

ANNUAL REPORT
& FINANCIAL
STATEMENTS
2011

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CHAIRMAN'S MESSAGE

THE MALTA COMMUNICATIONS AUTHORITY (MCA)
HAS GONE FROM STRENGTH TO STRENGTH
SINCE ITS INCEPTION IN 2001, TAKING ON
ADDITIONAL RESPONSIBILITIES
OVER THE YEARS.

*STARTING WITH JUST REGULATING
THE ELECTRONIC COMMUNICATIONS
SECTOR, THE MCA IS TODAY*

*RESPONSIBLE FOR REGULATING
THE POSTAL SECTOR, SPECTRUM
MANAGEMENT, ECOMMERCE AND
INTERNET GOVERNANCE. IT IS ALSO
THE BODY ENTRUSTED WITH THE
IMPLEMENTATION OF THE NATIONAL
STRATEGIES AIMED AT DRIVING
INCLUSION AND EBUSINESS IN
MALTA. DESPITE ITS SMALL SIZE,
ESPECIALLY WHEN COMPARED TO
ITS COUNTERPARTS IN OTHER EU
COUNTRIES, THE IMPACT OF ITS
WORK PROGRAMME IS ENJOYED BY
THOUSANDS OF INDIVIDUALS AND
BUSINESSES ALIKE.*

*ITS CORE FUNCTION IS TO
REGULATE THE COMMUNICATIONS
SECTORS AND ENSURE THAT
EACH AND EVERY CITIZEN HAS
THE OPPORTUNITIES TO EXPLOIT
THE BENEFITS OF INFORMATION
AND COMMUNICATION
TECHNOLOGIES (ICTS) AND THE
EVOLVING POSTAL SECTOR. THIS
IS NO SMALL RESPONSIBILITY
CONSIDERING THAT ECONOMIES
WORLDWIDE ARE DEPENDENT
ON RELIABLE, RESILIENT AND
ROBUST COMMUNICATIONS
INFRASTRUCTURES.*

2011 marks the fourth year of my Chairmanship at this Authority. Each year has been characterised by its own challenges and achievements – this year is no exception. Inevitably one of the main challenges is keeping up with the pace of technological developments. Regulations in place today are not necessarily appropriate for the products and services of tomorrow. Convergence was the buzz word just a few years ago. We used to speak of convergence primarily in terms of different electronic communications services converged to one device. This created lacunae in terms of regulation. What was data? What was voice? How does content fit in? The fine lines between all these presented a number of grey areas.

Today, telecommunications is no longer restricted to fixed and mobile telephony, Internet and television distribution services. It has broadened to the extent that the technology is no longer the primary focus but it is the applications enabled by the technology that have taken precedence. Telecommunications today embraces everything – from traditional content to social and interactive media. So where does the role of Authorities such as the MCA begin and end? How should its regulatory framework be shaped when the sectors it regulates are also heavily impacted by issues related to data privacy, content and copyright?

The Authority is guided by a set of national and EU rules that are regularly updated to reflect technological and market developments, as well as administrative or policy changes. Having a sound regulatory environment is essential as this generates a sense of confidence – a key ingredient for continued and new investment in the regulated sectors. With this in mind, during 2011, Malta was one of the first EU Member States to fully adopt the new EU Electronic Communications Regulatory Framework. It was a long arduous task to ensure that the EU provisions were effectively transposed into national laws. I must stress that this is not just a case of replicating the EU provisions. The national text must reflect the local circumstances while remaining faithful to the EU framework; it must also address national issues, which are not always addressed by EU laws. The Authority supported the Ministry for Infrastructure, Transport and Communications in this regard, assisting in keeping all stakeholders informed as to how the new regulations would impact them and providing them with an opportunity to express their views before the final draft was approved.

The EU Framework consists of a set of Regulations, Directives, Decisions and other legal instruments, which collectively aim to ensure easy market entry, healthy competition and the safeguarding of consumer rights.

The new rules brought about the establishment of a new entity called the Body of European Regulators in Electronic Communications (BEREC) which replaced the former European Regulators Group (ERG). The Authority participates heavily in all the working groups and activities that take place within BEREC. This work is critical, as the MCA has to ensure, not only that its work reflects EU best practice, but also that EU regulatory best practice takes account of the realities present in a micro-state like Malta. This activity consumes a relatively large portion of our resources. However we view our participation as an important opportunity and responsibility. Whilst frequently taking on board solutions developed and adopted by other countries, we have also regularly shared our success stories, challenges and lessons learnt with the 32 other participating countries. We started off by using these fora to leverage on the vast experiences of other regulatory bodies and this saved us considerable time and effort when faced with particular challenges, helping us avoid many pitfalls. Today however, we can say that we have developed our own body of experience and expertise, stemming from 10 years of activity in the field. We are happy to have the opportunity to contribute to the development of European best practice by sharing the innovative solutions that we have put in place.

The new framework also provisions for a somewhat stronger say for the European Commission vis-à-vis draft competition measures proposed by National Regulatory Authorities and also aims to facilitate investment in next generation access networks. On this latter note, Government, with input from the MCA, made great strides during the past year.

Legal provisions were also enacted aimed at creating a more liberalised market for radio frequency use. These introduced the concept of service and technology neutrality in spectrum use and provided for more efficient use of this scarce resource through spectrum trading. Holders of spectrum licences in specific frequency bands are therefore now able to transfer or lease all, or part of their spectrum, to another party.

This new framework also gives greater account of the needs of people with special needs and greatly enhances consumer protection in terms of contract terms and conditions, access to services and switching. These provisions have added to the Authorities' responsibilities in terms of consumer protection. As a result, the Authority embarked on an exercise to ensure the effective implementation of the new regulations.

2011 was a particularly interesting year for the Authority in terms of consumer protection. We issued a decision on the modifications to the terms and conditions of subscriber contracts, establishing the manner in which any such changes must be implemented by

service providers, how these should notify their subscribers of the changes and the format such communication should take. A mystery shopping exercise gave insightful information as to the actual customer experience and highlighted areas where services are indeed meeting customer needs and those that require improvement.

In terms of access, the MCA published a landmark decision that outlines the basic requirements that the universal service provider, GO, has to comply with, in relation to providing functional internet access at any fixed location. The decision specifies that all connections in Malta must have a minimum data speed of 4Mbps in general and in no circumstance, at less than 2Mbps.

New legal provisions have also obliged service providers to offer email mobility services to their respective subscribers. This is another important step towards ensuring competition to the benefit of end users, as these are now free to switch internet service providers without the risk of losing their email accounts and the corresponding communications.

Inevitably, the work of the Authority has shifted focus over the years. In the earlier days of the Authority, the primary focus was to oversee the liberalisation of the markets and ensure the right environment conducive to investment and enhanced competition. It ensured that electronic communications services were available to all and sundry and that no one is isolated and left behind. Today, the numbers speak for themselves.

Taking a look at the mobile market alone – one of the most dynamic electronic communications markets, penetration has increased by 84.9% since 2001 to reach 124.9%. Outgoing minutes have increased by 587.9% to reach approximately 492 million minutes in 2011 alone. Considering a population of around 400,000 this figure indicates that on average, every man, woman and child spends at least 20.5 hours on their mobile phone per year! With regard to SMS, between 2001 and 2011, the number of SMSs sent has increased by 428.4%. During 2011, in excess of 1.5 million SMSs were sent each day. Broadband usage over mobile in terms of Mbits is also very promising, increasing by 285.8% in just two years. This just proves how eager the Maltese population is to adopt technology. Continued price declines and increased offers and bundles by service providers have also boosted take-up and usage. Maltese mobile voice call prices per minute are declining very steadily.

Other electronic communications sectors are no different. Malta has maintained its stand with regard to fixed telephony. Although some substitution to other technologies has materialised, Malta still remains well ahead of the EU average, with 90% of

households having both fixed and mobile telephone access. Usage has remained relatively strong with approximately 194.1 million outgoing fixed calls made during 2011.

Although such figures are important indicators of how the market is taking shape, our work is not just about numbers. The Authority has a broad remit - which translates into an extensive work programme aimed at achieving the objectives and targets set for each year.

A considerable milestone achieved in 2011 was the complete switchover to digital terrestrial transmissions. The process towards digital transmissions was far from an easy one but was concluded as a result of continued coordination between all the interested parties and the direction of the Digital Switchover Committee, which was chaired by the MCA. A general interest TV network was set up in January. By June, two national stations were transmitting in digital format, with an additional four channels joining the network in August. In October, all analogue transmissions were switched off. Throughout this process, an extensive public information campaign was implemented to ensure that all those impacted were aware of what steps they had to take in order to receive free-to-air transmissions. The smooth transition to digital took place with hardly any hitches on the consumer front.

Careful and meticulous planning paved the way for a smooth and effective transition in the reassignment of the 900 MHz and 1800 MHz frequency bands. Three new licences were issued, allowing respective operators to deploy UMTS, LTE, WiMax, as well as standard GSM services. Issues relating to spectrum are always complex but having to reassign spectrum already in use by operators, makes the situation significantly harder. The Authority introduced meetings with all interested parties instead of opting for a direct assignment by auction. This was a first for the Authority but nonetheless, proved to be a very successful methodology.

Over recent years, wireless communication has become a ubiquitous part of modern life, evolving from just a tool used to make and receive calls, to an instrument that supports mobile computing, offering convenience, flexibility and easy access to online services whilst on the move. Faster mobile internet access, vastly improved smart phones and the growing number of applications and services aimed at mobile data users will increase consumer demand for mobile broadband. In order to cater for this, Maltese operators will have to move forward from third generation to the next generation technology. The new spectrum licences pave the way for this evolution.

During 2011, the MCA, on behalf of the Government of Malta, commissioned a study of the technical and economic feasibility of deploying a Fibre-To-The-Home infrastructure in Malta and Gozo. This reflects a conviction that Malta will only continue to rank as one of the most 'networked economies' if its citizens and businesses are connected to state-of-the-art networks enabling ultra-fast internet access to all users and thereby providing the backbone for economic and social growth. Next generation networks are not only about speed. Coverage, price to end-users, quality of service and take-up are equally important objectives, all of which have been addressed in a 'Next Generation Broadband Strategy' that was developed by the MCA.

It is very easy to get carried away by our activities on the electronic communications front. This sector does indeed take up the larger part of the MCA's resources. However our efforts in the other areas of our responsibility are equally important and sometimes even more rewarding as the results are more immediate and tangible.

Resilient networks, good quality and value-for-money services are important. As mentioned previously, the numbers are more than promising. However, we cannot ignore the fact that a good portion of the Maltese population is still not benefiting from the opportunities and the better quality of life that can be gained from using ICTs. The technology is there, it is available, but this is worthless if people do not use it, or worse still, want to use it but do not know how. Through the Authority's Information Society arm, we are running an ICTforALL programme where basic ICT courses are offered free of charge or at heavily subsidised rates. During 2011 we achieved unprecedented results when we trained 1.5% of the adult population in the basic use of ICT applications. I am truly pleased to note that a significant portion of these individuals have chosen to continue furthering their skills by following more advanced training programmes, also offered by the MCA, which specifically target adult learners. We have also been successful in setting up new community technology learning centres. These centres offer IT support to communities, providing essential access to technology and a base from which community based training is provided.

Furthermore, in collaboration with other public entities, we have set up 164 free Wi-Fi hotspots across Malta and Gozo. We also proceeded to implement two important EU funded projects. The BeSmartOnline project, which addresses the issue of safer internet use amongst minors and the EPITOME project, which is providing free ICT training to micro-enterprises and the self-employed. Both projects have proven to be successful and are continuing in 2012.

Two closely linked sectors that are also the responsibility of the MCA are the eCommerce and postal sectors. On the eCommerce front, we have witnessed increased online purchasing both in terms of frequency and in the amount of spend. People are becoming more confident in online purchasing and are now appreciating the convenience of such services. Although the trends are positive, trust still remains one of the main deterrents. In order to instil a greater sense of trustworthiness in Maltese online shops, the Authority launched a trustmark, certifying that the online traders who have been awarded the trustmark are compliant with the legislation and provide all the relevant information to their customers.

eCommerce services cannot enjoy the current level of success if it were not for a reliable postal service. Although eCommerce is reliant on electronic transactions, from purchase to payment, in the majority of cases delivery can only be effected by means of an efficient postal network.

Despite the take-up of electronic communications services, the postal sector remains a vital economic pillar which has an immensely important impact on economic development and productivity, as well as social cohesion. It is a sector that is undergoing fundamental changes. Given these developments, the sector needs to accelerate a transformation, which will mitigate against the revenue decline from increased substitution and seize the window of opportunity of eCommerce. The postal sector has many challenges ahead yet, in my opinion, the future prospects are bright if it manages to evolve in response to the needs of a new digital world.

As we are fast approaching the full liberalisation of this sector on 1st January 2013, one has to remain mindful of the fact that unlike the electronic communications sector, which was liberalised at a time of relative stability, the postal sector is approaching full market opening when economies worldwide are starting to recover from a general downturn.

The Authority undertook the necessary preparations in this regard, ensuring that all the rules, regulations and Directives are implemented accordingly. The ultimate aim is to have a strong, competitive, innovative and most importantly, a cost-effective postal sector that continues to keep the well-being of its customers as its primary focus.

As economic and social development become inextricably linked with the Internet, the governance of this 'network of networks' is taking on an ever-more important role in global policy making. During 2011, the Authority was happy to take on a new challenge when its remit was extended to include Internet Governance.

The involvement of stakeholders in the development of policy is vital in all fields, but is probably even more essential in this field, which has the power to impact practically every aspect of our lives. For this reason, our first action when given this mandate was to establish the Malta Internet Governance Forum, which brings together a number of stakeholders from industry, Government, academia and civil society. The input from this Forum ensures that Malta can develop sound policies in this field and allows us to ensure effective participation in the work of the ITU Internet Governance Forum.

The question is where do we go from here? What can consumers look forward to in the near future? How will businesses evolve in this ever-changing telecommunications landscape? Can operators today compete with over-the-top players who offer sophisticated web-based applications? What challenges lie ahead?

A persistent challenge remains in ensuring a continued stream of investment into the sector. I think we have a successful track record in this regard but of course we cannot afford to slack in our efforts. We have gained considerable momentum over the years and we need to keep this going. Malta is moving in line with other countries in terms of technology. It has a lot to offer – robust infrastructures, a sound regulatory framework, a light-touch licensing regime, an eager subscriber base and policy makers that are true believers in the benefits of technology. Schemes, such as the test and trial licences are a great incentive for companies to use Malta as a test-bed for innovative products and services at relatively no cost.

Resiliency and redundancy are two areas that we have addressed in the past, bringing down disruptions in the service to the bare minimum. We now have to move a step ahead and address quality of service, in particular ensuring that promised broadband speeds are actually reached, that service contracts are clear and transparent and that consumers are made fully aware of contract periods, service limitations and other important terms of service.

These are very challenging and exciting times for the communications industry. From a network perspective, we need to shift to next generation networks and the telecoms industry needs to find the revenue streams to finance this important investment that will underpin economic and social development over the coming years. This, when the industry faces unprecedented changes in the way it operates, driven in particular, by the emergence of over-the-top services, which are very quickly disrupting long established industry norms. The postal sector too is in an important transitional phase as it faces liberalisation. Important changes in international rules and an ever stronger shift to online transactions, which is putting pressure on traditional revenue streams, are other challenges that need to be addressed.

We as regulators need to ensure that the regulatory framework and the measures that we put in place are able to provide the relevant regulatory certainty to ensure that this industry may continue to flourish in this evolving landscape.

I take this opportunity to thank my fellow board members and staff at the Authority for their hard, professional work and continued support.

A handwritten signature in black ink, reading "Philip Micallef". The signature is written in a cursive, flowing style.

ING. PHILIP MICALLEF
EXECUTIVE CHAIRMAN



**LIST OF
BOARD MEMBERS
& MANAGEMENT
COMMITTEE**

BOARD MEMBERS

ANTOINETTE VASSALO
Member

ANTONIO GHIO
Member

BERTA SULLIVAN
Member

CELA FALZON
Board Secretary & Chief of External Relations

IVAN BARTOLO
Deputy Chairman

PHILIP MICALLEF
Executive Chairman

MANAGEMENT COMMITTEE

HELGA PIZZUTO
Chief Technical Officer

IAN AGIUS
Chief of Operations

PATRICK VELLA
Chief of Policy & Planning

PAUL MICALLEF
Chief Legal Advisor

ROBERTA TABONE
PA to Chairman

STEVE AGIUS
Chief Information Officer

1. THE PERFORMANCE OF THE ELECTRONIC COMMUNICATIONS AND POSTAL SECTORS

TELECOMMUNICATIONS SECTOR

The telecommunications sector's contribution to the economy in 2011 stood at 1.65%, representing a slight reduction when compared to the previous two years. This downturn has to be seen in the context of the uncertainty engulfing the international economic climate, which affects local profit margins and the prospects for investment.

In absolute terms, during 2011, telecommunications generated €91.4 million in economic contribution, a marginal reduction from €92.6 million in 2010.

The sector's intermediate expenditure, that is, the cost of producing the output by the sector, went up by 1.6%, from €124.1 million in 2010 to €126.1 million in 2011.

Meanwhile, the operating surplus for the sector declined by 22.3%.

On average, employment in telecommunications totalled 1,407 full-time persons in 2011, down 5.4% from the previous year. The number of part-time employees remained practically the same.

POSTAL SECTOR

The postal sector's performance was generally positive, contributing 0.35% to GDP in 2011, slightly up from 0.31% a year earlier.

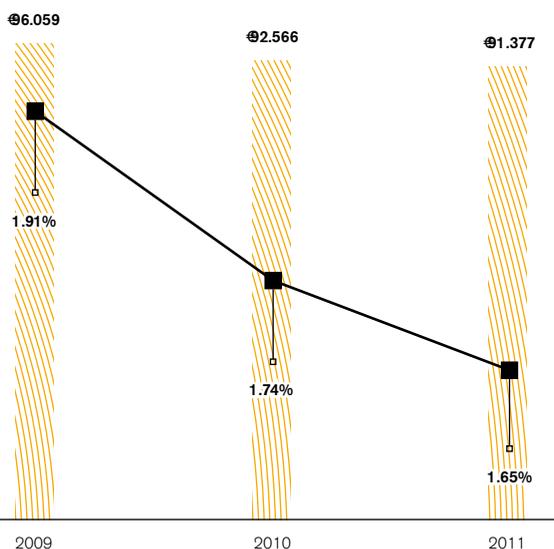
Intermediate consumption for the sector increased by 18.2%, up from €8.8 million in 2010 to €10.4 million in 2011.

On average, employment in the postal sector totalled 830 full-time persons during 2011, nearly 4% more than recorded in 2010. No significant changes were reported in terms of part-time employment.

CONTRIBUTIONS BY TELECOMMUNICATIONS TO GDP

Source: National Statistics Office

- CONTRIBUTION IN NOMINAL TERMS (IN MILLIONS)
- CONTRIBUTION AS A PERCENTAGE OF GDP



2. FIXED LINE TELEPHONY

The fixed line sector continued to experience a downturn in 2011, with traffic volumes falling and prospects of a shrinking subscriber base looming.

FIXED LINE SUBSCRIPTIONS

Reporting in terms of subscriptions has been particularly influenced by a revision of prepaid subscription figures undertaken by one of the local operators, which resulted in a drop of 16,002 prepaid subscriptions. This adjustment was made by GO to eliminate a number of prepaid connections, which had been inactive for a period of time. The Authority, therefore, does not anticipate that drops of this magnitude will be a recurrent trend in the fixed line market.

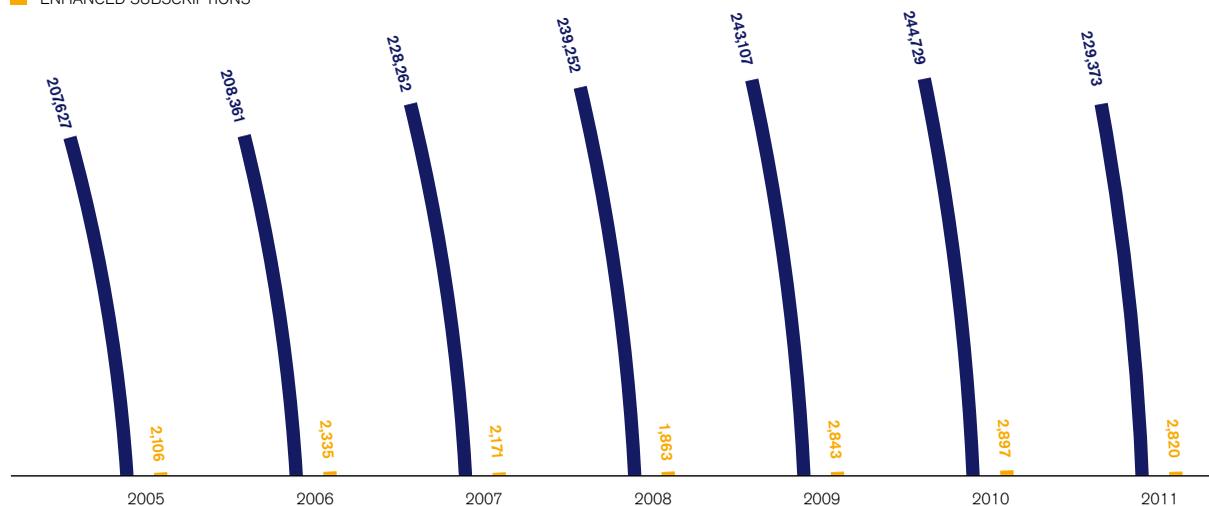
The number of active fixed line subscriptions totalled 232,193 as at the end of 2011, down by 15,433 subscriptions from the end of 2010.

The drop in prepaid subscriptions was slightly mitigated by an increase of 646 postpaid subscriptions. The number of enhanced telephony subscriptions¹ declined by 77, down from 2,897 as at the end of 2010 to 2,820 as at the end of 2011.

Access to a fixed line is universal in Malta, with around 90% of Maltese households combining fixed and mobile telephone access, indicating that Malta remains well ahead of the EU average, which stands at 71%².

SUBSCRIPTIONS AS AT END OF PERIOD

■ STANDARD SUBSCRIPTIONS
■ ENHANCED SUBSCRIPTIONS



¹ Subscriptions offering multiple channel (dual or more) fixed telephony connections.

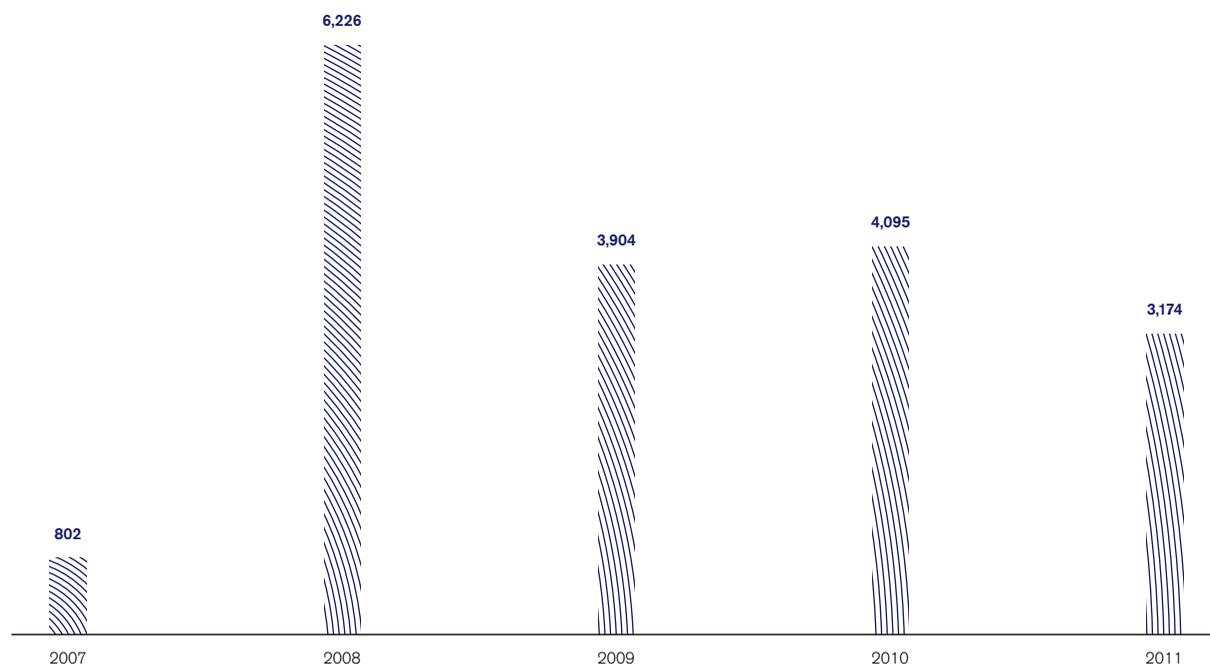
² http://ec.europa.eu/public_opinion/archives/ebs/ebs_362_en.pdf

As at the end of 2011, the number of standard postpaid fixed line subscriptions bundled with other electronic communications services, amounted to 80,330, up by 10,309 or 14.7%, from the end of the previous year. It is of note that the significant change in the number of fixed postpaid subscriptions on two-play and quadruple-play offers is attributed to the re-classification of data by Melita.

| Fixed postpaid subscriptions on a bundled offer | 2009 | | | | 2010 | | | | 2011 | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| ...on a two-play offer | 15,229 | 15,318 | 15,516 | 12,122 | 11,327 | 8,062 | 8,360 | 6,952 | 28,951 | 31,537 | 34,028 | 35,469 |
| ...on a triple-play offer | 4,973 | 5,477 | 4,446 | 4,448 | 4,757 | 4,723 | 5,083 | 5,934 | 7,589 | 6,798 | 5,872 | 7,127 |
| ...on a quadruple-play offer | 15,369 | 21,002 | 26,706 | 30,488 | 37,812 | 43,044 | 49,657 | 57,135 | 35,361 | 36,346 | 37,422 | 37,734 |
| ...in total on a bundled offer | 35,571 | 41,797 | 46,668 | 47,058 | 53,896 | 55,829 | 63,100 | 70,021 | 71,901 | 74,681 | 77,322 | 80,330 |
| ...as a percentage of active fixed postpaid subscriptions | 18.59% | 28.19% | 24.69% | 25.06% | 28.70% | 29.77% | 33.73% | 37.11% | 38.28% | 39.64% | 40.81% | 42.47% |

The number of fixed line portings totalled 3,174 in 2011, down from 4,095 portings in the previous year.

FIXED LINE PORTINGS



FIXED VOICE CALL TRAFFIC VOLUMES

Traffic volumes in 2011 were weaker than those reported in 2010.

The number of outgoing fixed line calls went down by 8.4%, whilst the number of outgoing fixed line minutes went down by 8%.

The decline in the number of fixed line calls is spread across all categories of fixed line calls:

- on-net Fixed-To-Fixed (FTF) calls³ fell by 12.7 million (or 10.4%), whilst off-net FTF calls fell by 1.1 million (or 2.8%);
- Fixed-To-Mobile (FTM) calls, declined by 2.3 million (or 5.8%); and
- Fixed-To-International (FTI) calls, fell by 1.5 million (or 16%).

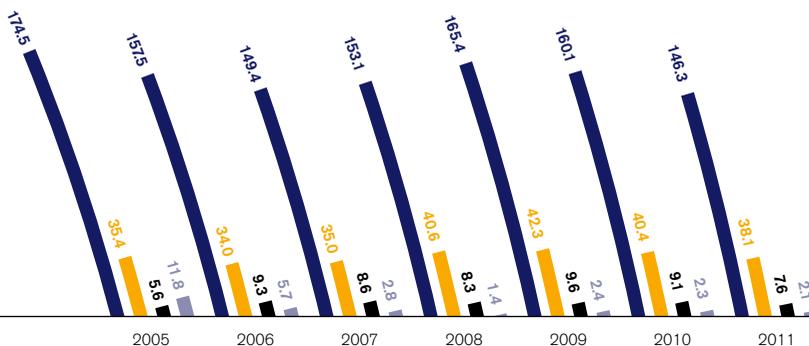
Other fixed line originating calls declined by 8.7%.

Lower volumes in terms of outgoing minutes were also observed across all outgoing voice traffic categories. These declined by 57.7 million minutes, primarily as a result of less on-net FTF minutes, which went down by 45.2 million. This represents an 8% drop in terms of outgoing fixed line minutes when compared to the volumes reported in 2010.

Other year-on-year declines were observed for outgoing off-net FTF minutes, which fell by nearly 0.4 million (or 0.2%); FTM minutes went down by 2.9 million (or 5%); and other call minutes, which fell by 1.1 million (or 18.4%).

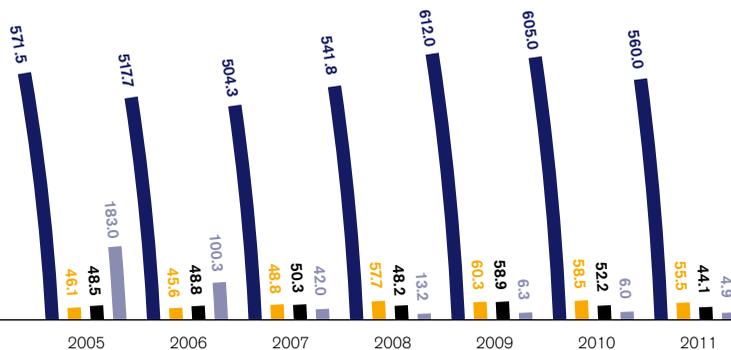
FIXED TELEPHONY TRAFFIC VOLUMES
NUMBER OF CALLS (MILLIONS)

■ FTF CALLS
■ FTM CALLS
■ FTI CALLS
■ OTHER CALLS



FIXED TELEPHONY TRAFFIC VOLUMES
NUMBER OF CALL MINUTES (MILLIONS)

■ FTF MINUTES
■ FTM MINUTES
■ FTI MINUTES
■ OTHER MINUTES



³ On-net FTF calls are originated and terminated on the same network. Off-net calls are originated and terminated on different networks.

⁴ Including Internet calls, free phone calls and premium calls.

FIXED TELEPHONY MARKET SHARES

A look at the distribution of market shares by operator shows that, as at the end of 2011, GO subscriptions accounted for 73.5% of the market, down by 3.6% from the end of 2010.

Whilst Melita's market share accounted for 25.77%, up by 3.6% from the previous year, collectively the remaining players in the market accounted for less than 1% of the market.

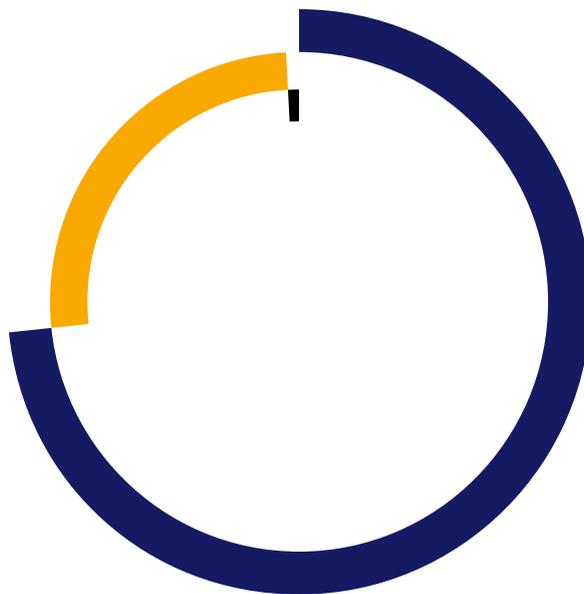
In terms of national voice call traffic minutes, GO's market share declined by 0.9%, from 72.4% in 2010 to 71.5% in 2011. On the other hand, Melita registered gains, from 26.3% in 2010

to 27.2% in 2011. Other small operators accounted for the remaining portion of traffic.

