

Communications Market Review

January to June 2014

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1. Reporting parameters

This is the latest report in a series of Communications Market Review (CMR) publications from the Malta Communications Authority (MCA)¹, covering the period 2012 to the first half of 2014. The report mainly draws on quarterly data compiled by the MCA from network operators and service providers involved in the provision of electronic communications and postal services in Malta. This data is then utilised to develop key performance indicators (KPIs) for the relevant sectors.

Figure 1 below lists the network operators and service providers submitting data to the MCA.

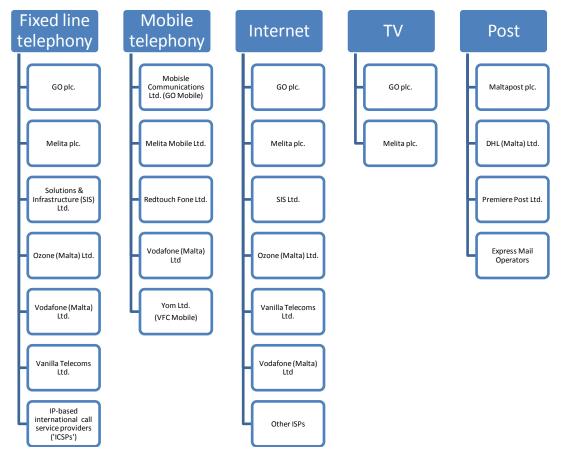


Figure 1: Operators providing quarterly data

This report also refers to findings extracted from publications of third parties in the areas of interest².

1.1. The reporting period and data cut-off date

The current review presents data and KPIs on a quarterly basis for the period starting Q1 2012 and ending Q2 2014³.

¹ These publications are available electronically: http://www.mca.org.mt/market-overview

² References to information contained in other websites and quotes from third party sources, such as reference to Deutsche Post's postal rate figures in Malta and the EU, should not be interpreted as constituting endorsement, accuracy and/or responsibility by the MCA.

³ Previous MCA CMR publications are available to download for free from the MCA website by clicking <u>here</u>.

The data cut-off date for implementing changes and updates in the data has been set on the 16th of September 2014. Any data revised and updated by the sources after the cut-off date will be incorporated in the forthcoming Data Report Sheet (DRS) publication envisaged for December 2014⁴.

1.2. The KPIs in this report

This report is composed of five sections dealing with trends observed for fixed line telephony, mobile telephony, Internet, pay TV and post. Figure 2 below highlights on the list of indicators covered in this review.

Fixed line telephony • Subscriptions: stand-alone; subscriptions in a bundle Number portability • Usage levels: voice calls; voice call minutes • Subscriber activity levels and call duration • ARPU (where 'ARPU' stands for the average revenue per user) Price movements Mobile telephony • Subscriptions: stand-alone; subscriptions in a bundle Number portability • Usage levels: voice calls; voice call minutes; SMSs; MMSs; roaming calls and minutes • Subscriber activity levels and call duration • ARPU Price movements Fixed and mobile broadband • Subscriptions: stand-alone; subscriptions in a bundle Mobile broadband ARPU Price movements Pay TV • Subscriptions: stand-alone; subscriptions in a bundle ARPU Price movements **Post** Mail volumes · Quality of mail delivery services • Price movements: benchmarking local postal rates vs EU average

Figure 2: Key market indicators for electronic communications and post

The MCA publishes a DRS on a regular basis, the latest of which can be found on http://www.mca.org.mt/statistics/key-market-indicators-electronic-communications-and-post-q1-2010-q2-2014

2. Key market outcomes

Market developments in the first half of this year for the local electronic communications and postal sectors were much in line with the underlying trends observed in previous CMR publications.

Fixed traffic volumes in the first half of this year were significantly down when compared to the corresponding period a year earlier. This contributed to a decline in ARPU for the sector, particularly as service providers continued to offer free minute allowances and occasional promotional offers whilst more end-users opted to purchase their fixed line subscription in a bundle with other electronic communications services.

The decline in fixed traffic volumes reflects the continued acceleration of fixed-to-mobile substitution, with both mobile-originated calls and minutes exceeding those originated via a fixed line and the gap in the traffic volumes between the two services widening over time. Combined with the fall in the number of mobile subscriptions between June 2013 and June 2014, increasing mobile-originated voice traffic volumes resulted in higher voice activity levels per mobile subscription during the first six months of this year. Furthermore, mobile telephony ARPU in the first half of this year was higher than that observed in the same period a year earlier, most likely a result of higher voice activity levels per mobile user and stronger consumption of mobile data services.

Growth in fixed broadband take-up and mobile broadband usage continues, along with more end-users purchasing their fixed broadband connection in a bundle and more mobile end-users consuming data connectivity plans. Higher take-up of broadband connections with download speeds of 30Mbps or more contributed to continued growth in the fixed broadband subscriber base in the first half of this year. In this regard, the proportion of fixed broadband subscriptions with download speeds of 30Mbps or more stood at 47.7% at the end of June 2014, up from 11.8% a year earlier. As subscriptions for broadband products supporting higher download speeds increased and advertised rates for these products remained practically unchanged, broadband ARPU in the period under review was reportedly down by almost 2% to €88.26 when compared to the first half of 2013.

The Pay TV sector experienced slow subscriber growth in the first six months of this year, as subscriptions at the end of June 2014 were only up by 109 compared to twelve months earlier. From a revenue perspective, ARPU for the pay TV sector in the first half of 2014 was down by 1.6% when compared to the same period a year earlier.

As to postal services, mail volumes in the first half of 2014 continued in their downward trend, as gains recorded for bulk mail, registered mail and parcel mail were not sufficient to outweigh losses reported for traditional letter mail. Overall, postal mail volumes in the first half of this year were down by 5.2% compared to the same period a year earlier.

The main market outcomes for the electronic communications and postal sectors are presented below, although more detailed information on market developments is provided in Sections 4 to 8 of this document.

i. Fixed line telephony

- The number of fixed line subscriptions totalled 232,469 at the end of June 2014, up by 1.1% since the end of June 2013. Almost 89.5% of total subscriptions were on a post-paid contract and 9.3% were on a pre-paid plan. The remaining share of subscriptions, at 1.2%, were on an 'enhanced' contract arrangement, which typically encompasses those subscriptions offering multiple channel (dual or more) fixed telephony connections.
- Around 51.0% of all fixed line telephony subscriptions at the end of the current reporting period were bundled with some other electronic communications service.
- The number of fixed line inward portings recorded in the first half of 2014 totalled 1,435 compared to 883 inward portings in the first half of the previous year.

Fixed line telephony	FH 2012	FH 2013	FH 2014
Subscriptions (end of period)	233,159	229,919	232,469
Voice activity levels per subscription			
Number of voice calls	417	399	361
Number of voice call minutes	1,439	1,371	1,278
Average rate per minute (ARPM)			
on-net FTF call	€0.01	€0.01	€0.01
off-net FTF call	€0.01	€0.01	€0.01
FTM call	€0.18	€0.18	€0.19
FTI call	€0.09	€0.09	€0.10
Average revenue per user (ARPU)	€85.56	€83.30	€81.48

Table 1: Take-up, activity levels and pricing for the fixed line sector

- Traffic volumes in the first half of 2014 were down over volumes recorded in the same period a year earlier. The number of outgoing voice calls was down by 8.7% and the number of outgoing voice call minutes was down by 5.9%. Coupled with the expansion in the fixed line subscriber base, falling traffic volumes translate into lower activity levels per fixed line subscription, as illustrated in Table 1 above.
- ARPU for fixed line telephony in the first half of 2014 stood at €81.48, down from €83.30 in the first half of 2013.
- The average rate per minute (ARPM) of fixed line communications concerning on-net and off-net fixed-to-fixed (FTF) calls stood at €0.01 in the first half of this year. That for fixed-to-mobile (FTM) calls and fixed-to-international (FTI) calls stood at €0.19 and €0.10 respectively.

ii. Mobile Telephony

• The number of mobile subscriptions totalled 548,142 as at the end of the current reporting period. This figure is down by 6,561 (or 1.2%) since the end of June 2013⁵.

- The number of pre-paid subscriptions was down by 15,642 (or by 3.6%) in the 12-month period ending June 2014 to 421,437. This figure is equivalent to 76.9% of total mobile subscriptions recorded at the time. In contrast, the number of post-paid subscriptions increased during the same period, this time by 9,081 (or by 7.7%) to reach a total of 126,705.
- Just around 10.5% of all mobile subscriptions⁶ were bundled with some other electronic communications service at the end of June 2014.

⁵ The reasons for this change are explained in Chapter 5 to this publication.

• The number of mobile inward portings totalled 18,365 in the first half of 2014, down from 19,493 inward portings recorded in the same period a year earlier.

Mobile telephony	FH 2012	FH 2013	FH 2014
Subscriptions (end of period)	542,475	554,703	548,142
Activity levels per subscription			
Number of voice calls	316	410	457
Number of voice call minutes	514	576	630
Number of SMSs	553	556	465
ARPM (overall)	€0.11	€0.10	€0.09
domestically-bound call	€0.10	€0.10	€0.09
Internationally-bound call	€0.21	€0.16	€0.13
Average rate per domestic SMS	€0.02	€0.02	€0.02
Average rate per international SMS	€0.17	€0.19	€0.06
ARPU	€80.97	€82.68	€83.44

Table 2: Take-up, activity levels and pricing for the mobile sector

- Mobile traffic volumes grew consistently throughout the first half of this year. Compared to the first half of 2013, the number of mobile voice calls was up by 13.3% and the number of mobile-originated voice call minutes was up by 11.3%.
- Combined with the fall in the number of mobile subscriptions, stronger voice traffic volumes resulted in higher voice activity levels per mobile subscription, as illustrated in Table 2 above.
- Contrary to developments for voice, SMS traffic volumes were down, this time at a faster rate than subscriptions. Hence, the number of SMSs per subscription went down, from an average of 556 in the first half of 2013 to an average of 465 in the first half of 2014.
- Mobile retail prices maintained their downward projection. The average rate per minute of mobile communications in Q2 2014 stood at €0.086 for a domestic (or local) call, down from €0.095 in Q2 2013. The ARPM for an international call also went down from €0.165 to €0.124. Meanwhile, the average rate per domestic SMS was practically unchanged.
- Mobile ARPU in the first half of 2014 amounted to €83.44, up from €82.72 in the first half of 2013.

iii. Fixed and mobile broadband

- By the end of June 2014, subscriptions for fixed broadband totalled 148,411. This figure is up by 7,700 (or 5.5% higher) from 140,711 reported 12 months earlier.
- The fixed broadband penetration rate (measured as the proportion of the number of active fixed broadband connections to Malta's population) stood at 34.8% at the end of the current reporting period.
- The number of fixed broadband subscriptions on a bundle continued to grow at a faster pace than new subscriptions. Bundled fixed broadband subscriptions totalled 82,523 at the end of June 2014, thereby accounting for nearly 55.6% of all fixed broadband subscriptions.
- About 8.3% of all fixed broadband subscriptions as at the end of June 2014 had a connection speed of less than 10Mbps. Broadband subscriptions with a connection speed of 10Mbps but less than

⁶ This figure may be overstated given that the end user may not necessarily activate the mobile subscription in a quad play bundle, and such information is not available.

30Mbps accounted for almost 44.0% of all subscriptions, whilst those with a connection speed of 30Mbps but less than 100Mbps accounted for almost 47.0% of all subscriptions. Fixed broadband subscriptions with a connection speed equal to or exceeding 100Mbps only accounted for 0.8% of the total number of subscriptions recorded at the end of last June.

At the end of June 2014, the number of fixed broadband subscriptions on the cable platform totalled 73,391 (equivalent to 49.5% of the total). Meanwhile, the number of subscriptions on the DSL and wireless platforms totalled 72,859 and 2,161 respectively.

Fixed broadband	FH 2012	FH 2013	FH 2014
Subscriptions (end of period)	132,921	140,711	148,411
less than 5Mbps	47,613	12,658	10,452
greater than or equal to 5Mbps but less than 10Mbps	16,926	12,807	1,891
greater than or equal to 10Mbps but less than 20Mbps	50,844	89,985	58,984
greater than or equal to 20Mbps but less than 30Mbps	15,437	8,606	6,237
greater than or equal to 30Mbps but less than 50Mbps	8	13,267	64,985
greater than or equal to 50Mbps but less than 100Mbps	1,247	2,431	4,609
100Mbps and more	846	957	1,253
Average rate per Mbps (end of period)	€2.00	€1.74	€1.71
less than 5Mbps	€3.66	€3.79	€4.43
greater than or equal to 5Mbps but less than 10Mbps	€4.56	€4.56	€4.81
greater than or equal to 10Mbps but less than 20Mbps	€1.89	€1.79	€1.67
greater than or equal to 20Mbps but less than 30Mbps	€1.34	€1.34	€1.26
greater than or equal to 30Mbps but less than 50Mbps	€2.00	€2.00	€2.00
greater than or equal to 50Mbps but less than 100Mbps	€1.00	€0.84	€0.84
100Mbps and more	€0.70	€0.80	€0.83
ARPU	€87.63	€90.00	€88.26

Table 3: Take-up and pricing for the fixed broadband sector

- Fixed broadband ARPU in the first half of 2014 stood at €88.26, down from €90.00 in the corresponding period a year earlier.
- The average rate per unit of download speed (or per Mbps) stood at €1.71 in Q2 2014, down from €1.74 in Q2 2013.

iv. Pay TV

- The number of Pay TV subscriptions totalled 149,158 at the end of June 2014, up by just 109 (or 0.1%) since the end of June 2013.
- The number of analogue subscriptions went down by 756 (or 9.5%) in 12 months to 7,208 by the end of June 2014. Meanwhile, the number of digital cable and DTTV subscriptions declined by 793 (or 1.1%) and 2,761 (or 4.4%) respectively. Meanwhile, the number of IPTV subscriptions increased by 4,419 (or 90.7%).
- The share of total pay TV subscriptions on the analogue cable and digital cable platforms stood at 4.8% and 48.8% respectively at the end of the current reporting period. Meanwhile, the Digital terrestrial TV (DTTV) and Internet Protocol TV (IPTV) platforms accounted for 40.2% and 6.2% of total pay TV subscriptions respectively.
- The number of Pay TV subscriptions purchased in a bundle continued to increase in the first six months of the year. Their number totalled 75,965 at the end of June 2014, up by 8,679 (or 12.9%) from 67,286 twelve months earlier.

