REPORT
On Activity of National Regulatory Agency for Electronic Communications and Information Technology and Developments of Electronic Communications Market in 2 0 0 7

Chisinau, 2008

CONTENTS

Foreword

This Report covers the activity of the National Regulatory Agency for Telecommunications and Informatics (NRATI) and the developments of service market in 2007. The document was finalized after NRATI was re-organized into National Regulatory Agency for Electronic Communications and Information Technology (ANRCETI), on March 14 2008, following the entry in force of the Law on Electronic Communications no. 241-XVI on November 15 2007. This accounts for the use of the old name - NRATI and new one – ANRCERTI – in the text, both with reference to the same regulatory authority.

The adoption of the Law on Electronic Communications, drafted in compliance with the requirements of the new EU regulatory framework and the provisions of „Moldova – EU" Action Plan is an event of major importance both for the regulator and for all providers of electronic communications networks and services. The Law provides for a simplified licensing procedure by applying the general authorization regime, for standards meant to ensure access and interconnection of electronic communications networks and services. It contains other new clauses absolutely necessary for efficient market operation, which fact encourages to believe that the Law will enhance sector development and bring it closer to European standards.

Proceeding from the importance of the Law on Electronic Communications, the Agency, was busy mainly drafting new regulatory acts for the enforcement of the Law, such as regulations on identification and analysis of relevant markets in electronic communications and designation of providers of electronic communications networks and/or services with significant market power, general authorization regime and license issuance for the use of limited resources, separate accounting system, Universal Service and other important documents due to be adopted in 2008.

This report contains an ample picture of the market developments, evidence of continual upgrowth on all its segments. The results of 2007 for most of the indicators – sales, investments, subscribers, penetration rate, etc., - substantially exceeded the ones of 2006. For example, the total sales volume on the electronic communications market increased in 2007 by 20,2%, which is over 5,4 billion lei or 10,1% of the gross domestic product.

The mobile telephony sector showed significant upgrowh, the turnover increasing by 26% and reaching two billion 377,2 lei, which by 41,5 million lei exceeds the total sales volume of the fixed telephony sector. It is for the first time in the short history of mobile telephony in Moldova that there is a mobile over fixed advantage in terms of annual sales.

The upgrowth also marked the capital investments. Their volume of investments are estimated at one billion 926,5 million lei, a 28% increase over 2006. The bulk – one billion 158,6 million lei – was allocated to mobile telephony, whereas the investments in audiovisual sector doubled over one year, amounting at 44,7 million lei.

The number of mobile users increased, over the previous year, by 38,6% and is estimated at 1 million 882,8 thousand, the mobile penetration rate rose to 55%. Growth in the number of fixed subscribers is 5%, estimated at 1 million 79 thousand, while the fixed penetration rate is 31,5%. The speedy upgrowth of mobile telephony was determined mainly by the market entry of two new operators: UNITE and EVENTIS, by extended capacities of the first two operators - Orange Moldova and MOLDCELL, as well as by a stronger competition on this market segment. The maturity and lack of competition in the fixed sector are the reasons for its stunted growth.

As for the data transport and Internet access indicators, they failed to meet expectations. The share of this sector in the structure of the electronic communications market dropped from 4,36% to 4,2%, the penetration rate of these services per 100 residents was 3,22%, the broadband Internet penetration rate was 1,38%. This situation was conditioned mainly by the lack of efficient competition on this market, which, in its turn, maintained high tariffs for Internet access services and slowed down their development.

We truly believe that in 2008 the situation in this sector will change for the better, first of all due to the fast-growing demand for Internet access. Along with the demand, there are other prerequisites for this market sector to develop. One of them is that the new Law on Electronic Communications enables the Agency to apply the right leverages in order to prevent and eliminate anti-competitive behavior of providers with significant market power. It will allow the Agency to firmly promote the principles of fair competition, the effects of which will be beneficial not only for alternative operators but also for users of electronic communication services.

We hope this report will help interested individuals to better acquaint themselves with both the situation and trends of development of the electronic communications market and with the concerns, plans and projects the Agency has to implement.

ANRCETI Administrative Board

I. Overview of Activities Realized in 2007

1.1 Economic and Technical Regulations

Economic and technical regulations are the key-leverages for NRATI in attaining the objective of enhancing the development of electronic communications market and promoting competition on that market. The regulatory process of 2007 focused on maintaining and promoting fair and non-discriminatory playing rules for all service and network providers, in particular for the existing alternative operators and new entrants.

Throughout 2007 NRATI continued monitoring market development by collecting and processing statistical reports on the activity of electronic communications license holders. Proceeding from those statistical data, NRATI experts carried out market evolution analysis and made a forecast of its future development. By means of such analyses NRATI evaluates the results of implementing market regulation. Reports from fixed, mobile and data transport sectors were collected quarterly, this giving the possibility to thoroughly investigate the telecommunications and informatics market and to evaluate the dynamics of market indicators every quarter.

1.1.1 Regulation of Network and Service Interconnection

Interconnection of telecommunications and informatics networks and services is one of the key mechanisms of ensuring their interoperability, as provided by the Regulations on Interconnection. The latter sets forth the principles, rules and procedures of networks and service interconnection, of concluding interconnection agreements, of dispute resolution. The aforementioned Regulations require that copies of interconnection agreements concluded between operators be submitted to NRATI. In 2007 86 of such agreements were submitted and stored with NRATI. Below is the list of interconnection agreements NRATI received in 2006-2007.

Interconnection Agreements concluded in 2006 - 2007

Table no.1

No.	Interconnection Agreements	Agreements signed in In 2006	Agreements signed in in 2007
1.	JSC Moldtelecom and fixed telephony operators	5	12
2.	JSC Moldtelecom and IP-telephony and data transport operators	21	24
3.	JSC Moldtelecom and cell mobile telephony operators	8	5
4.	JSC Moldtelecom value-added service operators	9	20
5.	Mobile networks and public fixed telephony networks	13	26

As the Table shows, in 2007 the number of interconnection agreements between operators increased fast practically on all market segments, which confirms extension and consolidation of telecommunications and informatics service market. In order to ensure transparency, all the interconnection agreements concluded between operators were placed on the Agency Web site.

Unlike 2005-2006, when NRATI, for the lack of an adequate legal framework, could not impose on JSC MOLDTELECOM obligations specific for an operator with significant market power, in terms of technical and commercial conditions included in the Reference Interconnection Offer (RIO), in 2007 the situation was different. By Decision no. DCF-7 of 26.07.2007 of the National Agency for Competition Protection JSC MOLDTELECOM was designated as operator with significant market power on the local fixed, long-distance and international telephony market provided on the entire territory of the Republic of Moldova. According to the Regulations on Interconnection, the operator with significant market power is bound to interconnect, upon request, its network or services with another network or services, to negotiate an interconnection agreement with the applicant for service provision, to issue a RIO, containing technical and commercial conditions for interconnection.

JSC MOLDTELECOM obeyed this requirement and presented to NRATI, in November 2007, the draft RIO for 2008. In December the draft was discussed during bilateral consultations and later – during public hearings, organized by NRATI and attended by a number of operators of telecommunications and informatics networks and services. During the hearings the players examined the divergences concerning the terms, technical and commercial conditions, offered by JSC MOLDTELECOM for interconnection with its public fixed telephony network. NRATI Administrative Board, by its Decision of December 29, 2007, approved the RIO of JSC MOLDTELECOM for 2008, requiring the operator to make the RIO publicly available.

According to the above-mentioned Decision, in order to simplify the procedure of concluding interconnection agreements with JSC MOLDTELECOM, this operator has to draft and present to NRATI for approval a sample-application for interconnection, which specifies the information required by applicants, such as collocation forms, space etc. The Decision also requires that JSC MOLDTELECOM draft and present to NRATI for coordination, pursuant to section 5 of the Regulation on Interconnection, the Framework Interconnection Agreement, which includes the conditions of interconnection between public telecommunications and informatics networks and services, collocation and other services of access to associated facilities. The structure and contents of the Framework Interconnection Agreement are to be approved in the first half of 2008.

In 2007 NRATI solved the issue of interconnection between the mobile telephony network of JSC MOLDTELECOM (providing mobile CDMA 2000 1x telephony services, in 450 MHz frequency band, under the brand UNITE, since 1.03.2007,) and other fixed and mobile telephony networks. NRATI accepted the operator's proposal to set interconnection charges lower than the ones existing on the market (0,07USD per minute). NRATI recommended that mobile telephony operators interconnect the networks they operate pursuant to the conditions set in the Regulations on Interconnection and apply the 0,0319 USD per minute termination tariff for the CDMA (WLL) fixed public network of JSC MOLDTELECOM in the agreements of interconnection with other telecommunications networks and for the mobile network of JSC MOLDTELECOM.

Previously NRATI obliged JSC MOLDTELECOM, by the license conditions for CDMA 2000 in 450MHz frequency band, of 29.06.2006, to ensure separate cost accounting, within the internal accounting system, for all the activities related to interconnection with his own public mobile telephony network for call termination, separate accounting balance for CDMA 2000 cell mobile telephony services and make the description of the separate accounting system publicly available. NRATI prohibited the incumbent from subsidizing CDMA 2000 cell mobile telephony services from the revenues generated by fixed telephony service provision and from setting predatory prices.

1.1.2 Drafts of New Regulatory Acts

In 2007 NRATI drafted regulatory acts as required by the National Program for Implementation of Moldova – EU Action Plan and by the new Law on Electronic Communications, adopted on November 15, 2007 and promulgated on March 6, 2008. The work was preceded by thorough analysis of the regulatory framework applied in European countries and EU Directives that served as basis for the new Law.

In order to enforce the provisions of the Law on Electronic Communications in terms of general authorisation regime, which will replace the existing procedure of license issuance per type of activity, NRATI drafted the **Regulations on General Authorisation Regime and License Issuance for the Use of Limited Resources for Electronic Communications Service and Network Provision.** The Regulations comprises the types of electronic communications networks and services, conditions for their provision, general authorisation and licensing procedure, sample-forms for a license, a notification and informative declaration.

The general authorization procedure explains the actions to be taken by natural or legal persons wishing to be authorized to provide electronic communications networks and services. Pursuant to the Law, a natural or legal person, intending to provide electronic communications networks and/or services has to submit a notification to NRATI, allowing the person to start its activity. The notification must provide information necessary for the Agency to keep the Public Register of electronic communications network and service providers and an abstract description of the types of networks and/or services the applicant intends to provide, the territory and estimated date for launching activity. The abstract description is an integral part of the notification.

Where limited resources – radio channels and frequencies, numbering resources - are necessary for electronic communications network and service provision, the Law provides for licenses issued for the use of radio channels and frequencies and licenses for the use of numbering resources. For this purpose the Agency drafted the ***Procedure for Applying and Obtaining Licenses and Technical Permits for the Use of Radio Channels and Frequencies*** and the ***Draft Modifications of the Regulations on Administration and Management of the National Numbering Plan.*** The aforementioned procedure sets forth the actions license applicants have to take to obtain licenses for the use radio channels and frequencies and technical permits for the use of radio-communications stations in private networks.

NRATI also prepared the **Draft Modifications to the Regulations on Interconnection**, another regulatory act governing the unbundled access to the local loop. The implementation of this project will create real prerequisites for the provision of a wide range of services, including high-speed internet and broadband multimedia services. The purpose of this regulation is to enhance competition, ensure interoperability of electronic communications networks and services and protect the rights and interests of end-users.

The Draft establishes the principles and rules of unbundled access to the local loop and associated facilities, the rights and obligations of applicants for access to networks and associated facilities of the operator with significant market power on the local loop market. According to the Law, this operator, designated by the Agency must issue the Reference Offer for access to the local loop, containing the conditions of offering shared or total access to the local loop. The operator-beneficiary of shared access to the local loop will be able to use the local loop or sub-loop frequencies in which broadband communications services are provided. Being given total access to the local loop, operator-beneficiary will have the possibility to use the entire frequency spectrum of the local loop or sub-loop.

In 2007 NRATI drafted the **Universal Service Regulation**s It sets forth the rules for implementation of universal electronic communications service in the Republic of Moldova, the conditions of designating universal service providers , universal service quality requirements, conditions of creation and administration of a universal service Fund, etc.

Universal service provides for the provision of a minimal set of services of specified quality accessible on the entire territory of the Republic of Moldova to all users, regardless of their geographical location, at affordable prices. As the Law on Electronic Communications provides, the following services are part of the minimum universal service set: access to the public fixed telephone network at a fixed location, access to directory enquiry service and to directories of subscribers and access to public pay-phones, including free access to emergency services.

Universal service will be provided based on a contract signed between universal service provider designated by the Agency and the Agency Director. In order to ensure universal service implementation it is necessary to establish the its financing mecaniisms, the conditions of universal service provision and to create the universal service fund. The terms for universal service implementation and the obligations for universal service provision will be set forth in the National Program for Universal Service Implementation, approved by the Government.

The ***Regulations on Identification and Analysis of Relevant Markets in Electronic Communications and Designation of Electronic Communications Networks and/or Service Providers with Significant Market Power,*** drafted by NRATI in 2007, is a document of no less importance than the ones previously mentioned. It contains the methodology and criteria of relevant market identification, the characteristic features of those markets justifying the preliminary special obligations imposed by the Agency on providers of electronic communications networks and/or services with significant market power. The document also comprises criteria and rules based on which the Agency will analyse the identified relevant markets and determines whether one or more providers of electronic communications networks and/or services have significant market power on a particular relevant market.

