

Telecommunications Market Review

April 2003 – September 2003

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1 Developments

1.1 Market Developments

This third edition of the Malta Communications Authority (MCA) Telecommunications Market Review reports the period April to September 2003.

At the end of September 2003, fixed line telephony subscribers amounted to 205,582 while mobile subscriptions increased to 280,847. In terms of penetration, these stood at 51.5 and 70.4 per 100 inhabitants respectively. During the third quarter of 2003, ISDN subscriptions increased by 4.12% over the previous quarter.

During the third quarter of 2003, a sharp increase occurred in the number of SMSs, which reached almost 94 million during this period. During the same quarter, mobile ARPU was the highest from the period under review which increased by Lm1.45 over the same period last year.

Cable TV subscribers amounted to 98,941, representing a 1.2% increase when compared to the second quarter of the year 2003.

Internet subscriptions reached 72,962 at the end of September 2003 of which 19,892 (27.3%) were broadband subscriptions.

1.2 Regulatory Developments

In June 2003 the MCA published its determination on the Dominant Market Position (DMP) in the leased lines market. In its Decision the MCA notified Maltacom plc as having a DMP in this market. As a result, Maltacom plc have the obligation to publish information regarding technical characteristics, tariffs, and usage conditions for leased lines. Maltacom will also be required to establish tariffs for leased lines that follow the basic principles of cost-orientation and transparency.

In July 2003, the MCA published its Decision on Universal Services Obligations (USOs) following a Consultative Paper published in March 2002. The decision re-defined USOs in line with existing legislative requirements as well as EU Directives. The Decision mandated Maltacom plc and Vodafone Malta Ltd to provide the universal services set out in the decision and how these could be financed. At the time, Maltacom plc and Vodafone Malta Ltd were the only two dominant voice telephony market players in fixed and mobile respectively. The decision ensures that access to basic telephony services such as the provision of a fixed telephony connection, directory

services, public payphones and emergency services will be provided when requested and at an affordable price. These universal services will be available to all users including those in high cost areas or vulnerable groups such as the elderly, the disabled, or people with special social needs.

During the same month, the MCA, in collaboration with the Malta National Laboratory (MNL), launched an On-Demand Electromagnetic Field (EMF) exposure measurement service with tests conducted at any accessible location in any locality, be it a personal residence, office, place of work or school. MNL technicians visit the address indicated by the requesting party and use the appropriate equipment to measure EMF exposure levels at the site and compare these with the ICNIRP guidelines at any three places within that site. The results are then presented in writing to the requesting party in the form of a report signed by the test engineer or technician.

In August 2003, the MCA in conjunction with the Office of the Data Protection Commissioner, organised a workshop on Data Protection in the Telecommunications Sector. The workshop was attended by representatives of the various players in the telecommunications sector, the Ministry for Transport and Communications, the Malta Information Technology and Services Limited, the Police Force, and Agenzija Appogg. The subjects of data protection and privacy are of key interest to the telecommunications sector, as this sector not only has responsibilities associated with the processing of personal data of subscribers, users and employees, but is also entrusted with ensuring the confidentiality of electronic communications. The workshop followed closely the bringing into force of the salient provisions of the Data Protection Act, as well as subsidiary legislation to this Act, including, in particular The Processing of Personal Data (Telecommunications Sector) Regulations. The workshop also focused on the Telecommunications (Personal Data and Protection of Privacy) Regulations.

During the same month, the MCA updated its register of operators having a Dominant Market Position (DMP) in the relevant telecommunications markets for the year 2002 following a market analysis carried out by the MCA earlier this year.

Maltacom plc was designated with a DMP in the Fixed Telephony Market, Vodafone Malta Limited and Go Mobile in the Mobile Telephony market, whilst Melita Cable plc was designated with a DMP in the Cable TV and Radio Services market. All four operators were designated dominant in the Telecommunications Transport Provider (TTP) market. Operators having a DMP in the relevant markets are subject to a number of regulatory obligations (e.g. cost orientation, interconnection, and non-discrimination. Dominant telecommunications transport providers (TTPs) are also required to provide access to their network infrastructure for Internet access, thus providing a greater choice of service to the consumer. These obligations are designed to ensure transparency, non-discrimination and cost orientation in the provision

of such services. Particular importance is laid on requirements for securing interconnection of networks and interoperability of systems.

In October 2003, the MCA published a Consultative Paper dealing with the proposed introduction of Number Portability in Malta. In the document two types of Number Portability were proposed - Operator Number Portability (which refers to the ability of end-users to retain their telephone number when changing their service provider), and Location Number Portability (which is a facility whereby subscribers could retain the same telephone number when moving from one physical location to another).

In November 2003, Maltacom plc requested the MCA to approve changes to its current tariffs. The Authority declared that it will be considering the tariffs proposed by Maltacom plc in accordance with Maltese legislation and will be taking into account costs and other appropriate factors.

During the same month the MCA organised a specialised workshop dealing with the "Quality of Internet Service" for all stakeholders. The objective of the workshop session was to focus on the quality issues associated with Internet and broadband service provisioning. The MCA also hosted a one-day international conference entitled "Next Generation Networks: New Technologies, New Services, New Revenue Models" on the 6 November 2003.

1.3 International Developments

On 25 July 2003, the new regulatory framework for electronic communications networks and services came into force in the EU. The principal objective of this new legislative framework is the introduction of a lighter but comprehensive and technology-neutral framework based on Competition Law principles.

The new framework also aims to streamline the entire regulatory process by limiting ex-ante regulation to what is strictly necessary, and by rendering the regulatory process as transparent as possible. It adapts the existing framework to take account of the convergence between telecommunications, information technology and media in evolving markets, where the same services can be delivered over a variety of platforms and received via a range of different terminals.

The new legislative framework consists of Directive 2002/21/EC (Framework Directive); Directive 2002/20/EC (Authorisation Directive); Directive 2002/19/EC (Access Directive); and Directive 2002/22/EC (Universal Service Directive). Directive 2002/58/EC on privacy and electronic communications has been adopted in July 2002. The Radio Spectrum Decision (676/2002/EC) does not require transposition by Member States.

The relevant Directives which form the main elements of the new regulatory framework for electronic communications networks and services were to be transposed into national law by Member States by not later than 24 July 2003. The EU instruments forming part of the 1998 regulatory framework, which are now superseded by the new framework, were subsequently repealed.

2 The Fixed Telecommunications Market

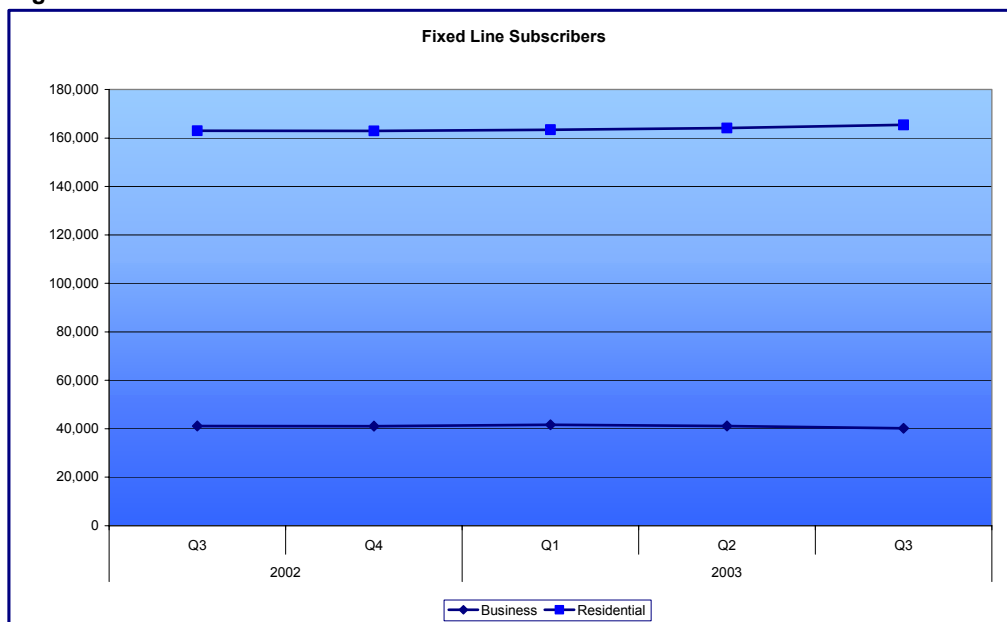
2.1 Fixed Line Subscriptions

2.1.1 PSTN Subscriptions

The following chart shows the number of fixed line (PSTN) subscriptions for business and residential users. The total number of PSTN lines at the end of the last quarter stood at 205,582 lines (that is, 51.5% penetration) of which 80.4% are residential subscribers.