In terms of international voice call minutes originated in 2011, GO's Ten21 VoIP service accounted for the largest share at 69.8% of the total. During the same period, small gains were also reported by all other operators, with the exception of Vodafone (Malta), which experienced a slight decline.

MARKET SHARES IN TERMS OF SUBSCRIPTIONS AS AT END OF YEAR

| | |
|----------|-------|
| ■ GO | 73.5% |
| ■ MELITA | 25.8% |
| ■ OTHERS | 0.72% |



AVERAGE FIXED LINE TARIFFS

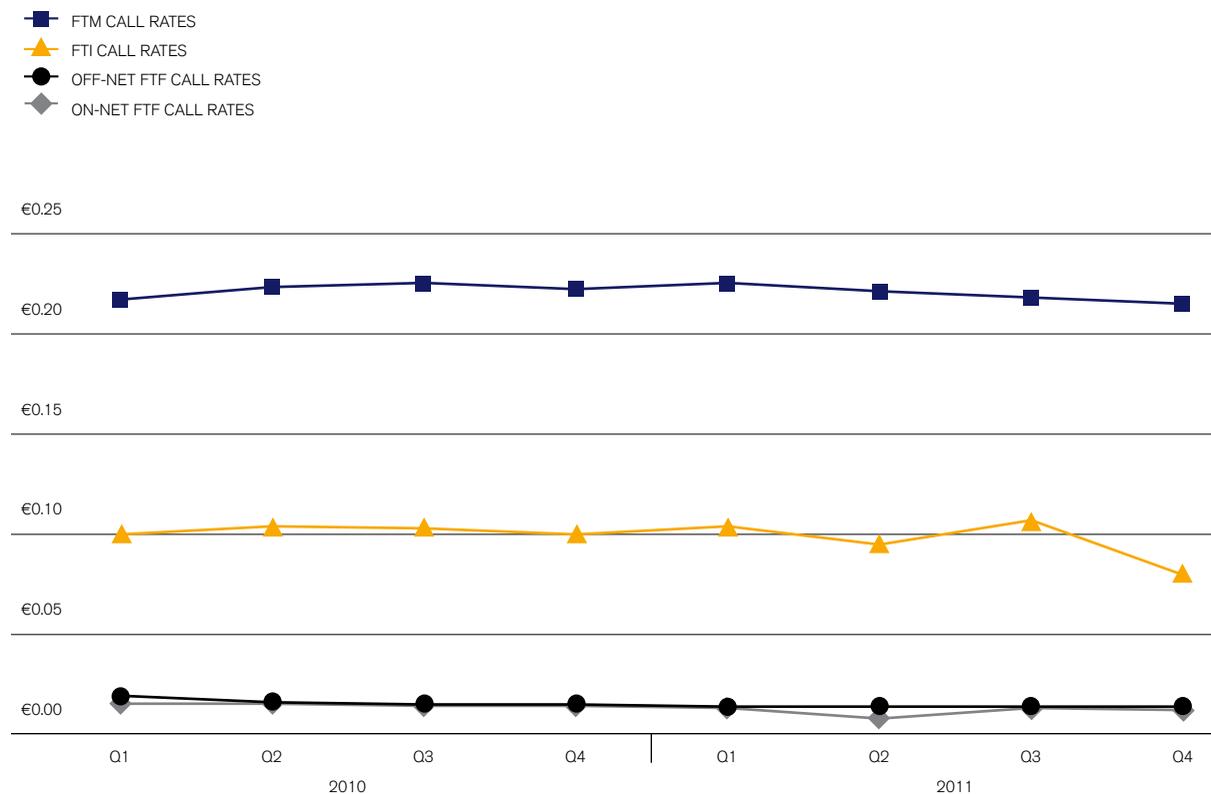
The MCA monitors developments in fixed telephony tariffs through a revenue-based indicator⁵. This is achieved by dividing the total revenues generated by operators against fixed traffic during a particular period. The MCA's findings suggest that the average rates for 2011 were similar to those observed a year earlier⁶.

In Q4 2011, the average on-net FTF per minute call rate stood at €0.011, slightly lower than €0.013 in Q4 2010, whilst the average off-net FTF per minute call rate stood at €0.013, down from €0.014 in Q4 2010.

The average FTM per minute call rate was significantly higher than that for an on-net or off-net FTF call and stood at €0.209 in Q4 2011.

The average FTI (which includes all fixed calls to international numbers, including VoIP calls) call rate stood at €0.079.

AVERAGE PRICE PER MINUTE OF FIXED LINE COMMUNICATIONS BASED ON TRAFFIC REVENUES PER CALL MINUTE



⁵ The rates quoted here are an average of revenue-based figures supplied by local fixed line network operators. These may therefore vary from actual rates quoted for different plans and schemes launched by local operators. Average rates are also exclusive of VAT.

⁶ Figures are exclusive of tax related revenues.

3. MOBILE TELEPHONY

The mobile telephony sector continued to register significant growth in 2011, both in terms of subscriptions and traffic volumes.

MOBILE SUBSCRIPTIONS

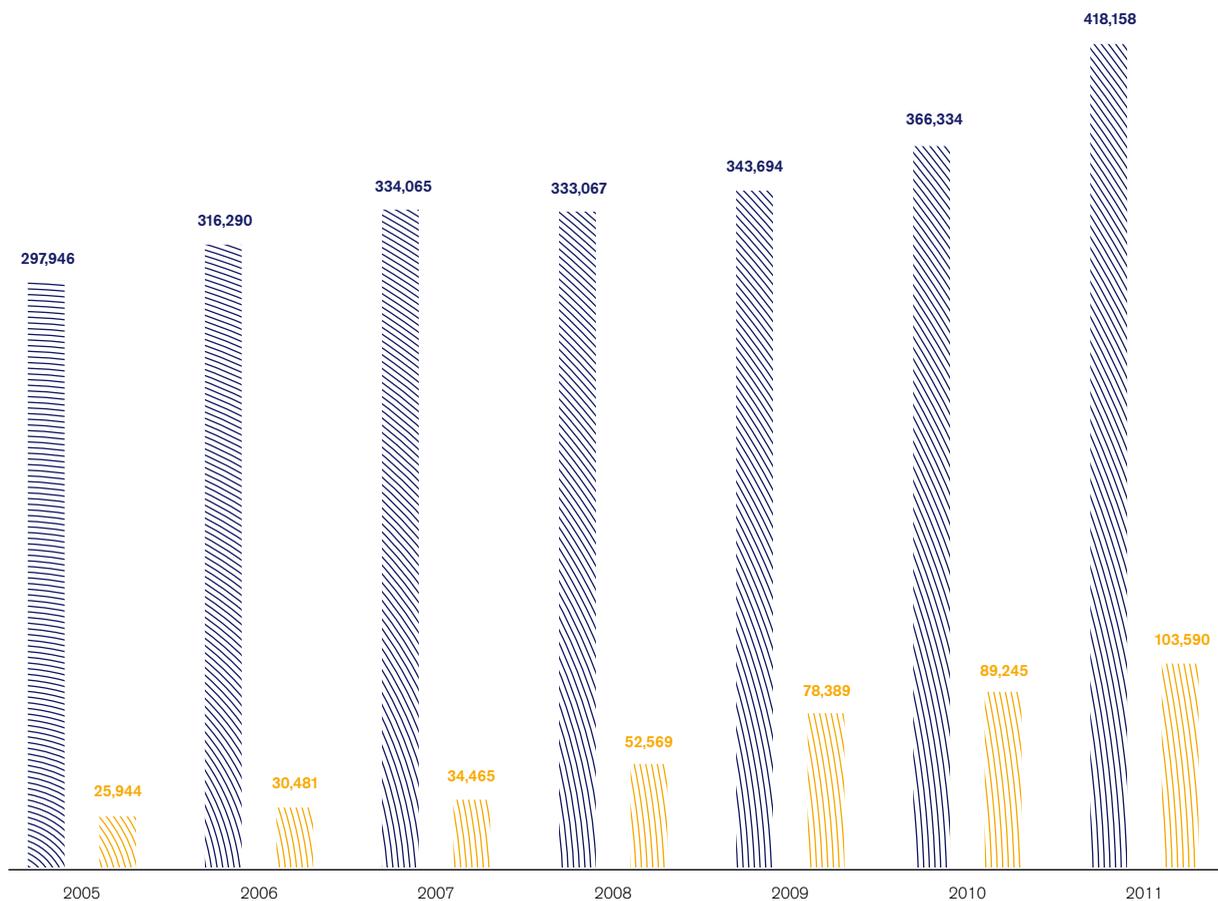
The number of mobile subscriptions as at the end of 2011 totalled 521,748, which is equivalent to a mobile penetration rate of 126.3%, up from 110.3% as at the end of the previous year.

subscriber base is accounted for by an increase of 14,345 postpaid subscriptions and 51,824 prepaid subscriptions.

The mobile sector recorded a 14.5% year-on-year growth in subscriptions. In absolute terms, this growth in the mobile

SUBSCRIPTIONS AS AT END OF PERIOD

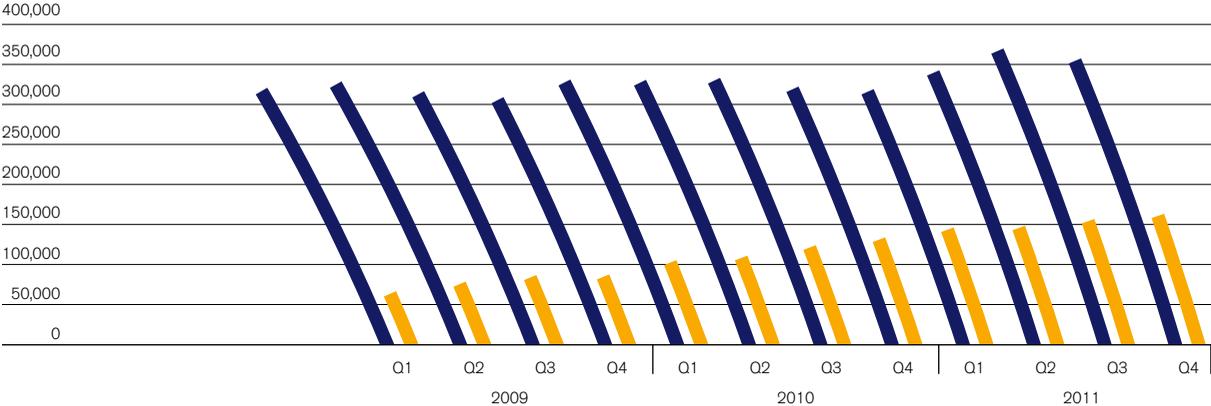
■ PREPAID SUBSCRIPTIONS
■ POSTPAID SUBSCRIPTIONS



As at the end of 2011, approximately 31.1% of all mobile subscriptions were active over a 3G network. The corresponding figure as at the end of 2010 stood at 29.1%.

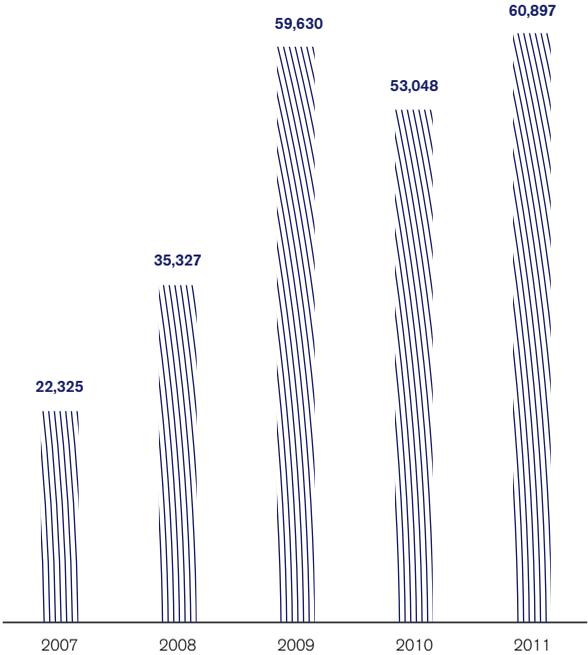
NUMBER OF ACTIVE MOBILE SUBSCRIBERS BY TYPE OF PLATFORM

- 2G SUBSCRIPTIONS
- 3G SUBSCRIPTIONS



The number of mobile portings increased from 53,048 in 2010 to 60,897 in 2011. This indicates that around 11.5% of all active subscribers switched mobile operators at some point in time during 2011.

MOBILE INWARD PORTINGS



MOBILE VOICE CALL AND SMS TRAFFIC VOLUMES

The mobile sector also recorded significant growth in traffic volumes.

In absolute terms, the number of outgoing mobile calls increased from 279.5 million in 2010 to 329.5 million in 2011. This translates into an average of 631 calls per subscriber during 2011.

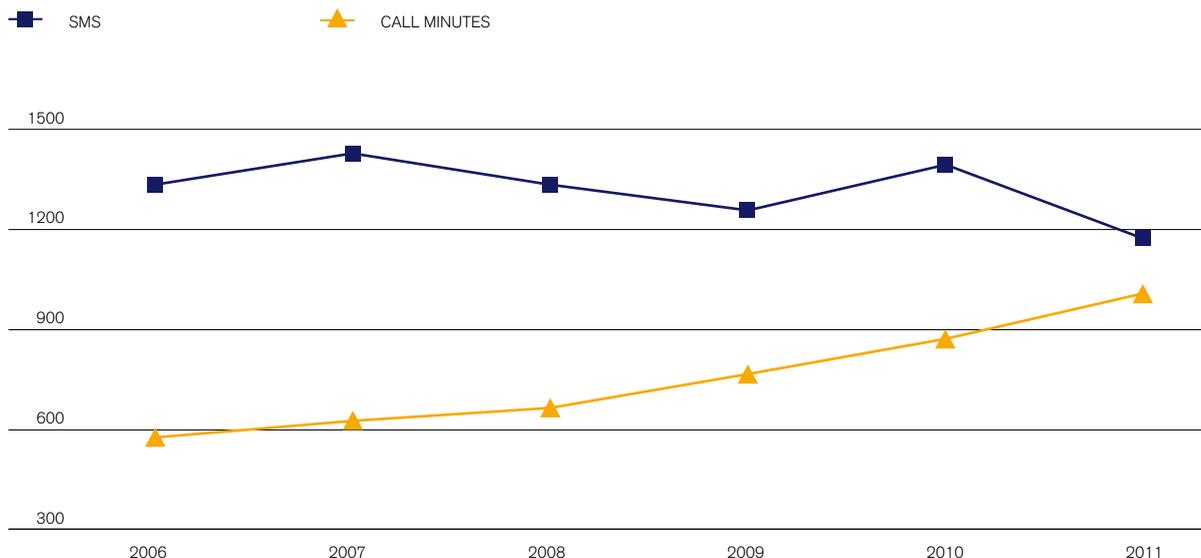
The growth in traffic volumes/activity is accounted for by increases in the number of subscriptions and the amount of calls made per subscription. The number of on-net and off-net Mobile-To-Mobile calls (MTM calls) increased by 35.2 million and 4.9 million respectively. Correspondingly, the number of Mobile-To-Fixed calls (MTF calls) increased by 8.8 million and Mobile-To-International calls (MTI calls) by 1.1 million.

Significant growth was also recorded in terms of outgoing traffic minutes. In absolute terms, outgoing mobile minutes increased by 110.2 million or 28.9%, up from 381.9 million in 2010 to 492.1 million in 2011. This means that on average, every mobile subscriber spent an estimated 943 minutes communicating via a mobile phone during the past year.

64% of this increase is accounted for by gains in terms of on-net MTM traffic. In this regard, the number of outgoing on-net MTM voice call minutes increased by 70.5 million, from 233.5 million in 2010 to 304.1 million in 2011.

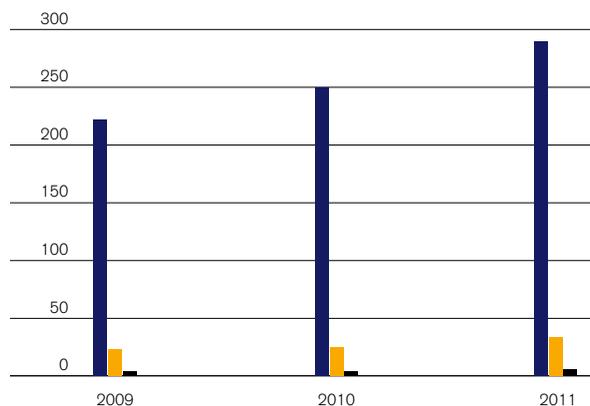
Smaller gains, in absolute terms, were recorded for off-net MTM traffic and MTF traffic, with outgoing voice-call minutes increasing by 12.8 million (12.2%) and by 22.2 million (62%), respectively.

AVERAGE NUMBER OF OUTGOING CALL MINUTES AND SMS PER SUBSCRIBER



OUTGOING VOICE CALL TRAFFIC VOLUMES NUMBER OF CALLS (IN MILLIONS)

■ MTM CALLS ■ MTF CALLS
■ MTI CALLS

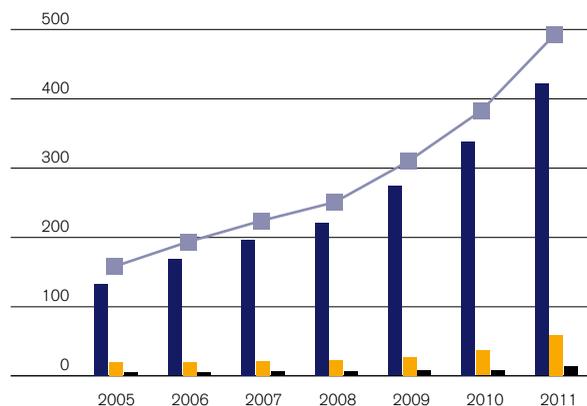


In terms of SMS traffic volumes, the number of outgoing SMSs in 2011 was significantly lower than the number recorded in the previous year. In 2011, the number of outgoing SMSs totalled 573.8 million, down by 6.4% from 612.8 million in 2010.

These figures reflect declines in both on-net and off-net outgoing SMSs. On-net SMS traffic volumes went down by 23.8 million,

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

■ MTM MINUTES ■ MTF MINUTES
■ MTI MINUTES ■ TOTAL



or 6.1%, whilst off-net SMS traffic volumes went down by 8.9 million or 4.5%. Lower volumes were also reported for SMSs sent from internet portals. This trend can be partially explained by more affordable call rates, which in turn translated into significant increases in the mobile traffic generated last year.

INTERNATIONAL ROAMING ACTIVITY

International roaming encompasses any activity registered by mobile subscribers whilst travelling abroad. International roaming activity distinguishes between inbound and outbound roaming activity⁷.

International roaming activity for 2011 was weaker than that recorded in 2010.

The number of inbound roaming minutes went down by 7.4 million, or 19.9%, whilst the number of outbound roaming minutes went down by 0.5 million, or 5.1%.

In terms of SMSs made by local subscribers whilst roaming abroad, traffic volumes also declined by approximately 0.3 million or 2.7%.⁸

⁷ **Outbound roaming activity** refers to calls, SMS and data services operated on foreign mobile networks for local subscribers when roaming abroad. **Inbound roaming activity** refers to calls, SMS and data services operated on local mobile networks for foreign subscribers when roaming in Malta.

⁸ No information is yet available with respect to data roaming activity.

MOBILE MARKET SHARES

In terms of active mobile subscriptions as at the end of 2011, Vodafone (Malta) accounted for the largest market share at 49.8%, up from 47.7% as at the end of 2010. Another year-on-year increase in market share was recorded by Melita Mobile, from approximately 8% in 2010 to 10.7% in 2011.

These gains were reflected in a loss of 4.7% market share for GO Mobile, which occupied 37.4% of the market at the end of 2011.

Other market players did not register significant shifts in market share.

In terms of outgoing mobile voice call minutes, Vodafone's lead over GO Mobile's market share was wider than that observed in terms of subscriptions. In 2011, Vodafone (Malta) accounted for 46.8% of all outgoing mobile traffic recorded throughout the year, whilst GO Mobile accounted for 31.4%, which is also down from around 36% in 2010.

Melita Mobile accounted for a market share of 20.9% (up from 13% in 2010). Other operators' market shares added up to just 1%.

In terms of outgoing SMS traffic, Vodafone (Malta)'s share accounted for 48.1% of all outgoing SMSs recorded in 2011, whilst GO Mobile accounted for 43.6%.

Melita Mobile accounted for a market share of 7.6%. Other operators' market shares were negligible.

OVERALL MARKET SHARES, BY OPERATOR AS AT END OF 2011

| | |
|--------------------|--------|
| ■ VODAFONE (MALTA) | 49.78% |
| ■ GO MOBILE | 37.44% |
| ■ MELITA MOBILE | 10.67% |
| ■ OTHERS | 2.12% |



OVERALL 2011 MARKET SHARES VOICE CALL MINUTES

| | |
|--------------------|--------|
| ■ VODAFONE (MALTA) | 46.80% |
| ■ GO MOBILE | 31.38% |
| ■ MELITA MOBILE | 20.92% |
| ■ OTHERS | 1% |



OVERALL 2011 MARKET SHARES OUTGOING SMS TRAFFIC

| | |
|--------------------|--------|
| ■ VODAFONE (MALTA) | 48.06% |
| ■ GO MOBILE | 43.61% |
| ■ MELITA MOBILE | 7.63% |
| ■ OTHERS | 0.68% |

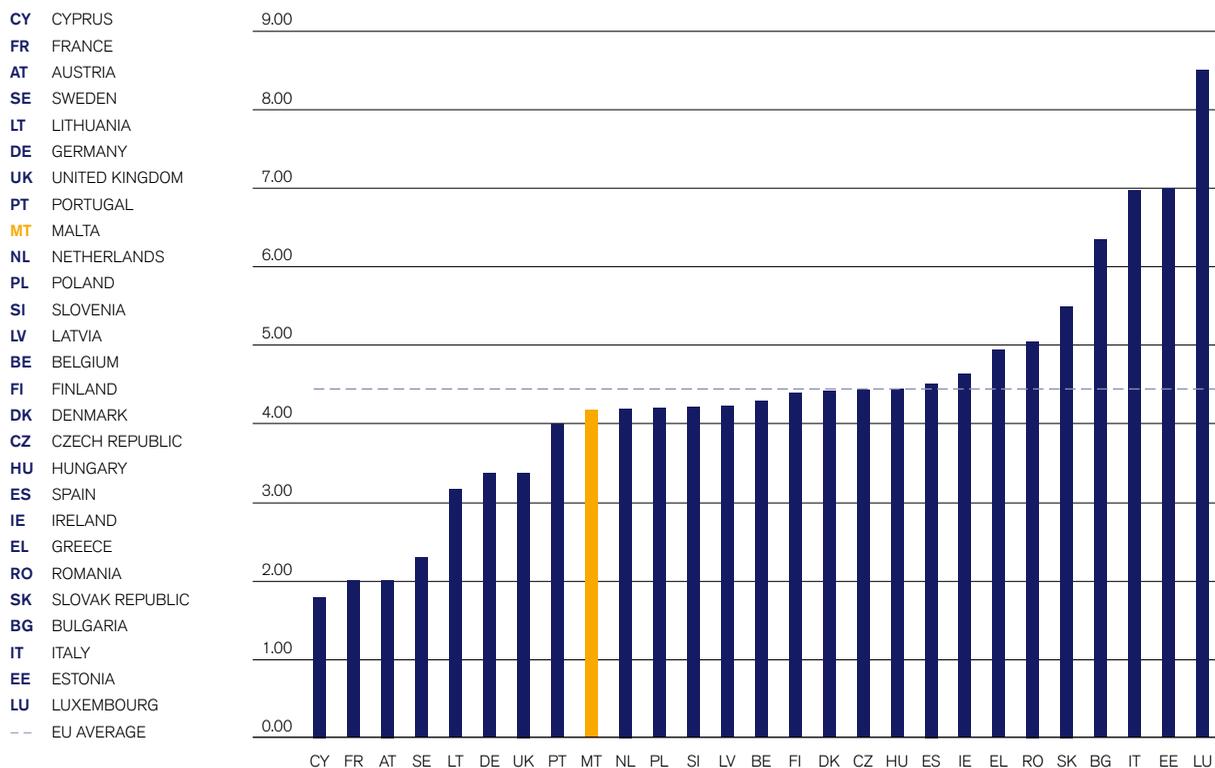


MOBILE TERMINATION RATES (MTRs)

As a result of the MCA's ongoing work related to the revision of local mobile wholesale termination rates (MTRs), such rates have declined consistently since 2005.

A new rate of €0.0418 was enforced as from 1st September 2011, down from an earlier rate of €0.0617⁹. This represents a 32% drop in termination rates, thus bringing the Maltese MTR slightly lower than the EU average of €0.0440.¹⁰

MTRs AS AT JULY 2011 (€CENT)



⁹ Link to MCA Decision document:
http://www.mca.org.mt/sites/default/files/articles/MTR%20Review%202011_%20Response%20to%20Consultation%20and%20Decision.pdf
 The rate reduction was based on the proposed 75th percentile benchmarking methodology.

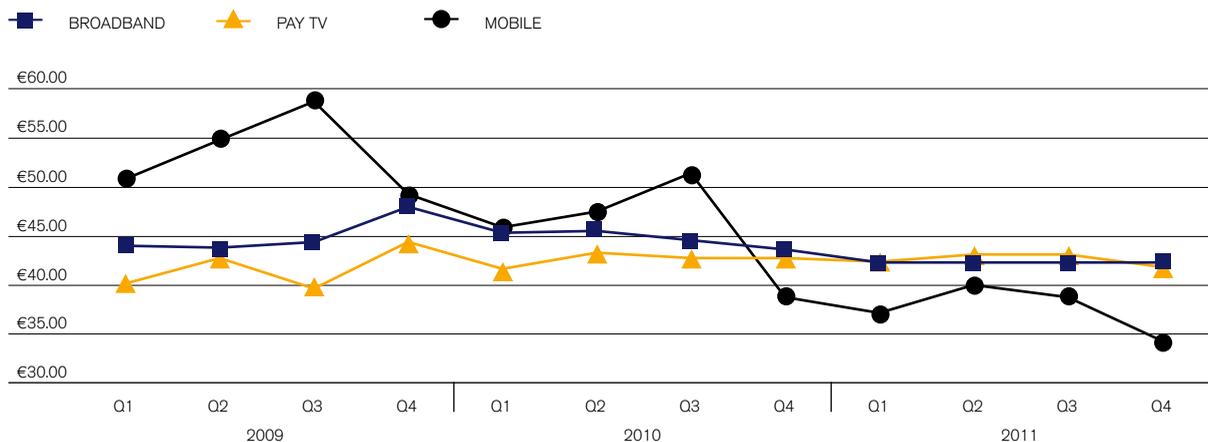
¹⁰ This rate is based on BEREC Snapshot report published in July 2011.

AVERAGE REVENUE PER USER (ARPU)

ARPU figures are computed by dividing the total revenues of service providers (aggregating revenues from voice calls and SMSs; inbound and outbound roaming; and MMS and data) by the average number of active subscribers,¹¹ during a given period.

Mobile ARPU¹² declined from €51.32 in Q4 2010 to approximately €48.75 in Q4 2011. This decline is partially explained by the introduction of cheaper mobile tariffs.

AVERAGE REVENUE PER USER IN EURO (€)



AVERAGE COST PER MINUTE OF MOBILE COMMUNICATIONS

The MCA monitors developments in mobile tariffs through a revenue-based indicator. This is achieved by dividing the total revenues generated by operators against mobile traffic.

This indicator considers domestic voice call and access revenues¹³ per unit of domestic traffic, i.e., per domestic call minute. In Q4 2011, the average cost per minute of mobile communications stood at €0.119, down from €0.136 as at Q4 2010.

Revenue-based market trends have also been derived to track actual movements in SMS tariffs charged by local operators.

MCA workings show that, on average, a subscriber spent €0.024 per local SMS in Q4 2011, down from €0.029 in Q4 2010. The average cost per international SMS stood at €0.132 in Q4 2011, again down from €0.151 as at Q4 2010¹⁴.

With regard to international voice calls, the average cost per minute declined from €0.458 in Q4 2010 to €0.253 in Q4 2011.

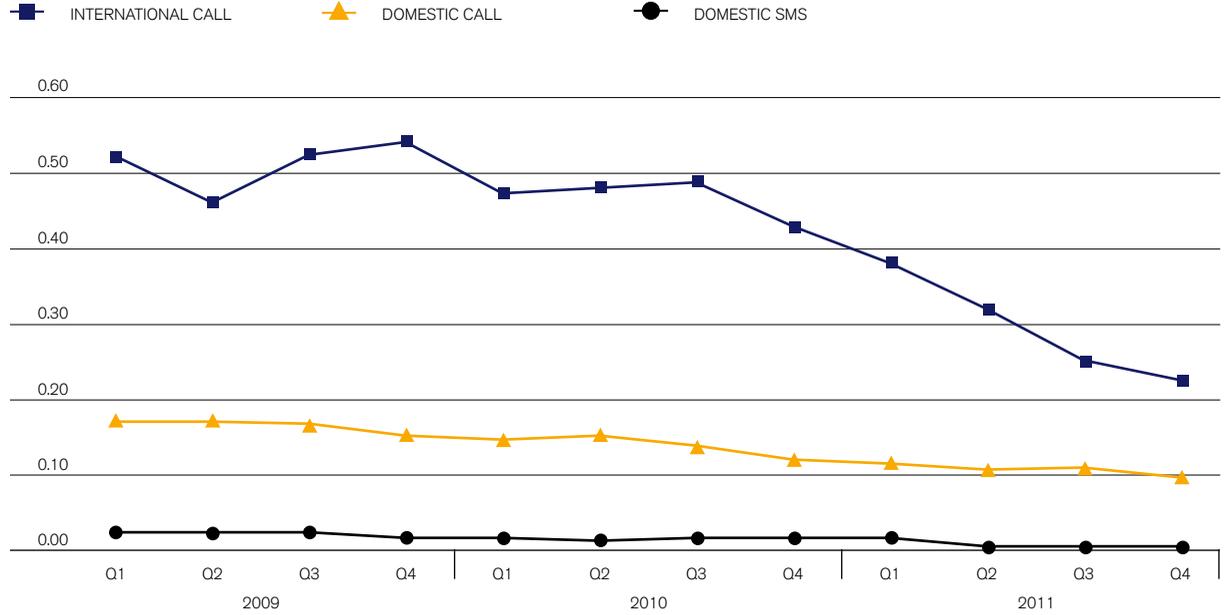
¹¹ The average number of active subscriptions during the respective period is arrived at by adding the number of subscribers at the start of the period plus the number of subscribers at the end of the period, divided by two.

¹² Prepaid and postpaid ARPU figures are currently unavailable.

