Electronic Communications Market Review October 2005 – March 2006

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EXECUTIVE SUMMARY

This is the eight publication of the Malta Communications Authority's (MCA) Electronic Communications Market Review. This report provides a general overview of the industry's performance during the six months ending 31 March 2006, including an analysis of the main trends and developments in the various sectors of the Maltese electronic communications market.

Although still the most highly used form of communication, activity on the fixed network has continued to decrease during the period under review both in terms of subscribers (decrease of 1,335) and minutes (decrease of 12 million).

During the period under review the growth rate in the mobile telephony subscribers and minutes has continued, although at a more prudent pace. The increase in mobile minutes did not result in a substantial increase in ARPU. This appears to be mainly due to advantageous offers made by providers where charging was on a per-call basis as opposed to per minute.

SMS traffic stabilised during the period when compared to the previous period. Malta continues to retain its top position within the EU as the member state with the highest SMS usage, possibly due to the high price differential between SMS and voice call charges. MMS traffic in the last four quarters to March 2006 has been in excess of 150,000 per quarter.

The quarters ended March 2006 and December 2005 saw the full effect of the 1021 and 'Hello' services launched in July 2005. VOIP minutes now account for 63% of international call activity as opposed to 48% during the previous six months.

There was a new entrant in the cable/digital terrestrial television market in July 05. Although the period under review recorded an increase in subscribers, the full effect of this development on the market may be analysed more in detailed in future reports.

The internet subscriber base has continued to increase during the period under review, reaching 22 subscriptions per 100 inhabitants. This market continues to experience a shift from dial-up to broadband. The broadband sector now accounts for 60% of the internet market, compared to 51% at the end of the last period reviewed.

In October 2005 MCA issued three Broadband Wireless Access Licences, as well as a licence for a T-DAB (Terrestrial Digital Audio Broadcaster) in February 2006. MCA published a number of decisions during the period under consideration specifically decisions relating to wholesale voice call termination and fixed interconnection rates.

This market report also includes a comparative analysis of various economic and market indicators underpinning the Maltese communications sector, as well as an update on the movement of the Electronic Communications Price Index (ECPI).

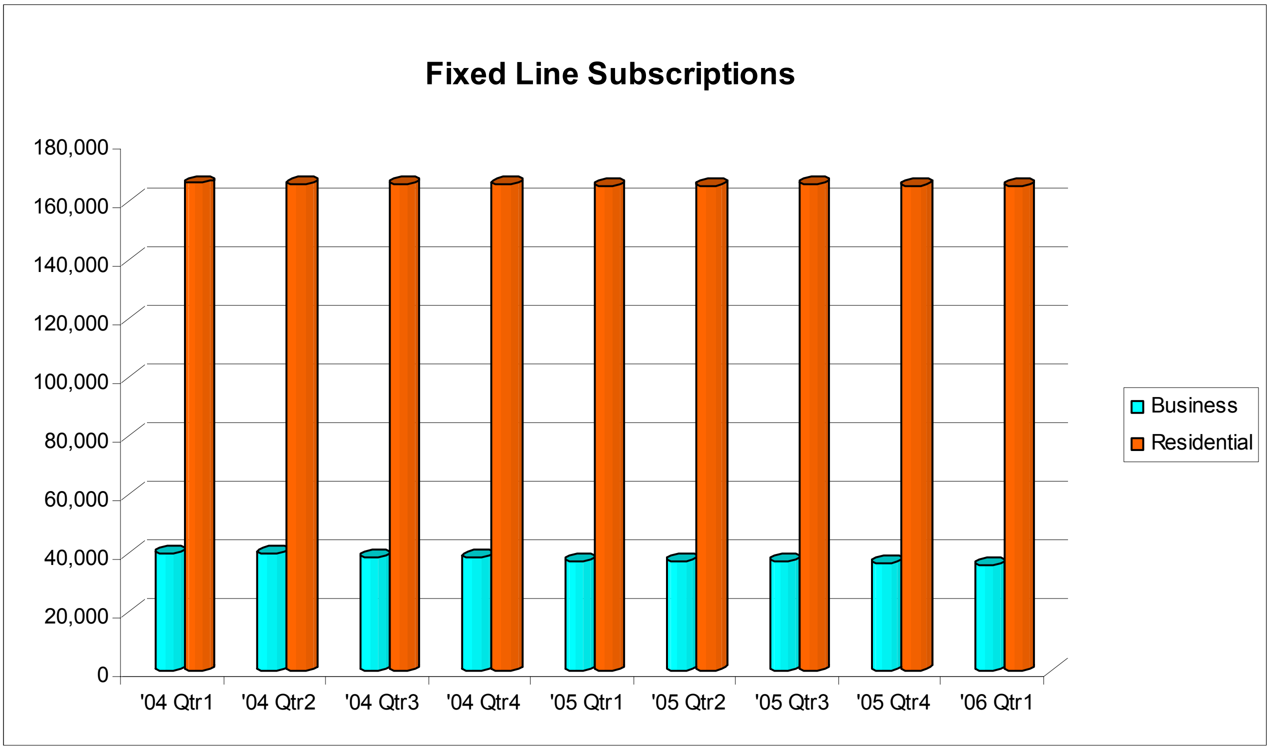
1 THE FIXED LINE MARKET

1.1 Fixed Line Subscriptions

At the end of March 2006 there were 201,704 fixed-line telephony subscribers. This signifies a reduction of 0.7%, when compared with the figure recorded in March 2005. The penetration of fixed line telephony now stands at 50 lines per 100 inhabitants.

The slight decline in fixed line subscribers is mainly attributable to a drop in business clients, which decreased by 1,376, when compared to the previous comparable quarter. One of the reasons that may be contributing to this fact is the increase in the usage of ISDN. On the other hand, residential subscribers increased minimally during the same period.

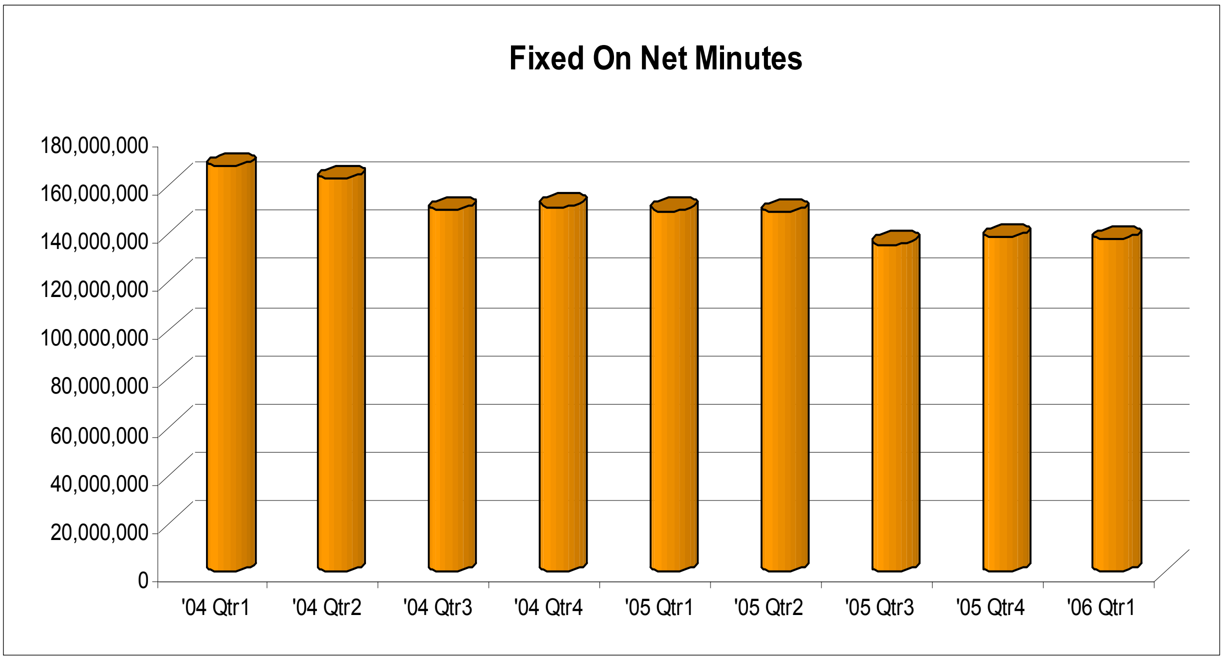
The following chart shows the split between residential and business subscribers. In March 2006 18% of fixed line subscribers were classified as business lines with the rest being residential.



