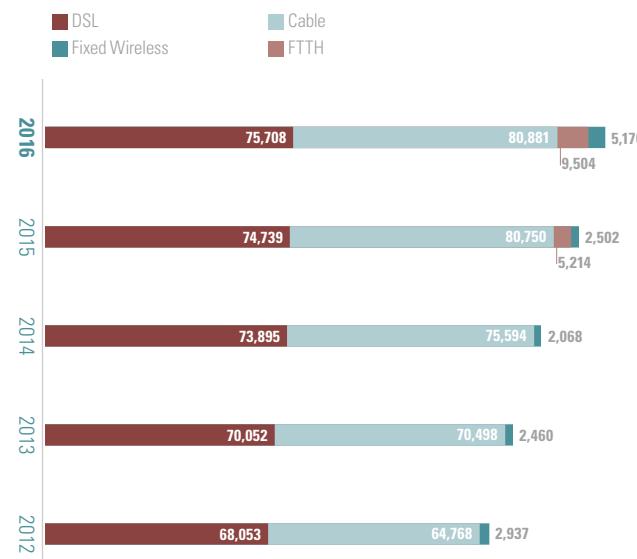
As for price developments for the sector, the changes observed were generally positive, particularly as the average rate per Mbps for products supporting superfast download speeds went down even further throughout the year. For example, in the case of broadband products supporting download speeds of 100Mbps or more, the average rate per Mbps more than halved, from €0.83 at the end of 2015 to €0.39 at the end of 2016. This decline in the average rate per Mbps suggests a more competitive price-quality relationship for the consumer, in particular when opting for offers supporting superfast download speeds.

The general decline observed in the average rate per Mbps did not impact negatively on the revenues of local service providers. In fact, the ARPU for the sector improved by almost 10.0% year-on-year, from €181.56 in 2015 to €199.47 in 2016. ARPU levels were boosted by the stronger take-up of superfast fixed broadband products. While the improved price-quality relationship has manifested itself in the enhanced products on offer, a general tendency for price floors to rise has also been observed.

FIXED BROADBAND SUBSCRIPTIONS

Year-on-year, the number of fixed broadband subscriptions rose by 8,058 (or by 5.0%), from 163,205 at the end of 2015 to 171,263 at the end of 2016.

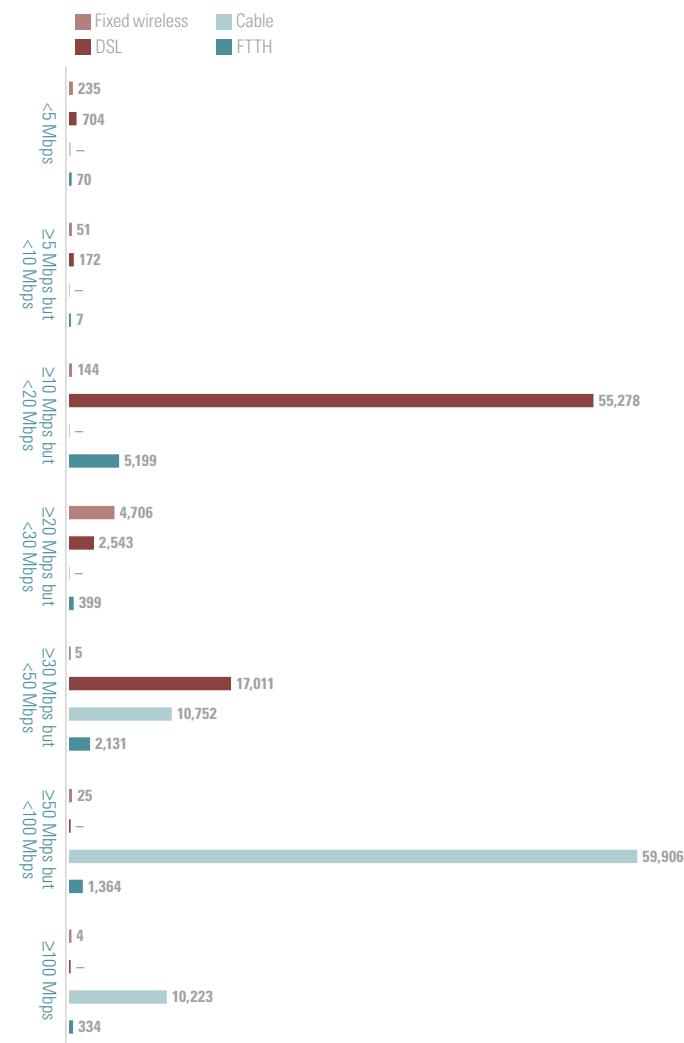
SUBSCRIPTIONS AS AT END OF PERIOD



The strengthening of the local fixed broadband subscriber base was boosted by stronger take-up of broadband products supporting download speed of 50Mbps or more. In this regard, the number of subscriptions supporting download speeds of '50 Mbps but less than 100 Mbps' went up by 52,888 in a 12-month period. Significantly, this increase was initiated by Melita, as this operator upgraded its subscribers on bundled connections with download speeds of '30 Mbps but less than 50 Mbps' to packages supporting download speeds of 50Mbps or more. Another important increase in subscriptions came for broadband connections supporting speeds of '100Mbps ore more'. Here, subscriber numbers more than doubled, up from 2,270 to 10,561.

By the end of 2016, 69,508 subscriptions were making use of broadband speeds of less than 30Mbps, which now represent 40.6% of total broadband subscriptions. Thus, almost 60% of subscribers were above the 30Mbps threshold as at end 2016.

AVERAGE RATE PER MINUTE OF FIXED LINE COMMUNICATIONS



| | 2015 | 2016 |
|--|---------|---------|
| Fixed broadband subscriptions in a bundle (end of period) | 118,692 | 131,757 |
| Dual play | 44,179 | 54,413 |
| Fixed telephony + Fixed broadband | 44,179 | 54,413 |
| Triple play | 27,525 | 27,444 |
| Fixed telephony + Fixed broadband + Mobile telephony | 139 | 58 |
| Fixed telephony + Fixed broadband + Pay TV | 27,386 | 27,386 |
| Quad play | 46,988 | 49,900 |
| Fixed telephony + Mobile telephony + Fixed broadband + Pay TV | 46,988 | 49,900 |
| Number of fixed broadband subscribers (end of period) | 163,205 | 171,263 |
| as a percentage of total number of fixed broadband subscriptions | 72.73% | 76.93% |

Fixed broadband also stands out as the most bundled ECS product. By the end of 2016, 134,853 fixed broadband subscriptions were purchased in a bundle with one or more ECS product. Year-on-year, this change represents an increase of 6 percentage points in the proportion of fixed broadband bundled subscriptions, from 72.7% at the end of 2015 to 78.7% at the end of 2016. The dual-play option, consisting of fixed broadband and fixed telephony bundle, continues to be the most popular bundle.

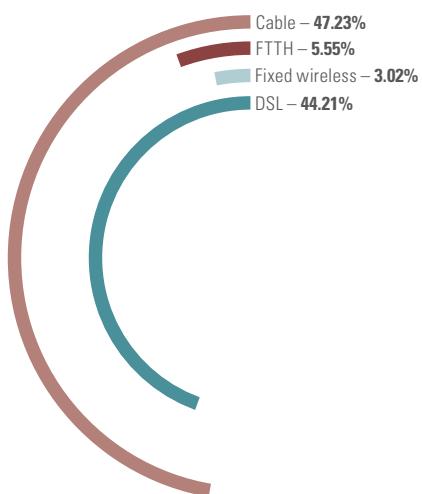
MARKET SHARES

Fixed broadband access in Malta is provided by a number of service providers over the following fixed technologies: Digital Subscriber Line (DSL), Fibre-to-the-Home (FTTH), cable and fixed wireless.

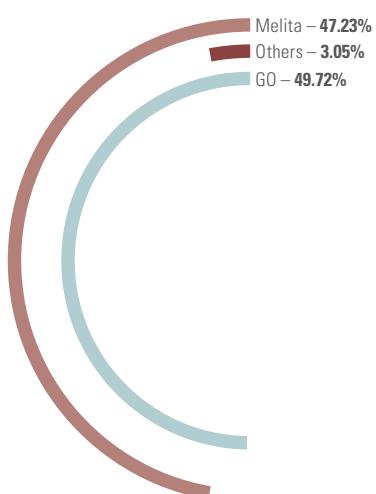
By the end of 2016, cable was the most popular technology used by local end-users at 47.2%. Nevertheless, this share represented a reduction of 2.3 percentage points in comparison to cable's standing at the end of the previous year. The share of DSL has also dropped during the same period, from 45.8% to 44.2%. On the other hand, the FTTH and the Fixed Wireless platforms improved their market penetration, with market shares rising to 5.6% and 3.0% respectively by the end of the current reporting period.

Taking a look at market shares by service provider, the picture at the end of 2016 differs from that observed at the end of the previous year. By the end of 2016, GO had 85,151 subscribers, thus becoming the largest service provider in terms of subscriber numbers. Percentagewise, GO's market share at the end of 2016 stood at 49.7%, an increase of a 0.8 percentage point year-on-year. Vodafone also improved its market standing, with its share rising from 1.2% to 2.7% during the same period. Conversely, Melita saw its market share decline from 49.5% to 47.2%.

2016 MARKET SHARES, BY PLATFORM AS AT END OF YEAR



2016 MARKET SHARES, BY OPERATOR AS AT END OF YEAR



PRICE COMPETITION

When determining how prices are evolving in the fixed broadband sector, the MCA looks at developments in the average rate charged by local service providers per each Mbps of download. The relevant figures are derived by taking into account the actual advertised rates for local broadband packages and the corresponding advertised download speeds⁸.

Furthermore, changes in the average rate per Mbps cannot be seen in isolation given that, for example, consumers may still have availed themselves of a lower rate per Mbps in 2016 by subscribing to promotional offers and by opting for monthly discounted fees that come with plans bundling fixed broadband with other electronic communications services.

Average rate per Mbps

Year-on-year, the average rate per Mbps was down by 20.5%, from €1.30 at the end of 2015 to €1.04 at the end of 2016. This change mainly reflects the launch of products supporting higher broadband speeds, which are offered at access fees that ultimately translate into a lower rate per unit of Mbps. The new price deals were more beneficial to end-users opting for a fixed broadband connection supporting a download speed greater than 30Mbps. This was especially the case for end-users purchasing a 100Mbps connection, which were offered the service in a dual-play bundle with another electronic communications service at a monthly access fee that was lower than when the two services were offered on a stand-alone basis.

A more in-depth look by product type shows that a fixed broadband connection supporting a download speed of less than 5Mbps is the most expensive connection a consumer may opt for, given that the rate per Mbps stood at €4.43 at the end of 2016. However, this rate was unchanged compared to that prevailing at the end 2015. The rate per Mbps for consumers purchasing a connection of 5Mbps but less than 10Mbps was also unchanged at €4.33.

End-users who purchased a connection supporting download speeds of 10Mbps but less than 20Mbps paid €1.78 per Mbps at the end of 2016, which is 15.6% higher than the previous year. End-users who purchased a connection supporting download speeds of 20Mbps but less than 30Mbps did not see any change in the average rate per Mbps in comparison to the previous year, which stood at €2.01 at the end of the current reporting period.

⁸MCA workings are based on actual advertised headline speeds for stand-alone products and do not take into account promotional offers and fixed broadband products included in triple-play and quad-play bundled packages.

The average rate per Mbps for connections supporting download speeds of 30Mbps but less than 50Mbps stood at €0.95 at the end of 2016, which is 13.4% lower compared to the rate prevailing at the end of 2015. Higher declines in the average rate per Mbps were recorded for connections supporting download speeds of 50Mbps but less than 100Mbps and connections supporting download speeds of 100Mbps or more. In the former case, the average rate per Mbps was down by 17.7% year-on-year to €0.60, whilst in the latter case the average rate per Mbps was down by 53.2% to €0.39.

FIXED BROADBAND: AVERAGE RATE PER MBPS



FIXED BROADBAND ARPU

Fixed broadband ARPU is an indicator evaluating fixed broadband operators' revenues per user. This can be calculated by dividing the total retail revenues from broadband subscriptions, but excluding revenues from installations or connection fees, by the average number of subscriptions.⁹

By the end of 2016 the fixed broadband ARPU rose to €199.47, up by 9.9% from €181.56 a year earlier. This jump in ARPU can be attributed to the sustained increase in demand for broadband products supporting download speeds of 50Mbps or more.

AVERAGE REVENUE PER FIXED BROADBAND USER



⁹The average number of subscriptions is calculated by taking the sum of the total subscriptions at the start and the end of the period under consideration, divided by two.

PAY TV

Over the last couple of years the pay-TV sector was affected by the shift from traditional linear TV programming towards online TV platforms and online TV streaming services in general.

Traditional pay-TV services in Malta are currently offered over four different platforms, namely analogue cable (which is no longer marketed and is only offered to existing clients), digital cable, digital terrestrial (DTTV) and Internet Protocol (IPTV). Notably GO's IPTV segment was the only segment to register growth last year, with the number of subscribers on this platform increasing by 6,230. Meanwhile, all other segments registered a decrease in subscriptions, with GO's DTTV service registering the biggest decline in subscriber numbers, in this case down 11.2% between December 2015 and December 2016. Melita's subscriptions on the digital cable platform were also down by 1.9% during the same period.

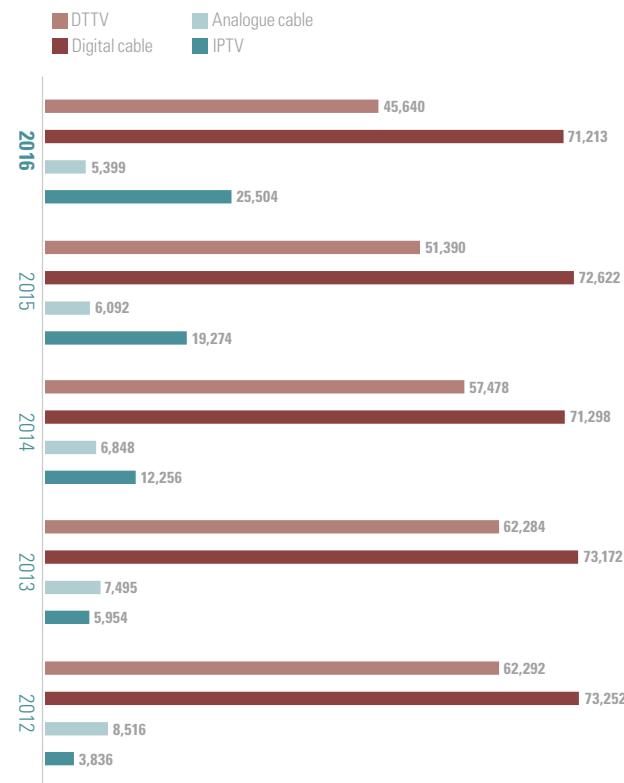
There were also more end-users purchasing their pay-TV subscription in a bundle at the end of 2016 compared to a year earlier. In fact, the proportion of pay-TV subscriptions in a bundle climbed from 56.0% at the end of 2015 to 60.4% at the end of the current reporting period.

Retail demand dynamics left an impact on the sectoral revenues reported by local service providers. This is evident from the consistent decline recorded in ARPU levels for the service since 2012. Pay-TV ARPU in 2016 totalled €164.50, which is down by 1.6% compared to ARPU in 2015.

SUBSCRIPTIONS

There were 147,756 pay-TV subscriptions by the end of 2016, down by 1,622 (or by 1.1%) from 149,378 subscriptions recorded a year earlier. The number of subscriptions for analogue TV stood at an all-time low of 5,399. This represents a decline of 11.4% in these types of subscriptions over a 12-month period. DTTV and digital cable also saw a drop in subscriptions, by 5,750 and 1,409 respectively. These declines were partially off-set by an increase of 6,230 IPTV subscriptions.

SUBSCRIPTIONS AS AT END OF PERIOD



By the end of 2016, 60.4% of all pay-TV subscriptions were purchased in a bundle with other electronic communications services. This represents a 4.4 percentage point increase in a year¹⁰.

¹⁰These figures correspond to the proportion of bundled pay-TV subscriptions to the total digital-based and IP-based pay-TV subscriber base, as Melita no longer offers analogue-based pay-TV services to new customers.

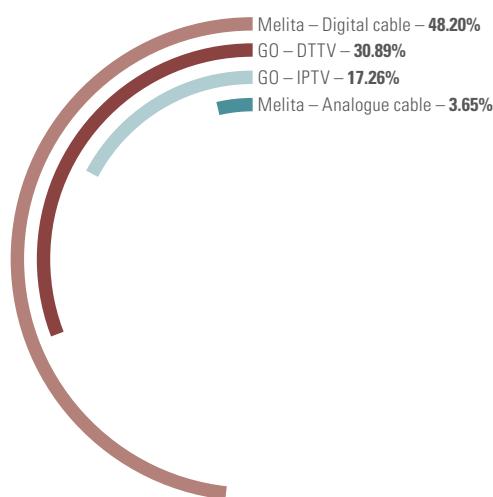
| | 2015 | 2016 |
|---|---------|---------|
| Pay TV subscriptions in a bundle (end of period) | 80,215 | 85,926 |
| Dual play | 5,841 | 5,544 |
| Pay TV + Fixed telephony | 5,841 | 5,544 |
| Triple play | 27,386 | 30,482 |
| Pay TV + Fixed telephony + Fixed broadband | 27,386 | 30,482 |
| Quad play | 46,988 | 49,900 |
| Pay TV + Fixed telephony + Mobile telephony + Fixed broadband | 46,988 | 49,900 |
| Number of digital TV and IPTV subscribers (end of period) | 143,286 | 142,357 |
| as a percentage of digital and IPTV subscriptions | 55.98% | 60.36% |

MARKET SHARE DEVELOPMENTS

A closer look at the market share by platform indicates increasing take-up of pay-TV packages with interactive features. This also explains the rising popularity of GO's IPTV service. On the back of increasing demand for IPTV, GO's overall market standing improved from a share of 47.3% at the end of 2015 to 48.2% at the end of 2016.

Meanwhile, Melita's digital cable pay-TV platform remains the most popular, as it accounts for 48.2% of the local pay-TV subscriber base, followed by GO's DTTV at 30.9% and GO's IPTV at 17.3%.

2012 MARKET SHARE, BY OPERATOR IN TERMS OF ALL PAY TV SUBSCRIPTIONS



PRICE COMPETITION

An assessment of price movements for local pay-TV packages is carried out on the basis of observed advertised rates¹¹.

The overall average monthly advertised rate paid by subscribers for pay-TV services at the end of 2016 stood at €23.69, slightly up from €22.54 a year earlier. This change effectively reflects changes in the product line-up available to end-users. In this regard, GO stopped offering its Bronze and Gold plans during 2016. Given that these two plans were on the lower scale of the entire product price list for DTTV-based and IPTV-based offering, the average advertised rate shifted slightly upwards. There were no other significant changes in the product line-up apart those carried out by GO. However, in general, service providers did update their channel line-ups throughout the year. In addition, service providers implemented several promotional offers in the case of bundled pay-TV subscriptions. However, the latter changes are not taken into account in the figures presented in this section, given that the focus remains on stand-alone pay-TV products.

On a disaggregate level, the pay-TV category encompassing packages listing 'up to 24 channels' was no longer available as the Bronze package featuring in this category was discontinued by GO.

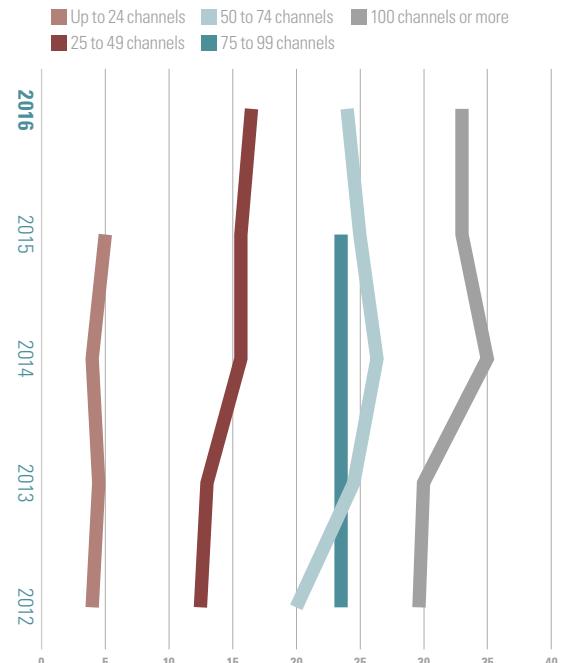
¹¹All rates related to this sector featured in this report are inclusive of the access charge per set-top box and VAT.

In the case of the pay-TV category encompassing packages listing '25 to 49 channels', the average advertised rate stood at €16.49 at the end of 2016. The average advertised rate for the pay-TV category encompassing packages listing '75 to 99 channels' and packages listing '100 channels or more' stood at €23.99 and €32.99 respectively.

As already highlighted earlier, GO no longer offers the Bronze and the Gold pay-TV plans, which were the only ones featuring packages listing 'up to 24 channels' and '50 to 74 channels' respectively. Meanwhile, it is noted that the adjustments recorded in the average advertised rate for the pay-TV category encompassing packages listing '75 to 99 channels' and packages listing '100 channels or more' are attributable to the reclassification that was observed across the different package categories following the update of the channel line-ups that materialised in the current reporting period.

It must be noted that billing charges are not taken into account when arriving at the final figures, as it is considered that local service providers typically offer customers an opportunity to avoid such charges. Also, charges related to optional add-ons do not feature in the analysis.

AVERAGE MARKET RATES FOR PAY-TV PACKAGES WORKINGS BASED ON ADVERTISED PACKAGES RATES (EXCL. OPTIONAL ADD-ONS)



PAY-TV ARPU

Pay-TV ARPU in 2016 totalled €165.03, which is down by 1.3% compared to ARPU recorded in 2015. Mainly, this decline is attributable to the shrinking subscriber base and the increasing take-up of pay-TV in bundled subscriptions. Effectively, the latter factor overshadowed the upward adjustments in prices observed for stand-alone pay-TV products. This is because pay-TV plans in bundled subscriptions typically come with discounts and promotional offers to the end-user.

AVERAGE REVENUE PER PAY-TV USER



3.2 PROMOTING AND SAFEGUARDING COMPETITION

A competitive market safeguards the interests of consumers and businesses, and in turn fuels additional investment in innovative technologies, products and services. Promoting, sustaining, and safeguarding healthy competition is therefore one of the primary objectives of regulation. The Authority's regulatory activities to this end focused on the facilitation of infrastructural investment, imposing regulatory obligations to counter Significant Market Power (SMP), and making available scarce resources (radio and numbering resources) to the sector.