Pay TV ARPU in the first half of 2014 stood at €84.52, down from €85.90 in the first half of the previous year.

Pay TV	FH 2012	FH 2013	FH 2014	
Subscriptions (end of period)	148,470	149,049	149,158	
Average market rates for pay TV packages				
up to 24 channels	€3.99	€3.99	€3.99	
25 to 49 channels	€12.49	€12.49	€15.66	
50 to 74 channels	€23.49	€23.49	€23.49	
75 to 99 channels	€19.99	€24.49	€26.32	
100 channels or more	€29.49 €29.99		€34.99	
ARPU	€86.36	€85.90	€84.52	

Table 4: Take-up and pricing for the Pay TV sector

MCA workings show that average advertised rates (or access fees) for Pay TV have seen an increase
in the first six months of 2014. This is, however, a result of a service provider charging higher monthly
access fees for those plans that are purchased month-on-month, whilst maintaining the access fees
charged in the previous year for plans that are purchased on a 2-year contract term.

v. Post

- Postal mail volumes delivered in the first half of this year totalled 20.0 million items, down by 1.1 million (or 5.2%) from 21.1 million items in the first half of 2013.
- The universal service area, which accounts for around 98% of all postal mail activity in Malta, reported a decline in volumes during the current reporting period. Compared to the first half of 2013, postal mail volumes in the universal service area in the first half of this year were down by 1.1 million items (or 5.5%) to 19.7 million items. Meanwhile, postal mail volumes recorded under the competitive area were up by 35,241 (or 11.1%).

Post	FH 2012	FH 2013	FH 2014
Postal mail volumes	20,792,172	21,149,995	20,040,888
Competitive area postal volumes	280,232	317,132	352,373
Letter mail	169,796	187,792	220,097
Parcel mail	110,436	129,340	132,276
Universal service area postal volumes	20,511,940	20,832,863	19,688,515
Letter mail	7,749,493	7,916,114	6,661,804
Bulk mail	12,191,586	12,339,164	12,377,239
Registered mail	527,584	527,734	590,761
Parcel mail	43,277	49,851	58,711

Table 5: Postal mail volumes

- As to developments by type of mail, bulk mail items accounted for 61.8% of all postal activity recorded in the first half of 2014, followed by letter mail at 34.3%, registered mail at 2.9% and parcel mail at almost 1.0%.
- Malta's nominal prices for a domestic standard letter and letter mail within Europe feature among
 the cheapest across the EU. Malta's nominal price for a domestic standard letter and for letter mail
 within Europe stood at €0.26 and €0.59 respectively in the first half of 2014.

3. Market share trends of the local subscriber base

This section looks at the changes in market position of local service providers, based on the number of subscriptions reported at the end of the current review period.

3.1. Fixed line telephony

The number of fixed line telephony subscriptions increased by 2,550 over a year, to reach 232,469 by the end of the current reporting period. During this time, GO's market share shrank by 3.6 percentage points, whilst that of Melita improved by the same margin.

The combined market share of other operators, namely Vodafone (Malta), Ozone (Malta) and SIS was practically unchanged. Vanilla Telecoms has also started operations during this period and only accounted for a very small market share at the end of June 2014.

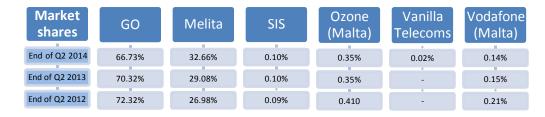


Figure 3: Market shares in terms of fixed line telephony subscriptions as at end of period

3.2. Mobile telephony

The number of mobile telephony subscriptions fell by 6,561 in the 12-month period to June 2014.

As was the case in previous years, Vodafone remained the operator with the largest number of subscriptions, although its market share dropped by 4 percentage points in the 12-month period to June 2014 to 44.4%.

Meanwhile, the market share of Go Mobile strengthened by 2.7 percentage points to 38.9% and that of Melita improved by 1.5 percentage points to 14.8%.

The smaller players in the mobile telephony market, namely RedTouch Fone and VFC Mobile, have also lost ground.

Market shares	GO Mobile	VFC Mobile	Melita Mobile	Ping	Redtouch Fo <i>ne</i>	Vodafone
End of Q2 2014	38.91%	0.01%	14.78%		1.90%	44.40%
2110 01 02 2021	38.3170	0.0170	14.7070		1.50%	11.1070
End of Q2 2013	36.26%	0.01%	13.27%	-	1.93%	48.53%
End of Q2 2012	35.61%	0.04%	11.27%	0.02%	1.96%	50.99%

Figure 4: Market shares in terms of mobile telephony subscriptions as at end of period⁷

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⁷ Ping Mobile ceased operations in 2012.

3.3. Fixed broadband

Fixed broadband subscriptions increased by 7,700 over a year, to reach 148,411 by the end of June 2014. Melita recorded the biggest gain in subscriptions during this period and, as a result, the market share of this operator improved by almost one percentage point to 49.5% at the end of the current reporting period. At the same time, GO's subscriber base also registered growth but at a lower rate than that reported by Melita. As a result, GO's overall market position suffered, with the market share of this operator falling by 0.4 percentage points to 48.94%.

Other operators accounted for a combined market share of 1.6% at the end of June 2014, down from 2.1% at the end of June 2013.

Market shares	GO	Melita	SIS	Ozone (Malta)	Vanilla Telecoms	Vodafone	IP-based ISPs
End of Q2 2014	48.94%	49.45%	0.02%	0.26%	0.15%	1.07%	0.11%
End of Q2 2013	49.32%	48.61%	0.02%	0.28%	0.13%	1.50%	0.15%
End of Q2 2012	50.34%	47.08%	0.02%	0.28%	0.13%	1.96%	0.19%

Figure 5: Market shares in terms of fixed broadband subscriptions as at end of period

3.4. Pay TV

Over the 12-month period ending June 2014, the Pay TV sector continued to experience further convergence in the subscriber market shares of GO and Melita. Given that Pay TV subscriptions only increased by around 100 during the same period, market share developments indicate that Melita faces growing competition from GO, with the latter operator improving its market share by one percentage point at the expense of the former⁸.

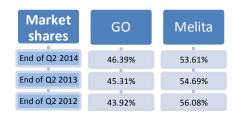


Figure 6: Market shares in terms of pay TV subscriptions as at end of period

⁸ As at the end of June 2014, Melita's digital and analogue cable platforms accounted for 48.8% and 4.8% of the local pay TV subscriber base respectively.

4. Fixed line telephony

Subscription numbers for the fixed line sector continue to improve, as these reached 232,469 by the end of Q2 2014, which is up by 2,550 (or 1.1%) from the end of the corresponding period a year earlier.

Meanwhile, fixed line-originated call volumes recorded in the first half of 2014 were considerably weaker to volumes recorded in the same period a year earlier. In this regard, the number of fixed line voice calls was down by almost 8.0 million (or 8.7%) and the number of fixed line-originated voice call minutes was down by 18.2 million (or 5.8%).

Some relevant considerations at this stage are the following:

- Despite higher take-up of mobile subscriptions and lower fixed line usage levels, end-users still value having a fixed line connection at home and / or their commercial premises.
- The increase in the number of fixed lines is fully attributable to the post-paid segment of the market, for which subscriptions went up by more than 17,000 (or 9.0%) in contrast to a drop of 14,600 pre-paid subscriptions.
- The shift from pre-paid to post-paid subscriptions in part reflects higher consumer demand for bundled services, with fixed telephony access increasingly purchased with other electronic communications services. In fact, the number of fixed line subscriptions purchased in a bundle totalled 105,681 by the end of June 2014, which is up by 15,827 (or 17.6%) from the end of June 2013.
- Although the sector recorded a good number of new users in the first half of this year, the drop in fixed line traffic volumes resulted in weaker revenues for local service providers. As a result, ARPU levels continued in their long-term decline. ARPU in the first half of 2014 stood at €81.48, which is down by 2.2% from €83.30 in the first half of 2013.

4.1. Subscriptions

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The number of fixed line telephony subscriptions totalled 232,469 as at the end of Q2 2014. This figure encompasses 208,259 post-paid subscriptions; 21,512 pre-paid subscriptions and 2,698 enhanced subscriptions⁹.

⁹ Standard fixed line subscriptions refer to subscriptions offering a single fixed line telephony connection. Enhanced fixed line subscriptions encompass those subscriptions offering multiple channel (dual or more) fixed telephony connections.

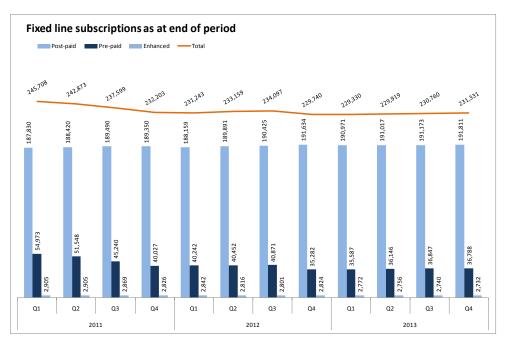


Figure 7: Fixed line telephony subscriptions as at end of period

Subscriptions by category: post-paid; pre-paid and enhanced subscriptions

The number of fixed line telephony subscriptions as at the end of the current reporting period was up by 2,550 (or 1.1%) when compared to the end of Q2 2013. This is a result of growth in the post-paid segment of the market, which saw an increase of 17,242 subscriptions (or a 9.0% expansion in the post-paid fixed line subscriber base). On the other hand, the number of pre-paid subscriptions fell by 14,634 (or 40.5%), from 36,146 at the end of Q2 2013 to 21,512 at the end of Q2 2014.

This development is likely a result of the marketing efforts of local service providers to increase demand for bundled offers, which is paying off in terms of the number of pre-paid end-users migrating to a post-paid service. At the end of Q2 2014, 89.6% of fixed line subscriptions were on a post-paid contract, which represents a 6.5 percentage point increase compared to 83.1% recorded at the end of Q2 2013.

Another important consideration here is the small decline in the number of enhanced fixed line subscriptions, which were down by 57 (or 2.1%) in the 12-month period ending June 2014.

Subscriptions on a bundle

Consumer demand for bundled offers encompassing several electronic communications services continues to increase. Table 6 shows that the proportion of post-paid fixed line subscriptions on a bundle was up by 3.7 percentage points between the end of Q2 2013 and Q2 2014, from 47.0% to 50.7%.

¹⁰ Locally, only fixed line subscriptions on a post-paid contract are bundled with other electronic communications services.

		2012				2013				2014	
Post-paid fixed telephony subscriptions on a bundle	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
	80,798	83,462	85,458	85,898	84,861	89,854	93,318	97,577	104,718	105,681	
Dual Play	33,810	34,641	35,290	35,521	34,167	33,056	33,329	33,715	39,879	39,135	
Fixed telephony + Mobile telephony	11,971	12,738	13,352	13,567	12,818	12,156	12,514	12,443	12,890	13,427	
Fixed telephony + Fixed Broadband	6,524	6,222	9,188	9,653	10,037	10,068	10,270	11,349	17,222	15,977	
Fixed telephony + Pay TV	15,315	15,681	12,750	12,301	11,312	10,832	10,545	9,923	9,767	9,731	
Triple Play	8,653	9,802	10,430	9,794	9,665	15,459	18,358	21,376	21,903	22,477	
Fixed telephony + Fixed Broadband + Mobile telephony	304	437	405	-	361	344	325	289	263	312	
Fixed telephony + Pay TV + Fixed Broadband	8,349	9,365	10,025	9,794	9,304	15,115	18,033	21,087	21,640	22,165	
Quad Play	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069	
Fixed telephony + Pay TV + Fixed Broadband + Mobile telephony	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069	
Number of post-paid fixed line subscriptions as at end of period	188,159	189,891	190,425	191,634	190,978	191,017	191,173	191,811	193,899	208,259	
Number of post-paid bundled fixed line subscriptions as a percentage of total subscriptions	42.94%	43.95%	44.88%	44.82%	44.43%	47.04%	48.81%	50.87%	54.01%	50.74%	

Table 6: Fixed line post-paid subscriptions on a bundled offer 11

In absolute terms, the number of post-paid subscriptions in a bundle increased by 15,827 (or 17.6%) from 89,854 at the end of June 2013 to 105,681 at the end of Q2 2014.

4.2. Fixed line inward portings

The number of fixed line inward portings¹² recorded in the first half of 2014 totalled 1,435. This figure is up by 522 (or 62.5%) when compared to the number of portings recorded in the same period a year earlier. This increase in fixed line portability is mainly driven by end-users switching from GO to alternative service providers, notably to Melita and to a much lesser extent to Ozone (Malta) and Vodafone (Malta).

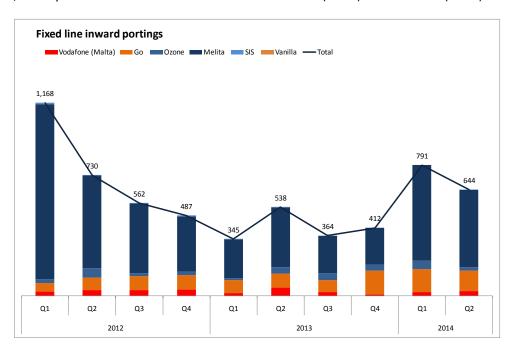


Figure 8: Fixed line number portability - number of inward portings

In fact, Melita accounted for almost 73.0% of the total number of portings recorded during the period under review, whilst Ozone and Vodafone accounted for 3.6% and 5.0% of the total number of portings respectively.

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¹¹ See Footnote 6, page 8.

¹² The term 'fixed line portings' refers to the total number of subscribers that switch from a fixed line operator to another whilst keeping the same number. Figures presented above only take into account inward portings.

4.3. Usage trends for fixed line telephony

The use of fixed line telephony declined further in the first six months of 2014, continuing a downward trend observed for the last few years and consistent with the observation that end-users are increasingly consuming mobile telephony services, without disconnecting their fixed line telephony service.

The number of landline calls in the first half of 2014 totalled 83.7 million, down by 8.7% from 91.6 million in the first half of the previous year. Fixed line voice call minutes were also down, in this case by almost 6.0%, from 315.1 million in the first half of 2013 to 296.5 million in the first half of 2014.