An overall increase of 0.16% over the previous quarter is the result of an increase of 0.8% in residential along with a decline in business subscribers of 2.4%

Figure 1

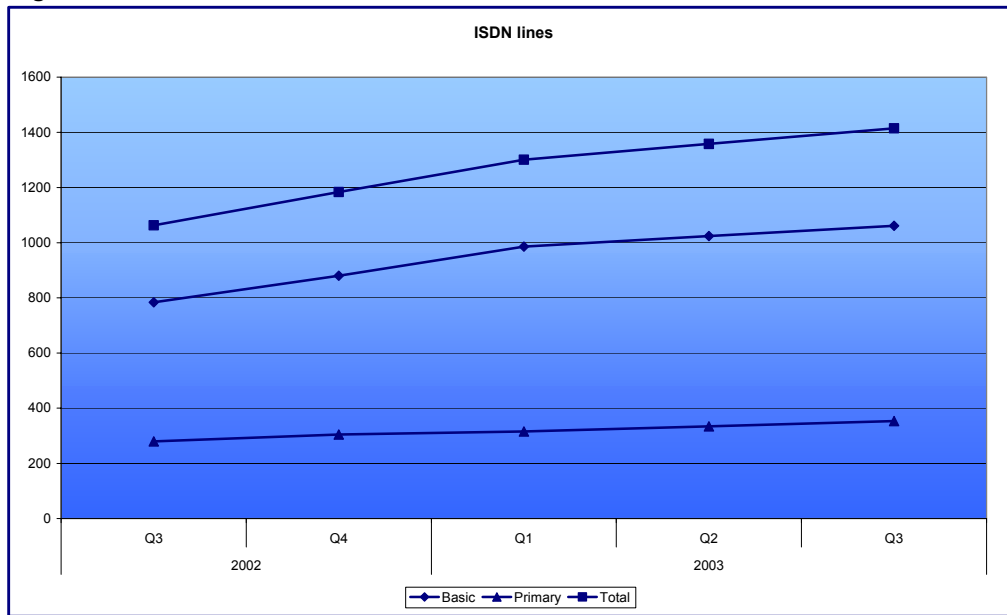


Source: MCA

2.1.2 ISDN subscriptions

ISDN take-up shows a steady increase in the total ISDN subscriptions throughout the period shown below. While an increase of 4.12% occurred during the third quarter over the second quarter of 2003, an increase of 33.02% took place when compared to the same quarter of last year.

Figure 2



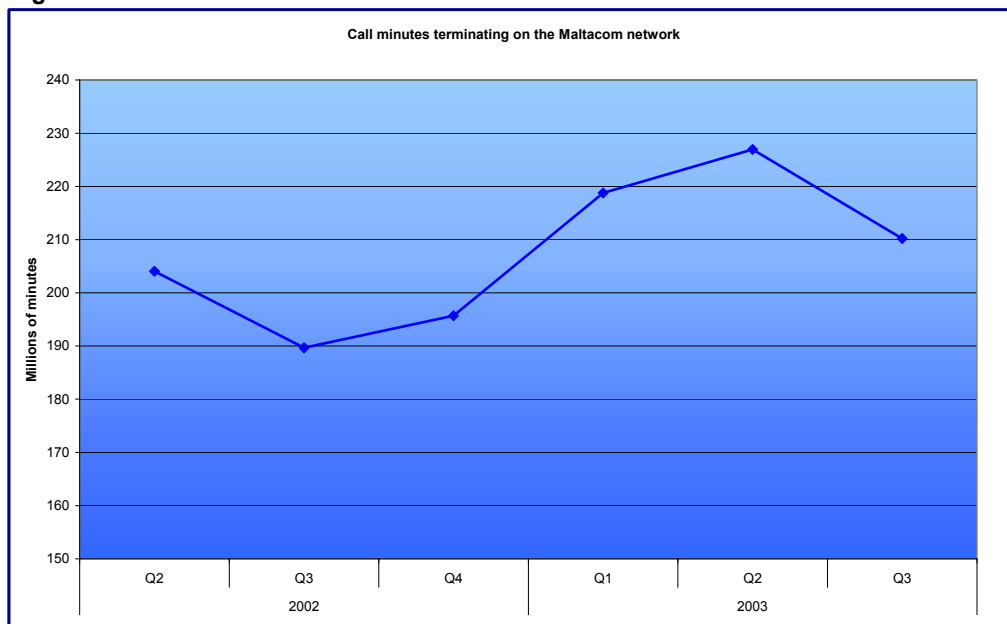
Source: MCA

2.2 Fixed line telephony traffic

2.2.1 Fixed line outgoing traffic terminating on the same network

The graph below shows the local PSTN traffic, that is the traffic originating from Maltacom’s network terminating on the same network. The graph indicates a peak in traffic during the second quarter of the year and a trough during the summer months. Both second and third quarters of 2003 reveal an 11.21% and 10.83% increase of over the same quarter last year respectively.

Figure 3

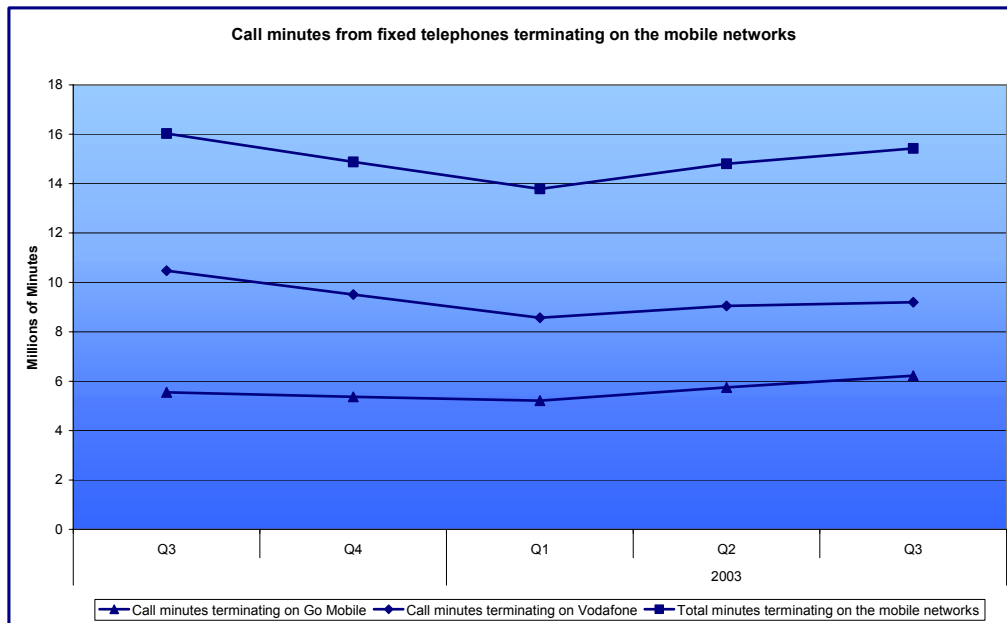


Source: MCA

2.2.2 Fixed line outgoing traffic terminating on mobile networks

During the third quarter of 2003 the total PSTN traffic to mobile phones stood at 15.4 million minutes. Following a decline in traffic during 2002 and the first quarter of 2003, traffic to both mobile picked up again by 11.9% over the first quarter.