In the timeframe under report, NRATI experts also worked on other important drafts, such as Methodology of Long-Run Incremental Cost Calculation (LRIC), Regulation on Separate Cost Accounting, etc. As the subject matter of the abovementioned drafts is new and complicated, the Agency is going to continue working on them in 2008, involving foreign experts in their examination.

1.2 License Issuance

Over the past year the number of economic entities authorized by NRATI to provide telecommunications and informatics services increased by 261, totaling at 1214. They are holders of 1325 licenses (part of them are holders of several licenses for different types of activities). The rate of increase in the number of new license holders in 2007 is practically the same as in 2006.

So, in 2007, NRATI issued 274 licenses:

- 201- for informatics service provision;
- 35- for telecommunications service provision;
- 25 – for construction, maintenance, operation and creation of air and cable television stations;
- 13 – for construction, maintenance, operation and creation of air radio stations.

NRATI examined 370 applications for license issuance, update, withdrawal and modification. The average lead time was 12 working days. The Agency updated 29 licenses and withdraw, at the license holders' request, 4 licenses.

Like in the prior years, in 2007 licenses for informatics activity were at highest demand – 73% of all the licenses. Of the total number of 1325 licenses NRATI issued over the past year, 914 authorize informatics service provision, in particular design and implementation of software programs, data transport (Internet access) services, IP-telephony and informatics services in public places (Internet cafes, clubs).

NRATI experts explain this situation by the dynamic increase in the demand for software, for Internet access and for IP-telephony, via Internet networks. The latter is in especially high demand, as the international calls tariffs are lower than the ones for traditional telephony.

The number of license holders authorized to provide informatics services in public places exceeded 500, which is 77 increase over 2006. Of this number more than 300 provided services in Chisinau and Balti, the rest – in district towns and rural places, which fact confirms the constant growing demand for Internet access in all the areas of the country. The same tendency persists on radio and television program re-transmission market. At the end of 2007 this market had 232 players, of which 166 – provided cable TV services. Most of these operators provide cable TV services in district towns and rural areas.

For comparison, see below the list of licenses issued by NRATI in 2006-2007.

Licenses issued in 2006-2007
Table 2

No.	Type of activity / service	**Licenses issued in 2006**	**Licenses issued in** 2007	**Licenses valid as per** 31.12.2007
	Total:	**295**	**274**	**1325**
1.	**Individual licenses**	**3**	**-**	**5**
1.1	Provision of CDMA 2000 cell mobile telephony services in 450 MHz frequency band	1	0	1
1.2.	Provision of GSM cell mobile telephony services in 900/1800 MHz frequency band	1	0	3
1.3.	Fixed long-distance and international	1	0	1

	telephony service provision			
2.	**General licenses**	**242**	**236**	**1088**
2.1.	Telecommunications services	47	35	174
2.1.1	Public local fixed telephony service provision	20	18	60
2.1.2	Value-added services	25	21	77
2.1.3	Services of projecting, installation, construction and assembly of telecommunications equipment and networks	25	28	125
2.1.4	Services of technical maintenance of telecommunications networks and equipment	25	26	103
2.1.5	Re-sale of public telephony services	12	9	45
2.2.	**Informatics services**	**195**	**201**	**914**
2.2.1	Data transport services via terrestrial and VSAT networks	73	90	325
2.2.2	Services of installation, construction and assembly of data transport networks	80	97	339
2.2.3	Services of projecting public data transport networks	76	87	316
2.2.4	IP-telephony services	74	77	299
2.2.5	Services of technical maintenance public data transport networks	71	85	307
2.2.6	Services of design, maintenance and implementation of software, equipment and informatics systems	98	145	487
2.2.7	Informatics services in public places	96	72	505
2.2.8	Services of design, elaboration and implementation of informatics systems of state interest and services to ensure their functionality	71	90	337
2.2.9	Services of creation of informatics resources of state interest, and their use, (creation of databases, their operation and information service provision)	70	93	325
2.2.10	Re-sale of data transport services via terrestrial or VSAT networks	63	70	275
3.	**Technical licenses**	50	38	232
3.1	Construction, maintenance, operation and creation of air television stations	10	5	33
3.2	Construction, maintenance, operation and creation of cable television stations	32	20	158
3.3	Construction, maintenance, operation and creation of air radio stations	8	13	39
3.4	Construction, maintenance, operation and creation of cable radio stations	0	0	2

Notă: *The information above comprises data about companies providing more than one service - subject of licenses for one type of activity or several licenses for different types of activity which include more services.*

According to the legislation in force in 2007 NRATI issued general and individual licenses for activity in telecommunications and informatics and technical licenses for radio and television stations, valid for the term of validity of broadcasting licenses or program retransmission authorizations the license holders had.

1.3 Numbering Resource Assignment

In 2007, NRATI received 93 applications for numbering resources assignment which were processed by the Group of experts. As a result, NRATI assigned 6 access codes, 24 short numbers, 800 thousand mobile and 93 thousand fixed telephony numbers, etc. In the timeframe under report, at operators' request or for unpaid fees for assigned the numbering resources, NRATI withdraw four short numbers from 14XX number block, two numbers from 15XX number block , four numbers from 16XX number block, one number from 19XX number block and one from 900 XXXXX number block.

Below is the list of numbering resources assigned by NRATI in the timeframe 2006-2007.

Numbering Resources Assigned in 2006- 2007
Table 3

No.	Numbering resources for telecommunications services and networks	Number block	Numbering resources assigned in 2006	Numbering resources assigned in 2007	Total numbering resources assigned by la 31.12. 2007
1	Access codes to telecommunications operators	1010 - 1099	-	-	1
2	Access codes to enquiry services	118X(X)	1	2	6
3	Access codes IP-telephony	1600 - 1640	4	-	16
4	Access codes long-distance/international services	1680 - 1699	-	-	2
5	Access codes data transport operators	1900 - 1949	1	1	15
6	Technological codes for network testing	1800 - 1899	2	3	32
7	Short numbers for services				
7.1	Transport services (mun.Chisinau)	1400 - 1499	7	15	36
7.2	Transport services (districts)	1400 - 1499	5	6	11
7.3	Non-telecommunications services	1500 - 1539	1	3	6
8	**Number blocks for fixed telephony**				
8.1	Number blocks for JSC Moldtelecom fixed telephony	2X(X)XXXX X	1856	79590	1119658
8.2	Number blocks for WLL (CDMA) fixed telephony of JSC Moldtelecom (Chisinau mun.)	2X 9XXXXX	1200	3000	11200
8.3	Number blocks for WLL (CDMA) fixed telephony of JSC Moldtelecom (districts)	2XX 9XXXX	40250	-	128600
8.4	Number blocks for new entrants to fixed telephony	2X 8XXXXX	12000	14 000	55000

	market (Chisinau mun.)				
8.5	Number blocks for new entrants to fixed telephony market (districts)	2XX 8XXXX	1000	-	5100
9	**Number blocks for GSM cell mobile telephony**				
9.1	JSC Orange Moldova	69X XXXXX 68X XXXXX	100 000	500 000	1600000
9.2	JSC Moldcell	79X XXXXX 78X XXXXX	-	200 000	1200000
9.3	LLC Eventis Mobile	65X XXXXX		100 000	200 000
10	Number blocks for CDMA cell mobile telephony of JSC Moldtelecom	671 XXXXX 672 XXXXX	100 000	100 000	200000
11	Numbers for Free-phone services	800 XXXXX	9	11	50
12	Numbers for access to Internet (Dial-Up) services	821 XXXXX	-	-	20
13	Numbers for „Premium rate” services	900 XXXXX	15	45	77

Where X = 0 …9

The data shown in the Table above prove that the numbering resources for mobile telephony were at highest demand, followed by those for fixed telephony. JSC MOLDTELECOM was assigned 82 490 numbers, whereas alternative operators – 14 thousand. NRATI experts consider the high demand for mobile numbering resources to be clear evidence of the tendency of sector fast development. At the same time, the increase in the number of applications from alternative fixed local telephony operators – from 4 thousand, in 2004, to 14 thousand in 2007, - prove that competition is becoming robust on this market sector, whereas new operators become more viable in relation to the incumbent JSC MOLDTELECOM, an operator with dominant market position. On the other hand, as a result of new technologies development, the interest of operators for access codes to IP-telephony and Internet (Dial-up) access evidently dropped.

In 2007 NRATI started activity in terms of number portability implementation in fixed and mobile telephony networks. Number portability is the possibility of a subscriber to keep his telephone number, when switching provider. NRATI expects the implementation of number portability to enhance competition and enrich the range of attractive services for fixed and mobile users. For that purpose NRATI started developing the Number Portability Concept, a document containing the technical methods and other steps requisite for the implementation of this project. A survey investigating opinions regarding the necessity of number portability showed that the majority of survey participants support the intention of number portability implementation, but are not ready to be charged additionally for the ported numbers. Subsequently, NRATI established a Working Group for the implementation of number portability in fixed and mobile networks. For 2008, the working group scheduled to elaborate the Program for Number Portability Implementation, to establish the rights and obligations of the operators of electronic communications networks and services, the numbering resources to be ported, manner of financing the data base, selecting call routing methods, etc.

Upon the request of new entrants, NRATI examined and proposed technical solutions for the access procedure to Freephone and Premium Rate services in their networks, as well as the implementation of shared-cost service. Considering the operators' requests for numbering resources for new services such as NGN (Next Generation Networks), services from “8” and “9” number range (shared-cost, televotong services), etc, NRATI will proceed, in 2008, to modify the National Numbering Plan in order to include new numbering resources for the above-mentioned services.

In order to proceed to the implementation of the „112” emergency service, the Ministry of Information Development created a Working Group, inviting NRATI representatives to participate. The Group is assigned with the task to develop the National Program of National „112” Emergency Service Implementation and advance proposals regarding sources of funding and manner of its implementation in the Republic of Moldova.

1.4 Monitoring and Control

In 2007 the monitoring and control activities were focused on supervision and control of license holders' compliance with normative and regulatory acts in force and with license conditions. They were targeted at ensuring and promoting fair competition on telecommunications and informatics market and protection of users' legal rights and interests.

Monitoring and control is essential for NRATI in exercising its functions, as non-compliance with legislation, normative acts, standards and regulations in force may have a negative impact on competition environment and may infringe upon users' rights.

The monitoring activity consisted of analysis of the information provided in statistical reports, in surveys, petitions, hearings, mass-media publications, without a direct intervention in their activity. Where deviations from the legislation in force were detected, NRATI proceeded to control actions in relation to those economic entities, in order to prevent potential eventual administrative contraventions,.

Alongside with verification of license holders' compliance with norms and regulations in force and with license conditions, the regulator's control activity implies determination of service quality level. This was a permanent component of the control activity and was conducted in strict compliance with the Law on Telecommunications no . 520-XIII of 7.07.1995 and the Code on Administrative Contraventions.

The Table below gives a comparative analysis regarding the results of control activity in 2007 compared to 2006.

Control Activities in 2006-2007
Table 4

Type of Activity	**2006**	**2007**
ACTIONS		
Total number of control actions:	**303**	**230**
a) planned:	**250**	**201**
- operators of public fixed telephony networks and/or providers of local fixed telephony services	*50*	*64*
- operators of GSM networks and providers of GSM cell mobile telephone services	*101*	*84*
- cable TV operators	*73*	*47*
- air TV operators	*9*	*1*
- operators of radio broadcasting	*17*	*5*
b) Unplanned:	**8**	**4**
- operators of public fixed telephony networks and/or providers of local fixed telephony services	*5*	*0*
- cable TV operators	*3*	*4*
c) control focused on verification of technical and organizational conditions for launching services:	**45**	**25**
- local fixed telephony services	*7*	*2*
- cell mobile telephony services	*0*	*2*
- premium rate services via public fixed telephone networks	*9*	*10*
- data transport, Internet access services	*15*	*7*
- IP-telephony services	*14*	*4*
REPORTS OF ADMINISTRATIVE CONTRAVENTIONS		
Reports:	**15**	**19**
a) *operators of public fixed telephony networks and/or providers of local fixed telephony services*	0	5
b) *operators of public data transport networks and/or providers of informatics services*	11	12

c) cable TV operators	3	2
d) air TV operators	1	0

As the Table shows, in the timeframe under report, NRATI Monitoring and Control staff conducted 230 control actions, of which 201 – planned, 4 – unplanned and 25 – ante-launching, the latter being done at the request of license holders and being targeted at verifying the technical and organizational readiness for the launch. The number of planned control actions in 2007 was dropped by 25%, compared to 2006, whereas the number of unplanned and ante-launching actions decreased almost twice. The reduction in the number of control actions occurred due to the fact that, according to the legislation, the license holder can be subject to planned control only once a year and even more rarely, where, as a result of a control action, no violations of normative acts in force and license conditions were detected.

The planned control actions were general, focused on verifying the service quality, the compliance with license conditions, normative acts and conditions of work with the customers. Another target of the planned control actions was to acquaint high officials from licensed enterprises with the normative and regulatory acts in force. They were also advised on the need to improve the conditions of work with the users, to organize hearings, to ensure service quality according to the technical standards and regulations in force, to keep complaint books, as established, to sign contracts with the users in written form and to exclude abusive clauses from such contracts.

The unplanned control actions were based on petitions and notifications received by NRATI. Those actions were directed at clearing and collecting the data necessary for solving, within NRATI competence, of the disputed issues.