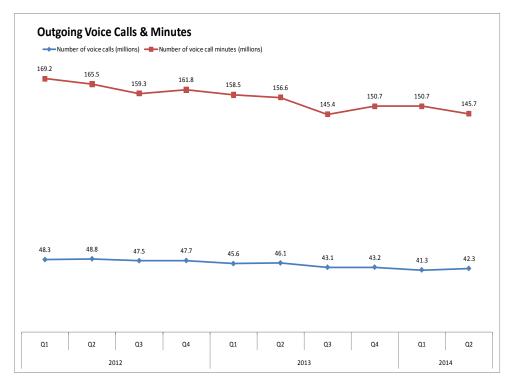


Figure 9: Voice traffic originating from local fixed line networks

This review distinguishes between two main fixed line traffic segments, namely the national voice traffic segment and the international voice traffic segment. The former segment refers to volumes of fixed calls and minutes originated and terminated in Malta, whilst the latter traffic segment refers to volumes of fixed calls and minutes originated locally and terminated in a foreign territory.

4.1.1 National voice traffic volumes

Overall, end-users made almost 81.0 million fixed-originated national calls and 280.2 million fixed-originated national minutes in the first half of this year. This translates into approximately 350 national voice calls and 1,208 national voice call minutes per active user during this period.

National voice calls

The number of national fixed line voice calls in the first half of 2014 totalled almost 81.0 million, down by 7.8% from 87.8 million in the corresponding period a year earlier.

A further drill down of these figures would show that nearly all components of this traffic segment registered a decline.

The number of on-net FTF calls fell by 7.5%, from 47.6 million in the first half of 2013 to 44.0 million in the first half of the current year. At the same time, the number of off-net FTF calls dropped by almost 4.0%, from 18.6 million to 17.9 million, and the number of FTM calls dipped by 13.4%, from 20.1 million to 17.4 million.

Period	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
National voice calls	46,503,940	46,749,484	45,443,301	45,628,883	43,770,872	44,059,375	41,690,243	41,747,919	40,008,380	41,010,722
Fixed-to-fixed calls	35,827,180	35,279,547	34,014,776	34,599,702	33,267,652	32,938,906	31,188,190	31,593,552	31,115,278	30,834,487
on-net	26,181,332	25,586,572	24,573,019	24,980,563	23,881,710	23,729,507	22,284,066	22,491,776	22,327,576	21,692,350
off-net	9,645,848	9,692,975	9,441,757	9,619,139	9,385,942	9,209,399	8,904,124	9,101,776	8,787,702	9,142,137
Fixed-to-mobile calls	9,973,948	10,718,661	10,684,728	10,232,748	9,777,879	10,286,832	9,752,130	9,384,873	8,200,977	9,180,482
Other voice calls	702,812	751,276	743,797	796,433	725,341	833,637	749,923	769,494	692,125	995,753

Table 7: Outgoing fixed line traffic - number of national voice calls

The 'other' national calls component¹³ is the only area that saw an increase in traffic volumes, with the number of calls in the first half of 2014 totalling 1.7 million up from 1.6 million in the same period a year earlier.

National voice call minutes

In terms of national voice call minutes, overall traffic volumes were down by 5.6%, from 296.7 million minutes in the first half of 2013 to 280.4 million minutes in the first half of 2014.

Again, all national traffic components except for 'other' national voice call minutes in the first half of 2014 were down when compared to the corresponding period a year earlier. On-net FTF traffic minutes were down by 5.0%, from 187.5 million to 178.1 million; off-net FTF minutes were down by 3.3%, from 74.3 million to 71.9 million, and FTM minutes were down by 15.0%, from 31.3 million to 26.6 million.

Period	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
National voice call minutes	158,897,034	155,123,971	148,789,804	151,784,220	149,234,181	147,422,392	136,928,557	141,978,680	142,579,489	137,771,830
Fixed-to-fixed minutes	142,054,147	137,094,161	130,613,939	134,320,578	132,477,841	129,349,015	120,045,471	125,641,871	128,226,424	121,711,458
on-net	103,116,366	98,893,782	93,707,176	96,301,841	94,773,255	92,710,063	85,584,642	89,496,565	92,294,949	85,768,971
off-net	38,937,780	38,200,379	36,906,762	38,018,737	37,704,586	36,638,952	34,460,829	36,145,305	35,931,475	35,942,487
Fixed-to-mobile minutes	15,316,902	16,245,293	16,341,011	15,740,874	15,106,268	16,210,535	15,085,030	14,493,456	12,510,592	14,108,301
Other call minutes	1,525,985	1,784,518	1,834,854	1,722,768	1,650,072	1,862,842	1,798,056	1,843,353	1,842,473	1,952,072

Table 8: Outgoing fixed line traffic - number of national voice call minutes

Meanwhile, 'other' national minutes were up by 8.0%, from 3.5 million to 3.8 million.

4.1.2 International voice traffic volumes

Overall, end-users made almost 2.7 million fixed-to-international (FTI) calls and 16.5 million fixed-to-international minutes in the first half of this year. This translates into approximately 12 international voice calls and around 70 international voice call minutes per active user during this period.

The number of fixed-to-international (FTI) voice calls in the first half of 2014 totalled 2.7 million, down by 29.2% from 3.8 million in the first half of 2013. Correspondingly, the number of international voice call minutes also declined, in this case by 10.5%, from 18.4 million to 16.5 million.

4.4. Activity levels and call duration

The increase in subscriptions and the overall decline in traffic volumes translated into falling activity levels for the fixed line sector, with call volumes per fixed line subscription in the first half of 2014 weaker than recorded in the first half of 2013.

¹³ This traffic component includes freephone calls, premium calls and payphone calls.

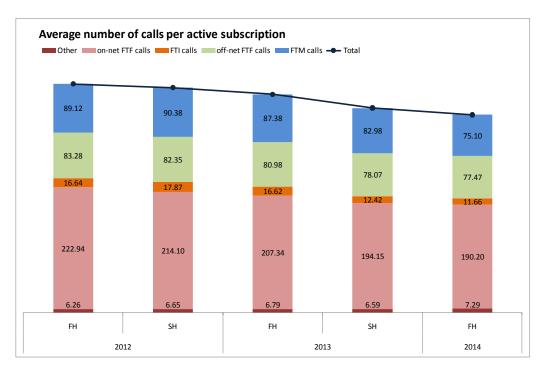


Figure 10: Average number of calls per active subscription

Figure 10 illustrates that each active fixed line subscription accounted for an average of around 361 calls in the first half of 2014¹⁴, down from around 400 in the first half of 2013. The drop in on-net FTF and FTM traffic volumes explains most of the dive in activity for the fixed line sector, although volumes were also down for off-net FTF and FTI traffic.

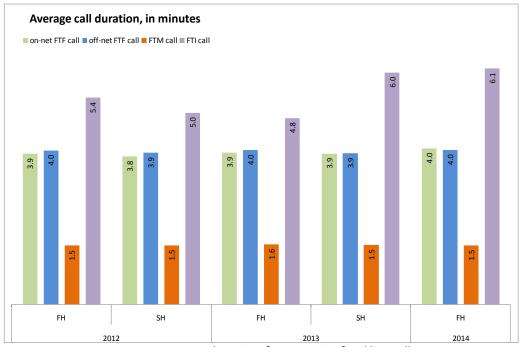


Figure 11: Average duration of an outgoing fixed line call

¹⁴ Total depicted in Figure 10 includes the number of *other calls* (which encompasses premium, freephone, and Internet calls) per active subscription.

As to the average length of fixed line calls, Figure 11 illustrates that average landline call duration stood at three and a half minutes, which is practically unchanged from the average landline call duration in the first half of the previous year.

Average call length varies according to the type of call, given that fixed line users display different demand characteristics for different type of calls. For example, the average duration of a FTI call stood at around 6 minutes in the first half of 2014, compared to 1 minute and 30 seconds for a FTM call. On-net FTF calls and off-net FTF calls on average lasted around four minutes during the same period.

4.5. Fixed ARPU

The average revenue per user (ARPU) in the fixed line sector for the first half of 2014, at €81.48, was lower than that observed in the first half of the previous year, which stood at €83.30.

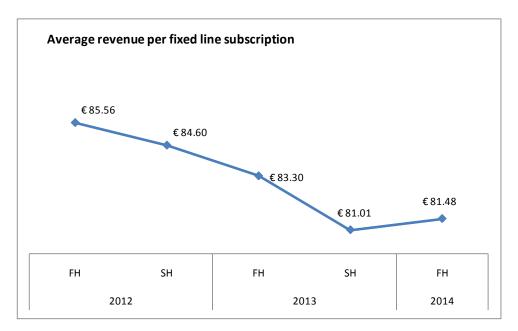


Figure 12: Average revenue per fixed line user

It is worth recalling again that the drop in voice traffic volumes is likely to be the main reason behind the decline in fixed telephony ARPU. However, other elements may have also contributed to the fall in fixed line ARPU, such as the provision of free minute allowances with fixed access (particularly when fixed telephony access is bundled with other electronic communications services).

Methodology used in deriving fixed ARPU figures

Fixed ARPU figures are derived by dividing the total revenues of service providers by the average number of active subscribers, during a given period.

The 'total revenues' heading includes a number of retail revenue elements, namely:

- 1. revenues from access;
- 2. revenues from all local and international voice call activity (incl. freephone & premium call activity); and
- 3. revenues from 'other' activity as specified by the operator.

The average number of active subscribers during a given period corresponds to the number of active subscriptions at the start of the period plus the number of subscriptions at the end of the same period, divided by two.

4.6. Average rate per minute of fixed line communications

Revenue-based figures in Figure 13 show that the ARPM for the different types of fixed line-originated calls in the first half of 2014 changed slightly in relation to that observed in the first half of the previous year¹⁵.

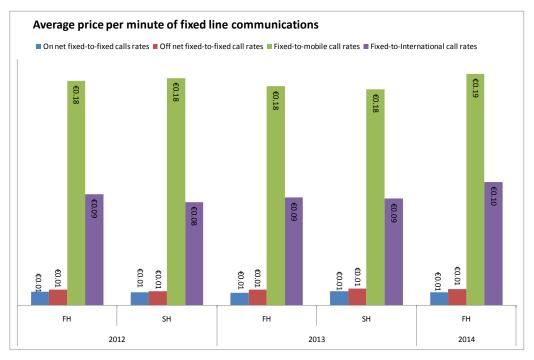


Figure 13: Average cost of a fixed line call derived from revenue-based workings

The ARPM of an on-net FTF call and off-net FTF call stood at €0.01 in the first half of 2014, unchanged from the prevailing rate in the first half of 2013.

The ARPM FTM calls and FTI calls also edged slightly upwards. The former increased from €0.18 in the first half of 2013 to €0.19 in the first half of this year, whilst the latter increased from €0.09 to €0.10 during the same period.

Methodology used in deriving fixed ARPM figures

The average rate per minute of fixed line communications is derived by subdividing voice traffic revenues, but excluding revenues from access fees, VAT and excise tax, by the number of minutes reported under each respective heading.

Figures are to be interpreted with caution, as these are not the actual rates quoted on the market for the different plans and schemes launched by local operators. It is also noted that local fixed line operators may offer free calls or discounted call rates, such as free onnet calls with bundled offers and cheaper call rates on weekends. This would affect the outcome for the average rate per minute of fixed line communications.

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 $^{^{15}}$ Workings do not take into account free phone calls, premium calls and payphone calls.

5. Mobile telephony

The mobile sector experienced mixed outcomes in the current reporting period. The first major development relates to the fall in the number of subscriptions, which dropped by around 6,500 (or 1.2%) between June 2013 and June 2014¹⁶, although this variation can be imputed (largely or wholly) to a one-time realignment of statistical data by one operator. As a result, the mobile penetration rate as at the end of June 2014 was 2.7 percentage points lower than the rate prevailing at the end of June 2013¹⁷.

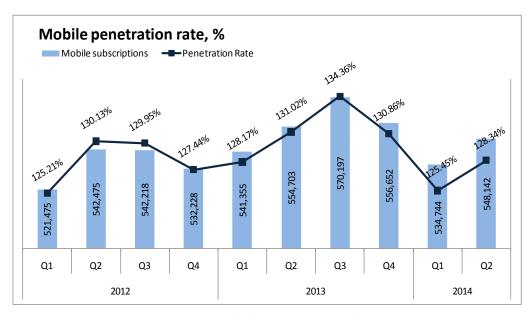


Figure 14: Mobile penetration in Malta

It is also of note that the proportion of mobile subscriptions purchased in a bundle with other electronic communications services remains relatively low. In fact, only 10.6% of total mobile subscriptions were bundled with some other electronic communications service at the end of June 2014. This low take-up of mobile subscriptions on a bundle is mainly a result of service providers typically marketing optional free mobile minute allowances as an add-on to existing dual play and triple play bundle offers, rather than combining mobile access in the final price of the bundle. Furthermore, end-users are likely to consider mobile telephony as a personal service rather than being a household service.

On a more meaningful note, the mobile sector recorded stronger activity levels per subscription in the first half of 2014, compared to the same period a year earlier. This is because the decline in the number of mobile subscriptions coincided with increased demand for mobile voice call services. In fact, mobile voice traffic volumes in the first half of 2014 were considerably stronger than recorded during the same period a year earlier. In this respect, the number of mobile voice calls was up by 13.3% and the number of mobile voice call minutes was up by 11.3%.

An important consideration here relates to fixed-to-mobile (FTM) substitution, which gained significant momentum over the last few years. Figure 15 illustrates that the number of mobile-originated voice call minutes has been exceeding the number of fixed-originated voice call minutes since Q2 2013¹⁸. The gap

¹⁶ This decline traces two factors: market forces and, to a significant extent, a change in the methodology implemented by one of the largest local service providers when compiling subscription numbers.

 $^{^{17}}$ The mobile penetration rate corresponds to the proportion of Malta's population owning an active SIM card.

¹⁸ It is also relevant to underline here that the number of mobile-originated voice calls has also been exceeding the number of fixed line-originated voice calls for the last few years.

between the two widened even further over the last twelve months, with significant gains recorded for mobile as opposed to losses for fixed.

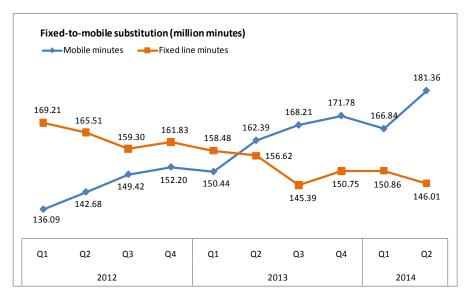


Figure 15: Fixed-to-mobile substitution

As already highlighted in previous CMR publications, the FTM substitution trend is likely a result of free minute allowances in mobile plans, cheaper on-net MTM call rates, the introduction of new plans, lower monthly access fees and additional discounts and allowances provided to customers in bundle packages.