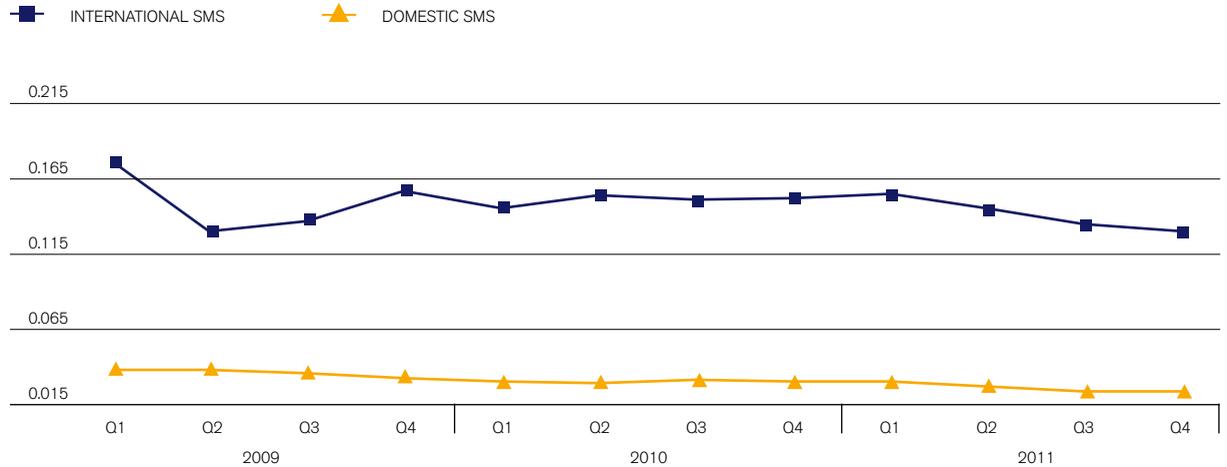
¹³ Exclusive of tax related revenues.

¹⁴ It must be noted that local mobile operators offer free or low flat rate SMSs in bundles, and on weekends, and other schemes, which affect the final outcome for the average SMS rate. Figures have been derived by considering total revenues registered for outgoing SMS traffic (both to local and foreign mobile networks) over the number of outgoing SMSs registered in the respective period. Calculations include premium SMSs and SMSs sent from Internet portals.

**AVERAGE RATE PER MINUTE OF MOBILE COMMUNICATIONS AND AVERAGE RATE PER DOMESTIC SMS (€
BASED ON REVENUES PER CALL MINUTE AND PER SMS (EXCL TAXES)**



**AVERAGE RATE PER DOMESTIC AND INTERNATIONAL SMS (€
BASED ON REVENUES (EXCL VAT) PER SMS**



4. INTERNET AND ECOMMERCE

In 2011, Malta continued to register a strong demand for Internet, with the sector reporting an increase in both the number of fixed broadband subscriptions and mobile broadband subscriptions.

eCommerce activity also improved, with Malta registering a better performance compared to the EU average.

FIXED BROADBAND SUBSCRIPTIONS

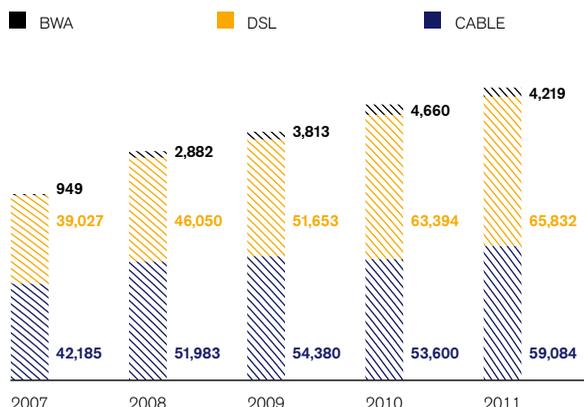
The number of fixed broadband¹⁵ subscriptions as at the end of 2011 totalled 129,135, i.e., an increase of 7,481 subscriptions, or 6.2%, over the end of the previous year.

Around 41% of these subscriptions were bundled with some other electronic communications service.

Around 71% of bundled subscriptions including fixed broadband formed part of a quadruple-play package, typically including a fixed line connection, a mobile connection and a Pay TV package.

It is of note that the significant change in the number of fixed broadband subscriptions on a two-play and quadruple-play offer is attributed to a reclassification of data by Melita.

SUBSCRIPTIONS, BY PLATFORM AS AT END OF PERIOD



| Fixed broadband subscriptions on a bundled offer | 2009 | | | | 2010 | | | | 2011 | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| ...on a two-play offer | 1,165 | 1,100 | 703 | 495 | 861 | 641 | 865 | 1,046 | 7,319 | 7,013 | 7,239 | 8,007 |
| ...on a triple-play offer | 4,973 | 5,477 | 4,446 | 4,448 | 4,757 | 4,723 | 5,083 | 5,934 | 7,589 | 6,798 | 5,872 | 7,127 |
| ...on a quadruple-play offer | 15,369 | 21,002 | 26,706 | 18,338 | 37,812 | 43,044 | 49,657 | 57,135 | 35,361 | 36,346 | 37,422 | 37,734 |
| ...in total on a bundled offer | 21,507 | 27,579 | 31,855 | 23,281 | 43,430 | 48,408 | 55,605 | 64,115 | 50,269 | 50,157 | 50,533 | 52,868 |
| ...as a percentage of total fixed broadband subscriptions | 21.36% | 26.19% | 29.53% | 21.19% | 38.31% | 41.34% | 46.26% | 52.70% | 40.65% | 39.79% | 39.44% | 40.94% |
| Broadband subscriptions as at end of period | 100,697 | 105,310 | 107,870 | 109,843 | 113,375 | 117,089 | 120,192 | 121,654 | 123,663 | 126,041 | 128,134 | 129,135 |

¹⁵ Fixed broadband is a term which refers to several different forms of broadband platforms that are available at one (or more) fixed access point(s) supporting the provision of broadband products/services.

FIXED BROADBAND SPEEDS

Over recent years, the Internet sector has experienced a gradual shift to higher speeds. This shift has been fuelled, both by consumers seeking high-speed broadband to accommodate their increasing data usage requirements, as well as operators upgrading their customers to faster speeds, generally at no additional cost.

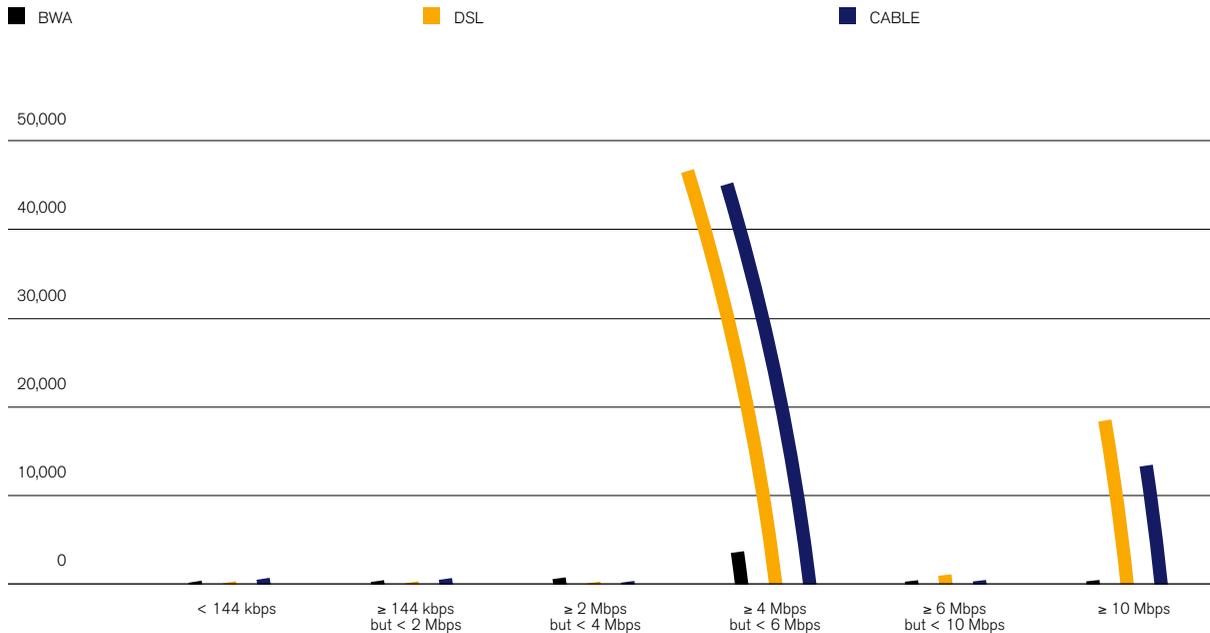
As at the end of 2011, nearly 73.8% of all fixed broadband subscriptions were reported as having a broadband speed greater than or equal to 4Mbps but less than 6Mbps. In absolute terms, the number of subscriptions reported under this category increased from 91,848 as at the end of 2010 to 95,290 subscriptions as at the end of 2011.

Approximately 0.8% of subscriptions, which in absolute terms is equivalent to 996 fixed broadband subscriptions, had a broadband speed greater than or equal to 6Mbps but less than 10Mbps. This figure is significantly lower than that reported as at the end of 2010.

Subscriptions with a broadband speed of 10Mbps or more totalled 31,741. This represents an increase of 17,489 subscriptions in this category over that reported as at the end of 2010.

During 2011, free upgrades to broadband speeds by service providers contributed to this shift to higher broadband speed packages.

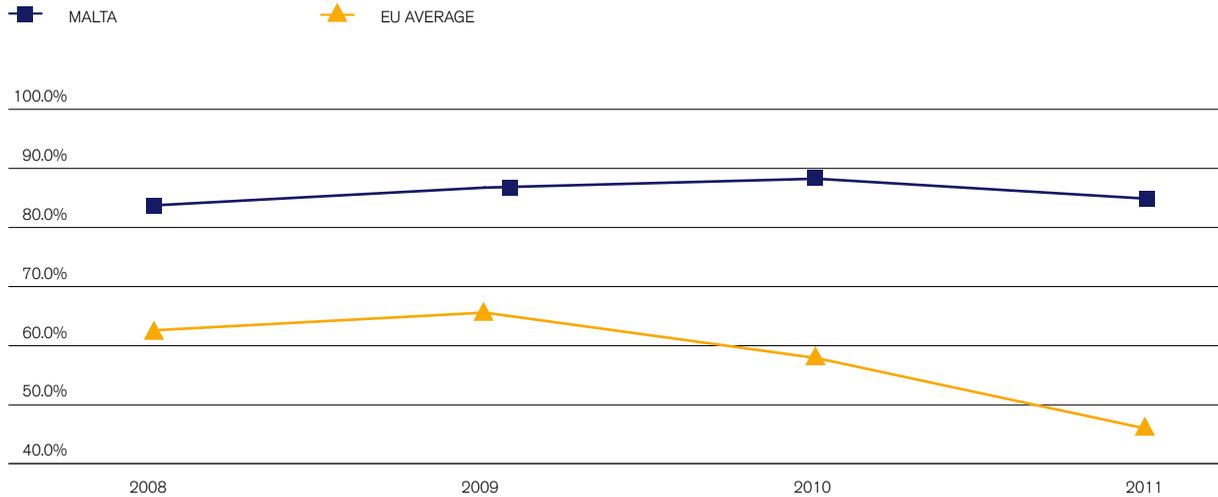
FIXED BROADBAND SUBSCRIPTIONS, BY TECHNOLOGY AND SPEED AS AT END 2011



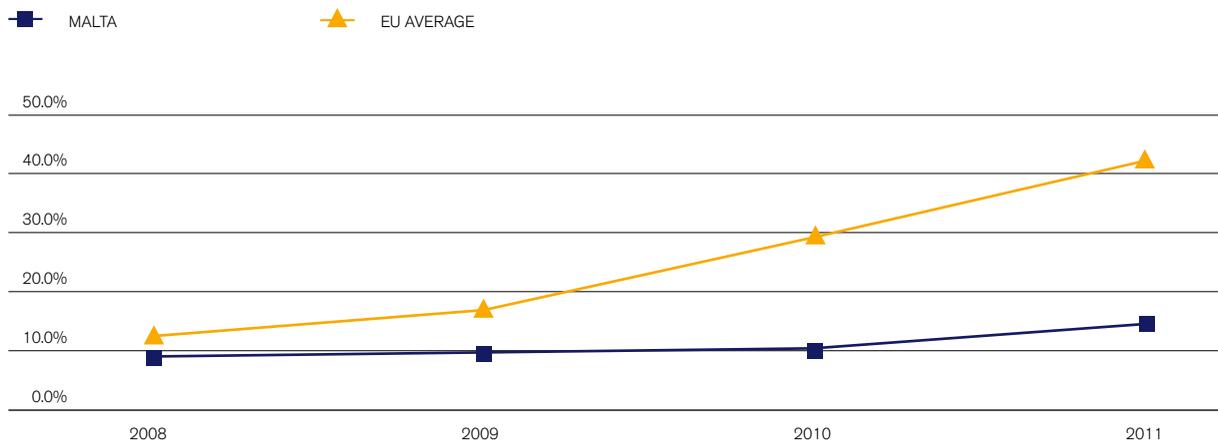
In terms of broadband speeds, the Digital Agenda Scoreboard¹⁶ shows that, in July 2011, nearly 85% of all broadband connections in Malta had a broadband speed equal to or above 2Mbps but less than 10Mbps. The EU average stood at 45.8%.

14.4% of broadband connections in Malta had a broadband speed equal to, or above 10Mbps. The EU average stood at 42.2%.

**FIXED BROADBAND, MARKET SHARES BY SPEED
CONNECTIONS EQUAL TO AND ABOVE 2MBPS AND BELOW 10MBPS**



**FIXED BROADBAND, MARKET SHARES BY SPEED
CONNECTIONS EQUAL TO AND ABOVE 10MBPS**



¹⁶ The Digital Agenda Scoreboard is published by the European Commission and shows the performance of the EU Member States in delivering on the agreed targets of the Digital Agenda for Europe. http://ec.europa.eu/information_society/digital-agenda/scoreboard/index_en.htm

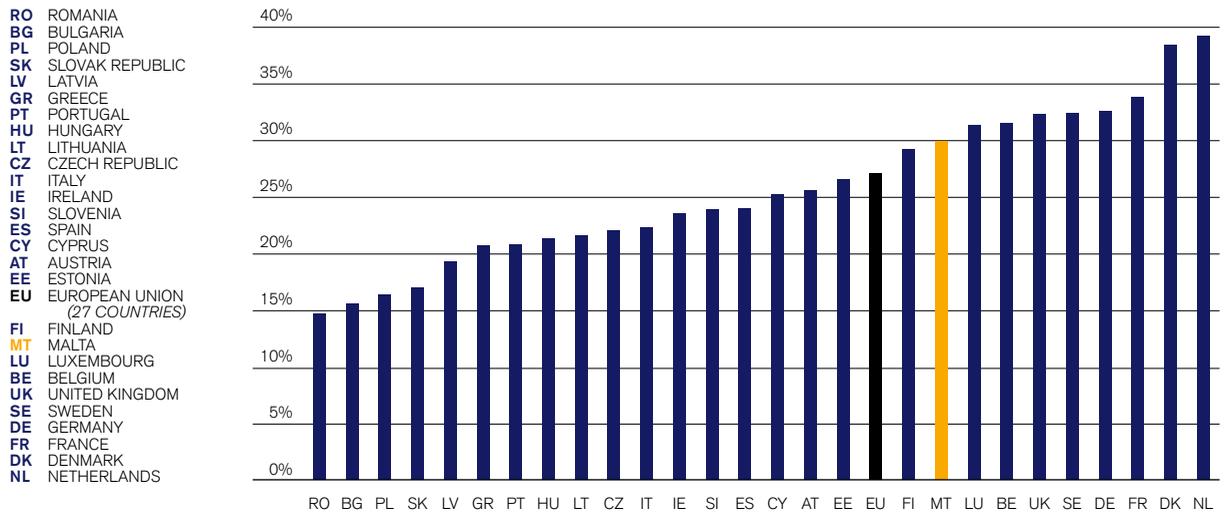
FIXED BROADBAND PENETRATION RATE

In terms of fixed broadband penetration¹⁷, Malta's standing as at 1st July 2011 was better than that reported for the EU average.

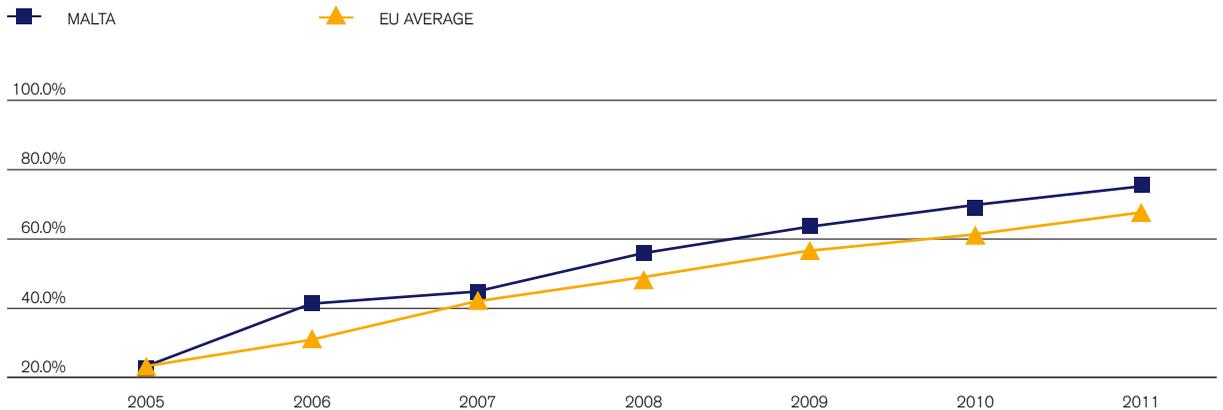
The Digital Agenda Scoreboard quotes a fixed broadband penetration rate of 30% for Malta, compared to an EU average of 27.2%.

Interestingly however, when considering broadband penetration based on number of households, the figure for Malta increases to an approximate 74.9%, which is still above the EU average of 67.3%.

FIXED BROADBAND PENETRATION RATE (1ST JULY 2011)



PERCENTAGE OF HOUSEHOLDS HAVING A BROADBAND CONNECTION



¹⁷ Fixed broadband penetration refers to the number of fixed broadband subscriptions (lines) per 100 people. Source: Digital Agenda Scoreboard, 2011

MOBILE BROADBAND SUBSCRIPTIONS

Annual growth in mobile broadband¹⁸ has been encouraging year-on-year up to July 2011. In terms of availability, the number of Subscriber Identity Module (SIM)/Universal Subscriber Identity Module (USIM) cards, which work under 3G equivalent or higher standards to enable access to data services in mobile networks, went up by 23.4% between July 2010 and July 2011.

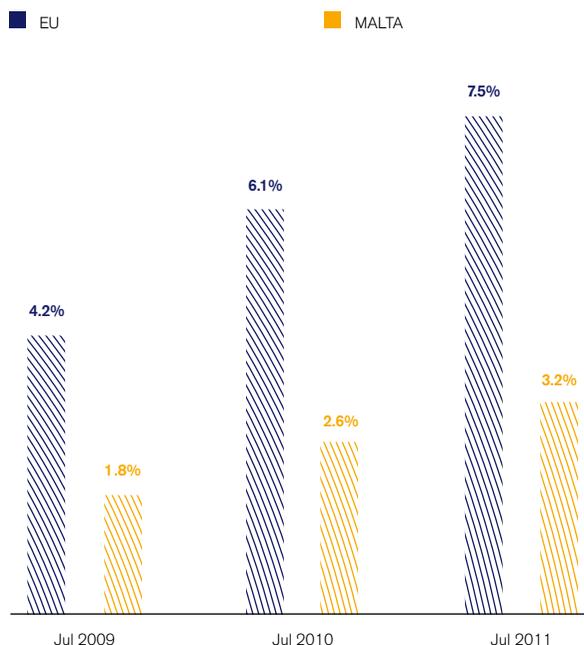
In terms of actual usage, mobile broadband access was stronger in July 2011 compared to activity reported a year earlier. In this regard, the number of subscriptions, which recorded mobile broadband activity in the previous 90 days, increased from 59,885 in July 2010 to 72,386 in July 2011.

The number of dedicated data service connections purchased on a standalone basis via modems or dongles/keys, which accessed high speed advanced data services in the previous 90 days, totalled 10,250.

Notwithstanding these positive developments, mobile broadband penetration rate¹⁹ for Malta as at July 2011 stood at 3.2% compared to an EU average of 7.5%.

MOBILE BROADBAND PENETRATION RATE DEDICATED CONNECTIONS

Source: COCOM



¹⁸ Mobile broadband is a term which refers to those forms of broadband platforms making use of technologies which are portable from one location to another at the discretion of their user. Developments for mobile broadband in Malta are captured by reference to data submitted by local operators for publication by the Communications Committee (COCOM).

¹⁹ The mobile broadband penetration rate refers to active users of dedicated data service cards/modems/keys per 100 people. Source: Digital Agenda Scoreboard, 2011

FIXED BROADBAND MARKET SHARES

This section provides an overview of market shares for fixed broadband by type of technology platform and by operator.

BY PLATFORM

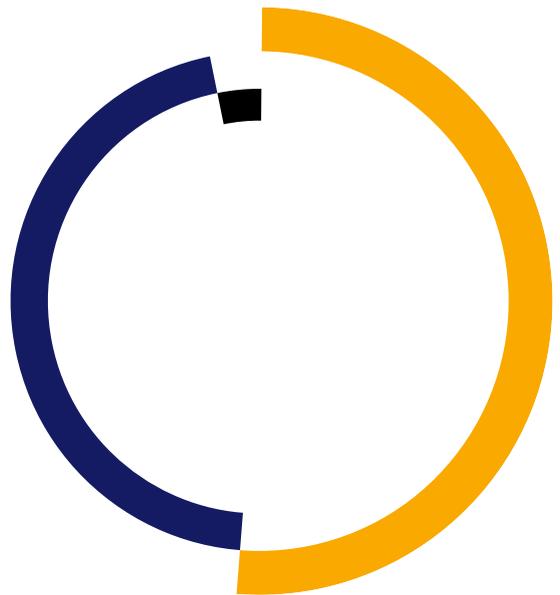
The number of fixed broadband subscriptions as at the end of 2011 totalled 129,135. This figure encompasses 65,832 Digital Subscriber Line (DSL) subscriptions, 59,084 cable modem subscriptions and 4,219 Broadband Wireless Access (BWA) subscriptions.

The DSL platform therefore accounted for nearly 51% of the fixed broadband subscriber base as at the end of 2011, down by around 1% over the corresponding period a year earlier. The cable platform accounted for 45.8% whilst the BWA platform accounted for the remaining 3.3%. The cable platform gained 1.7% over its market share at the end of 2010, whilst the BWA platform lost 0.6%.

These figures contrast with the EU average figures where, as at July 2011, nearly 77% of all fixed broadband connections in the EU used DSL technology. This discrepancy is mainly a result of the nationwide presence of cable technology in the Maltese Islands and the presence of other broadband technologies (including BWA).

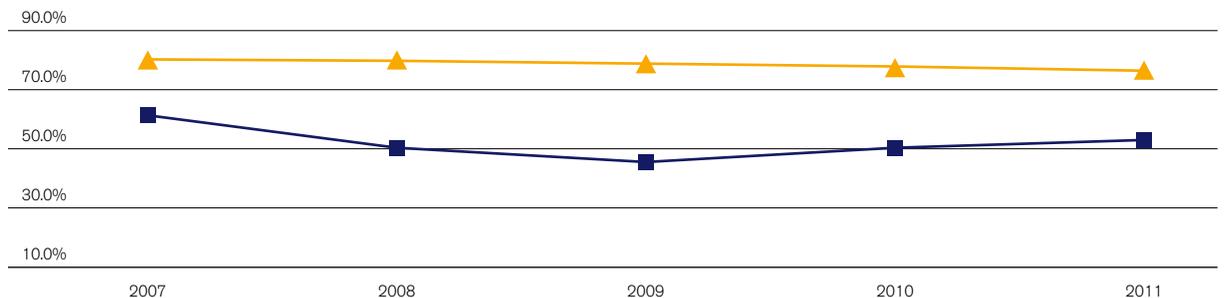
MARKET SHARE, BY PLATFORM AS AT END OF PERIOD

■ DSL 50.98% ■ CABLE 45.75% ■ BWA 3.27%



DSL LINES SHARE IN FIXED BROADBAND

■ MALTA ▲ EU



BY OPERATOR

Market share developments are also assessed on the basis of distribution by operator.

As at the end of 2011, GO reported 65,720 fixed broadband subscriptions, up by 2,786 subscriptions over the same period a year earlier. As at the end of 2011, GO accounted for 50.9% of the local fixed broadband subscriber base, down from 51.7% as at the end of 2010.

This drop in market share by GO was primarily gained by Melita, which closed the year with 59,084 fixed broadband subscriptions, corresponding to a market share of 45.8% of the local subscriber base.

Vodafone accounted for a further 3,683 subscriptions, translating into a 2.9% market share. The market shares of the remaining service providers were all below 1%.

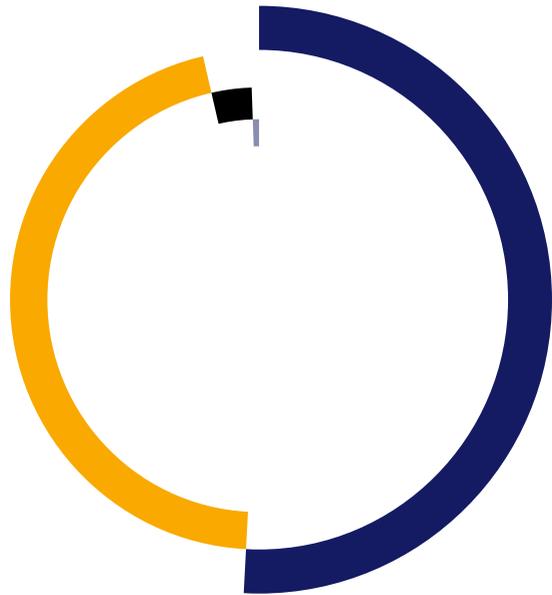
Latest available figures on the Digital Agenda Scoreboard suggest that, in terms of the percentage of households and enterprises with a broadband connection, Malta's performance is above the EU average.

In July 2011, 74.9% of all households in Malta (with at least one member aged 16 to 74) had a broadband connection, compared to an EU average of 67.3%.

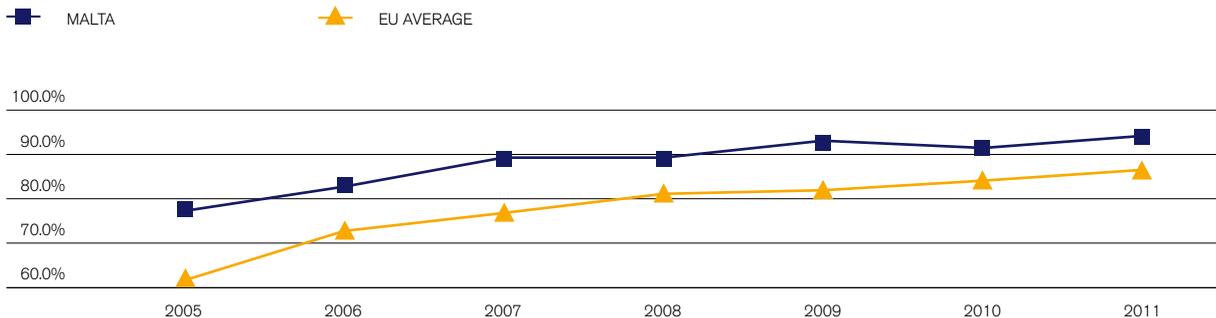
With respect to enterprises²⁰ in Malta having a broadband connection, Malta reported that 94.1% of enterprises employing at least 10 persons had such a connection, compared to an EU average of 86.5%.

OVERALL MARKET SHARES, BY OPERATOR AS AT END 2011

| | | | |
|------------------|-------|--------|-------|
| GO | 50.9% | MELITA | 45.8% |
| VODAFONE (MALTA) | 2.9% | OTHER | 0.5% |



PERCENTAGE OF ENTERPRISES HAVING A BROADBAND CONNECTION ENTERPRISES WITH AT LEAST 10 PERSONS EMPLOYED



²⁰ Enterprises with at least 10 persons employed in the given NACE sectors.

PRICING OF FIXED BROADBAND INTERNET

The MCA also considers the average price of broadband per unit of download speed (Mbps) as a proxy measure of how pricing for fixed broadband is developing over time. Workings are undertaken on the basis of an evaluation of the price of a broadband product, as marketed by the service provider, against the advertised download speed.

The assessment identifies two types of fixed broadband products, those having a specified (or fixed) download limit and others for which no download limit is set.

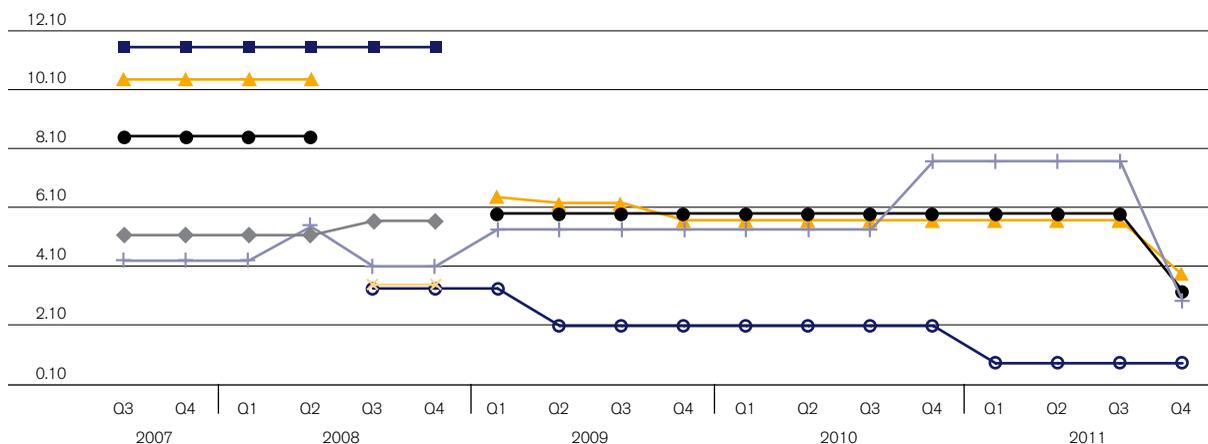
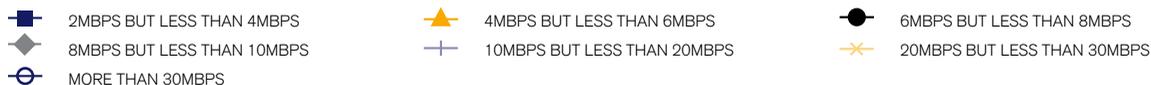
Different categories of broadband products are set according to advertised download speeds.

At the end of 2011, no broadband products were marketed with a download speed up to 4Mbps, or between 8Mbps and 10Mbps. Both these categories were therefore inactive.

With respect to the category encompassing broadband products with a download speed equal to or greater than 4Mbps but less than 6Mbps, the average monthly charge per Mbps for products marketed with a download limit was marginally higher, up from €3.23 in Q4 2010 to €3.46 in Q4 2011²¹. However prices per Mbps for products marketed with unlimited download, went down from €5.70 in Q4 2010 to €3.88 in Q4 2011.

With respect to the category encompassing broadband products with a download speed equal to or greater than 6Mbps but less than 8Mbps, the average price per Mbps went down from €5.90 in Q4 2010 to €3.33 in Q4 2011. All products in this category are marketed with unlimited download.

AVERAGE PRICE PER MBPS (€) FOR PRODUCTS WITH AN UNLIMITED DOWNLOAD



²¹ This happened as a result of Melita no longer marketing its 5Mbps product on the market.