1.2 Fixed Line Telephony Traffic

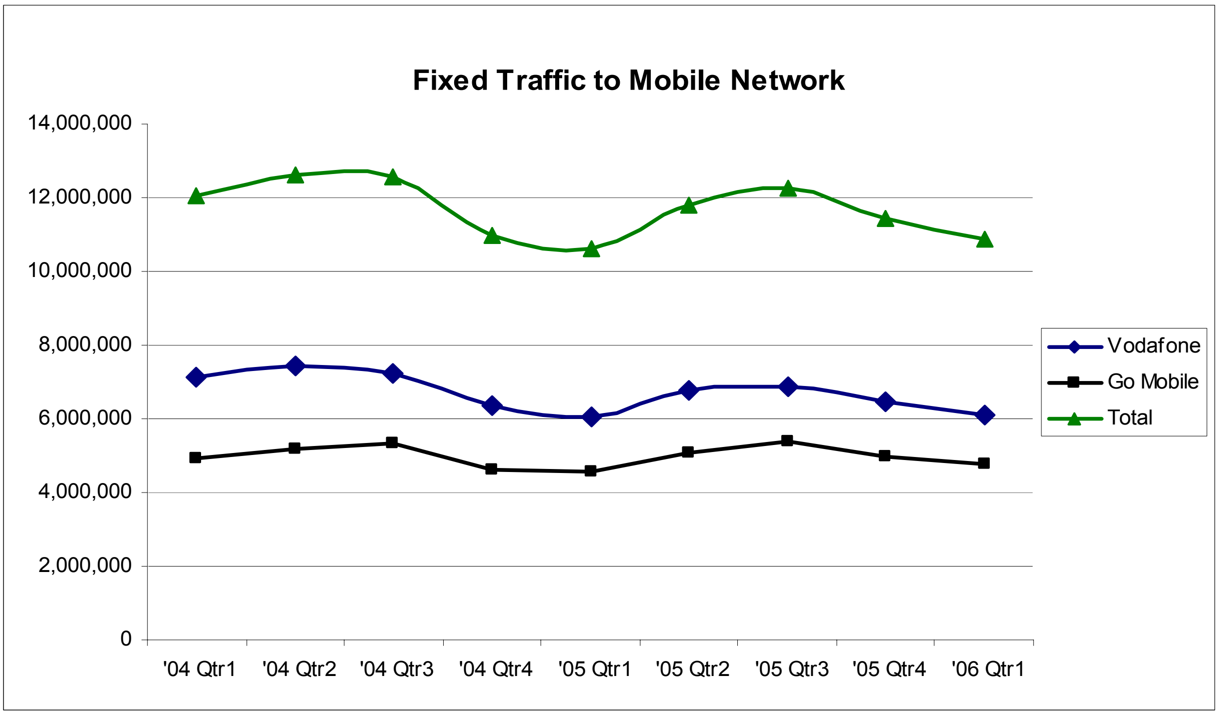
1.2.1 Fixed line outgoing traffic terminating on the same network

The chart below depicts fixed line traffic minutes originating and terminating on Maltacom's own network. As can be seen therein, the downward trend in fixed line minutes has continued during the period reviewed. There was a drop of 12 million minutes between March 2005 and March 2006. This 8% reduction may be attributable to the trend in fixed-to-mobile substitution and the marginal effect of another fixed line operator.



1.2.2 Fixed line outgoing traffic terminating on mobile networks

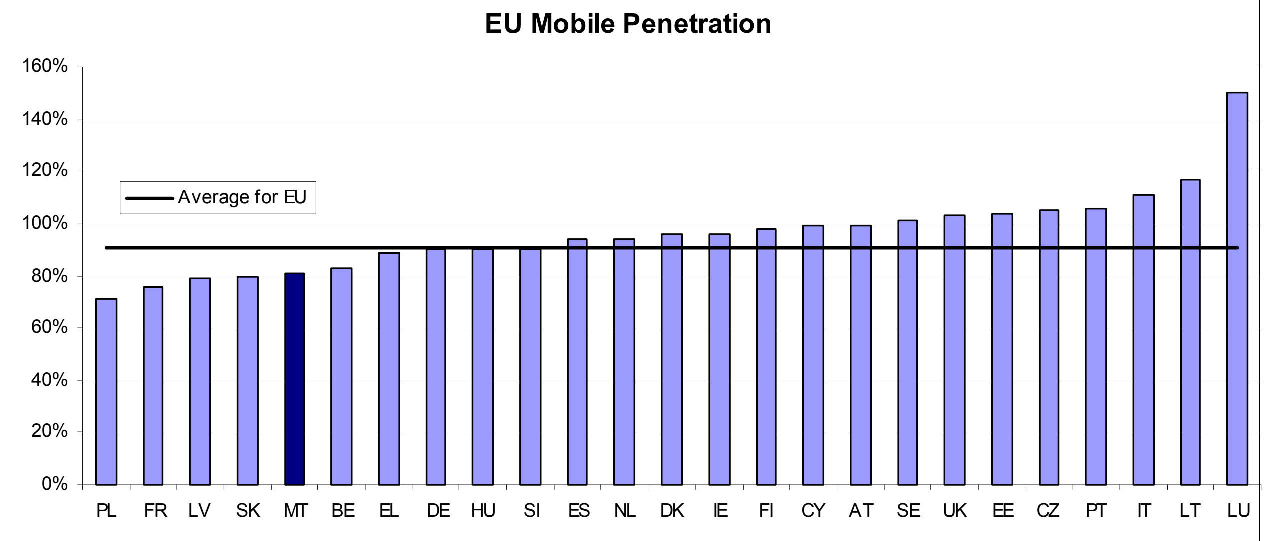
The shift from fixed-line to mobile communication can be pegged against the continued take up of mobile subscriptions and higher usage. Higher usage of mobile may be contributing to the gradual downward trend observed in fixed-to-mobile traffic over the period featured in the chart hereunder. Indeed, this may be a mirror effect of the rising trend in mobile-to-mobile traffic.



2 THE MOBILE MARKET

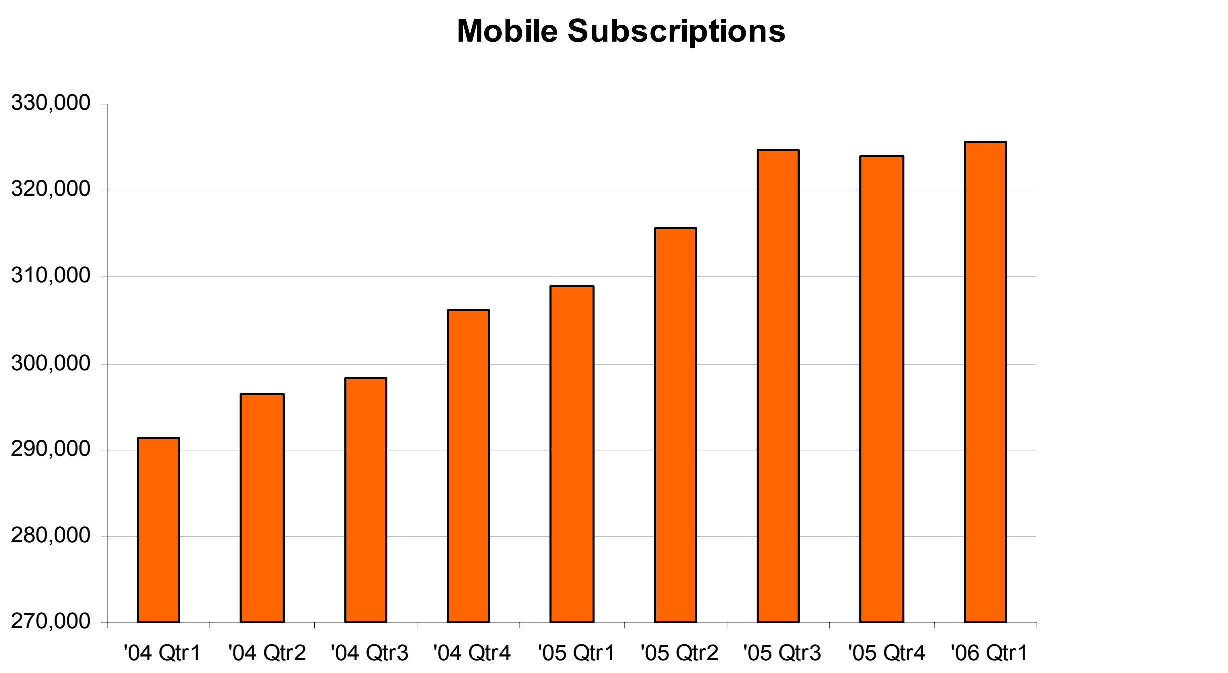
2.1 Mobile Telephony Subscribers

As at March 2006, there were 325,614 active (only subscribers that have been active during the previous 90 days are included in this figure) mobile subscriptions in Malta. This means that Malta has a mobile penetration rate of 81%. The average penetration for the EU during 2005 stood at 91%, the graph below highlights the average penetration per country compared to the EU average.



Source : European Electronci Communications Regulation & Markets 2005, 11th Report

The growth in mobile subscribers between 2004 and 2005 appears to have stabilised. Subscribers have increased by 16,685 subscriptions, or 5.4%, since March 2005.