The results of every control action were registered in adequate documents, indicating the shortcomings and breaches and establishing a deadline to have them remedied. It should be noted that no breaches whatsoever were detected during 108 out of the 230 planned control actions, whereas 59 out of 91 license holders who committed breaches, complied with the recommendations of monitoring and control division staff and redressed the situation in due time. Nevertheless, 8 of the license holders only partially removed the breaches, whereas 24 – failed to comply, which resulted in having them sanctioned, as established by the legislation in force.

As a result of control activity in 2007 NRATI specialists draw up 19 reports ascertaining administrative contraventions committed by network operators and providers of telecommunications and informatics services. Of their total number, 17 – attested breaches of license conditions and 2 – exceeded timeframes for license renewal and operation after the license expiry date.

The following were the most frequent breaches: exceeding timeframes for submitting statistical reports on licensed activity (or failure to submit them at all), exceeding the terms for license update or renewal, non-compliance with the parameters of network operation, as established in license conditions, service provision in the absence of a launching decision, abusive clauses in contracts with end-users, use of non-certified and/or unmarked equipment, absence of complaint books and registers of in-coming and out-going mail, surpassing the deadline for payment of regulatory fees.

In the timeframe under report, NRATI also examined 20 reports, made as a result of control actions by police together with representatives from company Sun Communications, to detect unauthorized connections to cable TV networks, a provision of Art.142/4 of the Code on Administrative Contraventions. Fines were applied in 7 cases, while 13 were dismissed on grounds that they exceeded the term established for submitting an administrative case. Pursuant to Art. 37 of the Code on Administrative Contraventions, an administrative sanction can be applied before the expiry of three months from the date when the contravention was committed. On the other hand, a part of the material presented did not contain enough proof to confirm the fault of the license holder. Having examined the aforementioned reports, NRATI notified the representatives of Sun Communications about lack of proper protection of their networks, which fact allows contraventions of unauthorized connection.

In 2008 the Agency will take steps with the view of making its activity more efficient, in particular by verifying the level of providing the end-users with full and accessible information about the services, compliance of providers with service quality parameters, as required by the standards in force and by their license conditions. For this purpose, the control actions will also be directed at verifying the contracts signed between end-users and providers of publicly available electronic communications services in terms of minimal clauses, established in compliance with the legislation in force, regarding operators' obligations in relation to consumers. Another target of the monitoring activity in 2008 will be the compliance of providers of publicly available services with the obligation to provide the pre-paid-card end users with information on general conditions for service supply and on minimal clauses, established by the legislation in force.

1.5 Dispute Resolution

In the timeframe under report NRATI examined disputes between telecommunications and informatics market participants, strictly in compliance with the Law on Telecommunications and the Regulation on Dispute Resolution between operators and between operators and users. Part of them was examined, repeatedly, during the consultations hosted by NRATI, with subsequent consultations within the Ministry of Economy and Commerce, the Government and the Parliament, like in the case of a dispute between five VoIP service providers and JSC MOLDTELECOM.

Those disputes had the same subject: termination of traffic originated outside the Republic of Moldova towards the public fixed telephone networks in Moldova and the one-sided modification by JSC MOLDTELECOM of the interconnection agreement conditions by imposing on alternative operators a higher tariff for international traffic termination in its network from 0,07 USD to 0,09 USD per minute, until the RIO for 2008 is approved. NRATI established that JSC MOLDTELECOM, contrary to the provisions of Art. 668 and 669 of the Civil Code, one-sidedly imposed on alternative operators signing interconnection agreements abusive clauses, before the RIO 2008 was approved and published, which was a violation of section 4.12 of the Regulations on Interconnection. Hearing the Parties involved in the dispute, NRATI required, by means of an official letter that JSC MOLDTELECOM maintain the technical and economic conditions set in the previously-signed interconnection agreements. JSC did not comply with the requirement and appealed to court against it. The final court order was in favor of JSC MOLDTELECOM.

During 2007, NRATI examined two cases of dishonest advertising by one operator to the detriment of another and namely, the branch office Orhei of JSC MOLDTELECOM, which, in defiance to the Law on Competition Protection, appealed to the users of Metican branch of company Starnet to abandon that operator and switch to MOLDTELECOM'S services.
NRATI investigated the case on local level and found that the branch office Orhei of JSC MOLDTELECOM admitted of anticompetitive treatment of Metican branch of company Starnet. The Agency required that such actions be stopped, which was immediately fulfilled by the branch office Orhei of JSC MOLDTELECOM, and notified to the Agency.

1. 6 User Protection

One of the main objectives of the Agency is to ensure the protection of users. For that purpose, the Agency develops user protection regulations, collaborates with user protection authorities and provides them with information on service providers' activity. Pursuant to the legislation in force, the users have the right to request that the Agency solve any problems they face in terms of service provision. NRATI examines their petitions in compliance with the procedure established by the Law on Petitions and Regulation on Dispute Resolution between Operators, and between Operators and Users.

Throughout 2007 NRATI processed 121 petitions and complaints, of which 110 – were solved in favor of petitioners. Out of the total number of petitions, 8 – were referred to the Parliament, Government and Ministry of Information Development. Claims of 11 petitions were rejected as groundless. Signees of 98 petitions and complaints tackled the issues of fixed, mobile, cable TV service provision, those of 23 petitions – the issues of informatics service quality.

Most of the claims referred to non-compliance by service providers with the requirements and conditions of normative acts, licenses and service provision contracts, with failure to execute the decisions of the Agency regarding dispute resolution, certain abusive clauses included in service provision contracts, leading to disequilibrium between the rights and obligations of contacting parties. In most of the cases, ANRTI persons in charge were warranted to visit the place in order to be able to verify the plausibility of facts. Where the cases proved veridical, NRATI compelled license holders to restore the rights and repair the damage caused to petitioners.

As a result of a number of petitions with reference to service quality and correctness of cable TV service provision in t. Stefan Voda, NRATI organized a meeting with the service providers and the representatives of local public authorities. As a result of this meeting, the providers improved service quality and the petitioners withdrew their complaints.

Another example in this regard is the examination of several petitions raising claims regarding the high charge for the change of name and responsibility (CNR). NRATI representatives checked the correctness of those charges applied by JSC MOLDTELECOM. In October 2007, representatives of NRATI and JSC MOLDTELECOM verified the duration of the technological process necessary to conduct CNR. They found that the process lasts for a much shorter period of time than presented by the operator. The issue is going to be re-examined and solved after the new regulatory framework, consistent with the Law on Electronic Communications, is approved.

In the timeframe under report NRATI processed and replied to a number of appeals and demands from central public authorities: Parliament, Government, Ministries of Information Development, of Economy and Commerce, Standardization and Metrology Service, etc. On quarterly basis, NRATI informed the Government about its actions of processing petitions and solving the problems they raised.

The weakly audience of citizens, according to a program approved by NRATI Administrative Board, was part of the Agency's activity in terms of user protection. 34 citizens were given audience in 2007. Most of their claims had positive results, whereas some of them impossible to be solved during calling days, were examined and worked out by the working groups created for that purpose.

One of the main priorities of NRATI for 2008, in terms of user protection, lies in the realization of the plan for the implementation of National User Protection Strategy in 2008-2012. Some of the requirements of this plan provide for measures to ensure service quality parameters by electronic communications service providers, in compliance with standards and license and/or general authorization conditions, and to include clauses meant to protect the legal rights of final users.

1.7 Relations with the Public and Mass Media

In 2007, in this regard, the emphasis was placed on a keeping the electronic communications market players, in particular users and mass media representatives, permanently informed on NRATI activity of public interest and on development of all market segments. In the timeframe under consideration, the Agency continued providing, at the end of every quarter, information pertaining the tendencies of fixed, mobile, Internet access market development. That kind of information was also disseminated following the presentation of annual statistical reports by service providers.

Traditionally, NRATI provided information to the public and mass media by means of the Press Service and NRATI Web site. The Press Service prepared and circulated comprehensive information on events and activities of public interest, conducted by the Agency, which was also placed on the Web site and taken over by mass media.

Like in the previous period of time, in 2007 the Agency continued promoting the policy of openness to press. The regulator responded to all requests for interviews and for providing information of public interest.

Proceeding from the protection of the right of access to information, in 2007 NRATI launched, for the first time, a free 080080080 “Hot Line” for communications users, accessible from any locality of Moldova. The aim of the “Hot Line” is to offer information on users’ rights, service provider’s obligations in relation to users, as well as to receive complaints. The experience in this respect shows that most of the “Hot Line” complaints refer to service quality, charges too high for certain mobile and Internet access services, users’ disagreement with bills. Given the fact that the same subject matter is contained in the petitions from users, the Agency Administration decided, as part of NRATI re-organization, to create a separate service responsible exclusively for users rights protection.

In 2008 the Agency intends to continue its activity of providing information to users by means of the “Hot Line” and Web page. For this purpose a new section was included in the new project of the Agency Web site, called „Users Page”, intended to contain multiple information for consumers, as well as a mechanism of interactive communication of interested users with ANRCETI representatives.

Another priority of the regulator for 2008 is informing the market players and the public at large on the new regulatory acts developed by the Agency in compliance with the new Law on Electronic Communications, on the new procedures of license issuance, use of numbering resources, channels and radio frequencies, modifications to previously developed normative acts and their impact on the market and users. All the documents will be placed on the Web site and subject to public consultations.

1.8 International Relations

In the timeframe under report, one of the goals of the Agency was to fulfill the obligations in terms of electronic communications regulation, part of the Republic of Moldova – European Union Action Plan (RM –EU), efficient cooperation with the sectoral European Community authorities with the view of studying and applying the European norms and standards to its working practice. For that purpose, on October 1-6, 2007 NRATI representatives visited Lithuania and attended a seminar on the implementation of the EU electronic communications regulatory framework, held in Belgrade, Serbia (October 4-5, 2007), and a conference „Reform of Communications Regulation: in search of reformatory strategy”, held in Bucharest, Romania (October 13-16, 2007).

In the process of concluding the work on the new Law on Electronic Communications, NRATI administration had meetings with European Commission experts, bringing to discussion aspects of the Law, whereas in April 2007 the Agency representatives participated in the reunion of Sub-Committee 4 of the Republic of Moldova – EU Cooperation “Energy, Environment, Transport, Telecommunications Science and Technology, Education”. The reunion emphasized the need to expedite the adoption the Law on Electronic Communications and to include the provisions of the corresponding EU Directives. Throughout the year, NRATI presented to the European Commission and to the Ministry of External Affairs and European Integration a series of reports on the implementation of the Action Plan Republic of Moldova – European Union, with reference to building information society. NRATI also developed several technical assistance projects on harmonization of the national regulatory framework in electronic communications with EU standards and norms..

In 2007 the Agency continued cooperation with European and international sectoral authorities, such as the International Telecommunications Union (ITU), European Conference for Post and Telecommunications (CEPT), Stability Pact for South Eastern Europe. NRATI activity within the ITU was mainly focused on participation to meetings under the ITU auspices, presentation of reports and submitting of questionnaires on the development of electronic communications market in the Republic of Moldova. We note the participation of NRATI in the Global Simposium of Regulators (February 2007 – Dubai, UAE). Within the Stability Pact for South Eastern Europe, the Agency took part in signing the regional Action Plan on Information Society Development in South – Eastern Europe for 2007-2012 („eESE Agenda Plus”), an (October 2007, Sarajevo, Bosnia and Herzegovina).

In this timeframe NRATI initiated a procedure of signing a cooperation agreement with the regulator from Romania. In November 2007, NRATI representatives had a series of meetings with their colleagues from Romania, benefiting from consultations on ways of applying the EU regulatory practices regarding general authorizations, interconnection, Universal Service, tariff regulation, etc. Previously, NRATI signed a cooperation agreement with the Regulatory Commission from Bulgaria as regards exchange of information and experience. NRATI intends to sign cooperation agreements with other regulators from EU countries.

From the list of NRATI priorities for 2008, we would like to emphasize a stronger cooperation with international and European sectoral authorities and national regulators, concluding an technical assistance agreement with EBRD for revision of the existing regulatory framework and its harmonization with European norms and standards, negotiation of other assistance agreements within Twining and TAIEX, available for Moldova as part of cooperation program with EU.

II. EVOLUTION OF ELECTRONIC COMMUNICATIONS MARKET IN 2007

2.1 General Overview

In 2007 electronic communications was on top of the most dynamic national economy sectors. In this timeframe all market segments underwent stable growth. According to statistical data service providers submitted to the Agency, the total market sales increased in 2007 by 20,2%, compared to 2006, exceeding 5,4 billion lei, which is 10,1% of the GDP.