Figure 4



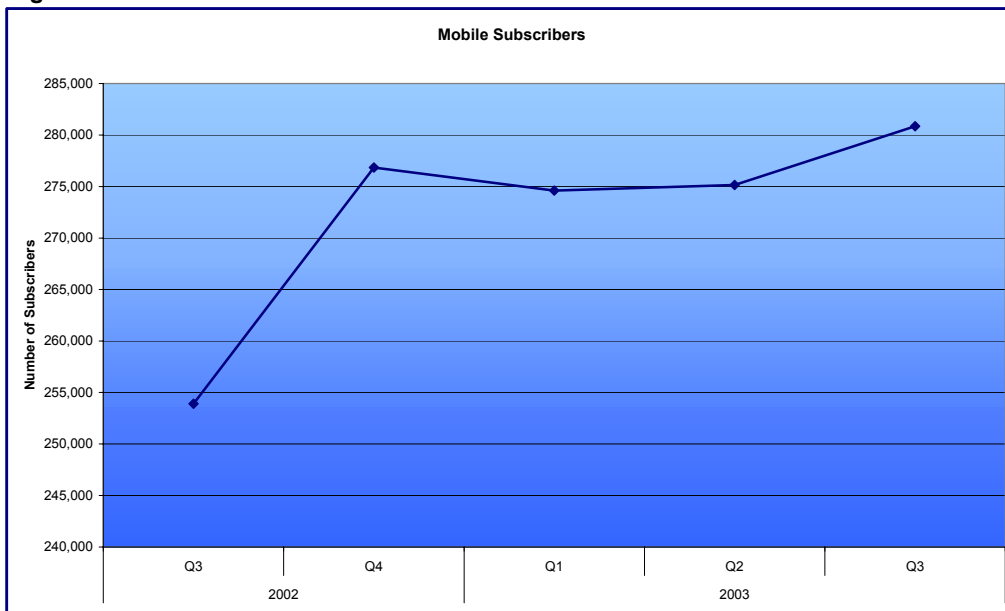
Source: MCA

3 The Mobile Telecommunications Market

3.1 Mobile Subscribers

As at 30 September 2003, mobile operators boasted 280,847 users on their network. This amount includes both pre-paid and post-paid subscriptions. The number of subscribers increased by 2.07% during the third quarter of 2003.

Figure 5



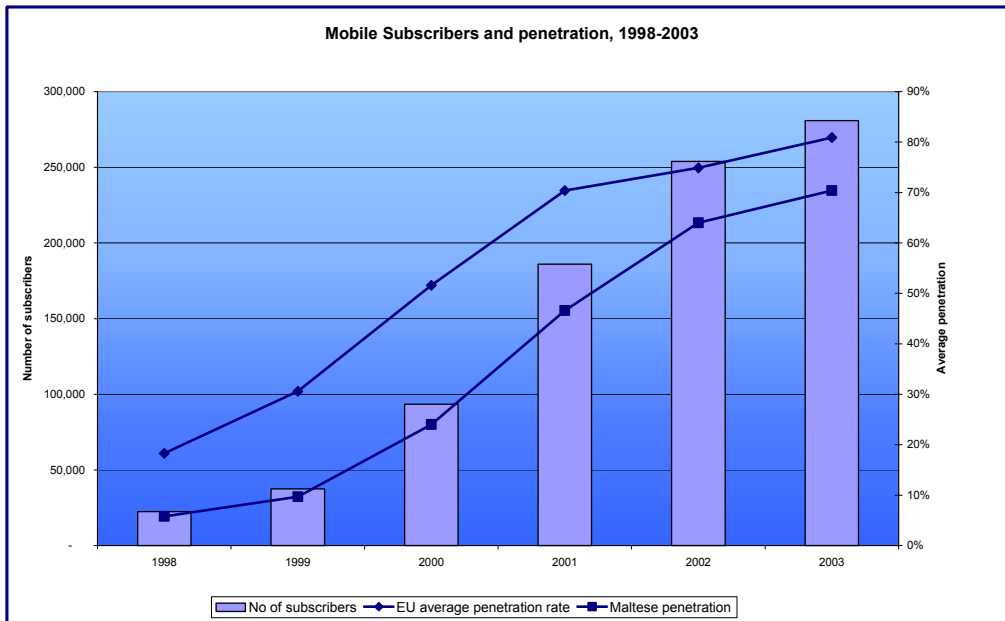
Source: MCA

3.2 Mobile Penetration

The chart below shows the number of mobile subscribers since 1998 reaching 280,847 subscribers in at the end of September 2003.

It also shows the number of Maltese mobile subscribers per 100 population compared with the EU average. While at the end of September the former reached 70.4%, the later stood at 80.9%. It can clearly be noticed that the growth rate of Maltese mobile penetration is very similar to that of the EU average.

Figure 6

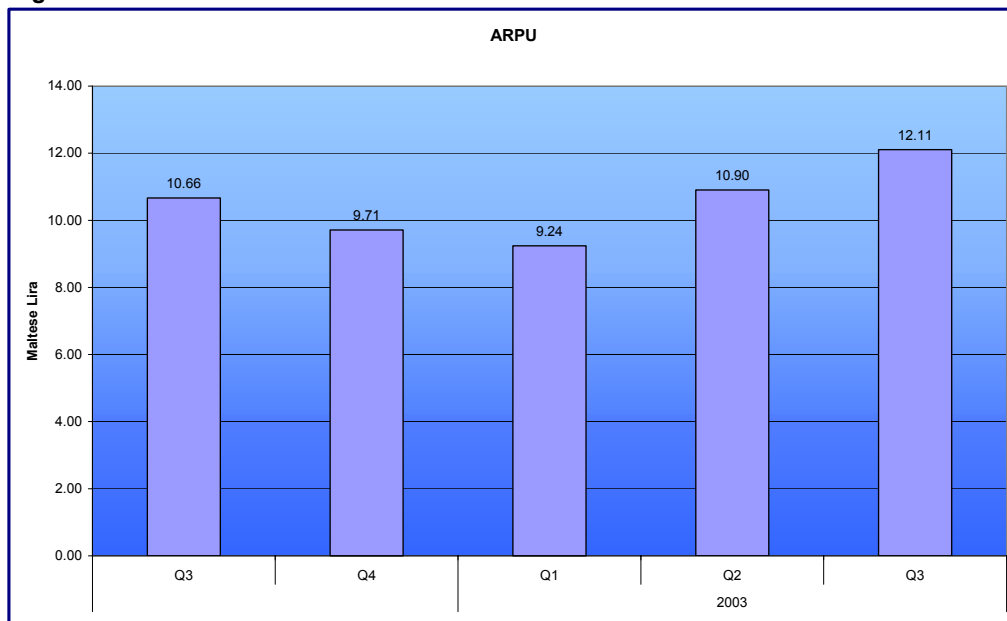


Source: MCA

3.3 Mobile Average Revenue per User (ARPU)

The weighted average revenue per user (ARPU) in the mobile telephony market experienced a seasonal pattern with the first quarter of 2003 attracting the lowest revenues and the third quarter the highest. During the third quarter of 2003, mobile operators experienced the highest ARPU since January 2002.

Figure 7



Source: MCA

3.4 Outgoing Mobile traffic

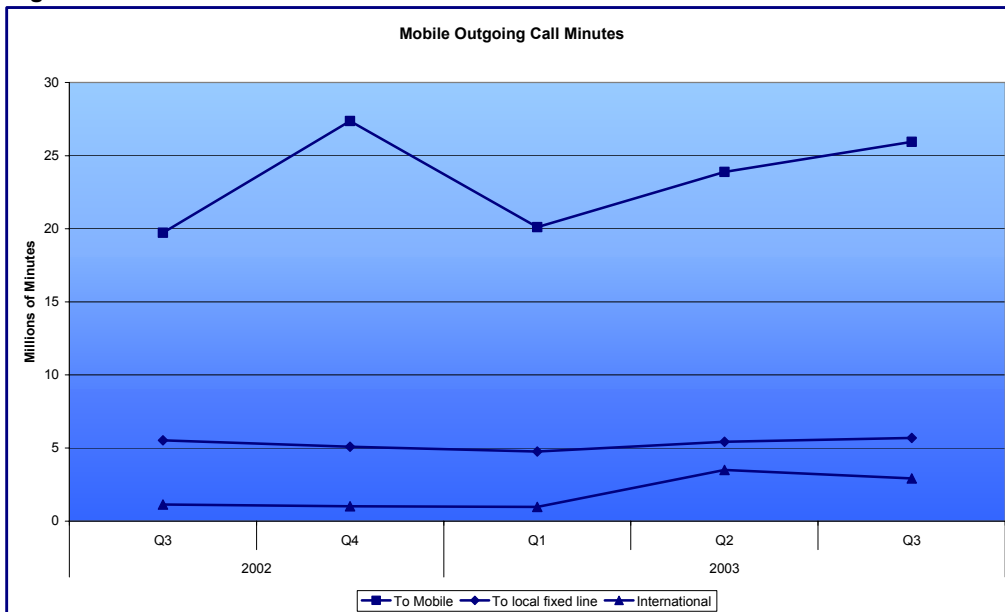
The following chart shows the outgoing mobile traffic to other mobile users, to the PSTN and the international traffic made by Maltese mobile subscribers.