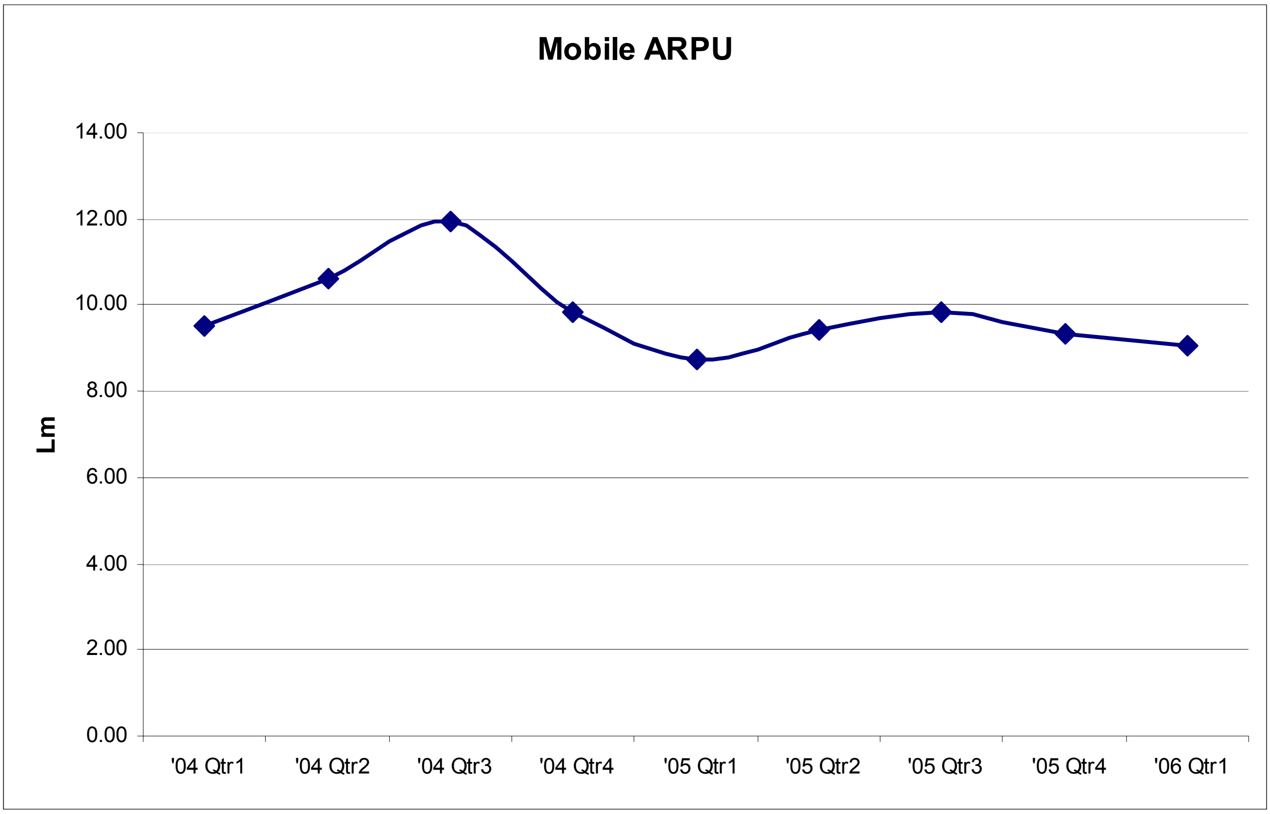
2.2 Average Revenue Per User

The chart below shows the monthly weighted average revenue per user (ARPU) in the local mobile market. This indicator represents the average amount of revenue generated by a local mobile subscriber for a network over a one-month period.

The ARPU includes revenues generated from outbound and inbound traffic and roaming revenues for local subscribers but exclude the revenues generated by the local operators from foreign visitors to Malta.

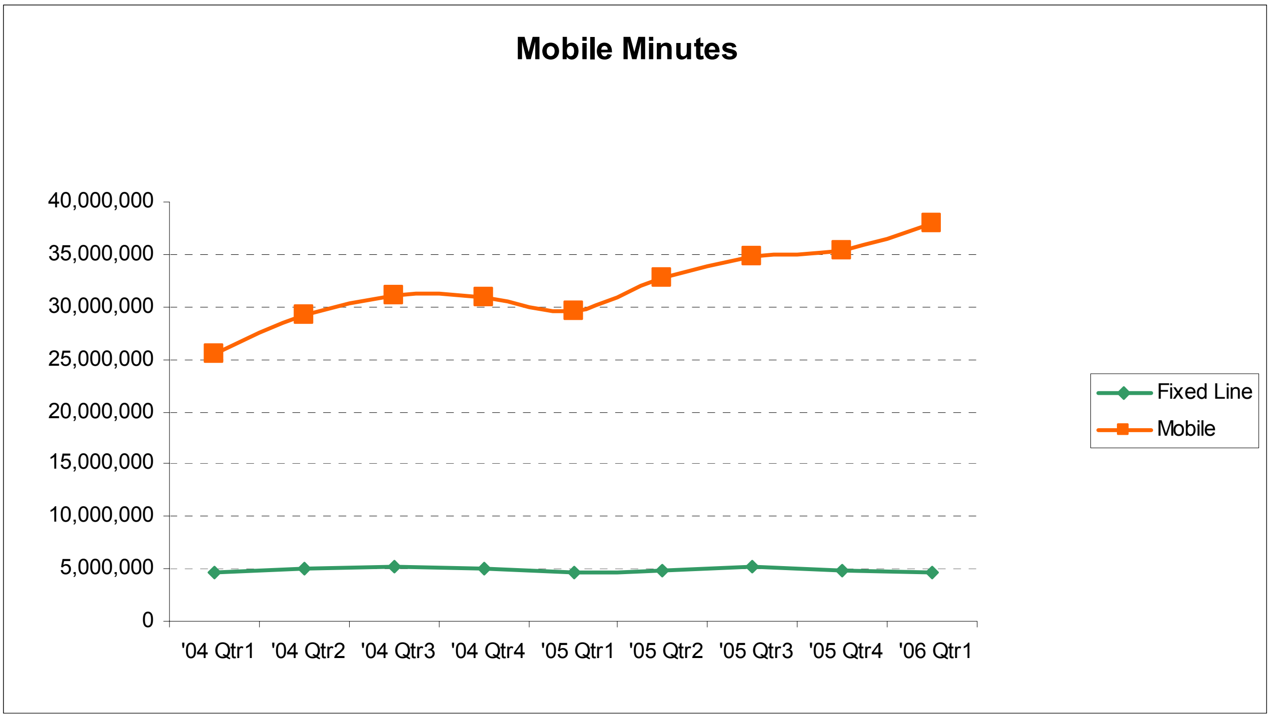
The ARPU figures traditionally follow a seasonal pattern. This is evident when analysing the summer periods where the amount spent on mobile services is usually somewhat higher than other periods during the year.

In the period to March 2006 the ARPU grew by 3.4%. This is the first time in a number of quarters that ARPU has increased when compared quarter on quarter. This is mainly attributable to increase offers made during the period January to March 2006.



2.3 Outgoing Mobile Traffic

The chart below depicts the total number of mobile minutes terminating on the fixed and mobile networks respectively. The seasonal trends can be clearly observed. However the continued increase in mobile minutes is also evident. In fact during quarter 1 of 2006, mobile-to-mobile traffic increased by 28%, or 8.3 million minutes, when compared to the same period in 2005. This rising trend is attributable to the various offers being made to subscribers to utilise their mobile phones in off-peak periods (where charges have been based on a per-call basis in lieu of a per-minute basis), as well as the continued preference for mobile-to-mobile calls.

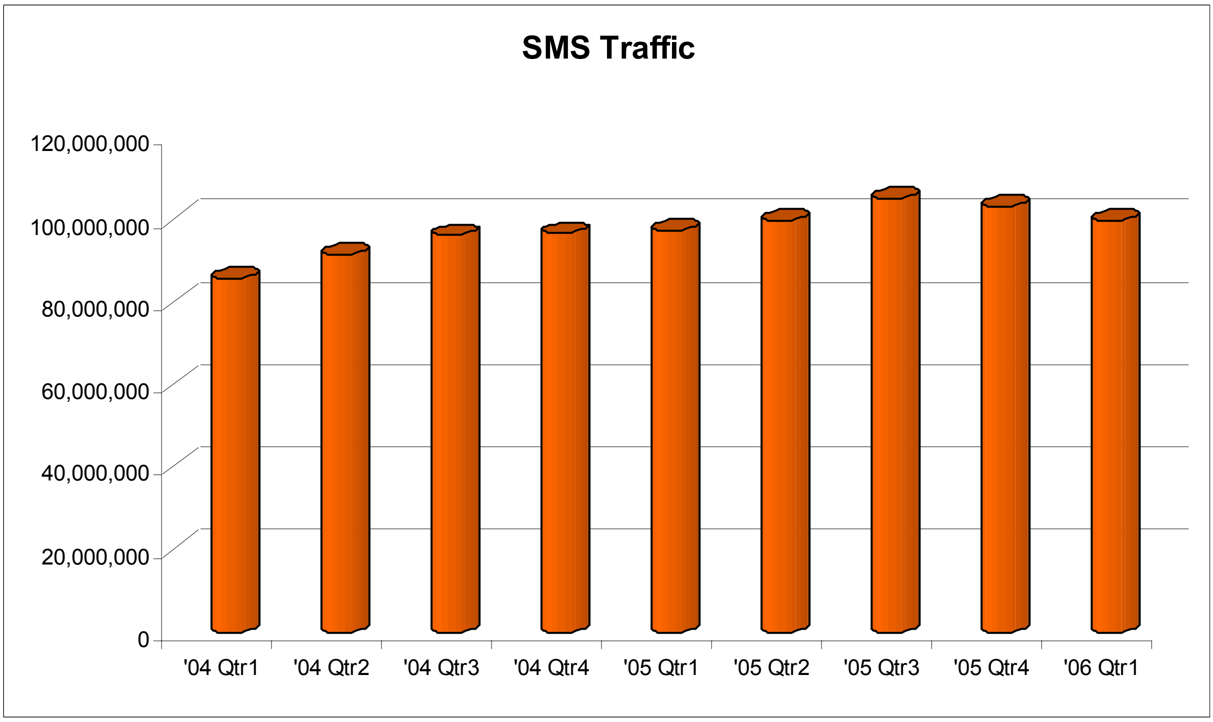


2.4 SMS Traffic

SMS traffic volumes have continued their upward trend, albeit at a slower rate. As can be seen in the graph below, SMS usage grew by 2.4 million messages, or 2.5%, between quarter 1 of 2005 and the same quarter of 2006.