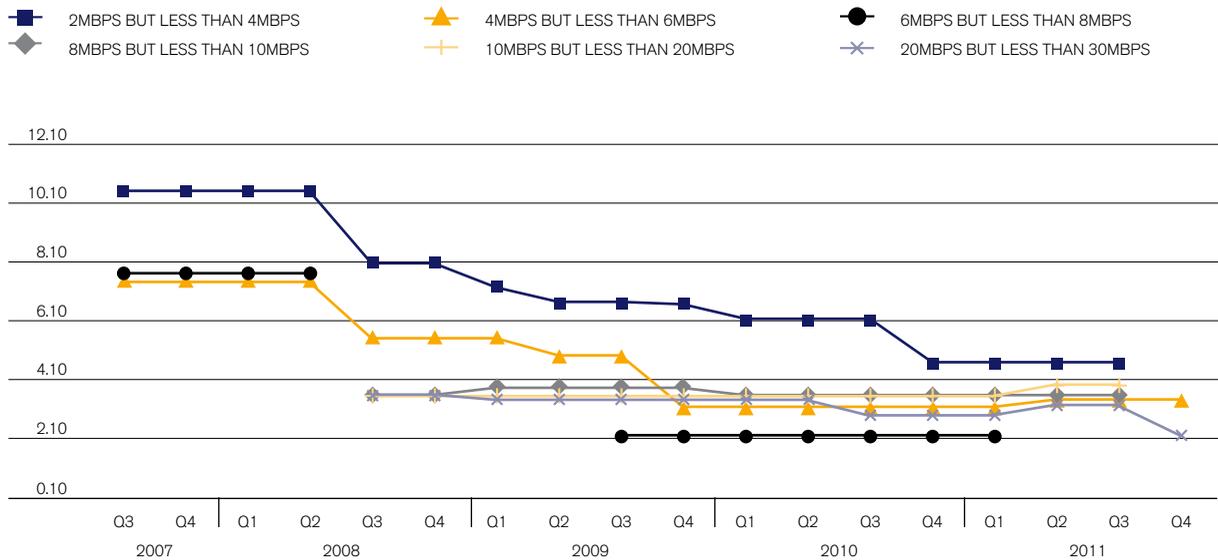
With regard to the category encompassing broadband products with a download speed equal to or greater than 10Mbps but less than 20Mbps, a lower average price per Mbps was observed for products marketed with unlimited download, from €7.67 in Q4 2010 to €3.00 in Q4 2011.

A decline in the average price per Mbps was also reported for those broadband products marketed with a specified download limit that feature under the category encompassing a product range with a broadband speed equal to or greater than 20Mbps

but less than 30Mbps. The average price per Mbps went down from €2.94 in Q4 2010 to €2.24 in Q4 2011.

The last category under consideration encompasses broadband products with a speed of 30Mbps or more. Only products with unlimited download feature under this category. In this regard, the average price per Mbps went down significantly from €2.00 in Q4 2010 to €0.86 in Q4 2011.

AVERAGE PRICE PER MBPS (€) FOR PRODUCTS WITH A SPECIFIED DOWNLOAD LIMIT



FIXED BROADBAND ARPU

Fixed broadband ARPU is an indicator evaluating operators' revenues per fixed broadband subscription.

The calculation of ARPU for fixed broadband²² reflects the average quarterly spend by users for broadband services.

As expected, in light of the drops in tariffs witnessed during 2011, fixed broadband ARPU as at Q4 2011 was estimated at €42.39, down from €43.56 in Q4 2010. Chart outlining fixed broadband ARPU is available on page 22.

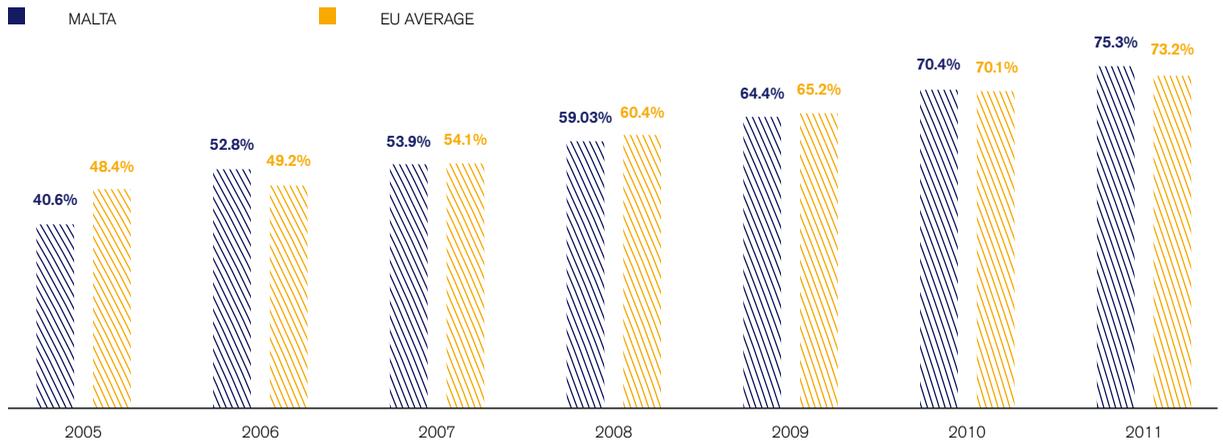
²² Fixed broadband ARPU is calculated as the total retail revenues for broadband subscriptions divided by the average of the total number of broadband subscriptions within a quarter. The revenue element is composed of the total retail revenues from subscriptions to broadband services, excluding revenues from installations and connections. The average total number of subscriptions is calculated by taking the sum of the total subscriptions at the start and the end of the quarter divided by two.

ECOMMERCE ACTIVITY

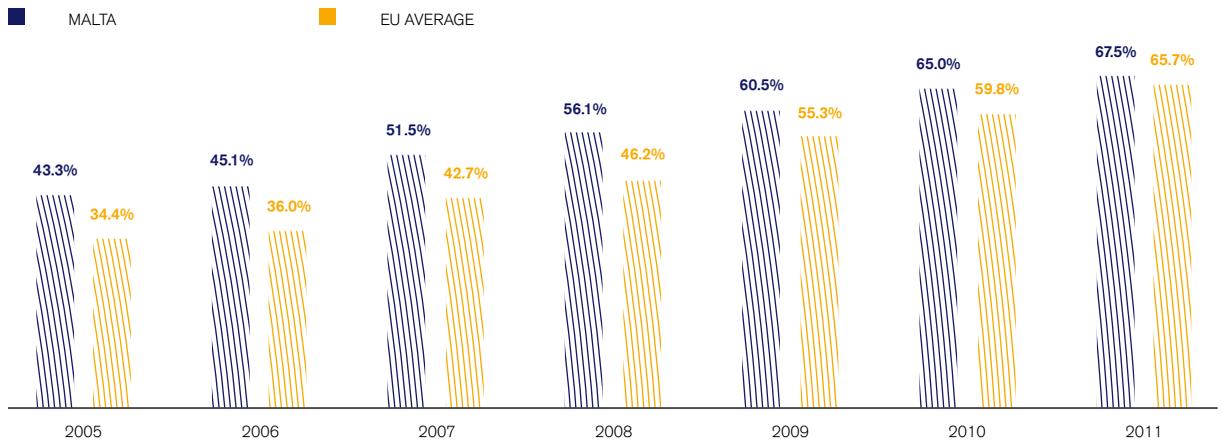
The MCA carries out regular surveys to obtain an indication of eCommerce activity in Malta²³. Survey results show that

eCommerce activity has steadily improved, especially as more people make regular use of the Internet.

HOUSEHOLDS WITH ACCESS TO INTERNET AT HOME PERCENTAGE OF INDIVIDUALS AGED 16 TO 74



% OF POPULATION WHO ARE REGULAR INTERNET USERS (AT LEAST ONCE A WEEK) INDIVIDUALS AGED 16 TO 74 USING THE INTERNET AT LEAST ONCE A WEEK OVER THE LAST THREE MONTHS



²³ The last survey was carried out in September 2010.

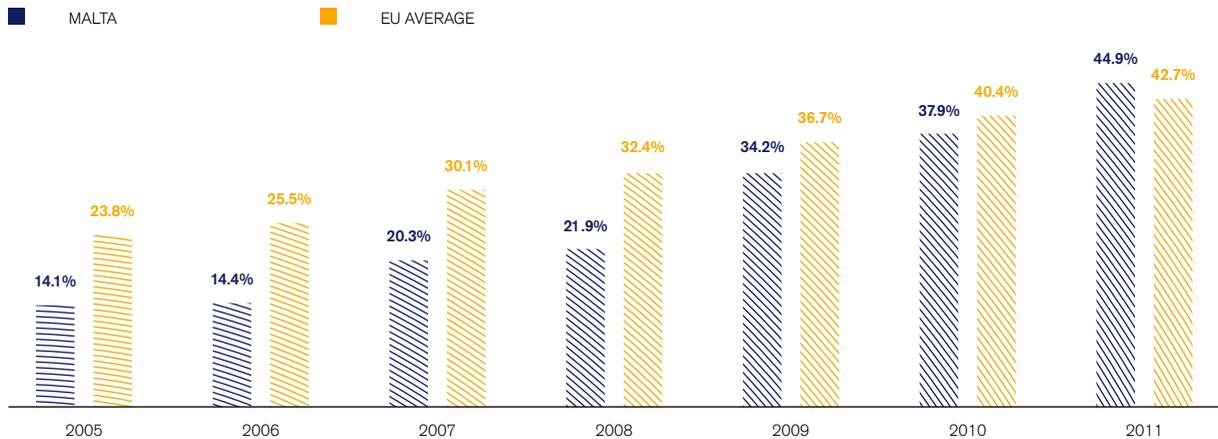
The increase in the number of Maltese making online purchases is confirmed by figures published by Eurostat. In fact, Eurostat reports that around 38% of individuals (aged between 16 and 74 years) living in Malta in 2010 have ordered goods and services over the Internet. This figure increased to approximately 45% in 2011. For the first time, this figure has surpassed the EU average of 42.7%.

A good part of eCommerce activity in Malta is registered with sellers from other EU countries. This is re-confirmed by Eurostat,

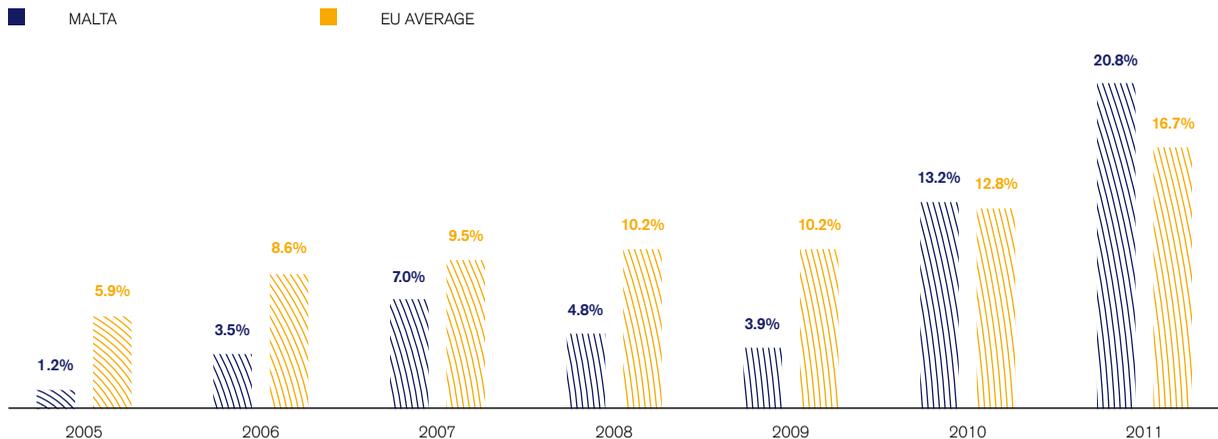
which reports that Maltese are more prone to ordering goods and services online from other EU countries, when compared to other EU citizens. In this regard, Malta's rate in 2011 stood at 37.8% compared to an EU average of 9.6%.

The number of Maltese selling goods or services online is also on the increase. Eurostat reports that the number increased from 3.9% in 2009 (compared to an EU average of 10.2%) to 20.8% in 2011, which is above the EU average of 16.7%.

INDIVIDUALS USING THE INTERNET FOR ORDERING GOODS AND SERVICES ONLINE
PERCENTAGE OF INDIVIDUALS AGED 16 TO 74



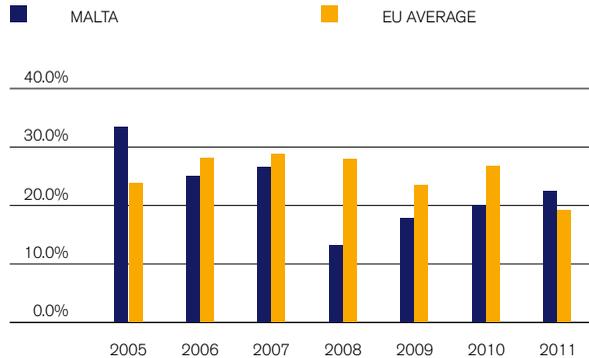
INDIVIDUALS USING THE INTERNET FOR SELLING GOODS AND SERVICES ONLINE
PERCENTAGE OF INDIVIDUALS AGED 16 TO 74



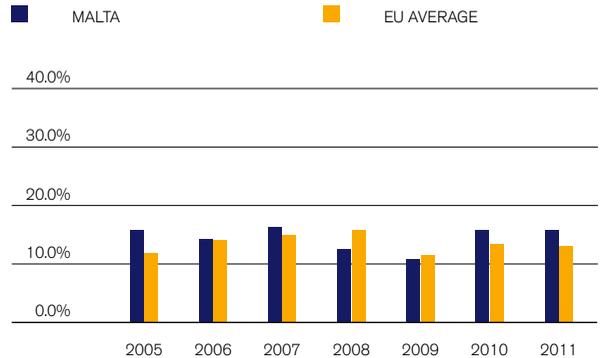
Malta's performance has also improved in terms of enterprises (employing 10 or more persons) purchasing and selling goods and services online. In both instances, Malta's performance benchmarks above the EU average. In 2011, the percentage of

Maltese enterprises purchasing and selling online stood at 22.4% and 15.8% respectively. The corresponding EU rates stood at 19.1% and 13% respectively.

% OF ENTERPRISES USING ANY COMPUTER NETWORK FOR PURCHASES



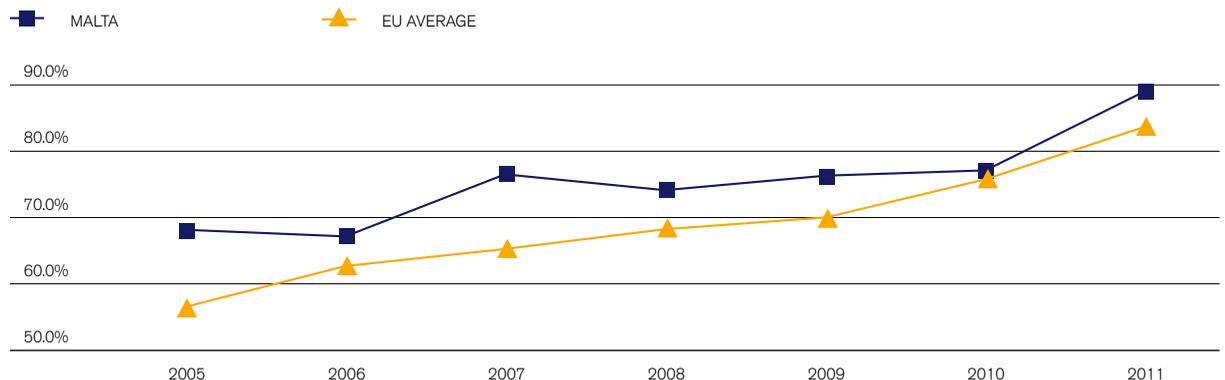
% OF ENTERPRISES USING ANY COMPUTER NETWORK FOR SELLING



Eurostat also reports that the percentage of the Maltese population interacting online with public authorities has been increasing over the last few years, especially in view of more eGovernment services being made available to citizens. Malta can be regarded as one of the front runners in providing eGovernment services, as all basic public services for citizens and enterprises are now available online.

However, the percentage of Maltese population making use of eGovernment services in 2011 stood at 37.3%, below the EU average of 41%. Malta's performance outperforms the EU average when taking into consideration the percentage of local enterprises making use of eGovernment services. In 2011, Malta's figure stood at 89.2%, compared to an EU average of 83.8%.

% OF ENTERPRISES INTERACTING ONLINE WITH PUBLIC AUTHORITIES (LAST 12 MONTHS) ENTERPRISES EMPLOYING 10 OR MORE EMPLOYEES



5. PAY TV

The Pay TV sector continued its positive trend in 2011 as subscriptions to Pay TV packages went up further. This increase in Pay TV subscriptions is attributed to an increase of 7,486 digital Pay TV subscriptions, which outweighed a decline of 2,785 analogue Pay TV subscriptions during the same period.

PAY TV SUBSCRIPTIONS

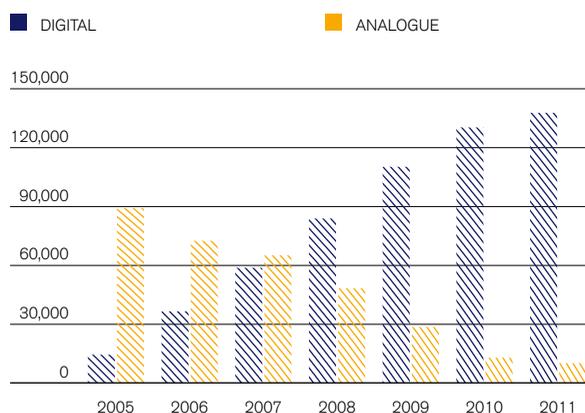
A further look at developments in terms of Pay TV subscriptions would show that the number of analogue Pay TV subscriptions²⁴ declined from 12,941 as at the end of 2010 to 10,156 as at the end of 2011. As a result, analogue Pay TV subscriptions accounted for only 6.8% of the Pay TV subscriber base as at the end of 2011.

This decline was offset by a corresponding increase in the number of digital Pay TV subscriptions, which went up by 7,486 to reach 138,298 as at the end of 2011.

As at the end of 2011, 44.2% of all digital Pay TV subscriptions were bundled with some other electronic communications service.

More than half (around 62%) of all bundled Pay TV subscriptions were on a quadruple-play offer. It is important to note that the significant shifts in subscriptions on a two, triple and quadruple-play offer between Q4 2010 and Q1 2011 is the result of a re-classification of data by Melita.

SUBSCRIPTIONS AS AT END OF PERIOD



| Digital Pay TV subscriptions on a bundled offer | 2009 | | | | 2010 | | | | 2011 | | | |
|---|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| ...on a two-play offer | 14,546 | 14,656 | 17,827 | 15,065 | 14,258 | 11,307 | 11,578 | 10,207 | 16,951 | 17,502 | 17,875 | 16,545 |
| ...on a triple-play offer | 2,444 | 2,150 | 943 | 478 | 402 | 279 | 128 | 45 | 7,105 | 6,365 | 5,504 | 6,823 |
| ...on a quadruple-play offer | 15,369 | 21,002 | 26,706 | 18,338 | 37,812 | 43,044 | 49,657 | 57,135 | 35,361 | 36,346 | 37,422 | 37,734 |
| ...in total on a bundled offer | 32,359 | 37,808 | 45,476 | 33,881 | 52,472 | 54,630 | 61,363 | 67,387 | 59,417 | 60,213 | 60,801 | 61,102 |
| as a percentage of total digital Pay TV subscriptions | 37.89% | 40.04% | 43.51% | 30.62% | 44.86% | 44.07% | 47.84% | 51.51% | 44.67% | 44.27% | 44.20% | 44.18% |
| Digital Pay TV subscriptions as at end of period | 85,404 | 94,431 | 104,510 | 110,659 | 116,979 | 123,960 | 128,254 | 130,812 | 133,022 | 136,014 | 137,561 | 138,298 |

²⁴ All analogue Pay TV connections are related to Melita subscriptions, which is currently phasing out this Pay TV platform so that existent connections are switched to digital.

PAY TV MARKET SHARE OUTCOMES

As at the end of 2011, Melita accounted for 50.4% of the local Pay TV subscriber base (including both analogue and digital subscriptions), whilst GO accounted for the remaining share at 49.6%.

OVERALL MARKET PAY TV SUBSCRIPTIONS

In absolute terms, GO's digital terrestrial (or DTTV) subscriptions amounted to 73,631 whilst Melita subscriptions (including analogue) totalled 74,823.

DIGITAL PAY TV SUBSCRIPTIONS

In terms of market share distribution of the local digital Pay TV subscriber base, as at the end of 2011, GO accounted for 53.2% and Melita accounted for 46.8% of the total.

2011 MARKET SHARES, BY OPERATOR/PLATFORM IN TERMS OF ALL PAY TV SUBSCRIPTIONS

| | |
|---------------------------|--------|
| ■ GO - DTTV | 49.60% |
| ■ MELITA - DIGITAL CABLE | 43.56% |
| ■ MELITA - ANALOGUE CABLE | 6.84% |



2011 MARKET SHARES, BY OPERATOR IN TERMS OF ALL DIGITAL PAY TV SUBSCRIPTIONS

| | |
|--------------------------|--------|
| ■ GO - DTTV | 53.24% |
| ■ MELITA - DIGITAL CABLE | 46.76% |



PAY TV PACKAGE RATES

Rates for Pay TV packages²⁵ are generally structured according to the number of channels featuring under each respective package.

In this regard, five Pay TV categories have been identified.

In Q4 2011, the average tariff for Pay TV packages listing not more than 24 channels stood at €3.99. This reflects the rate²⁶ charged by GO for its long-standing Free+ digital package, rebranded Bronze, which was the only product featured under this category.

Under the '25 to 49 channel' category, Melita marketed its Medium Pay TV package, listing 38 channels at the price of €7.76.

On the other hand, GO rebranded its Silver+ Pay TV package to Silver, which lists 43 channels at €14.99²⁷.

Overall, no price movements were reported for the '25 to 49 channel' category over the 12-month period ending 2011.

On the other hand, the average market rate for the category including Pay TV packages listing 50 to 74 channels went down slightly, from €24.99 to €21.99.

Only GO featured under this Pay TV category, as it marketed the Gold package (instead of the Gold+ package) and the Silver Interactive TV package. The Gold Package listed 58 channels whilst the Silver Interactive Package listed 73 channels.

For the purposes of assessing price movements for this category, the additional fee of €4.99, associated with access to 8 High Definition (HD) channels in the Silver Interactive Package line up, is not included in the calculations. This fee will however be taken into consideration when assessing price movements for the '75 to 99 channels' category. This is because, upon paying this fee, a customer of GO's Silver Interactive Package would get 81 channels instead of 73.

Melita has been active in the '75 to 99 channels' and the '100 channels or more' categories for a number of years. Competition in this category intensified as from Q4 2011, when GO started marketing the Silver Interactive and Gold Interactive Packages.

Regarding the '75 to 99 channels' category, the average market rate went up from €19.99 in Q4 2010 to €25.32 in Q4 2011. This is because GO's two new packages featuring under this category pushed the average market rate upwards. As with the Silver Interactive Package, the additional fee of €4.99, associated with access to 13 HD channels in the Gold Interactive Package, is not included in the calculations, but is accounted for in the assessment of price movements for the '100 or more channels' category as the payment of this fee entitles the subscriber to 112 channels instead of 99.

During 2011, Melita advertised its Large Pay TV package listing 83 channels (up from 80 channels in Q4 2010) at the rate of €19.99 per month (same as in Q4 2010).

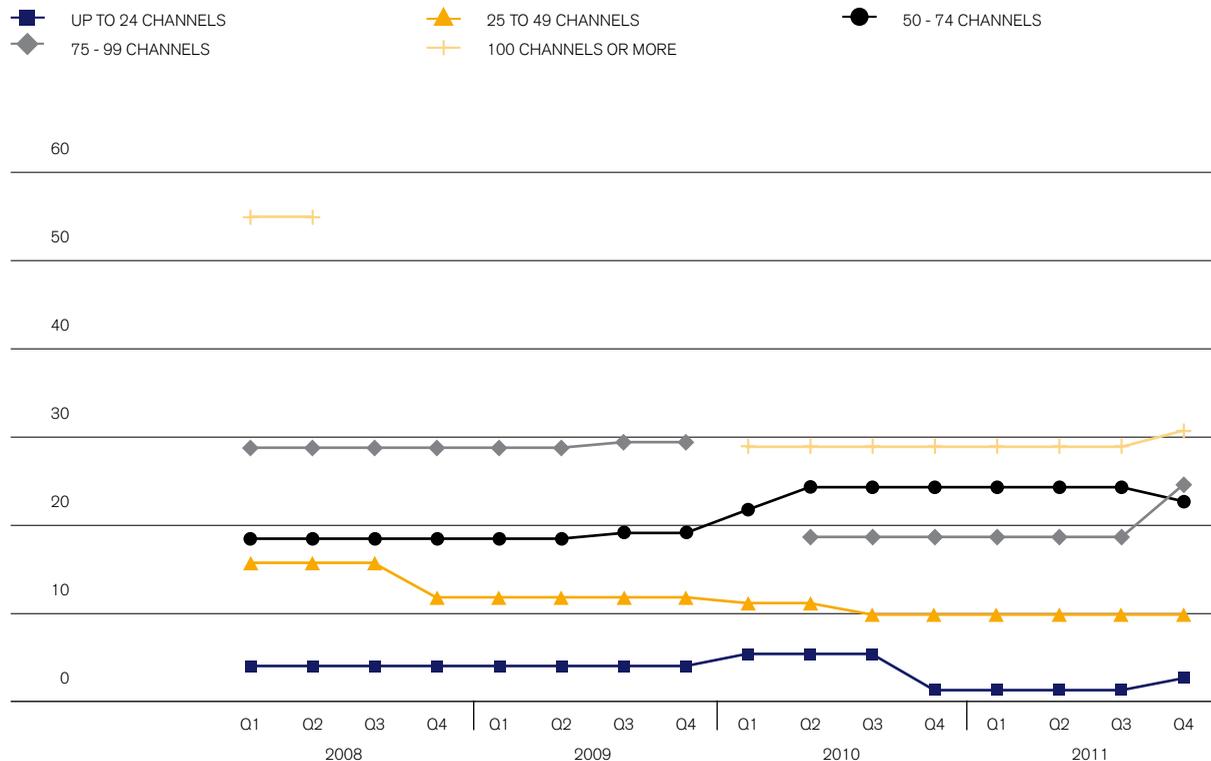
As from Q4 2011, the '100 channels or more' category featured Melita's Extra Large Package listing 155 channels (up from 150 channels in Q4 2010) at an advertised rate of €29.99 (same as in Q4 2010), and GO's Gold Interactive Package, listing 112 channels at an advertised rate of €33.98. The overall average tariff rate for this Pay TV category has also been pushed up from €29.99 in Q4 2010 to €31.99 in Q4 2011.

²⁵ All rates featured are inclusive of VAT.

²⁶ Rate includes access charge.

²⁷ Tariff is inclusive of network access fee. This package was available at €13.98 in 2009. However, the rate was increased to €14.99 as from Q1 2010.

**AVERAGE MARKET RATES FOR PAY TV PACKAGES (€)
WORKINGS BASED ON ADVERTISED RATES**



PAY TV ARPU

Pay TV ARPU is an indicator evaluating operators' revenue submissions per Pay TV subscription.

The calculation of ARPU for Pay TV services reflects the average quarterly spend by users for Pay TV services²⁸.

Pay TV ARPU²⁹ as at Q4 2011 stood at €41.57, slightly down from €42.44 as at Q4 2010. Chart outlining Pay TV ARPU is available on page 22.

²⁸ Pay TV ARPU is calculated as the total retail revenues for Pay TV services divided by the average of the total number of Pay TV subscriptions within a quarter. The revenue element is composed of the total retail revenues from subscriptions to Pay TV services but excluding revenues from premium services, installations and connections. Premium revenues includes revenues from Sports, Movies, and Video-on-Demand (VOD) subscriptions. The average total number of subscriptions is calculated by taking the sum of the total subscriptions at the start and the end of the quarter divided by two.

²⁹ The Pay TV ARPU indicator is in the process of being further refined.

6. POST

Postal mail activity in Malta is handled by a number of operators. The list includes those providing services within the universal service area, that is MaltaPost³⁰ and Premiere Post, and another 16 registered postal operators (courier and express services) providing services outside the scope of the universal service area.

Postal activity for the latter category has only been taken into consideration since 2009.

POSTAL ACTIVITY

Postal activity encompasses the delivery of letter mail, bulk mail, registered mail, parcel mail and express mail.

Postal mail volumes handled by local operators in 2011 remained relatively stable.

An increase in activity was reported under the bulk mail, registered mail and other mail categories. Bulk mail activity went up 1%, with the number of handled items increasing by 265,783. Correspondingly, the number of registered mail items went up by 37,874 (or 4%) and other mail items increased by 21,710 (or approximately 6%).

These increases in activity outweighed declines reported under the letter post mail and parcel mail categories. The number of parcel mail items went down by 10,045 (or 3.5%), whilst the number of letter post mail items went down by 113,898 (or 0.67%). Letter post mail represented 37% of all postal traffic recorded in 2011.

When categorised by type of mail stream, domestic postal volumes went down from 35.9 million mail items in 2010 to 35.2 million in 2011. During the same period, inbound cross border mail volumes declined marginally from approximately 5.6 million items to 5.5 million. These declines were outweighed by an increase in outbound cross border mail volumes, up from 3.5 million items handled in 2010 to 4.5 million items handled in 2011.

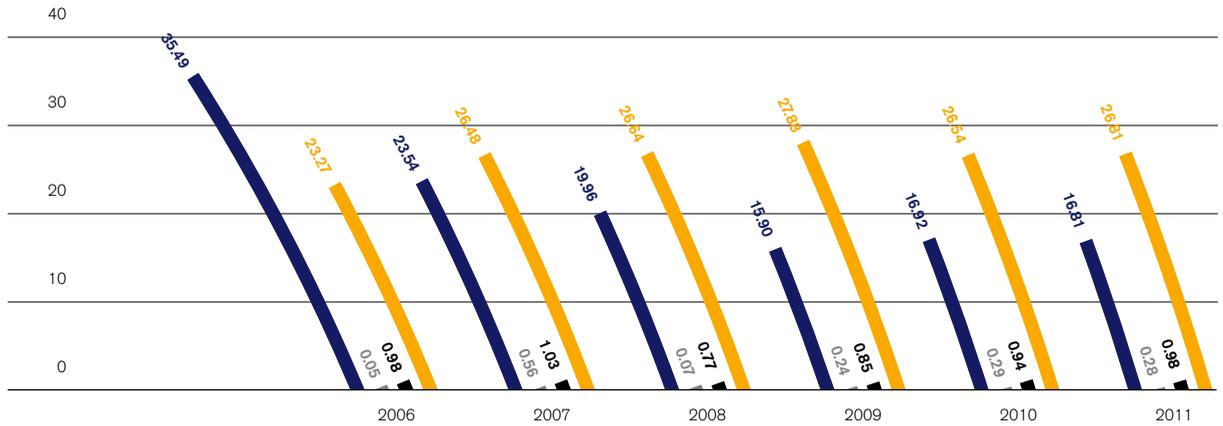
In terms of quality of local postal services, the MCA set a series of Quality of Service (QoS) standards to monitor how the Universal Service Provider (USP) is performing with respect to the delivery of local ordinary mail (QoS target for D+1³¹ set at 93%), bulk mail (QoS target for D+1 set at 93%) and local registered mail (QoS target for D+1 set at 97%). In 2011, MaltaPost surpassed all the QoS targets set for the above.

³⁰ As part of its universal service obligation, MaltaPost is obliged to provide a set of services, outside the reserved area.

³¹ 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.