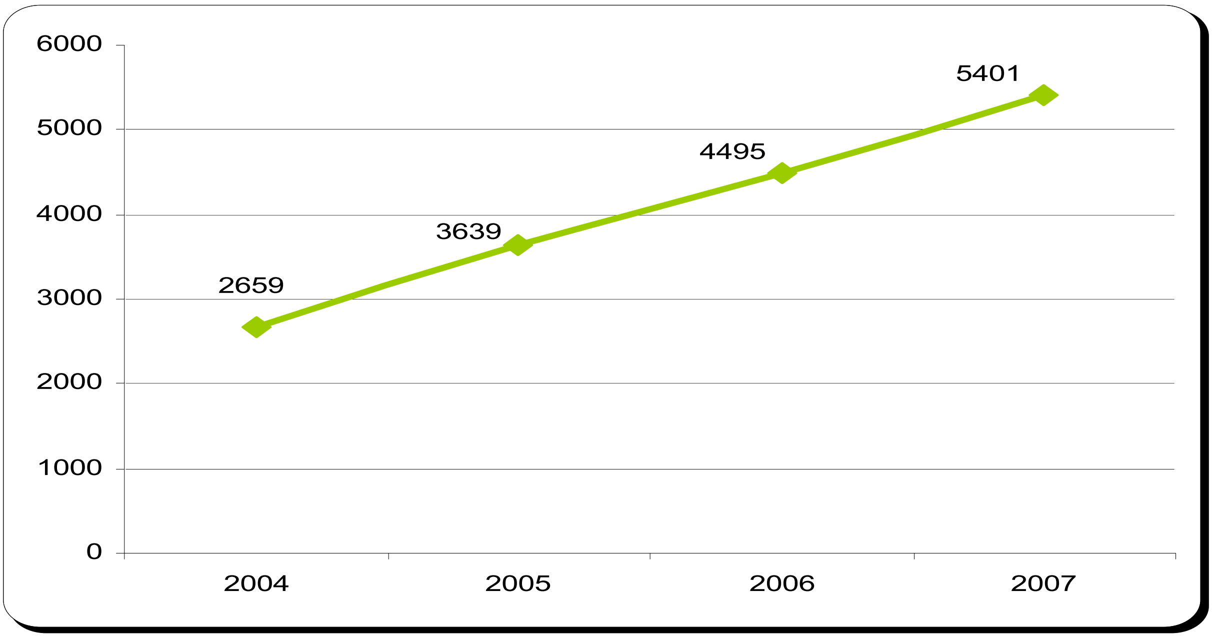


Fig. 2.1 Total Electronic Communications Market Sales, million lei
***Sursa:* NRATI, according to statistical data provided by license holders** [1]

During the reporting timeframe, mobile telephony sector had the biggest share - 53,1% - of the total sales increase whereas data transport and Internet access services had the lowest - 3,3%. As a result the market structure changed as follows:

Mobile telephony share - 44,01%;
Fixed telephony share - 43,43%;
Data transport - 4,19%;
Audiovisual service share - 2,84%;
Other services - 5,53%.

Compared to 2006, the fixed telephony share went down by 4 %, while the mobile telephony share went up by 2%.

[1] According to the data provided in Final Evaluation Report on Implementation of Economic Growth and Poverty Reduction Strategy 2004-2007
[2] Data contained in subsequent figures cite the same source.

NRATI experts consider the decrease in the share of fixed telephony to be natural, as this market is close to saturation. On the other hand, the other markets, in particular the mobile one, are developing fast.

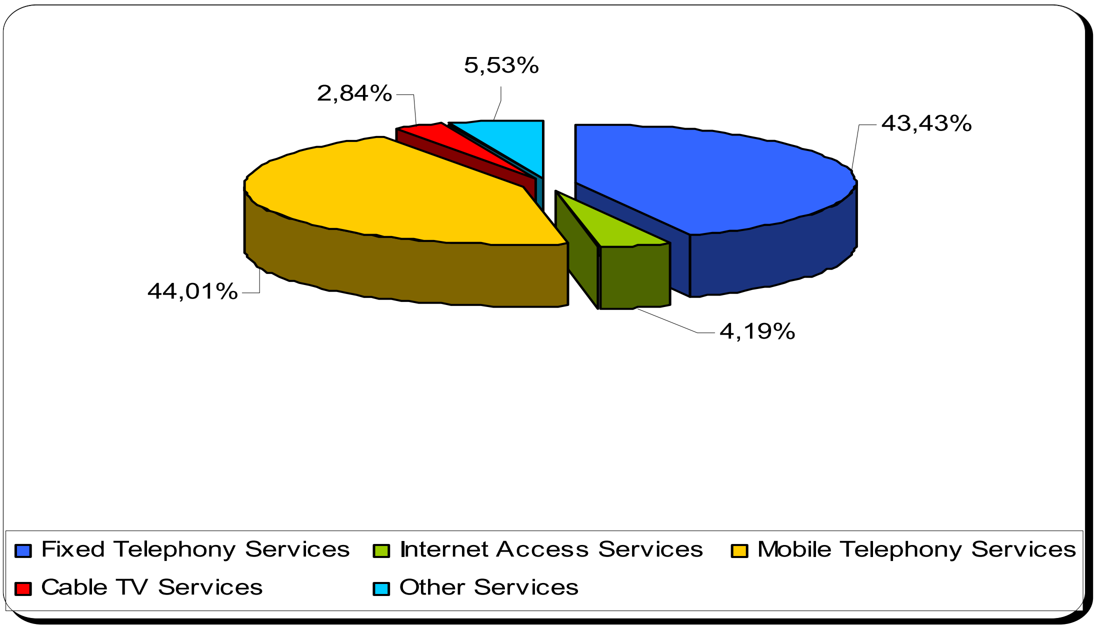


Fig. 2.2 Market Structure, According to Turnover

The slow development of data transport and Internet access sector is caused by lack of effective competition and viable operators to be able to compete, especially in terms of infrastructure, with the incumbent JSC MOLDTELECOM. Another slowing-down factor is high tariffs for broadband Internet access and underdeveloped national content.

Judging by the situation on the broadband Internet market, we could expect merger of small operators, under different forms, or entry of mobile operators. In 2008 the Agency anticipates a dynamic re-launch of the Internet access service sector. The number of subscribers to those services might increase by 50%, in comparison with 2007. It will depend mainly on the volume of investments in this sector, quality of competition and tariff increase for Internet access services.

For 2008, the Agency experts expect the number of mobile subscribers to be up by 25-28%. The penetration rate may come up to 68-70% by the end of the year. Given this anticipated state of things, the growing pace of fixed telephony might reduce to 3%, with a 33% penetration rate. According to the estimations, under the conditions of mobile tariff reduction, bonuses offered to mobile users, in 2008 the phenomenon of fixed-by-mobile replacement will persist. This means part of the fixed traffic is going to migrate to mobile networks, which may bring along a reduction of fixed telephony sales.

As shown in the reports presented by electronic communications networks and service providers, in 2007 the value of fixed telephony service market increased by 10,03% compared to 2006 and was estimated at 2 billion 346 million lei, whereas the value of mobile telephony market increased by 26% summing up 2 billion 377,2 million lei. It is for the first time in the short history of mobile telephony in Moldova that it won the competition with fixed telephony in terms of annual sales volume.

2.2 Investments in Market Sectors

In 2007 the increase in the turnover was backed up by the growing volume of investments in market sectors, estimated at 1 billion 926,5 million lei or up by 28% compared with the previous year. The highest share – 1billion 158,6 million lei – was invested in mobile telephony.

The investments increased in all market sectors, except the fixed telephony sector, with 15% reduction of investment, compared to 2006. Investments in mobile telephony increased by 70,7%, data transport and Internet access – by 36,2%, audiovisual - 117%.

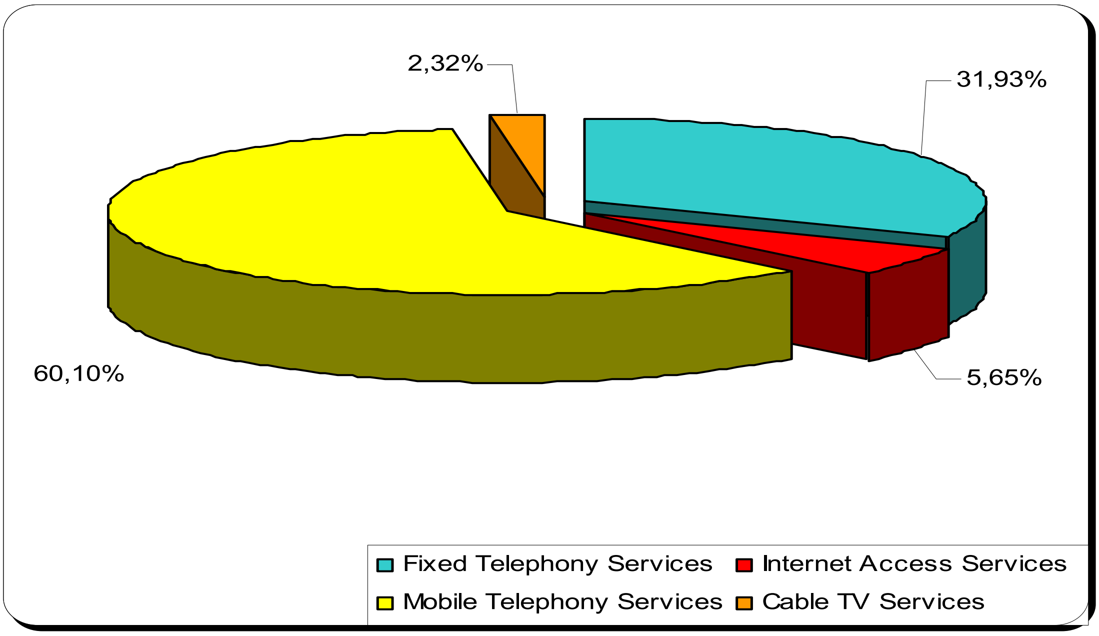


Fig. 2.3 Distribution of Investments on Market Sectors

The saturation of fixed telephony market accounts for the reduction of investments in this sector. The substantial investments in mobile telephony was determined by market entry of two mobile operators MOLDTELECOM (under UNITE brand) and EVENTIS MOBILE, by the re-branding VOXTEL/Orange Moldova, as well as by the extension of Orange Moldova and MOLDCELL capacities. The volume of investments in audiovisual sector doubled mainly due to the 47% of the total, invested by company Sun Communications.

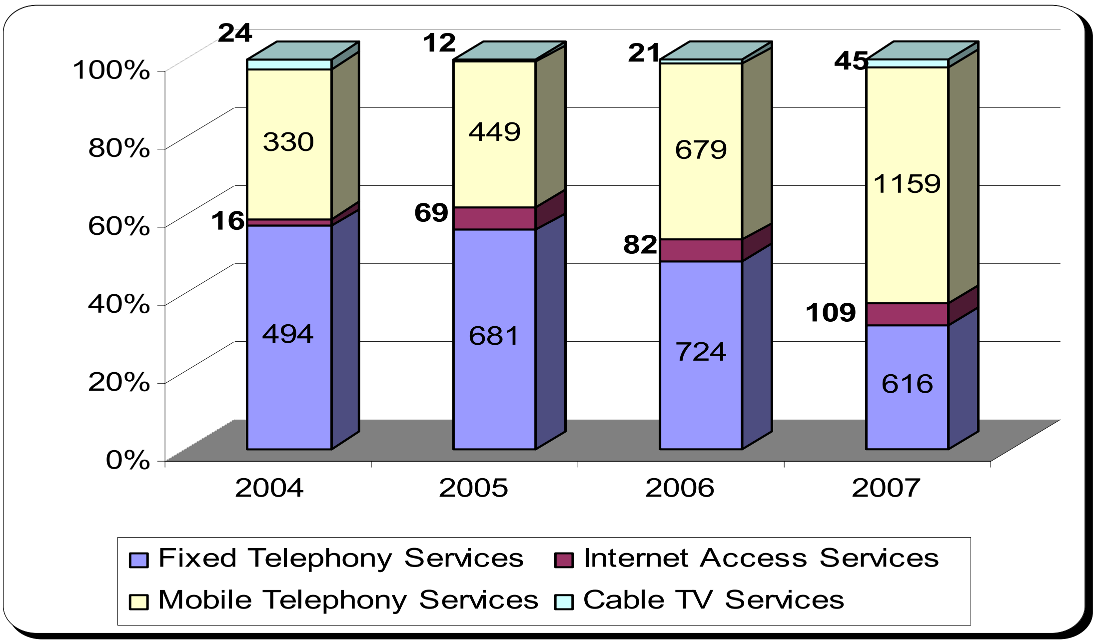


Fig. 2.4 Evolution and structure of investments in 2004-2007, million lei

Given the market conjuncture and evolution in the recent years, it is possible to conclude that in 2008 the data transport and audiovisual service sector might undergo the highest growing rates. The predictions of the Agency are based on the considerable increase of demand for broadband Internet access, the trend of TV service digitalization, extension of digital cable TV services, the possibility to launch IP TV. With regard to fixed and mobile telephony, the Agency expects the same level as in the previous year or even a decrease, for the reason that 2007 was special, as two new operators entered mobile market.

2.3 Fixed Telephony Sector

2.3.1 General Description

In 2007, the local fixed telephone market had 14 license holders authorized to provide such services, up from 9 in 2006. The number increased due to the principle of technological neutrality, applied by NRATI in 2007 in relation to electronic communications services. Thus, in this Report the VoIP services are treated as fixed and mobile telephony services, depending on type of call origination and destination networks. As a result, operators transiting VoIP traffic, such as companies Transneogrup, Isabel, International Communication System, are treated as fixed telephony operators.

JSC MOLDTELECOM, in July 2007 designated by the Agency for Competition Protection as an operator with significant market power on fixed local, long-distance and international markets, continued to be the main player on those markets. The others alternative operators - State Company Calea Ferata din Moldova (Moldova Railway), RISCOM, ARAX-IMPEX, SICRES, Telcom Technologies, STARNET, Transneogrup, held an insignificant market share.