Like PSTN traffic to mobile, mobile to mobile traffic has picked up during the first two quarters of 2003 and was 31.47% greater in 2003 than in the same quarter of 2002.

As for mobile to PSTN traffic, the traffic is stable at around 5.3 million minutes throughout the year.

With an increase of 157.4% in the third quarter of 2003 over the same quarter last year, international calling from mobile¹ was at 2.9 million minutes. There was however a decline of half a million minute from the second quarter of 2003.

Figure 8



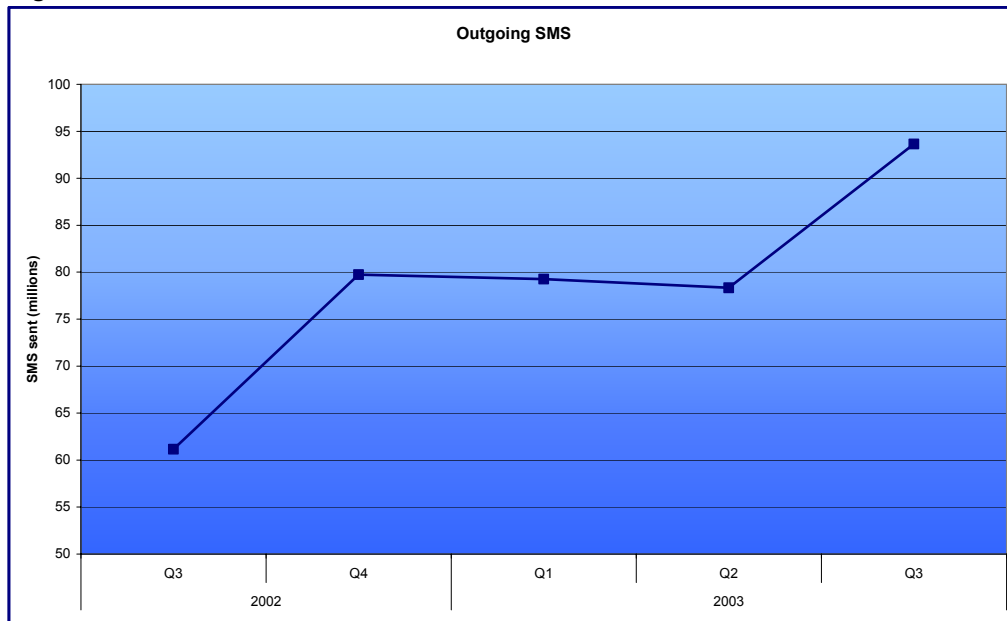
Source: MCA

¹ Excluding international calls made by foreign mobile subscribers roaming in Malta.

3.5 SMS

A sharp rise in SMS occurred during the third quarter of 2003 reaching almost 94 million SMS messages sent. Compared to the same quarter last year a 53.1% increase was registered.

Figure 9



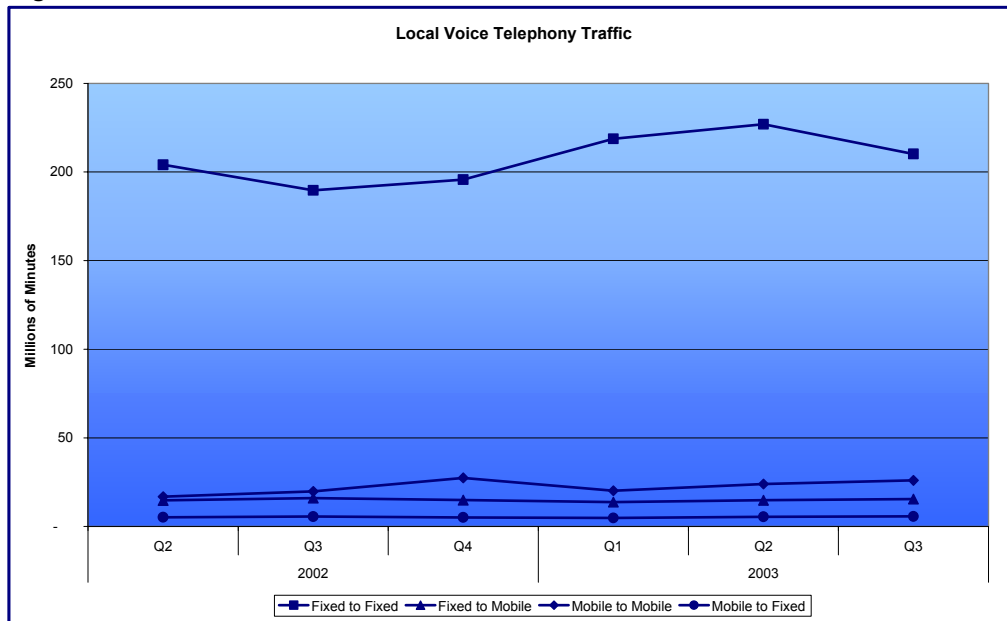
Source: MCA

4 The Voice Telephony Market

4.1 Local Voice Telephony Traffic

The chart below compares the local traffic from the second quarter of 2002 till the third quarter of 2003. It can be seen that PSTN to PSTN traffic is very high compared to the other types of local traffic.

Figure 10

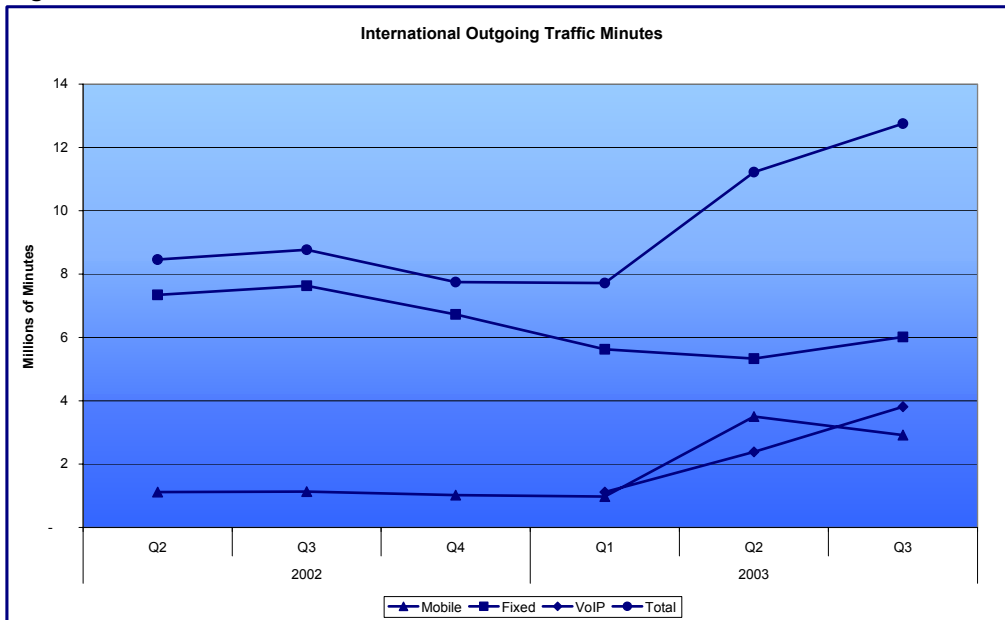


Source: MCA

4.2 Outgoing international call minutes

The chart below compares call minutes that originated from Malta and terminated abroad by way of the different means to call overseas. The total international call market has increased by 65% to 12.7 million minutes in the last quarter reviewed. This indicates that while fixed line international calling is being substituted by mobile and VoIP services, at the same time, new international traffic is being created. It must be noted that the chart below excludes international calls made by foreigners owning a mobile phone using this to make calls back home. This type of traffic made by foreigners is also substituting the traditional fixed line/payphone international calls. A more comprehensive analysis will be catered for in the next review.