Continued transition towards high-capacity Next Generation Access networks

The roll-out of next generation ultra-high-speed fixed and mobile broadband networks provides consumers and businesses with improvements in speed and reliability of services. The MCA has undertaken great effort to ensure that any regulatory measures it takes support both infrastructure and service-based competition in a technological evolving environment. Establishing balanced and predictable regulation provides the necessary incentives to market players for them to keep up the level of investment, which is rather substantial for the proliferation of such Next Generation Access (NGA) networks. A number of measures have been undertaken in a drive to safeguard infrastructure-based competition.

Virtual Unbundled Access to Fibre-to-the-Home

In February 2016, GO was found to have SMP status in the Wholesale Infrastructure Access Market (Market 4). By means of a decision, the Authority imposed the obligation on GO to publish a reference offer in order to provide virtual unbundled access (VULA) to its Fibre-to-the-Home (FTTH) network.

The VULA remedy offers a wholesale access product which provides an access seeker with a virtual connection to its subscribers over GO's fibre access network. Thus the VULA remedy eliminates the duplication of the access network by an access seeker.

This decision followed a lengthy consultation process during which the various technical and economic specifications to ensure equivalence of access, including, amongst other matters, the methodology for setting of wholesale access charges were discussed.

Measures to reduce the cost of deploying high-speed electronic communications networks

EU Directive 2014/61/EU concerning measures for reducing the cost of deploying high-speed electronic communications networks was transposed into national law in April 2016, after a comprehensive exercise conducted by MCA together with Transport Malta (TM) and the Building Regulations Office. The legislation was brought into force in July 2016.

The measures listed under this legislation do not only impact electronic communications network operators, but all utility network operators. The latter are required to provide access to, and coordinate civil works with, other owners of electronic communications networks in order to facilitate high-speed broadband roll-out. The implementation of this Directive presents particular challenges due to the inherent complexities involved in setting up, and thereafter maintaining, permanent structures and procedures in order to coordinate the works of all utilities involved in line with the requirements of the Directive.

The implementation of this Directive provides further strength to symmetric regulation as a means of facilitating and incentivising the rollout of high-speed broadband networks. The MCA will continue to facilitate the roll-out of such networks by providing the necessary support and guidance to sector players, other institutional players, as well as the judicial body entrusted with any potential disputes. Such support and guidance will mainly address areas related to access to physical infrastructure and access to in-building physical infrastructure.

Ex-ante Regulation – Market Analysis, Assessment of Market Power, and Subsequent Remedies

During 2016, the MCA continued with its review programme of existing ex-ante remedies that had resulted from the analysis of the relevant markets carried out during the past years. Through these reviews, the MCA ensures that regulatory decisions aimed at mitigating potential competition issues remain relevant, and that any changes in the markets between one review exercise and another are taken into account to assess whether SMP still exists, and also whether, and to what extent, any consequential remedies are required.

The following market reviews were undertaken during 2016.

Wholesale call origination on the public telephone network provided at a fixed location

The market for wholesale call origination on the public telephone network provided at a fixed location in Malta includes call set-up, switching and connection for the initial stage of the call to the next stage in the call routing process, the next stage being either the point of interconnection, or call termination. Wholesale fixed call origination is a necessary input offered via a network's access network infrastructure for the delivery of retail fixed call telephony services in Malta, including calls to both geographic and non-geographic numbers.

The decision was published in March 2016, following a public consultation document issued in November 2015 and the notification of the draft decision to the European Commission in January 2016. In its letter dated 25th February 2016, the Commission expressed agreement with the conclusions in the MCA's draft decision and had no further comments to make.

This decision concluded that the wholesale market for the provision of call origination supplied on the public telephone network at a fixed location in Malta tended towards effective competition and that consequently no service provider enjoyed SMP in this market. The MCA concluded that this market no longer warranted ex-ante regulatory intervention and that the relevant regulatory obligations on GO therefore were to be withdrawn.

High-quality access and connectivity services provided at a fixed location in Malta

Following a review of the retail and wholesale markets for the provision of high-quality access and connectivity services over national leased lines in Malta, the Authority published a consultation on a proposed decision in August 2016.

The competition assessment at the retail level showed that no operator enjoyed SMP. It should be noted that the regulatory regime applicable at the time was restricted to a light-touch approach, featuring transparency and non-discrimination obligations. The competitive situation at the retail level is linked to the wholesale market.

On the other hand, in its review of the wholesale market the MCA found that GO enjoyed a high and stable market share. The MCA also argued that the identified wholesale market was subject to the existence of barriers to entry, impacted by the small size of the local customer base, and the apparent lack of switching at wholesale level. The Authority therefore found that GO should be designated as having SMP and be subject to certain remedies, namely (i) an obligation to provide access to/and use of specific network facilities; (ii) a transparency obligation; (iii) an obligation of non-discrimination; (iv) price control; and (v) accounting separation.

A final decision was published in January 2017.

Development of Radio Spectrum Potential

• Review of the National Frequency Plan

Society's increasing use of radio-based technologies, and the tremendous opportunities for social development that these technologies provide, highlight the importance of radio spectrum and national spectrum management processes. Technological progress has continually opened doors to a variety of new spectrum management applications that have spurred greater interest in, and demand for, the limited spectrum resource. This requires that spectrum be used efficiently and that effective spectrum management processes be implemented.

The MCA is the entity responsible for ensuring the best use of the radio spectrum assigned to it by Government under the National Frequency Plan (NFP). The NFP designates portions of the radio spectrum to specific uses in accordance with, in particular, international deliverables and national priorities and policies.

In 2016, the MCA made recommendations to Government for the revision of the NFP. These revisions primarily sought to align national frequency allocations with those adopted in Europe, as well as to address the particular needs of the local communications sector. Revised editions of the NFP were published in April and November 2016.

The assignment process for the 1.5GHz band (1452 – 1492 MHz band) for the use in wireless broadband electronic communication services

In July 2016, the MCA issued a consultation document outlining the proposed assignment and applicable licence conditions for the 1.5 GHz band (1452 – 1492 MHz band). This is in line with the European Commission's Implementing Decision 2015/750 that aims at harmonising this frequency band for terrestrial systems capable of providing electronic communication services in the EU.

As per the National Frequency Plan, the 1.5 GHz band is allocated to mobile and terrestrial broadcasting services in line with the ITU Radio Regulations. In the past, the band was licensed for the provision of digital audio broadcasting services. Due to the limited development and deployment of such technology, the DAB service was not made available in Malta. Following this sequence of events, and after taking into consideration the future use of such a band across the region including the CEPT Decision ECC/DEC(13) 03, which harmonised the band 1452 – 1492 MHz for Supplementary Downlink, the MCA decided that no future assignments for broadcasting services will be considered in the 1.5 GHz band.

The assignment of the 1.5 GHz band for wireless broadband use allows the enhancement of downlink capability for mobile broadband systems and could be a strategic tool to tackle the growing mobile data traffic asymmetry driven by increased multimedia usage. Such a band has a huge innovative potential for new services, allowing for increased competition in the mobile markets as well as enhancing further the result achieved with respect to the digital agenda targets. In principle, both the operators as well as the subscriber shall eventually benefit from the assignment of the 1.5 GHz band.

Responses to the consultation were received from GO plc and Vodafone Malta Limited. A final decision was published in May 2017.

The assignment of spectrum in the 800 MHz band

All the efforts undertaken in 2015 with regard to the allocation of the 800 MHz band for the provision of wireless broadband services led to increased market interest in this spectrum during 2016. The MCA therefore embarked on the assignment process in accordance with its Decision MCA/D/14-1933 published in July 2014.

In August 2016, market demand for the 800 MHz spectrum was registered with the Authority. The interest expressed in acquiring the rights of use for the 800 MHz spectrum eventually initiated the assignment process as stipulated in the Decision. The MCA, in September 2016 issued a notice to determine whether there was further demand for the band in question by other stakeholders. Since the demand expressed for the 800 MHz band by the interested stakeholders exceeded the supply of available 800 MHz spectrum, in November 2016 the MCA issued a Call for Applications leading to the assignment for the rights of use of radio frequencies in the 800 MHz band. The MCA received three submissions for acquiring the rights of use for radio frequencies in the 800 MHz band in one of the available lot categories. Although the Call for Applications was earmarked to be completed during the second quarter of 2017, eventually all the applicant undertakings concurrently withdrew their submissions to the Call due to unforeseen market developments. In the circumstances, the MCA was compelled to temporarily cancel the assignment process leading to the grant of the rights of use of radio frequencies in the 800 MHz band in Malta.

Efficient management and use of numbers

Review of Administrative Charges and Number Usage Fees Structures

The Authority collects administrative charges from operators of electronic communications networks and/or services to cover the costs necessary for the purpose of carrying out its tasks relating to the regulation of the electronic communications sector. The MCA also collects fees, on behalf of Government, for the right of use of numbers in such manner as to ensure the optimal use of such resource.

In January 2016 the MCA consulted on proposed changes to the existing administrative charges structure, including numbering fees, outlined in the Electronic Communications Networks and Services (General) Regulations. The proposed changes were endorsed by Government a few months later.

Changes to the administrative charges structure were required in order for the MCA to continue to have an adequate cash flow to cover its annual costs in carrying out its tasks relating to the regulation of the electronic communications sector due to changes in the corporate structures of large operators. These changes were brought into effect on 1 July 2016.

Changes to the numbering usage fee structure aimed at ensuring fees that are more proportionate to resource usage and inherently encourage more efficient use of numbering resources. The new numbering usage fee structure came into effect as from 1 January 2017.

3.3 ENSURING TRANSPARENT, VALUE FOR MONEY SERVICES TO END-USERS

MCA wants consumers and businesses to benefit from a range of communications products and services through competitive markets that provide wide choice, fair prices, improved quality, and innovation. The MCA aims to achieve this by ensuring markets can work effectively, using regulation where appropriate, so consumers can take informed decisions and benefit from competition.

Informing, Empowering and Protecting Consumers

Review of Billing Mediums

Following a public consultation, the MCA published a decision in March 2016 which, amongst others, provides the possibility for post-paid subscribers who do not have an Internet subscription to receive their standard bills in hard copy format, free of charge. In the case of post-paid telephony services subscribers who do not have an Internet subscription, this measure also allows these subscribers to obtain a detailed itemised bill in hard copy format, free of charge. Telephony subscribers on a pre-paid basis also have the possibility to view a detailed usage report free of charge.

The decision was primarily targeted at those subscribers who did not have an Internet subscription and thus did not have the facility to access their bills electronically and that were being charged by their service providers to receive their bills in hard copy format. The decision came into effect in July 2016.

Wholesale Access to data and the provision of publicly available directory information services – consolidated decision

Providers of publicly available telephone services are required to provide their subscribers with the option to feature in directory information services. The MCA identified the need to elaborate and give further clarity to the overall framework and process by which these providers obtain and share their subscribers' personal data for the purposes of the directory information services which they, and other directory information service providers, may offer.

The MCA Decision of February 2016 requires subscribers to be given a clear explanation in writing of what the implications of their choices may be and also requires subscribers to clearly signify their decisions on these matters.

The Decision also lists the prerequisites that must be met by the requesting directory information service provider, such as the need for the appropriate authorisation, in order for the provider to consider the request for data, as well as the methodology that must be followed by such provider in order for such data to be shared, regardless of whether the data is being shared for directory enquiry services or for the purposes of compiling telephone directories.

Implementing Net Neutrality and Mobile Roaming Rules

Net neutrality

The Telecoms Single Market Regulation incorporates the principle of net neutrality into EU legislation. Net neutrality refers to the principle about the way that Internet Service Providers (ISPs) manage the data or 'traffic' carried on their networks when data is requested by end-users from providers of content, applications or services such as YouTube or Spotify, as well as when traffic is exchanged between end-users. Net neutrality principles dictate that all online services should be treated equally by ISPs without any special treatment for any site or service.

As well as providing rights to end-users, the Regulation establishes common rules "to safeguard equal and non-discriminatory treatment of traffic". It is widely understood that the internet has greatly contributed to growth and innovation in our economies – the low barriers to entry on the open platform of the internet have provided particularly fertile ground for new content and applications to develop, and for information to flow freely. These new net neutrality rules seek to ensure that the internet ecosystem can continue to flourish as an engine of innovation and freedom of expression.

Net neutrality rules came into effect in all Member States on 30 April 2016.

The MCA is the main Authority responsible for enforcing the Regulation and this entails several obligations, including ensuring that:

- All end-users of Internet Access Services (IAS) can access and distribute information and content, use and provide applications and services of their choice, irrespective of their own location or that of the provider, or the location, origin and/or destination of the information, content, application or service.
- IAS providers apply fair traffic management policies which respect the Regulation and the rights of end-users.
- IAS providers clearly explain their traffic management policies and how these may affect end-users' experience as well as how these could impact their privacy and personal data.
- End-users can access clear information regarding the IAS they use (such as speeds, volume limitations and other quality parameters).
- IAS providers have simple and clear mechanisms through which end-users may make complaints.
- IAS providers clearly explain the remedies available to end-users in cases where their experience deviates significantly and recurrently from the IAS to which they are subscribed to.

The Office of the Information and Data Protection Commissioner (IDPC) is the entity responsible for enforcing the data protection obligations arising from the Regulation. The MCA actively collaborates with the IDPC on issues falling within the remit of both entities.

In the course of implementing the Regulation the MCA prioritised the transparency aspects of the Regulation. The Authority actively engaged with IAS providers to address non-compliance issues that had been identified following its review and making sure that their traffic management policies were sufficiently detailed and published prior to the coming into force of the Regulation. The MCA undertook further measures to safeguard the sustainability of the quality of the open Internet access service by setting minimum quality of service requirements.

The MCA actively contributed and participated in the BEREC working group, tasked with developing guidelines on the obligations related to the supervision, enforcement and transparency measures for ensuring an open Internet access. BEREC issued these guidelines in August 2016.

Throughout the year, the Authority carried out a number of communication initiatives aimed at raising public awareness on net neutrality through publishing and pushing relevant content on various media, including of a number of articles in leading newspapers and an exhaustive list of FAQs related to broadband traffic management policy. MCA experts also had the opportunity to discuss this topic when participating in various television and radio programmes.

As part of its future work, and in line with the BEREC work programme on net neutrality tools, the MCA is looking into the availability and feasibility of tools which provide a quantitative assessment of the openness of the Internet. This work will complement existing initiatives on the quality of service of both fixed and mobile broadband networks. The Authority also plans to undertake a national campaign in 2017 to raise greater awareness on net neutrality and end users' rights for a free and open internet.

Roaming management and monitoring

International roaming allows mobile subscribers to make use of voice, data and/or SMS services whilst travelling in another country. Roaming services have been regulated for the past 10 years, since the European Commission, the European Parliament and the Council first agreed on the introduction of the Eurotariff, and other customer transparency measures, back in 2007. The European Commission calculated that, up to the end of 2016, rates for calls and SMSs had declined by 92% since 2007, whilst data roaming services were 96% cheaper than what they were in 2012.

The Telecoms Single Market Regulation laid down that conventional roaming surcharges within the EU be abolished by June 2017. Subscribers will be able to use their mobile devices when travelling in the EU while paying the same prices as when they are at home. In order to prevent any abusive or anomalous usage, as in the case of a permanent roaming scenario, the Regulation provided that a 'fair use policy' could be established.

As a transitional measure, applicable between 30 April 2016 and 14 June 2017, roaming providers were able to apply a surcharge in addition to the domestic price.

Meanwhile, the MCA actively contributed and participated in the BEREC working group tasked with providing input to the European Commission Implementing Act on fair use policy and sustainability of the abolition of retail roaming surcharges. BEREC delivered its opinion to the Commission in October 2016. Following intensive discussions involving other stakeholders, consumer representatives, operators, and within the Communications Committee (COCOM) – the rules on the application of a fair use policy on roaming at domestic prices were adopted by the Commission in December 2016.

In the run up to the abolishment of roaming charges, in June 2016 the Commission also proposed maximum regulated wholesale roaming charges in order to sustain the abolition of retail roaming rates. Political agreement on the wholesale roaming charges for making voice calls, sending SMS, and using data services, was subsequently reached in January 2017 under the Maltese Presidency of the Council of the EU.

Throughout 2016, the MCA also continued to monitor the activity of the local mobile operators to ensure that these are adhering to the obligations set out in the roaming Regulations, and to ensure that consumer protection measures and pricing structures are adequately set in place. To this end, during 2016 the MCA carried out 25 compliance tests. The tests performed from April onwards also examined whether operators were complying with the EU regulations during the transitional period.

The MCA will continue to monitor the process and contribute by means of various activities relating to the full implementation of the EU roaming Regulations in 2017.

Measuring broadband quality of service

The number of broadband subscriptions continues to grow consistently, with figures reaching 171,293 as at 31 December 2016, an increase of 5% over 2015. Quality of service (QoS) is even more critical, if consumer confidence is to be strengthened and maintained to ensure greater uptake and internet usage.

In July 2016, the MCA consulted on proposed updates to the Broadband QoS Framework, and published its decision in November 2016 by means of which it extended the QoS framework to cover all broadband services, which are inherently of a fixed nature due to the technology used to deliver them, or by virtue of marketing and/or product positioning strategies employed by the providers. It also introduced an exemption mechanism in specific circumstances, where either the technology in use, or its setup, might restrict the operator from exerting a level of control on the network performance, consequently impacting the QoS experience of the end-user.

In July 2016, the MCA also issued a decision emanating from its powers to address complaints filed by mobile operators on the same subject. In 2016, Melita filed a complaint alleging breach by Vodafone of MCA's decision on Broadband QoS Framework Decision Notice of the 1 February 2013 and of certain provisions of the requirements established in the decision. The MCA decided that Vodafone was not in breach of the decision or of the legal provisions.

Security and Integrity of Electronic Communications Networks and Services

The MCA continued its activities to oversee that providers of electronic communications networks and services meet their obligations for ensuring the security and integrity of their networks and services. As part of this work, the MCA reviewed incidents that resulted in the unavailability of networks and services and where applicable reported this information to the European Union Agency for Network and Information Security (ENISA).

During 2016, the Government published its national Cyber Security Strategy. The MCA contributed actively to the formulation of this strategy as part of the inter-ministerial steering committee responsible for its formulation.

The MCA also participated in the Cyber Europe 2016, an event organised by ENISA at a European level and coordinated in Malta by the Critical Infrastructure Protection Directorate within the Office of the Prime Minister. The event is considered to be the largest and the most comprehensive EU cyber-security exercise that involves cyber-security professionals from EU and EFTA countries and a number of organisations including, but not limited to, national and governmental cyber security agencies, ministries and EU institutions, as well as internet and cloud service providers and cyber security software and service providers.

The participants from Malta included, amongst others, Internet service providers, cloud service providers and other network security experts. The MCA participated as the regulator of Electronic Communications Services and Electronic Communications Networks providers overseeing their responsibility to maintain the security and integrity of their networks and services.

Continued Availability of the Universal Service

Review of the Universal Service Provider's claim for funding the universal service

Universal services are a minimum set of services of specified quality which are made available to all users irrespective of their geographical location, in the light of national conditions and at an affordable price. In accordance with national law, the designated undertaking providing universal services has the right to seek to receive funds for the net costs it believes to have incurred to provide part or all of the universal services.

In 2016, MCA processed GO plc's claims for Universal Service Obligation funding in relation to the net costs it claimed to have incurred in providing universal services during 2012 and 2013 respectively. Following audits carried out by an independent audit firm, it emerged that GO had suffered an element of unfair burden for providing specified universal services namely; geographical component; public payphones; social tariffs; and directory enquiry services.

In January 2016, MCA published its decision on GO's claim for providing universal services during 2012. After taking into account the intangible benefits for providing universal services, the final calculated costs amounted to €125,110.

In October 2016, the MCA undertook a second exercise to evaluate GO's claim for funding for the year 2013, and once again, published a consultation document. The related decision and the result of the auditing exercise were published in December 2016. The total net cost incurred summed up to €101,538. The final decision was published in February 2017.

General Interest TV Transmission

Migration of terrestrial broadcasting meeting General Interest Objectives (GIO) from the 800 MHz band

During 2016, the MCA continued with its work programme to make the 800 MHz band fully available for the provision of wireless broadband services as required by European Union legislation.

In this regard, the Authority continued to support Government with respect to its request for derogation on the use of this band for wireless broadband services under Decision No. 243/2012/EU due to cross-border frequency coordination problems with Italy, which persisted after 31 December 2015. Malta's request was considered favourably and a new Commission Decision granting a derogation to Malta up to 4 January 2017 was published in August 2016.

The harmful interference affecting the clearance of the 800 MHz band was resolved and consequently, in September 2016, the Authority amended the licence to terminate the right to use television channel 66. This amendment formally triggered the process to migrate transmissions to television channel 43, thereby fully vacating the 800 MHz band. The migration process was completed successfully in January 2017. In view of this development and following consultation with the Minister responsible for communications, the Authority published the revised National Frequency Plan to formally allocate the 800 MHz band for wireless broadband services as required by Decision No. 243/2012/EU.

Review of Must-Carry Obligations

The operators of TV broadcast networks that are used by a significant number of end-users are obliged to reserve part of their network capacity for the transmission of TV channels in order to meet General Interests (GI) objectives. These are termed as Must-Carry Obligations.

In 2016, the MCA carried out an exercise to determine whether GO's fixed line Internet Protocol Television (IPTV) packages should be subject to must-carry obligations in accordance with the established guidelines. It was concluded that there was a substantial increase in GO's IPTV subscriptions, and to this end, the MCA published a consultation document in July 2016 in order to determine the must-carry obligations on GO's IPTV network in addition to Melita's Digital Cable TV network, with respect to the carriage of all General Interest TV channels.

Must-carry obligations on Melita's Digital Cable TV network and on GO's IPTV network will continue to safeguard the carriage of all the General Interest TV channels and ensure the universal availability of General Interest content in Malta. The related decision was published in January 2017.

Community radio stations

In 2016 the MCA submitted a set of technical recommendations to the Malta Broadcasting Authority, the entity responsible for granting broadcasting transmission licences, aimed to better regulate the provision of community radio services in the 87.5 MHz to 108 MHz band.

The technical recommendations proposed by the MCA emphasised the requirement that radio spectrum shall be used in the most efficient manner, and addressed areas concerning transmitting apparatus.

Spectrum Monitoring and enforcement

Spectrum monitoring

Apart from the overall management of the radio spectrum, the MCA undertakes a number of spectrum monitoring exercises to ensure the optimal and lawful use of this national resource.