2.3.2 Revenues and Investments

In 2007, the total sales on the fixed telephony service market showed a 10,03% increase and was estimated at 2,346 billion lei. The turnover of alternative operators showed a 30,13 % growth, to an estimated 70,76 million lei, while their market share went up from 2,55% to 3,02%. The revenues of the incumbent JSC MOLDTELECOM increased by 9,5% and amounted to 2 billion 275 million lei, whereas its market share diminished from 97,45% in 2006 to 96,98% in 2007.

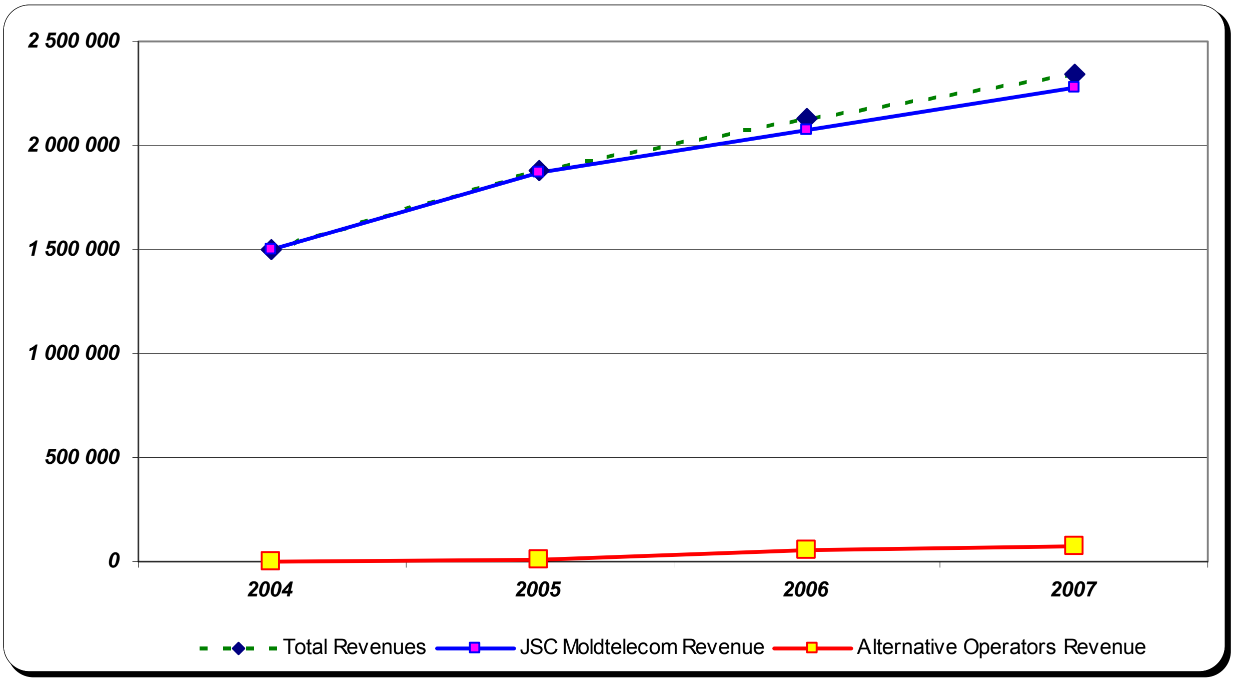


Fig. 2.5 Market Evolution according to Turnover, in lei

The revenues from international calls, obtained by fixed telephony service operators had the highest share in the turnover structure - 49,8%, followed by those from mobile calls - 17,3% and from long-distance calls - 7,5%.

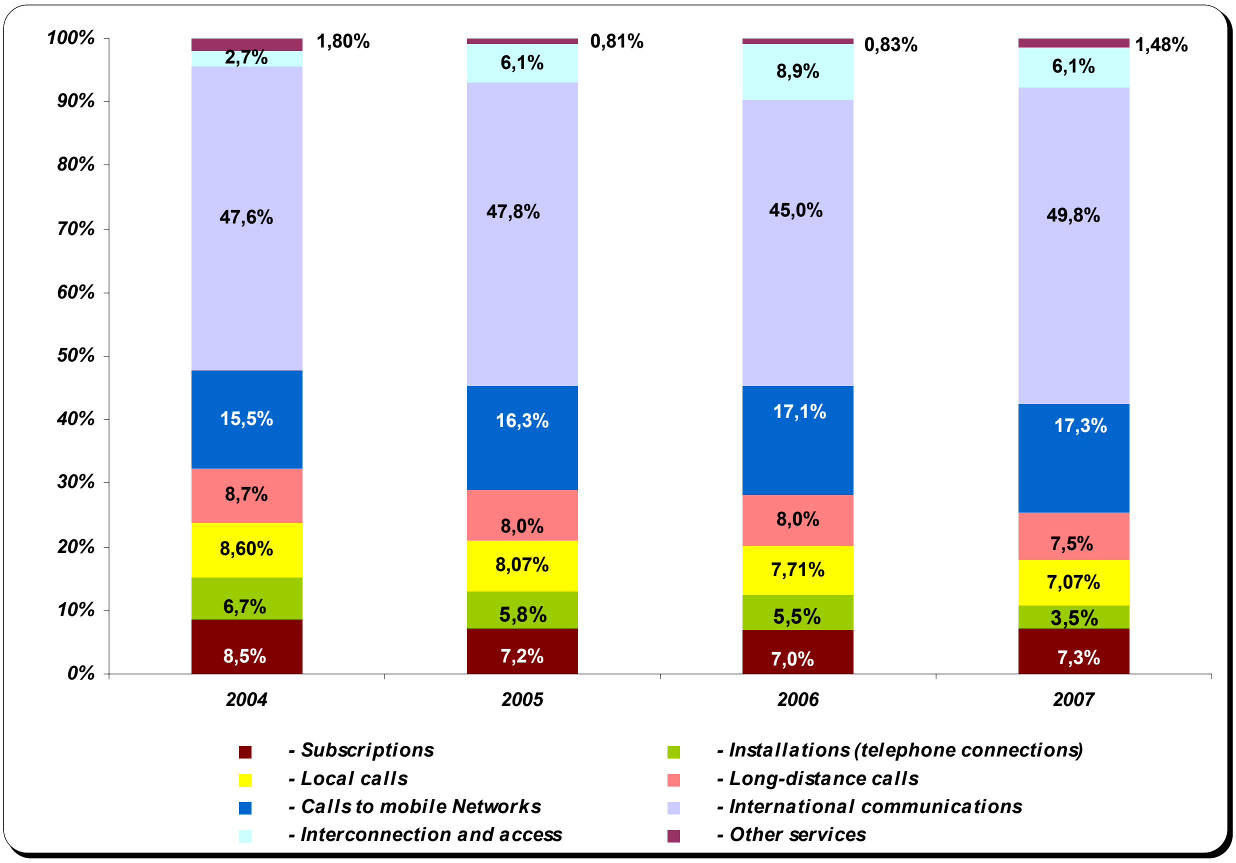


Fig. 2.6 Structure of Revenues from Services

In 2007, the Average Revenue per User (ARPU) increased, compared to 2006, by 3,9 lei or by 2,14 % and reached 186,4 lei, mainly due to the increase of revenues from international communication services. The total sum of investments in the fixed telephony networks decreased by 15% (108,6 million lei) and was estimated at 615,58 million lei.

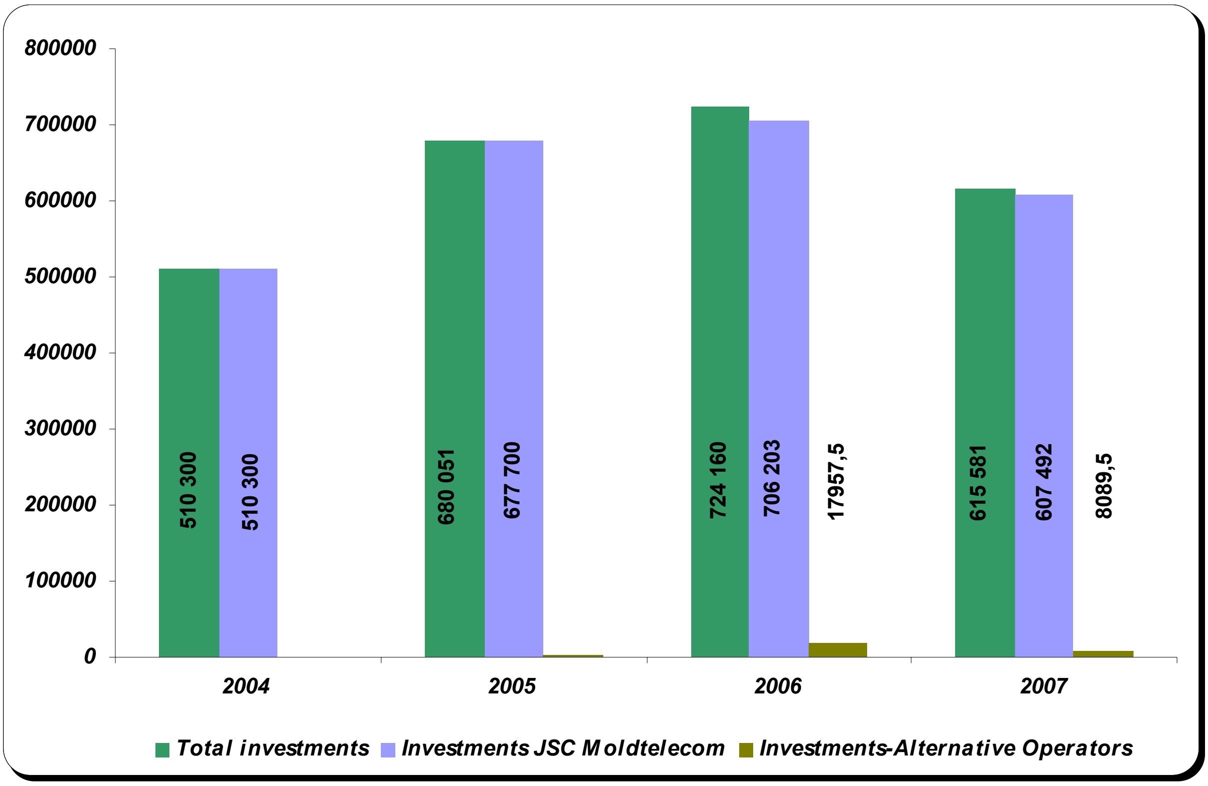


Fig. 2.7 Evolution of Investments by Fixed Telephone Operators in lei

The bulk of the investments in the fixed networks - – 607,5 million lei or 98,69% of the total was allocated by JSC MOLDTELECOM. Alternative operators invested about 8,1 million lei or 1,31% of the total of investments in this sector. In 2006, the incumbent invested 706,2 million lei or 97,52% of the total. The amounts invested by JSC MOLDTELECOM were reduced for the reasons that the fixed market is a mature one and the incumbent made substantial investments in 2005-2006 for deploying the CDMA 2000, used for fixed telephony service provision.

2.3.3 Subscribers

In the timeframe under report, the number of fixed subscribers increased by 61,8 thousand or by 6,07% and exceeded 1 million 79 thousand. JSC MOLDTELECOM connected to its network 52,67 thousand new subscribers or 85,2% of the total of connections, while alternative operators – 9,13 thousand or 14,8%.

About 20% of the new JSC MOLDTELECOM subscribers were offered connection to the fixed telephony network by means of radio access (WLL) based on CDMA 2000 technology (450 MHz). The number of such subscribers increased by 18,2%: from 56,12 thousand in 2006 to 66,32 thousand in 2007.

Among alternative operators, in 2007 Arax-Impex and Sicres had the highest number of subscribers - 0,62% and 0,58% of the total of fixed subscribers..

As a result of the increase in the number of subscribers, the fixed penetration rate per 100 residents went up too, from 29,7% in 2006 to 31,53%, in 2007. Therefore, the fixed penetration rate of fixed telephony services for 2007, as set in the Program for Nation-wide Telephone Installation for 2005-2010 – that of 29,1% was exceeded by 2,43%.