Figure 11

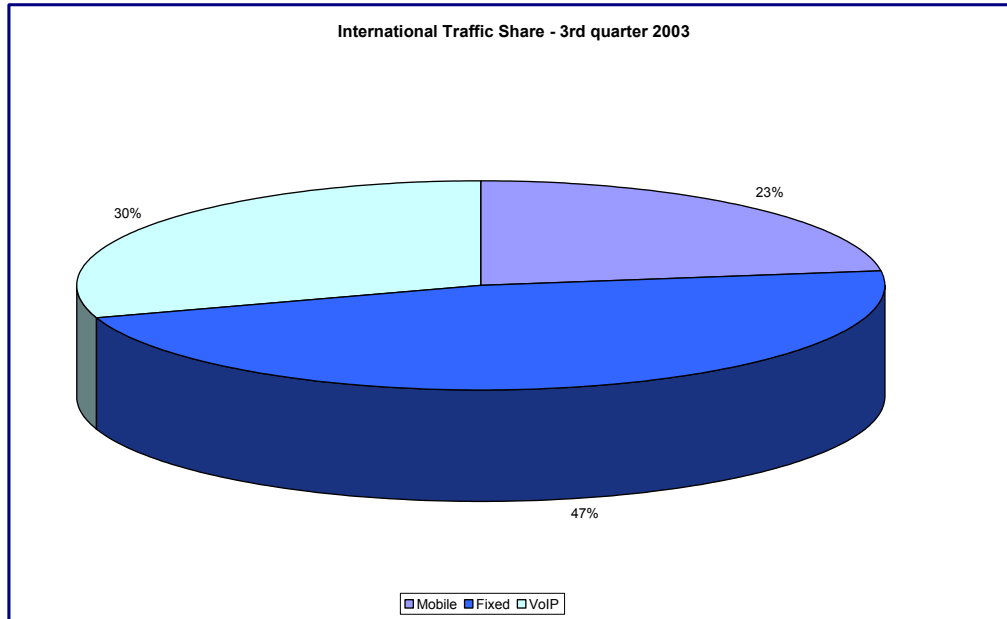


Source: MCA & NSO

4.3 Outgoing International Traffic Market Share

The chart below shows the market share for the different means to make international calls during the third quarter of 2003. This data excludes international calls made by foreign mobile subscribers roaming in Malta.

Figure 12



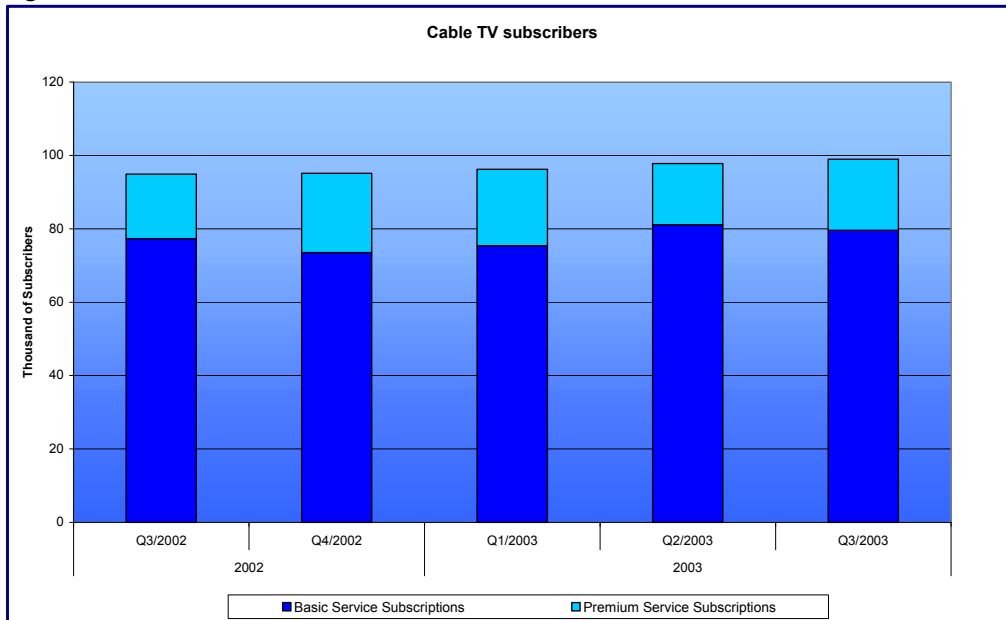
Source: MCA & NSO

5 The Cable Television Market

5.1 Cable Television Subscribers

At the end of September 2003, cable television subscribers totalled 98,941. A 4.3% and 1.2% increase occurred in comparison to the same quarter of 2002 and the second quarter of 2003 respectively. Premium TV service subscriptions increased by 16.2% in the third quarter over the second quarter of 2003.

Figure 13

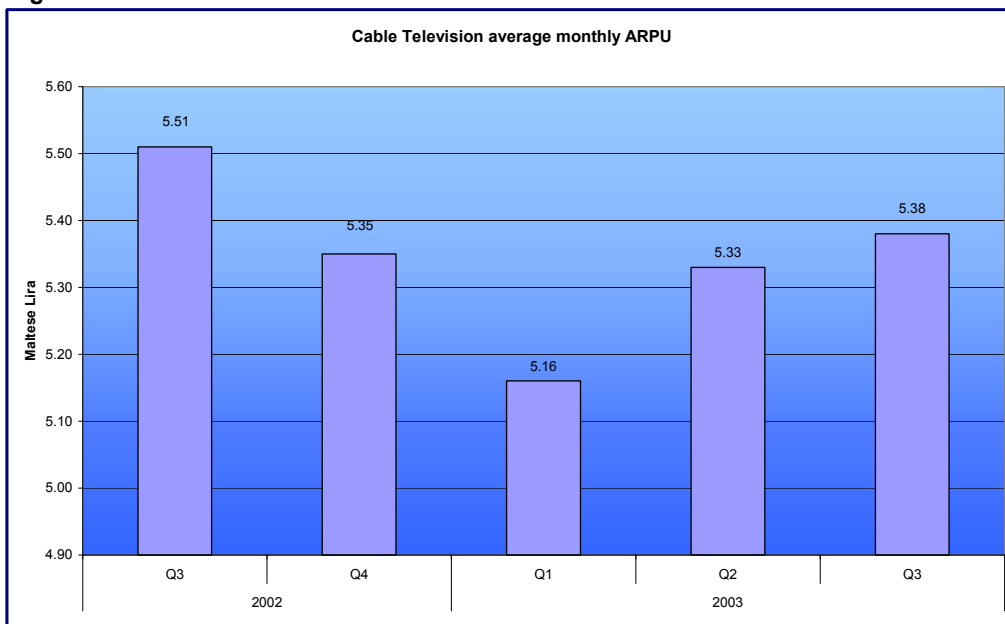


Source: MCA

5.2 Cable Television ARPU

The cable television average monthly ARPU in the following chart shows the data for Basic and Premium television services only, that is, it excludes any revenue related to broadband services. During the period under review the ARPU declined from Lm5.51 during the third quarter of 2002 to a minimum of Lm5.16 in the first quarter of 2003, to pick up again and reach Lm5.38 during the third quarter of 2003. This means a decline of 2.36% from the same quarter of last year.