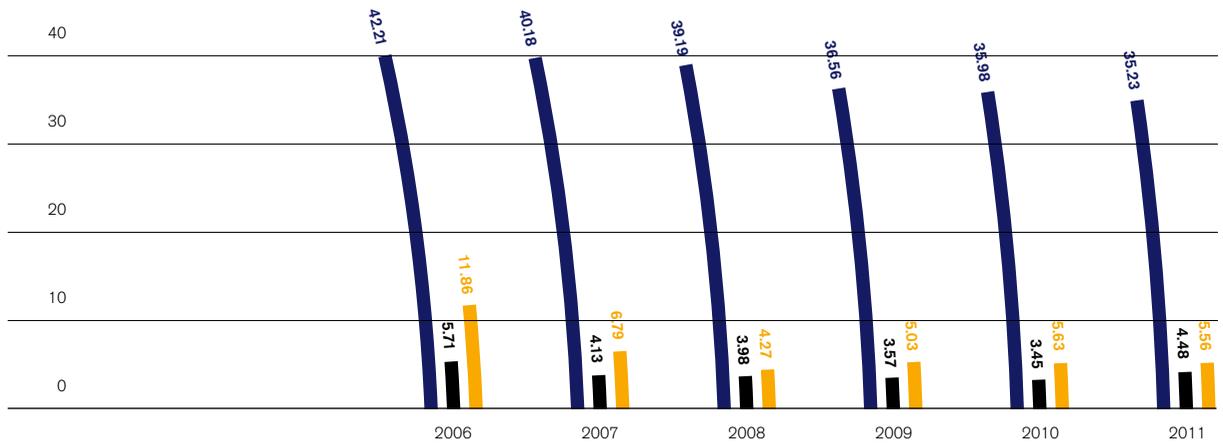
**POSTAL ACTIVITY (IN MILLIONS)
VOLUMES BY TYPE OF MAIL ITEM**

- LETTER POST ITEMS
- PARCEL MAIL ITEMS
- REGISTERED MAIL ITEMS
- BULK MAIL ITEMS



**POSTAL ACTIVITY (IN MILLIONS)
VOLUMES BY TYPE OF MAIL STREAM**

- DOMESTIC MAIL ITEMS
- OUTBOUND CROSS BORDER MAIL ITEMS
- INBOUND CROSS BORDER MAIL ITEMS



POSTAL RATES IN MALTA AND THE EU

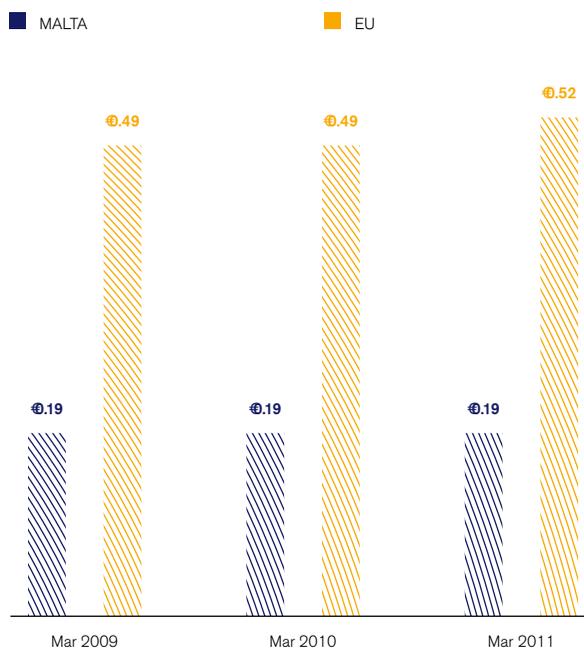
The MCA makes use of a publicly available annual comparative analyses on letter prices in Europe³² to assess how Malta's postal rates compare with those in other EU Member States. According to figures published in April 2011, Malta's standing in terms of the nominal stamp price for a domestic standard letter was right at the bottom of the ranking, well below the EU average. Malta's rate stood at €0.19³³, compared to an EU average of €0.52.

This confirms the trend observed in earlier publications, whereby Malta always featured 'at the bottom of the ranking' with the lowest rate³⁴.

The rate for a domestic standard letter increased by €0.01 to €0.20 in the second half of 2011³⁵.

In terms of nominal stamp prices for letter mail items to Europe, the said report underlines that Malta stood at the bottom of the 2011 nominal price ranking for letter mail directed to EU countries. Malta's rate in March 2011 stood at €0.37, well below the EU average of €0.83.

NOMINAL STAMP PRICE FOR A DOMESTIC STANDARD LETTER



³² Link to publication: http://www.dp-dhl.com/en/media_relations/press_releases/2011/european_letter_price_survey_2011.html

The MCA accepts no responsibility or liability whatsoever with regard to material accessed, operated and/or downloaded from the link provided.

³³ Malta's nominal stamp price for domestic letter items (not weighing more than 20 grams) actually registered a slight increase from €0.16 in 2006 to €0.19 in the following years and to €0.20 in July 2011.

³⁴ The publication findings are based on a survey taking 'into account all postage rate changes that were known at the time of going to print (March 2011)' across the 27 EU Member States, the EFTA countries of Norway and Switzerland. The survey is generally undertaken in March of each year.

³⁵ New tariff came into force on 29th July 2011.

7. THE MARKETS AT A GLANCE – SUMMARY OF MAIN FIGURES

| | |
|--|--------------------------------------|
| Telecommunications economic contribution | €91.4 million (1.65% of GDP) |
| No. of active fixed line subscriptions | 232, 193 |
| No. of fixed line subscriptions on a bundle | 80, 330 |
| Fixed line portings during 2011 | 3174 |
| Total number of outgoing fixed calls | 194.1 million |
| Total number of outgoing fixed minutes | 664.1 million |
| No. of mobile subscriptions | 521,748 (penetration rate of 126.3%) |
| Mobile portings during 2011 | 60, 897 |
| Total no. of outgoing mobile calls | 329.5 million |
| Total no. of outgoing mobile minutes | 492.1 million |
| Total no. of outgoing SMSs | 573.8 million |
| Fixed broadband subscriptions | 129,135 |
| Subscriptions on speeds greater than or equal to 4 Mbps but less than 6 Mbps | 95,290 |
| Subscriptions on speeds of 10 Mbps or more | 31,741 |
| No. of analogue Pay TV subscriptions | 10,156 |
| No. of digital Pay TV subscriptions | 138,298 |
| Domestic postal volumes | 35.2 million |
| Inbound cross-border mail | 5.6 million |
| Outbound cross-border mail | 4.5 million |

HIGHLIGHT OF MAIN ACTIVITIES

THE MCA'S MISSION IS TO 'REGULATE THE ELECTRONIC COMMUNICATIONS, ECOMMERCE AND POSTAL SECTORS WITH A VIEW TO ACHIEVING SUSTAINABLE COMPETITION, ENABLING CUSTOMER CHOICE AND VALUE-FOR-MONEY; TO FACILITATE THE DEVELOPMENT OF AN ENVIRONMENT THAT IS CONDUCIVE TO INVESTMENT, INNOVATION AND CONTINUED SOCIAL AND ECONOMIC GROWTH.'

THIS SECTION GIVES A HIGH-LEVEL ACCOUNT OF THE MAIN ACTIVITIES OF THE AUTHORITY UNDERTAKEN DURING 2011. THE ACTIVITIES HAVE BEEN GROUPED ACCORDING TO WHETHER THE OUTCOMES IMPACTED, OR RELATED TO, THE INDUSTRY, THE CONSUMER OR THE INFORMATION SOCIETY.

A SECTION HAS ALSO BEEN DEDICATED TO THE MCA'S ACTIVITIES IN RELATION TO LEGISLATIVE AMENDMENTS OR NEW LEGISLATION ADOPTED IN THE YEAR UNDER REVIEW.

THE INDUSTRY

The MCA's activities in relation to the electronic communications, eCommerce and postal industries are driven by the following strategic objectives:

- 1. Regulating an electronic communications environment that is capable of sustaining competition among existing providers whilst ensuring ease of entry to new undertakings;**
- 2. Contributing to the ongoing discussion, at an international level, on the consistent development of the electronic communications regulatory framework and related issues;**
- 3. Facilitating innovation in the provision of broadband and other services, via ongoing research and the continued development of the policy and regulatory environment;**
- 4. Facilitating eCommerce uptake and the use of electronic signatures, via the ongoing development of the legal, institutional and regulatory frameworks and related public awareness-raising;**
- 5. Attaining, within envisaged timeframes, a liberalised postal services environment that ensures ease of entry to new undertakings and sustainable competition; and**
- 6. Contributing to the ongoing discussions at an international level on the consistent implementation and ongoing development of the postal regulatory framework and related issues.**

The following are the main activities undertaken in relation to the above-mentioned objectives.

ELECTRONIC COMMUNICATIONS

REGULATORY REMEDIES

Review of Sub-Loop Unbundling (SLU) aspects of GO's Reference Unbundled Offer (RUO): GO is currently implementing a phased programme to install active Digital Subscriber Line (DSL) equipment in its cabinets. This development necessitated the review of the SLU aspects of GO's RUO. In this regard, in April 2011, the MCA engaged in a closed consultation with industry players on the Authority's proposed approach to the SLU review and the resultant work streams emanating from this review. The consultation also addressed proposed rules regulating GO's transition to Fibre-to-the-Cabinet (FTTC), with a view to ensuring that this does not negatively impact the existing SLU offer. The final decision was published in December 2011.

Numbering: Number portability has been successfully operating for approximately six years, during which, an estimated 250,000 numbers have been ported. In order to maintain this momentum and reflect market developments, a number of updates were carried out to the number portability ordering processes. The Authority had already mandated a one-day porting in the case of mobile services and in 2011, the number portability ordering specifications were updated to extend this obligation to fixed telephony porting in line with the new framework. In addition, with a view to removing certain restrictions in the porting from one service provider to another, following consultation with industry players, the Authority reviewed the conditions that prohibit porting of numbers, in particular those associated with Asymmetric Digital Subscriber Line (ADSL) and auxiliary services. As a result, refusal codes for ADSL services were removed and codes for auxiliary services were updated. The Authority also extended the porting of numbers to include premium rate numbers. This will come into effect as from 31st July 2012.

Development of a Bottom-Up-Cost Model (BUCM) for the fixed network: In April 2011, the Authority engaged Analysys Mason Ltd as consultants to assist in the development of a BUCM for the fixed core and access networks. The MCA will use this model to set, amongst others, wholesale charges for voice termination on a pure Long Run Incremental Cost (pure LRIC) basis, in accordance with the European Commission's Recommendation of 7th May 2009 on termination rates. Under a pure LRIC approach, terminating operators are allowed to charge only those costs which are avoidable if third party call termination services were not provided. It is the intention of the Authority to also calculate the costs of other services, including, but not limited to, dedicated capacity services (including leased lines, Ethernet and backhaul), that are of paramount importance given the increasing demand for and proliferation of high speed services.

Fixed Termination Rates (FTRs): The existent FTRs are based on the MCA's current BUCM. These rates were last reviewed in August 2010, in line with the MCA's Interconnection Strategy. The MCA considered revising these rates in 2011, but decided to postpone in view of the ongoing work related to the new BUCM. A review is expected to take place during the second quarter of 2012.

Mobile Termination Rates (MTRs): A decision was published in August 2011 obliging operators designated with Significant Market Power (SMP) in the provision of mobile termination services to reduce their MTR to €0.0418 per minute with effect from 1st September 2011. This constituted a decrease of 32% over the previous rate of €0.0617. The MCA is committed to ensure that Maltese MTRs are in line with the principles of the EU Recommendation. Further reductions are envisaged in 2012.

MARKET ANALYSIS

Consultation on retail access to the public telephone network at a fixed location: Published in September 2011, this consultation proposed that the following regulatory remedies are imposed on GO given its dominant position in a number of access markets:

- measures to counter excessive pricing charges;
- measures to counter undue preference to specific end-users; and
- measures aimed at countering unreasonable bundling of services.

The EU Commission was notified with the draft decision in November 2011. A final decision is expected in early 2012.

Review of the wholesale broadband access market:

Although the MCA has carried out numerous market reviews, the nature of this particular market required specialised expertise. The review is still ongoing.

Decision on transit services in the fixed public telephone network:

Published in November, this decision re-confirms the findings of the analysis of transit services in Malta carried out in 2006, which identified separate markets - one for wholesale national transit and another market for international transit services. This reflects Malta's dependence on international links to mainland Europe for international transit services, which creates particular competitive conditions for international transit services, which are not present in the case of national transit services. The network operators currently providing international transit services are GO, Melita and Vodafone (Malta). Given that this market is not included in the EU recommendation on relevant markets, the MCA carried out a 3-criteria test in order to determine whether this market should remain susceptible to ex-ante regulation. The MCA concluded that all the current operators are offering substitutable wholesale transit services and therefore the market is tending towards competition. Therefore, the MCA did not designate any operators having SMP and removed existing regulation in this regard.

SPECTRUM MANAGEMENT

Management of available spectrum: The three main mobile telephony operators, GO, Melita Mobile and Vodafone (Malta) were awarded spectrum in the 900 MHz and 1800 MHz bands following an open call for applications published in October 2010. The MCA adopted an innovative reassignment process enabling the Authority to conclude the new spectrum assignments via brokered meetings, thereby avoiding the need to resort to auctioning off the spectrum. Further information on this assignment process is available on page 83.

Secondary spectrum trading mechanisms: Further to the analysis of responses received following a consultation undertaken in July 2010, the MCA proposed amendments to the Electronic Communications Networks and Services (General) Regulations with regard to the introduction of radio spectrum trading procedures. These amendments were brought into force on the 16th December 2011. The regulations permit certain radio spectrum licence holders to transfer or lease, all or part of the spectrum, to another party. The regulations require the MCA to express its consent in order for a transfer, or lease of a radio spectrum licence to be effected. In line with the Electronic Communications (Regulation) Act, only the frequencies in the bands identified as being subject to trading in the national frequency plan may be transferred or leased to other undertakings.

Preparing for ultra-fast broadband access:

- **Development of a Strategic Framework for Next Generation Access Networks (NGAs):** A strategy was published in May 2011 primarily addressing the envisaged regulatory impact of NGA networks. Beyond this narrower scope however, the strategy also dwells on the extent to which the MCA can facilitate the proliferation of NGA networks via interaction with other institutional players which, by virtue of their remit may, in some way or another, impinge on the progress of roll-out of the network or on the access regime. Foremost among potential issues are those relating to rights of way and ducting, as well as wiring in buildings. Discussions were initiated with stakeholders, including Transport Malta, in this regard.
- **Development of a National Broadband Strategy:** In September 2010, the European Commission published a Digital Agenda for Europe, which puts forward a number of objectives, one of which is for all EU citizens to have access to a basic level of broadband by 2013. Furthermore, as the

world moves towards a superfast broadband, this Agenda also proposes that, by 2020, all Europeans will have access to Internet of above 30 Mbps and 50% or more of European households will have subscriptions above 100 Mbps. To this end, the Authority developed a broadband strategy, which lays out the objectives for the Maltese broadband environment focusing on facilitating economic growth, job creation and enhancing social development. The strategy also outlines the actions to be undertaken over the next three years. It is anticipated that the strategy will be formally launched by the Ministry for Infrastructure, Transport and Communications (MITC) in 2012.

- **Next Generation Networks – development of a Fibre-to-the-Home (FTTH) network for Malta:** A FTTH network architecture brings the power of superfast broadband to subscribers' doorsteps and with it comes the ability to support next generation electronic communications services. To this end, the MCA assisted the MITC in initiating an in-depth study to assess the business case for building such a network in Malta. It is expected that an expression of interest for the development of an FTTH network will be issued in the first quarter of 2012.

Monitoring the roll-out of wireless infrastructures and services:

During 2011, the Authority continued with its activity to ensure that operators continue to satisfy the roll-out and coverage obligations set out in their licences. Coverage tests were performed on GO and Vodafone (Malta)'s 2G, 3G, and WiMax networks and Melita's 3G network.

Review of must-carry obligations: In September 2011, the MCA published a consultation on must-carry obligations, which require pay-TV providers to reserve part of their network capacity for the transmission of TV channels qualifying as meeting General Interest Objectives (GIOs)³⁶. The consultation put forward proposed guidelines to be followed by the Authority when determining which TV broadcast networks would be subjected to must-carry obligations and ensured that all households have access to the free-to-air TV channels having a GIO status, through the equipment provided by their respective pay-TV provider. A decision in line with these guidelines is expected to be published in the first quarter of 2012.

³⁶ GIOs define the public service remit of TV broadcasting. This is on the one part carried out by PBS, the national public service broadcaster, with the remaining part entrusted to private broadcasters. The private broadcasters are specified by the Broadcasting Authority following a process, whereby broadcasters that are deemed to fulfill general interest objectives are selected and entitled to carriage on the general interest digital TV broadcast network, operated by PBS, on a free-to-air basis.

INDUSTRY FORA

MCA Annual Conference 2011: In January 2011, the MCA hosted its annual conference, which also celebrated the Authority's 10 years of operations. A highly acclaimed line-up of international speakers addressed the conference, giving their insight into what the future holds for the telecommunications industry and how technology will shape lives and economies across the globe. The conference was well attended by both local and international delegates.

Electronic Communications Forum: During 2011, the MCA hosted a total of four events, during which the Authority and the electronic communications service providers discussed important developments on a number of topics in related sectors. Among these was the transposition of the revised electronic communications regulatory framework, where Malta was one of the first EU member states to bring into force the provisions emanating from this new framework.

eBusiness Awards: In November, the MCA hosted the eBusiness Awards, the first ever local awards aimed at acknowledging unique and innovative local web-based solutions applied by businesses. Thirty-six nominations were received across the seven categories that were awarded, which include: the best eGovernment initiative; best use of technology in education and training; best eHealth initiative; best Maltese eCommerce site; best use of online media; best B2B supply chain; and best indigenous enterprise of the year. The adjudication was conducted by an independent committee comprising representatives from industry, Government and academia.

Malta Internet Governance Forum: In conjunction with the MITC, the MCA launched the Malta Internet Governance Forum (MIGF) in June, 2011. This Forum is a national multi-stakeholder forum, providing a platform for discussion amongst industry, Government, academia and civil society on Internet governance issues. The Forum will work collaboratively with local stakeholders in the Internet community to ensure a truly representative participation befitting the global vision of the ITU Internet Governance Forum (IGF)³⁷. The purpose of the IGF is to support the United Nations Secretary-General in carrying out the mandate from the World Summit on the Information Society (WSIS).

The permanent members of the MIGF are the MCA, the Malta Internet Foundation, the University of Malta, the Malta Council for Arts, Science and Technology (MCAST), the Education Department, COMNET-IT, the Malta Information Technology Agency (MITA), the Malta Chamber of Commerce, Enterprise and Industry, representatives from the main ISPs, Cyber Police Squad and Aġenzija Appoġġ³⁸. The role of the members is to provide their individual perspectives and promote active participation in the Forum. The Forum met twice during 2011.

³⁷ <http://www.intgovforum.org>

³⁸ *Aġenzija Appoġġ forms part of the Foundation for Social Welfare Services. The ultimate aim of the Agency is the enhancement of the lives of people in need, through the provision and availability of professional care and support. Offering over 25 specialised and generic social welfare services, Appoġġ has become the central national agency for families and children in need.*

ECOMMERCE

eSignatures monitoring regime: An important requirement of the information society is the ability to identify the originator of electronic communications in the same way that documents are signed using a hand-written signature. This is primarily achieved by using electronic signatures, which are supported by a certification service provider issuing certificates.

The MCA is the supervisory authority for certification service providers as per the Electronic Commerce Act. The supervisory authority's responsibilities include:

1. managing of the general authorisation process;
2. maintaining of a directory of certification service providers;
3. monitoring of compliance with standards;
4. monitoring of the use of suitable technical components and procedures; and
5. performing organisational supervisory duties.

eCommerce monitoring exercise: The Authority monitors local eCommerce sites as part of its responsibilities at law by carrying out regular spot checks and communicating with site owners to ensure compliance with legal requirements. To date, cooperation between the industry and the MCA has been very positive and has ensured that sites that are in breach of the law are quickly rendered compliant. The MCA continuously follows up with the defaulters to ensure that these regularise their sites according to the provisions at law.

Launch of eCommerce trust mark: The Authority launched the 'eShop' trust mark in October 2011. This trust mark allows the Authority to reward those sites which are fully compliant with the legal obligations and which adhere to a particular code of practice. The code of practice has been specifically designed to ensure that compliant sites will provide consumers with all the information they need to make an online purchase and feel confident that they will get what they pay for and that their rights will be fully respected. The objective of the trust mark is two-fold; on the one hand, it provides a simple and positive means of driving compliance with legislative requirements and best practice in the provision of eCommerce services by local operators, thereby increasing confidence in eCommerce. On the other hand, it communicates the trustworthiness of online shops to consumers, thus besides promoting the benefits of eCommerce, the trustmark potentially induces more Maltese people to embrace local online shopping.

A second trust mark, 'elInfo' was also launched and is available for sites that do not provide the facility for online purchases, but offer information regarding products or services that are available from brick and mortar outlets. This is an interesting concept, which allows entrepreneurs who are taking the first steps in using this electronic medium to start off on the right track, thereby paving the way towards fully-fledged eCommerce.

POSTAL SERVICES

eCommerce Forum: In an attempt to provide further opportunity for discussion and networking between stakeholders in the eCommerce field, the MCA continued to host periodic fora throughout 2011. Two fora were held, in which various matters related to eCommerce were discussed.

During one of the fora, the MCA presented the findings pertaining to two studies it had carried out, namely the ICT Skills Gap Analysis, a component of the EPITOME project³⁹ and the 7th eCommerce Household survey. In addition, two local market players shared their experiences on the use of ICT in their micro-enterprises and how this has ultimately improved their day-to-day operations.

During the second forum, four European Best Policy Practice initiatives in ICT were shared with the varied stakeholders. The *Acquisti Verdi nel Turismo* (Green Procurement for Tourism) project is a procurement platform for the hospitality industry that has been implemented in Emilia Romagna, Italy. Techcheck and Webcheck, two sister initiatives were implemented in Galway, Ireland: the former is a scheme that assists small businesses to improve operations through the adoption of ICTs, whereas the latter is aimed at businesses operating in tourism and assists in the design, development and promotion of web presence. The final initiative presented was Video Guides of Viana, a project implemented in Spain, which provides an interactive marketing tool for tourism establishments.

The next eCommerce Forum is expected to take place in the second quarter of 2012.

Full market opening of the postal sector: Full market opening of the postal sector in Malta will take place at the end of 2012, when any postal operator will be able to provide the postal services which are currently reserved to the incumbent Universal Service Provider (USP) - MaltaPost. The MCA continued work on the review of the postal regulatory framework in order to develop a regulatory approach that is appropriate for a market fully open to competition while still safeguarding the provision of the universal service. Such a framework would essentially ensure a level playing field for all undertakings competing in the postal markets. The MCA will, among other things, define and analyse identified postal markets to be better positioned to understand the way the postal service is changing and identify where MaltaPost, or any other operator, has SMP.

Postal tariff adjustments: By means of a decision published in July 2011, the MCA approved an increase of one euro cent on single piece domestic mail up to 50 grams, as well as adjustments in the prices of foreign outbound parcels to certain countries. Other requests by MaltaPost for an increase in tariffs for registered mail, domestic mail over 50 grams and bulk mail, were not approved. All tariff requests were evaluated separately. The MCA's decision was taken following a thorough review of MaltaPost's cost accounting system to ensure it is sufficiently robust and that it correctly allocates costs to the different services provided by MaltaPost. Feedback received following a public consultation undertaken in June 2011 was also taken into consideration. Work on further postal tariff adjustments will continue in preparation for full market opening and a consultation on the price control mechanism is expected to be published in 2012.

³⁹ EPITOME is an EU part-funded project in which focused training in ICT is given to local micro-enterprises, their employees and the self-employed, free of charge. More information on this project is available on page 64.

CONSUMERS

Whilst all of the Authority's regulatory work has, as an ultimate objective, the well-being of consumers and end-users, the Authority has a combined strategic objective, which guides the Authority's work in relation to those matters which have a direct and immediate impact on consumers as follows:

1. Ensuring that electronic communications and postal undertakings provide a transparent, value-for-money service to users whilst adhering to incumbent social obligations.

The Authority's consumer related activities continued to increase during 2011. This trend is expected to continue in the coming years, also as a result of the amendments to the Electronic Communications (Regulation) Act, which came into force in 2011. These amendments significantly strengthened consumer protection rules in the electronic communications sector.

Hereunder are the most significant consumer-related activities undertaken by the Authority during 2011.

ELECTRONIC COMMUNICATIONS

Digital switchover management: 2011 marked another important step in the development of TV broadcasting in Malta when all analogue terrestrial transmissions ceased and were replaced with digital terrestrial transmissions. In June, PBS commenced digital transmissions of two channels - TVM and Education 22. A further four channels had switched to digital transmissions by August. Analogue TV transmissions were officially switched off on 31st October.

The process to complete digital transmissions was far from easy. It was concluded as a result of continued coordination between all the interested parties under the direction of the Digital Switchover Committee. Chaired by the MCA, the Committee comprised representatives from the MCA, the Broadcasting Authority and the respective Ministries responsible for communications, culture and public service broadcasting. Activity by the Committee continued unabated throughout the year, overseeing the following key elements of the digital switchover programme:

- The set-up and management of the general interest TV network – the free-to-air digital TV network intended to carry the TV channels qualifying as meeting GIOs. This network was launched in January 2011;
- Legislative amendments necessary for the management of general interest TV broadcasting;
- The selection of those TV channels qualifying as meeting GIOs; and
- An extensive public information campaign.

On this latter activity, a public information campaign was launched in January and continued through to November when all local TV channels were transmitting in digital format. The campaign comprised a number of messages focusing on how the public should prepare itself to receive and watch digital transmissions. A mix of print, audio-visual and online media was used throughout the campaign. A dedicated website was set up – www.dso.org.mt – offering a central repository for all the information pertaining to the switchover. Information leaflets were distributed to all households explaining what preparations needed to be undertaken and how to go about them. In addition, a call centre, operated by the Government Information Service within the Ministry for Gozo, offered continuous customer support and successfully replied to over 5,700 enquiries.

In parallel to the public information campaign, a 'customer support in retailing' scheme was launched together with the General Retailers and Traders Union (GRTU). This scheme provided training and information material to sales staff in order to be better positioned to assist customers purchasing the TV equipment necessary to receive digital television transmissions.

Market research was carried out on a regular basis throughout the public information campaign in order to gauge the public's level of 'preparedness' and thus be in a better position to fine-tune the campaign accordingly.

Printed directory: In its April 2010 decision concerning Universal Service Obligations (USOs) on Electronic Communications Services, the MCA had established that a printed telephone directory listing, as a minimum, all registered fixed telephone numbers, should be produced and a copy of the directory distributed to all fixed line telephony subscribers. In line with the rules on the imposition of USOs, the Authority invited parties interested in providing the printed directory to submit an expression of interest by 30th June 2010. The MCA received three applications and, following evaluation by an adjudication committee, in June 2011, two of the bidders were eliminated as they did not meet the eligibility criteria established in the same decision. Negotiations on the terms and conditions of designation with the remaining bidder fell through in August 2011 because some conditions requested by the applicant went counter to the requirements of the universal service. Consequently, in line with what had been established in the 2010 decision, the MCA commenced discussions with GO to establish a way forward in this regard.

Decision on modifications to the terms and conditions of subscriber contracts: This decision supersedes a previous decision that was published in 2008. The decision establishes the manner in which any changes to the terms and conditions of subscriber contracts, for the provision of internet, TV, mobile and fixed telephony services, are to be implemented by service providers, as well as the legal rights of subscribers throughout such a process. The decision goes a step further by also detailing how subscribers should be notified of such changes and the format such communication should take. Additionally, the decision establishes the procedures to be undertaken by the service provider should the proposed changes be deemed manifestly

positive by the MCA. Furthermore, the procedures that should be followed should a package or service be terminated or in the event that the service provider ceases operation, were also established.

Mystery shopping: During 2011, the Authority undertook a mystery shopping exercise across all electronic communications services. The criteria assessed included the pre-subscription processes, that is, whether consumers can easily find the information necessary to allow them to make an informed choice when purchasing electronic communications services; the ease of subscription; the use and quality of the service; disconnection of service; and the dispute resolution efficiency of the service provider. The study was conducted for internal purposes in order for the Authority to obtain first-hand understanding of the consumer experience with the local service providers and was not intended to provide statistical results. These results were shared with the industry with a view to highlighting areas where the service is meeting consumer needs, as well as those areas which require improvement.

Information campaign on roaming rates: The EU's roaming retail price caps establishing the "Eurotariff" first took effect on 1st July 2007. Since then, these charges have been progressively lowered on the 1st of July of each year. In addition, other rules came into force across the EU with the aim of protecting mobile phone users from inadvertently running up large data bills when overseas, thus offering greater protection to users visiting an EU country. In order to raise the necessary awareness in this regard, the MCA embarked on a short information campaign between May and end July 2011, using a combination of online, print and audio-visual media.

Development of a price comparison website: The Authority initiated the development of an interactive tariff-plan comparison portal that allows end-users to identify tariff plans for fixed and mobile telephony, Internet and bundled services, that best meet their needs, by comparing the prices and other characteristics of the offers available on the market based on the usage profile of the consumer. It is anticipated that this portal will be launched in the second quarter of 2012.