The sector has also seen an increase in ARPU in the first half of 2014 compared to the same period a year earlier. Although the decline in the number of subscriptions did contribute to bring about this increase, higher consumer spending on mobile broadband connectivity services has contributed to generate new streams of revenue for the sector.

5.1. Subscriptions

The number of active mobile subscriptions¹⁹ totalled 548,142 as at the end of June 2014²⁰, down from 554,703 a year earlier²¹. This decline is a result of a fall in the number of pre-paid mobile subscriptions, which outweighed the reported increase in the number of post-paid mobile subscriptions.

Subscriptions by category: post-paid vs. pre-paid

There were 421,437 pre-paid subscriptions (equivalent to 76.9% of the total) at the end of the current reporting period, down by 3.6% from 437,079 a year earlier. Meanwhile, the number of post-paid subscriptions stood at 126,705 (equivalent to 23.1% of the total), up by 7.7% from 117,624.

¹⁹ The number of active mobile subscriptions refers to the number of subscribers having a MSISDN with registered inbound or outbound activity within 90 days of the period stipulated for pre-paid connections and within 30 days of the period stipulated for post-paid connections.

²⁰ In terms of activity over the 2G and 3G network, 63.7% of all active mobile subscriptions at the end of June 2014 registered activity over the 3G network.

The incidence of recording activity over the 3G network is more likely amongst postpaid subscriptions. In fact, as at the end of the reporting period, 55.1% of all prepaid subscriptions reported activity over the 3G network compared to 77.2% of postpaid subscriptions.

²¹ See footnote 16 on page 22.

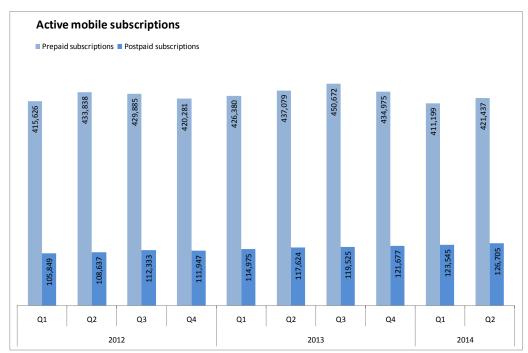


Figure 16: Mobile telephony subscriptions as at end of period

Subscriptions on a bundle

As to the number of mobile subscriptions purchased by the end-user in combination with other electronic communications services, Table 9 illustrates that these increased by almost 4,000 (or 7.4%) in the 12-month period to June 2014. The proportion of mobile subscriptions on a bundle stood at 10.6% at the end of the current reporting period.

Mobile telephony subscriptions on a bundle		20	12			20	2014			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		52,194	53,495	54,150	54,208	53,839	54,470	55,218	56,089	57,808
Dual Play	11,971	12,738	13,352	13,567	12,818	12,156	12,514	12,443	12,890	13,427
Fixed telephony + Mobile telephony	11,971	12,738	13,352	13,567	12,818	12,156	12,514	12,443	12,890	13,427
Triple Play	304	437	405	-	361	344	325	289	263	312
Fixed telephony + Fixed Broadband + Mobile telephony	304	437	405	-	361	344	325	289	263	312
Quad Play	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069
Fixed telephony + Pay TV + Fixed Broadband + Mobile telephony	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069
Number of mobile subscriptions as at end of period	521,475	542,475	542,218	532,228	541,355	554,703	570,197	556,652	534,744	548,142
Number of bundled mobile subscriptions as a percentage of total mobile subscriptions	9.71%	9.62%	9.87%	10.17%	10.01%	9.71%	9.55%	9.92%	10.49%	10.55%

Table 9: Mobile subscriptions on a bundled offer²²

5.1. Mobile inward portings

There were 18,365 mobile inward portings²³ in the first half of 2014, down by 1,128 (or 5.8%) compared to the first half of 2013.

²² See footnote 6, page 8.

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²³ This term corresponds to the total number of mobile users that switch their subscription from one operator to another, whilst keeping the same number. Figures presented above only take into account the number of mobile inward portings.

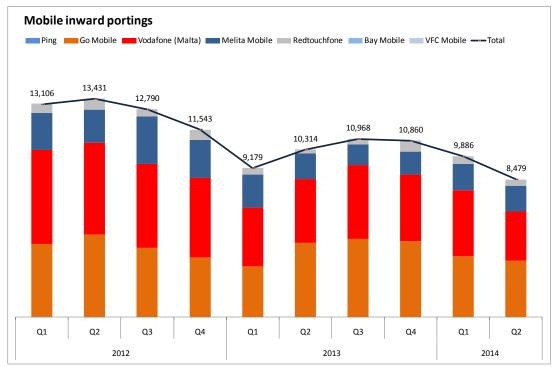


Figure 17: Mobile number portability - number of mobile portings

AT an operator level, Go Mobile accounted for 39.2% of all mobile inward portings reported in the first six months of this year, closely followed by Vodafone (Malta) at 38.6% and Melita Mobile at 17.7%. Redtouchfone accounted for 4.5% of all mobile inward portings.

5.2. Usage trends for mobile telephony

Mobile voice usage continued to strengthen in the first half of this year, with both the number of voice calls and voice call minutes up compared to the same period a year earlier. On the other hand, SMS and MMS traffic volumes were down.

Voice calls

The number of mobile voice calls in the first half of 2014 amounted to 252.5 million, which is up by 29.7 million (or 13.3%) from 222.8 million in the first half of last year.

The on-net mobile-to-mobile (MTM) traffic segment was the major contributor to growth in mobile voice call traffic volumes. In fact, the number of on-net MTM calls was up by 25.5 million (or 17.1%), from 148.8 million calls in the first half of 2013 to 174.3 million in the first half of this year.

Other traffic segments also reported an increase in traffic. The number of off-net MTM calls went up by 3.3 million (or 6.5%), from around 51.4 million in the first half of 2013 to 54.8 million in the same period of 2014, and the number of mobile-to-fixed (MTF) calls was also up by 0.3 million (or 1.5%), from 19.2 million to 19.5 million.

Voice Calls	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
National voice calls	82,249,683	85,989,486	97,358,461	101,317,479	98,644,467	120,772,278	128,893,708	126,242,592	119,037,095	129,503,497
Mobile-to-mobile calls	73,172,739	76,837,842	87,576,347	91,534,936	89,354,849	110,883,544	117,928,104	115,069,444	109,123,002	119,951,796
on-net	48,469,739	51,545,062	60,743,306	66,054,869	64,718,875	84,080,806	90,406,898	88,267,645	83,438,927	90,849,880
off-net	24,703,000	25,292,780	26,833,041	25,480,067	24,635,974	26,802,738	27,521,206	26,801,799	25,684,075	29,101,916
Mobile-to-fixed calls	9,076,944	9,151,644	9,782,114	9,782,544	9,289,618	9,888,734	10,965,604	11,173,148	9,914,093	9,551,701
International voice calls	1,429,648	1,693,002	1,943,803	938,121	1,561,012	1,812,293	2,263,862	2,078,765	1,930,326	2,026,277
Total voice calls	83,679,331	87,682,487	99,302,264	102,255,601	100,205,479	122,584,571	131,157,570	128,321,357	120,967,421	131,529,774

Table 10: Outgoing mobile traffic - number of voice calls

The total number of MTI calls was also up in the first half of 2014 when compared to the same period a year earlier, in this case by 0.6 million (or 17.3%).

Voice call minutes

Consistent with the increase in the number of mobile-originated calls, call minute volumes also recorded significant growth. The number of mobile voice call minutes totalled almost 350.0 million in the first half of this year, up by 35.4 million (or 11.3%) from 312.8 in the first half of 2013.

On-net MTM minute volumes were again the major contributor behind this increase. On-net MTM minutes in the first half of 2014 were up by 19.4 million (or 9.5%) when compared to minute volumes recorded in the first half of last year. Meanwhile, off-net MTM minutes were up by almost 13.0 million (or 20.2%) and MTF minutes were up by 1.6 million (or 4.5%).

Voice Minutes	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
National voice call minutes	132,319,608	138,325,671	144,563,067	147,456,303	146,262,529	157,820,151	162,901,026	166,644,011	161,990,029	176,040,647
Mobile-to-mobile minutes	116,046,299	121,334,177	126,460,541	129,908,021	129,379,493	139,848,648	143,888,593	147,142,988	144,569,832	157,029,661
on-net	85,782,100	89,269,300	93,852,272	98,188,508	98,934,563	106,086,004	108,508,272	111,355,628	108,842,560	115,598,127
off-net	30,264,200	32,064,877	32,608,268	31,719,512	30,444,930	33,762,644	35,380,321	35,787,360	35,727,272	41,431,535
Mobile-to-fixed minutes	16,273,309	16,991,494	18,102,527	17,548,282	16,883,036	17,971,502	19,012,433	19,501,023	17,420,198	19,010,986
International voice call minutes	3,774,590	4,358,344	4,859,104	4,747,563	4,175,091	4,570,780	5,307,604	5,139,585	4,852,230	5,316,272
Total voice call minutes	136,094,198	142,684,015	149,422,171	152,203,866	150,437,620	162,390,931	168,208,630	171,783,596	166,842,259	181,356,919

Table 11: Outgoing mobile traffic - number of voice call minutes

MTI minute volumes were also up, in this case by 1.4 million (or 16.3%).

5.3. SMS and MMS activity levels

Whilst mobile voice traffic volumes increased during the reporting period, SMS and MMS usage experienced a decline.

SMS traffic volumes

The number of outgoing text messages totalled 257.0 million in the first half of 2014, down by 14.9% from 301.9 million in the same period a year earlier²⁴.

This development is mainly attributable to significant drops in both on-net and off-net SMS traffic volumes and a fall in the number of premium SMSs, which significantly outweighed increases in the number of premium SMSs and SMSs directed to foreign mobile networks.

²⁴ Including on-net SMSs, off-net SMSs, SMSs sent to foreign mobile networks, SMSs sent from Internet Portal and premium SMSs.

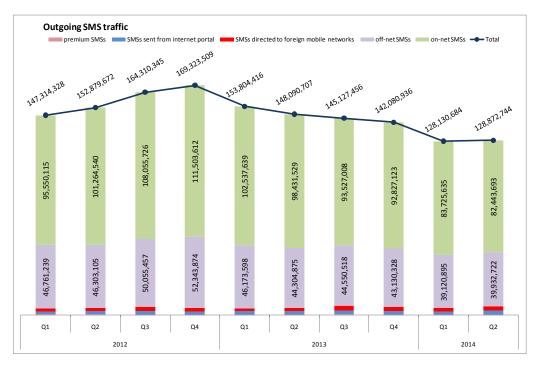


Figure 18: SMS activity - number of outgoing SMSs (1)

The number of on-net SMSs in the first half of 2014 totalled 166.2 million, down by 34.8 million (or 17.3%) from almost 201.0 million in the first half of last year. Meanwhile, the number of off-net SMSs was down by 11.4 million (or 12.6%) from 90.5 million to 79.1 million and the number of premium SMSs declined by 0.2 million (or 33.4%).

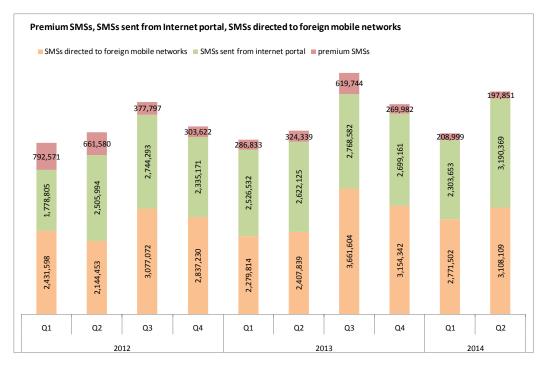


Figure 19: SMS activity - number of outgoing SMSs (2)

On the other hand, the number of SMSs sent from Internet portals was up by 6.7%, from 5.1 million in the first half of 2013 to 5.5 million in the first half of this year. During the same period, the number of SMSs directed to foreign mobile networks was up by 1.2 million (or 25.4%).

MMS traffic volumes

The number of MMSs in the first half of 2014 totalled 83,796. This figure is 28.8% lower than that recorded in the first half of 2013, when the number of MMSs totalled 117,761.

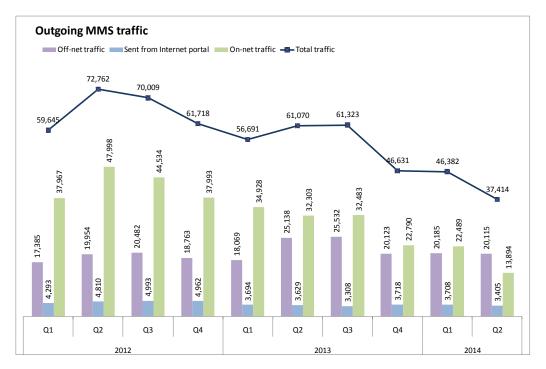


Figure 20: MMS activity - number of outgoing MMSs

5.4. Activity levels per mobile subscription

Activity levels per mobile subscription strengthened in the case of voice traffic but weakened in the case of SMS and MMS traffic.

Voice call activity levels per subscription

The average number of voice calls per active subscription went up from around 410 in the first half of 2013 to around 457 in the first half of this year, mainly driven by the increase in activity related to the on-net MTM call traffic segment.

On-net traffic represents the largest portion of voice call activity recorded by active mobile subscriptions. In this regard, the average number of on-net MTM calls per active subscription increased from around 274 in the first half of 2013 to 316 in the first half of 2014.

Meanwhile, the number of off-net MTM calls per active mobile subscription also went up from around 95 to 99, whilst the number of MTF calls per mobile subscription was unchanged at 35.

The average number of MTI calls per active subscription was also slightly up, from 6 to around 7.