During 2016 the MCA continued with its monitoring programme ensuring that spectrum bands were free from any unlawful transmissions, taking immediate enforcement action to ensure compliance with the applicable national instruments.

The MCA was also called into four court sittings to assist local law enforcement entities with respect to cases concerning the use of radiocommunications apparatus.

Monitoring of Electromagnetic Field Emissions

The MCA continuously monitors electronic magnetic field emissions (EMF) in order to ensure that the levels of electromagnetic radiation do not exceed the levels established by the International Commission of Non-Ionising Radiation Protection, which are also endorsed by the World Health Organisation.

During 2016, the MCA carried out 330 on-site audits, comprising mobile communications base stations, analogue and digital broadcasting, and other transmitters. These audits also include a number of on-site repeat visits with the aim of ensuring continued compliance with the applicable regulations. Thirty of these audits were requested by members of the general public. The MCA liaised with the department responsible for environmental health throughout 2016. This monitoring activity will continue in 2017.

Radio equipment notifications

Manufacturers of radio equipment or their authorised representatives are required to submit notifications to spectrum management authorities concerning radio equipment operating on non-harmonised frequency bands prior placing that radio equipment on the European market.

During 2016, the MCA processed 596 notifications, which were all processed within 20 days of the receipt date.



4 POSTAL SERVICES





POSTAL SERVICES

4.1 MARKET OVERVIEW

As was observed in previous years, the postal sector still faces declining mail volumes. The downside trend in mail volumes has to do with the proliferation and increasing usage of the different online communication platforms.

Compared to the previous year, postal mail volumes in 2016 were down by 3.1%, mainly as a result of dwindling postal activity in terms of single piece letter mail and the bulk mail categories. However, there is an upside to this state of affairs, as evidenced for example by the sustained rise in registered mail and parcel mail activity. Positive developments in these two mail categories have persisted over the last few years and the indications remain positive, given mainly the continued robust performance of eCommerce activity.

As regulator for postal matters the MCA is also responsible for setting the quality of service standards (QoS) which MaltaPost must meet on a yearly basis. In 2016, MaltaPost failed to meet the QoS targets for both local ordinary mail and bulk mail, but succeeded in surpassing the QoS targets for both local registered mail and priority inbound parcels.

As for the postal rates, this review makes reference to a report published on a yearly basis by Deutsche Post, which highlights developments of postal rates across the EU. The latest report shows that Malta's 2016 postal rates for a standard domestic letter and an outbound letter (directed to any other EU country) benchmark well below the postal rates for the EU average¹².

| | 2015 | 2016 |
|--|-----------|-----------|
| Economic contribution by the postal sector (end of period) | € million | € million |
| Postal mail volumes | 38.2 | 37.1 |
| Domestic postal volumes | 30.2 | 29.0 |
| Inbound cross-border mail | 5.6 | 5.9 |
| Outbound cross-border mail | 2.4 | 2.2 |

MAIL VOLUMES

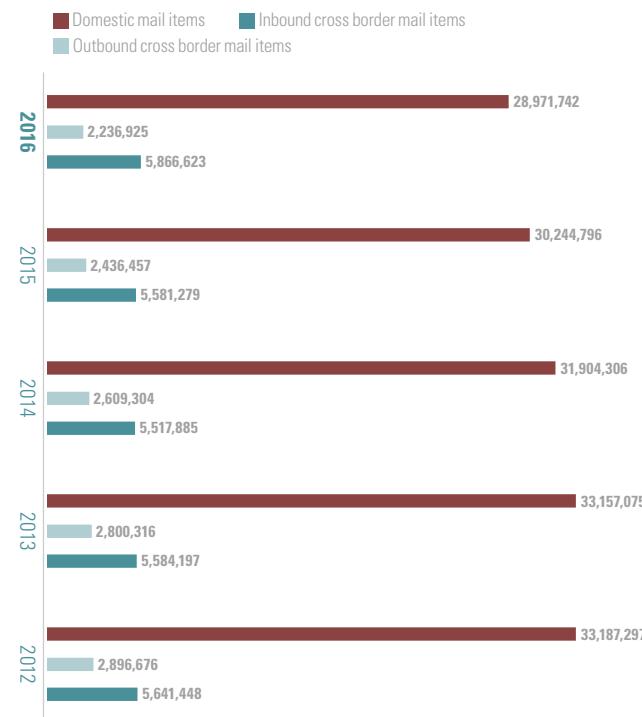
Postal mail volumes in 2016 totalled 37.1 million. This is down by 1.2 million mail items (or by 3.1%) when compared to volumes registered in 2015.

Developments by type of postal mail item

This overall negative development in terms of postal mail activity is represented by a drop of 0.4 million single piece letter mail items and a decline of 1 million bulk mail items. The use of single piece letter mail items keeps falling but still accounted for 38.1% of the total number of mail items delivered to Maltese homes and businesses in 2016. Bulk mail items made up 56.5% of all mail items that were delivered, which translates into 21 million bulk mail items delivered in 2016.

Higher registered and parcel mail volumes recorded in 2016 were not sufficient to outweigh the aforementioned declines. Registered mail was up by 11.6% year-on-year, whilst parcel mail was up by 11.5% year-on-year. Parcel mail and registered mail accounted for 1.5% and 3.8% respectively of total mail volumes delivered in 2016.

POSTAL ACTIVITY VOLUMES BY TYPE OF MAIL



¹²The report states that 'the only letter products included (in the assessment) were those with quality criteria enabling them to be compared to one another, in particular with regard to transit time'.

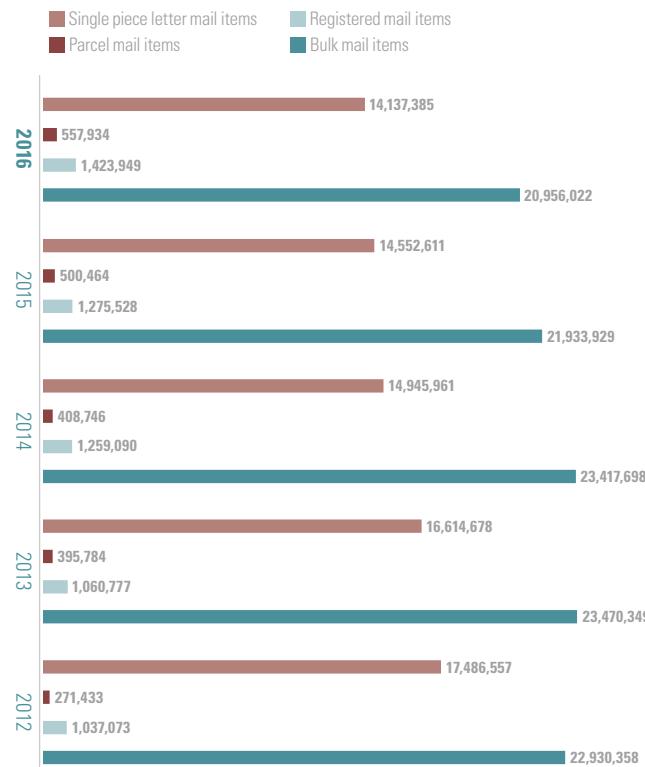
Developments by type of postal mail activity

Standard mail continues to be the most popular postal service used in Malta, accounting for 96.7% of all mail volumes recorded in 2016. Express mail accounted for the remaining 3.3%.

The decline in standard mail can be accredited to the fact that there were fewer standard domestic mail items and outbound cross border mail items delivered in 2016 compared to what was delivered in the previous year.

The number of standard postal mail items handled in 2016 totalled 35.9 million, down by 1.4 million (or by 3.9%) when compared to 2015. On the other hand, the number of express postal mail items delivered in 2016 totalled 1.2 million, representing a 27% increase over volumes reported in the previous year.

POSTAL ACTIVITY VOLUMES BY TYPE OF MAIL ITEM



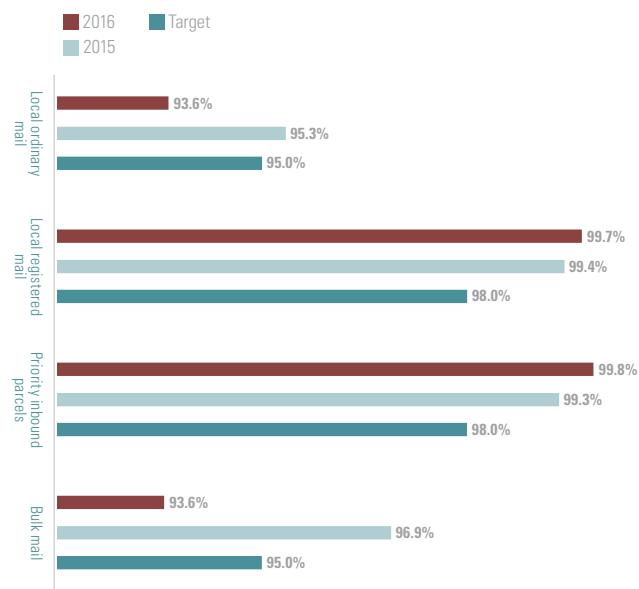
¹³D+1 is defined as the mail quality standard that the provider should reach and which represents one (1) working day from the day of deposit, to delivery to the addressee.

QUALITY OF SERVICE

The MCA sets a series of Quality of Service (QoS) standards to monitor how the universal service provider is performing with regard to the delivery of local ordinary mail (QoS target for D+1¹³ set at 95%), bulk mail (QoS target for D+1 set at 95%) and local registered mail (QoS target for D+1 set at 98%).

The data reported below by MaltaPost indicates the level of quality delivered by this operator during 2016 for the aforementioned services. Both in the case of local ordinary mail and bulk mail the quality of service offered by Maltapost failed to meet the established targets. On the other hand, Maltapost surpassed the QoS yearly targets in the case of local registered mail and priority inbound parcels.

QUALITY OF SERVICE



4.2 SAFEGUARDING SUSTAINABLE COMPETITION

The sustainable provision of efficient postal services constitutes a vital part of communication and logistical requirements for end-users as well as for eCommerce, publishing, mail order, and other business in general. A healthy postal infrastructure underpins the clearance, handling and delivery of various articles, from letters to parcels, and further serves to provide value-added services.

The past years have brought both challenges and new opportunities for the postal services sector. The decline in letter mail volumes has been a persistent challenge year-on-year. This decline is primarily the result of digital substitution. However, this shift has forced postal operators to look into developing new revenue streams. Despite the decline in letter mail volumes, a significant growth in eCommerce activity has driven a rise in parcel and small packet mail volumes. This notwithstanding, postal operators need to remain engaged in their determination to provide innovative products and services in order to remain viable.

To this end during 2016 the MCA continued to:

- promote the development of the postal sector and facilitate sustainable competition and innovation in the market;
- collect relevant, accurate and timely information on the postal market in an efficient and effective manner; and
- provide information regarding the provision of postal services in Malta and include this in published bi-annual market reviews.

MANAGEMENT OF THE POSTAL SERVICES REGULATORY FRAMEWORK

Ex-ante regulation and market analysis

Every effort is being undertaken to safeguard the provision of an efficient, affordable, high-quality universal postal service. MaltaPost, the incumbent, is currently designated as having Significant Market Power (SMP) in all the identified relevant markets falling within the scope of the universal postal service and is thereby liable to the continued application of cost-orientation and tariff approval, among others. These ex-ante remedies imposed on MaltaPost aim to prevent anti-competitive practices and safeguard the interests of users and operators alike.

The MCA continued to monitor the application of the current remedies and the relevant postal service markets during the course of 2016 to ensure that market review decisions taken previously remain applicable and to ensure that remedies are modified in case of changes in the markets.

To this end, in the last quarter of 2016 the MCA commenced an internal study to gain a better understanding of the parcel delivery markets and the impact on the competitive scenario.

MANAGEMENT OF POSTAL COMPLIANCE FRAMEWORK

Market Operations

As part of its ongoing enforcement functions, the MCA ensures compliance of both licensed operators providing services within the scope of the universal postal service as well as operators subject to a general authorisation solely providing services that fall outside the scope of the universal postal service.

During 2016 there was no change in number of authorised undertakings of postal services, with 25 operators in total (3 of which are licensed to provide services within the scope of the universal postal service).

Collection and publication of market information

The MCA is continuously engaged in collecting market information and statistics directly from market players on a regular basis.

This activity is supplemented with public and business perception surveys as necessary. The results of these surveys serve as an additional source of information when issuing regulatory decisions, as well as an indication of how postal users' needs are changing over time.

Between October and December 2016, the MCA undertook a consumer perception survey of the postal sector. The survey focused on different aspects of the postal market including the overall service quality, household expenditure, general perception of the price of letter mail, and complaints lodged with MaltaPost. The results were subsequently published in 2017.

In 2017 the MCA plans to carry out a business perception survey of the postal sector.

4.3 ENSURING TRANSPARENT, VALUE FOR MONEY SERVICES TO USERS WHILST ADHERING TO INCUMBENT SOCIAL OBLIGATIONS

REVIEW OF THE UNIVERSAL SERVICE OBLIGATION

The Universal Service Obligation (USO) requires MaltaPost, among other things, to collect and deliver mail six days a week to every address in Malta at an affordable and geographically uniform price.

Due to digitalisation and the corresponding changes in communication and purchasing preferences, the relevance of postal services in everyday life has fundamentally changed. The development of eCommerce has triggered an increase in demand for letter packets and parcels. Conversely, letter volumes have declined due to e-substitution. MaltaPost is responding to the decline in letter volumes through a combination of cost savings and the development of new revenue streams, leveraging on the ubiquity of its post office network.

Although positive financial results are being registered by MaltaPost in the provision of the USO, ongoing challenges persist with letter mail volumes continuing to decline as more users switch to electronic alternatives. In 2016, the MCA carried out an internal review of the factors that could materially affect MaltaPost's ability to deliver the universal postal services in the future and the potential changes to the USO whilst maintaining the reasonable needs of postal service users.

The MCA's research concluded that possible variations to the universal postal service fall into two main categories:

1. changes to the daily collection and deliveries (such as five days a week instead of six); and
2. changes in the density of access points (letterboxes, postal outlets) to the postal network.

On this note, the Authority intends to take these finding further during 2017 by means of a consultation with Government on potential changes to the Postal Services Act to allow for additional flexibility in defining the USO in order to reflect market developments and the changing needs of postal service users.

REVIEW OF MALTAPOST'S QOS PERFORMANCE TARGETS

In December 2016, the MCA published its decision on the QoS performance targets to be achieved by MaltaPost for the universal postal service, following a consultation process that was initiated in July 2016. The QoS targets are essential for ensuring the regularity and reliability of postal services in Malta.

In its decision, the MCA retained the existing QoS performance targets for the delivery of mail, whereby the next day delivery (D+1) target for local ordinary mail and bulk mail is set at 95%, whilst the next day delivery target for locally registered mail and parcel post is set at 98%. The QoS standards set out in this decision will remain applicable unless any emerging developments necessitate a re-assessment.

The following table indicates the QoS standards and performance achieved for 'D+1' and 'D+3' performance targets for the inland mail services provided by MaltaPost for the universal postal service, where:

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

INLAND MAIL SERVICES – QOS TARGETS / PERFORMANCE ACHIEVED

| | D+1 Target | D+3 Performance | D+3 Target | D+3 Performance |
|---------------------------------|---------------|--------------------|---------------|--------------------|
| Single Piece Letter Mail | | | | |
| October 2013 – September 2014 | 94% | 94.66% | 99% | 99.14% |
| October 2014 – September 2015 | 95% | 95.17% | 99% | 99.67% |
| October 2015 – September 2016 | 95% | 93.15% | 99% | 99.23% |
| Bulk Letter Mail | | | | |
| October 2013 – September 2014 | 94% | 94.83% | 99% | 99.01% |
| October 2014 – September 2015 | 95% | 96.63% | 99% | 99.43% |
| October 2015 – September 2016 | 95% | 93.17% | 99% | 98.89% |
| Registered Letter Mail | | | | |
| October 2013 – September 2014 | 98% | 99.27% | 99% | 99.96% |
| October 2014 – September 2015 | 98% | 99.19% | 99% | 99.92% |
| October 2015 – September 2016 | 98% | 99.58% | 99% | 99.95% |
| Parcel Post | | | | |
| October 2013 – September 2014 | 98% | 99.20% | 99% | 99.88% |
| October 2014 – September 2015 | 98% | 98.60% | 99% | 99.80% |
| October 2015 – September 2016 | 98% | 99.98% | 99% | 99.91% |

Throughout the past financial years, MaltaPost has always reached and surpassed its QoS targets for single piece mail and bulk mail. During financial year October 2015 – September 2016, MaltaPost achieved a performance of 93.15%, i.e. 1.85% below target of 95% for D+1 delivery for single piece letter mail and a performance of 93.17%, i.e. 1.83% below the target of 95% for the delivery of bulk mail. Although the decline in performance was minor, this prompted the Authority to approach MaltaPost. MaltaPost's efforts are paying off since QoS results pertaining to the first two quarters of the financial year October 2016 – September 2017 have shown improvements in recorded performance.

POSTCODES AS AN INTEGRAL PART OF A POSTAL ADDRESS

Postcodes are a useful tool for facilitating the sorting and distribution of postal articles and in assisting the postal operator in reducing the potential of mis-delivery and other delivery-related errors. In October 2016 the MCA published a consultation paper on behalf of Government relative to postcodes being considered as an integral part of a postal address. The MCA proposed changes to the Postal Services (General) Regulations, such that postal articles should include a postcode written immediately after the town or village indicated in the address. Locally-addressed postal articles which do not include a postcode would still need to be delivered by the postal operator. However, the postal operator would not incur any liability for compensation to any person in cases of delay or misdelivery of any postal article caused by a missing or erroneous postcode.

The MCA proposed that the adoption of postcodes as an integral part of the postal address will only be applicable once the MCA determines that MaltaPost is complying with a number of regulatory conditions. The regulatory conditions are aimed at facilitating access to postcode information and in providing consumers and businesses with information on the benefits of using the correct postcode. The adoption of postcodes as an integral part of the postal address would further assist MaltaPost in achieving the QoS performance targets set for ordinary mail and bulk mail. The proposals were supported by the Data Governance Council, the relevant Government forum dealing with data-related proposals requiring changes to legislation for generic registers and standards applicable at the national level. Taking into account the positive feedback received to the consultation, the MCA will seek Government's approval to adopt the proposed changes to legislation during the course of 2017.

5

eCOMMERCE AND TRUST SERVICES





eCOMMERCE AND TRUST SERVICES

5.1. eCOMMERCE MARKET OUTLOOK

As eCommerce continues to flourish, it is increasingly deemed to be the key driver for growth in European retailing. In fact, eCommerce has transformed the traditional retail landscape, into an online market. New trends continue to evolve as:

- microenterprises, SMEs and large businesses are increasingly realising the potential benefits of digital tools; and
- more consumers are favouring online trends over the traditional brick-and-mortar method.

INTERNET & eCOMMERCE USE BY BUSINESSES

During 2016, the MCA commissioned a study to assess the digital capabilities and readiness across the entire local industry. The fieldwork was carried out between March and May with the sample population amounting to 700 businesses (more than three quarters of these businesses are microenterprises, employing 9 workers or less) across Malta and Gozo. This was stratified proportionately across eight business sectors according to the number of registered companies in each sector.

The findings, which cover different areas of transformation, confirm that the traditional 'brick-and-mortar' model is still an important channel for most businesses in carrying out their commercial activities. Nonetheless, 47% of the respondents also use the Internet to engage with their customers, however, do not necessarily conclude the transactions online.

SMEs and large enterprises are embracing technology more aggressively when compared to microenterprises. When asked about the use of IT systems (databases, documents, etc.) and the Internet in the day-to-day running of their business, 61% of microenterprises claim to make use of these digital tools when compared to SMEs and large enterprises, which almost all use such tools. Corporate internet users mostly use the Internet for communication purposes (96%), looking up information related to business (80%), Marketing (76%) and banking (74%). Interestingly, the number of businesses resorting to eLearning has doubled over a four-year period, whilst business-to-business activity remains unchanged.

The findings also highlight a potential relationship between the size of a business and website ownership, where larger businesses are more likely to have a corporate online presence. All large enterprises, 85% of SMEs and only 45% of microenterprises have invested in an online portal. Whilst the majority of those not having a website claim that they do not feel the need for one, a small number of those surveyed cited a lack of time and cost, as major reasons why they have not developed a website.

Furthermore, it should be noted that out of those having a website, only 27% feature prices and a mere 3% list stock availability. Other content accessible through websites includes the company's general information (98%), privacy policy (19%) and terms and conditions (10%).

Whilst 54% claim that a website enhances the company's image/brand as one of the reasons for having a website, 53% claim it is a good means to communicate information about the company as it enables potential customers to contact the seller or visit the store. Interestingly, 83% of businesses also claim that they find the website useful for their business. When compared to figures reported in 2013, the number of businesses that appreciate the benefits of having a website has increased by 22%. Interestingly, businesses which include prices on their websites seem to perceive more benefits from their website when compared to those that do not include prices, (88% versus 62%).

Approximately 4 out of every 10 businesses carry out some sort of analysis of the data generated by their respective websites, with 43% doing so on a monthly basis. Despite the consistent increase in mobile penetration, the upward trend in the number of data-enabled mobile subscriptions, coupled with an increase in purchases online, Maltese businesses are still exhibiting a degree of resistance to engage in online business operations. This behaviour is strengthened by the fact that only slightly more than half the businesses with a website have a mobile-optimised site, whilst 7 out of 10 companies that do not sell online are not convinced that their product or service could be sold over the Internet. Another 13% are discouraged by the costs involved in setting up an online presence, whilst 10% feel that they lack the skills or expertise to succeed online.

Only 12% of digitally-enabled businesses claim to sell through eCommerce channels, with the website being the preferred channel. The majority of businesses (78%) trade locally, more than half sell to other EU countries, whilst 40% trade globally. One of the main concerns for more than a third of online sellers is that they never get to meet the customer in person. Other concerns include the inability to translate web-traffic into actual sales and the opportunities to negotiate the best deal are limited.

On a positive note, this study indicated that Maltese businesses are, by and large, increasingly resorting to digital channels when promoting their products and services. Regardless of the size of the business, almost three out of four businesses prefer internet marketing over other, more traditional, methods of promotion, with Facebook occupying the top spot as the preferred platform of choice. This demonstrates that the local trading sector is appreciating the benefits and effectiveness of digital marketing as a tool to be more competitive and a means to broadening their market opportunities. This is an area where the MCA, in its commitment to roll-out initiatives identified in the National eCommerce Strategy, has exerted significant energy during the last few years through the provision of training and mentoring programmes aimed at the different sectors of the enterprise spectrum.