Consumer perception surveys: Between July and September 2011, the MCA commissioned a number of surveys to gauge consumers' perceptions and satisfaction levels with fixed and mobile telephony, broadband and broadcasting services. Similar surveys were carried out in 2009. This data is important, both for the Authority, as well as for service providers as it gives an insight

into the customer experience highlighting areas where customers are generally satisfied and those areas that need to be improved. In addition, such data is of particular importance to the Authority as it provides valuable information when carrying out periodic market analysis. The table below provides the main findings.

| Fixed Telephony | Mobile Telephony | Broadband | Broadcasting |
|---|--|---|---|
| Approximately 8% of respondents with access to fixed telephony are subscribed to more than one operator. | 9% of respondents have more than 1 mobile phone. | 68% of respondents have internet access, 8% of those that do not have access, are willing to get a connection within the year. | 99% of Maltese households have a TV set at home. |
| 77% of respondents with multiple connections have no intention of disconnecting one of the connections at present. | 34% of those having a mobile phone have a subscription that forms part of a bundle. | More than 82% of respondents with internet access are satisfied or highly satisfied with the level of service, of which, 57% have an ADSL connection, 30% are cable subscribers and the remaining 7% use an alternative technology such as WiMax. | More than 70% of Pay TV subscribers are satisfied or highly satisfied with the quality of their TV connection service, out of which, 78% are GO DTTV subscribers, 70% are Melita digital subscribers and 66% are Melita analogue subscribers. |
| 0.5% of respondents considered terminating their landlines within the year. This notwithstanding demonstrates the continued popularity of the fixed line in Malta as opposed to trends in other EU countries. | 79% of those having a mobile phone have a prepaid subscription whilst 20% are on contract. This latter figure is gradually on the increase, rising by 8% since 2009. | 66% of respondents perceive an internet connection to be an indispensable service. | A large number of respondents are not aware of the basic terms and conditions of their TV service contract. 48% of Melita digital subscribers and 38% of GO DTTV subscribers do not know the duration of their respective service contracts. |
| 51% of respondents would use the fixed line when at home against 9% which would use the mobile phone. | 38% of postpaid subscribers spend more than € 30 per month. | 75% of respondents do not know what internet speed they have. | 25% of Pay TV subscribers do not know how much they are paying for the TV service. |
| 40% claim their preference would depend on whether the call would be made to a landline or mobile phone, on the person being called and the estimated length of the call. | 88% of respondents are satisfied or highly satisfied with the level of service. | 85% claim their current speed is sufficient. | Those subscribers who do know how much they pay for their TV services conclude that the prices are neither cheap, nor expensive. |
| Of those opting for the fixed line, 36% perceive the calls to be cheaper; 28% claim the telephone is easier to handle, whilst 20% do not own a mobile phone. | 21% of mobile subscribers switched service provider in the preceding two years. | 33% are unaware of the length of the service contract period. | 57% of GO DTTV subscribers and 30% of Melita digital subscribers claim to have their TV connection forming part of a bundle. |

| Fixed Telephony | Mobile Telephony | Broadband | Broadcasting |
|---|--|---|--|
| Those who opt for the mobile phone claim they do so because of SMS, mobility and direct access to the contact list. | 16% have a smart phone of which 44% claim to access the Internet on a daily basis. | 23% perceive switching between service providers to be difficult. | 16% of Pay TV respondents are also subscribed to one or more premium channels (such as sports or movie channels) – 6% less than in 2009. |
| Less than 20% know the cost of a landline call. | | Price remains the determining factor when choosing between service providers. | 12% of respondents with a TV subscription have switched from one type of TV connection to another over the last two years. Commonly suggested reasons for switching included the bundle offer and better price levels. |
| The majority of respondents perceive the costs of fixed-to-fixed calls to be cheap or reasonably priced. 60% of respondents still perceive the cost of fixed-to-mobile calls to be expensive. | | 54% of respondents would change their connection if price had to increase by 10%. | 19% of respondents claim to view TV via the Internet. More interesting is the fact that 27% of these respondents very often consider internet TV as a good substitute to traditional TV. |
| 95% of GO subscribers and 76% of Melita subscribers are highly satisfied or satisfied with their service. | | | Only 3% of respondents have a Digital Audio Broadcasting plus (DAB+) radio set. |
| Approximately 73% of Melita subscribers' connection forms part of a bundle as opposed to 43% of GO subscribers. | | | |
| 12% of respondents switched service provider in the preceding two years. | | | |

Frequency management and monitoring: Most electronic communications services are today delivered via wireless means, providing mobility and flexibility of use. An essential work-stream that the Authority undertakes to ensure that consumers continue to enjoy electronic communications services, is the management of radio frequencies that are used in the delivery of such services. It is important that the most appropriate and efficient use of

these frequencies is made, particularly because frequencies are a scarce resource. Furthermore, it is equally important to continuously monitor these frequencies so that interference is kept to the minimum. The tables hereunder provide an indication of the relevant activity undertaken in this regard.

| Number of spectrum related inspections/site visits | | | |
|---|-------------|-------------|-------------|
| Service | 2009 | 2010 | 2011 |
| EMF measurements (planned) | 70 | 107 | 201 |
| EMF measurements (non-planned) | 55 | 38 | 49 |
| R&TTE notifications | 1459 | 1232 | 1407 |
| R&TTE customs' assistance | - | 65 | 68 |
| Interference complaints | 34 | 45 | 20 |
| Inspections of radio installations | 197 | 192 | 41* |
| Radio Monitoring & support | 96 | 84 | 113 |

* Note that the figures quoted for 2009 and 2010 include inspections on private mobile radio installations. The exercise covering such installations was completed in 2010 and thus excluded from the figure quoted for 2011. This explains the drastic reduction in the number of inspections carried out during the year under review.

| Inspection of Radio Installations | | | |
|--|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| Maritime | 12 | 20 | 40 |
| Broadcasting | 5 | 7 | 1 |
| TOTAL | 17 | 27 | 41 |

- Monitoring of Electro-Magnetic Field (EMF) Emissions:**
 In 2011, the Authority performed 250 on-site audits at radiocommunications stations to ensure that these are operating within the exposure standards established by the International Commission on Non-Ionising Radiation Protection (ICNIRP). Readings were taken from mobile communications base stations, Broadband Wireless Access (BWA) base stations, broadcasting and other transmitters. A number of

repeat audits were carried out to ensure continued compliance with the pertinent regulations. All results obtained from these audits were well below the acceptable level established by the ICNIRP and endorsed by the World Health Organisation (WHO). The MCA maintained ongoing liaison with the department responsible for public health on EMF related issues. The EMF audit programme will continue during 2012.

| EMF Audit/Complaints | | | |
|-----------------------------|-------------|-------------|-------------|
| Year | 2009 | 2010 | 2011 |
| Audits | 70 | 107 | 201 |
| Complaints | 55 | 38 | 49 |
| TOTAL | 125 | 145 | 250 |

- Monitoring of harmful interference:** Spectrum monitoring provides information on the activity present on specific frequencies. This exercise provides crucial information that allows the Authority to ensure that optimal and appropriate use is being made of radio spectrum. During 2011, the MCA performed 78 exercises to monitor the radio frequency

spectrum to ensure that spectrum bands were free from any unlawful transmissions. Additionally, during the year under review, the MCA identified 20 cases of harmful interference, which affected a number of radiocommunications services. Most cases of harmful interference occurred on broadcasting services.

| Interference investigations | | | |
|------------------------------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| Broadcasting | 13 | 18 | 14 |
| GSM / 3G / BWA | 1 | 4 | 0 |
| Private Mobile Radio | 1 | 15 | 2 |
| Short Range Devices (SRDs) | 3 | 2 | 2 |
| Other services | 16 | 6 | 2 |
| TOTAL | 34 | 45 | 20 |

The reduction in the number of investigated interference complaints is due to a reduction in the number of licensed Private Mobile Radios and to an increased focus on providing

on-the-phone guidance to individuals before making site investigations.

- Market surveillance and Radio & Telecommunications Terminal Equipment (R&TTE) regulations:** In general, the purpose of the R&TTE Regulations, adopted under the Product Safety Act, is to ensure that radio and telecommunications terminal equipment complies with requirements concerning electromagnetic compatibility; health and safety of the users and other impacted parties; and the effective use of radio spectrum. Manufacturers and importers of such equipment are therefore required to submit information regarding the safety aspects, amongst other pertinent information, to the Authority.

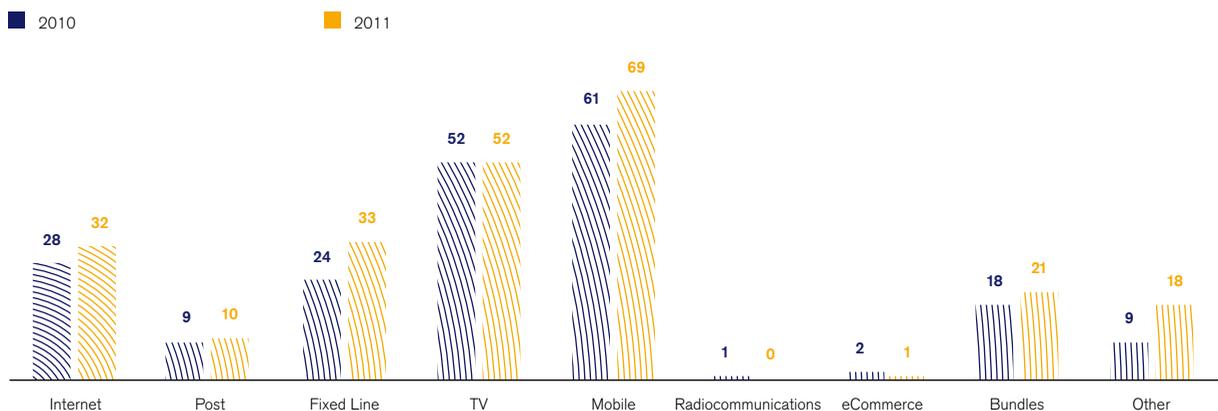
If the equipment conforms to legal requirements, then such equipment can be placed on the market. During 2011, the Authority processed more than 1,400 notifications regarding radio equipment which operates on non-harmonised frequency bands. Furthermore, the Authority provided assistance to the Customs Department in relation to 68 different products to verify that these were compliant with the R&TTE Regulations. The MCA performs this function in close collaboration with the Market Surveillance Directorate within the Malta Competition and Consumer Affairs Authority (MCCAA).

| R&TTE Notifications | | | |
|------------------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| Approved Equipment | 1313 | 1102 | 1269 |
| Not Approved Equipment | 146 | 115 | 138 |
| TOTAL | 1459 | 1217 | 1407 |

Consumer complaints & enquiries: The extent of the action that the MCA can take in relation to consumer complaints depends on the particular characteristics of the complaint and on the MCA's relevant legal powers. If the complaint involves issues that have a direct regulatory bearing, such as a breach of a regulatory obligation under a law that the MCA is empowered to enforce, then the MCA can intervene directly and enforce the legal provision if necessary. In instances where the MCA cannot enforce a decision, because the matter is not regulated under a law administered by the Authority, the MCA seeks to mediate

between the complainant and the service provider. Failing that, the MCA will suggest alternative courses of action by referring the complainant to the appropriate forum where the matter can be addressed. The following table provides an overview of the complaints by sector received during 2011 and compared to 2010. The overall increase in the total number of complaints is primarily the result of changes, undertaken by service providers during 2011, to the contractual terms and conditions of service.

NUMBER OF COMPLAINTS, BY SECTOR



POSTAL SERVICES

Postal consumer perception surveys: Two surveys were carried out in November 2011 in order to gauge households' and small businesses' perceptions and satisfaction levels with regard to the postal service provided by MaltaPost – the incumbent service provider. The results of such surveys shed light on perceptions on price levels, quality of service, access and complaints handling

mechanisms. More importantly, the results give a good insight into how consumer needs, whether residential or business, are changing. Hereunder are some of the main findings from this survey.

| Consumer perceptions and satisfaction levels on the postal services in Malta | | | |
|---|-----------|----------|--|
| | Household | Business | Comment |
| % of respondents who claim to have reduced number of addressed letters sent in previous 12 months due to the use of alternatives, such as email. | 32% | 23% | The majority of customers claim that the number of addressed letters remained the same over the previous 12 months. |
| % of respondents claiming to have visited a post office during the previous 12 months. | 72% | 64% | The most popular services provided by post offices to households are the payment of bills and the purchase of stamps. Small businesses, on the other hand, mostly visit the post office to purchase stamps and collect parcels. |
| % of respondents who are satisfied with the level of service and the facilities provided at post offices. | 90% | 89% | With regard to collection and delivery of parcels and collection and delivery of registered mail, the majority of both households and small businesses claim to be satisfied with these services and confident that such postal articles are delivered safely. |
| % of respondents who are satisfied with the overall quality of service provided by MaltaPost. | 87% | 91% | |
| % of respondents who use alternative postal operators. | 3% | 15% | |
| <i>Note: with regard to expenditure, 62% of households spend between €0 and €10 a year on postal services whereas small businesses claim to spend over €30.</i> | | | |

Defining the scope of the universal postal service: As a result of extensive consultation that commenced in June 2010, in March 2011, the MCA published a decision outlining the regulatory direction to be taken with regard to specific aspects of the universal postal service. By means of this decision, the MCA identified those services that fall within the scope of the universal postal service in Malta and clarified the definition of bulk mail services. Furthermore, the decision addressed issues related to

the imposition of price control obligations on the universal service provider to ensure, amongst others, a smooth transition to a fully liberalised market. The Authority elaborated on the definition of express mail service, as an example of a type of service that falls outside the scope of the universal postal service.

THE INFORMATION SOCIETY

Ensuring sufficient competition and good quality services for consumers is an integral part of regulation of the communications sectors. Equally important however, is the engagement of community members, as well as businesses, in the take-up of such services.

A NETWORKED SOCIETY:

Today, Information and Communications Technologies (ICT) play a central role in everyday life, providing significantly more opportunities to those who actively engage in online activity. Consequently, those that are not ICT literate or are not active participants in the online society, are severely disadvantaged. It is imperative therefore that all citizens have both access to ICTs, the knowledge to make an informed choice on whether to participate in the online world and the means to obtain the necessary skills to participate in such activity. The MCA's initiatives in this regard are guided by the following strategic objective:

1. **Achieving widespread eLiteracy, digital inclusion and the use of ICTs as a tool to improve quality of life for all citizens, in particular, disadvantaged groups.**

Hereunder are the most significant work streams undertaken in relation to this strategic objective.

ICTforALL training: Following the launch of the ICTforALL training programme during 2010, approximately 3600 individuals were trained in basic ICT skills during the course of 2011. This equates to 1.5% of the general adult population. These individuals were introduced to the basic applications of ICT in daily life, how to communicate via email and other communication tools as well as how to use the Internet for research purposes. The success of the first call and the positive feedback received led to the re-launch of the same basic course for new applicants, together with an additional two, more advanced courses, for those who benefited from the basic course. The advanced courses are the product of collaboration with Microsoft in which the Microsoft Digital Literacy and Productivity programmes were adapted for the Maltese market. By the end of 2011, approximately 1370 new applications were received. In addition to the training provided, the Authority also devised a number of information sessions to be launched during the course of 2012. These sessions are in response to needs identified in focus group sessions and will cover topics such as how to purchase online and how to carry out online banking, amongst others.

Community Technology Learning Centre (CTLC) network: Over the past five years, 17 CTLCs were set up across Malta and Gozo. These are run by a number of non-profit organizations, which work with specific communities. This is in line with the MCA's policy of working through partnerships with entities, which provide services to distinct communities and can therefore serve as trusted intermediaries between the MCA and the members of the community. These centres are offering access to technology and literacy training across numerous segments of society. In doing so, the centres are providing their communities, as well as other members of society, the opportunity to experience ICT, thus aiming to increase social inclusion, improve employability and enhance the quality of life. A new centre was opened during 2011, whilst all centres were equipped with a 55" TV set to facilitate training. A list of CTLCs is available in Annex 1, on page 86.

Telecentre-Europe: The MCA participated actively as a member of the Telecentre-Europe AISBL network, which is an International non-profit association of organisations which have digital inclusion as their primary objective. The network brings together organisations from across Europe, which run ICT community centres such as the CTLC network providing an opportunity for the exchange of information, experiences and resources with other European counterparts.

Wi-Fi in public spaces: During 2011, the MCA continued with the roll-out of Wi-Fi hotspots across Malta and Gozo, bringing the total to 164. This project was undertaken in collaboration with a number of other public entities including the Department for Local Government, the Ministry for Resources and Rural Affairs and the Ministry of Health, the Elderly and Community Care. Today, every locality in Malta and Gozo has at least one free Wi-Fi service in a public place. The table below indicates the most popular sites between July and December 2011. A list of Wi-Fi hotspots is available in Annex 2, on page 86.

| Site | Number of unique Wi-Fi sessions (June to December 2011) |
|--------------------------------|---|
| Buġibba Square, St. Paul's Bay | 20,366 |
| Mater Dei Hospital | 17,813 |
| St. Anne's Square, Sliema | 16,146 |
| Independence Gardens, Sliema | 10,026 |
| Mġarr Ferry Terminal | 9,876 |

BeSmartOnline campaign: Launched in 2010, the BeSmartOnline project, which is co-funded by the EU, is being coordinated by the MCA and implemented in collaboration with the Foundation for Social Welfare Services, the Directorate for Educational Services and the Commissioner for Children, with the support of the Cyber Crime Unit within the Malta Police Force and the Secretariat for Catholic Education. One of the major pillars of the project is education. During 2011, a train-the-trainer initiative was carried out, reaching in excess of 500 educators, most of which were Personal and Social Development teachers and councillors. This was followed by an extensive information campaign in schools, which included a dedicated lesson for primary and secondary school students in every public school in Malta and Gozo. The general public was reached through an information campaign that incorporated various mass media channels and the coordination of a number of public relations activities, such as information days.

In addition, five independent events, including conferences and round table discussions were organised with key stakeholders including industry, law enforcement and representatives from the social welfare sector. International experts also participated in these events, sharing individual experiences and best practices in internet safety, which were implemented successfully in their respective countries. Two lectures addressed by experts in the field were also given to students at the University of Malta reading for a degree in Education.

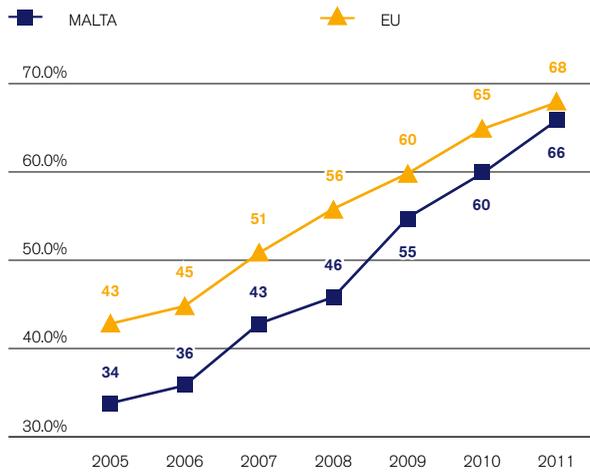
Awareness-raising: As part of the MCA's awareness-raising activities, a number of audio-visual clips were commissioned to showcase how ICT has impacted and contributed to a better quality of life for various individuals, which included a parent, a professional, a pensioner, a person with a disability, a student and an entrepreneur. In addition, four other features were produced, covering the ICT-VN project, the BeSmartOnline initiatives and two features on the eBusiness awards. All features were aired on a specialised programme on the national TV station.

A strategy for the development of a networked society:

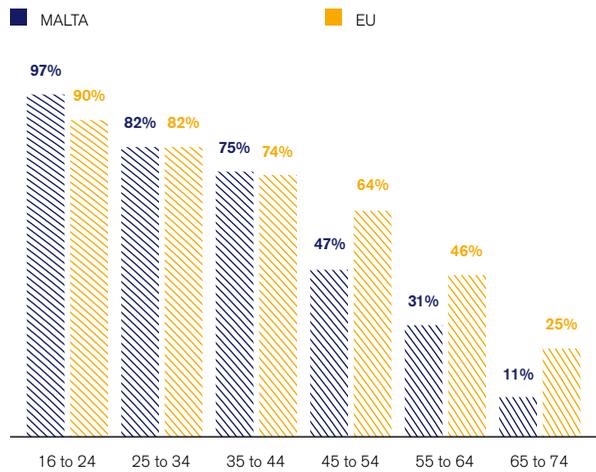
The continued uptake of broadband subscriptions in recent years, together with an upsurge in the number of Maltese individuals using the Internet, which now reaches 66% of the population, is without a doubt promising. However, the fact remains that one in every three citizens does not use the Internet and is thus excluded from taking part in any online activity. Even more worrying is the number of individuals who never use the Internet.

One of the biggest challenges remains that of attracting more adult users to get connected and use ICTs. Whilst we have witnessed progressive reductions in the cost of ICT related services, the most vulnerable groups of society, including the older generations, the unemployed and the least skilled, appear to continue to opt to distance themselves from the networked society.

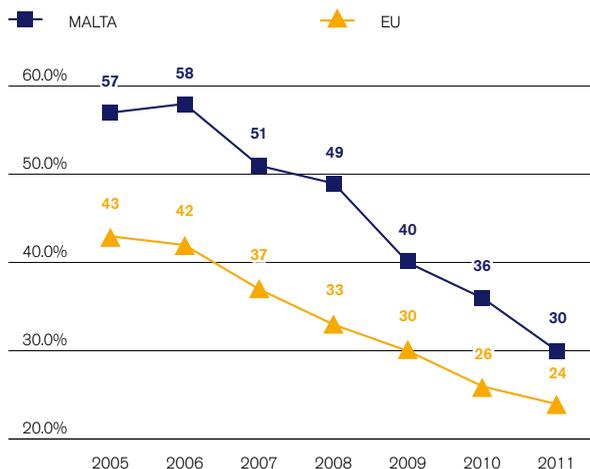
PERCENTAGE OF POPULATION WHO ACCESS THE INTERNET (MINIMUM ONCE A WEEK)



INTERNET USAGE BY AGE (ONCE A WEEK OR MORE, 2010)

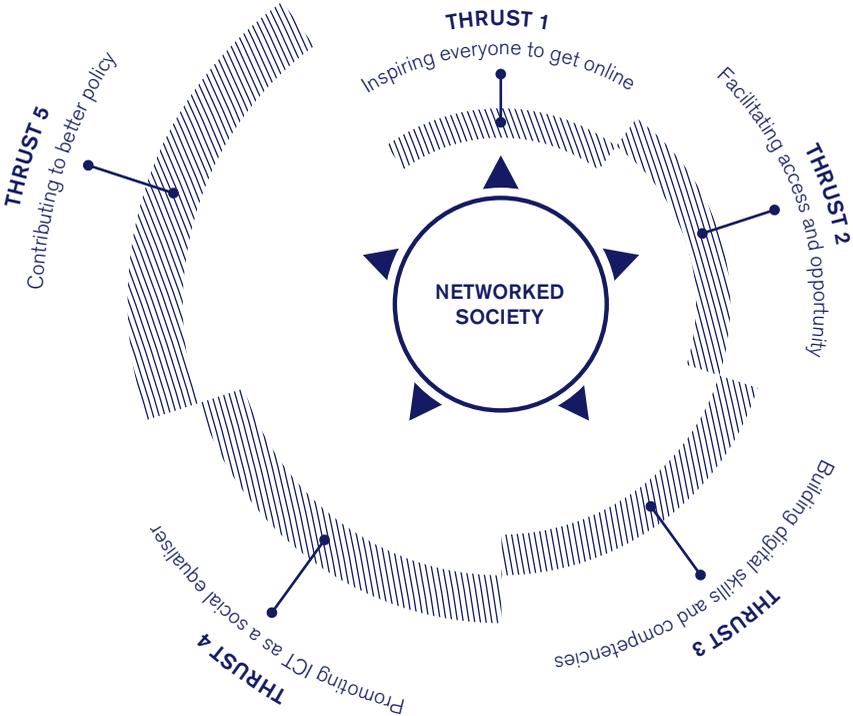


PERCENTAGE OF INDIVIDUALS WHO NEVER USE THE INTERNET



As part of its drive to encourage greater use of ICT by all members of society, during 2011, the MCA worked towards the development of a strategy to define its policy direction and a three-year work programme in this regard. The strategy is aimed at facilitating and supporting the development of a networked society that capitalises on the opportunities brought about by ICT for social cohesion and economic development. The diagram below, illustrates the five activity thrusts outlined in the strategy.

The strategy forms part of a wider national drive to place ICT at the centre of economic and social development. It is anticipated that the strategy will be launched in the second quarter of 2012.



A NETWORKED ENTERPRISE:

In the context of a global market that is capitalising on online channels, Maltese businesses cannot afford to be excluded from the digital network. On this note, the Authority gears a portion of its activity towards micro-businesses and the self-employed to ensure that these have the opportunity to maximise on the benefits that ICTs can bring to a business. On this front, the MCA is guided by the following strategic objective:

1. Encouraging the use of eBusiness models by local enterprises as a means to improve competitiveness.

The following are the main activities undertaken during 2011:

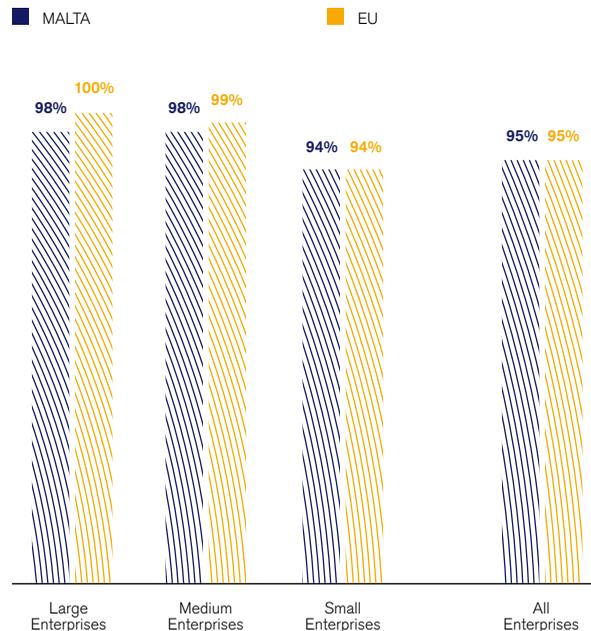
ICT-VN: ICT-VN is an INTERREG IVC project that brings together representatives from nine European regions and aims to identify, discuss, share and transfer policy best practices that have provided assistance to Small to Medium-sized Enterprises (SMEs) to adopt and make use of ICTs. This project focuses on the agrifood, tourism and the service sectors, in an attempt to increase European competitiveness in these fields. During 2011, Malta identified Ireland as its potential partner with whom to transfer good practices and initiatives. One local initiative which has been identified as potentially transferable to other Member States is the Trolleymania.com project – an eMall that is used by businesses and other organisations which have products or services to sell to the public. Trolleymania.com is aimed at encouraging eCommerce by reducing barriers to entry to the bare minimum. Currently being implemented by MITA, this project is being studied in more detail, by the West Business Information Centre (WESTBIC) - Ireland, with a view to assessing whether it can be transferred and implemented in Ireland. Similarly, WebCheck – an initiative that assists businesses working in the tourism sector to enhance their online presence, was analysed to assess its transferability to Malta as the potential project to be implemented locally. As part of this initiative, the MCA also hosted the consortium meeting in April and organised an additional two workshops.

EPITOME: EPITOME is another EU part-funded project undertaken by the MCA, in which training in ICT is given to local micro-enterprise owners, their employees and the self-employed. The course offers a curriculum that is specifically designed to address the needs of Maltese micro-enterprises and the self-employed and is based on a study, which identified the specific skill-needs of individuals working in the business sector. Its overall objective is to empower micro-entrepreneurs, their employees and the self-employed to make effective use of computers and the Internet in the day-to-day operations of their business. The course opened in August 2011 and by the closing date, 350 valid applications were received. Training commenced in the first week of November 2011 and will terminate towards end-2012.

A strategy for the development of a networked enterprise:

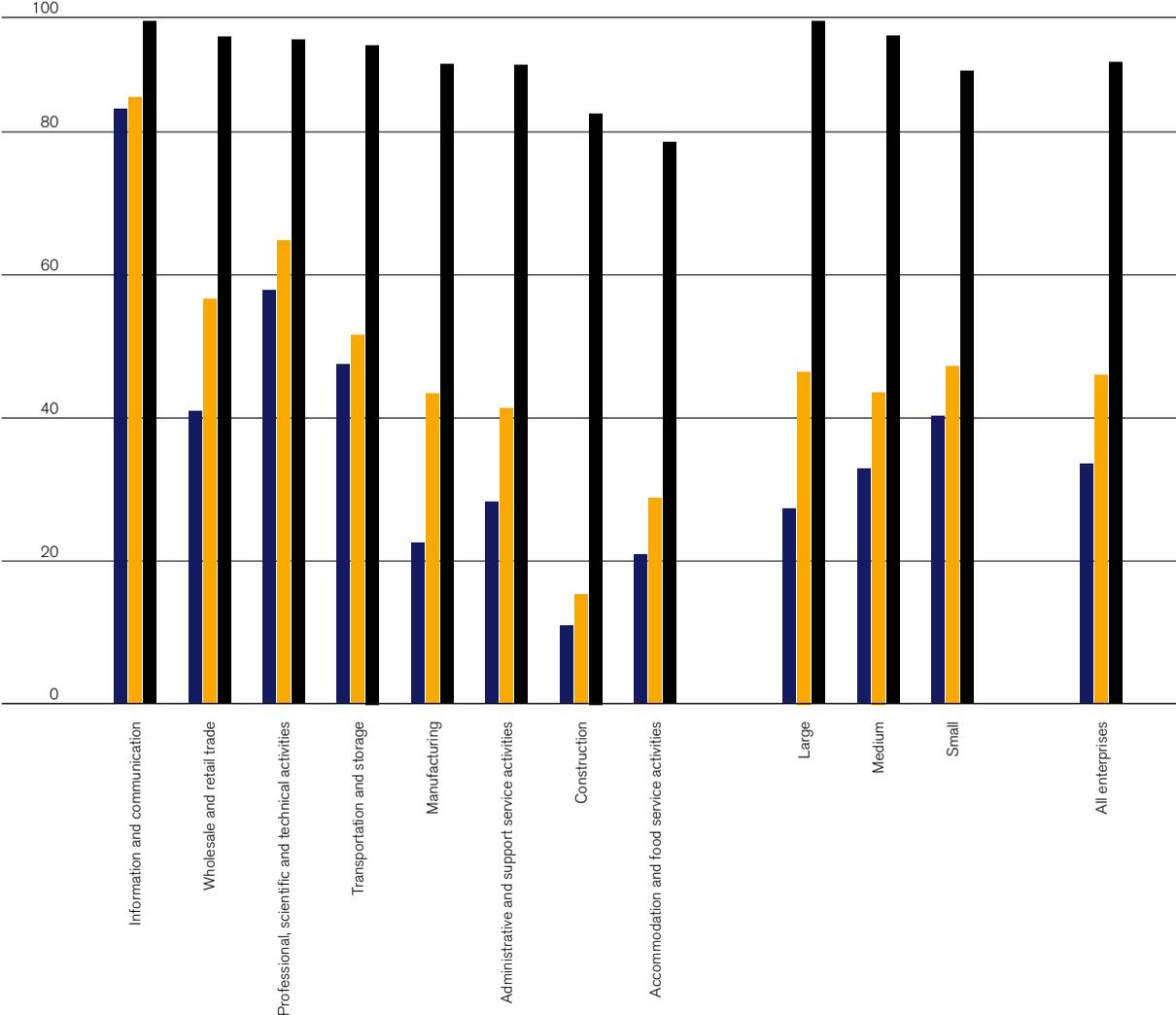
Like individuals, businesses cannot afford not to participate in the online world. The MCA envisages a business community where all businesses are making the most of ICTs - it calls this the 'Networked Enterprise'. Whilst a large number of local enterprises have capitalised on the benefits of ICT, small enterprises are lagging behind their larger counterparts, in both web presence and usage of internet service.

PERCENTAGE OF ENTERPRISES WITH INTERNET ACCESS



INTERNET USE BY ENTERPRISE SIZE AND SECTOR

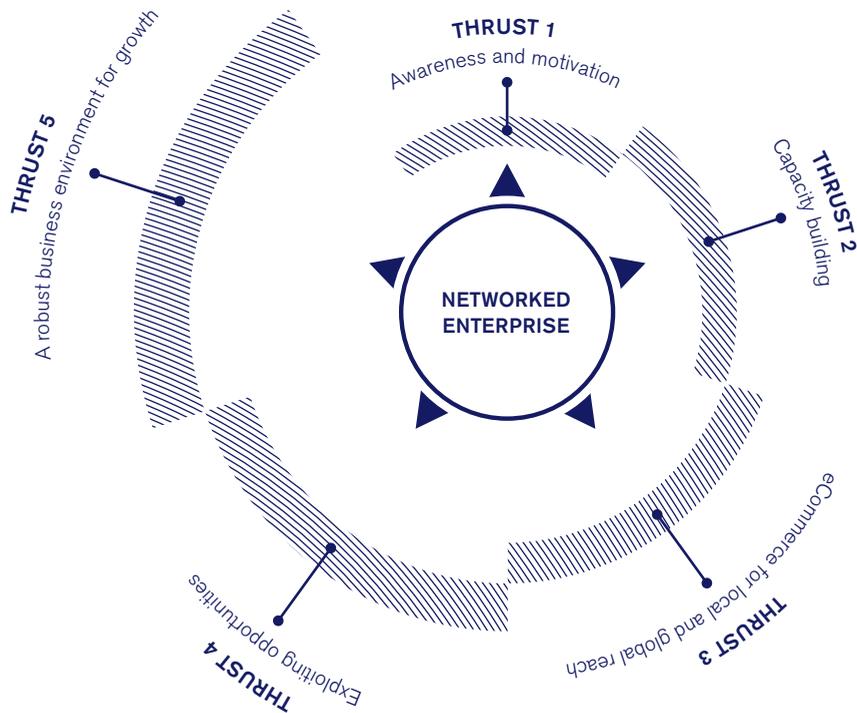
- EMPLOYEES USING THE INTERNET
- EMPLOYEES USING THE COMPUTER AT WORK
- INTERNET USE BY ENTERPRISES



In an attempt to facilitate the emergence of a stronger networked enterprise in Malta, particularly amongst the smaller enterprises, during 2011, the Authority commenced work on the development of a strategy, outlining a work programme for the coming three years. This work programme is aimed at assisting the Maltese entrepreneur identify the available ICT tools, integrate these into the business processes and maximise profit through increased

business value. Similar to the strategy developed for a networked society, this strategy also outlines five main thrusts of activity as outlined in the diagram below.