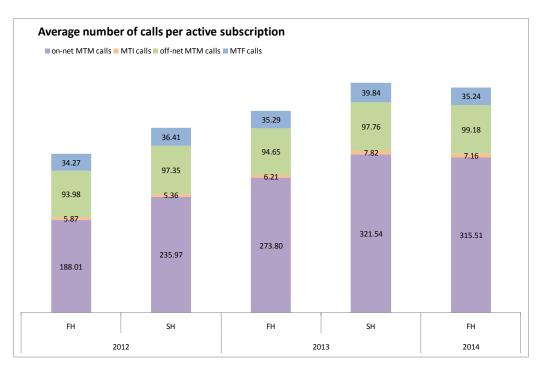


Figure 21: Average number of calls per active subscription

SMS activity levels per mobile subscription

SMS traffic volumes in the first half of this year declined at a faster rate than mobile subscriptions, when compared to the same period a year earlier. As a result, the number of SMSs per active subscription in the first half of 2014 was markedly lower than that recorded in the first half of 2013, as shown in Figure 22, below. This is attributed to significant decline in activity with respect to on-net and off-net SMSs per subscription, which outweighed stronger activity per subscription with respect to SMSs sent from Internet portals, premium SMSs and SMSs directed to foreign mobile networks.

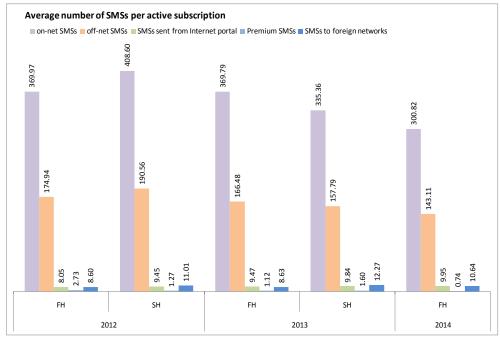


Figure 22: Subscriber activity - average number of SMSs per active subscription

As already observed in previous publications, this development mainly reflects the current shifts in consumer preferences, whereby end-users are increasingly making mobile-originated calls rather than texting a message, given the availability of cheaper call rates (especially on-net call rates) and the prevalence of free minute allowances.

5.5. Average mobile call duration

Lower mobile call rates are also likely to contribute to lengthier calling times. Nevertheless, this trend is not always as straightforward as it may sound given that there could be various factors that influence outcomes, particularly in a market where service providers constantly launch new offers and promotional discounts to enhance take-up and usage. Cheaper call rates and free minute allowances may entice end-users, for example, to substitute SMSs with on-net MTM voice calls that are of a short duration.

Overall, the average mobile call duration in the first half of 2014 was 1.4 minutes (or 84 seconds), which is slightly lengthier than was the case in the first half of 2013.

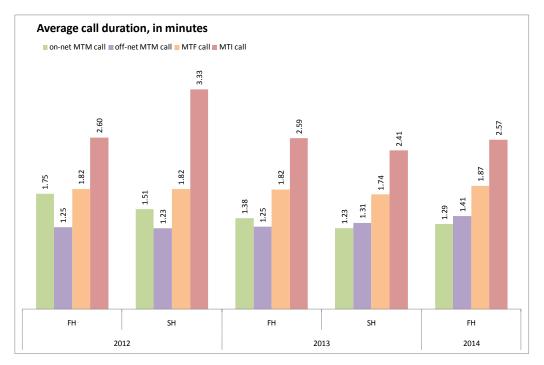


Figure 23: Average duration of an outgoing mobile call

This change is again largely explained by a drop in the average call duration of an on-net MTM call, which is likely a result of service providers offering free on-net minute allowances that consumers utilised for very short calls instead of sending text messages.

5.6. International roaming activity levels

The level of international roaming activity²⁵ depends on two main factors, namely the frequency and pattern of travel by end-users and the relative roaming charges that apply for calls and SMSs. It is of relevance to

Data for inbound and outbound roaming calls is currently under review and should be interpreted with caution.

²⁵ From a technical perspective, international roaming encompasses any activity registered by mobile subscribers whilst travelling abroad. In this regard, end-users would be using voice-roaming services when making or receiving calls via their mobile subscription while abroad. They would be using SMS roaming services when sending or receiving an SMS via their mobile subscriptions. End-users can also send or receive data while abroad over their mobile.

underline here that Malta has seen a consistently stronger inflow and outflow of tourists over the last few years. Meanwhile, the number of Maltese travelling abroad has also increased. Stronger tourist flows coincided with falling roaming charges, both in the case of voice calls and text messaging.

5.6.1 Outbound roaming activity

This type of roaming activity refers to voice call, SMS, and data services operated on foreign mobile networks by local subscribers when roaming abroad.

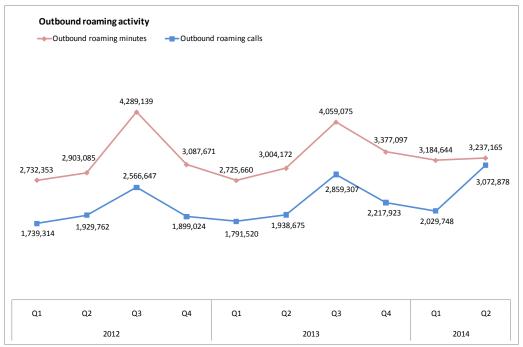


Figure 24: Outbound roaming activity

The number of outbound roaming calls totalled 5.1 million in the first half of 2014, slightly up by 1.4 million (or 36.8%) from 3.7 million in the first half of 2013. Traffic volumes were also stronger in terms of outbound roaming minutes, which went up by 0.7 million (or 12.1%), from 5.7 million in the first half of 2013 to 6.4 million in the first half of this year.

5.6.2 Inbound roaming activity

This type of roaming activity refers to call, SMS and data services operated on local mobile networks by foreign subscribers when roaming in Malta.

The number of inbound roaming calls totalled 19.1 million in the first half of 2014, which is up by 3.4 million (or 21.5%) over the corresponding period in 2013.

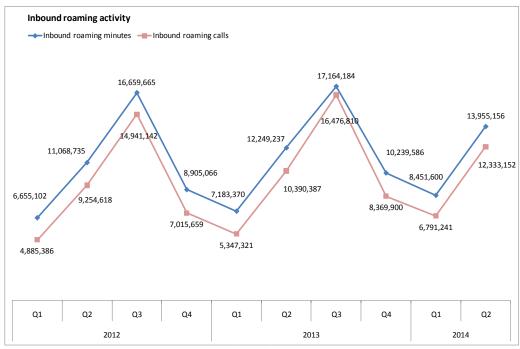


Figure 25: Inbound roaming activity

The number of inbound roaming minutes went up by almost 3.0 million (or 15.3%), from 19.4 million in the first half of 2013 to 22.4 million in the first half of last year. This increase is likely a result of lower roaming prices, which enticed foreign travellers roaming in Malta to make more calls.

5.7. Mobile ARPU

The average revenue per user (ARPU) in the mobile sector for the first half of 2014 was higher than that observed in the first half of the previous year. Figure 26 shows that mobile ARPU in the first half of this year stood at €83.44, which is up from €82.68 in the first half of 2013.

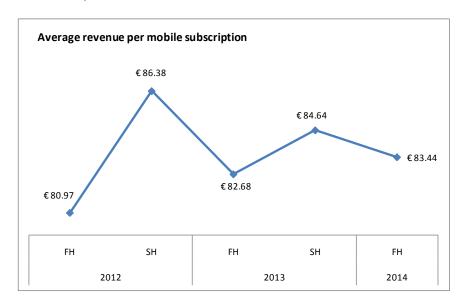


Figure 26: Average revenue per mobile user

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This trend appears to reflect the overall decline in voice call-related revenues, as reported by local service providers, and the concurrent increase in the usage of mobile voice telephony services. It is also indicative that end-users may therefore be getting better value for money when purchasing mobile voice telephony services.

Methodology used in deriving mobile ARPU figures

Mobile ARPU figures are derived by dividing total revenues of service providers by the average number of active subscriptions, during a given period.

The 'total revenues' heading includes a number of retail revenue elements, namely:

- 1. revenues from all outgoing voice activity (excluding interconnection revenues);
- 2. revenues from SMS and MMS activity;
- 3. revenues from monthly access fees:
- 4. revenues from data services; and
- 5. revenues from outbound roaming activity (but excl. revenues from inbound roaming activity).

The average number of active subscribers during a given period is derived by adding the number of active subscriptions at the start of the period plus the number of subscriptions at the end of the said period, divided by two.

5.8. Pricing developments for mobile telephony

Service providers compete on the market by launching new offers and new pricing models to entice new customers to their network and to retain existing ones. Some of the most common pricing models allow for free minute and SMS allowances, cheaper on-net call rates, hybrid plans combining prepaid elements to postpaid plans, bundling of calls and data within a package or even bundling of calls targeting different social groups / contact networks and different time zones at preferential rates. This whole mix of plans and offers makes it difficult to determine the exact price paid by the end-user to make a mobile voice call and / or to send an SMS.

The MCA has carried out an exercise to calculate the average rate per minute of mobile voice call services and the average rate per SMS. In the former case, figures are derived by dividing domestic and international mobile voice traffic revenues (including voice related access revenues but excluding roaming revenues), by the number of minutes reported under each respective heading²⁶. In the latter case, figures correspond to the division of SMS-related revenues by the number of SMSs made during the period.

5.8.1 The average rate per minute of mobile communications

Figure 27 shows that the average rate per minute of mobile communications for a domestic call stood at €0.086 in Q2 2014, down by 10.5% from €0.095 in Q2 2013²⁷.

²⁶ In this calculation, revenues from VAT, excise tax, and retail roaming services are excluded.

²⁷ It is again noted here that local mobile operators may offer free calls or discounted call rates, such as on weekends and evenings, and also in the case of particular schemes for closed user groups and bundled products. However, the current calculations do not take these factors into account.

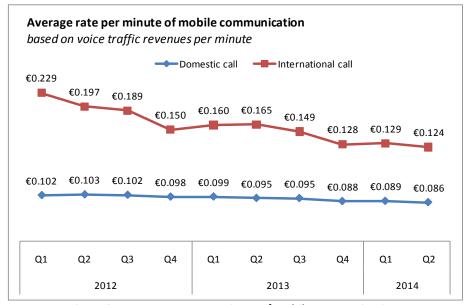


Figure 27: Average rate per minute of mobile communications

Meanwhile, the average rate per minute of mobile communications for an international call over the mobile network was also down, this time by almost 25.0%, from €0.165 in Q2 2013 to €0.124 in Q2 2014.

5.8.2 The average rate per SMS

In terms of the average rate per SMS, Figure 28 illustrates that, in Q2 2014, the consumer on average paid €0.022 and €0.061 for a domestic and an internationally bound SMS, respectively.

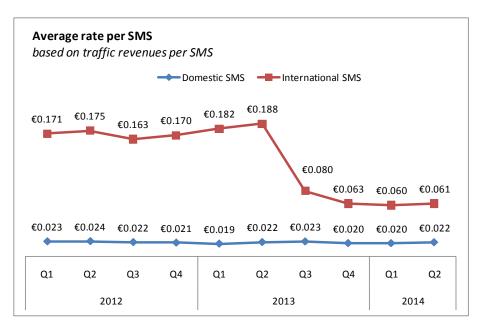


Figure 28: Average rate per domestic and international SMS

6. Fixed and mobile broadband

The broadband sector has shown another strong performance in the first half of this year, with take-up of fixed broadband maintaining an upward trend and prices for the service still subject to competitive pressures.

The take-up of mobile broadband was also strong, particularly as the usage of mobile broadband via standard mobile subscriptions continued to strengthen.

The following points outline the salient developments for the data sector:

- The number of fixed broadband connections went up by 7,700 (or by 5.5%) during the 12-month period to June 2014. This increase is reflected in the sector's penetration rate (i.e. the number of active fixed broadband connections per population), which improved by 1.5 percentage points to reach 34.8% by the end of the current reporting period.
- Underlying the strong take-up of fixed and mobile broadband is the availability of plans offering higher download and upload speeds and including data usage allowances. Improved service quality and a stronger presence of devices over which consumers can access data services, such as smartphones and tablets, also contributed to strengthen the take-up of broadband.
- The trend of bundling fixed broadband with other electronic communications services continued in the first six months of this year, with the proportion of fixed broadband subscriptions on a bundle going up from 47.5% at the end of June 2013 to 55.6% at the end of June 2014.
- In terms of overall trends, prices for fixed broadband were slightly down in the first half of 2014, as evidenced by the fall in the average rate per Mbps. In this regard, end users paid €1.71 per Mbps in Q2 2014 compared to €1.74 in Q2 2013.
- ARPU for service providers in the first half of 2014 stood at €88.26, down from €90.00 in the first half of last year. This is mainly a result of more end-users purchasing fixed broadband in a bundle with other electronic communications services and service providers continuing to upgrade download speeds of their customers.

6.1. Fixed broadband subscriptions

The number of fixed broadband subscriptions totalled 148,411 at the end of the current reporting period, which is up by 5.5% since the end of June 2013, when the number of subscriptions totalled 140,711²⁸.

The number of subscriptions recorded as at the end of June 2014 corresponds to a fixed broadband penetration rate of 34.8%.

²⁸ For the purpose of this report, fixed broadband Internet subscriptions refer to those connections that are *always on* and have a speed of 128kbps or more.

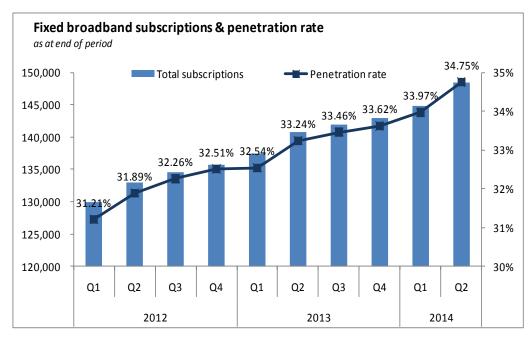


Figure 29: Take-up of fixed broadband and fixed broadband penetration

In line with developments observed in previous years, the number of end-users opting to purchase their fixed broadband subscription in combination with other electronic communications products and services in a bundle continued to increase.