Despite the benefits and opportunities that the Cloud can offer businesses, especially to microenterprises, the adoption of cloud based solutions by local enterprises is still low. In fact, 50% of digitally-enabled businesses are uninterested in these services, whereas for 21% of businesses, cloud solutions are not a priority. Only 19% of businesses are subscribed to some form of cloud-based services, whilst a mere 2% are either in the process of setting up the service or evaluating its viability. Apart from storage and back-up, which is used by 81% of those using cloud services, 72% are using such services as an email hosting mechanism. In view of the perceived lack of potential that seems to persist in this regard, the Authority feels the need to continue rolling out initiatives focused on the better understanding of the benefits, opportunities and challenges of cloud based services and other ancillary areas that are impacting the operations of SMEs, and microenterprises in the digital era.

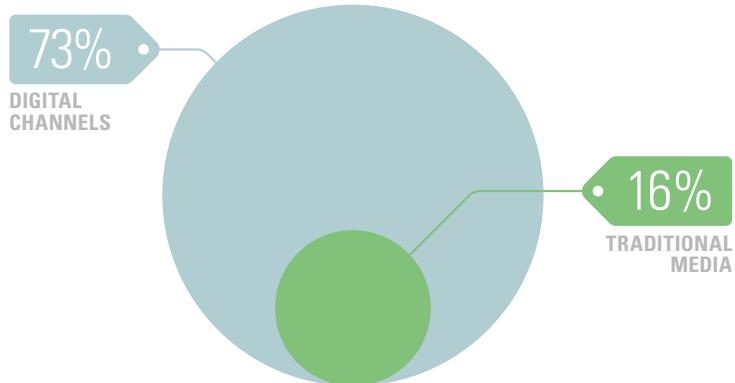
PRIMARY SALES CHANNELS



USE OF THE INTERNET BY TYPE OF BUSINESS



MAIN MARKETING CHANNEL USED BY BUSINESS



INTERNET & eCOMMERCE USE BY CONSUMERS

The MCA commissioned a study in July 2016 focusing on the attitude of consumers towards internet use and digital tools. The study revealed that more than three-quarters of consumers across all age cohorts in Malta and Gozo are using the Internet and more than ever, during their purchasing journey. The study also sheds light on consumer behaviour across social media channels where activity is also on the rise, with 87% of the internet users eagerly using these channels. Nonetheless, slightly less than a third of digital buyers are purchasing from local websites, with sales mainly restricted to event tickets, flights and accommodation. However, year-on-year, less consumers are citing security issues and lack of interest as reasons for not purchasing from the internet.

The detailed findings of the study were published in 2017.

5.2 FACILITATING THE DEVELOPMENT AND UPTAKE OF eCOMMERCE AND OTHER ONLINE SERVICES

eCommerce has ushered in innovative business models, providing consumers with a unique online shopping experience making it easier to search for products and/or services and compare prices. Moreover, eCommerce facilitates consumer-communication, making the latter more effective and efficient. The rapid uptake of mobile devices along with increased mobile internet broadband subscriptions, has also played its part in the integration of connectivity within the heart of the consumer's lifestyle. The benefits of eCommerce are numerous – providing on the one hand, more convenience for the consumer, whilst providing retailers with endless marketing opportunities.

NATIONAL eCOMMERCE STRATEGY

The Malta Communications Authority undertook a mid-term review of the eCommerce Malta, National Strategy (2014 – 2020), which was launched by the Authority, together with Government, in October 2014. The strategy sets out Government's policy in relation to eCommerce while it identifies a series of initiatives to be implemented during the strategy plan period. To this end, the MCA sought to set-up a 'think-tank' comprising a well-rounded team hailing from different specialised areas, including technology, eBusiness, marketing, legal, and academia, to gather feedback for the drafting of new policy concepts. This was complemented by consultation with various stakeholders in the industry. The dynamic nature of eCommerce necessitates that the strategy is updated at regular intervals and hence the aim of the review is to assess the current status of the policy's implementation to date and charts an updated way forward to continue to generate an eCommerce landscape that is creative, innovative, collaborative and adaptable.

A mid-term review of the eCommerce strategy will be undertaken in 2017.

IMPLEMENTATION OF eCOMMERCE INITIATIVES

Mentoring sessions for the Crafts industry

The National eCommerce Strategy (2014 – 2020) had identified the crafts sector as one of the key priority areas requiring immediate intervention and an ensuing research study commissioned by the MCA to assess the use of internet and digital tools in the sector highlighted the fact that a significant number of local artisans and crafts entities exhibit a degree of inherent apprehension when faced with the prospect of venturing into the online market. To this end, the MCA held a series of mentoring sessions, between January and March 2016, designed to guide participants on how to establish a sound online presence. These sessions sought to assist all participants in understanding the online environment, as well as, the potential of digital for one's organization and how each and every venture within the online world can be more effective and rewarding. 29 individuals took part in this training.

Ta' Dbiegi Online Portal

The MCA sought to assist the Malta Enterprise in creating a structured online presence for Gozitan artisans located at Ta' Dbiegi Crafts Village. To this end, an online portal was officially launched in October 2016 which, apart from being a focal point for authentic Gozitan crafts, it promotes crafts-related events and news. The portal also serves as an information guide for people visiting the village and for those seeking to digitally interact with the artisans. During the implementation of this project, the artisans at the Ta' Dbiegi village were provided with training on digital marketing to help them exploit the benefits that the use of digital tools brings.

Training for the Tourism Industry

The MCA, together with the Malta Tourism Authority (MTA), organised a number of information sessions for entrepreneurs working in the Tourism industry. The initiative forms part of the MCA's commitment towards promoting effective use of online technologies, as set out in the National eCommerce Strategy.

The training commenced in November 2016 and will continue during 2017. These sessions focus on the business value of internet marketing and how it can be leveraged to achieve a competitive advantage. The MCA engaged the services of a University lecturer specialised in internet marketing to deliver these sessions, who designed a bespoke programme specifically for this initiative.

By the end of 2016, sixty participants had taken part in these sessions.

Selling on Amazon

In April 2016, the MCA successfully conducted discussions with Amazon to provide Maltese individuals and businesses with the opportunity to sell their products through the Amazon platform, giving them access to more than 240 million customers around the world. This development is another important milestone in realising the objectives of the National eCommerce Strategy, especially in addressing the challenges that microenterprises are facing in light of today's digitally-driven world. It complements the Authority's drive to facilitate the proliferation of eCommerce activity, giving local enterprises the opportunity to compete at par with other enterprises across the globe.

eCommerce portal (onlinecommerce.org.mt)

BLINK is a practical resource that provides easy access to information required by businesses who wish to take their operations online. It features information related to legislation, website planning, online security issues, electronic payments, customer service, amongst others. During 2016, the MCA upgraded the BLINK directory and integrated the online directory with the revised eCommerce Guides for Business, which had been specifically developed to assist businesses or individuals who want to engage in online activity. To this end, a dedicated portal now houses both initiatives.

eCommerce Forum and other industry fora

The MCA hosted an eCommerce forum in March 2016, during which a number of stakeholders got together to discuss the emerging trends in eCommerce and other related issues. The forum was also used as a platform to analyse the adoption of eCommerce by the Crafts sector and to present guidelines on how to optimise the online customer experience.

The MCA also collaborated in the organisation of a number of events hosted by various partners and stakeholders, including:

- 'Better Access of Information for SMEs: SMETOOL a possible solution?', a seminar organised by the Malta Employers' Association in September 2016
- 'Gearing Maltese Enterprises to Conquer Today's Challenges', a conference organised by the General Retailers and Traders Union (GRTU) in October 2016
- 'Social Media and Trends in Online Retail' organised by the Malta Chamber of Commerce, Enterprise and Industry in collaboration with ICON, in October 2016
- 'eCommerce Grant Scheme', an information session organised by GRTU in November 2016

Various MCA representatives delivered presentations and formed part of discussion panels with other industry experts, during these events.

Participation in the international eCommerce Foundation

In April 2016, the MCA signed a cooperation agreement with the eCommerce Foundation, an independent non-profit organisation, initiated by eCommerce Europe, the European eCommerce Association. The Foundation was set up to foster global digital trade by facilitating the development of practical knowledge, insights and services for which individual institutions, retail and eCommerce associations and business-to-consumers selling companies do not have the resources and, or, capabilities. This agreement qualifies the MCA as a member of the Foundation's Board of Advice whilst providing the Authority with the opportunity to collaborate on a number of activities that the Foundation engages in, such as eCommerce reports and the online eCommerce handbook.

5.3 PROMOTING THE USE AND UPTAKE OF ELECTRONIC SIGNATURES AND TRUST SERVICES

On 1 July 2016, the provisions of the eIDAS Regulation (EU) No.910/2014 on electronic identification and trust services for electronic transactions in the internal market came into effect. In a nutshell, the eIDAS Regulation provides for a system of mutual recognition of electronic identification ('eID') schemes across Member States, and it also establishes a legal framework for 'trust services', electronic signatures, electronic seals, electronic time stamps, electronic documents, and electronic registered delivery services as well as certificates for website authentication.

For the time being, mutual recognition of eIDs will be operating on a voluntary basis. This system will however become mandatory as from 28 September 2018. Moreover, the EU has no mandate over the private sector. However, in the preamble, the Regulation appeals to Member States to encourage the private sector to voluntarily use eID under a notified scheme.

The Regulation introduces 'trust services' which are typically paid services that create, verify, validate or preserve electronic devices (i.e. electronic signatures, electronic seals, electronic time stamps, electronic registered delivery services and certificates related to those services). Electronic trust services guarantee secure and legally valid electronic transactions. They include electronic signatures, which are equivalent to a written signature, time stamping, which is the date and time on an electronic document which proves that the document existed at a point-in-time and that it has not changed since then, electronic seals, that is the electronic equivalent of a seal or stamp, which is applied on a document to guarantee its origin and integrity, electronic registered deliveries, which are similar to the services of registered mail in the physical world, website authentication, which allows users to verify the authenticity of the website and its link to the entity/person owning the website, and legal admissibility of electronic documents to ensure authenticity and integrity.

The eSignature Directive, which is the legal instrument preceding eIDAS, has been repealed, and new rules introduced at EU level under eIDAS Regulation have the objective of removing existing barriers to the cross-border use of electronic identification means in Member States for public services.

Member states are also entailed to establish a trusted list, which is essential in building trust among electronic market operators by allowing users to determine the qualified status and the status history of trust service providers and their services. In the trusted list information, Member States may elaborate on non-qualified trust service providers, providing information related to the non-qualified trust services provided by them, whilst making it clear that they are not qualified according to the applicable EU Regulation.

IMPLEMENTATION OF eIDAS REGULATION

Maltese laws on matters relating to the eIDAS Regulation are found in CAP. 426, the Electronic Commerce Act. Malta implemented the provisions of the Regulation by means of Act XXXV of 2016, and all existing provisions in Chapter 426 that were inconsistent with the eIDAS Regulation were consequently repealed or amended, and a number of new provisions were added, including:

- the introduction of electronic seals; and
- electronic communications by registered mail.

Article 24 of the Electronic Commerce Act relating to offences and their respective penalties was also amended, and unlike the situation before Act XXXV, not all infringements shall be considered criminal offences.

The MCA is the national competent authority designated by government to supervise trust service providers, and act as an investigator for disputes that may arise between a service provider and a consumer. The MCA is also responsible for maintaining and publishing a trusted list of certified service providers using qualified trust services and their status. The Regulation also gives the power to the competent regulator to issue compliance orders of its own initiative or upon written application by a qualified entity.

The transposition of the eIDAS Regulation is only a first step towards achieving the goals underpinning this legislation. In 2017, the MCA will be concentrating its efforts towards generating greater commercial interest in the Regulation and strengthening operational cooperation with competent authorities within other Member States.

**PARTICIPATION IN THE FORUM OF EUROPEAN SUPERVISORY AUTHORITIES
FOR ELECTRONIC SIGNATURES**

The MCA is also a member of the Forum of European Supervisory Authorities for Electronic Signatures (FESA) which comprises of regulatory bodies from all EU countries that meet twice a year to develop common points of view for the dialog with political or technical institutions. The prevailing topics discussed by FESA in 2016 during its meetings included informal cooperation mechanisms between members, CEN/ETSI standardisation framework for signatures, best practices for trusted list management and conformity assessment methods.

6

INFORMATION SOCIETY





INFORMATION SOCIETY

It is widely recognised that broadband is an essential pillar of a successful economy and that the widespread availability and use of broadband has both economic and social benefits. The Maltese communications sector has made significant strides over the past years in bringing the widespread availability of high-quality and high-speed next-generation broadband products and services to the market.

Whilst such progress is important because of its significant positive impact on social and economic development, it is equally important to ensure that, to the extent possible, every individual has the necessary skills to engage effectively with the digital economy, on both a personal and professional level. The take-up of broadband products and services is certainly encouraging, however Malta still lags behind other European countries with regard to technology usage, particularly amongst older generations.

Advancing further in broadband uptake necessitates fresh, targeted approaches in addressing both the traditional digital divide (the ever shrinking but possibly increased marginalised group who do not access technology) and new digital divide (groups that have basic access and skills to technology but for various reasons may be falling behind in the ability to realise the full benefits of ICTs).

As the entity responsible for promoting eInclusion, the MCA implements a number of actions aimed at facilitating and supporting the development of a digital society that capitalises on the opportunities brought about by ICTs for social cohesion and economic development. Initiatives primarily target the most vulnerable and disadvantaged groups and individuals not only to bridge the digital divide, but also to encourage youngsters to eventually take up ICT as a profession.

6.1. DIGITAL INCLUSION

LEHEN DIGITALI

The lack of digital literacy tends to be dominant in certain social groups, particularly senior citizens and people with certain disabilities. Such individuals are less likely to adopt and make effective use of ICT. During 2015, the MCA launched a training programme entitled 'com-lehen digitali' – 'digital voice', aimed at helping these individuals develop digital skills and thus facilitate their engagement and integration in the community.

The success of this programme led the Authority to extend this project to the Gozitan community, particularly to ageing individuals. Throughout 2016, approximately 120 individuals benefitted from this training programme.

eCOMMERCE FOR THE ELDERLY

The success of 'Lehen Digitali' spurred the MCA to develop further specialised training programmes, one of which is 'XiriOnlajn'. The project is aimed at facilitating the life of the elderly by enabling them to purchase goods or pay bills from the comfort of their homes, thus reducing their dependency on others. 'XiriOnlajn' was listed as a deliverable of the National eCommerce Strategy 2014 – 2020.

Launched in March 2016, this programme adopted both a theoretical and a pragmatic approach to ensure that the participants better understand how to use the tools offered by eCommerce. Thus, the programme offered hands-on experience in eCommerce activity, including purchasing of goods and services, making online bookings for flights and accommodations and general internet banking transactions. Approximately 500 participants enrolled for the training sessions.

MALTESE DICTIONARY

The Maltese Dictionary, a comprehensive online dictionary to promote the use of the Maltese language, was formally launched by MCA in March 2016 and is the result of a collaboration agreement with the Vodafone Malta Foundation and Infusion, as well as the Institute of Linguistics, the Department of Intelligent Computer Systems at the University of Malta, as well as the Kunsill Nazzjonali tal-Ilsej Malti.

The Dictionary's intuitive interface and its user-friendly searching mechanism offer users a unique experience. It also offers a level of interactivity to the user by providing the opportunity to users to recommend words for inclusion. This will ensure that the dictionary remains current and update to date with current trends. This online dictionary originated from the collation of a singular, plural or collective number of existing lexical resources for Maltese, some of which were available online, while others were developed as a result of research projects by academics and postgraduate students.

In addition to the online version, this dictionary was also made available in a mobile-friendly version and as a downloadable application from Google Play. This resource has been very popular with users as confirmed by usage statistics gathered in 2016 by MCA. Traffic to the website has been constantly high with an average of more than 1,900 sessions (user visits) per month recorded, 48% of which from new users.

The MCA intends to continue developing the functionality and the content available in this tool, in line with current trends and user feedback.

CODERDOJO MALTA

Following a successful pilot in 2015, during the course of 2016, the MCA, in collaboration with the eLearning Department, increased its efforts in promoting ICT coding skills amongst children and youths between the ages of 5 and 17, through its CoderDojo programme. Coding enables youths to develop websites, apps, programmes, and games, and will encourage youngsters to consider ICT as a profession. Instilling an interest in coding from a young age is highly significant in order to build the necessary capacity for future industries that are increasingly dependent on technology.

During the course of 2016, a total of around 600 students participated in the CoderDojo training sessions, hailing mainly from Church and state schools. Training sessions were delivered free of charge.

HOUR OF CODE

In December 2016, the MCA together with its partners joined a global initiative and drove a nationwide initiative entitled 'Hour of Code', during which approximately 40 schools across Malta and Gozo simultaneously participated in a number of activities. This resulted in an approximate 6,000 students engaging in the basic principles of coding through a series of plugged and unplugged activities.

The 'Hour of Code' aims to promote coding and raise awareness on the opportunities that computer science brings about. This coding event was endorsed by European MPs, Dr Miriam Dalli and Dr Roberta Metsola, who earlier in 2016 made official visits to and held discussions with the MCA. Following their visits, they both commended MCA's efforts to promote coding amongst school children. The Authority will continue to invest time and resources in disseminating awareness on the importance of computational thinking amongst school children through a number of initiatives in the coming year.

ERASMUS+ PROJECT

In order to keep abreast of the latest trends in training delivery, the MCA participated in an exchange programme that facilitated the exchange of knowledge and job shadowing with other EU organisations in the same field. This exchange programme is the result of the successful application for the Erasmus+ Mobility Project. Central to this project is the collaboration with key partners across the EU to establish best practice models for prompting digital competence in later life, whilst also providing a channel for discussion and debate on digital inclusion issues concerning older persons.

In total, there were 15 mobilities that took place to 3 organisations, namely: Telecentre Denmark, 'Asociacija Langas i Ateiti' in Lithuania and 'Dél-alföldi Teleházak Regionális Közhasznú Egyesülete' in Hungary.

These collaborations mainly involved the exchange of knowledge and experiences and discovering new ways to encourage best practices that focus on engagement and motivation methods to encourage the use of ICT by the elderly.

As a result of these exchanges, the MCA has built stronger relationships with partners and discussed the possibility of applying jointly for more EU funded projects. Other positive outputs of this project were the development of the GetSmarter project, which was successfully launched in 2017 and the collaboration on a second Erasmus+ project entitled 'We Wish a Better World'.

6.2 FACILITATING ACCESS AND OPPORTUNITY

WI-FI HOTSPOTS

Malta is well on track to become a leading nation in free public Wi-Fi provision.

During 2016, the MCA continued to increase and upgrade its free Wi-Fi access points across Malta and Gozo providing a wider, more reliable and resilient service to the general public. By the end of the same year, the number of free MCA Wi-Fi hotspots totalled 300, up from 206 at the end of 2015.

The table below indicates the location where Wi-Fi Hotspots were installed during 2016:

| | |
|---------------------------------|------------|
| Palma Garden | Attard |
| Kunsill Garden | Attard |
| Fuklar Garden | Attard |
| Garden in Kromb Street | Attard |
| Garden near Housing Estate | Attard |
| Public Library | Attard |
| Kitchen Garden | Attard |
| Youth Centre | Attard |
| Garden in Sqaq l-Ibghal | Birkirkara |
| Sir Anthony Mamo Garden | Birkirkara |
| Garden in Ganu Street | Birkirkara |
| Garden in Salvu Psaila Street | Birkirkara |
| St George's Bay | Birżeppuġa |
| Qajjenza Promenade | Birżeppuġa |
| Dingli Swallows Football Ground | Dingli |
| Ġużè Ellul Mercer Square | Dingli |

| | | | |
|--|------------|---|--------------|
| Għargħur Square | Għargħur | Giovanni Curmi Higher Secondary School 2 | Naxxar |
| Council Garden | Għaxaq | Vittorja Square | Naxxar |
| Football Ground | Għaxaq | Park in V Borom Street | Naxxar |
| Gudja Square | Gudja | Vittoriosa Lawn Tennis Club 2 | Paola |
| Zammit Clapp Residential Home | Gżira | Vittoriosa Lawn Tennis Club 3 | Paola |
| Żernieg Square | Kirkop | Access Centre | Qawra |
| Recreation Centre | Lija | Qawra Point | Qawra |
| Miracles Garden | Lija | Main Street | Qormi |
| Family Park – Hal Farruġ | Luqa | Saint Sebastjan Street | Qormi |
| Luqa Playground | Luqa | San Franġisk Square | Qormi |
| Charles Clews Garden | Marsaskala | Tumas Fenech Garden | Qormi |
| Tourist Information Office | Marsaxlokk | Southern Region Offices 2 | Qormi |
| Xatt is-Sajjieda | Marsaxlokk | Dun ġwakkin Schembri Square | Qormi |
| Mellieħha Residential Home – 1st | Mellieħha | Regional Library | Rabat |
| Mellieħha Residential Home – 2nd | Mellieħha | Saqqaġajja | Rabat |
| Iż-Żjara tal-Papa ġwanni Pawlu II Square | Mellieħha | Sir Mikelañ Refalo Centre for Further Studies 2 | Rabat (Gozo) |
| Family Park | Mellieħha | Sir Mikelañ Refalo Centre for Further Studies 3 | Rabat (Gozo) |
| Skorba Garden | Mgarr | Donat Spiteri Square | San ġwann |
| Blata I-Għolja Garden | Mosta | G M Camilleri Garden (Kappara) | San ġwann |
| Ta' Mlit | Mosta | Masġar Leopoldo Tabone | San ġwann |
| Msida Residential Home – 1st | Msida | San ġorġ Preca Garden | San ġwann |
| Msida Residential Home – 2nd | Msida | Soft Area next to Kappella tal-Mensija | San ġwann |
| Garden in Victor Denaro Street | Msida | Playground in Tabib Nikola Zammit Street | Siġġiewi |
| Mtarfa Garden | Mtarfa | Outdoor Gym | Siġġiewi |
| Regimenti Maltin Street | Mtarfa | Taormina Area | Sliema |
| Mtarfa Residential Home | Mtarfa | Dixies Area | Sliema |
| Giovanni Curmi Higher Secondary School 3 | Naxxar | Manuel Dimech Street | Sliema |

| | |
|-----------------------------------|---------------|
| Outdoor Gym Area | Sliema |
| Għar id-Dud Area | Sliema |
| Ferries Area | Sliema |
| Tigné Seafront | Sliema |
| Tower Road | Sliema |
| Millennium Chapel | St Julian's |
| Paceville Square | St Julian's |
| Spinola Garden | St Julian's |
| Sirens Football Ground | St Paul's Bay |
| Boċċi Club | St Paul's Bay |
| Civic Centre Hall | Swieqi |
| Civic Centre Gardens | Swieqi |
| FX Ebejer Garden | Swieqi |
| Petting Farm | Ta' Qali |
| Greek Theatre | Ta' Qali |
| Auberge de Castille – Reception | Valletta |
| Auberge de Castille – Yard | Valletta |
| Passports Office | Valletta |
| Hastings Gardens | Valletta |
| Peacock Gardens | Valletta |
| Fort Park | Xgħajra |
| Playground in Dawret ix-Xatt | Xgħajra |
| Marsalforn Bay | Żebbuġ |
| Pawl Debono Garden | Żebbuġ |
| Garden in Guliermo Lorenzi Street | Żebbuġ |

| | |
|----------------------------|---------|
| Youth Garden | Żejtun |
| Gregorio Boniċi Square | Żejtun |
| It-Tfal taż-Żurrieq Garden | Żurrieq |
| Kunsill tal-Ēwropa Garden | Żurrieq |

The MCA will continue to improve and increase the network and is planning to install additional Wi-Fi hotspots targeting to reach 400 by the end of 2017.