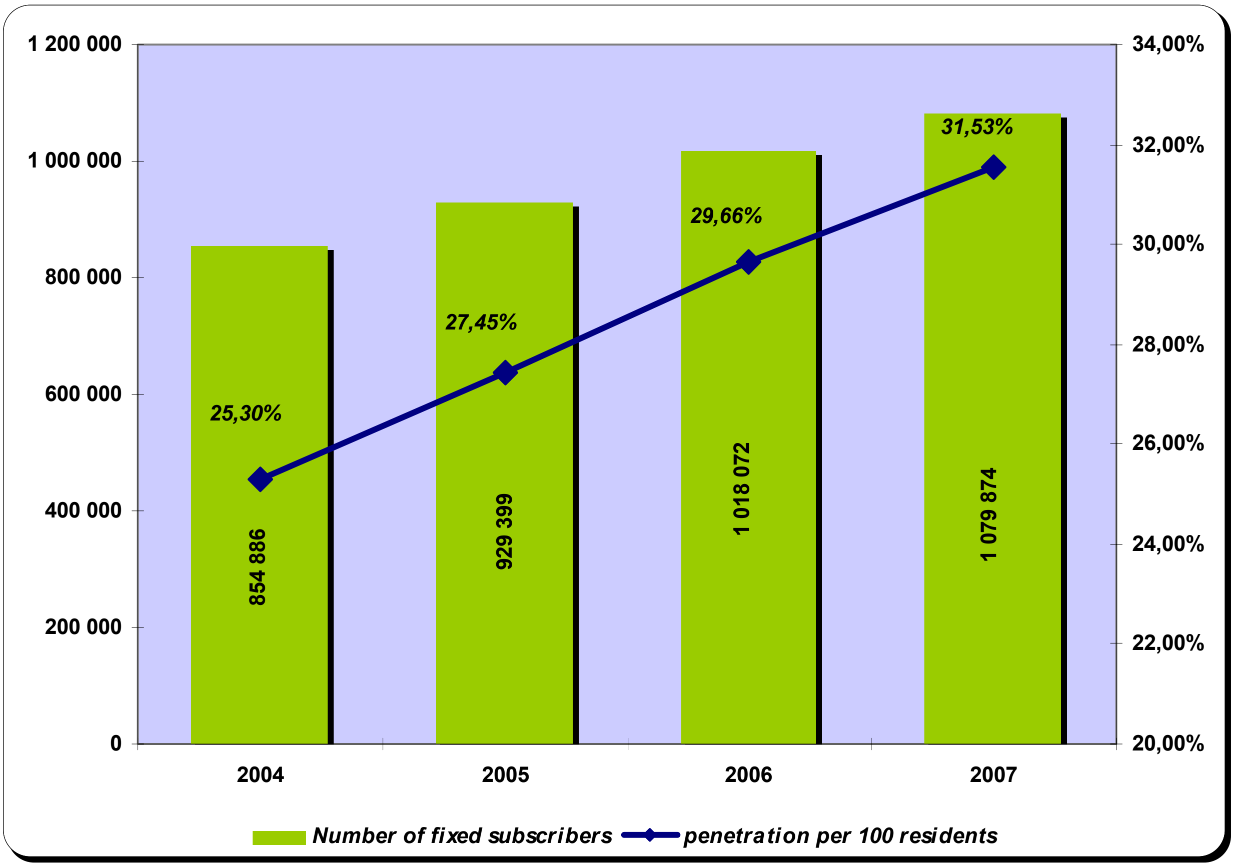


Fig. 2.8 Evolution of Number of Subscribers and Fixed Penetration Rate

In 2007, JSC MOLDTELECOM's market share in terms of number of subscribers was the biggest - 97,9%. The other 13 alternative operators shared the 2,1% of the market.

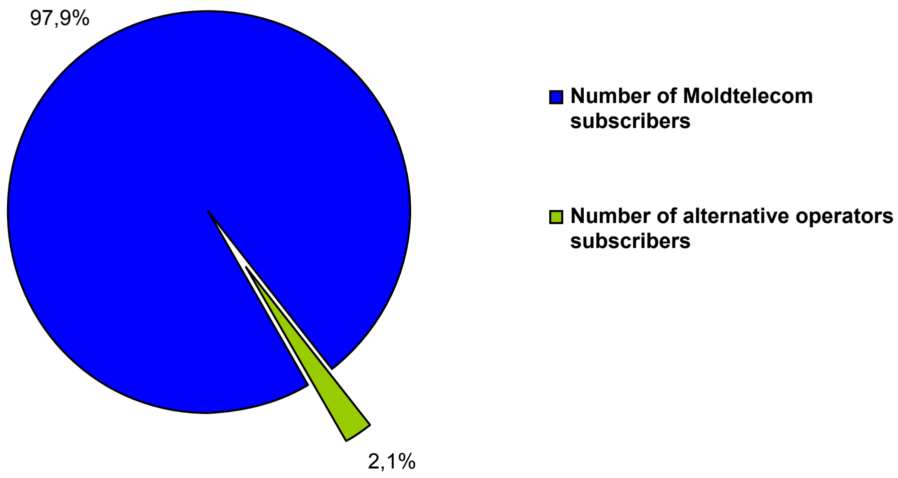
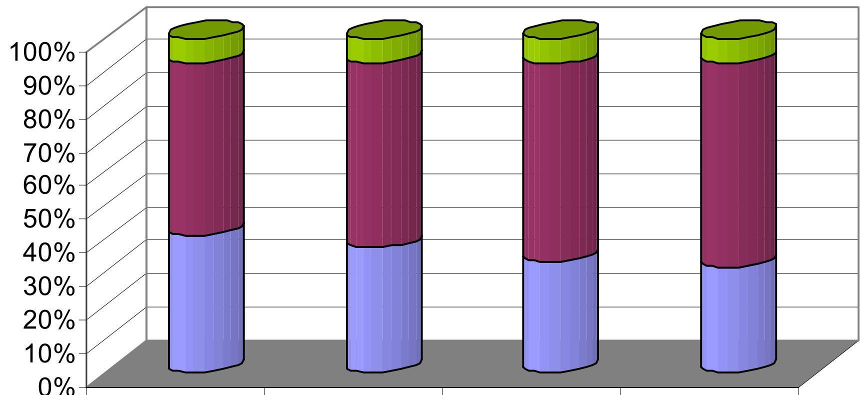


Fig. 2.9 Market Shares of Operators according to the Number of Subscribers

In this period of time, the tendency of the incumbent's subscribers to migrate from Standard package to Economy and Social packages persisted. So, the number of Social package subscribers grew, in comparison with 2006, by 4,86%, the number of Economy package subscribers grew by 8,51%, but the number of Standard package users reduced by 0,5 %.



	2004	2005	2006	2007
Social	62525	70430	76949	80689
Economy	449420	523268	590538	640822
Standard	353951	354417	333437	332039

Fig. 2.10 Evolution of Number of JSC MOLDTELECOM Subscribers according to Service Package

In 2007, the structure of telephone lines did not undergo essential changes. Of the total of telephone lines at the end of 2007, 87,88% were basic telephone lines, 4,69% - shared telephone lines and 6,23% - lines of radio access to the local loop (CDMA 2000 1x). The absolute majority (78,05%) of the 1,125 million lines that can be connected (installed capacity) were connected to digital exchanges of IP switch centers. Their number increased by 7,36%, over 2006, while the number of analog exchanges decreased by 7,36%, their share coming down to 21,95%. The installed capacity of digital exchanges was higher due to the launch of new network capacities, including WLL and IP/NGN, as well as due to replacement of analog by digital capacities with channel and package switching.

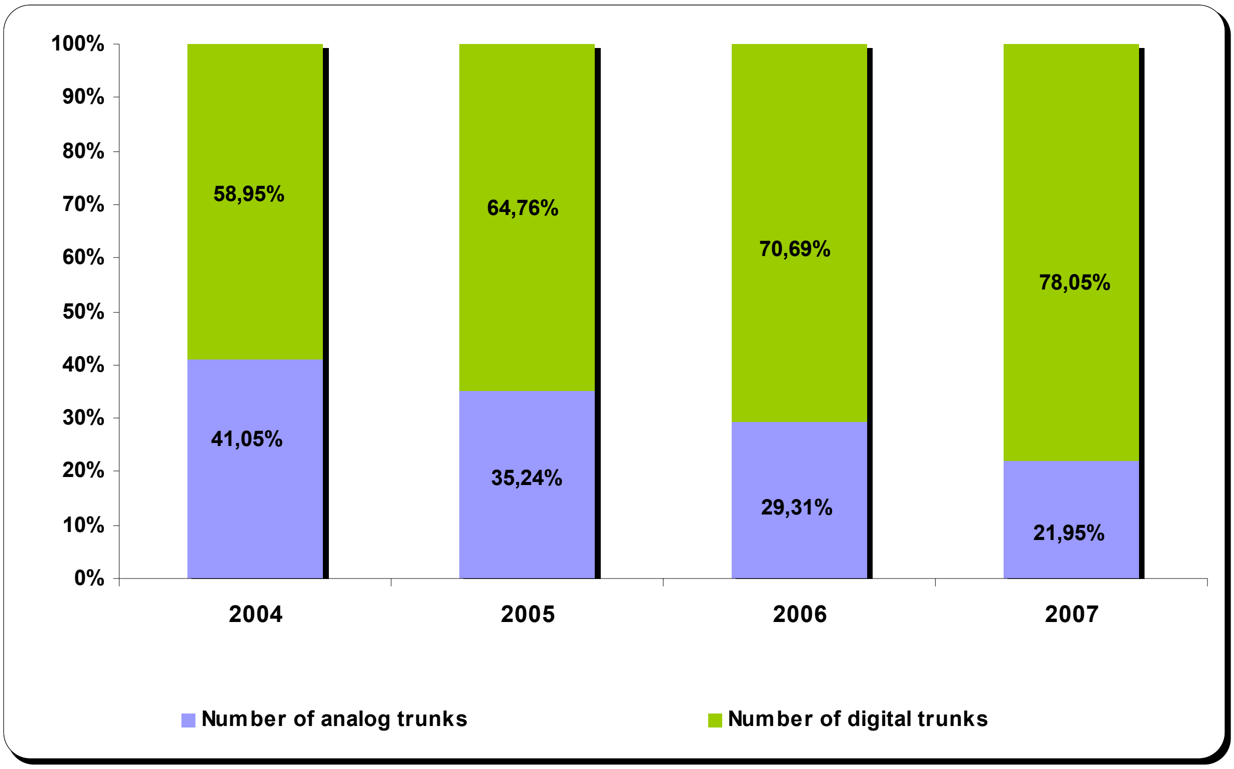


Fig. 2.11 Evolution of Fixed Network Digitalization

2.3.4 Traffic

In 2007 the total fixed traffic grew by 5,18%, and reached 5,253 billion minutes. The increase was caused by a higher volume of the three basic traffic types: traffic in own networks, national interconnection and international traffic.

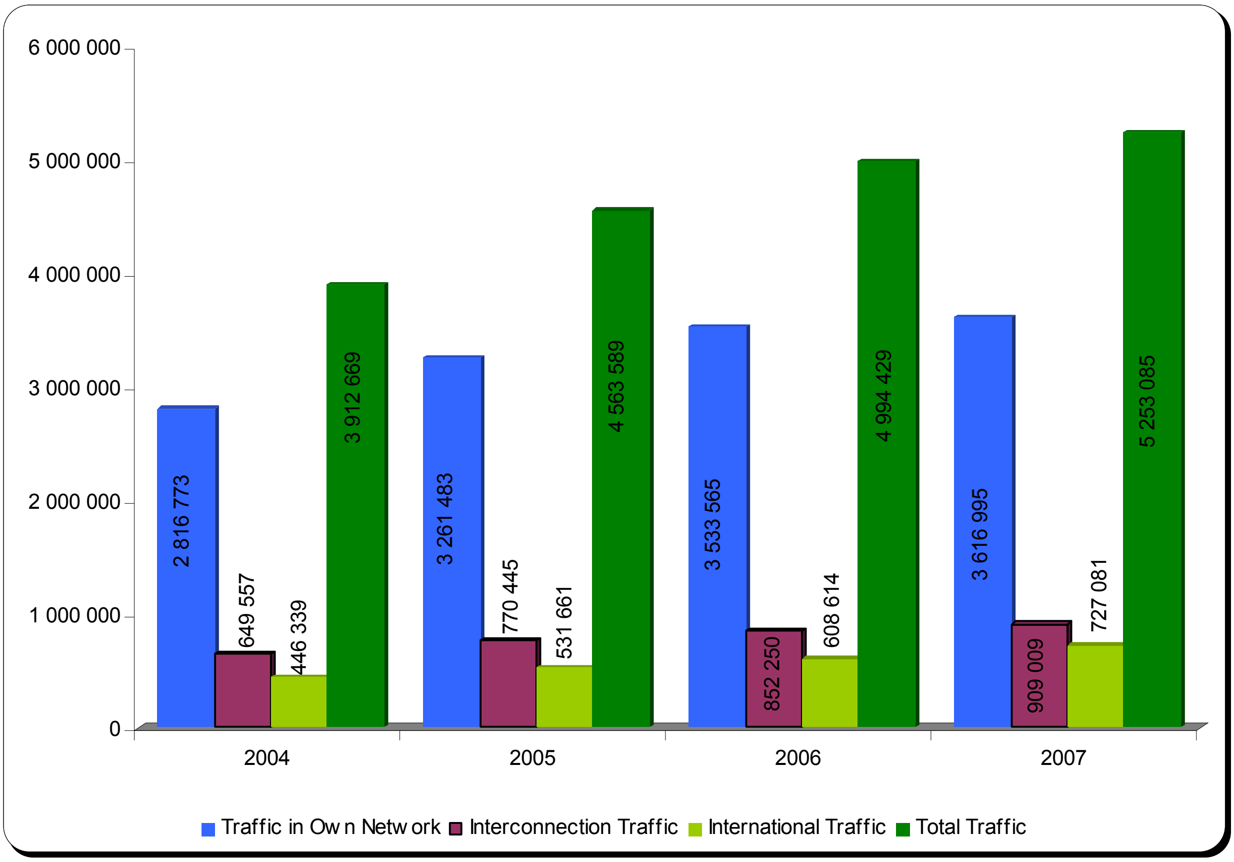


Fig. 2.12 Evolution of Fixed Telephony Traffic, minutes

In 2007, the structure of fixed traffic was practically the same as in 2006, with the traffic in own networks of 68,9% of the total prevailing, but under a slight decrease compared to 70,8% of 2006.