Figure 14



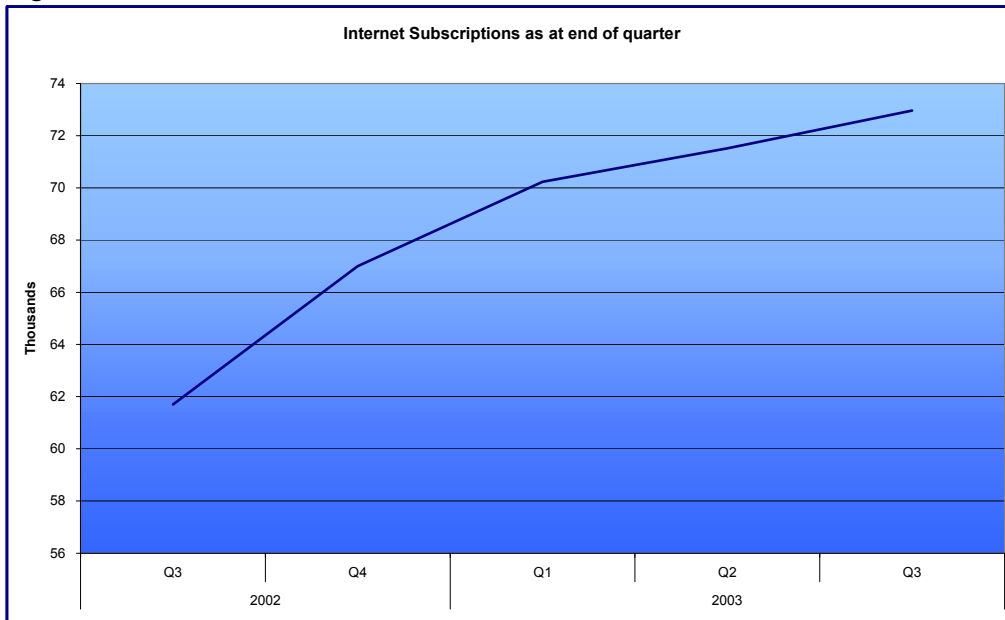
Source: MCA

6 Internet

6.1 Internet Subscriptions

Data published by the National Office of Statistics on 17th November 2003, indicates that the number of internet subscriptions went up to 72,962, that is, 18.2% over the same period last year. This increase amounted to 18.3% Internet penetration.

Figure 15

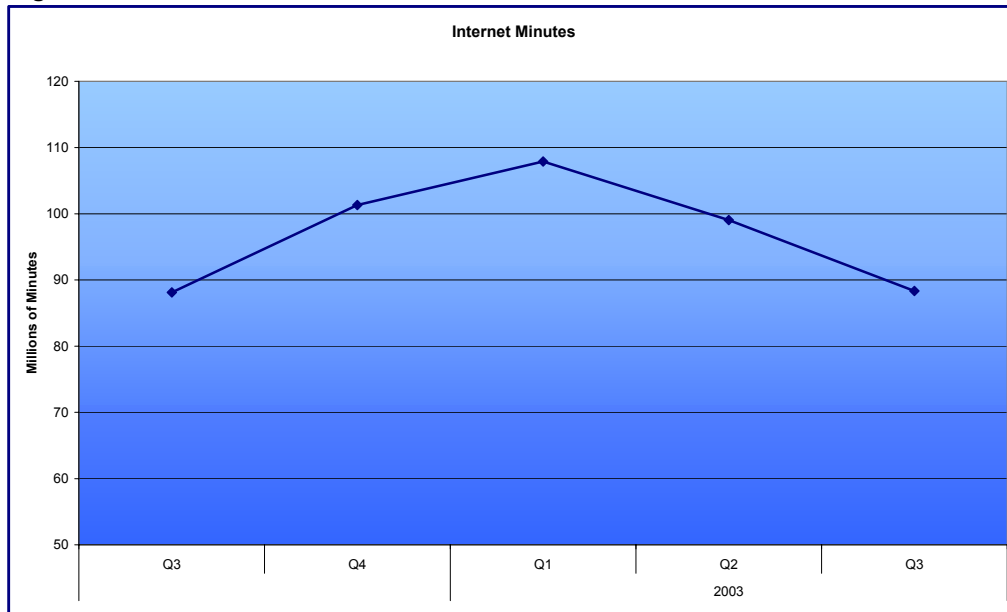


Source: NSO

6.2 Dial-up Internet traffic

After the increase in dial-up Internet traffic in 2002 and beginning 2003, this type of traffic experienced a steady decline of 18.13% since the first quarter of the year. Two factors contributing to this drop could be possible seasonality of usage and substitution with broadband connections.

Figure 16

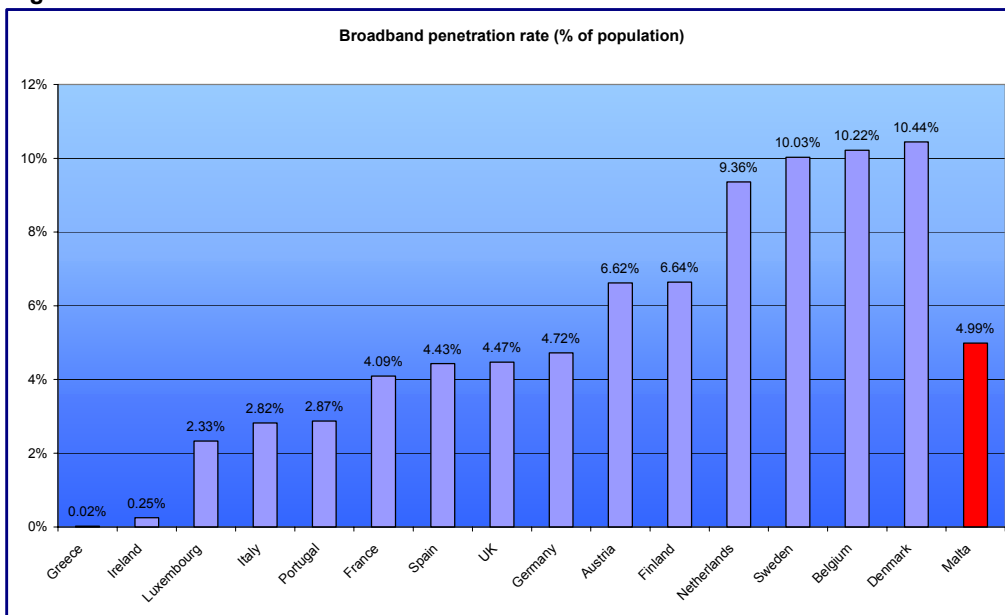


Source: MCA

6.3 Broadband penetration

ADSL subscription at the end of September 2003 amounted to 11,883. On the other hand, cable modem subscriptions totalled 8,009. Thus, the total broadband subscriptions stand at 19,892, which is equivalent to 4.99% of the population. The chart below compares broadband penetration in Malta in relation to the EU.

Figure 17

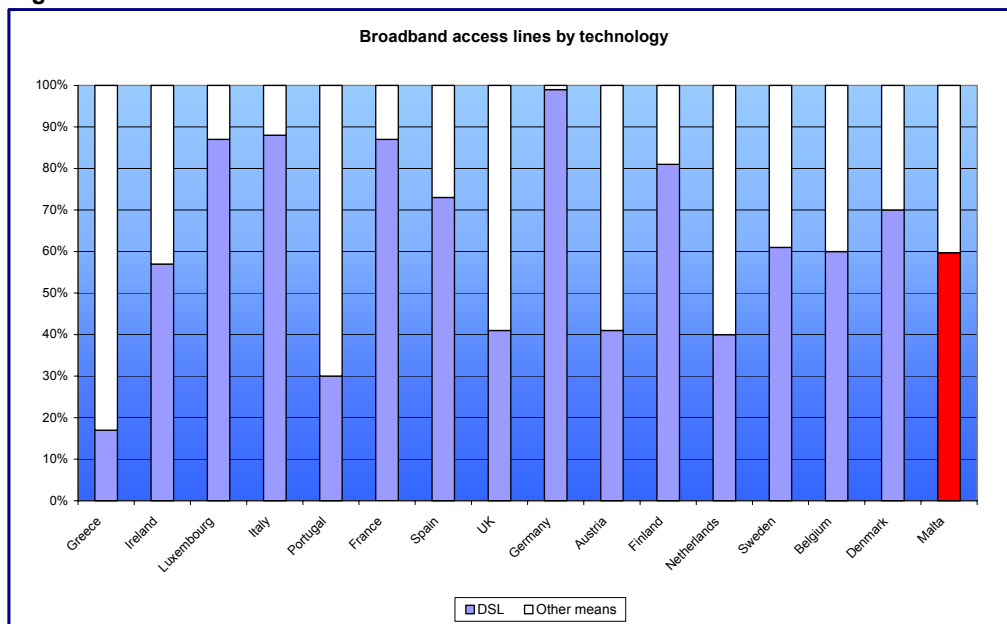


Source: MCA & EU

6.4 Broadband Access Lines by Technology

The chart below shows the broadband market share by technology in the EU and Malta. In the Maltese case ADSL amounts to 60% of the broadband market while the remaining 40% is covered by the cable technology.