During 2016, more than 2,500,000 end-users accessed the MCA Wi-Fi hotspots. The following table gives a snapshot of the 12 most popular Hotspots.

| Location | Total number of users in 2016 |
|------------------------------------|-------------------------------|
| Buġibba – Buġibba Square | 121,655 |
| Valletta – St George's Square | 98,994 |
| Paceville – St George's Bay | 84,094 |
| Balluta – Taormina Area | 60,522 |
| Sliema – Anne Square | 55,771 |
| Marsalforn – Menqa Police Station | 53,081 |
| Marsascala – Mifsud Bonnici Square | 52,652 |
| Balluta – Tower Road | 52,405 |
| Golden Bay | 48,598 |
| St Julians – Balluta Square | 47,246 |
| Valletta – Upper Barrakka | 46,936 |
| Sliema – Ferries | 45,719 |
| Paola – A. De Paul Square | 40,568 |

WEBCHECK

Following the success of the WEBCHECK initiative in 2015, the MCA extended the information sessions to Local Councils due to their high level of engagement with the members of the community. The main emphasis of these sessions was on the use of social media platforms, which nowadays have transformed the way organisations interact and engage with the public and increased efficiency in the overall operational activity. The aim of this project was to make this means of communication accessible to each and every Local Council, leading to communities that will benefit from improved assistance and information. This initiative was successfully launched in collaboration with the Department or Local Government in November 2016. In total, 40 Local Councils participated in these information sessions.

6.3 BUILDING DIGITAL SKILLS AND COMPETENCES FOR A NETWORKED SOCIETY

BESMARTONLINE! PROJECT – SAFER INTERNET FOR CHILDREN

For the sixth consecutive year, during 2016 the MCA continued to roll-out a host of initiatives that focused on the safer use of the Internet by minors as part of the BeSmartOnline! (BSO) project. Initiatives included media campaigns, publications, school campaigns and information days targeting children, their parents/carers, and educators.

The MCA, as lead partner in this project, together with other project partners, Aġenzija Appoġġ within the Foundation for Social Welfare Services (FSWS), the Office of the Commissioner for Children, and the Directorate for Quality and Standards in Education, has been driving success year after year. This success is also attributed to the close collaboration and support with other agencies such as the Cyber Crime Unit within the Malta Police Force, the National Youth Agency (Aġenzija Żgħażagħ), University of Malta, the Independent School Association, the Secretariat for Catholic Education, and the Directorate for Educational Services. Comprising all these different entities has enabled the BSO project to be recognised as a national point of reference.

In fact, it is now well established as the Safer Internet Centre (SIC) for Malta and serves as a member of the European network for SICs, InSafe, and the International Association of Hotlines.

Helpline

During 2016, the Helpline, which is managed by Aġenzija Appoġġ, received over 270 calls, with cyberbullying and sexting topping the calls for support. It is worth noting that over the past few years, the percentage of calls received, which are related to Internet safety, has increased – a clear indicator that people are more aware of the services offered by the Helpline and that individuals are more sensitised towards internet related issues.

Hotline

Approximately 32 web pages containing over 3,200 child sexual abuse images were analysed and inputted in the iCCAM platform in 2016, through the Hotline administered by Aġenzija Appoġġ. As of 2016, the Hotline also started contributing to the ICSE (International Child Sexual Exploitation) image database managed by Interpol, which helps to identify the children abused in these images. By January 2017, the ICSE database had helped identify more than 10,000 victims around the world. It is worth noting that this national Hotline is a member of INHOPE, an international association of Hotlines.

eSAFETY LABEL ACCREDITATION

As of January 2016, in recognition of its activities in favour of a safer online environment, the MCA was formally recognised as the national administrator of the eSafety label.

The 'eSafety Label', which is a European-wide accreditation for schools, was set up by European Schoolnet to support schools in their endeavour to allow students to enjoy the virtual world safely. This drives development and maintains high standards of eSafety, providing practical solutions to this challenge. The website www.esafetylevel.eu enables schools who wish to attain certification to be guided through a number of services, including a self-assessment mechanism, which is followed by a personalised action plan to help them strengthen their policies and procedures in this regard. Furthermore, accredited schools can benefit from a wide range of resources and from an online community which will allow them to exchange ideas and experiences with their foreign counterparts.

In April 2016, the MCA, in collaboration with the eLearning Department, organised an event to officially recognise schools that have attained the eSafety label accreditation. During this event, 55 schools were presented with a certificate reflecting the level achieved, which varied between bronze, silver and gold according to the policies and procedures in place to protect their students online. Each accredited school was also awarded with a wall plaque.

6.4 ENCOURAGING EBUSINESS SOLUTIONS

EBUSINESS AWARDS

The sixth edition of the eBusiness Awards was held in April 2016, attracting a record number of nominations, across the eight award categories. The objective of these awards is to recognise exclusive and innovative local ideas and initiatives in terms of the use of web-based technologies and eBusiness solutions.

The eBusiness Awards complement the MCA's efforts to facilitate the take-up of ICT and promote eBusiness, whilst at the same time offer a platform for participants to showcase their innovative solutions to the business community and the general public. This edition brought with it some novelties. Two new categories were added for the 2016 edition of the Awards, best Tech Start-up and best ERP system.



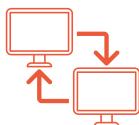
BEST ACADEMIC DISSERTATION WITH AN EBUSINESS THEME

DANIELA BARTOLO – Malta's Digital Economy: Developing Connectivity for a Small EU Member State



BEST APP

TALLINJA APP
Owner: **MALTA PUBLIC TRANSPORT**
Developer: **ALERT COMMUNICATIONS**



BEST B2B APPLICATION

SHIREBURN INDIGO PAYROLL
Owner: **SHIREBURN SOFTWARE**
Developer: **SHIREBURN SOFTWARE**



BEST eCOMMERCE SITE (B2C)

SENDON & EASIPIK – www.maltapost.com/easipik
Owner: **MALTAPOST**
Developer: **ASCENT SOFTWARE/SWIPBOX AG**

CRUCIAL CROWD FUNDING

'Crucial Crowdfunding' is an ERASMUS+ supported project, designed as an information platform for a wide stakeholder base ranging from entrepreneurs and SMEs to startups and social enterprises or even those individuals seeking investment opportunities. Furthermore, support agencies, such as Innovation Centres, cluster managers, and organizations, both public and private, looking to support business and economic development, whether its local, regional or national, will be able learn more about how to use and promote crowdfunding.

This project is another step forward toward the European Commission range of facilitative actions to improve SME's access to finance and accelerate awareness-raising on crowdfunding platforms.

In this project, the MCA is partnering with Mullingar Employment Action Group from Ireland, Youth in Science and Business Foundation from Estonia, Institute of Entrepreneurship Development from Greece, RLN from UK, GLAFKA from Czech Republic, and DRAMBLYS (Social Creativity Lab) from Spain.

During 2016, the MCA together with participants from other countries continued to contribute to the development of a European eLearning platform and an ebook in supporting of innovative funding.



BEST EGOVERNMENT INITIATIVE

JOBSPLUS – <https://jobsplus.gov.mt/>
Owner: **JOBSPLUS**
Developer: **ICON**



BEST TECH STARTUP THE STUDENT CAMPUS



BEST SOCIAL MEDIA CAMPAIGN

NEW YORK BEST
www.instagram.com/newyorkbestofficial
www.facebook.com/newyorkbest
Owner: **NEW YORK BEST/POPULAR MARKETING LTD**
Developer: **ANCHOVY**



BEST USE OF TECHNOLOGY IN BUSINESS TRANSFORMATION THE PHARMACY OF YOUR CHOICE SCHEME: BEYOND AN ERP SOLUTION

Owner: **PHARMACY OF YOUR CHOICE**
Developer: **PTL LTD**

AND THE
WINNER
IS...

7

BUSINESS DEVELOPMENT
AND INNOVATION



ZEST

MALTA 2016



BUSINESS DEVELOPMENT AND INNOVATION

The widening of MCA's legal remit in 2014 marked the beginning of a new focus for the Authority, strengthening its scope and the range of initiatives undertaken with the aim of ensuring that the Maltese economy and society can leverage on the full potential of communications technologies.

Driven by changes in the Act and important developments in the sectors under its purview a dedicated business development and innovation function was established to actively engage externally in the promotion and facilitation of tech innovation, advancing Malta as a destination for high value commercial users of communications services and communications technologies to establish places of business in Malta.

The activity undertaken by this new function was defined in a two-year work programme that covered years 2015 and 2016 built on four thrusts:

- Intelligence building: building, curating and disseminating intelligence to expose niche opportunities relevant to the Maltese economy;
- Building an innovation community: stimulating and facilitating dialogue on innovation in communications amongst a diverse representation from industry, academia and the public sector;
- Fostering tech entrepreneurship: promoting tech innovation and entrepreneurship on a national level by educating young people and future entrepreneurs, promoting an entrepreneurial mindset, supporting early stage startups and recognising successful ventures; and
- Facilitating enterprise: attracting and supporting enterprise to invest or base operations in Malta.

The Authority also instigated an organisation-wide shift in culture favouring longer-term foresight that factors in the wider implications of ICT developments on the economy and society. This is strongly reflected in the strategic plan of the Authority particularly in how domains like spectrum management, space communications, and cloud computing are addressed. Also of critical importance is the Authority's initiative to enhance Malta's international connectivity given that high quality broadband networks are an important precondition for innovation and have a direct impact on the growth of new economic sectors that leverage ICTs.

7.1 PROMOTING THE GROWTH OF DIGITAL BUSINESS ACTIVITY IN MALTA

STUDIES ON MALTA'S ATTRACTIVENESS TO DIGITAL BUSINESS

Tech startups are not just a Silicon Valley concept – they are thriving in Europe. Malta is no exception to this, and it indeed offers an ideal location for tech startups. This was demonstrated through a study, conducted by the Authority, which generated insight from 44 interviews with startup founders, talent and related experts. The study's preliminary findings were presented at a consultation workshop held in January 2016, and compounded with the feedback of 45 representatives from 21 stakeholder organisations in attendance.

The study identified two key factors contributing to Malta's attractiveness. First, Malta's nimbleness facilitates novel business ideas for global outreach. The financial markets and the gaming sectors are testament to this. Malta can gain a competitive edge if it can deal effectively with startup equity, intellectual property, failure, and the acquisition of talent from third countries. Secondly, Malta is a good place to be in terms of both starting a new venture and the lifestyle. It is safe, has an English speaking community, is cost effective, well-connected, and has an idyllic climate.

The main challenges faced by Malta in attracting digital business, as identified in MCA's study, include the availability of talent, a risk-averse culture, administrative burdens, weak international exposure, and difficulties associated with infrastructure and costs. The report featured a number of proposals put forward by interviewees to address these including:

- measures to improve talent attraction and retention;
- recommendations on culture and community aspects;
- proposals aimed at improving public support programmes for investment in innovation;
- proposed structures aimed at acting as focal points for digital businesses and related initiatives;
- suggestions to improve the regulatory and fiscal regimes in place; and
- measures to alleviate challenges related to infrastructure limitations and rising costs.

The report, published in September 2016, aimed to generate policy debate and ideas in the context of the identified challenges, and to bolster Malta's value proposition for digital business.

The MCA recognises that market intelligence and foresight can contribute to further development in the Maltese startup ecosystem. Thus, in October 2016, the MCA partnered with Startup Genome with the aim to feature Malta in a globally-recognised benchmarking report that examines the performance of startup ecosystems. Data on the Maltese ecosystem was collected through online surveys with tech startups founders and key stakeholders, during the period October to December 2016. The report, published in March 2017, explored and contrasted the performance of 45 leading startup ecosystems globally and reconfirmed Malta's potential and strong connectedness as a startup ecosystem.

ZEST

Despite the increasing levels of digital business activity, Malta's startup community is still at an emerging state, and is not as closely-knit as communities in more mature ecosystems. Such community formation and growth is critical to the ecosystem's effectiveness, and this therefore constitutes an area where the MCA seeks to intervene.

The MCA thus undertakes initiatives aimed at supporting and measuring the growth of Malta's digital business community. Through the organisation and support of community networking events, the Authority contributes towards bringing Malta's digital businesses closer to each other as well as to bridge the community with Government and other support stakeholders.

The flagship initiative within this thrust is ZEST Malta, a two-day conference and networking event held for the first time in June 2016. ZEST served as an excellent platform to bring together the tech startup community, providing the perfect opportunity for members to meet, discuss and connect.

The conference was organised with the support of the TAKEOFF Business Incubator and with The Times of Malta as a media partner. Many other players on the market were involved as well, including corporates and specific public entities to enable these to understand the startup concept and also connect with established players.

ZEST offered a sterling speaker line-up that delivered valuable content through talks, panels and workshops on technology, disruption and all things startups. The event contributed to educating newcomers, especially youths attracted to tech entrepreneurship, and enabled them to link up with others, propose ideas and gain feedback. ZEST also served as a showcase for home-grown success stories, giving Malta an opportunity to present itself as a startup-friendly place, to attract more activity and talent to base operations here.

ZEST featured the participation of 375 registered delegates, around 40 speakers, including a mix of startup founders and CEOs, business mentors, investors and journalists. The line-up of speakers was not limited to Malta-based experts: indeed, speakers flew in from places such as London, Berlin, San Francisco, Cairo and Tallinn. A number of Maltese startups also exhibited their startup concepts in the showcase area. Additionally, a Facebook group was created for ZEST, whose number of members amounted to 508 at the end of 2016.

Following the success of ZEST in 2016, the Authority plans to hold the second ZEST conference in September 2017.

PROMOTE A TECH ENTREPRENEURSHIP CULTURE

To engender innovation and achieve growth in digital business activity, Malta needs to embrace a culture that favours innovation and home-grown tech entrepreneurship. Such a culture would contribute towards growing Malta's human capital in terms of both tech entrepreneurs as well as specialised talent able and willing to join tech startups.

To this end during 2016 the MCA undertook activity geared towards encouraging and promoting home-grown tech entrepreneurship, as well as officially recognising and celebrating Malta's success stories. It is a known fact that Maltese youths appear to be drawn to a comfort zone, a so called 'no risk' mentality. While having no doubt on the capacity of the next generation, more aptitude for adventure and risk taking is desperately needed if we aspire to keep a small, yet nimble, well-performing economy that is distinguished from the rest of the world.

'Budding Rockstars'

Pursuant to the success of the first 'Budding Rockstars' conference in 2015, in October 2016, the Authority held a second edition with the aim of engaging Malta's brightest secondary school students to promote tech entrepreneurship. The event featured the participation of nine business leaders, who shared their personal success stories with participants with the objective of inspiring these students towards a tech entrepreneurial future.

A total of 130 students and 50 teachers from 30 state, church, and independent schools across Malta and Gozo participated in the conference. Additionally, a Facebook group was set up for Budding Rockstars.

The event was co-organised with the Edward de Bono Institute, the Directorate for Educational Services and Junior Achievement Young Enterprise with the support of the Secretariat for Catholic Education, the BeSmartOnline! campaign, and SME Week 2016.

Partnerships and collaboration with public and private institutions

In 2016, the MCA persisted in its efforts to partner and collaborate with relevant entities and stakeholders, making way for intelligence sharing, joint projects, and initiatives. To this end, the MCA once again entered into a formal agreement with the University of Malta with the aim of promoting research and innovation and implementing joint initiatives specifically targeting innovation in communications.

In addition to the agreement with the University of Malta, the Authority also entered into an agreement with the Junior Achievement Young Enterprise (JAYE). The JAYE Collaboration Framework was similar to the agreement signed in 2015, including the granting of a €2,000 seed fund to the Startup Programme winners, and a €1,500 grant to JAYE to support the organisation of entrepreneurship events. The MCA also sponsored the Award for Best Presentation and Use of Communication Platforms in the JAYE Company Programme.

Moreover, the MCA Innovation Observatory on LinkedIn marked an increase in members of 30% from December 2015, following more sustained activity through this platform. The Observatory aims at regularly disseminating relevant news and intelligence with group members and serves as a platform to further engage with other interested parties.

INCREASE MALTA'S VISIBILITY IN DIGITAL BUSINESS THROUGH PARTICIPATION IN INTERNATIONAL EVENTS

During 2016, the MCA participated in four international conferences: CeBit in Hanover; Smart to Future Cities in London; Latitude 59 in Tallinn; and the Web Summit in Lisbon.

Web Summit took place in November 2016, during which MCA representatives, in collaboration with TradeMalta and MIMCOL, set up and manned a booth representing Malta, with the aim of disseminating promotional resources about Malta to showcase the island as an ideal base for digital businesses. Testimonial videos, produced by the MCA, were screened on the stand to promote Malta's value proposition. The videos presented the perspective of successful startups founders that chose Malta as their base of operations. Further promotional material disseminated at Web Summit included the brochure 'Malta – We're open for Business', also developed by the MCA.

Web Summit brings together tech-related interests from across the globe. It originated in 2010, with the simple idea of connecting the technology community with all industries, both old and new. However, Web Summit has rapidly grown to become the largest technology conference in the world. There were over 2,000 media companies from more than 100 markets at the 2016 Summit. These companies included both editors from many of the world's most influential publications and market-shaping industry reporters from leading technology and trade publications and blogs.

The 2016 Summit attracted a crowd of 53,000 individuals from 166 countries, and the MCA's booth was visited by the then Minister for Competitiveness and Digital, Maritime and Services Economy, who in turn met with some of the 153 Maltese delegates present.

7.2 DEVELOPING THE SPACE COMMUNICATIONS SECTOR

Connectivity is a mission-critical enabler to wireless communication services in the emerging global digital society. All wireless communication services - including TV, telephone and Internet access - whether delivered by terrestrial or satellite infrastructure, are provided using frequencies that are part of the electromagnetic spectrum.

Efficient management and use of spectrum is becoming increasingly important in enabling and supporting new applications and business processes that promise to deliver many kinds of new innovative services enabled by the relentless shift towards the interconnected network of devices. Such developments set the stage for unleashing the next wave of disruptive technologies.

PAN-EUROPEAN MOBILE SATELLITE SERVICES IN THE 2 GHZ BAND

EchoStar Mobile Ltd and Inmarsat Ventures Ltd were granted a licence for the use of radio frequency spectrum for the provision of Mobile Satellite Services (MSS). The satellite component of the MSS and the Complementary Ground Component (CGC) share the same 2 GHz frequency bands – from 1980 to 2010 MHz for earth-to-space communications, and from 2170 to 2200 MHz for space-to-earth communications. The authorisation of the CGCs is subject to the common conditions established in the EU Decision 626/2008/EC on the selection and authorisation of systems providing MSS.

CGC refers to ground-based stations used at fixed locations in order to, amongst other things, improve the availability of MSS in geographical areas within the footprint of the system's satellite(s), where communications with one or more space stations cannot be ensured with the required quality.

In line with the relevant EU legislation, a consultation document on the licensing regime for CGCs was published in August 2016. Following this process, in May 2017, Government published a regulation which has established the national CGC licensing regime in the 2 GHz frequency bands.

SATELLITE FILING PROCEDURES

During 2016, the MCA finalised and published a framework which permits satellite operators to register their space resources with the International Telecommunication Union (ITU) through Malta. This framework, which is in line with the applicable international regulations, offers an attractive solution to those satellite operators wishing to diversify their satellite filing strategy.

7.3 REVIEW FOR THE GRANT OF RIGHT TO THE USE OF SPECTRUM FOR TEST AND TRIAL PURPOSES

The MCA continuously promotes the uptake of test and trial radio spectrum licences to encourage the development of innovative spectrum usage in a safe and technology-neutral environment. Malta's location offers local and international companies a unique opportunity to test innovative technologies and service implementations on a national scale and at minimal costs.

In 2016, the MCA reviewed the current test and trial licensing framework for innovative services, taking into account the industry's needs, with the intention of facilitating the carrying out of tests and trials for new innovative wireless services. In November, the MCA published a document for consultation proposing its revisions to the test and trial licensing framework. The decision was published in February 2017.

The revised test and trial licensing framework ensures that stakeholders can carry out tests or trials of any type of terrestrial or space wireless technology, including 5G and IoT.

7.4 PROMOTING CLOUD SERVICES

Innovative data-intensive technologies such as cloud computing, digital media and big data are bringing about massive economic transformations. According to the European Commission, cloud computing alone (if successfully adopted by all EU member countries) would boost GDP by 1% and create 2.5 million jobs by 2020.

Also, nearly 90 percent of companies that support cloud technologies report greater opportunities for innovation as a result of their cloud investment, according to a Forbes study, *Collaborating in the Cloud* (2013). Also, more companies are compelled to redesign their IT networks and leveraging cloud services to deal with the explosion of data which is resulting with expansion of various technologies such as the Internet of Things (IoTs). From fitness trackers to driverless cars, and all the other digital gizmos being invented, their resulting flood of data will strain network security and capacity.

CLOUD AWARENESS

In April 2016, the MCA, together with MITA, organised a conference which focused on the benefits of and challenges in implementing cloud based solutions for such businesses. An eBook entitled 'A Guide to Cloud Computing for SMEs and microenterprises' was also formally launched.

Using the right technology undoubtedly maximises SMEs and microenterprises' output, leading to greater efficiency, productivity, and sustainable economic growth. The eBook provides a wealth of information for SMEs and microenterprises, including the benefits of cloud computing, the different solutions available on the market, how to select the right vendor to ensure their business needs are met and a step-by-step guide on how to go about introducing and implementing a cloud computing solution. SMEs from different industries actively participated in the discussion during the conference, which was led by local and foreign experts on the subject.