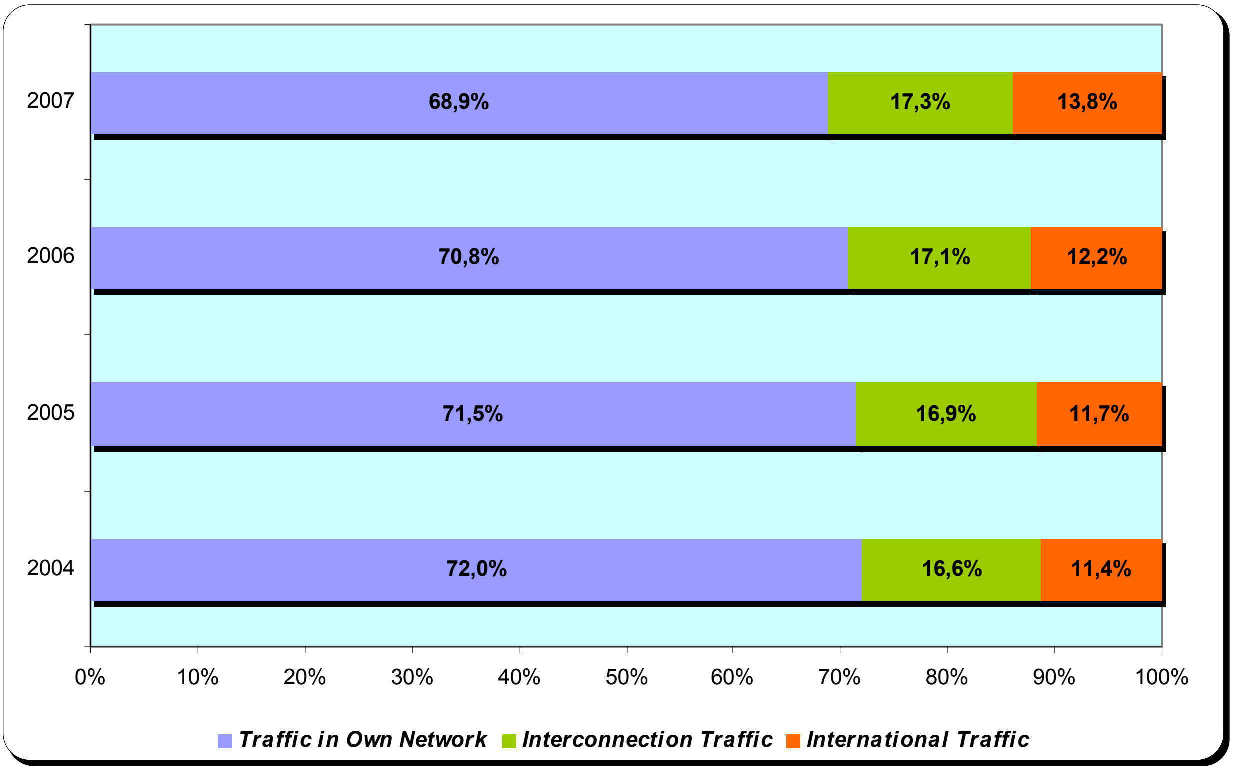


Fig. 2.13 Evolution of Fixed Traffic Structure

The analysis of fixed traffic shows that the share of local traffic in the fixed traffic structure is constantly decreasing. In 2007 it decreased by 0,3%. The tendency persists because of a larger number of networks externalities and because of the migration of fixed traditional traffic to mobile or IP networks.

In 2007, the traffic generated by dial-up access to Internet – 64,6% - was predominant in the structure of national interconnection traffic of JSC MOLDTELECOM. The share of this type of traffic in the networks of alternative operators was 27,6%, as alternative operators offer both telephony and broadband Internet access services. The traffic of alternative operators to other fixed networks increased, compared to 2006, by 32,1% and reached 66,5%. This is due to small dimensions of the networks they operate and strong influence from network externalities.

It is noteworthy that the share of outgoing/incoming international traffic increased by 1,6%. Judging by profit margin above average, included in the tariffs for this traffic, this state of things improve the financial results of operators (mainly the incumbent), but on the other hand endangers the subsequent operators' performance because of their ascending dependence on the volume and prices for international traffic.

In 2007, the volume of international traffic generated by the subscribers of JSC MOLDTELECOM grew by 20,1%, whereas the one of alternative operators decreased by 9,9%. The biggest share - 75,3% - in the structure of international traffic referred to incoming traffic, which was three times as big as the outgoing traffic. In 2007, the ratio between these traffic types did not essentially change, but for a slight increase - 0,7 % - of the outgoing traffic.

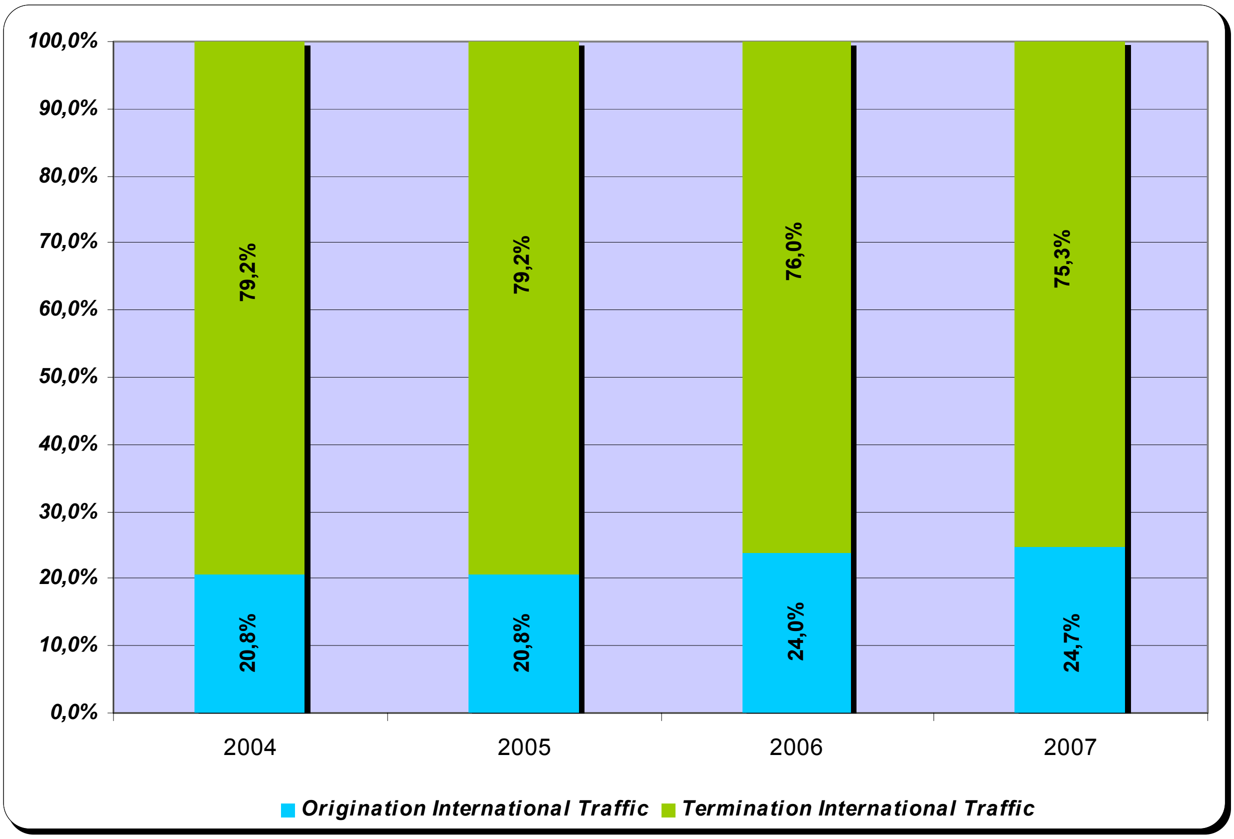


Fig. 2.14 Evolution of International Traffic Structure

The analysis of the total traffic generated by JSC MOLDTELECOM, as per average number of users, shows that average monthly minutes generated per subscriber decreased in 2007, compared to 2006. Thus, a subscriber to Standard package generated an average of 380 minutes per month, or by 3,87% (15,3 minutes) less than in 2006. An Economy package subscriber generated an average of 354 minutes per month, or by 0,74% (2,6 minutes) more than in 2006. The cause of this situation is the migration of a part of Standard subscribers to Economy package, which is a more convenient option.

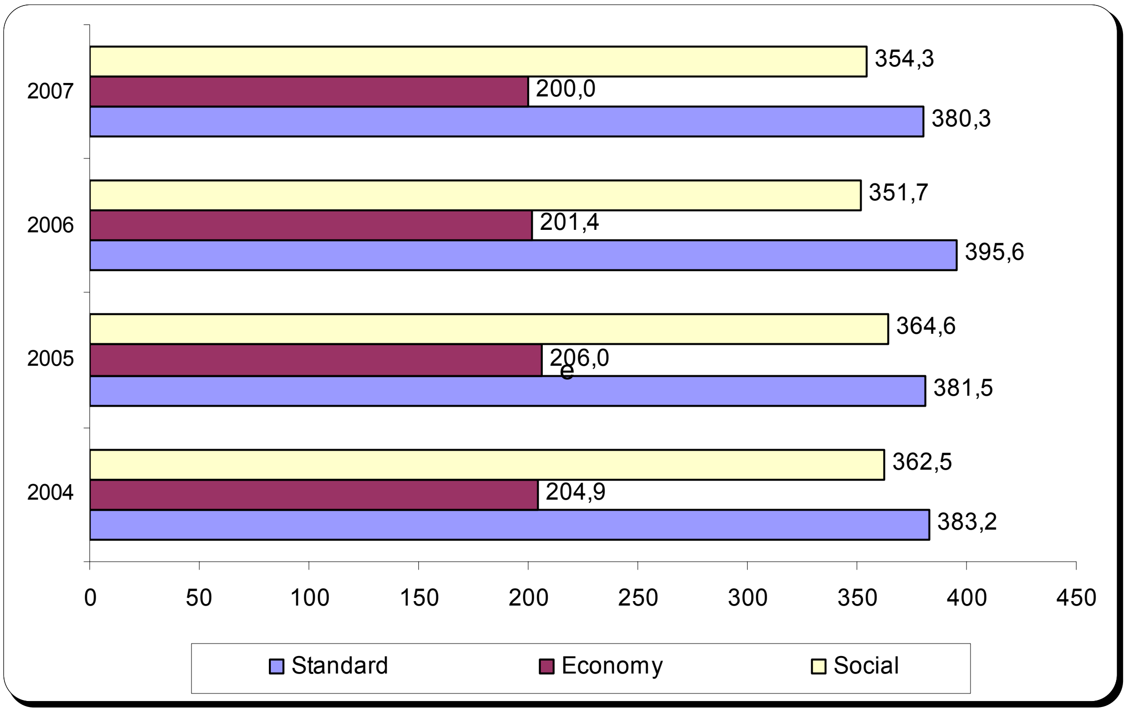


Fig. 2.15 Evolution of Average Monthly Traffic per Subscriber, depending on Service Package, minutes

2.3.5 Conclusions

The analysis proves that unlike the other markets, the fixed telephony market has reached maturity, which fact in future is going to diminish some of its development indicators and the share of these services in the structure of the electronic communications sector. The market saturation will occur when the number of fixed subscribers reaches 1,3-1,4 million. According to NRATI predictions, in 2008, the rate of increase in the number of subscribers could drop to 3%. The decrease in the number of new connections could result in the reduction of tariffs for fixed telephony connections.

One of the most serious risks for the fixed telephony is coming from mobile telephony operators. Tariff decrease and ascending penetration rate will enhance the migration of fixed traffic to mobile networks. Therefore, users will prefer mobile-to-mobile calls instead of mobile-to-fixed or fixed-to-mobile, or even fixed-to-fixed. Part of the international traffic will also migrate to mobile networks, as the tariffs for mobile international mobile calls are decreasing. Wider possibilities of calling users (on fixed or mobile phones) could result in the migration of a part of international incoming traffic to mobile networks.

Proceeding from current fixed market structure and the ratio between incumbent's retail and the interconnection tariffs, the Agency estimates that the correlation between JSC MOLDTELECOM and alternative operators' market shares will not undergo essential changes.

As for rates of increase in the number of IP-telephony users, they will mainly be determined by the rate of migration of the PSTN network of JSC MOLDTELECOM to the NGN networks, deployment of new entirely IP-based network segments. The migration of the existing network capacities to NGN networks will be determined by the following basic factors: the need to renovate the old network segments (analog exchanges), economic efficiency of IP solutions compared to TDM and better opportunities to increase revenues from broadband Internet access.

2.4 Mobile Telephony Sector

2.4.1 General Overview

In 2007 four mobile service providers operated on the market: JSC Orange Moldova, JSC MOLDCELL, both providing GSM services, UNITE", a branch of JSC MOLDTELECOM, providing CDMA 2000 mobile services in 450 MHz since March 1st, 2007 and LLC EVENTIS MOBILE", that launched its GSM mobile network on December 21, 2007.

The first GSM operator Orange Moldova (ex VOXTEL) launched commercial activity in October 1998 and the second GSM operator - MOLDECELL - in April 2000.

2.4.2 Revenues

In 2007, the total of sales realized by mobile service operators increased by 26%, or by 491,5 million lei, compared to 2006 and reached 2 billion 377,2 million lei. This increase was determined mainly by the increase of sales by Orange Moldova (+357,02 million lei) and MOLDCELL (+95,2 million lei). In 10 months the turnover of UNITE reached 39,2 million lei, and the turnover of EVENTIS, in ten days of activity - 74,3 thousand lei.