Fixed broadband subscriptions on a bundle		20	12		2013				20	14
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		55,043	59,356	60,030	60,731	66,866	70,259	75,211	82,061	82,523
Dual Play	6,524	6,222	9,188	9,653	10,037	10,068	10,270	11,349	17,222	15,977
Fixed broadband + Fixed telephony	6,524	6,222	9,188	9,653	10,037	10,068	10,270	11,349	17,222	15,977
Triple Play	8,653	9,802	10,430	9,794	9,665	15,459	18,358	21,376	21,903	22,477
Fixed broadband + Fixed telephony + Pay TV	8,349	9,365	10,025	9,794	9,304	15,115	18,033	21,087	21,640	22,165
Fixed broadband + Fixed telephony + Mobile telephony	304	437	405	-	361	344	325	289	263	312
Quad Play	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069
Fixed broadband + Fixed telephony + Pay TV + Mobile telephony	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069
Number of fixed broadband subscriptions as at end of period	129,980	132,921	134,588	135,758	137,449	140,711	141,987	143,010	144,800	148,411
Number of bundled fixed broadband subscriptions as a percentage of total fixed broadband subscriptions	41.17%	41.41%	44.10%	44.22%	44.18%	47.52%	49.48%	52.59%	56.67%	55.60%

Table 12: Fixed broadband subscriptions on a bundled offer²⁹

In this regard, the number of fixed broadband subscriptions purchased in a bundle with some other electronic communications service totalled 82,523 at the end of the current review period. The latter figure represents 55.6% of all fixed broadband subscriptions recorded at the time.

6.2. Fixed broadband subscriptions by access technology

A breakdown of fixed broadband subscriptions between DSL, cable and fixed wireless shows that there were marginally more cable subscriptions than DSL subscriptions at the end of June 2014. The former category accounted for 49.5% of all fixed broadband subscriptions at the end of the current reporting period. DSL subscriptions accounted for 49.1% of total subscriptions, whilst fixed wireless accounted to 1.5% of total subscriptions.

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²⁹ See footnote 6, page 8.

Compared to 12 months earlier, cable improved its relative market presence by 0.8 percentage points, whilst DSL and wireless broadband experienced a weakening market presence, with each of their relative market share falling by 0.4 percentage points.

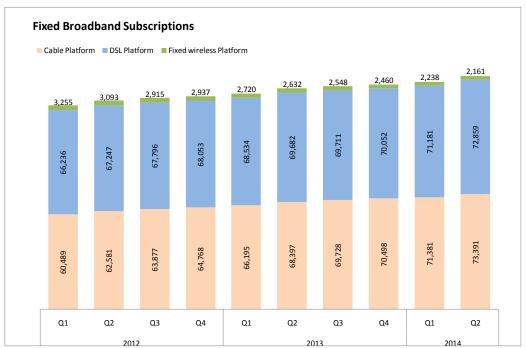


Figure 30: Broadband Internet subscriptions as at end of period - by technology

In absolute terms, DSL and cable access technologies recorded an increase in the number of subscriptions in the 12-month period ending June 2014. However, cable again emerges as the fastest growing subscription type, with subscriptions in this case increasing by 4,994 (or 7.3%), whilst DSL subscriptions increased by 3,177 (or 4.6%).

On the other hand, the number of fixed wireless subscriptions fell by 471 or 17.9%.

6.3. Fixed broadband subscriptions by speed³⁰

Surveys carried out by the MCA have consistently shown that consumers are spending more time browsing, streaming and carrying out other activities online. This in itself contributes to higher demand for data and data intensive applications and goes to explain why local service providers are placing greater emphasis on offers that support stronger download and upload speeds.

Figure 31 illustrates that, in line with the above-mentioned developments, the number of fixed broadband subscriptions supporting download speeds lower than 30Mbps has gone down considerably over the last two years.

As at the end of June 2014, the number of fixed broadband subscriptions allowing for a download speed of less than 30Mbps totalled 77,564. This figure is down by almost 46,500 (or 37.5%) when compared to the corresponding figure recorded at the end of June 2013.

 $^{^{}m 30}$ Quoted figures refer to advertised speeds.

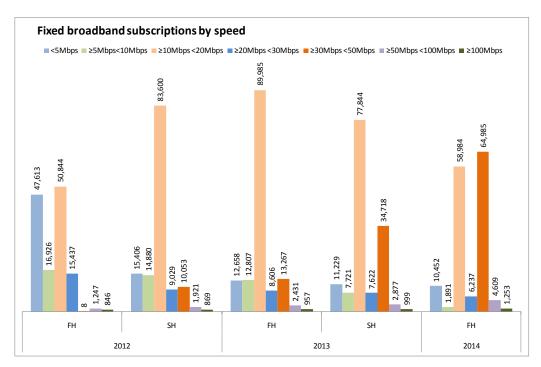


Figure 31: Fixed broadband subscriptions as at end of period, by speed

On the other hand, the number of fixed broadband subscriptions allowing for a download speed of 30Mbps but less than 100Mbps totalled 69,594 as at the end of June 2014, up by 53,896 (or by around 340%) since the end of June 2013. Melita triggered this increase as it continued to upgrade its clients to fixed broadband packages supporting download speeds higher than 30Mbps.

Meanwhile, the number of subscriptions with a download speed of 100Mbps or more remained largely unchanged, up by just 296 over a 12-month period ending last June.

6.4. Fixed broadband subscriptions by access technology and download speed

A further look at the fixed broadband subscriber base, in particular to the number of fixed broadband subscriptions categorised by access technology and download speeds, would show that all fixed wireless broadband subscriptions recorded at the end of June 2014 allowed for a download speed of less than 30Mbps.

Meanwhile, with respect to DSL, 94.6% of all subscriptions on this technology platform allowed for a download speed of less than 30Mbps and 5.4% allowed for a download speed of 30Mbps but less than 50Mbps. No DSL-based subscriptions had a connection allowing for a download speed of 50Mbps or more.

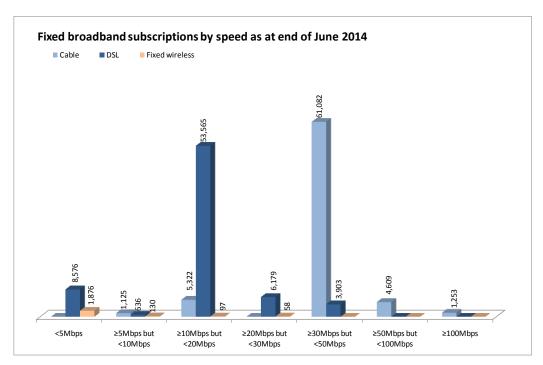


Figure 32: Broadband Internet subscriptions as at end of period - by connection speed

With respect to cable-based fixed broadband subscriptions, Figure 32 illustrates that 8.8% of these allowed for a download speed of less than 30Mbps; 89.5% allowed for a download speed of 30Mbps but less than 100Mbps; and 1.7% allowed for a download speed of 100Mbps or more.

6.5. Take-up and usage of mobile broadband

The term mobile broadband used in this review encompasses data access and internet connectivity services offered over the following devices:

- 3G-enabled mobile handsets, especially smartphones; and
- portable computers and tablets, enabled by USB dongles / keys and built-in broadband cards.

For the sake of consistency, the methodology used to measure the take-up of mobile broadband in Malta corresponds with that adopted by the EU Commission when measuring progress in this area across the EU³¹. Locally, mobile broadband via 3G-enabled mobile phones can be purchased in a bundle or as an add-on or acquired with other mobile telephony services.

Figure 33 illustrates that the number of active mobile broadband connections via 3G-enabled mobile subscriptions totalled 222,239 at the end of January 2014. This figure is up by almost 3.0%, from 215,951 at the end of January 2013.

³¹ The EU Commission states that, for the sake of clarity, what is measured for mobile BB is the number of users, and not the number of transactions, since the overall objective is to measure a penetration per 100 population.

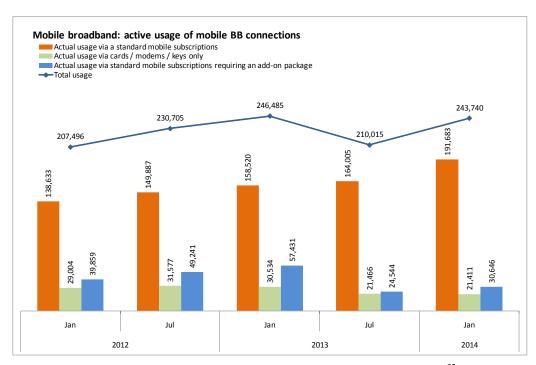


Figure 33: Mobile broadband active connections as at end of period³²

Meanwhile, the number of active mobile broadband connections via dedicated data service cards/modems/keys was down by 9,123 (or by almost 30%), from around 30,500 at the end of January 2013 to around 21,400 at the end of January this year. This development is likely a result of an increasing preference by end-users to use their mobile handsets rather than using cards or network keys to access mobile data services.

Mobile broadband penetration

In line with developments observed over the last few years, Malta's take-up of mobile broadband (or mobile broadband penetration)³³ is rapidly catching up with the EU average.

³² Data is under review and subject to change.

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³³ The data is available on the EU Commission's Digital Agenda Scoreboard. Link: <a href="http://digital-agenda-data.eu/charts/see-the-evolution-of-an-indicator-and-compare-countries#chart={"indicator-group":"mobile","indicator":"mbb_penet","breakdown-group":"total","breakdown":"TOTAL_MBB","unit-measure":"subs_per_100_pop","ref-area":["EU27"]}

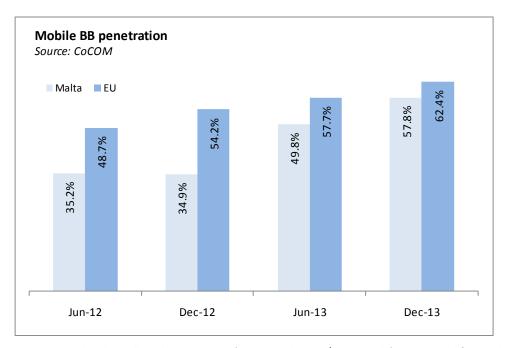


Figure 34: Mobile broadband penetration (active end-users/100 people), as at end of period

Figure 34 illustrates that, in December 2013, Malta's mobile broadband penetration rate per 100 people stood at 57.8%, compared to an EU average of 62.4%. This means that the gap between Malta's standing to that of the EU average shrank by almost 15 percentage points in the 12-month period ending December 2013.

6.6. Fixed broadband ARPU

The average revenue per user (ARPU) for fixed broadband in the first half of 2014 stood at €88.26, down from €90.00 in the same period a year earlier.

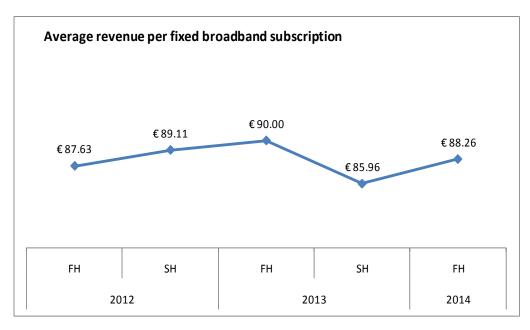


Figure 35: Average revenue per broadband user

January to June 2014

The provision of fixed broadband experienced sustained quality-based competition during the period under review, as service providers continued to upgrade their customers to offers with higher download (and sometimes upload) speeds. Although high-speed offers are more expensive than those offers supporting lower download speeds, the combination of promotional offers and occasional discounts resulted into a lower ARPU level for the sector.

Methodology used in deriving fixed broadband ARPU figures

ARPU for fixed broadband corresponds to the average quarterly spend by end-users for data access and internet connectivity services provided over fixed access technology. The figures are derived by dividing the total retail revenues of service providers by the total number of subscriptions, during a given period.

The revenue element is composed of the total retail revenues from subscriptions to broadband services, excluding revenues from installation and connection fees.

The average total number of subscriptions takes the sum of the total subscriptions at the start and the end of the quarter under consideration divided by two.

6.7. Average rate per Mbps

The key factor influencing the average rate per Mbps metric is the bandwidth offered with the fixed broadband product. Hence, when figures are broken down into different product portfolios categorised according to download speed, what generally emerges is a lower price per Mbps for products delivering faster download speeds compared to products delivering slower speeds.

Overall, the average rate per Mbps was down from €1.74 in Q2 2013 to €1.71 in Q2 of 2014. This is in line with developments over the last few years, as service providers generally improved download speeds without charging higher monthly access fees.

On a disaggregated level, Figure 36 illustrates that, when compared to the average rate per Mbps observed at the end of June 2013, the corresponding rates at the end of last June were higher with respect to broadband products with download speeds of less than 5Mbps and broadband products with download speeds of 5Mbps but less than 10Mbps.

The average rate per Mbps for the former category went up from €3.79 to €4.43 whilst that for the latter category increased from €4.56 to €4.81.

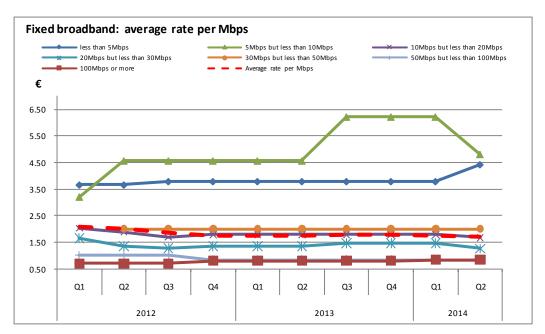


Figure 36: Average price per Mbps of fixed broadband for packages

The increase observed for broadband products with download speeds of less than 5Mbps is a result of the discontinuation of some plans featuring in this broadband category, which move pushed up the average advertised rate in this category. The increase in the rate per Mbps observed for broadband products with download speeds of 5Mbps but less than 10Mbps also reflects a discontinuation of a number of plans. Nevertheless, new products featured in this broadband category in Q2 of 2014, as evidenced by the decline observed from Q1 of the same year.

The rate per Mbps for broadband products with download speeds of 20Mbps but less than 30Mbps fell from €1.34 in Q2 2013 to €1.26 in Q2 2014. This is a result of an increase in the number of plans featuring within this broadband category, as service providers launched new offers at monthly access fees that came with plans supporting lower download speeds.

As for categories including broadband products supporting download speeds of 30Mbps or more, the average rate per Mbps was generally unchanged.

Note

The MCA considers the average advertised rate of fixed broadband per unit of download speed (i.e. per Mbps) as a proxy measure of how pricing for local fixed broadband products develops over time.

Figure 36 illustrates movements in the average advertised rate per Mbps on a more disaggregated level. To this effect seven fixed broadband categories are identified, according to different brackets of headline download speeds, as follows:

- products with a download speed of less than 5Mbps;
- products with a download speed equal to or greater than 5Mbps but less than 10Mbps;
- products with a download speed equal to or greater than 10Mbps but less than 20Mbps;
- products with a download speed equal to or greater than 20Mbps but less than 30Mbps;
- products with a download speed equal to or greater than 30Mbps but less than 50Mbps;
- products with a download speed equal to or greater than 50Mbps but less than 100Mbps; and
- products equal to or greater than 100Mbps.