The increase in SMS traffic may also be attributable to the increase in the number of mobile subscribers, which on their part increased by 5.4%, from quarter 1 of 2005 to the corresponding quarter of 2006. Another reason for the continued popularity of SMS is the high price differential between SMS and a voice call.

The last Electronic Communications Market Review carried an analysis of SMS usage in the EU member states. The main highlight of this analysis was Malta's status as the highest SMS user in Europe. It is likely that this status has been maintained as the price of an SMS continues to remain cheap when compared to a voice call.



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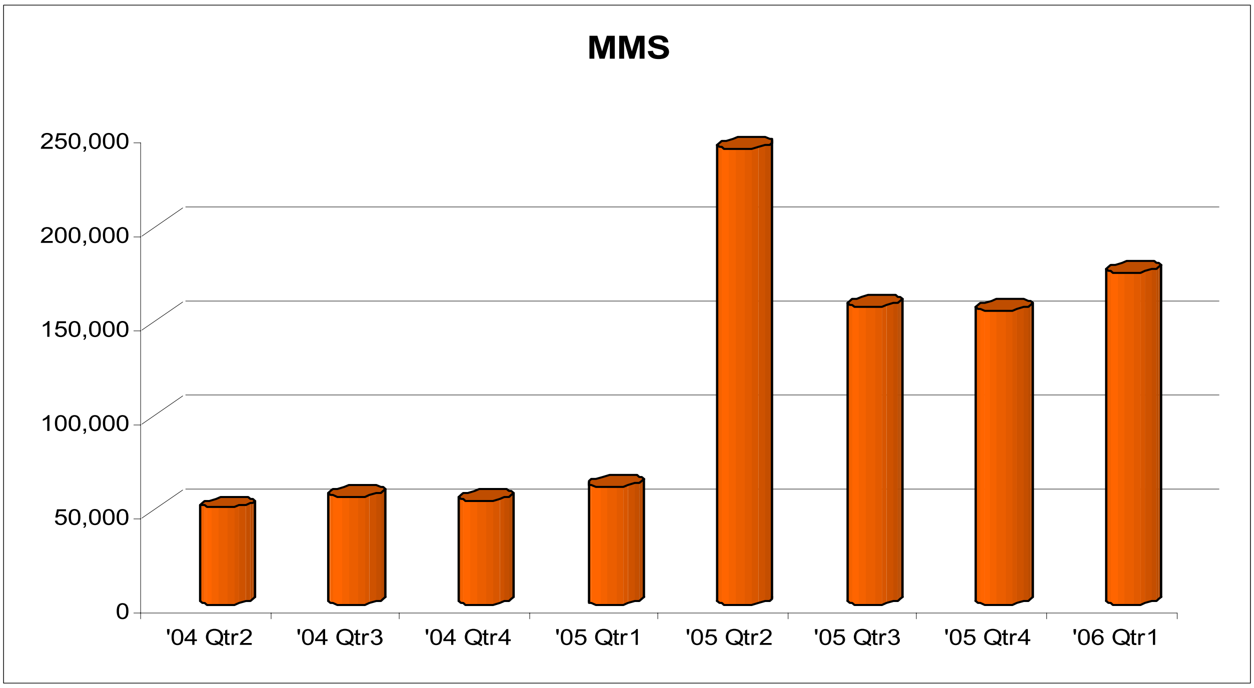
2.5 Multi Media Messaging

Multi Media Messaging refers to the transmission of messages containing text, graphics, photographic images, audio and video clips between mobile devices.

MMS was introduced in Malta towards the end of 2002. The service was free of charge until March of 2004. However, when considering the number of MMS enabled handsets that are currently in use, MMS traffic is on the low side. This could be due to a number of factors including tariff complexities, cost considerations and the actual experience of sending, or need to send, an MMS. Another reason could be the lack of knowledge and experience in the use of handsets capable of receiving an MMS.

In March 2005, an agreement was reached between the two local mobile networks that allowed subscribers to send MMS across networks. Furthermore during that quarter one of the operators was giving special free offers to promote MMS.

As a result of these factors, there was a significant increase in MMS traffic in quarter 2 of 2005, which peaked to 241,538 MMSs. The continued offers being made by service providers has helped to maintain the level of MMS's which have been in excess of 150,000 per quarter for the last four quarters.



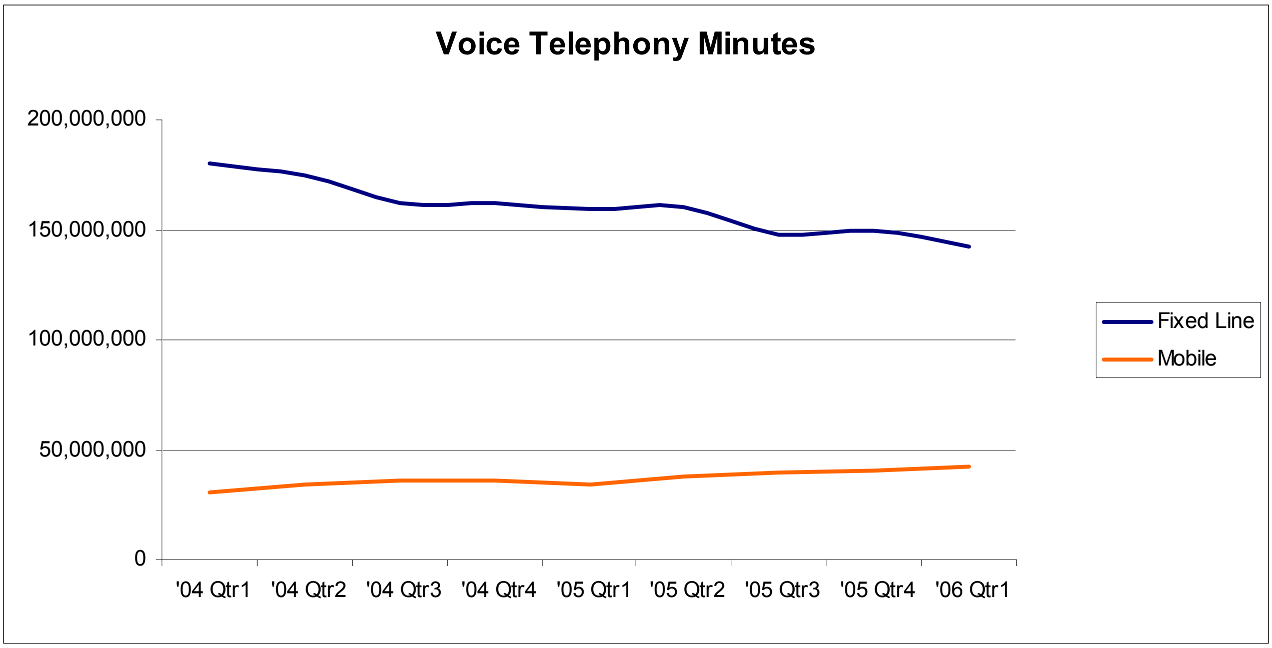
3 VOICE TELEPHONY MARKET

3.1 Local Voice Telephony Traffic

The chart below shows the total volume of local voice minutes (both fixed and mobile). The decline in the usage of fixed-to-fixed-line telephony is evident. Nevertheless, with 142 million minutes in quarter 1 of this year, it still remains the most highly used form of communication in terms of absolute volume of minutes consumed. Nevertheless, when the first three months of 2006 is compared with the corresponding months of 2005, fixed-to-fixed line traffic declined by 18 million minutes, equivalent to a drop of 11%.