It is anticipated that both strategies will be launched in the second quarter of 2012.



LEGISLATION & LITIGATION

LEGISLATIVE AMENDMENTS

The following is a list of legislative amendments that were carried out during the year under review.

Implementation of the EU Electronic Communications Framework amendments of December 2009: Work on the transposition of the EU electronic communications regulatory framework commenced in 2009. Amendments to the MCA Act, the Utilities and Services (Regulation of Certain Works) Act, Consumer Affairs Act, the Electronic Communications (Regulation) Act and the Electronic Communications Networks and Services (General) Regulations entered into force on 12th July 2011. A new law regulating '112' and '116' services was also introduced. Amendments to Data Protection subsidiary legislation were also made in view of the revised ePrivacy Directive.

The Laws that were enacted are as follows:

- Act IX of 2011 amending various Acts, entitled 'The Communications Laws (Amendment) Act, 2011 [amending the Electronic Communications (Regulation) Act (Cap. 399 of the Laws of Malta), the Malta Communications Authority Act (Cap.418 of the Laws of Malta)], the Utilities and Services (Regulation of Certain Works) Act (Cap. 81 of the Laws of Malta) and the Consumer Affairs Act (Cap. 378 of the Laws of Malta).
- LN 239 of 2011 - Processing of Personal Data (Electronic Communications Sector) (Amendment) Regulations, 2011.
- LN 272 of 2011 – Commencement Notice.
- LN 273 of 2011 - Electronic Communications Networks and Services (General) Regulations, 2011. This Legal Notice also provided for the repeal of various legal notices, which had previously regulated different aspects of electronic communications.
- LN 274 of 2011 - Single European Emergency Call Service (112 number) and the European Harmonised Services of Social Value (116 Numbering Range) Regulation, 2011.

The General Authorisations (Radiocommunications) Regulations and the Fees (Radiocommunications):

Regulations were amended to include new types of radio equipment within the general authorisation regime thereby eliminating the need for individual licensing and associated fees. The new types of equipment listed under these regulations are:

- Angle-modulated citizens' band (PR 27) radiocommunications apparatus;
- Radiocommunications apparatus comprised in a wireless electronic communications network;
- General authorisation for dealing (trading) in radiocommunications apparatus other than television and broadcast receiving apparatus;
- Communications receive only radiocommunications apparatus;
- Radio microphones; and
- Apparatus for mobile communications services on board vessels.

Single European Emergency Call Service ('112' number) and the European Harmonised Service of Social Value ('116' numbering range) Regulations 2011⁴⁰:

These Regulations relate to the operation of the single European emergency call service '112' and to the use of the European harmonised services of social value for which the '116' numbering range is reserved. The schedule to the regulations lists the competent national authorities involved in the administration and use of the said numbers.

⁴⁰ As per Legal Notice 274 of 2011

Electronic Communications Networks and Services (General) (Amendment) Regulations, 2011⁴¹: These Regulations amended the Eighth Schedule to the Electronic Communications Networks and Services (General) Regulations, to reflect the fees to be paid for the use of radio spectrum assigned in the 900 MHz and 1800 MHz bands.

Authorisation of Frequency Use (Provision of 2 GHz Mobile Satellite Services) Regulations, 2011⁴²: These Regulations implement an EU decision⁴³ relating to the selection and authorisation of systems providing mobile satellite services and detail the conditions relating to the applicable authorisations in accordance with the said decision.

MaltaPost plc licence (Modification) (Amendment) Regulations, 2011⁴⁴ : A number of tariffs relating to postage parcel rates to certain countries as listed in the MaltaPost p.l.c. licence (Modification) Regulations, were amended.

General Authorisations (Radiocommunications Apparatus) (Amendment) (No.2) Regulations, 2011⁴⁵: This amendment implemented an EU decision⁴⁶ relating to the harmonisation of the 24 GHz range radio spectrum band for the time-limited use by automotive short range equipment in the EU.

Electronic Communications Networks and Services (General) (Amendment) (No.2) Regulations, 2011⁴⁷: These amendments primarily provided for the inclusion of a new part to the Electronic Communication Networks and Services (General) Regulations dealing with trading rules for radio spectrum licences.

41 As per Legal Notice 335 of 2011

42 As per Legal Notice 397 of 2011

43 Decision 626/2008/EC of the European Parliament and of the Council on the selection and authorisation of systems providing mobile satellite services [MSS].

44 As per Legal Notice 398 of 2011

45 As per Legal Notice 447 of 2011

46 Decision 2011/485/EU dated 29 July 2011 amending Decision 2005/50/EC on the harmonisation of the 24 GHz range radio spectrum band for the time-limited use by the automotive short-range equipment in the Community

47 As per Legal Notice 485 of 2011

DISPUTES AND LITIGATION DURING 2011

In 2011, three new disputes were filed, all of which were concluded by end year. Two disputes related to the postal sector and one related to the electronic communications sector between Sky Telecom and GO concerning termination rates. This dispute was decided with the complaint being upheld. The decision was not appealed.

During the same period, three disputes outstanding from 2010, related to separate appeals filed by European Directory Assistance (EDA) versus GO, Melita and Vodafone (Malta) respectively, were decided by the MCA in March 2011. EDA filed appeals in all three instances before the Communications Appeals Board⁴⁸.

| Disputes received in 2011 | | |
|--|--|-------------|
| Parties | Subject | Status |
| Sky Telecom Ltd –vs- GO Plc | Termination rates | Decided |
| MaltaPost Plc vs General Logistics Services, Global Parcels Ltd & Airsped Ltd. | Provision of postal services within the scope of the universal service without a licence | Decided |
| 13 Distributions Ltd vs MaltaPost Plc | Allegation of cross-subsidisation of unaddressed mail by regulated services | Not pursued |

Appeals before the Communications Appeals Board:

Five new appeals were lodged in 2011. One appeal by DHL International Ltd relates to the postal sector and is currently pending before the Appeals Board. This appeal was lodged to contest a decision published by the MCA, which decision obliged DHL International to have an individual licence to provide postal services in relation to incoming postal services from Germany.

The other four appeals all related to the electronic communications sector and include three separate appeals by European Directory Assistance Spa against GO, Melita and Vodafone (Malta) respectively following three separate disputes by EDA against each of the three aforesaid operators whereby EDA had requested access to the directory subscriber base of each operator. These appeals have been adjourned *sine die* for the Board's decision following preliminary pleas raised by the MCA in relation to each of these appeals. The other appeal relates to a contestation, by Melita, of an administrative fine imposed by MCA on the grounds that Melita should have notified the MCA subsequent to a change in Melita's channel line-up.

No final decisions were given by the Appeals Board during this period.

Litigation before the Courts: An appeal was filed by both Melita, the MCA and the Office of the Attorney General before the Court of Appeal [Superior] following a decision by the First Hall given in February 2011 in a case instituted by Melita contesting the quantum of the amount of rights-of-way fees.

Following a request by appellants, the Constitutional Court has made a request to the European Court of Justice to give the correct interpretation and application of Articles 12 and 13 of EU Directive 2002/20/EC ['Authorisation Directive'] in relation to the contestation of the excise tax on mobile telephony services by GO and Vodafone (Malta).

⁴⁸ The Communications Appeals Board is an appellate forum which is independent from all parties including the MCA, before whom an aggrieved person can contest a regulatory decision issued by the MCA. There is a further right of appeal on point of law before the Court of Appeal (Inferior Jurisdiction) from a decision of the Appeals Board. This latter right of appeal is available to all parties to the appeal before the Appeals Board, including the MCA.



**CORPORATE
DEVELOPMENTS,
INITIATIVES
AND ONGOING
REGULATORY
ACTIVITY**

*IN THE COURSE OF 2011, THE
MCA LARGELY IMPLEMENTED
THE ESTABLISHED PROGRAMME
ACROSS ALL THE POLICY AREAS
FOR WHICH IT IS RESPONSIBLE.
THE HIGHLY DYNAMIC
ENVIRONMENT IN WHICH THE
AUTHORITY OPERATES DEMANDS
INBUILT FLEXIBILITY TO ADAPT TO
CHANGING CIRCUMSTANCES.*

*THE MCA RETAINS SUCH
FLEXIBILITY VIA A MATRIX MODE OF
OPERATION THAT CUTS ACROSS
ORGANISATIONAL STRUCTURES AND
BRINGS TOGETHER STAFF FROM
VARIOUS UNITS AND DISCIPLINES TO
WORK ON SPECIFIC ASSIGNMENTS.*

CORPORATE DEVELOPMENTS AND INITIATIVES

The following are the main corporate and ongoing activities undertaken by the Authority:

Human resource management: The MCA strongly believes in presenting students with the opportunity to develop their abilities through work-phase placements. Apart from supporting university students during the summer recess, the MCA extended its support to students participating in the Technical Apprentice Scheme (TAS), coordinated by the Employment and Training Corporation. Furthermore, for the first time, the Authority engaged a foreign student, with the assistance of the NSTS, to carry out an internship with the MCA, assisting with the PR and communications function of the Authority, for a period of two months. Total complement of staff by the end of 2011 amounted to 72.

Implementation of extensive training and development programme: A training needs analysis, undertaken in 2010, identified areas where employees would benefit from training in order to become more efficient at achieving the objectives set by the Authority. Targeted training to address identified gaps commenced in 2011.

Statistical Analysis Management System (SAMS): SAMS is an integrated database that facilitates the collation of market data. The implementation of the system was finalised in 2011 and training has been given to all operators. The system also offers extensive reporting capabilities. The system is still undergoing further enhancements, particularly in its reporting capabilities for internal and external purposes. It is expected that the reporting functionality will be fully operational in early 2012.

Information Management: The Information Management (IM) unit deals with the planning and effective management of information management and systems within the Authority. The primary roles of the IM unit are to ensure that the information management systems and processes continue to support the changing needs of the MCA; to implement an application portfolio which supports the various lines of business ensuring integration across the MCA, specifically the implementation of an integrated framework that supports seamless integration using web-based technologies and workflow support tools; and to enhance the capacity of the IT team to provide effective service support to all aspects of the business and ensure the technology infrastructure is secure, always available and reliable.

A number of significant information initiatives were completed in 2011 and include:

- improved infrastructure security;
- improved accessibility for all staff;
- the launch of a new website;
- introduction of payment facilities from the website;
- revamp of the intranet portal; and
- more workflow systems supporting the core processes of the organisation.

New corporate website: The Authority launched its new website in June 2011, which now caters for all the additional responsibilities assumed by the Authority over the previous years. The new website has the required flexibility needed to address all of the communications needs of the Authority. It is expected that more interactive services will be launched during the course of 2012. The number of site visits for the first six months exceeded 69,500 visits, equivalent to 386 visits per day.

ONGOING REGULATORY ACTIVITY

Management of licences and general authorisations:

During 2011, the MCA received four new notifications from undertakings operating in the electronic communications sector. No new authorisations were registered in the postal sector. Five

undertakings terminated their authorisation to operate in the electronic communications sector, whilst one termination was received from Gozo Link Services, operating in the postal sector.

| Electronic communications authorisations and terminations during 2011 | | | | | |
|---|--------------------------------------|---------------------------------|---|--|--|
| Public Communications Network | Publicly available telephone service | Radio & TV distribution service | Other Public electronic communications service | Non-Public electronic communications service | Private Electronic communications network and/or service |
| 1 termination [One Telecom Ltd] | | | 1 [New Phonia Ltd] | 2 [Comlux Malta Ltd & Viasat Malta Ltd] | 1 [Water Services Corporation] |
| | | | 4 terminations [Open Networks Ltd; Telemail Ltd; Telepage Ltd; Unicept Co Ltd.] | | |
| Licences issued during 2011 | | | | | |
| Licence to operate in the 900 MHz and 1800 MHz bands | | | | | |
| Vodafone (Malta) Ltd | | | | | |
| Melita Mobile | | | | | |
| GO Plc | | | | | |
| Licence to operate a GIO digital TV network using IHF Channel 66 | | | | | |
| Public Broadcasting Services Ltd. | | | | | |

Radiocommunications equipment licensing: During 2011, the Authority continued with its functions to license radiocommunications equipment and took measures to rationalise the licensing regime of certain categories of equipment (citizens' band radio, radio microphones, model remote control devices and dealers). In June 2011, regulations were adopted to regulate such equipment through a light-touch approach by means of a general authorisation. This regime also included provisions to regulate mobile communications services on-board vessels (MCV services). Moreover, the fees for satellite earth stations were revised downwards to enhance Malta's competitiveness in the provision of satellite related services. The revised fees are intended to attract new installations in particular those using wide bandwidths. During this period, several discussions were held with the MITC on the taking over of the administrative functions relating to radiocommunications equipment licensing. These functions are expected to be migrated to the Authority in January 2012.

MSS Rights-of-Use: In light of European regulations relating to the provision of 2 GHz Mobile Satellite Services (MSS), throughout 2011, the Authority finalised the national licensing framework for the authorisation of the satellite component of these services. In this regard, the Authorisation of Frequency Use (Provision of 2 GHz MSS) Regulations were adopted. The rights-of-use to be granted to the selected MSS operators were prepared. Licences are expected to be issued in early 2012.

Radio Spectrum Policy Programme: During 2011, the MCA provided significant input to the position, which Government was taking during negotiations on the first Radio Spectrum Policy Programme (RSPP). The RSPP, which was agreed at the end of 2011, sets out the EU principles to ensure efficient management and use of spectrum and to promote investment, competition and innovation. This EU measure covers all policy areas involving the use of spectrum, such as electronic communications, research, technological development and space, transport, energy and audio-visual services.

Specific steps to be taken by the EU Member States and the Commission include:

- Authorisation by Member States on the use of the harmonised 2.5-2.69 GHz, 3.4-3.8 GHz and 900/1800 MHz bands for use by wireless broadband communications, including 3rd & 4th generation mobile communication services, by the end of 2012;
- All Member States (unless an individual derogation has been obtained), should have authorised the use of the 800 MHz band for wireless broadband communications, by 1st January 2013;
- The setting out of details for an inventory to analyse the use of spectrum in the 400 MHz to 6 GHz range by the Commission, in cooperation with Member States, by 1st July 2013;
- The allocation of sufficient and appropriate spectrum in a timely manner to support EU policy objectives after identifying at least 1200 MHz of suitable spectrum, by 2015; and
- Bridging the digital divide and contributing to the objectives of the Digital Agenda for Europe by fostering access to broadband at a speed of not less than 30 Mbps for all EU citizens by 2020.

International liaison on spectrum management: Efforts to strengthen the relationship with neighbouring states, particularly on matters related to spectrum management continued in 2011. The MCA participated in meetings, both with neighbouring countries, as well as at International Telecommunications Union (ITU) level, with a view to resolving issues of harmful interference. A request was sent to neighbouring states to coordinate additional frequencies for the provision of digital terrestrial broadcasting services. The Authority also participated in a working group at EU level intended to establish a framework to support the international coordination of spectrum.

Revision of the National Frequency Plan: The Authority recommended bi-annual revisions to the National Frequency Plan to Government. The revisions implement EU directives that have a bearing on spectrum use. The MCA's recommendations were approved by Government. Some revisions were adopted in May 2011, whilst others are expected to be adopted in January 2012.

PARTICIPATION IN INTERNATIONAL FORA

The Authority actively participates as a member of the Body of European Regulators of Electronic Communications (BEREC) by contributing to discussions at a pan-European level, taking into account the particular characteristics of the local market and safeguarding national interests. The MCA participates in fora that are directly related to its regulatory role as an independent Authority.

The MCA also contributes to European discussions as an expert on behalf of Government. The following are some of the fora attended in this capacity.

GALILEO: Galileo – the global satellite navigation system has the potential to provide real improvements in satellite navigation technology, thus contributing to Europe's competitiveness in the global market by creating the opportunity for the deployment of new tools for the commercial and industrial market. Galileo offers a wide range of benefits for consumers, companies and society at large such as new and better services, improvements in business operations and greater efficiency and security for public authorities.

The MCA is working very actively with the European Commission and other Member States to explore these opportunities and act as a facilitator to assist local stakeholders, including industry players, researchers and academia amongst others, to understand the technical and commercial considerations of Galileo, thereby enabling these to maximise from the benefits of the programme.

High Level Working Group on Internet Governance (HLIG):

The HLIG is a group set up by the European Commission having representatives from Governments of the individual EU Member States, with the objective of discussing matters related to Internet Governance; it provides a forum where the individual member states can exchange information about meetings of the Governmental Advisory Committee (GAC) to the Internet Corporation for Assigned Names and Numbers (ICANN). The HLIG also prepares for a coordinated EU approach in relation to participation in the IGF. The HLIG deals with critical matters of internet governance, in particular those belonging to the area of public interest. The Authority, which is the local coordinator for internet governance initiatives, participates in these meetings using the MIGF, discussed on page 49, as a platform for the formulation and exchange of ideas on the subjects on the agenda of the HLIG.

WRC-12 preparations: During 2011, the MCA prepared for participation in the next ITU World Radiocommunications Conference, scheduled to take place between 23rd January and 17th February 2012. The Authority participated in a number of working group meetings of the European Conference of Postal and Telecommunications Administrations Electronic Communications Committee (CEPT ECC), in which European Common Positions were debated and agreed. The Authority also examined proposals submitted by other ITU administrations, the ITU and other UN institutions on the various agenda items of the Conference. The Authority prepared and submitted a contribution to the ITU for the consideration of the Conference. The scope of this contribution was to align the national allocations in certain frequency bands with those of the rest of Europe.

A comprehensive list of meetings attended by the MCA during the course of 2011, including those meetings attended on behalf of Government is listed on the next page.

| LIST OF MEETINGS ATTENDED BY MCA / MITC PERSONNEL | |
|--|------------------------------------|
| Commission / Council meetings | |
| Council Working Party (Telecoms and Information Society) | April/ July / September |
| COCOM (Communications Committee) | April / May / July / October |
| COCOM Working Group (WG) on Authorisations | June |
| COCOM WG on MSS (Implementation of Framework for pan-European systems providing MSS) | April, June |
| COCOM WG on Inclusive Communications (INCOM) | October |
| COCOM Workshop on Electronic Communications Market Indicators | September |
| Digital Agenda eInclusion Adhoc Group | June |
| European Global Navigation Satellite Services (GNSS) Programmes Committee | January, May |
| European GNSS Supervisory Authority (GSA) | February, March |
| European GNSS Systems Security Board WG, Public Regulated Services (PRS) | March, December |
| Implementation of the Services Directive, Trusted Service List (TSL) | June |
| Postal Directive Committee | April, December |
| RSCOM (Radio Spectrum Committee) | March / July / October / December |
| RSPG (Radio Spectrum Policy Group) | February / June / November |
| RSPG WG on International Coordination of Spectrum | April |
| eCommerce Expert Group | March, October |
| Regulatory | |
| CEPT WG Numbers Names and Addresses | February, May, November |
| CERP Plenary (European Committee for Postal Regulation) | May, October |
| CERP WG Universal Postal Union (UPU) | October, November |
| BEREC | February, May, September, December |
| BEREC/Independent Regulators Group (IRG) Benchmarking Project Team (PT) | February, May, September, November |
| BEREC/IRG Contact Network | February, May, September, November |

| Regulatory (continued...) | |
|--|-------------------|
| BEREC/IRG Convergence | April |
| BEREC/IRG International Roaming | July |
| BEREC/IRG Net Neutrality PT | January, November |
| BEREC/IRG Remedies Expert WG | June |
| BEREC/IRG SMP | January |
| ERGP (European Regulators Group for Postal Services) | November |
| ERGP Contact Network | June, November |
| ERGP sub-group Regulatory Accounting/Price Regulation | February |
| Other ad hoc meetings | |
| GSM Ministerial Programme | February |
| Internet Protocol Version 6 (IPV6) World Congress | February |
| Digital Agenda for Europe High Level Group - Broadband workshop | March |
| Florence School of Regulation (FSR) Workshops - Economics of Communication and Media Markets | March |
| Join-the-Dot Meeting | March |
| Workshop, Broadband Policy and NGA Regulation | April |
| Conference "Bundling and multi-play: Does it require a new regulatory paradigm?" | May |
| ITU - Harmful interference to BC/ BT stations in the UHF/VHF bands | May |
| Centre for Research in Regulated Industries (CRR) Postal and Delivery Service Programme | June |
| International Association of Consumer Law (IACL) Conference | June |
| Number Portability Conference | June |
| Inhope Meeting and Insafe Southern Regional Cluster Meeting | July |
| Web-check - part of ICT-VN | August |
| Article 13A workshop | September |
| International Broadcasting Convention (IBC) Conference | September |
| ICTVN | September |

| Other ad hoc meetings (continued...) | |
|---|-------------------|
| Regulatory Accounting (RA) WG | September |
| Submarine Networks World 2011 | September |
| Innovation for Digital Inclusion | October |
| Prospectives for the Development of Electronic Communications Market Conference | October |
| Safer Internet Forum | October |
| Telecentre Europe Summit | October |
| BEREC Summit | November |
| EET's Broadband Measurement Tools | November |
| Academy of European Law (ERA) briefing meeting entitled 'Impacts of the ECJ decision in Football Association Premier League and others' | November |
| Experience exchange with the Cavan Enterprise Board (Ireland) | November |
| Invitation to Regulatory and Policy Challenges of NGA | November |
| Pluralism and Competition in the Regulation of New Media | November |
| Digital Agenda for Europe Round Table Conference | December |
| Value Networks Forum | December |
| INSAFE training meeting | April, September |
| CEPT - Conference Preparatory Group Meeting for World Radiocommunication Conference (WRC-12) | June, November |
| FSR - Communications and Media Training Course | October, November |

Participation in these meetings entailed a considerable amount of work both prior and after meetings, both by the Authority's External Relations Unit and by the experts attending the meeting.

In addition to the preparations required for the meetings attended abroad, the Authority also contributes to discussions taking place at the EU level on a number of issues. Throughout 2011, amongst others, the European Commission issued a total of 16 proposals and reports related to the electronic communications sector. The MCA was actively involved in the drafting of memos to Government for 10 of these proposals and was consulted on the remaining six proposals, as highlighted in the following tables.

Proposals on which the MCA provided feedback to Government, highlighting Malta's position.

| | |
|--------------------|---|
| COM (2011) 5 | Report from the Commission to the European Parliament and the Council: Mid-term review of the European satellite radio navigation programmes |
| COM (2011) 180 | Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - The European Union's Policy Approach to the ITU World Radio Communication Conference 2012 (WRC-12) |
| COM (2011) 124 | Proposal for a Council Decision on the conclusion of the Agreement on the promotion, provision and use of GALILEO and GPS satellite based navigation systems and related applications between the United States of America, of the one part, and the European Community and its Member States, of the other part |
| COM (2011) 180 | Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - The European Union's Policy Approach to the ITU World Radiocommunication Conference 2012 (WRC-12) |
| COM (2011) 222 | Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - The Open Internet and Net Neutrality in Europe |
| COM (2011) 347 | Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Amendment of the Financial Statement accompanying Regulation (EU) NO 912/2010 |
| COM (2011) 402-407 | Proposal for a Regulation of the European Parliament and of the Council on Roaming on public mobile communications networks within the Union (Recast) |
| COM (2011) 795 | Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Universal service in e-communications: Report on the outcome of the public consultation and the third periodic review of the scope in accordance with Article 15 of Directive 2002/22/EC |
| COM (2011) 814 | Proposal for a Regulation of the European Parliament and of the Council, on the implementation and exploitation of European satellite navigation systems |
| COM (2011) 942 | Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A coherent framework for building trust in the digital single market for eCommerce and online services |

| Proposals on which the MCA was consulted upon | |
|---|---|
| COM (2011) 146 | Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Reform of the EU State Aid Rules on Services of General Economic Interest |
| COM (2011) 348 | Proposal for a Directive of the European Parliament and of the Council on the minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (electromagnetic fields) (XXth individual Directive within the meaning of Article 16(1) of Directive 89/391/EEC) |
| COM (2011) 427 | Green Paper on the online distribution of audio-visual works in the European Union: opportunities and challenges towards a digital single market |
| COM (2011) 556 | Report from the Commission, to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, on the application of the Council Recommendation of 24th September 1998 concerning the protection of minors and human dignity and on the right of reply in relation to the competitiveness of the European audio-visual and online information services industry - Protecting Children in the Digital World |
| COM (2011) 657 | Proposal for a Regulation of the European Parliament and of the Council on guidelines for trans-European telecoms networks and repealing Decision No. 1336/97/EC |
| COM (2011) 665 | Proposal for a regulation of the European Parliament and of the Council establishing the Connecting Europe Facility |

INNOVATIVE REGULATORY APPROACHES

Premium Rate Services: A decision published in November 2010 introduced a framework that sets the rules with regard to the provision of premium rate services at both wholesale and retail levels. This framework introduced an innovative model that addresses the problems encountered previously with regard to interconnection, whilst at the same time, increasing tariff transparency for consumers. Essentially, this model introduces two separate elements to the charging mechanism – the premium rate element and a conveyance element. At the retail level, the premium rate element is not duration dependent given that it is based on price bands established by the Authority, applicable for both fixed and mobile telephony. On the other hand, the conveyance element is duration dependent as it is equivalent to the normal retail charge for making a call to a fixed line.

At present, a report on best practices for special rate services is being discussed at European level. The premium rate services framework adopted in Malta is being proposed as one of the optimal solutions.

Since the implementation of this decision, there have been no inter-operator complaints associated with premium rate services. Four local service providers have been assigned number blocks enabling them to host premium rate services.

Functional broadband Internet access. Whereas the availability of access to broadband in Malta is amongst the highest in Europe, it can still be subject to commercial expediency. A number of users may therefore be unable to access what has now become a universally-accepted essential component of everyday life, at acceptable quality levels because of an inadequate network connection. In the third quarter of 2011, the MCA published a decision establishing the requirements that the designated USP, currently GO, should comply with for the provision of access at a fixed location. In this regard, the decision establishes that connections must be capable of supporting functional Internet access at a minimum broadband data rate of 4 Mbps.

At the choice of the end-user, the USP is required to provide a connection at a guaranteed access line speed of 4 Mbps. If, in exceptional circumstances, technical or economical constraints prevent the provision of such broadband Internet access and no alternative offering is readily available on the market, the USP is allowed to provide an access line speed that must not be lower than 2Mbps. This decision came into effect on 1st August 2011.

Spectrum assignment process: The licences in the 900 MHz and the 1800 MHz bands were due to expire in March 2011. In preparation for such an event, in 2009, the Authority initiated a consultation process outlining its proposals for the reassignment of this spectrum. Following consideration of the various responses received, in July 2010 the Authority published a decision on the assignment methodology and licence conditions to be applied once the spectrum is made available. Subsequently, in October 2010, the MCA invited interested parties to submit an application for spectrum in these bands, by 14th January 2011.

The reassignment process was concluded in August 2011, whereby three new licences were issued to Melita Mobile Ltd, Mobisle Communications Ltd and Vodafone (Malta) Ltd respectively. Fully compliant with Decision 2011/251/EU, these licences allow the operators in question to deploy Universal Mobile Telecommunications System (UMTS), Long Term Evolution (LTE), WiMax, as well as standard Global System for Mobile communications (GSM) services.

This was the first time that spectrum, already assigned and in use by local operators for the provision of mobile services, had to be reassigned due to the fact that the respective licences were coming to an end. The MCA adopted an innovative reassignment process, introducing brokered meetings involving all the parties that responded to the call for applications. In the event that the brokered meetings did not result in a spectrum assignment acceptable to all parties, the Authority would have had to proceed to assign the spectrum by auction.

The new methodology was well received by the local market players who cooperated fully in the process enabling the Authority to conclude the new spectrum assignments without the need to resort to an auction.

The methodology adopted proved essential in the attainment of a number of objectives namely:

- 1. The exercise is as open, fair and transparent as possible:** Any interested party could apply for spectrum and each and every applicant was requested to submit the same level of information, thus creating a level playing field for all concerned.
- 2. The promotion of new entrants:** The introduction of spectrum caps limited the possibility of spectrum hoarding by incumbent operators. Furthermore, the brokered meetings were intended to provide an opportunity to find a solution that was acceptable to all qualified applicants without the need to resort to an auction.
- 3. Flexibility:** The applicants were given the opportunity to apply for any desired mix of spectrum channels in the bands available.
- 4. Ensured sustainability:** For this assignment process, an auction was considered only as a measure of last resort. Even in the auction design, the emphasis was not on revenue generation. In fact a second price methodology was adopted.

Issues of spectrum are always complex and very taxing on the MCA's resources. However this assignment process has proven that cooperation does indeed lead to results. This new assignment procedure was viewed favourably by the EU Commission.

eMail mobility services: Today, undertakings are required to provide email mobility services to their respective subscribers upon request following termination of service. The objective of the new provisions is to facilitate subscriber switching between ISPs by ensuring that email services do not act as a barrier to switching. These services, which are to be provided free of charge, include the forwarding of emails to an email address of the subscriber's choice for a period of 12 months as well as automated replies to any mail received on the original email address with a message informing the sender of the new address. Following the initial 12 month free-of-charge email forwarding period, the ISP is required to offer the possibility to subscribers to extend this forwarding period at a charge. In addition, the undertaking is obliged not to allocate the original email address to any other subscriber for a period of at least five years.

Email forwarding is the result of an extensive consultation exercise that was issued in January 2010 and a set of Guidelines that were published by the Authority in May 2010.

LIST OF CONSULTATIONS AND DECISIONS

The following is a list of Consultations and Decisions issued in 2011.