7. Pay TV

Modest growth in the Pay TV subscriber base for the first half of 2014 is mainly attributed to higher take-up of IPTV services offered by GO. This segment of the market effectively compensated for declines reported under the analogue cable, digital cable and DTTV segments of the market.

This development is mainly a result of an increasing number of end-users seeking premium content and High Definition (HD) TV services. Marketing efforts by local service providers have also proved to be instrumental in driving demand for IP-based TV services, such as when the take-up of these services allowed end-users to access mobile TV services without incurring additional charges or at discounted prices.

Selected Pay TV market trends are highlighted below:

- The number of pay TV subscriptions was up by just 109 (or by 0.1%) during the 12-month period to a total of 149,158 at the end of June 2014.
- The inclusion of pay TV in bundle offers has proven to be an increasingly popular option with endusers. In fact, the number of pay TV subscriptions on a bundle package reached a new high at the end of June 2014 and totalled 75,965. This figure is up by 8,679 (or 12.9%) when compared to the corresponding figure recorded at the end of June 2013.
- Higher take-up of pay TV subscriptions on a bundle has also to do with the potential savings benefiting consumers when purchasing such offers instead of stand-alone products.
 - At the end of the current reporting period, the proportion of local pay TV subscriptions bought together with some other electronic communications service in a bundle reached almost 51%³⁴.
- Average advertised rates (or average advertised access fees) for pay TV plans were in some instances higher at the end of June 2014, when compared to the prevailing rates recorded at the end of the corresponding period a year earlier. In this regard, end-users on average paid €15.66, at the end of the current reporting period, for pay TV packages including between 25 and 49 channels, compared to €12.49 at the end of June 2013. In the case of pay TV packages including 75 to 99 channels and 100 channels or more, end-users on average paid €26.32 and €34.99 respectively at the end of June 2014, up from €24.49 and €29.99 a year earlier. These increases have more to do with one of the local service providers launching plans that are not subject to a contract term agreement, but at a higher access fee than is the case for similar plans that are bound by a 2-year contract term agreement.
- ARPU for local service providers in the first half of 2014 stood at €84.52, down from €85.90 in the
 first half of last year. This is likely a result of an increasing number of end-users purchasing pay TV
 in a bundle with other electronic communications services and the launch of various promotional
 offers.

7.1. Pay TV subscriptions

There were 149,158 pay TV subscriptions at the end of June 2014, up by just 109 or 0.1% since the end of June 2013.

This increase also coincided with a noticeable rise in the number of end-users opting to purchase their pay TV subscription in a bundle rather than on a stand-alone basis. The number of bundled pay TV subscriptions

³⁴ This figure is different from the one provided in Table 13 below, given that it corresponds to the proportion of bundled pay TV subscriptions to the total. On the other hand, Table 13 presents the proportion of bundled pay TV subscriptions to the total digital-based subscriptions, as Melita no longer offers analogue-based pay TV services to new customers.

totalled 75,965 (or almost 51% of all digital-based and IP-based subscriptions) at the end of June 2014, up by 8,679 (or 12.9%) from 67,286 (or almost 45% of all digital-based and IP-based subscriptions) at the end of June of the previous year.

	2012				2013				2014	
Digital & IP Pay TV subscriptions on a bundle	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	61,999	54,700	62,513	62,678	61,645	67,286	70,209	73,496	74,343	75,965
Dual Play	15,315	15,681	12,750	12,301	11,312	10,832	10,545	9,923	9,767	9,731
Pay TV + Fixed telephony	15,315	15,681	12,750	12,301	11,312	10,832	10,545	9,923	9,767	9,731
Triple Play	8,349	-	10,025	9,794	9,304	15,115	18,033	21,087	21,640	22,165
Pay TV + Fixed telephony + Fixed Broadband	8,349	9,365	10,025	9,794	9,304	15,115	18,033	21,087	21,640	22,165
Quad play	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069
Pay TV + Fixed telephony + Fixed Broadband + Mobile telephony	38,335	39,019	39,738	40,583	41,029	41,339	41,631	42,486	42,936	44,069
Number of digital & IP Pay TV subscriptions as at end of period	148,165	148,470	148,939	147,896	148,592	149,049	149,166	148,905	148,545	149,158
Number of subscriptions on a bundle as a percentage of digital & IP Pay TV subscriptions	41.84%	36.84%	41.97%	42.38%	41.49%	45.14%	47.07%	49.36%	50.05%	50.93%

Table 13: Pay TV subscriptions on a bundled offer 35

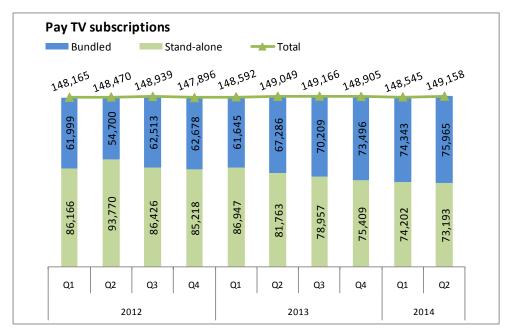


Figure 37: Pay TV subscriptions as at end of period

It is or relevance to underline that, locally, analogue cable pay TV subscriptions are no longer offered to new subscribers, neither on a stand-alone basis nor in a bundle. Table 14 and Figure 37 therefore exclude analogue cable pay TV subscriptions from the total number of subscriptions.

7.2. Pay TV subscriptions by technology platform

Local end-users can avail of pay TV services delivered over four technology platforms. These are the digital terrestrial (DTTV) platform and the Internet Protocol television (IPTV) platform, which are owned by GO, and the analogue cable and digital cable platforms, which are owned by Melita³⁶.

There are to date no authorised satellite broadcasters or satellite pay TV platforms in Malta.

³⁵ See footnote 6, page 8.

³⁶ Melita also offers video on-demand services over its IPTV hybrid network, as an add-on to its IP-based digital cable TV.

Figure 38 shows the breakdown of pay TV subscriptions between these platforms. The number of DTTV subscriptions totalled 59,904 by the end of June 2014, which is down by 2,761 (or 4.4%) since the end of June 2013.

The analogue cable and the digital cable platforms have also registered declines. Subscriptions under the former platform were down by 756 (or 9.5%), from 7,964 at the end of June 2013 to 7,208 at the end of June 2014, whilst digital cable subscriptions were down by 793 (or 1.1%) to 72,757 at the end of the current reporting period.

In contrast, the number of IPTV subscriptions grew considerably during the same period as their number doubled from 4,870 to 9,289.

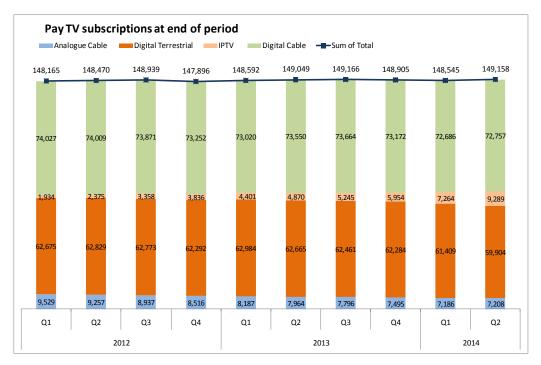


Figure 38: Pay TV subscriptions as at end of period

As at the end of the current reporting period, digital cable continued to feature as the pay TV platform with the highest number of subscriptions and accounted for 48.8% of the local pay TV subscriber base, although its market presence was down from 49.3% at the end of June 2013.

The analogue cable platform accounted for 4.8% of the local Pay TV subscriber base at the end of June 2014. Meanwhile, the DTTV subscriber base and the IPTV subscriber base accounted for 40.2% and 6.2% of the total respectively.

7.3. Pay TV ARPU

The average revenue per user (ARPU) for pay TV in the first half of 2014 stood at €84.52, down from €85.90 in the same period a year earlier.

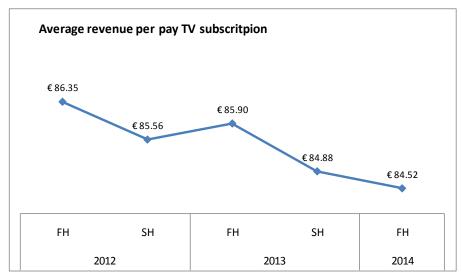


Figure 39: Average revenue per Pay TV user

This downward move in Pay TV ARPU is likely a result of subscriber growth for the sector but revenues remaining flat. This is because local service providers continued offering promotional offers and price reductions, particularly for bundled offers, in order to expand their customer base.

Methodology used in deriving pay TV ARPU figures

ARPU for pay TV reflects the average quarterly spend by users for pay TV services. The figures are derived by dividing the total retail revenues of service providers by the total number of subscriptions, during a given period.

The revenue element is composed of the total retail revenues from pay TV subscriptions, but excludes revenues from premium services³⁷, installations and connections.

To derive the average total number of subscriptions, the MCA sums the total subscriptions at the start and the end of the quarter under consideration and divides the total by two.

7.4. Average advertised rates for Pay TV

This section presents an overview of the average advertised rates (or average advertised access fees) for pay TV services offered in Malta. For ease of reference and practicality, the evaluation seeks to capture price movements for five distinct pay TV categories, with each category bundling plans listing a particular number of channels.

Figure 40 illustrates several instances where the average advertised rate for pay TV has gone up in the first six months of this year. In this regard, the average advertised rate for the pay TV category encompassing plans listing 25 to 49 channels increased from €12.49 at the end of Q2 2013 to €15.66 at the end of Q2 2014.

The pay TV categories encompassing plans listing 75 to 99 channels and 100 channels or more also experienced an increase in the average advertised rate during the same period. The average advertised rate for the former category increased from €24.49 to €26.32 whilst that of the latter category increased from €29.99 to €34.99.

³⁷ Revenues from premium-related services include revenues from Sports, Movies, and VOD subscriptions.

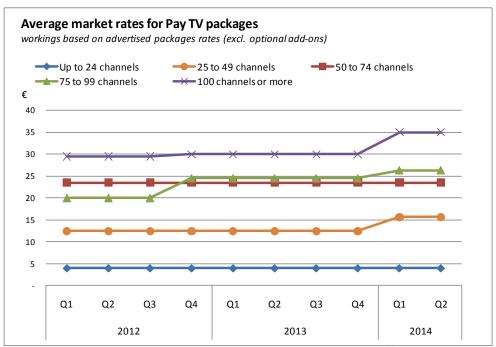


Figure 40: Average market rates for Pay TV packages³⁸

These increases are only relative, in that they came about as a result of one service provider offering the same plan either with or without a contract term agreement. Those plans without a contract term agreement were advertised at higher rates than those that were subject to a 2-year contract term.

No increases were recorded with respect to pay TV categories encompassing plans listing *up to 24 channels* and *50 to 74 channels*.

It is also of note here that the figures presented above do not take into account billing charges.

The '75 to 99 channel' category included GO's *Gold Interactive TV* package (excluding the optional HD channel line-up) and Melita's *Large* pay TV package. The former package previously featured under the '100 channels or more' category.

The '100 channels or more' category only includes Melita's Extra Large pay TV package.

 $^{^{\}rm 38}$ The 'up to 24 channel' category only includes GO's Bronze TV package.

8. Post

The latest figures for the postal sector reveal that mail volumes continued with their downward trend in the first half of this year, as the increases recorded for bulk mail, registered mail and parcel mail were not sufficient to offset the decline in traditional letter mail.

Other considerations for this sector are worth highlighting:

- Postal mail volumes in the first half of 2014 were down by 1.1 million mail items (or by 5.2%) compared to mail volumes reported in the first half of last year. This development is a result of weaker activity for letter mail, which outweighed higher activity reported for bulk mail, registered mail and parcel mail.
- This report underlines two types of postal service providers, namely service providers operating within the scope of the universal service area³⁹, which need a licence to operate, and service providers operating outside the scope of the universal service area⁴⁰.
 - The postal operator providing services in the universal service area Maltapost continues to score very highly in terms of reliability and timeliness of postal delivery of local ordinary and bulk mail. High score levels in postal delivery are essential for repeat business and customer loyalty in this business.
- Malta's postal rates for a *domestic standard letter* and an *outbound letter within the EU* in March 2014 benchmarked significantly lower than the EU average.

8.1. Postal mail volumes

Postal mail items delivered by local postal operators⁴¹ in the first six months of 2014 totalled 20.0 million, down by 1.1 million (or by 5.2%) from 21.1 million delivered in the same period a year earlier.

A postal service shall be considered to be within the universal service area (also referred to as within the scope of the universal service) if:

- the postal service is within the description of the universal services as set out in the Postal Service Act (Cap 254 of the Laws of Malta) (the 'Act'); or
- if the postal service is within the description of the universal service set out in the Act, but the collection and delivery is not made on each of the working days as required in the Act, or the postal service is not provided throughout Malta, or the postal service is not provided at an affordable uniform price; or
- the postal service is of a kind that, having regard to postal service users, could reasonably be said to be interchangeable with a postal service that falls within the description a universal service set out in aforementioned Act.

For a detailed description of the postal services that are considered as forming part of the Universal Services including the definition of those services that are considered as falling within the scope of the Universal Service area, kindly refer to the MCA's decision entitled 'Specific Aspects of the Universal Postal Service', which was published on the 25th March 2011. Link to decision: http://www.mca.org.mt/article/decision-specific-aspects-universal-postal-service-mcad11-0227-0

³⁹ The Universal Service refers to the delivery and collection, on every working day, of a minimum set of postal services to any person who requests such services. The universal service covers both inland and cross-border services and includes the following minimum facilities: the clearance, sorting, transport and distribution of postal articles up to 2kg; the clearance, sorting, transport and distribution of postal parcels up to 20kg; services for registered and insured articles; and a basic counter service throughout Malta.

⁴⁰ These are couriers/express mail service providers, who operate under a general authorisation regime without the burden of the universal service obligation. Of significant relevance here is the increase in the number of private postal operators currently competing with the incumbent Maltapost in the parcel mail business.