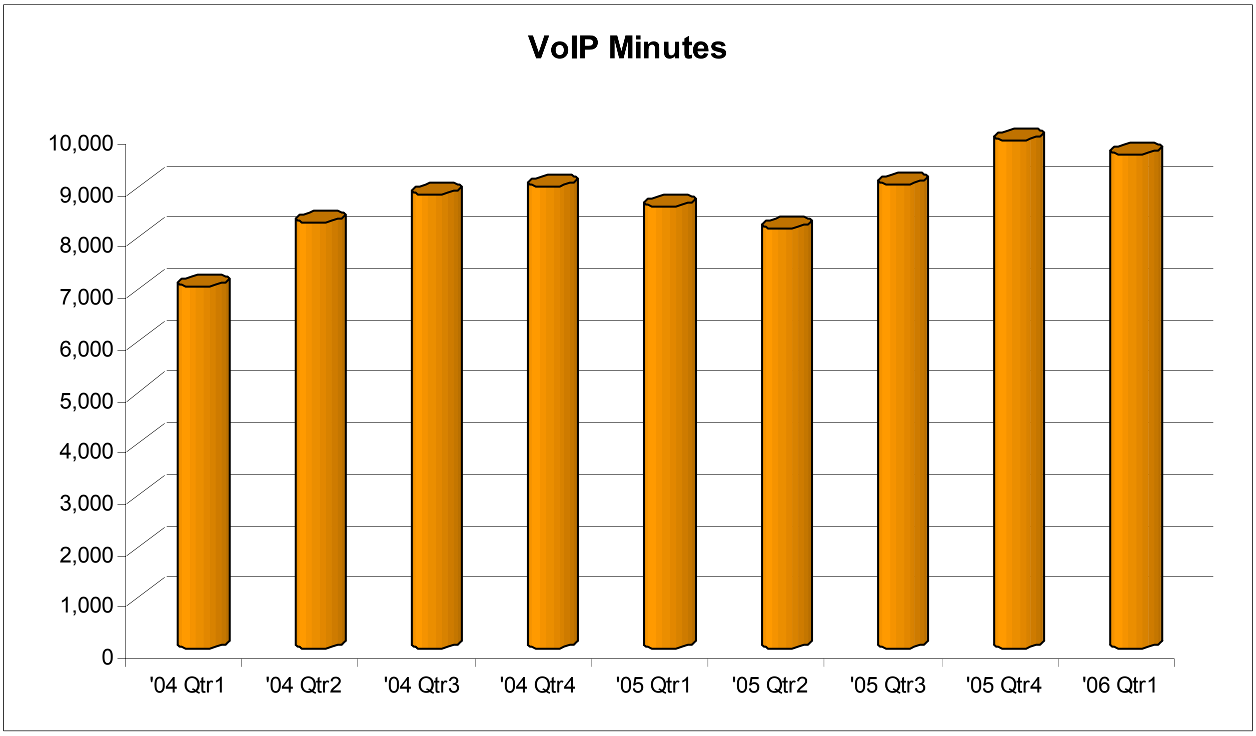
By comparison, during the same time span, mobile-to-mobile traffic rose to more than 42 million minutes. This represents an increase of 8.2 million minutes, or nearly 24%, over the comparable quarter in 2005.

The decline in the fixed-line voice minutes of 18 million is much sharper than the increase of 11 million minutes recorded for mobile-voice minutes during the twelve-months to March 06. Reasons for this may include off-peak offers for per-call charging, rather than per-minute, by mobile operators.



3.2 Voice over Internet Protocol (VoIP)

July 2005 saw the entry of the 1021 and 'Hello' into the market, which contributed to an overall increase in VoIP minutes in the last two quarters.

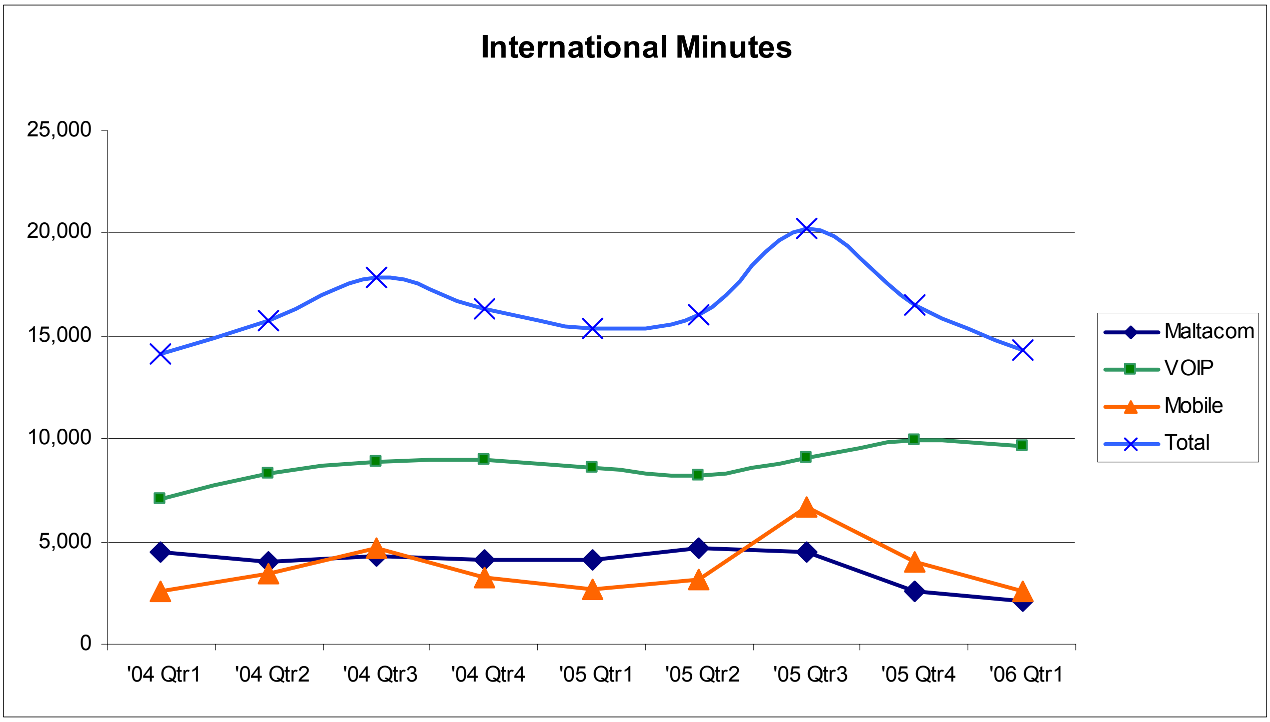


3.3 International Minutes

As can be seen from the chart hereunder, in quarter 1 of 2006, outgoing international minutes decreased by 6.7%, when compared with the corresponding period of 2005. This is attributable to the fact that albeit VOIP (including the 1021 service) traffic increased by 11.7%, it was not sufficient to offset the 48% drop registered in fixed-line minutes, which was furthermore compounded by a decline of 3% in mobile international traffic.

A similar development in the movement of fixed-line and VOIP minutes occurred also during quarter 4 of 2005. In fact, on a year-on-year basis, fixed line minutes dropped by 37%, while VOIP traffic increased by 10%. This would have resulted in an overall drop in international minutes of 4%. However in quarter 4 2005, international mobile minutes increased by 22% year-on-year, and as a result, total international minutes stood stable at their 2004 levels.

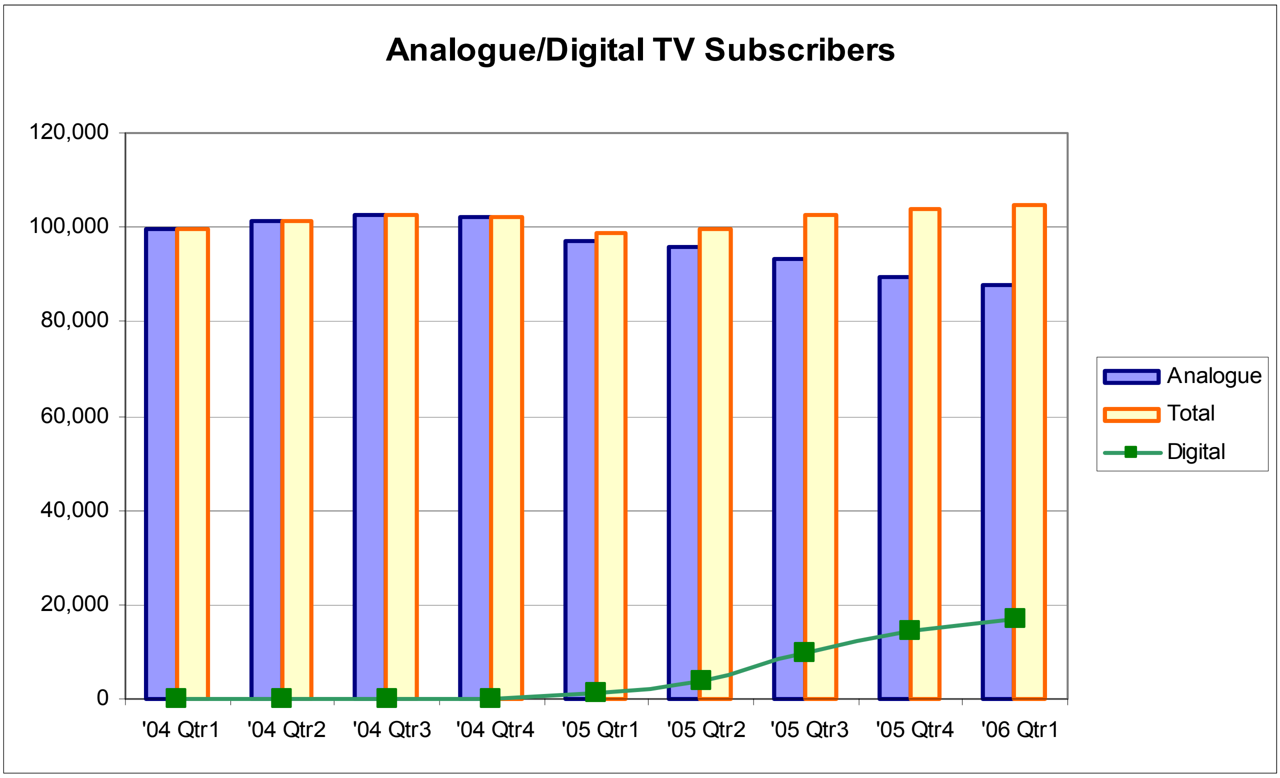
Although it may be premature to interpret these developments as an on-going phenomenon, the overall drop in international minutes may as well reflect the first signs of competition from PC-based communication applications such as Skype, MSN Messenger and Yahoo Messenger.