Figure 18



Source: MCA & EU

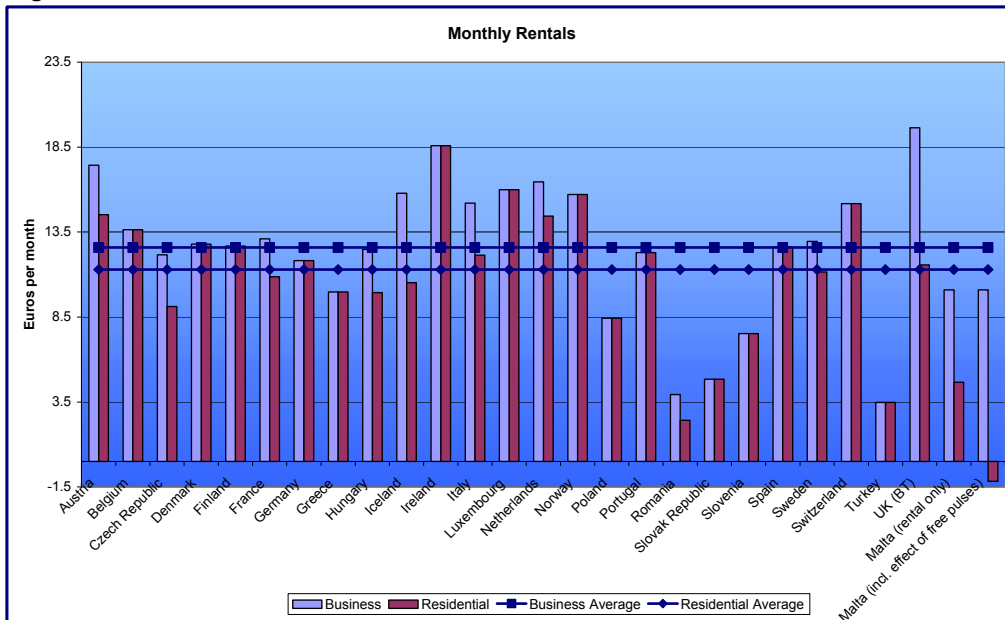
7 Tariff Movements

7.1 Retail Tariffs

7.1.1 Monthly Fixed Line Rentals

The following chart compares the monthly rentals charged by European fixed line operators. The average (excluding Malta) monthly rental for residential subscribers is €11.29 (approx. Lm4.84) while that charged to business subscribers is €12.59 (approx. Lm5.40). When the effect of the free pulses given to residential subscribers is taken into consideration, Malta's fixed line rentals are negative compared to the 25 European countries listed below.

Figure 19

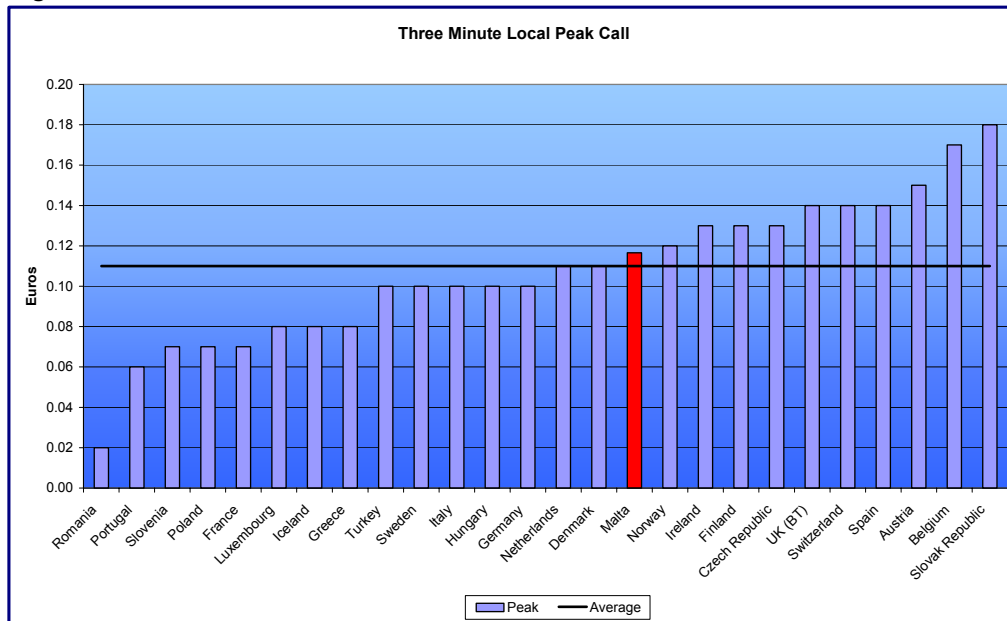


Source: MCA

7.1.2 Local fixed call tariffs

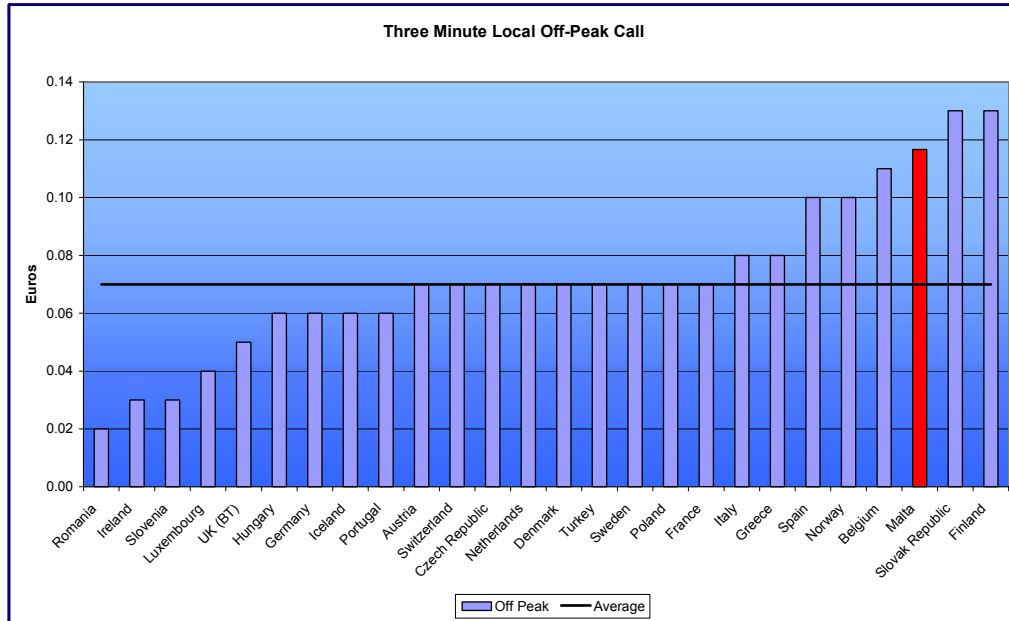
The following two charts illustrate the retail tariffs charged by European fixed line operators for a three-minute local call during peak and off-peak periods exclusive of tax. The average (excluding Malta) peak charge for a three-minute local call is €0.11 (approx. Lm0.04,7) while that during off-peak hours it goes down to €0.07 (approx. Lm0.03).

Figure 20



Source: MCA & Tarifica

Figure 21

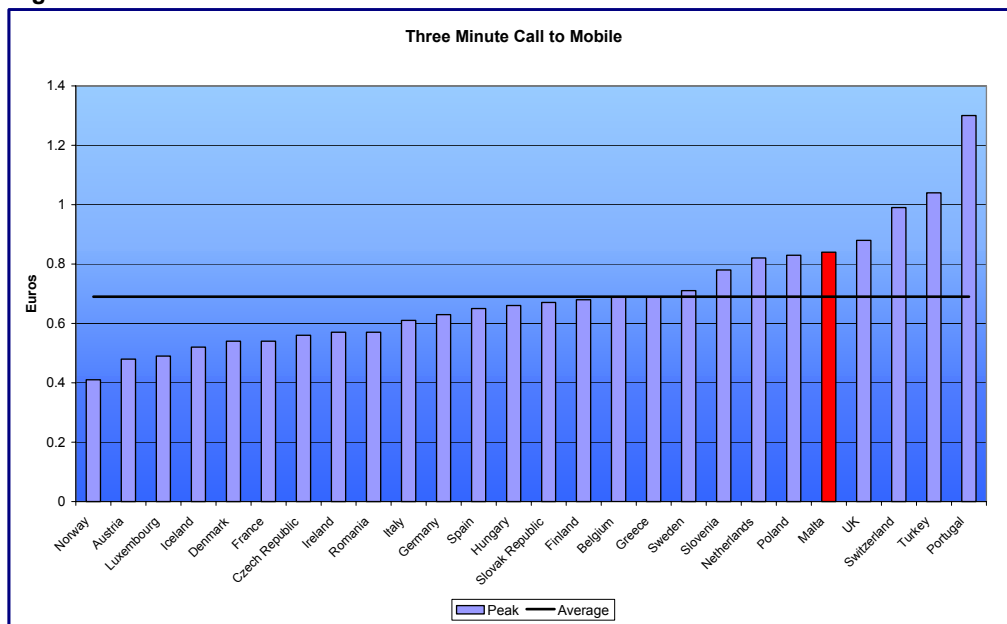


Source: MCA & Tarifica

7.1.3 Fixed to mobile

The chart below compares the rates charged by PSTN operators for a three-minute call originating from a fixed line to a mobile. The average (excluding Malta) call charge is €0.69 (approx. Lm0.29,6) exclusive of tax.