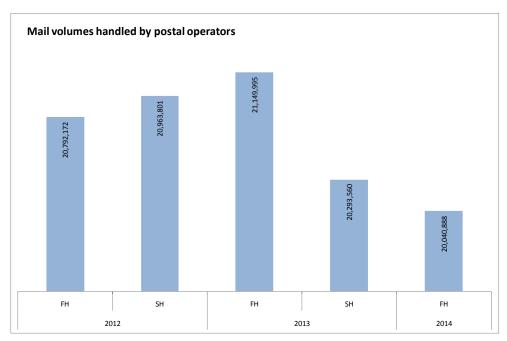


Figure 41: Postal activity - number of handled mail items⁴²

Figure 42 illustrates that mail volumes in the universal service area account for the lion's share of all postal activity recorded in Malta.

Regarding the composition of postal mail activity in the first half of 2014, the universal service area accounted for 98.2% of total mail volumes. The competitive area accounted for the remaining share, at 1.8%.

Another 16 postal operators (courier and express services) provide services outside the scope of the universal service area.

⁴¹ Maltapost plc (the designated Universal Service Provider, hereafter also referred to as "the USP"), DHL International Ltd., and Premiere Post Ltd. provide services within the universal service area. As part of its universal service obligation Maltapost is obliged to provide a set of services, outside the reserved area.

⁴² Figure 41 shows that postal mail volumes are generally higher in the second half of each year, due to higher mail activity registered during the Christmas period. However, this has not been the case for 2013, given that activity levels in the first half of the year where boosted by national elections.

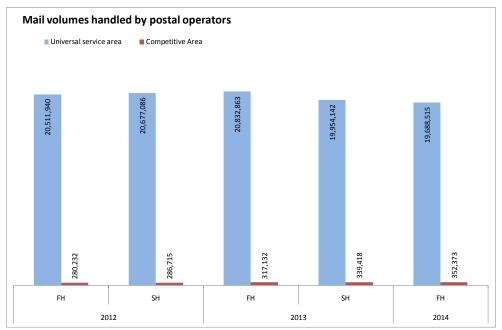


Figure 42: Postal activity - number of handled mail items by postal area

The number of postal mail items handled under the universal service totalled 19.7 million in the first half of 2014, down by 1.1 million (or 5.5%) when compared to the first half of the previous year.

Meanwhile, the number of postal mail items delivered in the competitive area increased from 317,312 to 352,373.

8.2. Postal mail volumes by type of mail

There are four different segments of postal mail. These are letter-post mail, parcel mail, bulk mail and registered mail ⁴³.

Letter-post mail accounted for 34.3% of all mail items handled during the current review period. In absolute terms, the number of letter-post items totalled 6.9 million in the first half of 2014, which is down by 1.2 million (or 15.1%) from 8.1 million items in the first half of 2013.

- Single piece letter-post mail (also referred to as ordinary mail) is the ordinary day-to-day correspondence posted by individuals and businesses (other than bulk letter-post mail), at street letterboxes or over the counter at postal outlets.

⁴³ These different types of mail are defined below:

⁻ Bulk letter-post mail (also referred to as bulk mail) consists of a substantial number of similar letter-post items deposited with MaltaPost at the same place and time, to be transported and distributed to the addressees indicated on each of the postal articles.

⁻ The registered letter-post mail service (also referred to as registered mail) refers to a service providing a flat-rate guarantee against risks of loss, theft or damage and supplying the sender, where appropriate upon request, with proof of the handing in of the postal article or of its delivery to the addressee.

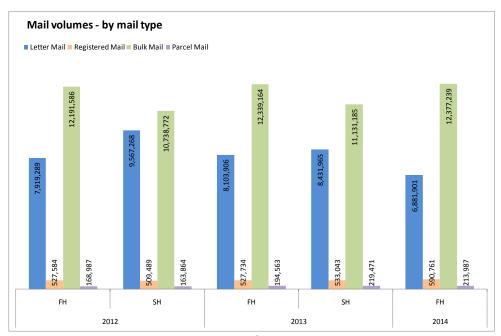


Figure 43: Postal activity - number of handled mail items by postal area

Total registered mail items handled in the first half of 2014 totalled 0.6 million, which is equivalent to 2.9% of all postal mail items handled during the period. When compared with the first half of 2013, registered mail volumes were up by almost 12.0%.

Bulk mail items totalled 12.4 million in the first six months of this year, which is equivalent to 61.8% of total mail volumes delivered during this period. At the same time, parcel mail items totalled nearly 0.2 million, which is equivalent to 1.0% of total mail volumes.

Compared to mail volumes recorded in the first half of 2013, bulk mail items and parcel mail items were up by 0.3% and 6.6% respectively. As already observed in previous CMR publications, these increases are mainly a result of the ongoing growth in online shopping and ecommerce activity.

8.3. Postal mail volumes by activity heading

This section distinguishes between three postal mail activity headings: domestic mail; outbound cross border mail⁴⁴; and inbound cross border mail⁴⁵.

Domestic mail volumes delivered in the first half of 2014 totalled 16.4 million. This figure is down by almost 1.0 million (or 5.5%), from 17.3 million delivered in the same period a year earlier.

 $^{^{\}rm 44}$ These mail items originate locally for delivery to foreign destinations.

⁴⁵ Foreign-originated mail forwarded to Malta.

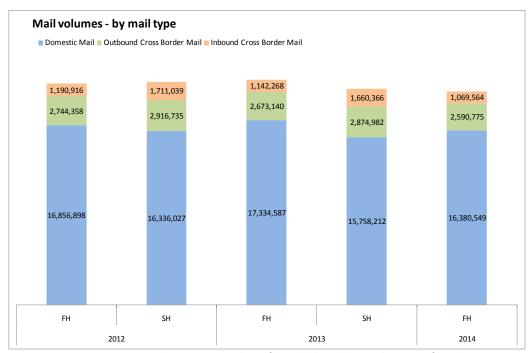


Figure 44: Postal activity - number of handled mail items by type of mail

Volumes of outbound cross border mail and inbound cross border mail in the first half of 2014 totalled 2.6 million items and 1.1 million items respectively. Figure 44 illustrates that, in both cases, volumes recorded in the current reporting period were down, compared to volumes recorded in the first half of 2013.

8.4. Quality of postal delivery service

The MCA has established a methodology, based on a series of Quality of Service (QoS) targets, to determine whether Maltapost is meeting its universal service obligations for the delivery of different mail items. These QoS targets are set in accordance with the MCA Decision⁴⁶ on the quality performance measurement of postal items delivered within the defined service standard. QoS data corresponds to the full calendar year⁴⁷.

8.4.1 QoS – local ordinary mail and bulk mail

The QoS targets for the delivery to destination of local ordinary mail and bulk mail on the next day (D+1) has been set at 94%.

⁴⁶ Link to MCA Decision concerning the 'Review of Quality of Service Targets and Requirements to be achieved by Maltapost plc': http://www.mca.org.mt/sites/default/files/articles/QoS_Review - DN.Nov_10.pdf

⁴⁷ In terms of the MCA Decision Notice on the measurement of MaltaPost's Quality of Service, MaltaPost is required to attain the standards set by the Authority over a given financial year (October to September).

It is however of note that the QoS data presented in this report is adjusted to reflect developments over a standard calendar year, not a financial one.

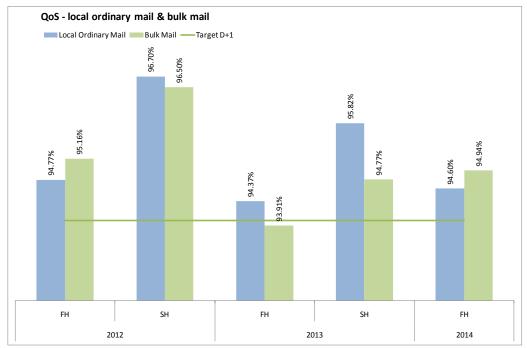


Figure 45: Quality of service - local ordinary and bulk mail

Figure 46 illustrates that Maltapost has exceeded these targets in the first half of 2014.

8.4.2 QoS – local registered mail and priority inbound parcels

The QoS targets for the delivery to destination of local registered mail and priority inbound parcels has been set at 98%.

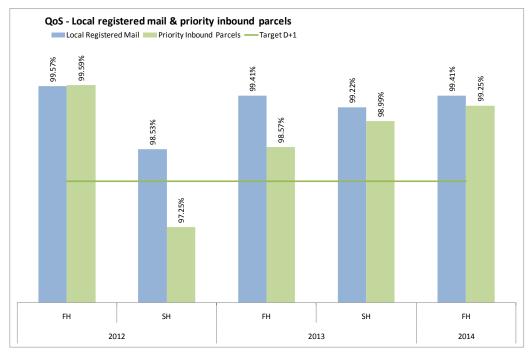


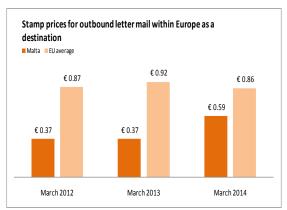
Figure 46: Quality of service - local registered mail and priority inbound parcels

Figure 46 illustrates that, last year, Maltapost has met and exceeded all the set targets for the mail activity under consideration.

8.5. Postal rates: Malta vs the EU

The latest publication by Deutsche Post entitled 'Letter Prices in Europe 2014' shows that Malta's nominal prices for a *domestic standard letter* and an *outbound letter within the EU* continue to benchmark at the bottom (or close to the bottom) of the ranking⁴⁸.

In the first half of this year, Malta's nominal price for a domestic standard letter and for letter mail within Europe stood at €0.26 and €0.59 respectively.



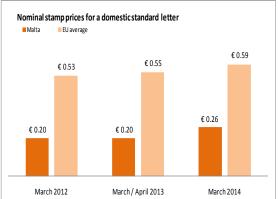


Figure 47: Nominal stamp prices in Malta and the EU

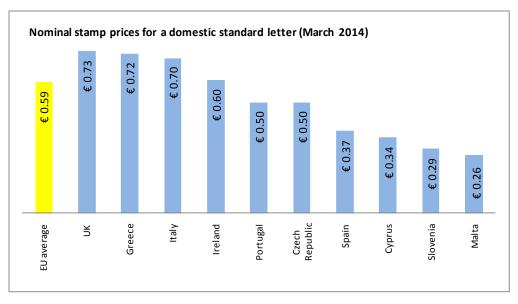


Figure 48: Comparison with selected EU countries

The publication findings are based on a survey taking 'into account all postage rate changes that were known at the time of its printing (March 2013)' across the 27 EU Member States, the EFTA countries of Norway and Switzerland.

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

⁴⁸ Link to latest publication: http://www.dpdhl.com/en/media_relations/media_library/documents/letter_price_survey_europe.html

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It is relevant to note here that there were no changes in local postage rates for domestic standard mail in the first half of this year. Meanwhile, Deutsche Post's publication underlines that, with respect to domestic standard letter mail, 'postage rates have increased in 14 European countries since the last study was carried out'.

As to outbound letter mail, the same publication refers to the increase in postage rates implemented by Malta, which has seen its rate going up from €0.55 to €0.59, and increases implemented by another 13 EU countries.

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11. Glossary of Terms

ARPU Average revenue per user. Selected revenue items of the operator divided by the

average number of active subscriptions during the period.

Broadband A service or connection to the Internet which is 'always on' and has a speed of

more than 128kbps. The number of active broadband subscriptions refers to subscriptions/connections having recorded a transaction within 90 days of the

period stipulated.

Dial-up The number of active dial-up subscriptions refers to those

subscriptions/connections which made a call to an Internet number (2188, or

2186) within the last 90 days.

DSL Digital Subscriber Line. A high-speed transmission technology mainly applied for

Internet and video file access service. DSL services allow voice and data to share the same infrastructure and usually require a splitter at the customer's premises to separate voice and data traffic from the line. Forms of DSL include ADSL, HDSL,

and VDSL.

DTTV Digital Terrestrial Television. The term refers to a delivery platform primarily for

television programmes in digital format, using the DVB-T standard.

FH First half of the year, referring to the period January to June.

FNO Fixed network operator. A provider which owns a fixed line network.

FTF Fixed-to-fixed traffic.

FTI Fixed-to-international traffic.

FTM Fixed-to-mobile traffic.

ISPs Internet Service Providers. An ISP is a point of access to the Internet for small

business and individual users. The ISP provides its customers with access to its

router which relays traffic to web servers on the Internet.

Mbps Megabits per second ("MBit/s") or millions of bits per second. Unit applied to

measure the transmission speed of digital information.

MCA Malta Communications Authority.

MMS Multimedia Messaging Service. MMS extends the short messaging service

("SMS") to include longer text, graphics, photos, audio clips, video clips, or any

combination of the above, within certain size limits.

MNO Mobile network operator. A provider which owns a mobile network.

MPR Mobile penetration rate. The MPR is a term used to describe the number of

active mobile subscriptions (or SIM cards) as a percentage of total population.

MTM Mobile-to-mobile traffic.

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MTF Mobile-to-fixed traffic.

MTI Mobile-to-international traffic.

MVNO Mobile Virtual Network Operator. An MVNO is a mobile operator that usually

would not have a licence to use radio spectrum but would have access to the radio networks of one or more of the current mobile operators and would be able

to offer services using that spectrum.

Off-net activity Activity between two or more connections on different networks.

On-net activity Activity between two or more connections on the same network.

Pay TV Television services (generally a channel or set of channels) paid for by the user, by

means of subscription or other ways of service payment.

Q Quarter of the year. Q1 refers to first quarter (January to March), Q2 refers to

second quarter (April to June), Q3 refers to third quarter (July to September), Q4

refers to fourth quarter (October to December).

QoS Quality of Service. A statistical measure of a system or service. May also be used

to set varying priorities for traffic.

Service provider A supplier of electronic communications and postal services, to third parties,

either through its own network or through a network of another operator.

SH Second half of the year, referring to the period July to December.

SMS Short message service. This refers to short text messages which can be sent from

one mobile phone to another, usually up to 160 characters. Such messages can

also be sent from the Internet to a mobile phone.

Universal service The basic level of telecommunications services which should be available

to all customers.

USO Universal Service Obligations. A provision in Maltese law requiring certain

operators to provide certain services to all specified persons who may reasonably

request them.

VAT Value Added Tax.

12. Legal Disclaimer

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13. Contact

For any queries, kindly contact via email kevin.r.caruana@mca.org.mt.

Queries may also be posted or faxed to the address below.

Malta Communications Authority

Valletta Waterfront, Pinto Wharf, Floriana FRN 1913 Malta Europe

Contact numbers

tel: +356 21 336840 fax: +356 21 336846