4 ANALOGUE/DIGITAL TELEVISION MARKET

4.1 Analogue/Digital

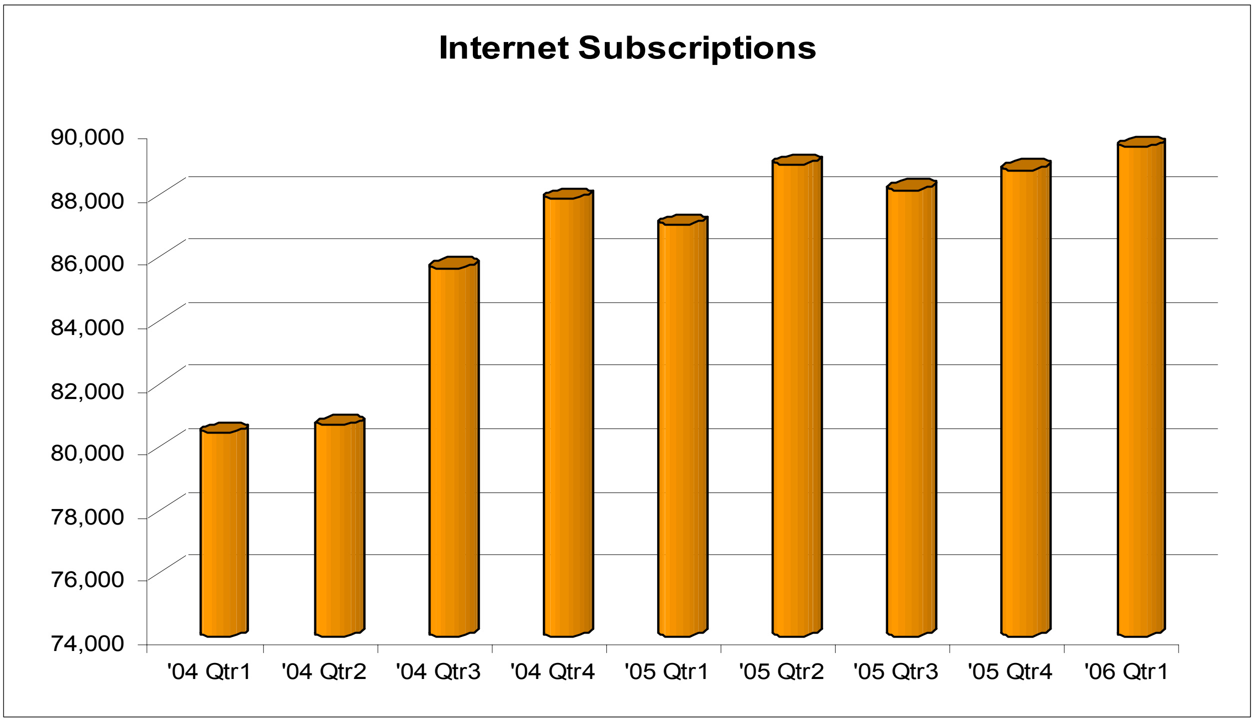
At the end of March 2006, there were 104,650 subscribers for both analogue and digital television. The local cable provider launched digital television in July 2005 and another provider entered the market in quarter 3 of 2005. As may be noted from the graph below, the introduction of this service has increased the local subscriber base. Since the introduction of digital television the subscriber base for Pay TV has increased by 6,063 or 6%. At the end of the period under review, digital subscribers accounted for 16% of the total subscriber base, while the current penetration rate of analogue and digital television stands at 77.5%.



5 INTERNET

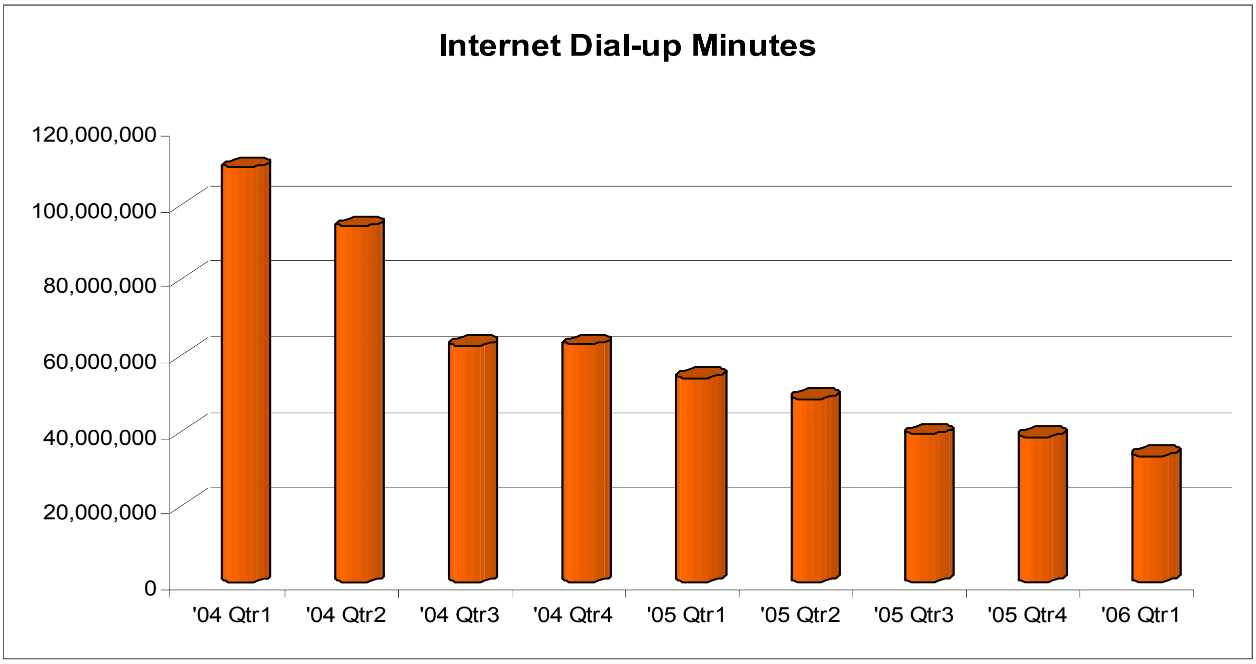
5.1 Internet Subscriptions

At the end of March 2006, the total number of internet subscriptions, both broadband and narrowband, amounted to 89,498, up by 2,448 subscribers, when compared with March 2005. This subscriber base translates to 22 subscriptions per 100 inhabitants, as opposed to 21 subscriptions per 100 inhabitants recorded during the same time last year. During the period under review Broadband subscribers accounted for 60% of total internet subscription, as opposed to 46% during the corresponding period a year ago.



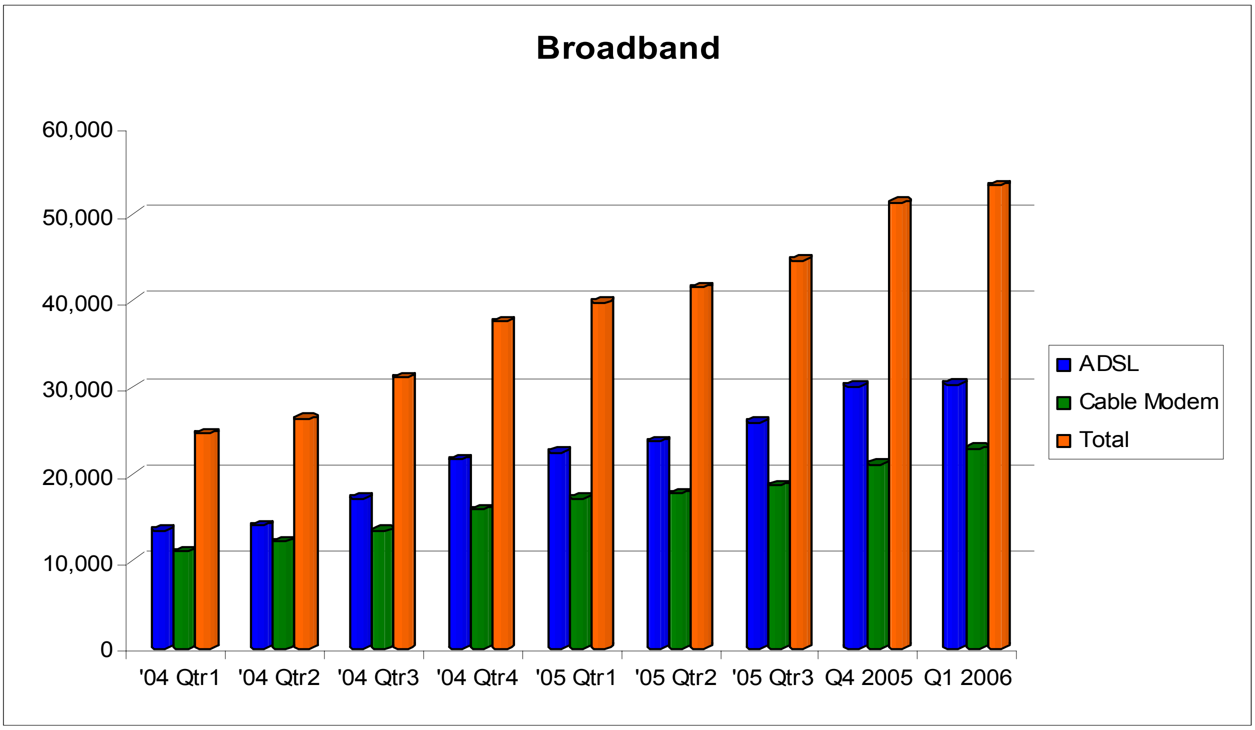
5.2 Internet Traffic - Dial-Up

The chart below shows the number of fixed line minutes used by subscribers to access internet services. As can be seen in the chart, the downward trend in internet minutes continued during Quarter 1 of 2006, as when compared with the same quarter last year, traffic decreased by a considerable 38%. The primary sources of this continued decline are the take-up of broadband, and more recently, the introduction of 'always on' narrowband offers.