CLOUD FORA

During the course of 2016, the MCA initiated its groundwork for the establishment of the Malta Cloud Forum to promote cloud computing in Malta, particularly by micro enterprises and SMEs. This follows the European Commission's strategy to unleash the potential of cloud computing in Europe. This forum will be led by the MCA, and includes the collaboration of a number of representatives from academia, industry, and government with the intention of bringing together cloud providers and customers to facilitate interaction between stakeholders.

On-going cloud computing related events and conferences are planned for 2017 and beyond, and a nation-wide cloud computing survey will be commissioned in 2017 to get a clearer picture of the status of cloud usage at present.

The MCA also actively participated in the European Cloud Initiative, particularly in the European Commission's Next Generation Internet (NGI) fora. This initiative aims to shape the Internet of the future in a more open and "human" manner.

7.5 EMBARKING ON THE NEXT STAGE OF THE INTERNATIONAL CONNECTIVITY PROJECT

Malta's broadband Internet readiness is becoming increasingly pivotal in influencing the nation's global competitiveness. High quality broadband services are spawning innovation. Over the past few years new developments in next generation broadband access and international connectivity not only helped reinforce Malta's position as one of the leading jurisdictions in e-gaming, but also led the financial and various other knowledge-based industries to make great strides.

Modern economies are very much dependent on uninterrupted, redundant and high-bandwidth global data connectivity. Currently Malta is entirely reliant on links to Sicily for international telecoms connectivity.

In order to evaluate this scenario, the MCA carried out a detailed technical, commercial and financial feasibility study for a new submarine cable connecting Malta to other alternative locations with the objective of enhancing the resilience and quality of the current international electronic communications connectivity.

The study revealed that a new connection to mainland Europe via a locally-owned, government-subsidised branch to a trans-Mediterranean submarine cable would improve Malta's credibility as a destination for international business investment and ensure that the country's future international telecoms connectivity requirements and competitiveness can be met.

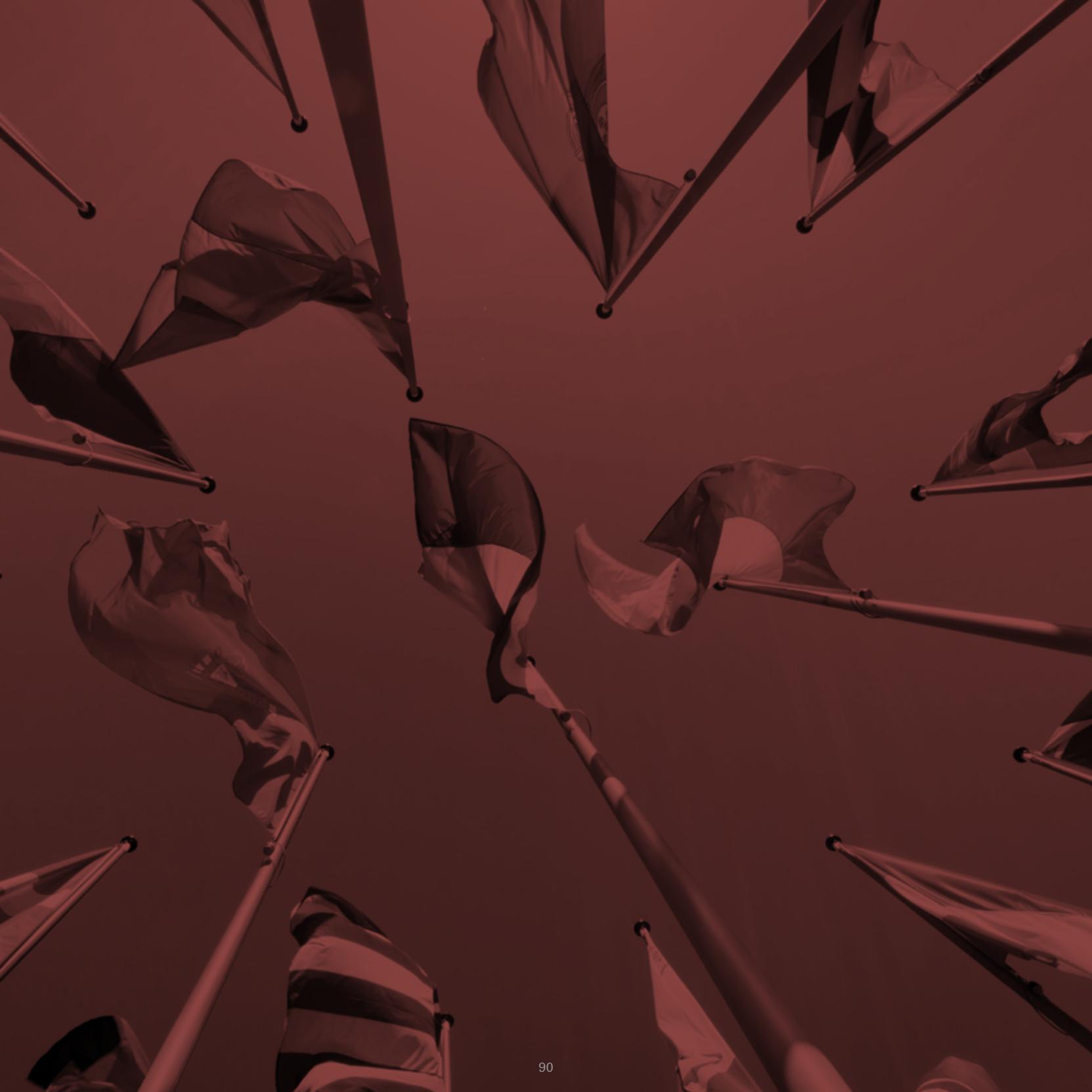
Following the finalisation of the feasibility study, in 2016 the MCA embarked on a series of meetings to explore the various funding options that can be considered to finance this investment. The feasibility study established the need for funding support to ensure financial viability for the project.

As part of this exploration process, the MCA initiated discussions with the European Investment Advisory Hub on financial instruments managed by the European Investment Bank. These financial instruments (CEF) are not funding instruments, and are only meant to support projects that have sufficient financial viability derived from revenues which may come in the form of public sector subsidies or contractual revenues with the cable operators. Consequently, the MCA is seeking additional sources of funding to ensure that this project of national importance can materialise in acceptable time-frames. Meetings were also held with the European Commission which pledged to support Malta in exploring funding opportunities to realise this project.

8

EU AND INTERNATIONAL ENGAGEMENT





EU AND INTERNATIONAL ENGAGEMENT

The Authority operates in an environment where the regulatory frameworks it oversees are set at a pan-European and/or international level. It is an environment where, increasingly, the nature of the services under MCA's purview tend to extend across national borders.

Despite the limitations in terms of size and resources when compared to other foreign regulatory bodies, the Authority still remains a strong contributor to the shaping of the regulatory scenario. The work in this regard is undertaken through different channels and in fulfilment of its different roles: as a National Regulatory Authority; as an advisor to Government; or on behalf of Government. To this effect, in 2016, the MCA continued to make meaningful contributions in the various committees and workgroups, whilst at the same time drawing valuable knowledge and expertise from them.

In 2016, the Authority also supported Government in the build-up to Malta's Presidency of the European Union in the first half of 2017. This support continued throughout the period of the Presidency.

THE DIGITAL SINGLE MARKET

The world is seeing increasingly strong inter-linkages between traditionally distinct aspects of the digital economy. As technology and new business models to provide services develop, the need to ensure a truly all-encompassing single market for European business and industry to flourish and for consumers to have the widest choice possible is considered vital.

Since 2015, the creation of a European Digital Single Market has become one of the top priorities for the EU. The Digital Single Market Strategy for Europe presented by the European Commission, recognizes that the global economy is rapidly becoming digital and Information and Communications Technology is no longer a specific sector but the foundation of all modern innovative economic systems. These changes are happening at a scale and speed that bring immense opportunities for innovation, growth and jobs. They also raise challenging policy issues for public authorities such as the MCA and the Maltese Government and require coordinated EU action. The Strategy is structured under three pillars, each of which contains a number of targeted actions to be implemented by defined timeframes

During 2016, the MCA continued to actively follow most of the initiatives of the Strategy, even those indirectly related to its remit. Initiatives associated with electronic communications, postal services and eCommerce form an integral part of this European strategy and so were engaged with in a more prominent way.

The sections below capture the most important initiatives and work undertaken by the Authority in these sectors during the year.

COORDINATION OF USE OF THE 700 MHZ BAND

One of the pillars of the Commission's Digital Single Market Strategy focuses on creating the right conditions for digital networks and services to flourish. It identifies the review of the telecoms regulatory framework and the need for further spectrum coordination as key actions that needs to be carried out.

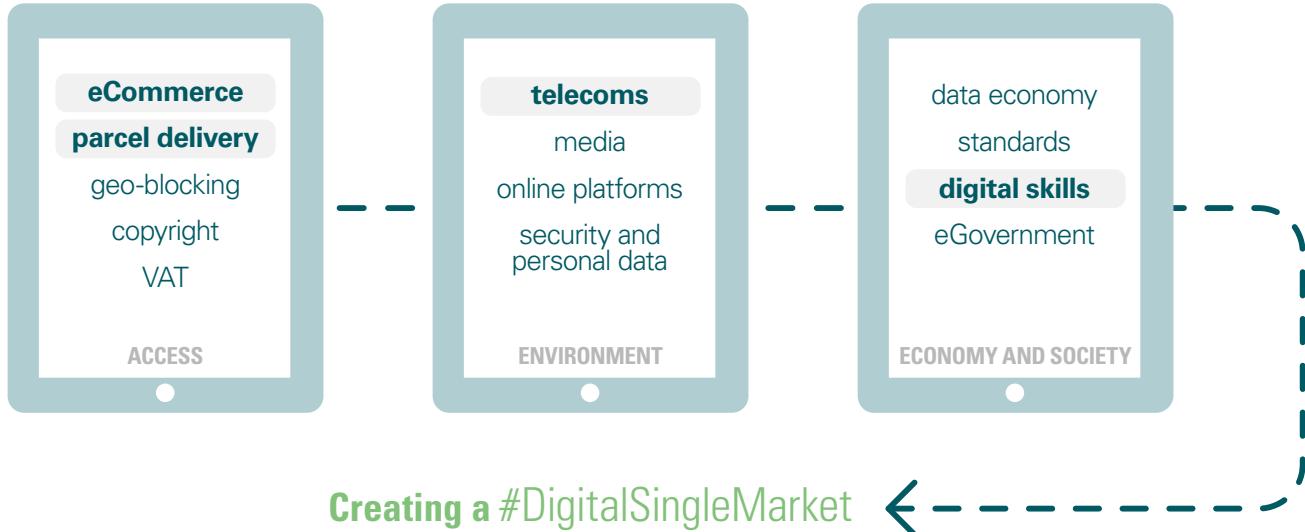
An increasingly important aspect of electronic communications is wireless data connectivity. This kind of connectivity requires dedicated access to radio spectrum. In order to satisfy current and future demand, countries have progressively been allocating more spectrum for such use. Member States work together through the EU institutions in order to identify new spectrum needs and ensure that this resource is used in an efficient way.

As part of this effort, in February 2016, the European Commission published a legislative proposal aimed at the coordination of the use of the 700 MHz radio spectrum band for wireless broadband services. The band is currently widely used for digital television broadcasting. During 2016, the MCA engaged with stakeholders at various levels so that this European initiative could be concluded rapidly and the band used in the most efficient and innovative way. Apart from discussions with local stakeholders, the MCA collaborated closely with Government to ensure that the EU measure safeguards local needs.

The EU Decision was finally adopted in May 2017.

REVIEW OF TELECOM RULES

The European Electronic Communications Framework currently consists of a number of Directives, Regulations and Decisions which together establish the rules associated with networks and services. The current framework has been instrumental in ensuring that markets operate more competitively, bringing lower prices and better quality of service to consumers and businesses. Yet, since its last review in 2009, the market has undergone significant structural changes characterised by a transition from copper to fibre access networks, the rise of retail bundles of services, the emergence of more online players, as well as changing end-user expectations and requirements, including an explosion in demand for connectivity.



In September 2016, the European Commission published a set of initiatives under the theme of 'Connectivity for a Competitive Digital Single Market – Towards a European Gigabit Society'. The vision sets three strategic objectives for 2025, namely: Gigabit connectivity for places driving socio-economic developments; 5G coverage for all urban areas and all major terrestrial transport paths; and access for all European households to Internet connectivity offering at least 100 Mbps, upgradable to Gigabit speed. The initiatives proposed to support this vision consist of a major reform of the regulatory framework for electronic communications in the form of legislative proposals, an Action Plan on 5G connectivity and the "Wi-Fi for Europe" initiative to promote widespread availability of Wi-Fi connections for citizens across the EU.

Throughout 2016, the MCA actively participated in discussions taking place in various assemblies debating the review of the Regulatory Framework and other initiatives. Prior to the publication of its proposals, the Commission had been actively consulting with the different stakeholders including governments and national regulatory authorities. Both before and after the publication, the MCA contributed to the debate on numerous occasions within the Body of European Regulators for Electronic Communications (BEREC) and as advisor to Government. In particular, BEREC has been very active providing input to the main EU institutions. BEREC is composed of the EU NRAs and through input from various national experts, it contributes to the internal market by promoting a consistent application of the regulatory framework. It also assists the Commission and affiliate NRAs in implementing the framework.

The ordinary legislative procedure for the adoption of the new regulatory framework is bound to continue throughout 2017 and possibly, in 2018.

ROAMING

Another area which the MCA engaged with was that of international mobile roaming services. Up until 2007, roaming services provided by mobile operators in the EU were unregulated. The EU Roaming Regulation entered into force in 2007 with the scope of curbing high prices charged for using mobile services whilst roaming in the EU.

In 2015, a review of the Regulation established that, with effect from June 2017, roaming surcharges will be abolished. The Regulation mandated that the European Commission must adopt an Implementing Regulation, specifying detailed rules on Fair Use Policies and on the assessment of sustainability; and that the Regulation should contain appropriate provisions regarding wholesale roaming rates charged between operators.

In this regard, the MCA was actively involved on a number of fronts. Through its membership of BEREC, the MCA contributed to BEREC's expert opinions on the subject. It also actively participated in discussions within the Communications Committee on the EU Regulatory Framework and provided advice to the European Commission. In addition, the MCA supported the Maltese Government with expert guidance during debates of the Telecommunications Council Working Party.

NET NEUTRALITY

The topic of Net Neutrality was very high on the agenda of the EU during 2016. The Telecoms Single Market Regulation on open internet access mandated BEREC to produce Guidelines to provide guidance for NRAs to take into account when implementing the rules. The MCA was closely involved in the drafting of the Guidelines which were published in August 2016, following a public consultation which attracted close to half a million responses.

POSTAL SERVICES

Parcel delivery was singled out as one of the main priorities for the development of the Digital Single Market. Parcel delivery is an important aspect that can limit eCommerce growth if not properly addressed. In particular, efficient and competitively priced cross-border delivery services are a must if consumers and businesses are to take full advantage of a truly European market.

Consumers and small businesses complain that problems with parcel delivery, in particular high delivery charges for cross-border services, prevent them from selling or buying more across the EU. Consumers expect speed, quality, reliability and value for money when receiving online purchases through the post. They also expect transparency, easily available and correct information, and a certain level of consistency in terms of protection when something goes wrong. Similarly, small retailers face issues due to having limited bargaining power together with a limited choice of postal service providers, when compared to their larger counterparts.

In May 2016, the European Commission published a proposed Regulation on cross-border parcel delivery services as part of a package of measures to allow consumers and companies to buy and sell products and services online more easily and confidently across the EU. The aim of the proposal is to increase price transparency and regulatory oversight of cross-border parcel delivery services so that individual consumers and small e-retailers can benefit from more affordable deliveries and convenient return options, even covering peripheral regions.

The MCA is giving due consideration, and is advising Government, on the various measures being proposed in the draft Regulation. The MCA also participated in discussions with other European postal regulators within the European Regulators Group for Postal Services (ERGP). ERGP serves as a body for reflection, discussion and provision of advice to the European Commission on postal matters.

Legislative deliberations by the European Parliament, the Council of the European Union and the European Commission are set to be concluded in 2017.

eCOMMERCE

The Authority is responsible for the promotion of eCommerce in Malta as well as for the implementation of the eCommerce Act. While the European Commission did not see the need to open up a review of the eCommerce Directive it started a number of initiatives contained in the Digital Single Market Strategy related to the promotion of cross-border eCommerce.

Apart from the above mentioned action on parcel delivery services, the Commission launched a number of initiatives which concern the consumer side of eCommerce, such as simplifying cross-border contract rules, strengthening cross-border consumer protection cooperation, preventing unjustified geo-blocking and the review of the copyright regime. Though not within the direct remit of the MCA, the Authority has been following these work streams closely, providing its expert advice to Government, as necessary.

PARTICIPATION IN EU AND INTERNATIONAL FORA

In its regulatory role, the MCA participated in the following structures and international fora:

- BEREC Plenary, Contact Network and Expert Working Groups
- ERGP Plenary, Contact Network and Expert Working Groups
- eCommerce Expert Working Group
- eIDAS Regulation Meeting
- FESA and ENISA Expert Group Meetings on eIDAS Regulation
- Future Internet Forum
- ENISA Article 13a Expert Group
- CEPT/ECC Meetings
- Safer Internet Forum

Throughout 2016, the MCA represented / supported Government in the following meetings:

- Communications Committee
- Postal Directive Committee
- Radio Spectrum Committee
- Radio Spectrum Policy Group
- High Level Internet Governance Meetings
- Netherlands Presidency High-Level Telecoms meeting
- TTE Council Meetings
- Commonwealth ICT Ministers Forum
- Galileo Administrative Board Meetings
- Galileo GNSS Programme Committee

MCA's international commitments throughout 2016 also included participation in the following:

- Digital Assembly 2016
- International Satellite Communication Symposium (ITU)
- CeBIT Global Conference
- Latitude 59 Startup and Tech Conference
- Broadband Mapping Conference
- Study visits within the ambit of the Erasmus+ CRUCIAL Crowdfunding project

9

CORPORATE DEVELOPMENT
AND INITIATIVES



mca
COMMUNICATIONS AUTHORITY

mca
MALTA COMMUNICATIONS AUTHORITY



CORPORATE DEVELOPMENT AND INITIATIVES

TRAINING, SPONSORSHIPS AND CAREER DEVELOPMENT

The Authority continued with the implementation of its Performance Management Programme (PMP), which is an important exercise in identifying the training needs of employees. Assertive Awareness and Managing Stress at the Workplace were two training programmes tackled during 2016. In addition to a tailored training programme, the MCA also adopts other measures to empower its employees, including specialised training and sponsorship programmes that support advanced studies. To this end, the Authority provided training in areas related to Procurement as part of a sponsorship programme. Individual training was also given in Customer Care and in Information Technology.

A number of officers received specialised training abroad in the following subjects:

- Roaming and assessment of the cost of providing wholesale roaming services in the EEA
- The electronic communications services regulatory framework
- WACC in telecoms regulation
- EU market postal statistics
- Future radio technologies

Furthermore, the MCA once again organised its On-the-job Learning Programme that supports students who wish to gain workplace experience. Eight students were given the opportunity to start applying educational teachings through practical work assignments and to gain workplace experience by working with the Authority during the summer months. The overall objective of this programme was to deepen the knowledge of the students and understand the Authority's goals, principles and activities.

PREMISES

During 2016, the Authority continued to carry out its office refurbishment programme in relation to the older parts of the building, with the aim of creating a more pleasant and safe environment. Some of the major works involved the installation of new flooring in parts of the offices, due to damages in the existing floor that caused health and safety concerns. Upgrades were also made to the fire prevention system and to the office elevator.

PROCESSES AND PROCEDURES

During 2016, the MCA continued to evaluate its internal policies and procedures and update these, where necessary, taking into consideration the findings and recommendations that resulted from an independent internal audit exercise that was undertaken in 2015. The audit plan was designed to assess the adequacy of the organisation's governance and management controls over the efficiency of its operations, the reliability of reporting and compliance with statutory rules and industry good practices.

Overall, the Authority received a clean bill of health from the audits which, in turn, examined policies and procedures related to business planning, invoice billing, project management, procurement and human resources, IT and data security.

CORPORATE WEBSITE AND SOCIAL MEDIA TOOLS

In November 2016, the MCA launched its newly revamped website. The website offers quick and easy access to essential information related to the Authority and includes features that offer a more comprehensive understanding of the Authority's activities, both in the field of regulation and in relation to its other initiatives. It features a clean design, improved functionality, and enhanced rich content, which resonates well with the Authority's mission to facilitate the local communications industry and to help the market adjust to the global ongoing changes.

The MCA's new website will continue to be updated on a regular basis, with the latest regulatory information, such as decisions and consultations, market-research related news, information on upcoming MCA events, financial reports, forms for MCA provided services, corporate milestones, and general information of interest to the consumer. More user customisation is also planned with the aim of allowing users better search capabilities and a more customised view.

During 2016, the MCA also continued to strengthen its social and digital media activity. The Authority's Facebook page reached more than 7,500 likes, whilst Linked In and Twitter followers exceeded the 1,000 and 500 persons respectively. The Authority also maintains a media playlist on its own YouTube channel which includes audio visual resources related to MCA initiatives and participation in radio and television programmes. During 2016, MCA's YouTube channel was re-organised to allow for easier retrieval of information by users.

MEDIA PRESENCE

With the aim of raising awareness, particularly on topics of consumer interest and the importance of ICT, the MCA successfully increased its media presence during 2016.

Following the initial programme schedule in year 2015, the MCA re-coordinated its own radio programme on Radju Marja titled 'Informatika u Soċjetà', from January until March 2016, with a total of 12 weekly programmes, and again between September until December 2016. An additional 6 programmes were extended to ONE radio between April and June 2016. MCA officials also participated in an additional 10 radio discussion programmes across a variety of radio stations.

With regard to the MCA's presence on local television, MCA representatives participated in 29 television discussion programmes. In addition, during 2016, the MCA enjoyed the support of Gadgets, who collaborated with the authority by filming and airing features on their programme.

Following the publication of an expression of interest, The Times of Malta partnered with the MCA for ZEST, the largest event ever organised by the MCA which was held in September. As part of this partnership, a dedicated supplement was designed and printed by the media house. This was circulated with the Sunday Times of Malta on the eve of the event and was also distributed to all participants attending ZEST.