Figure 22

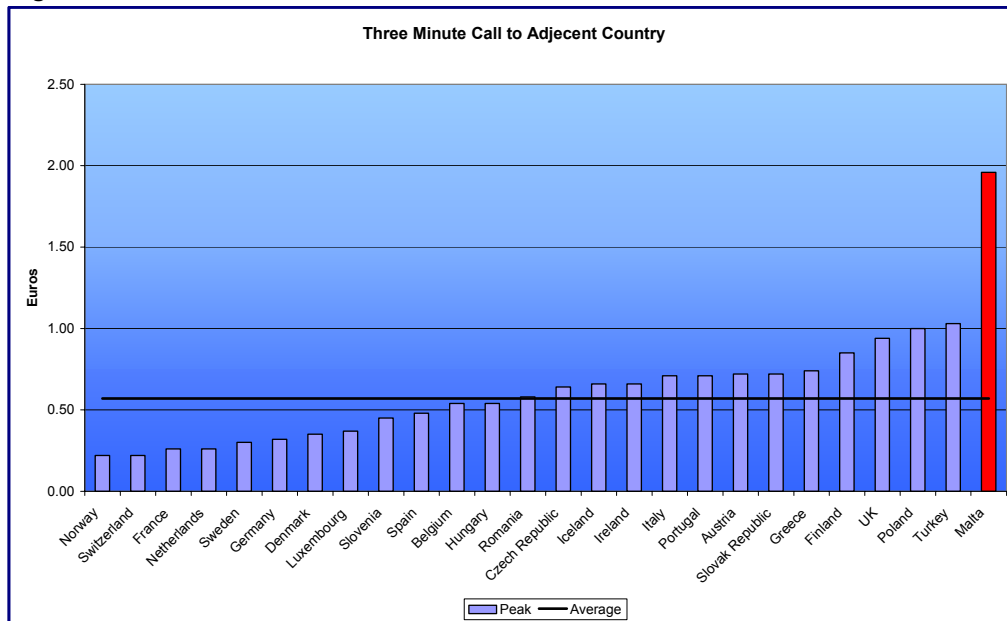


Source: MCA & Tarifica

7.1.4 International fixed call charges (near country)

International calls in Malta are the highest compared to the 25 European countries listed below with a three-minute peak call to an adjacent country (in our case a Zone 1 country) 90% dearer than the next most expensive country. The average (excluding Malta) three-minute call charge is €0.57 (approx. Lm0.24,4).

Figure 23



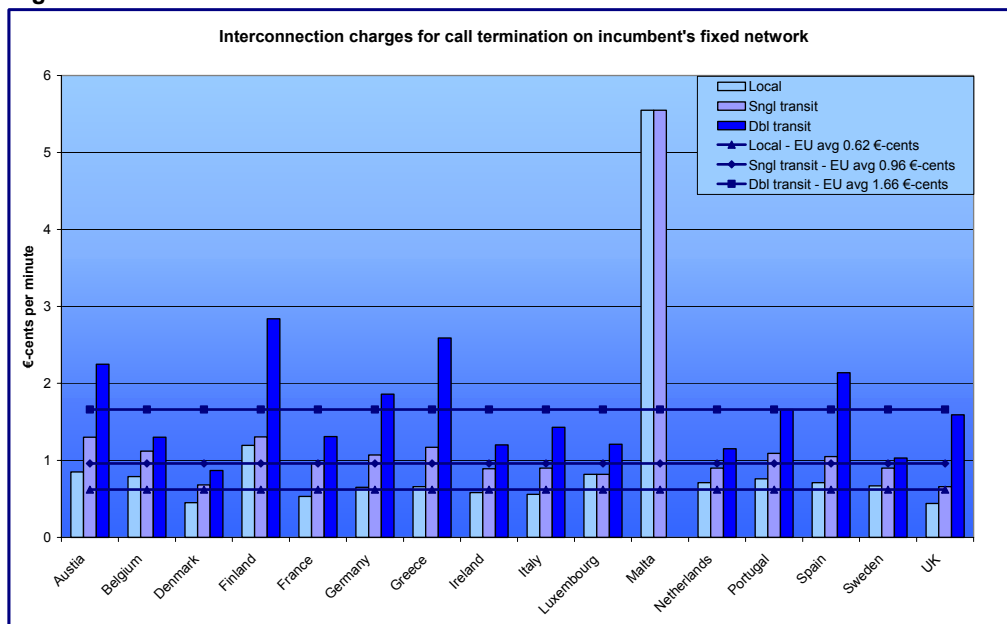
Source: MCA & Tarifica

7.2 Wholesale Tariffs

7.2.1 Fixed termination charges

The chart below shows the per minute fixed termination charges as at end of September 2003. The Maltese fixed local interconnection of Lm0.02,38 per minute is still much higher than the EU average of 0.62 Euro cents per minute (approx. Lm0.00,27)

Figure 24

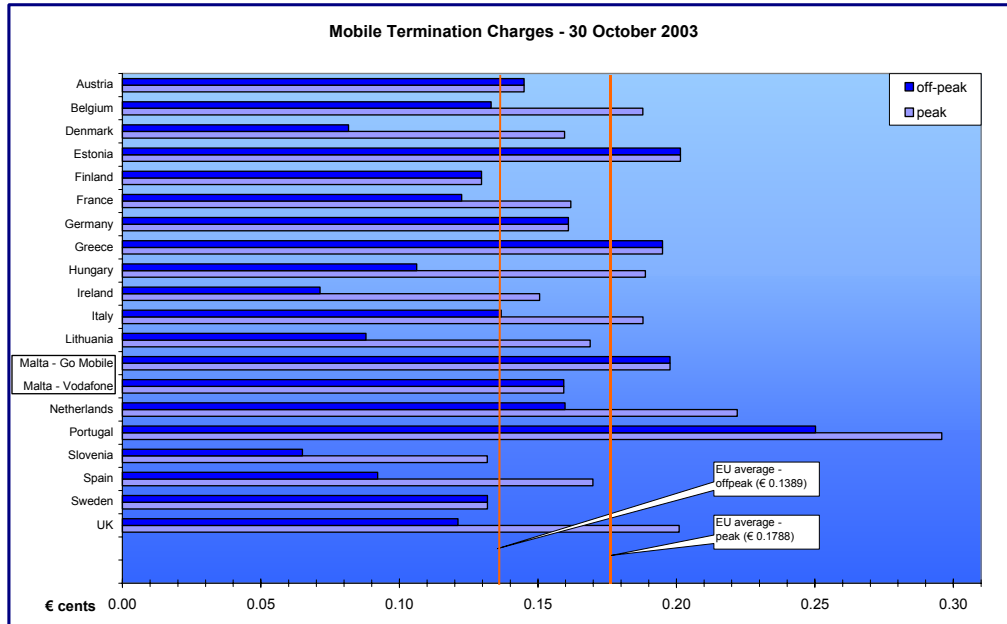


Source: MCA & EU

7.2.2 Mobile termination charges

On the other hand, mobile termination tariffs charged by local mobile operators are close to the average charged in other European countries.

Figure 25



Source: MCA & EU