5.3 Broadband Internet

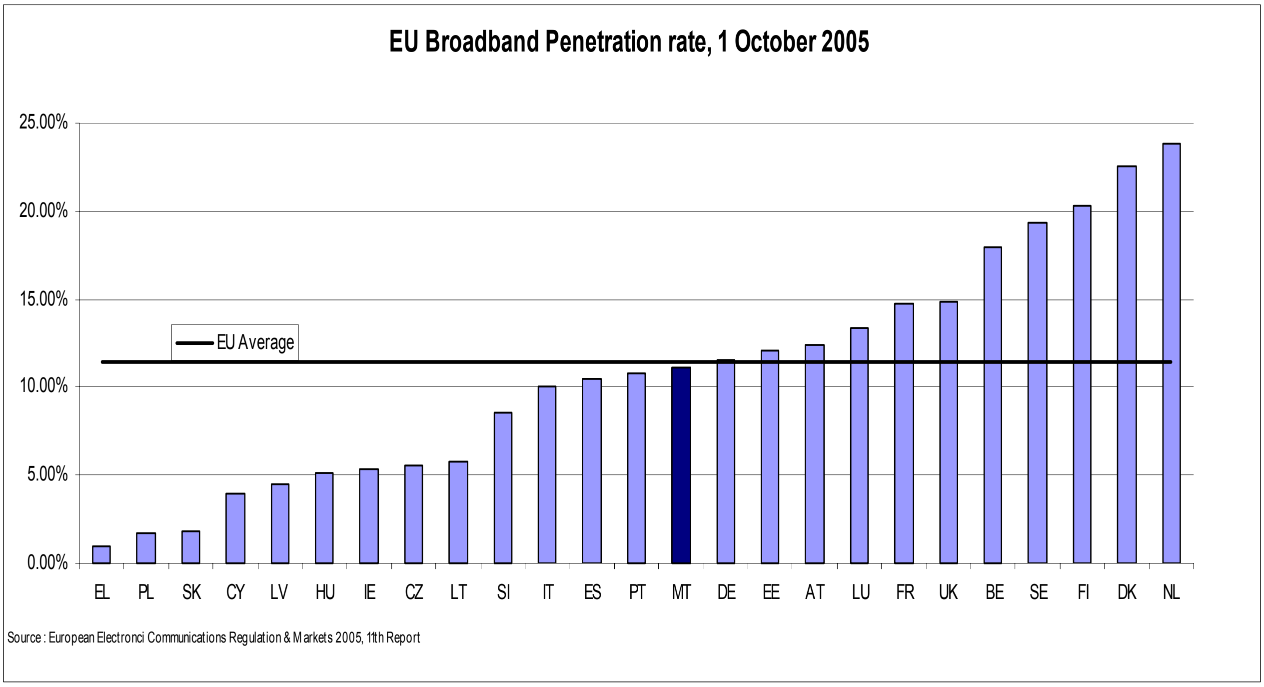
Broadband connections have continued to grow, as shown in the chart hereunder. In fact during quarter 1 of 2006, broadband connections increased by 34%, or 13,500 new subscriptions, when compared with quarter 1 of 2005. This growth reflects the continued increase in internet subscribers as a whole, as well as the conversion from dial-up to broadband connections, where customers are being given more value for money as speeds continue to increase at the same prices.



6 EUROPEAN TRENDS

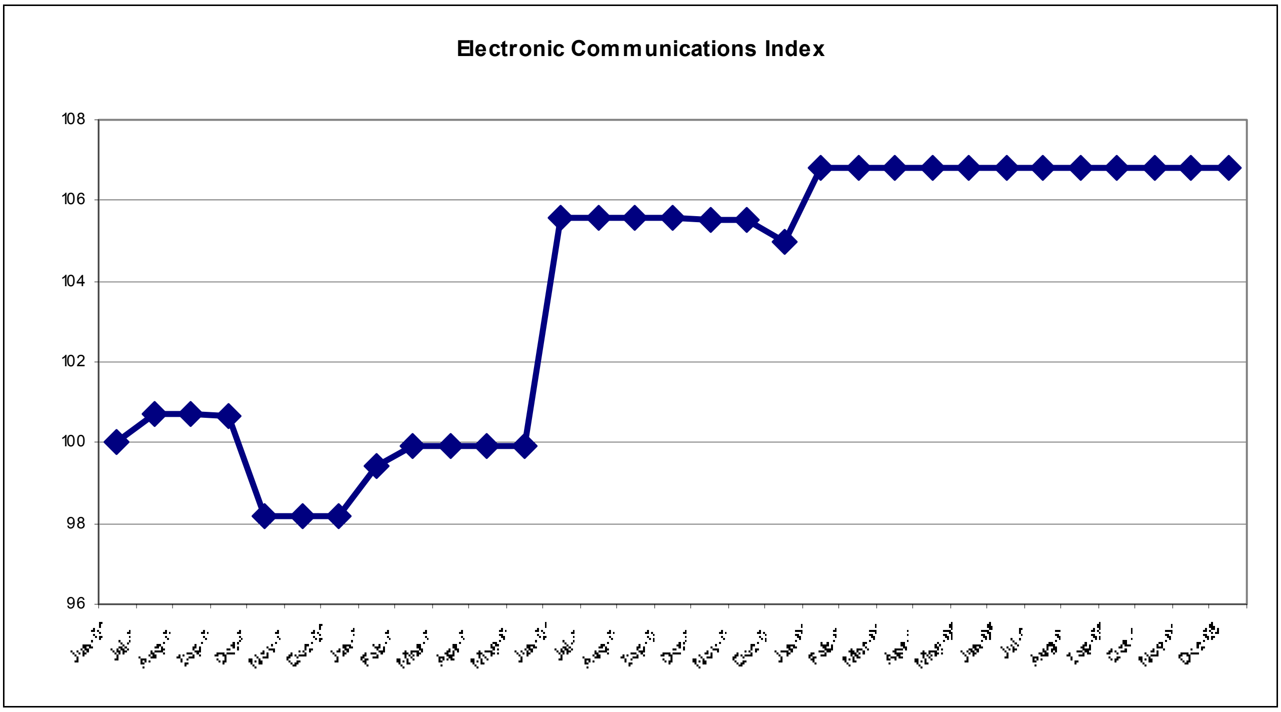
6.1 EU Broadband Penetration

The illustration below shows the number of broadband connections per population in the EU member states as at October 2005. The emphasis on Broadband growth is definitely high on the agenda of every EU member state. It is encouraging to see that Malta is at the same level as the average penetration within the EU and significantly higher then the new EU entrants, which in turn stood at 3.4%.



Broadband internet access can be provided by different means: digital subscriber line (DSL), wireless local loop, (WLL), cable TV access (cable modem), dedicated leased lines and other access technologies (satellite, optical fibre, powerline communications). DSL has increased its importance as the predominant technology and now represents 80% of all EU broadband lines, with cable modem accounting for most of the balance. The number of broadband connections in the EU now exceeds 53 million.

7 THE ELECTRONIC COMMUNICATIONS PRICE INDEX (ECPI) 2003 – 2005



As shown in the chart above, the ECPI increased by 0.7% in July 2003, on account of upward adjustments in cable TV rates, followed by a drop of 2.5% attributable to reductions in SMS rates. In January 2004, the noted drop in the ECPI was completely neutralised due to the VAT rate adjustments in the majority of the electronic services comprised in the index. Furthermore, the fixed-line tariff rebalancing that took place in June 2004 caused an increase of almost 6% in the overall index, while the marginal drop observed in December of that year was attributable to the reductions in fixed-to-mobile and international charges. The index increased by 1.7%, to 106.8 between the December 2004 and June 2005. This was attributable to the 3% surcharge on mobile services levied by Government in January 2005, as well as the fact that one mobile operator passed on to the consumer the 3 percentage points increase in the VAT rate, which it had absorbed since January 2004. In October 2005 the ECPI edged down marginally to 106.79, as one of the ISPs surveyed in the Internet sub-index lowered its broadband prices. It is worth noting that the ECPI is designed to measure pure price changes, and thus does not capture changes in quality. Indeed although the Internet sub-index has remained roughly stable throughout the reviewed period depicted in the chart, major quality improvements were noted in these services, especially in broadband packages. In fact broadband speeds have been doubling since October 2004. At present a client can benefit from a download speed of 4 mbps for the price of the 512 kbps he used to pay in the beginning of 2004.