The Authority kept up its presence in print media with the publication of a number of articles and press releases. Going online, as highlighted earlier on, the MCA strengthened its presence across its social media channels. Several online campaigns on different topics supported the MCA's activity.

MCA TURNS 15

2016 marked the 15th anniversary since the Authority commenced its operations. The communications industry today is unrecognisable from that which the Authority was set up to regulate back in 2001. Overseeing the entire liberalisation process; ensuring the right balance between enforcing regulatory obligations and implementing remedies in order to ensure effective competition in all markets so that Maltese consumers can continuously enjoy a variety of products and services, of the latest technology, at high-quality but at the right price; ensuring that EU rules are effectively transposed into national law whilst ensuring that the right environment continues to prevail to attract continued investment by industry players, are all part of the MCA's history and legacy.

Not only has the industry undergone significant transformations, the Authority has also evolved over the years, assuming additional regulatory responsibilities and diverse operational functions. From a purely regulatory role, the MCA today has a more visionary and enabling role that bridges the world of technology with entrepreneurship and innovation. The Authority has also remained dedicated to ensuring that every individual has the necessary skills to effectively participate in an ever-growing digital society.

The Authority marked such an occasion by rolling out a fully integrated, multi-media information campaign that spanned a period of 8 months. This campaign showcased sectoral and organisational developments over the past 15 years through rich content dispersed across different media channels.

10

CONSUMER PROTECTION





CONSUMER PROTECTION

Competition is often the best way to deliver good results for end users. However, for this to work, people need to be able to make informed choices. The MCA is committed to empower end-users to understand their rights and safeguard their interests. Whilst monitoring the local operators activities vis-à-vis the products and services they place on the market the Authority amongst other regulatory activity, ensures that the services provided adhere to the applicable legal requirements.

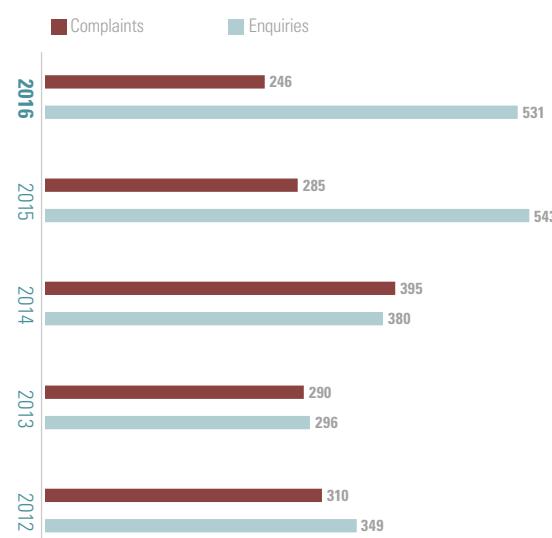
Amongst the various activities undertaken to strengthen end-user protection, the MCA manages a complaints and enquiries handling service to provide direct assistance to those end-users who are not satisfied with the redress or response provided by the service provider following a formal complaint.

The MCA's remit in relation to consumer protection is limited to regulatory intervention in relation to certain sector specific provisions under the laws that it enforces. The MCA has no legal powers to regulate unfair commercial practices or the use of unfair contract terms undertaken in the communications sectors as, under the current setup adopted in Malta, these are exclusively regulated by the Director General (Consumer Affairs) within the Malta Competition and Consumer Affairs Authority.

Each year data on complaints and enquiries received by the MCA in relation to electronic communications, postal and eCommerce services is published.

In 2016, the MCA received 246 complaints, a decrease of 14% when compared to the previous year. The MCA also received 531 enquiries, averaging about 2 per day.

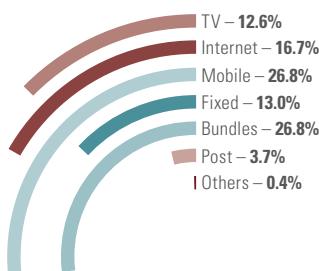
COMPLAINTS AND ENQUIRIES 2013 – 2016



The complaints investigated tend to be more complex in nature due to the fact that end-users are first required to seek redress directly from their service provider before lodging a complaint with the Authority. More than 99% of the complaints received were investigated and closed within 20 working days, in line with the standards adopted by the MCA.

More than half of the complaints received related to either mobile services, or to bundled services.

COMPLAINTS RECEIVED IN 2016 BY SERVICE



Complaints received during 2016, related predominantly to billing (34% of the total), quality of service (26%) and termination and switching (17%).

Three out of four billing complaints were claims of incorrect billing. In 40% of the cases, after gathering the necessary evidence, the MCA determined that the service provider was required to take remedial action to adjust the amounts that were incorrectly billed. In the remaining 38 cases, the Authority closed the cases providing the necessary clarifications to end-users.

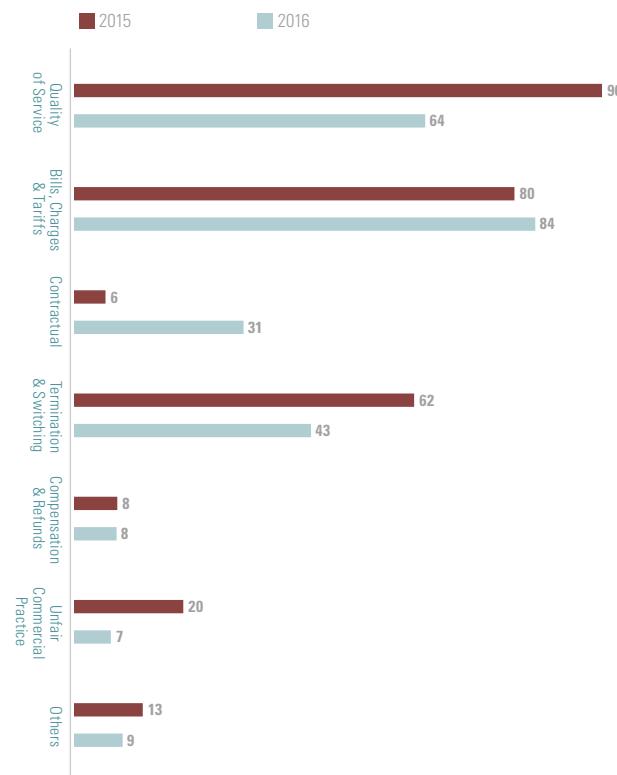
During 2016, the Authority raised the matter of incorrect billing directly with a particular service provider after it resulted that the majority of the complaints were being reported from subscribers of this service provider. On the basis of enforcement action taken by the MCA, the service provider is implementing a number of measures to address MCA's concerns.

In terms of quality of service and service provision, 64 complaints were received during 2016. More than half of these, 48%, related to faults. In these cases, the MCA monitored the actions taken by the service provider ensuring that faults were repaired in the shortest time possible.

43 complaints were received in relation to termination and switching. 17 of these related to subscriber complaints when porting their telephone numbers, whilst the rest related to difficulties encountered by subscribers when terminating their service/s.

Complaints of a postal nature received by the MCA during 2016 remained low totalling 9, which amounts to 4% of the total number of complaints received across all sectors regulated by the MCA. These mainly related to mis-delivery of ordinary mail or undelivered mail, in which case the MCA escalated the matter with the service provider requesting it to take the necessary measures in the indicated areas after identifying shortcoming.

COMPLAINTS RECEIVED BY TYPE 2015 – 2016



In 2016, the MCA also received 531 enquiries. 99% of enquiries received were addressed within 20 working days.

Apart from the complaint and enquiry service, the MCA also monitors claims published in the printed media and on social media, including various pages of consumer dedicated public groups on Facebook, following-up with further investigation if, and when, necessary. It also conducts several mystery shopping exercises to ensure that service providers are complying with the laws and decisions issued by the Authority.

Besides regulatory intervention, the Authority undertakes end-user empowerment through education, information and outreach using both traditional channels, such as television and radio, as well as more modern platform including the consumer section on the corporate website, Facebook and the YouTube channel.

In 2016, as part of the 15 years anniversary campaign, the end-user team participated in various TV and radio programmes providing an overview of MCA's different functions and in particular its remit vis-à-vis end-users and touching upon various subjects of consumer interest in the electronic communications, postal and eCommerce sector.

11

LEGISLATION AND LITIGATION





LEGISLATION AND LITIGATION

The following is a list of legislation drafted or enacted during the calendar year 2016:

PRIMARY LEGISLATION

- Act XVIII of 2016 entitled "Utilities and Services (Regulation of Certain Works) (Amendment) Act, 2016".

The purpose of this Act was primarily to transpose Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks. Act XVIII amended various laws including the Utilities and Services (Regulation of Certain Works) Act (Cap 81), the Electronic Communications (Regulation) Act (Cap.399), and the Malta Communications Authority Act (Cap. 418).

- Act XXXV of 2016 entitled the "Electronic Commerce (Amendment) Act, 2016".

This Act amended the Electronic Commerce Act (Cap. 426) in part to complement the measures under the EU Regulation No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC (the former e-Signatures Directive) and in part to provide for other measures relating mainly to compliance and procedures.

SUBSIDIARY LEGISLATION

- Legal Notice 53 of 2016 entitled "Electronic Communications (Regulation) Act (Exemption) (Amendment) Order, 2016". This Order amended the Electronic Communications (Regulation) Act (Exemption) Order (S.L. 399.38) and was made under the Electronic Communications (Regulation) Act (Cap. 399). The purpose of the Order was to exempt the Executive Police and the Civil Protection Department from the payment of licence fees under the Electronic Communications (Regulation) Act.
- Legal Notice 140 of 2016 entitled "Electronic Communications Networks and Services (General) (Amendment) Regulations, 2016". These Regulations amend the Eighth Schedule of SL 399.28 in relation to the administrative charges paid under Part B thereof. These regulations were made under the Electronic Communications (Regulation) Act (Cap. 399).
- Legal Notice 172 of 2016 was the Commencement Notice further to the Utilities and Services (Regulation) of Certain Works) (Amendment) Act, 2016. The purpose of this LN was to bring into force the provisions of the aforesaid Act.
- Legal Notice 225 of 2016 entitled "In-Building Physical Infrastructure (Access to Electronic Communications Services) Regulations, 2016" which transposed Article 8 of the EU Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks. Article 8 of the Directive relates to requirements for newly constructed building or major renovation works. These Regulations were made under the Building Regulation Act (Cap. 513).

- Legal Notice 242 of 2016 entitled "Electronic Communications Networks and Services (General) (Amendment) (No.2) Regulations, 2016". These Regulations amend the Eighth Schedule of S.L. 399.28 in relation to the administrative charges paid under Parts A and C thereof. These regulations were made under the Electronic Communications (Regulation) Act (Cap. 399)
- Legal Notice 248 of 2016 entitled "Electronic Trust Services Notification and Fees Regulations, 2016" whereby fees were established for a person who intends to provide a qualified trust service in Malta. These regulations were made under the Electronic Commerce Act (Cap. 426).

LITIGATION

APPEALS BEFORE THE ADMINISTRATIVE REVIEW TRIBUNAL

During 2016, three new appeals were lodged before the Administrative Review Tribunal (ART). All these appeals were in the electronic communications sector and were all lodged by Vodafone Malta Limited (Vodafone). These appeals related to the contestations of the VULA regulatory decision, of the wholesale call origination market decision and of a decision taken by the MCA further to a dispute lodged by Vodafone requesting access to GO plc's network, whereby the MCA did not uphold Vodafone's request.

APPEALS BEFORE ART CARRIED OVER FROM 2015

Of the appeals carried over from 2015, six appeals were pending at the end of 2016, and another appeal was withdrawn by Melita. The six appeals which were pending at the end of 2016 were respectively:

- Contestation by Melita of a regulatory decision (issued August 2010) further to a complaint by Melita (which was not upheld by the MCA) about GO's bundled product offer;
- Contestation by Vodafone of a regulatory decision (issued March 2014) establishing the mobile termination rates;
- Contestation by Melita of an administrative fine (issued December 2014) in relation to the breach of termination of contractual norms;
- Contestation by Vodafone of a regulatory decision (issued April 2015) on retail access in the fixed telephony market;
- Contestation by Melita of a regulatory decision (issued April 2015) on retail access in the fixed telephony market; and
- Contestation by Melita of regulatory decision (issued April 2015) on wholesale access to data and the provision of publicly available directory information services.

Of the appeals carried over from 2015, there was also one appeal filed by MaltaPost which was decided in favour of the MCA in April 2016. The case related to MaltaPost's contestation of an MCA decision issued in March 2014 on a market review for the postal sector (parcel posts). There was no appeal from the decision of the ART.

APPEAL WITHDRAWN:

- Contestation of an administrative fine relating to the provision of hybrid statistics concerning telephony services. This appeal was withdrawn by Melita.

APPEALS BEFORE THE COURT OF APPEAL (SUPERIOR)

- Melita had filed an appeal before the Court of Appeal (Superior) from a decision of the First Hall of the Civil Court given in 2012, where Melita had argued that Regulation 26 of Legal Notice 167 of 2001 (which law was subsequently repealed) was *ultra vires*. In early 2016, Melita withdrew their appeal.

APPEALS BEFORE THE COURT OF APPEAL (INFERIOR)

One new appeal was filed by Sesco Investments Limited following a decision by the Court of Magistrates which confirmed MCA's request to Sesco to settle outstanding authorisation fees.

Two other appeals remained outstanding: one appeal filed by GO relating to the electronic communications sector whereby GO is contesting a regulatory decision on markets 4 and 5. The ART confirmed the MCA decision. The second is an appeal lodged by Melita contesting fines imposed by the MCA in relation to the undertaking of an audit of Melita's billing system in 2010.

In the postal sector, only one appeal remained outstanding. This appeal was filed by DHL International Limited on the type of postal services authorisation required, with the appellant arguing that it only provides postal services outside the scope of the universal service and therefore needs only a general authorisation.

OTHER LITIGATION BEFORE THE OTHER COURTS AND ADJUDICATIVE FORA

The following is a list of other litigation cases to which the MCA was a party, or was called to intervene during a number of lawsuits:

- The lawsuit filed by the Lija Local Council and various Lija residents against Melita, the MCA and the owners of the premises on whose roof the antenna was installed, whereby objections were raised against the alleged harmful effects of a telecoms antenna erected on the roof of a private residence in the locality of Lija, was decided. The Court did not uphold the claims made. None of the parties appealed this decision.

- The Authority is a party to a lawsuit initiated by Vodafone and GO contesting legal interception fees collected by MCA on behalf of Government and the Security Service. This case is still pending.
- The Authority intervened in a case lodged by Melita contesting a ruling by the Director General (DG) (Consumer Affairs) within the Malta Competition and Consumer Affairs Authority (MCCA), whereby that DG had after a complaint by the MCA, determined that Melita had acted in breach of the Consumer Affairs Act in relation to advertising using the word 'unlimited'. In doing so, the DG imposed both a daily and a one-off fine on Melita. Subsequently, Melita contested this decision before the Competition and Consumer Appeals Tribunal. In February 2016, the Tribunal confirmed the DG's ruling. Melita have since appealed this decision before the Court of Appeal (Superior).
- Two separate cases against former operators – Sesco and Melitanet were decided by the Court of Magistrates (Malta). The said operators failed to pay outstanding authorisation dues and chose to contest MCA's claims for settlement of such dues. In both instances the Court confirmed the MCA's entitlement to the outstanding dues. Whilst Melitanet did not contest the Court's decision, Sesco opted to file an appeal before the Court of Appeal (Inferior).

INTER-OPERATOR DISPUTES OR COMPLAINTS

Three cases were filed by licensed undertakings during 2016:

- Melita filed a complaint claiming a breach by Vodafone Malta Ltd of the Broadband QOS Framework Decision dated 1 February 2013. Melita's claims were not upheld. In its decision, the MCA also acknowledged the need to review and amend its 2013 decision to take into account the developments that had taken place in the market. An updated decision was published in November 2016.
- Vodafone filed a dispute against GO relating to access to the duct network controlled by GO. In its decision, the MCA found that GO did not act in breach of obligations onerous upon it. As formerly cited, Vodafone is contesting the MCA's decision before ART.
- Vodafone filed another dispute against GO and SmartCity following its request to access the infrastructure within SmartCity. The case adjourned sine die to enable the parties to settle their differences amicably.

12

CONSULTATIONS AND DECISIONS





CONSULTATIONS AND DECISIONS

The following is a list of consultations and decisions issued by the MCA in 2016:

| | | |
|--|--------------------------|------------------|
| Review of the Administrative Charges and Number Usage Fees Structures – Electronic Communications Networks & Services | Consultation | 4 January 2016 |
| Review of GO plc's application for funding of the net cost claimed to have been incurred to provide universal service obligations during 2012 | Decision | 4 January 2016 |
| Proposed Decision on Source of Funding for the net cost incurred in providing universal service obligations during 2012 | Consultation | 3 February 2016 |
| Revision of Decisions 3 and 4 of the Decision on the Wholesale Access to Data and the Provision of Publicly Available Directory Information Services | Decision | 24 February 2016 |
| Virtual Unbundled Access to Fibre-to-the-Home – Response to Consultation and Decision | Decision | 26 February 2016 |
| Final decision further to GO's failure to notify the MCA about changes to the terms and conditions of subscriber contracts | Decision | 2 March 2016 |
| Decision on Source of Funding for the net cost incurred in providing universal service obligations during 2012 | Decision | 10 March 2016 |
| Wholesale call origination on the public telephone network provided at a fixed location in Malta | Decision | 21 March 2016 |
| Standard and Itemised Billing – Response to Consultation and Decision | Decision | 30 March 2016 |
| Consolidated Decision on the Wholesale Access to Data and the Provision of Publicly Available Directory Information Services | Decision | 6 April 2016 |
| Decision following inter-operator dispute lodged by Vodafone Malta Ltd versus GO plc relating to access to ducts | Decision | 1 July 2016 |
| Review of the Administrative Charges and Number Usage Fees Structures – Response to Consultation | Response to consultation | 1 July 2016 |
| Review of Must – Carry Obligations | Consultation | 4 July 2016 |
| Review of QoS Standards for the Universal Postal Service | Consultation | 5 July 2016 |

| | | |
|---|--------------|------------------|
| The assignment process for the 1.5 GHz band for the use in wireless broadband electronic communications | Consultation | 8 July 2016 |
| Broadband Quality of Service Framework – Amendment to the current Framework | Consultation | 11 July 2016 |
| Decision following complaint by Melita versus Vodafone entitled 'Breach by Vodafone Malta Ltd of the Broadband QOS Framework Decisions dated 1st February' 2013 | Decision | 12 July 2016 |
| Licensing framework for the Complementary Ground Component (CGC) of the 2 GHz Mobile Satellite Service (MSS) | Consultation | 8 August 2016 |
| High-quality access and connectivity services provided at a fixed location in Malta | Consultation | 16 August 2016 |
| Postcodes to be considered as an integral part of a postal address | Consultation | 21 October 2016 |
| Review of GO plc's application for funding of the net cost claimed to have been incurred to provide universal service obligations during 2013 | Consultation | 1 November 2016 |
| Review for the Grant of Right of Use of Spectrum for Test and Trial Purposes | Consultation | 9 November 2016 |
| Broadband QoS Framework – Extended | Decision | 14 November 2016 |
| Review of QoS to be achieved by MaltaPost for the Universal Postal Service – Response to Consultation and Decision | Decision | 2 December 2016 |
| Review of GO plc's application for funding of the net cost claimed to have been incurred to provide universal service obligations during 2013 | Decision | 9 December 2016 |

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GENERAL INFORMATION

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

MEMBERS OF THE AUTHORITY

| | |
|---------------|-----------------------------|
| Dr E. Woods | (Chairman) |
| Ms S. Kennard | |
| Dr A. Mizzi | |
| Mr G. Vella | |
| Dr J. Cilia | (resigned on 30 April 2016) |
| Mr M. Fava | (appointed on 1 May 2016) |
| Mr S. Saliba | (appointed on 1 May 2016) |
| Mr N. Vella | (appointed on 1 May 2016) |

BANKERS

Bank of Valletta plc
 Preluna Towers
 Tower Road
 Sliema
 MALTA

HSBC Bank Malta p.l.c.
 17, Lascaris Wharf
 Valletta VLT 1921
 MALTA

APS Bank Ltd.
 APS Centre
 Tower Street
 Birkirkara BKR 4012
 MALTA

HEAD OFFICE

Valletta Waterfront
 Pinto Wharf
 Floriana FRN 1913
 MALTA

AUDITOR

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

REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Authority submit their annual report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The Malta Communications Authority was established by virtue of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta for the purposes of carrying out the functions defined in the said Act. By virtue of Legal Notice 280 of 2000 the Minister for Transport and Communications nominated the 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. The Malta Communications Authority was nominated as the competent entity under the eCommerce Act as from 10 May 2002 as per L.N.110 of 2002.

The Malta Communications Authority became responsible for the Postal Services Act (Cap 259) as from 1 June 2003 as per L.N. 129 of 2003.

RESULTS

By virtue of the Electronic Communications (Regulation) Act, Cap. 399 of the Laws of Malta, authorised undertakings shall pay the Authority administrative charges to cover the costs of Regulating Electronic Communications incurred by the Authority and fees for rights of use of scarce resources.

The total net operating income generated by the Authority during the year amounted to €9,846,398 (2015: €9,708,035) out of which licensing and usage fees for scarce resources, amounting to EUR5,506,840 (2015: EUR5,382,309) were transferred to the Government of Malta. After meeting all expenditure of €4,319,123 (2015: €4,390,731) the Authority closed off the year with a surplus, net of taxation, of €36,333 (2015: deficit of €55,115).

Expenditure incurred by the Authority not in connection with electronic communications, amounting to €835,831 (2015: €810,914) has been deducted from usage fees for scarce resources forwarded to the Government of Malta.

MEMBERS OF THE AUTHORITY

The Members who served during the year under review were as noted on page 123.