Consultations:

- Proposed modifications to the terms and conditions of subscriber contracts - January
- GO's reference unbundling offer: consultation and proposed decision on the review of sub-loop unbundling related aspects of the reference unbundling offer – April
- Review of MaltaPost's tariff adjustment proposals on domestic letter mail, registration of domestic articles, and foreign outbound parcels requests – June
- Review of wholesale mobile termination rates – June
- Retail access to the public telephone network at a fixed location – September
- Transit services in the fixed public telephone network – September
- Review of must-carry obligations: ensuring universal access to TV channels qualified as meeting general interest objectives – October

Decisions:

- Decision on specific aspects of the universal postal service – March
- Provision of access at a fixed location - requirements to be complied with by the universal service provider in relation to functional internet access – June
- Decision on MaltaPost's tariff adjustment proposals on domestic letter mail, registration of domestic articles and foreign outbound parcels requests – July
- Review of wholesale mobile termination rate, 2011 – August
- Modifications to the terms and conditions of subscriber contracts - October
- Transit services in the fixed public telephone network – November
- Retail access to the public telephone network at a fixed location – December
- Review of must-carry obligations: designation of obligations on providers of networks used for television and radio distribution services – December
- GO's reference unbundling offer: report on further consultation and statement of decision on the review of sub-loop unbundling related aspects of the reference unbundling offer – December



ANNEX 1: LIST OF CTLCs IN MALTA AND GOZO

| Centre | Locality |
|---|----------------|
| A.T.T.I.C. | Qawra |
| AĊĊESS | Birgu |
| Birkirkara Local Council | Birkirkara |
| Caritas San Blas * | Siġġewi |
| Corradino Correctional Facilities * | Corradino |
| ETC Training Centre | Xewkija (Gozo) |
| Farmers Association ** | Ta' Qali |
| Inspire | Żejtun |
| Isla Local Council | Isla |
| Kalkara Local Council | Kalkara |
| Local Council Association | Balzan |
| Mount Carmel Hospital* | Attard |
| National Council of Women (NCW) | Blata I-Bajda |
| PHRF ⁴⁹ | Paola |
| Richmond Foundation | St. Venera |
| Substance Abuse Therapeutic Unit (SATU) * | Mtahleb, Rabat |
| UHM Fondazzjoni Salvinu Spiteri | Floriana |

* Serves a specific community (not open to the general public)

** Specific project for farmers

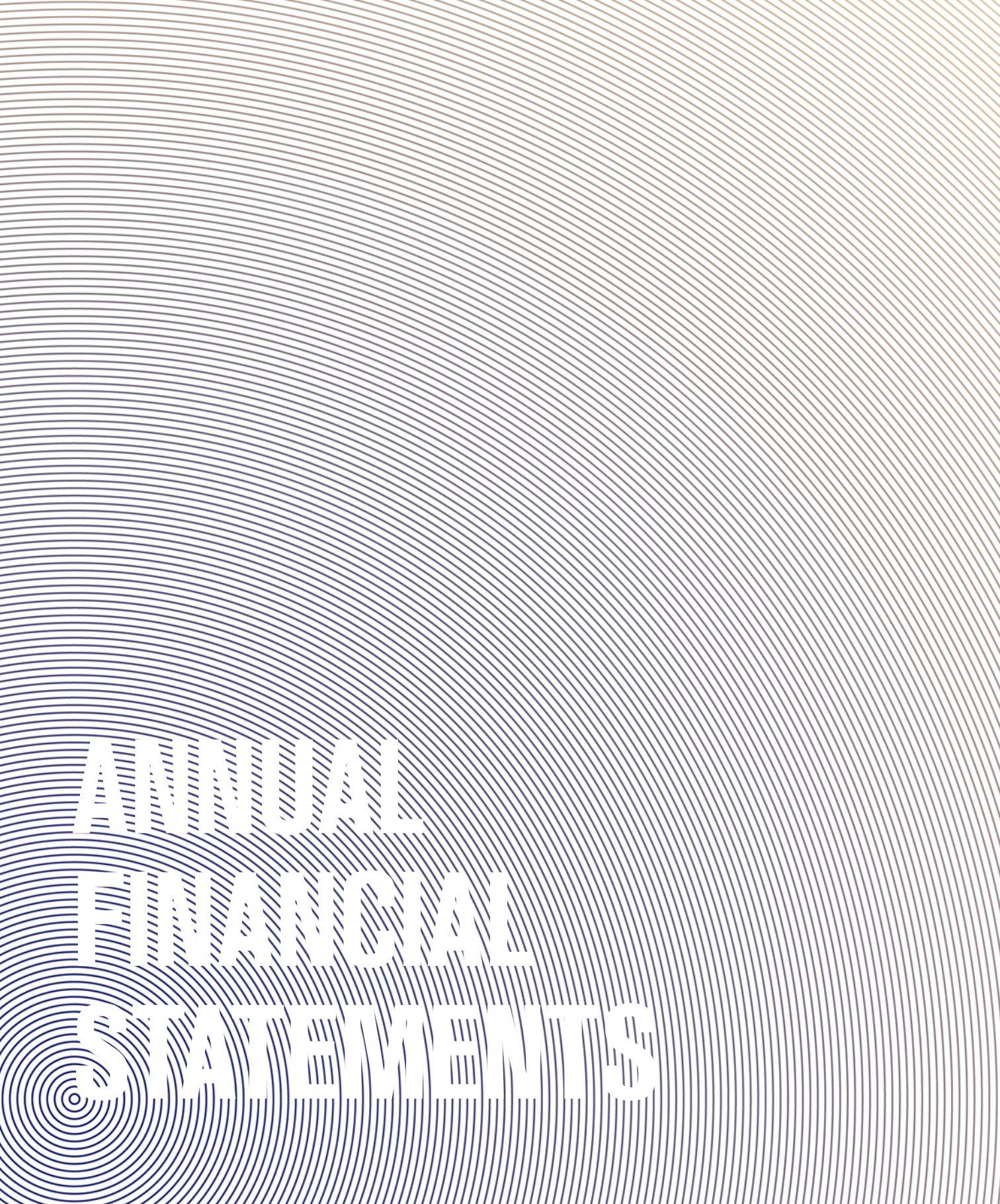
49 The mission of PHRF is to serve as a medium for deliberation, exchange of ideas, knowledge, skills and experience, as well as the compilation and dissemination of information. The PHRF organises trade classes and courses of instruction, encourages research in the field of rehabilitation particularly on the causes of disability and measures for their elimination. The PHRF actively encourages the rehabilitation through participation in sports and social activities. It also assists governmental agencies or authorities and private enterprise, in their programmes for the rehabilitation of people with disabilities. This Centre also helps in securing employment for these individuals.

ANNEX 2: LIST OF FREE WI-FI HOTSPOTS

| Locality | Address |
|-----------------|---------------------------------|
| Attard | Station Garden |
| Attard | Tumas Dingli Square |
| Baħar iċ-Ċagħaq | Recreational Area |
| Balzan | Bertu Fenech Square |
| Birgu | Couvre Porte |
| Birkirkara | Mrieħel School |
| Birkirkara | Train Station's Park |
| Birżebbuġa | Pretty Bay |
| Bormla | Paolino Vassallo Square |
| Bormla | Primary School |
| Dingli | Dingli Bus Terminus |
| Fgura | R. Miller Square |
| Floriana | Public Library |
| Floriana | The Granaries |
| Fontana | Fountain Street |
| Għajnsielem | Our Lady of Loreto Square |
| Għarb | Ta' Dbiegi |
| Għarghur | Peace Gardens |
| Għasri | Saviour Square |
| Għaxaq | St. Rocco Zone |
| Gudja | Public Library |
| Gżira | Council of Europe Gardens |
| Gżira | Local Council Activities Centre |
| Hamrun | St. Paul Square |
| Iklin | Ġużè Ellul Mercer Street |
| Isla | Victory Street |
| Kalkara | Archbishop Gonzi Square |
| Kerċem | Orvieto Square |
| Kirkop | Community Playing Field |
| Kirkop | St. Leonard Square |
| Lija | Transfiguration Square |
| Luqa | Football Grounds |
| Marsa | St. Thomas Street |
| Marsalforn | Menqa |

| Locality | Address |
|--------------|---|
| Marsaskala | Mifsud Bonnici Square |
| Marsaxlokk | Our Lady of Pompeii Square |
| Mdina | St. Paul Square |
| Mellieħa | Dun Anton Debono Gardens |
| Mġarr | Public Garden in Mons. O. Vella Street |
| Mġarr (Gozo) | Mġarr Terminal |
| Mosta | Rotunda Square |
| Mqabba | Tfal ir-Rahal Gardens |
| Mqabba | Primary School |
| Msida | Mater Dei Hospital (Outpatients, Foyer and Emergency areas) |
| Msida | Menqa Square |
| Mtarfa | Town Square |
| Munxar | Profs Ġużè Aquilina Street |
| Nadur | St. Peter and St. Paul Square |
| Naxxar | Toni Vella Gardens |
| Naxxar | Giovanni Curmi Higher Secondary School |
| Paola | Antoine de Paule Square |
| Paola | St. Ubaldesca Square |
| Paola | Vittoriosa Lawn Tennis Club |
| Pembroke | Mother Theresa of Calcutta Gardens |
| Pietà | Marina Gardens |
| Qala | Family Gardens |
| Qawra | Salini |
| Qormi | Grandmaster Square |
| Qormi | De La Cruz Garden |
| Qormi | Frederic Maempel Garden |
| Qrendi | Dama Cecilia Garden |
| Rabat | Parish Square |
| Rabat | National Archives |
| Rabat (Gozo) | Independence Square |
| Rabat (Gozo) | Sir Mikelanġ Refalo Centre for Further Studies |
| San Ġwann | Misrah Lewża Garden |

| Locality | Address |
|----------------|----------------------------------|
| San Ġwann | Primary School |
| San Lawrenz | St. Lawrence Square |
| Safi | Day Care Centre |
| Sannat | St. Margerita Square |
| Siġġiewi | St. Nicholas Square |
| Sliema | Independence Gardens |
| Sliema | St. Anne Square |
| Sliema | Primary School |
| Sliema | Qui-Si-Sana gardens |
| Sliema | Bisazza Street |
| St. Julians | Balluta Square |
| St. Julians | Millennium Chapel |
| St. Luċija | 7th July Square |
| St. Paul's Bay | Buġibba Square |
| St. Paul's Bay | Primary School |
| St. Venera | Romeo Romano Gardens |
| Swieqi | St. Andrew Gardens |
| Ta' Qali | National Park |
| Ta' Qali | Adventure Park |
| Tarxien | Garden in Annettu Caruana Street |
| Valletta | Lower Barrakka |
| Valletta | Mattia Preti Square |
| Valletta | National Library |
| Valletta | Passports Office |
| Valletta | St. George Square |
| Xagħra | Victory Square |
| Xewkija | St. John the Baptist Square |
| Xgħajra | Public Library |
| Xlendi | St. Simon Street |
| Żabbar | Council Garden |
| Żebbuġ | St. Philip Square |
| Żebbuġ (Gozo) | Assunta Square |
| Żejtun | St. Gregory Garden |
| Żurrieq | Garden in Dun Ġ. Zammit Street |



ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

GENERAL INFORMATION

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

MEMBERS OF THE AUTHORITY

Ing. P. Micallef (*Chairman*)
Mr. I. Bartolo
Mr. M. Cutajar (*resigned 29th August 2011*)
Dr. A. Ghio
Ms. B. Sullivan
Ms. A. Vassallo

BANKERS

Bank of Valletta plc
Preluna Towers
Tower Road
Sliema
MALTA

HSBC Bank Malta plc
17, Lascaris Wharf
Valletta VLT 1921
MALTA

HEAD OFFICE

Valletta Waterfront
Pinto Wharf
Floriana FRN 1913
MALTA

AUDITORS

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 31st December 2011.

PRINCIPAL ACTIVITY

The MCA 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 MCA 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 MCA 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 30th July 2004. The MCA was nominated as the competent entity under the eCommerce Act as from 10th May 2002 as per L.N.110 of 2002.

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

RESULTS

By virtue of the Electronic Communications (Regulation) Act, 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 €8,492,179 out of which licensing and usage fees for scarce resources, amounting to €3,763,293, were transferred to the Government of Malta. After meeting all expenditure of €4,456,989 the Authority closed off the year with a surplus, net of taxation, of €229,003.

Expenditure incurred by the Authority not in connection with electronic communications, amounting to €1,002,488 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 89.

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.

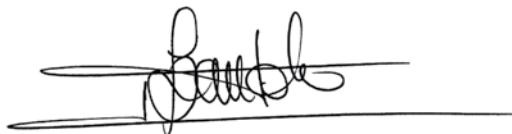
AUDITORS

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:



P. MICALLEF
CHAIRMAN



I. BARTOLO
DEPUTY CHAIRMAN

Valletta Waterfront
Pinto Wharf
Floriana FRN 1913
MALTA

12th March 2012

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

We have audited the financial statements of the MCA set out on pages 93 to 112 which comprise the statement of financial position as at 31st December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MEMBERS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

As described in the statement of members' responsibilities on page 91, the members are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31st December 2011, 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 European Union; and
- have been properly prepared in accordance with the requirements of the Malta Communications Authority Act, Cap. 418 of the Laws of Malta.

*This copy of the audit report has been signed by
Mario P. Galea for and on behalf of*



ERNST & YOUNG MALTA LIMITED
CERTIFIED PUBLIC ACCOUNTANTS

12th March 2012

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

| | Notes | 2011 EUR | 2010 EUR |
|--|-------|--------------------|-------------|
| Income | | | |
| Revenues | 3 | 8,233,774 | 9,131,546 |
| Other income | 4 | 258,405 | 24,410 |
| | | 8,492,179 | 9,155,956 |
| Expenditure | | | |
| Staff costs | 5 | (2,106,509) | (2,005,996) |
| Depreciation | 11 | (136,246) | (281,425) |
| Operating and administrative expenses | 6 | (2,214,234) | (1,385,124) |
| | | 4,035,190 | 5,483,411 |
| Operating surplus | | | |
| Finance income | 7 | 37,722 | 56,357 |
| Finance costs | 8 | - | (2,034) |
| | | 4,072,912 | 5,537,734 |
| Transfers to Government | 9 | (3,763,293) | (5,415,350) |
| | | 309,619 | 122,384 |
| Surplus before taxation | | 309,619 | 122,384 |
| Taxation | 10 | (80,616) | (55,414) |
| | | 229,003 | 66,970 |
| Surplus for the financial year | | | |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year, net of tax | | 229,003 | 66,970 |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2011

| | Notes | 2011 EUR | 2010 EUR |
|-------------------------------------|-------|------------------|-------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 357,298 | 351,087 |
| Current assets | | | |
| Trade and other receivables | 12 | 4,942,961 | 1,868,723 |
| Cash and short-term deposits | 16 | 2,910,528 | 3,779,257 |
| | | 7,853,489 | 5,647,980 |
| TOTAL ASSETS | | 8,210,787 | 5,999,067 |
| EQUITY AND LIABILITIES | | | |
| Reserve | | | |
| Retained earnings | 13 | 736,429 | 507,426 |
| Current liabilities | | | |
| Trade and other payables | 14 | 7,468,546 | 5,489,755 |
| Income tax payable | | 5,812 | 1,886 |
| Total liabilities | | 7,474,358 | 5,491,641 |
| TOTAL EQUITY AND LIABILITIES | | 8,210,787 | 5,999,067 |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

The financial statements on pages 93 to 112 have been authorised for issue by the Members on 12th March 2012 and were signed on their behalf by:



P. MICALLEF
CHAIRMAN



I. BARTOLO
DEPUTY CHAIRMAN

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

| | Retained earnings EUR |
|--|--------------------------------------|
| FINANCIAL YEAR ENDED 31 DECEMBER 2011 | |
| Balance as at 31 December 2010 | 507,426 |
| Surplus for the year | 229,003 |
| Other comprehensive income | - |
| <hr/> | |
| Total comprehensive income | 229,003 |
| <hr/> | |
| Balance at 31 December 2011 | 736,429 |
| <hr/> <hr/> | |
| FINANCIAL YEAR ENDED 31 DECEMBER 2010 | |
| Balance as at 31 December 2009 | 468,156 |
| Surplus for the year | 66,970 |
| Other comprehensive income | - |
| <hr/> | |
| Total comprehensive income | 66,970 |
| ISS unutilised subvention (note 2.3) | (27,700) |
| <hr/> | |
| Balance at 31 December 2010 | 507,426 |
| <hr/> <hr/> | |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011 EUR | 2010 EUR |
|--|------|--------------------|-------------|
| Operating activities | | | |
| Surplus before taxation | | 309,619 | 122,384 |
| Non-cash adjustment to reconcile surplus before tax to net cash flows: | | | |
| Depreciation of property, plant and equipment | | 136,246 | 281,425 |
| Transfers to Government | | 3,763,293 | 5,415,350 |
| Gain on disposal of property, plant and equipment | | (4,000) | - |
| Movement in provision for bad and doubtful debts | | 1,606 | - |
| Finance income | | (37,722) | (56,357) |
| Finance costs | | - | 2,034 |
| Working capital adjustments: | | | |
| (Increase)/decrease in trade and other receivables | | (3,067,363) | 218,245 |
| Increase/(decrease) in trade and other payables | | 2,489,911 | (348,051) |
| | | 3,591,590 | 5,635,030 |
| Interest received | | 29,241 | 54,622 |
| Interest paid | | - | (2,034) |
| Income tax paid | | (76,690) | (115,192) |
| Net cash flows from operating activities | | 3,544,141 | 5,572,426 |
| Investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 4,000 | - |
| Purchase of property, plant and equipment | | (142,457) | (125,717) |
| Net cash flows used in investing activities | | (138,457) | (125,717) |
| Financing activities | | | |
| Funds paid to Government | | (4,274,413) | (3,833,480) |
| Net cash flows used in financing activities | | (4,274,413) | (3,833,480) |
| Net increase in cash and cash equivalents | | (868,729) | 1,613,229 |
| Cash and cash equivalents at 1 January | | 3,779,257 | 2,166,028 |
| Cash and cash equivalents at 31 December | 16 | 2,910,528 | 3,779,257 |

The accounting policies and explanatory notes on pages 97 to 112 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The MCA (‘the Authority’) was established on 1st 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

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

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

- IFRS 1 (Amendments) – Limited exemption from comparative IFRS 7 disclosures effective 1st July 2010
- IAS 24 (Amendment) Related party disclosures effective 1st January 2011
- IAS 32 (Amendment) Classification of rights issue effective 1st February 2010
- Improvements to IFRSs issued May 2010 (various effective dates)
- IFRIC 14 – Amendment – Prepayments of a Minimum Funding Requirement effective 1st January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1st July 2010

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 EU that are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Authority has not early adopted, but plans to adopt upon their effective date. The changes resulting from these standards are not expected to have a material effect on the financial statements of the Authority. The new and amended standards are as follows:

- IFRS 7 Amendment – Transfer of financial assets disclosures (effective for financial years beginning on or after 1st July 2011)

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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

- IFRS 1 Amendment – Severe Hyperinflation and removal of fixed dates for first-time adopters (effective for financial years beginning on or after 1st January 2013)
- IFRS 7 Amendment – Offsetting of financial assets and financial liabilities (effective for financial years beginning on or after 1st January 2013)
- IFRS 7 Amendment – Disclosure for initial application of IFRS 9 (effective for financial years beginning on or after 1st January 2015)
- IFRS 9 – Financial Instruments (effective for financial years beginning on or after 1st January 2015)
- IFRS 10 – Consolidated financial statements (effective for financial years beginning on or after 1st January 2013)
- IFRS 11 – Joint Arrangements (effective for financial years beginning on or after 1st January 2013)
- IFRS 12 – Disclosures of interests in other entities (effective for financial years beginning on or after 1st January 2013)
- IFRS 13 – Fair Value Measurement (effective for financial years beginning on or after 1st January 2013)
- IAS 1 Amendments – Presentation of items of other comprehensive income (effective for financial years beginning on or after 1st July 2012)
- IAS 12 Amendments – Recovery of underlying assets (effective for financial years beginning on or after 1st January 2012)
- IAS 19 Amendments – Employee Benefits (effective for financial years beginning on or after 1st January 2013)
- IAS 27 Revised – Separate financial statements (effective for financial years beginning on or after 1st January 2013)
- IAS 28 Revised – Investments in associates and joint ventures (effective for financial years beginning on or after 1st January 2013)
- IAS 32 Amendments – Offsetting of financial assets and financial liabilities presentation (effective for financial years beginning on or after 1st January 2014)
- IFRIC 20 – Stripping costs in the production phase of a surface mine (effective for financial years beginning on or after 1st January 2013)

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.

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, 2011 (399.28).

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).

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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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 unutilised subvention relates to the resulting accounting surplus following the deduction of ISS related expenditure (including depreciation) from the subvention received. The accounting surplus differs from the actual ISS cash flow surplus as a result of the difference between ISS depreciation charge, the ISS Capital Expenditure incurred and tax effect thereon.

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 2012, 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'.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

3. REVENUES

The revenues generated by the Authority are made up of:

| | 2011 | 2010 |
|--|------------------|-----------|
| | EUR | EUR |
| Telecommunications, postal licensing and right of way (note i, ii) | 767,929 | 765,859 |
| Administrative charges | 2,559,534 | 2,471,584 |
| Usage fees for scarce resources (note ii) | 4,137,613 | 5,347,342 |
| Application fees and other income | 368,698 | 69,761 |
| Government subvention (note iii) | 400,000 | 477,000 |
| | 8,233,774 | 9,131,546 |

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.

iii. The subvention received from Government is used to finance ISS operations. This subvention is approved annually through a vote in parliament.

ii. All revenue generated from telecommunications, postal licensing, and right of way income and usage fees for scarce resources is transferred to the Government of Malta (note 9), except for an amount of €1,002,488 intended to finance expenses incurred by the Authority not in connection with electronic communications.

4. OTHER INCOME

Other income relate to fines imposed by the Authority in 2011, where such fines had amounted to €258,405 (2010: €24,410).

5. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

| The Authority | 2011 EUR | 2010 EUR |
|--|---------------------|-------------|
| Members' emoluments | 117,448 | 120,718 |
| Wages and salaries | 1,740,641 | 1,725,630 |
| Social security costs | 99,641 | 97,367 |
| Authority's staff costs recharged to ISS operations (note i) | (67,937) | (53,714) |
| Authority's staff costs recharged to EU funded projects | (2,436) | (3,958) |
| Authority's staff costs reimbursed from other entities | (17,622) | (61,319) |
| | 1,869,735 | 1,824,724 |

- 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 | 2011 EUR | 2010 EUR |
|---|---------------------|-------------|
| Wages and salaries | 217,283 | 165,218 |
| Social security costs | 17,055 | 12,096 |
| ISS staff costs recharged to EU funded projects | (58,930) | (24,726) |
| | 175,408 | 152,588 |
| EU funded projects | | |
| Staff costs recharged by the Authority | 2,436 | 3,958 |
| Staff costs recharged by ISS | 58,930 | 24,726 |
| | 61,366 | 28,684 |
| Total staff costs | 2,106,509 | 2,005,996 |

b. Staff numbers

The average number of persons, excluding board members, employed by the Authority during the year was 74 (2010: 74).

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

6. OPERATING AND ADMINISTRATIVE EXPENSES

| | 2011 EUR | 2010 EUR |
|--|------------------|------------------|
| The Authority | | |
| Outsourced project costs | 627,745 | 299,046 |
| Corporate administrative expenses | 500,296 | 479,889 |
| Public relations and communications | 206,379 | 66,953 |
| Travelling expenses | 74,373 | 111,000 |
| Increase in provision for doubtful debts | 1,006 | - |
| Auditors' remuneration | 10,081 | 10,030 |
| Rental expenses | 70,246 | 70,192 |
| Gain on disposal of property, plant and equipment | (4,000) | - |
| Administrative Services rendered by Ministry for Infrastructure, Transport and Communications | 106,585 | 58,078 |
| Bad debts | 139,761 | - |
| | 1,732,472 | 1,095,188 |
| Others: | | |
| ISS | | |
| Public relations and communications | 40,648 | 118,311 |
| Travelling expenses | 197 | 2,846 |
| Audit fees | 1,365 | 1,416 |
| Professional fees | 15,634 | 29,685 |
| Bank charges | 79 | 9 |
| Staff costs recharged by the Authority | 67,937 | 53,714 |
| Corporate administrative expenses | 34,115 | 31,405 |
| Outsourced project costs | 129,479 | 22,140 |
| Rental expenses | 8,208 | 8,217 |
| Self financing portion of EU projects | 15,714 | 3,234 |
| Increase in provision for doubtful debts | 600 | - |
| | 313,976 | 270,977 |
| EU funded projects | | |
| Travelling expenses | 15,004 | 10,767 |
| Audit fees | 2,950 | 590 |
| Consultancy | 6,121 | 4,500 |
| Outsourced project costs | 143,711 | 3,102 |
| | 167,786 | 18,959 |
| Total operating and administrative expenses | 2,214,234 | 1,385,124 |

7. FINANCE INCOME

| | 2011 | 2010 |
|-----------------------------|---------------|--------|
| | EUR | EUR |
| On bank balances | 22,508 | 33,297 |
| On amounts due from debtors | 15,214 | 23,060 |
| | 37,722 | 56,357 |

8. FINANCE COSTS

| | 2011 | 2010 |
|-----------------------------------|-------------|-------|
| | EUR | EUR |
| On finance lease liability | | |
| - The Authority | - | 1,811 |
| - ISS | - | 223 |
| | - | 2,034 |

9. TRANSFERS TO GOVERNMENT

These amounts represent the gross telecommunications, postal licensing and rights of way income and usage fees for rights of use of scarce resources which is being transferred to the Government as provided by section 14 (4) of the Malta Communications Authority Act, 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 €1,002,488.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

10. TAXATION

| | 2011 | 2010 |
|-----------------------|---------------|--------|
| | EUR | EUR |
| Current tax | 80,616 | 55,414 |
| Deferred tax (note i) | - | - |
| | 80,616 | 55,414 |

- 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 €6,487 (2010: €23,615) has not been accounted for in these financial statements.

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

| | 2011 | 2010 |
|--|--------------------|-------------|
| | EUR | EUR |
| Profit before transfers to Government and taxation | 4,072,912 | 5,537,734 |
| Theoretical taxation expense at 35% | 1,425,519 | 1,938,207 |
| Tax effect of | | |
| - non-deductible expenses | | - |
| - income not subject to tax | (1,326,641) | (1,908,266) |
| - excess of capital over depreciation allowances | (17,459) | 25,931 |
| - income subject to different tax rates | (803) | (458) |
| | 80,616 | 55,414 |

11. PROPERTY, PLANT AND EQUIPMENT

| | Building improvements EUR | Computer equipment EUR | Fixture, fitting & equipment EUR | Motor vehicle EUR | Total EUR |
|----------------------------------|---------------------------------|------------------------------|---|-------------------------|------------------|
| Cost | | | | | |
| At 1 January 2010 | 288,163 | 771,801 | 343,939 | 86,509 | 1,490,412 |
| Additions | - | 119,761 | 5,956 | - | 125,717 |
| Disposals | - | (8,713) | - | - | (8,713) |
| At 31 December 2010 | 288,163 | 882,849 | 349,895 | 86,509 | 1,607,416 |
| Additions | 1,198 | 138,182 | 3,077 | - | 142,457 |
| Disposals | - | (10,882) | - | (27,123) | (38,005) |
| At 31 December 2011 | 289,361 | 1,010,149 | 352,972 | 59,386 | 1,711,868 |
| Depreciation | | | | | |
| At 1 January 2010 | 229,023 | 472,617 | 218,411 | 63,566 | 983,617 |
| Depreciation charge for the year | 57,633 | 165,182 | 46,754 | 11,856 | 281,425 |
| Disposals | - | (8,713) | - | - | (8,713) |
| At 31 December 2010 | 286,656 | 629,086 | 265,165 | 75,422 | 1,256,329 |
| Depreciation charge for the year | 1,067 | 111,496 | 16,555 | 7,128 | 136,246 |
| Disposals | - | (10,882) | - | (27,123) | (38,005) |
| At 31 December 2011 | 287,723 | 729,700 | 281,720 | 55,427 | 1,354,570 |
| Net book value | | | | | |
| At 31 December 2011 | 1,638 | 280,449 | 71,252 | 3,959 | 357,298 |
| At 31 December 2010 | 1,507 | 253,763 | 84,730 | 11,087 | 351,087 |

The additions in respect of computer equipment include computer software amounting to €94,648 which have not yet been used. This software was not depreciated during the current year.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

12. TRADE AND OTHER RECEIVABLES

| | 2011 | 2010 |
|----------------------------|------------------|-----------|
| | EUR | EUR |
| Trade receivables (note i) | 4,623,357 | 1,696,330 |
| Accrued income | 176,164 | 41,069 |
| Prepayments | 143,440 | 131,324 |
| | 4,942,961 | 1,868,723 |

i. Trade receivables are non-interest bearing and are generally on a 30 day term.

| | | Past due but not impaired | | | | |
|-------------|------------------|-------------------------------------|----------|--------------|---------------|----------------|
| | Total | Neither past due nor impaired | <30 days | 30-60 days | 60-90 days | >90 days |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| 2011 | 4,623,357 | 4,490,194 | - | 2,195 | 14,635 | 116,333 |
| 2010 | 1,696,330 | 1,068,571 | - | 264,506 | 80,327 | 282,926 |

13. RESERVE

The balance on the retained earnings in the statement of financial position as at 31st December 2011 represents the resulting accumulated surplus over the years.

14. TRADE AND OTHER PAYABLES

| | 2011 | 2010 |
|---|------------------|-----------|
| | EUR | EUR |
| Amount due to Government | 1,073,104 | 1,609,714 |
| Deferred income (note i) | 2,741,640 | 3,267,895 |
| Accruals | 233,239 | 170,744 |
| Social security contributions and other taxes | 46,424 | 48,111 |
| Other payables (note ii) | 3,374,139 | 393,291 |
| | 7,468,546 | 5,489,755 |

- i. Deferred income comprises the unexpired portion of annual fees billed in advance together with the surplus of administrative charges, amounting to €635,187 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.

During the year ended 31st December 2010, a non-monetary government grant, representing assets transferred to the Authority during 2005 by the Government of Malta, amounting to €3,969 was also included with deferred income. No such grant was received by the Authority during the financial year ended 31st December 2011.

- ii. Other payables consist of the following:
- Funds due to the Malta Security Services in respect of Legal Intercept funds collected on its behalf. As per Directive No. 2 of 2005 on Modalities of Payment for Contributions to the Cost of Legal Intercept Obligations and in accordance with Regulation 13 of the Electronic Communications Networks and Services (General) Regulations, the Authority had introduced a fund mechanism for the sharing of the cost of legal interception obligations. As at 31st December 2011, Legal Intercept funds amounted to €176,457 (2010: €40,284). These are non interest bearing and are paid to Malta Security Services upon presentation of the invoice. In December 2011, the Authority issued legal interception invoices, on behalf of Malta Security Services, for the period January to December 2012 amounting to €2,750,000. These invoices have been billed in advance and are included with other payables.
 - Trade payables are non-interest bearing and are normally settled on 60-day terms.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

15. RELATED PARTY DISCLOSURES

Transactions with key management personnel

During the year ended 31st December 2011, short term employee benefits to key management personnel amounted to €444,788 (2010: €419,020).

Other related party transactions

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

| | 2011 | 2010 |
|---------------------------------|------------------|-----------|
| | EUR | EUR |
| Government Subvention – ISS | 400,000 | 477,000 |
| Payments to Government of Malta | 4,274,413 | 3,833,480 |

Related party balances

Outstanding balances with related parties at 31st December 2011 are disclosed in note 14 on amount due to Government.

16. CASH AND SHORT-TERM DEPOSITS

| | 2011 | 2010 |
|--------------------------|------------------|-----------|
| | EUR | EUR |
| Cash at bank and in hand | 2,120,214 | 1,231,019 |
| Short-term deposits | 790,314 | 2,548,238 |
| | 2,910,528 | 3,779,257 |

The Authority holds interest earning and non-interest earning bank current accounts. An average interest of 3.73% per annum is earned on the bank interest earning account.

17. COMMITMENTS

Capital commitments

| | 2011 | 2010 |
|---|---------------|---------|
| | EUR | EUR |
| Capital expenditure contracted but not provided for | 32,625 | 134,966 |

18. CONTINGENT LIABILITIES

Legal claims

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

Melita plc is contesting a fine imposed by the Authority, with regard to adverts carried out by Melita on its Sports Channel (€23,290).

19. 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 18 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 31st December 2011 and 31st December 2010 the carrying amounts of cash at bank, receivables, payables and accrued expenses approximated their fair values.

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.

20. COMPARATIVE INFORMATION

Where applicable, comparative information was adjusted to conform with the current year's presentation.

21. POST BALANCE SHEET EVENTS

As from 1st January 2012, the MCA was held responsible for the collection, on behalf of Government, of various radio communication licences, which were previously the responsibility of the Government. Consequently, invoices for any licences issued from 1st January 2012, will be accounted for by the Authority. It was also formally agreed that the Authority will take over the arrears of the last three years, being the licences issued for the period 1st January 2009 till 31st December 2011, which were not accounted for in the Authority's books. These arrears which amount to €571,649 will be taken over from 1st January 2012.

ANNUAL REPORT & FINANCIAL STATEMENTS 2011



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