8 THE COMMUNICATIONS INDUSTRY IN THE MALTESE ECONOMY[1]

Over the six years to 2005, the value added produced by the firms within this industry[2] has kept stable at approximately 3% of Gross Domestic Product (GDP). The relative stability in this contribution rate suggests that the performance of this industry moves roughly in line with the cyclical movement of the general economy, particularly with domestic demand.

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

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

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

Looking at the supply side of the industry, on average, each employee in the communications industry produced almost double the output produced by employees in the rest of the economy. This reflects the characteristics of a capital-intensive industry and an environment conductive to investment. The difference in productivity is consequently reflected in higher average wages earned within the communications industry when compared to other sectors. Figures show that in 2005, the average wage in the communications industry has been 32% higher than that earned in the Maltese economy in general.

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[1] Due to the lack of available data to cover the first six months of 2006, this section is based on the analysis featured in the MCA's Annual Report published on 18 July 2006, which covers the performance of the industry up to 2005

[2] The communications industry incorporates post, courier and electronic communication services

9 REGULATORY DEVELOPMENTS IN MALTA

The main developments during the period October 2005 to March 2006 are outlined below.

9.1 Consultative Documents

9.1.1 A Framework for Special Tariff Services. (December 2005)

http://www.mca.org.mt/library/show.asp?id=744&lc=1

This consultation document tackles mainly freephone and premium rate services.

9.1.2 Revised National Numbering Conventions (December 2005)

http://www.mca.org.mt/library/show.asp?id=742&lc=1

This consultation paper reviewed Numbering Conventions to ensure conformity with the proposed revised Numbering Plan and with the proposed Framework for Special Tariff Services.

9.1.3 Development of the Numbering Plan (Consultation Paper – December 2005)

http://www.mca.org.mt/library/show.asp?id=743&lc=1

This consultation document reviewed and developed MCA's approach to numbering in the light of technological and regulatory developments.

9.1.4 Statement of Proposed Decision regarding a Glide Path for Mobile Termination rates (November 2005)

http://www.mca.org.mt/library/show.asp?id=712&lc=1

This document proposed a target rate pegged to the EU average as a reasonable mechanism for maintaining cost-oriented mobile termination rates.

9.1.5 Regulating the Information Society Services Sector (September 2005)

http://www.mca.org.mt/library/channel.asp?lc=3&ch=98&t=3

The aim of this consultation is to ensure that the regulatory approach adopted for information society services will be coherent and appropriate for the local market.

9.1.6 Wholesale fixed call origination, call termination and transit services (October 2005)

http://www.mca.org.mt/library/show.asp?id=700&lc=1

The market review report presents the market definition and analysis of the fixed wholesale markets, and outlines the proposed remedies to be imposed on identified SMP operators in these markets.

9.1.7 National telephone services provided at a fixed location (October 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=14&t=3

The market review report presents the market definition and analysis of the retail national telephone services markets, and outlines the proposed remedies to be imposed on identified SMP operators in these markets.

9.1.8 Access to the public telephone network at a fixed location (October 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=14&t=3

The market review report presents the market definition and analysis of the fixed access services markets, and outlines the proposed remedies to be imposed on identified SMP operators in these markets.

9.2 Decision Notices

9.2.1 MCA Decision following consultation on proposed amendment to Directive No. 1 of 2004 (December 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=15&t=3

This decision deals with Modalities of Payment for General Authorisations and Rights of Use under the Electronic Communications (Regulation) Act.

9.2.2 Wholesale voice call termination on individual mobile networks (December 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=15&t=3

This report encapsulates the responses elicited during the national consultation period, the MCA's replies and the final position adopted by the Authority.

9.2.3 Fixed Interconnection Pricing Review – 2006 (December 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=15&t=3

This decision establishes fixed interconnection rates, which will come into effect from 1 January 2006.

9.2.4 Report on Consultation and Decision regarding a glide path for mobile termination rates. (December 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=15&t=3

This decision establishes a glide path over a three-year period for establishing mobile termination rates in Malta.

9.2.5 Fixed Interconnection Pricing Review - 2006: Statement of Proposed Decision (November 2005)

http://www.mca.org.mt/library/show.asp?id=715&lc=1

This Statement of Proposed Decision establishes the fixed wholesale interconnection rates chargeable by Maltacom plc for call origination and call termination.

9.2.6 Modalities of Payment for Contributions to the Cost of Legal Intercept Obligations (November 2005)

http://www.mca.org.mt/library/show.asp?id=716&lc=1

This Directive establishes the modalities of payment for contributions to the cost of Legal Intercept obligations under the Electronic Communications (Regulation) Act.

9.2.7 Modalities of Payment for Authorisations under the Postal Services Act. (November 2005)

http://www.mca.org.mt/library/show.asp?id=717&lc=2

The purpose of this directive is to regulate the manner in which the fees established in the Schedule to the Postal Services (General) Regulations, 2005 are paid to the MCA.

9.3 General Publications

9.3.1 Electronic Communications Market Review - April 2005 to September 2005 (December 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=6&t=3

The report gives an overview of the trends in local mobile telephony services, fixed telephony, internet (broadband and narrowband) and cable television markets.

9.3.2 Amendment to Directive Number 1 of 2004 (October 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=6&t=3

The MCA is proposing to amend article 4 of Part II of the of Directive Number 1 of 2004 on the Modalities of Payment for General Authorisations and Rights of Use.

9.3.3 Number Portability - Charging Document (March 2006)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=97&t=3

This document specifies charging for numbering portability.

9.3.4 Number Portability - Specification of the Network Functionality Fixed and Mobile. (October 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=97&t=3

This document specifies network functionality needed to support numbering portability in both fixed and mobile networks as required under the Decisions in the MCA report on Consultation and Decision of March 2005.

9.3.5 Mobile Number Portability - Ordering process specification (October 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=97&t=3

This document specifies those aspects of the mobile number portability ordering processes that either involve exchanges between operators or involve actions by one operator that have to be accepted by another operator.

9.3.6 Fixed Number Portability specification of the full solution for geographical numbers & DDI numbers. (October 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=97&t=3

This document specifies those aspects of the fixed number portability ordering process that either involve exchanges between operators or involve actions by one operator that affect other operators or the subscriber.

9.3.7 Number Portability – Inter-operator Webservice Specifications (October 2005)

http://www.mca.org.mt/library/channel.asp?lc=1&ch=97&t=3

This document specifies the webservice for messaging between operators of ordering numbering portings and announcing completed portings.

9.3.8 Publication of Third Edition of National Frequency Plan (January 2006)

http://www.mca.org.mt/news/show.asp?id=340

The National Frequency Plan (NFP) consists of a number of tables, which depict the allocations made for radio frequency spectrum for Malta.

9.3.9 Supply-Side Broadband Blueprint Mid-Point Review (January 2006)

http://www.mca.org.mt/news/show.asp?id=334

This document reviews the progress that has been achieved in terms of meeting objectives listed in a supply side broadband blueprint that was published in mid-2004 and that had a 36 month timeframe. As the mid-point of that period has now passed, it was felt that an interim review would be useful.

9.4 Licences Granted

9.4.1 Cellcom Limited - Broadband Wireless Access (BWA) Licence Document (21 October 2005)

http://www.mca.org.mt/library/show.asp?id=779&lc=4

This licence is granted by the MCA for the rights of use of radio frequencies for the establishment and operation of a broadband wireless access network.

9.4.2 Mobisle Communications Limited - Broadband Wireless Access (BWA) Licence Document (21 October 2005)

http://www.mca.org.mt/library/show.asp?id=777&lc=4

This licence is granted by the MCA for the rights of use of radio frequencies for the establishment and operation of a broadband wireless access network.

9.4.3 Vodafone Malta Limited - Broadband Wireless Access (BWA) Licence document (21 October 2005)

http://www.mca.org.mt/library/show.asp?id=778&lc=4

This licence is granted by the MCA for the rights of use of radio frequencies for the establishment and operation of a broadband wireless access network.

9.4.4 Digi B Networks Ltd. – T-Dab Licence (February 2006)

http://www.mca.org.mt/library/show.asp?id=866&lc=4

MCA issued a licence for a T-DAB (Terrestrial Digital Audio Broadcaster) network to Digi B Networks Ltd.

9.5 Others

9.5.1 Launch of IPv6 Task Force (October 2005)

http://www.mca.org.mt/news/show.asp?id=308

A multi-disciplinary task force chaired by MCA has been set up to determine the ideal strategy that will result in an eventual nationwide migration to Internet Protocol version 6 (IPv6).

9.5.2 An Affiliation between the Maltese and the European IPv6 Task Forces (November 2005)

http://www.mca.org.mt/news/show.asp?id=316

Following its launch in October 2005, the IPv6 Task Force has been working on a number of aspects related to the migration to the next generation Internet protocol. In order to widen its knowledge on IPv6, as well as to take advantage of the past and collective experience of other national IPv6 Task Forces, the Maltese Task Force has today joined the European IPv6 Task Force.