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

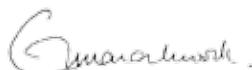
STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE AUTHORITY

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

AUDITOR

Ernst & Young Malta Limited 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:



DR E. WOODS
Chairman



DR A. MIZZI
Member

Valletta Waterfront
Pinto Wharf
Floriana FRN 1913
MALTA

24 April 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MALTA COMMUNICATIONS AUTHORITY

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Malta Communications Authority ("the Authority") set on pages 127 to 142, which comprise the statement of financial position as at 31 December 2016 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the requirements of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The members are responsible for the other information. The other information, which we obtained at the date of the auditor's report comprises the General Information and the Report of the Members of the Authority, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE MEMBERS FOR THE FINANCIAL STATEMENTS

The members are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Malta Communications Authority Act, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is the intention to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the members.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MALTA COMMUNICATIONS AUTHORITY *continued*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS *continued*

- conclude on the appropriateness of the members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The partner in charge of the audit resulting in this independent auditor's report is Christopher Balzan for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

24 April 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 EUR | 2015 EUR |
|---|-------|--------------------|-------------|
| Income | | | |
| Revenues | 3 | 9,837,598 | 9,729,557 |
| Other income/(cost) | 4 | 8,800 | (21,522) |
| | | 9,846,398 | 9,708,035 |
| Expenditure | | | |
| Staff costs | 5 | (2,592,415) | (2,485,685) |
| Depreciation | 10 | (144,308) | (157,902) |
| Operating and administrative expenses | 6 | (1,582,400) | (1,747,144) |
| Operating surplus | | 5,527,275 | 5,317,304 |
| Finance income | 7 | 15,996 | 10,168 |
| | | 5,543,271 | 5,327,472 |
| Transfers to Government | 8 | (5,506,840) | (5,382,309) |
| Surplus/(deficit) before taxation | | 36,431 | (54,837) |
| Taxation | 9 | (98) | (278) |
| Surplus/(deficit) for the financial year | | 36,333 | (55,115) |
| Other comprehensive income | | – | – |
| Total comprehensive income/(loss) for the year, net of tax | | 36,333 | (55,115) |

The accounting policies and explanatory notes on pages 131 to 142 form an integral part of the financial statements.

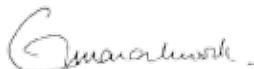
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

| | Notes | 2016 EUR | 2015 EUR |
|-------------------------------------|-------|------------------|-------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 266,388 | 279,216 |
| Current assets | | | |
| Trade and other receivables | 11 | 775,830 | 1,366,422 |
| Income tax receivable | | 9,330 | 13,146 |
| Cash and short-term deposits | 15 | 3,355,481 | 2,400,897 |
| | | 4,140,641 | 3,780,465 |
| TOTAL ASSETS | | 4,407,029 | 4,059,681 |
| EQUITY AND LIABILITIES | | | |
| Reserve | | | |
| Retained earnings | 12 | 681,898 | 645,565 |
| Current liabilities | | | |
| Trade and other payables | 13 | 3,725,131 | 3,414,116 |
| Total liabilities | | 3,725,131 | 3,414,116 |
| TOTAL EQUITY AND LIABILITIES | | 4,407,029 | 4,059,681 |

The accounting policies and explanatory notes on pages 131 to 142 form an integral part of the financial statements.

The financial statements on pages 127 to 142 have been authorised for issue by the Members on the 24 April 2017 and were signed on their behalf by:



DR E. WOODS
Chairman



DR A. MIZZI
Member

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Retained earnings | EUR |
|--|----------------------|-----|
| FINANCIAL YEAR ENDED 31 DECEMBER 2016 | | |
| Balance as at 1 January 2016 | 645,565 | |
| Surplus for the year | 36,333 | |
| Other comprehensive income | – | |
| Total comprehensive income | 36,333 | |
| Balance at 31 December 2016 | 681,898 | |
| FINANCIAL YEAR ENDED 31 DECEMBER 2015 | | |
| Balance as at 1 January 2015 | 700,680 | |
| Deficit for the year | (55,115) | |
| Other comprehensive income | – | |
| Total comprehensive income | (55,115) | |
| Balance at 31 December 2015 | 645,565 | |

The accounting policies and explanatory notes on pages 131 to 142 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 EUR | 2015 EUR |
|--|-------|--------------------|-------------|
| Operating activities | | | |
| Surplus/(deficit) before taxation | | 36,431 | (54,837) |
| Non-cash adjustment to reconcile surplus before tax to net cash flows: | | | |
| Depreciation of property, plant and equipment | | 144,308 | 157,902 |
| Transfers to Government | | 5,506,840 | 5,382,309 |
| Loss on disposal of property, plant and equipment | | – | 68 |
| Movement in provision for bad and doubtful debts | | – | 27,948 |
| Finance income | | (15,996) | (10,168) |
| Working capital adjustments: | | | |
| Decrease in trade and other receivables | | 590,591 | 255,170 |
| Increase/(decrease) in trade and other payables | | 103,975 | (188,603) |
| | | 6,366,149 | 5,569,789 |
| Interest received | | 15,996 | 10,168 |
| Income tax paid | | (3,660) | (6,049) |
| Income tax received | | 7,379 | 74,238 |
| Net cash flows from operating activities | | 6,385,864 | 5,648,146 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (131,480) | (157,671) |
| Net cash flows used in investing activities | | (131,480) | (157,671) |
| Financing activities | | | |
| Funds paid to Government | | (5,299,800) | (5,634,215) |
| Net cash flows used in financing activities | | (5,299,800) | (5,634,215) |
| Net increase/(decrease) in cash and cash equivalents | | 954,584 | (143,740) |
| Cash and cash equivalents at 1 January | | 2,400,897 | 2,544,637 |
| Cash and cash equivalents at 31 December | 15 | 3,355,481 | 2,400,897 |

The accounting policies and explanatory notes on pages 131 to 142 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The purpose of the Authority is to ensure freedom of communication and that communication shall not be limited except when this is necessary for any of the reasons set out in Section 4 (1)(a) of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta, and to ensure non-discrimination and equality of treatment in matters related to communications. It shall in particular be the duty of the Authority to exercise such regulatory function in the field of communications under the provisions of the Electronic Communications (Regulation) Act, Cap. 399 of the Laws of Malta and as may from time to time be assigned to the Authority by or under an Act of Parliament. The Authority shall also carry out various other related functions and duties as set out in Section 4 (3) of the Act.

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The Authority has adopted the following new and amended IFRS and IFRIC interpretations:

- IAS 1 (Amendments) – Disclosure initiative, (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 38 (Amendment) – Clarification of acceptable methods of depreciation and amortisation, (effective for financial years beginning on or after 1 January 2016)

- IAS 16 and IAS 41 (Amendment) – Bearer Plants (effective for financial years beginning on or after 1 January 2016)
- IAS 27 (Amendment) – Equity method in separate financial statements (effective for financial years beginning on or after 1 January 2016)
- IFRS 11 (Amendment) – Accounting for acquisitions of interests in joint operations (effective for financial years beginning on or after 1 January 2016)
- IFRS 10, IFRS 12 and IAS 28 (Amendment) – Investment entities – Applying the Consolidation Exception (effective for financial years beginning on or after 1 January 2016)
- Improvements to IFRS 2012-2014 – (effective for financial years beginning on or after 1 January 2016)

The adoption of the standards or interpretations above did not have an impact on the financial statements or performance of the Authority.

Standards, interpretations and amendments to published standards as endorsed by the European Union that are not yet effective

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early.

- IFRS 9 – Financial Instruments (effective for financial years beginning on or after 1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers including amendments to IFRS 15: Effective date of IFRS 15 (effective for financial years beginning on or after 1 January 2018)

The changes resulting from these standards are not expected to have a material effect on the financial statements of the Authority.

Standards, interpretations and amendments to published standards that are not yet endorsed by the European Union

These are as follows:

- IFRS 16 – Leases (effective for financial years beginning on or after 1 January 2019)
- IAS 12 (Amendment) – Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017)

- IAS 7 (Amendment) – Disclosure Initiative (effective for financial years beginning on or after 1 January 2017)
- IFRS 15 (Clarification) – Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)
- IFRS 2 (Amendment) – Classification and Measurement of Share-based Payment transactions (effective for financial years beginning on or after 1 January 2018)
- IFRS 4 (Amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018)
- Improvements to IFRS Standards 2014-2016 – (effective for financial years beginning on or after 1 January 2018)
- IFRIC Interpretation 22 – Foreign currency transactions and advance consideration (effective for financial years beginning on or after 1 January 2018)
- IAS 40 (Amendment) – Transfers of Investment Property (effective for financial years beginning on or after 1 January 2018)
- IFRS 14 – Regulatory deferral accounts (effective for financial years beginning on or after 1 January 2019)
- IFRS 10 and IAS 28 (Amendments) – Sale or contributions of assets between an investor and its associate or joint venture (effective date deferred indefinitely)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

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

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

Administration charges consist of amounts receivable from operators in respect of costs incurred by the Authority in ensuring compliance with the regulatory framework. Such revenue is recognised in the statement of comprehensive income over the year in which the related charges are incurred.

Usage fees consist of amounts collected by the Authority for rights of use of scarce resources as established under Part B of the Eighth Schedule of the Electronic Communications Networks and Services (General) Regulations, 2013 (SL399.28). Revenue is recognised in the statement of comprehensive income over the year during which the respective scarce resources were being utilised.

Postal licensing fees consist of licences collected by the Authority in accordance with the First Schedule to the Postal Services General Regulations of 2005 (LN328/05). Such revenue is recognised in the statements of comprehensive income over the year to which the license relates.

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

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

Retirement benefit costs

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

Property, plant and equipment

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

Depreciation is calculated using the straight-line method to write off the cost of the assets to their residual values over their estimated useful lives as follows:

| | % |
|----------------------------------|---------|
| Building improvements | 20 |
| Computer equipment | 17 – 33 |
| Fixtures, fittings and equipment | 10 – 20 |
| Motor vehicles | 20 |

The useful life and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of tangible assets. Collectables and antiques are not depreciated.

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

Impairment of assets

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

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

Trade and other receivables

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

Financial instruments

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

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

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

Cash and short-term deposits

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

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

Trade and other payables

Liabilities for amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received. Trade and other payables are recognised when the Authority has a present obligation whether or not billed to the Authority.

ISS unutilised subvention

Information Society Services (ISS) is financed via an annual Government Subvention which is used to finance all ISS related work-streams together with any required ISS related Capital Expenditure. The accounting surplus, net of tax, resulting from the deduction of ISS related expenditure (including depreciation) from the subvention received is either transferred back as due to Government or deferred for utilisation in subsequent accounting period.

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 date of the statement of financial position.

Deferred taxation

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

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

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

Foreign currencies

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

Related parties

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

Cost Apportionment Methodology

In 2011, the Authority revised its cost apportionment methodology with respect to the apportionment of indirect costs levied on the Authority's various activities. Indirect costs are being allocated on various activities other than Electronic Communication Activities using a modified incremental cost model which utilises staff time recordings based on monthly time sheets as its main cost driver. All remaining direct related costs are directly apportioned to the activity to which they pertain.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the members are required to make judgments, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the changes become known.

In the opinion of the members, the accounting estimates, assumptions and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised) – 'Presentation of financial statements'.

3. REVENUES

The revenues generated by the Authority are made up of:

| | 2016 | 2015 |
|--|------------------|-----------|
| | EUR | EUR |
| Telecommunications, postal licensing and right of way (note i, ii) | 992,690 | 801,077 |
| Administrative charges | 2,850,361 | 2,624,427 |
| Usage fees for scarce resources (note ii) | 4,563,329 | 4,558,184 |
| Application fees and other income | 983,877 | 1,307,737 |
| Government subvention (note iii) | 447,341 | 438,132 |
| | 9,837,598 | 9,729,557 |

- 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 Authority for Transport in Malta.
- ii. All revenue generated from telecommunications, postal licensing, right of way income, usage fees for scarce resources and application fees is transferred to the Government of Malta (note 8), except for an amount of EUR835,831 (2015: EUR810,914) intended to finance expenses incurred by the Authority not in connection with electronic communications.
- iii. The subvention received from Government is used to finance ISS operations. This subvention is approved annually through a vote in parliament.

4. OTHER INCOME/(COST)

Other income relates to fines imposed by the Authority in 2016, where such fines amounted to EUR8,800. In 2015, fines charged in prior years amounting to EUR34,242, were refunded following a decision taken by the Court. These were netted off with fines charged by the Authority during 2015. As a result the net cost incurred by the Authority in 2015 amounted to EUR21,522.

5. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

| | 2016 | 2015 |
|--|------------------|-----------|
| | EUR | EUR |
| Members' emoluments | 81,933 | 30,000 |
| Wages and salaries | 2,191,087 | 2,088,322 |
| Social security costs | 131,277 | 123,400 |
| Authority's staff costs recharged to ISS operations (note i) | (72,162) | (81,877) |
| Authority's staff costs recharged to EU funded projects | - | (261) |
| | 2,332,135 | 2,159,584 |

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

Others:

ISS

| | 2016 | 2015 |
|---|------------------|-----------|
| | EUR | EUR |
| Wages and salaries | 241,590 | 304,675 |
| Social security costs | 18,690 | 21,165 |
| ISS staff costs recharged to EU funded projects | (16,030) | (122,315) |
| | 244,250 | 203,525 |
| EU funded projects | | |
| Staff costs recharged by the Authority | – | 261 |
| Staff costs recharged by ISS | 16,030 | 122,315 |
| | 16,030 | 122,576 |
| Total staff costs | 2,592,415 | 2,485,685 |

b. Staff numbers

The average number of persons employed full time by the Authority during the year amounted to 77 (2015: 77). In addition, the Authority also employed an average of 2 persons in 2015 on an EU funded project. No persons were employed this year on an EU funded project.

6. OPERATING AND ADMINISTRATIVE EXPENSES

| | 2016 | 2015 |
|---|------------------|-----------|
| | EUR | EUR |
| The Authority | | |
| Outsourced project costs | 127,513 | 138,752 |
| Corporate administrative expenses | 544,788 | 508,147 |
| Public relations and communications | 246,611 | 201,855 |
| Travelling expenses | 60,306 | 52,563 |
| Increase in provision for doubtful debts | – | 27,948 |
| Auditor's remuneration | 10,030 | 10,130 |
| Rental expenses | 125,111 | 130,353 |
| Loss on disposal of property, plant and equipment | – | 68 |
| Administrative Services rendered by Ministry for Infrastructure, Transport and Communications | 166,271 | 135,057 |
| | 1,280,630 | 1,204,873 |

| | 2016 | 2015 |
|--|------------------|-----------|
| | EUR | EUR |
| Others: | | |
| ISS | | |
| Public relations and communications | 5,304 | 2,613 |
| Travelling expenses | 2,555 | 4,622 |
| Auditor's remuneration | 1,416 | 1,316 |
| Professional fees | 7,266 | 20,542 |
| Bank charges | 1,285 | 250 |
| Staff costs recharged by the Authority (note 5) | 72,162 | 81,877 |
| Corporate administrative expenses | 54,747 | 40,564 |
| Outsourced project costs | 95,418 | 123,419 |
| Rental expenses | 22,154 | 16,912 |
| Self-financing portion of EU projects | 5,229 | 10,085 |
| | 267,536 | 302,200 |
| EU funded projects | | |
| Travelling expenses | 13,122 | 9,916 |
| Consultancy | 3,514 | 128,387 |
| Outsourced project costs | 17,598 | 101,768 |
| | 34,234 | 240,071 |
| Total operating and administrative expenses | 1,582,400 | 1,747,144 |

7. FINANCE INCOME

| | 2016 | 2015 |
|--|---------------|--------|
| | EUR | EUR |
| On cash and short-term deposits | | |
| On amounts due from debtors | | |
| | 1,389 | 2,258 |
| | 14,607 | 7,910 |
| | 15,996 | 10,168 |

8. TRANSFERS TO GOVERNMENT

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

This amount is net of expenses incurred by the Authority which were not in connection with Electronic Communications amounting to EUR835,831 (2015: EUR810,914).

9. TAXATION

| | 2016 EUR | 2015 EUR |
|-----------------------|-------------|-------------|
| Current tax | 98 | 278 |
| Deferred tax (note i) | – | – |
| | 98 | 278 |

- i. Under the legislation in force governing the operations of the Authority, the Authority charges administrative fees to the service providers equivalent to its cost. Moreover, all the license fees collected are transferred to the Government. Since the Authority is not expected to generate any taxable profits, management is of the opinion that no deferred tax asset should be accounted for. Keeping in view this fact, the potential deferred tax asset amounting to EUR36,059 (2015: EUR50,431) has not been accounted for in these financial statements.

The taxation on surplus on ordinary activities differs from the theoretical taxation expense that would apply on the Authority's surplus before transfers to Government and taxation using the applicable tax rate in Malta of 35% (2015: 35%) as follows:

| | 2016 EUR | 2015 EUR |
|---|--------------------|-------------|
| Surplus before transfers to Government and taxation | 5,543,271 | 5,327,472 |
| Theoretical taxation expense at 35% | 1,940,145 | 1,864,615 |
| Tax effect of | | |
| – non-deductible expenses | – | 9,807 |
| – income not subject to tax | (1,927,651) | (1,880,997) |
| – excess of capital allowances over depreciation | (12,265) | 7,223 |
| – income subject to different tax rates | (131) | (370) |
| | 98 | 278 |

10. PROPERTY, PLANT AND EQUIPMENT

| | Building improvements EUR | Computer equipment EUR | Fixture, fitting & equipment EUR | Motor vehicle EUR | Total EUR |
|-----------------------------------|--|----------------------------------|---|-----------------------------|---------------------|
| Cost | | | | | |
| At 1 January 2015 | 312,244 | 1,270,729 | 413,944 | 63,587 | 2,060,504 |
| Additions | 11,135 | 109,130 | 37,406 | – | 157,671 |
| Disposals | – | (120,227) | (1,905) | – | (122,132) |
| At 31 December 2015 | 323,379 | 1,259,632 | 449,445 | 63,587 | 2,096,043 |
| Additions | 11,654 | 114,738 | 5,088 | – | 131,480 |
| At 31 December 2016 | 335,033 | 1,374,370 | 454,533 | 63,587 | 2,227,523 |
| Depreciation | | | | | |
| At 1 January 2015 | 293,889 | 1,115,851 | 326,862 | 44,387 | 1,780,989 |
| Depreciation charge for the year | 7,044 | 116,123 | 29,935 | 4,800 | 157,902 |
| Depreciation released on disposal | – | (120,159) | (1,905) | – | (122,064) |
| At 31 December 2015 | 300,933 | 1,111,815 | 354,892 | 49,187 | 1,816,827 |
| Depreciation charge for the year | 9,134 | 107,603 | 22,771 | 4,800 | 144,308 |
| At 31 December 2016 | 310,067 | 1,219,418 | 377,663 | 53,987 | 1,961,135 |
| Net book value | | | | | |
| At 31 December 2016 | 24,966 | 154,952 | 76,870 | 9,600 | 266,388 |
| At 31 December 2015 | 22,446 | 147,817 | 94,553 | 14,400 | 279,216 |

11. TRADE AND OTHER RECEIVABLES

| | | 2016 | 2015 |
|----------------------------|--|----------------|-----------|
| | | EUR | EUR |
| Trade receivables (note i) | | 467,994 | 1,269,331 |
| Accrued income | | 150,754 | 32,562 |
| Prepayments | | 157,082 | 64,52 |
| | | 775,830 | 1,366,422 |

- i. Trade receivables are non-interest bearing and are generally on a 30 day term. Trade receivables are stated net of provision for doubtful debts of EUR27,948 (2015: EUR 27,948).

| | | | Past due but not impaired | | | |
|-------------|----------------|----------------|----------------------------------|----------|---------------|--------------|
| | | | Neither past due nor impaired | <30 days | 30 – 60 days | >90 days |
| | | | Total | EUR | EUR | EUR |
| 2016 | 467,994 | 383,259 | | – | 63,341 | 9,754 |
| 2015 | 1,269,331 | 1,169,687 | | – | 56,312 | 1,703 |
| | | | | | | 41,629 |

12. RESERVE

The balance on the retained earnings in the statement of financial position as at 31 December 2016 represents the resulting net accumulated surplus over the years.

13. TRADE AND OTHER PAYABLES

| | | 2016 | 2015 |
|---|--|------------------|-----------|
| | | EUR | EUR |
| Amount due to government | | 320,551 | 149,324 |
| Deferred income (note i) | | 2,377,536 | 2,477,477 |
| Accruals | | 407,958 | 321,532 |
| Social security contributions and other taxes | | 55,352 | 49,920 |
| Other payables (note ii) | | 563,734 | 415,863 |
| | | 3,725,131 | 3,414,116 |

- i. Deferred income comprises the unexpired portion of annual fees billed in advance together with the surplus of administrative charges, amounting to EUR13,388 (2015: EUR407,985) paid by undertakings authorised to provide electronic communication services and/or operate electronic communications networks, over the administrative expenses incurred by the Authority in the discharge of its functions. The Authority shall make appropriate repayments or compensation in relation to such surplus in accordance with the Electronic Communications (Regulation) Act and the Directive of 2004, as amended by Directive No. 1 of 2007, on modalities of payment for general authorisations and rights of use.
- ii. Other payables consist of the following:
- Funds due to Government for the ISS surplus resulting from the deduction of ISS related expenditure (including depreciation) from the subvention received as disclosed in note 2.3.
 - Trade payables which are non-interest bearing and are normally settled on 60-day terms.

14. RELATED PARTY DISCLOSURES

Transactions with key management personnel

During the year ended 31 December 2016, short term employee benefits to key management personnel amounted to EUR387,916 (2015: EUR324,287).

Other related party transactions

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

| | 2016 | 2015 |
|---------------------------------|------------------|-----------|
| | EUR | EUR |
| Government Subvention – ISS | 447,341 | 438,132 |
| Payments to Government of Malta | 5,299,800 | 5,634,215 |

Related party balances

Outstanding balances with related parties at 31 December 2016 are disclosed in note 13 on amount due to Government.

15. CASH AND SHORT-TERM DEPOSITS

| | 2016 | 2015 |
|--------------------------|------------------|-----------|
| | EUR | EUR |
| Cash at bank and in hand | 2,539,955 | 1,586,103 |
| Short-term deposits | 815,526 | 814,794 |
| | 3,355,481 | 2,400,897 |

16. CONTINGENT LIABILITIES

Legal claims

The Authority has a pending arbitration case filed by a third party, relating to a traffic accident involving a vehicle driven by one of the Authority's employees and used of for Authority work. If the claim is decided against the defendant, then the Authority may be required to pay the awarded damages which, under the claim, are in an amount of EUR2,323 together with legal interest as from 20 August 2015 and expenses. Outcome of such claim is still unknown.

17. FINANCIAL INSTRUMENTS

At year-end, the Authority's main financial assets on the statement of financial position 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 statement of financial position consisted of trade and other payables. The Authority's off-balance sheet financial liabilities at year-end are described in note 16 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 statement of financial position is intended to indicate the timing in which cash flows will arise.

Credit risk

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

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

Fair values

At 31 December 2016 and 31 December 2015 the carrying amounts of cash at bank, receivables, payables and accrued expenses approximated their fair values due to the short term nature of these balances.

Capital management

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





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