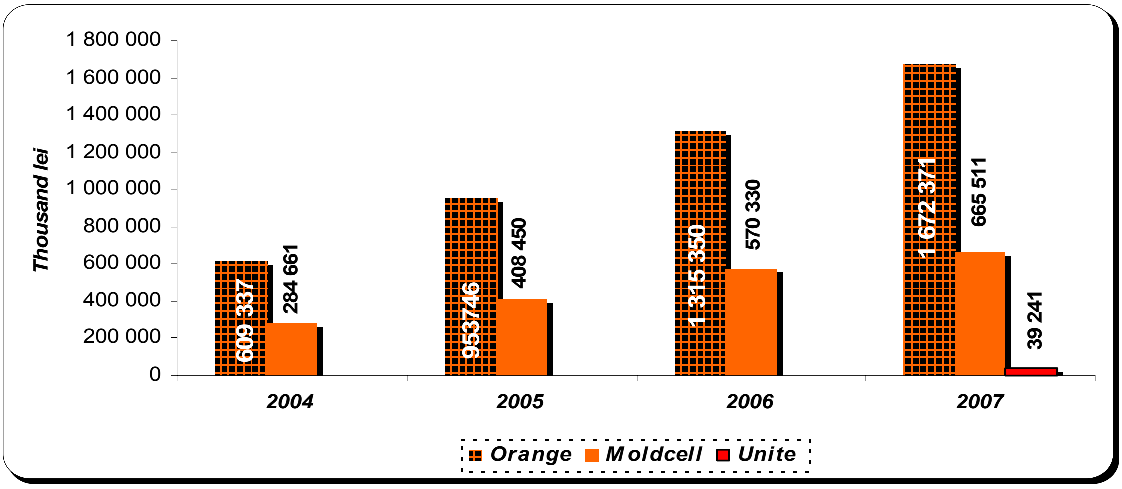


Fig. 2.16 Evolution of Turnover of Mobile Telephony Operators, in lei

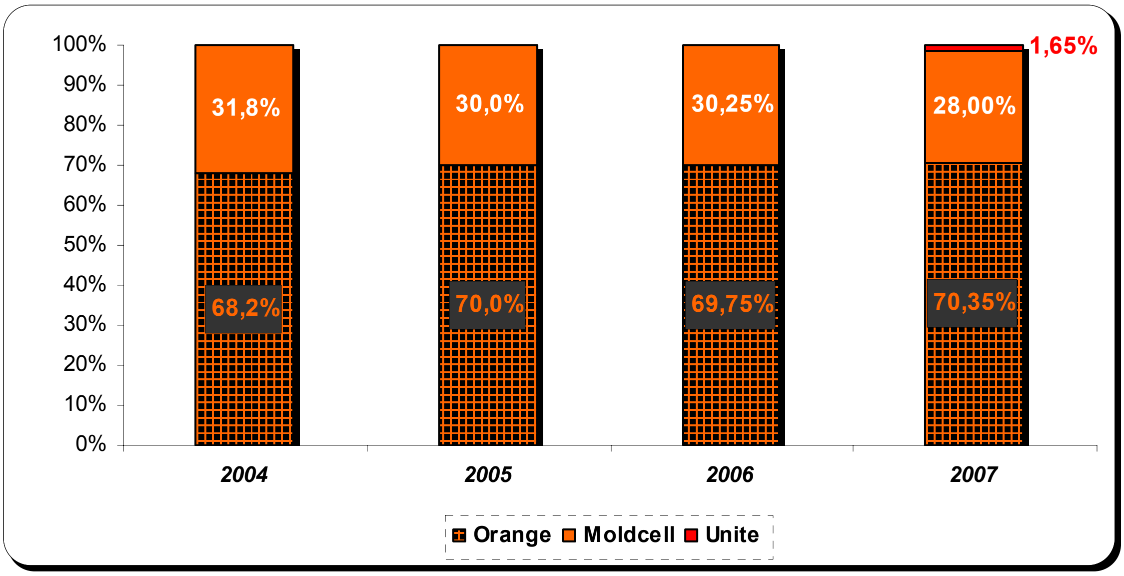


Fig. 2.17 Market Structure according to Turnover

The biggest share in the mobile turnover structure in 2007 - 60% - were revenues from voice telephony services, 30% - revenues from interconnection with other networks and 10% - revenues from other services provided to final user.

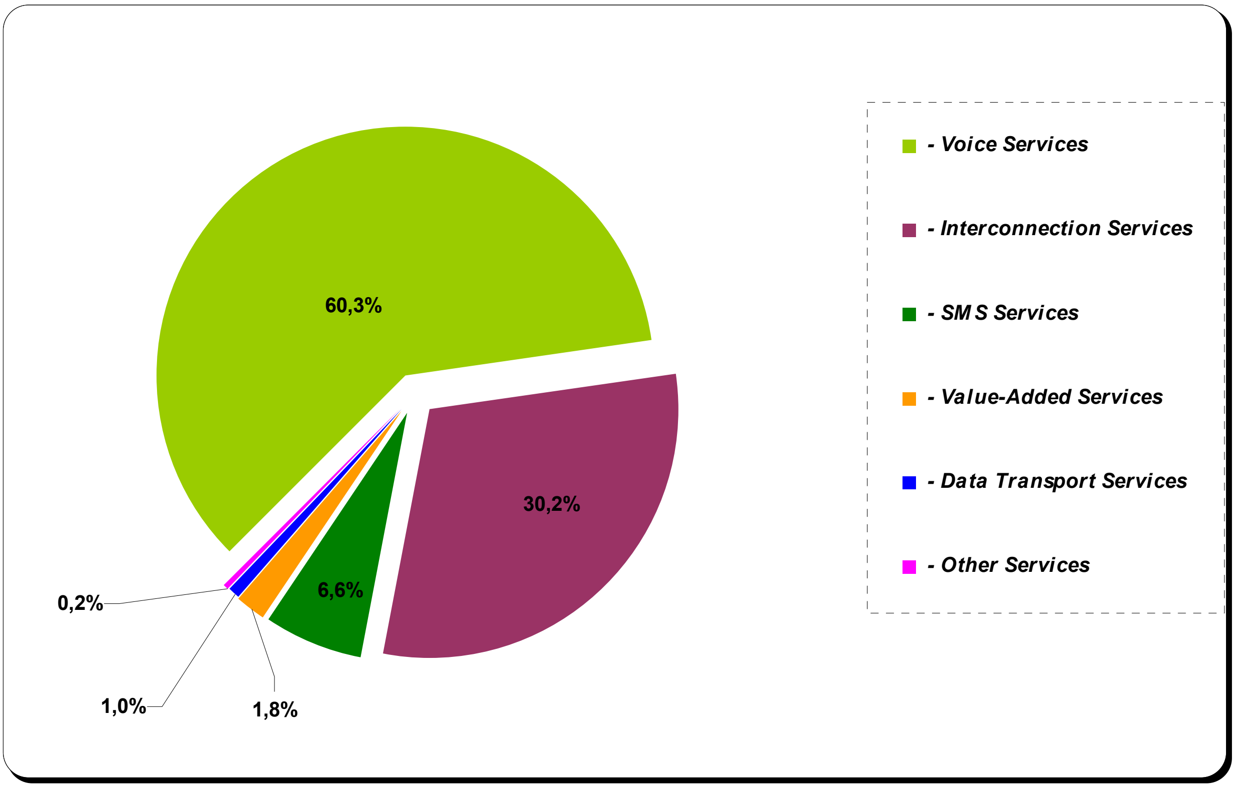


Fig. 2.18 Structure of 2007 Revenue Obtained by Mobile Operators

The Average Revenue per User (ARPU) was 122,2 lei or 10,1 USD[2], descending, compared to 2006, by 6,14 lei. Orange Moldova estimated a 129,9 lei ARPU, MOLDCELL – 106,6 lei, UNITE – 146,4 lei. In comparison with 2006, the ARPU of Orange Moldova was subject to a 9,11% decrease, while the ARPU of MOLDCELL – a 2,6% increase.

2 The official exchange rate of USD 12,1362 lei per 1 USD, for 2007. Sursa: www.bnm.md

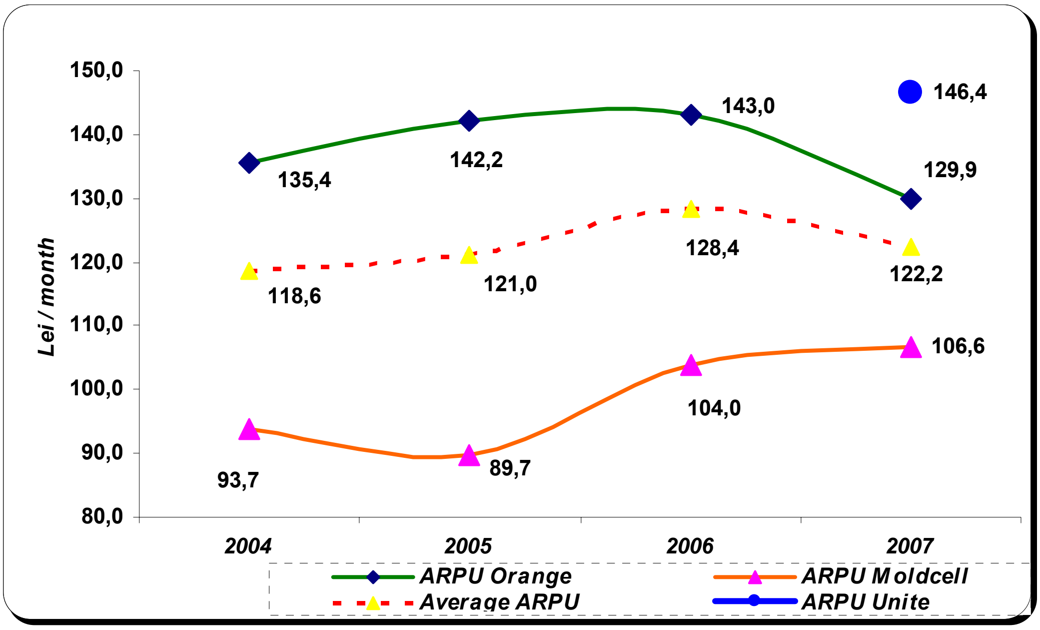


Fig. 2.19 Evolution of Average Revenue per User (ARPU)

For comparison, the figure below presents the ARPU in some European Union states and in the Republic of Moldova.

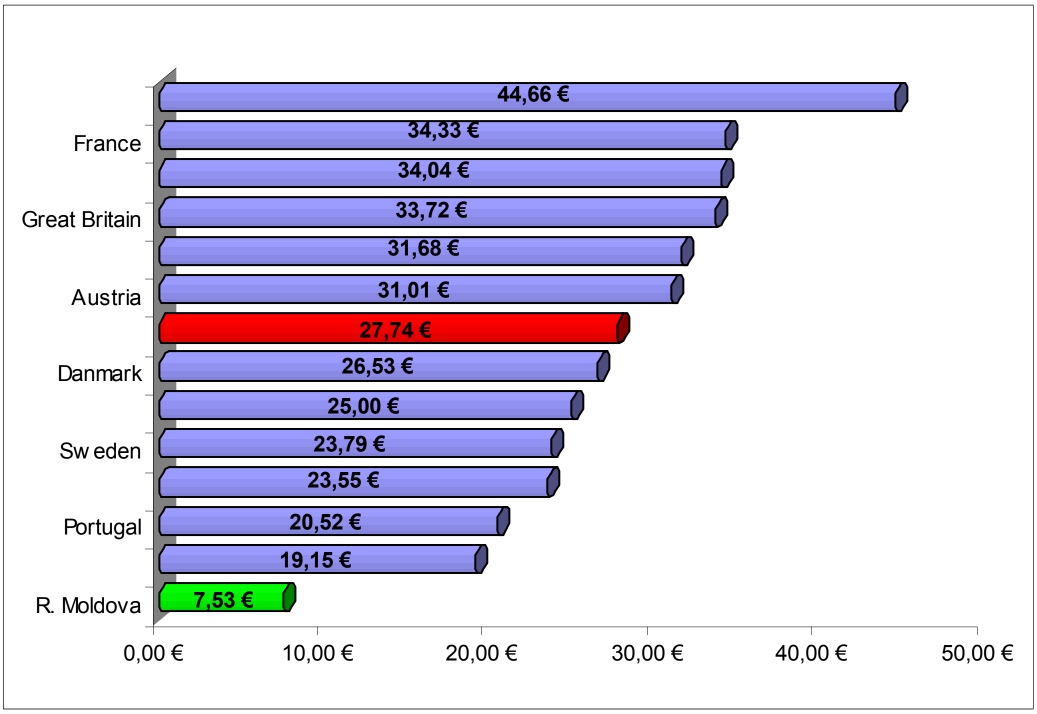


Fig. 2.20 ARPU in Some EU Countries, III quarter, 2007, in euro[3]
Source: NRATI, Commission for Communications Regulation[4]

2.4.3 Investments

In 2007, the volume of investments in mobile telephony sector increased by 163,7% and beat a 1 billion 58,6 million record. The highest contribution to this amount came from Orange Moldova - 56,7%, followed by EVENTIS MOBILE - 23,1%, MOLDCELL" – 13,3% and UNITE" – 6,9%. Orange Moldova invested 657,3 million lei, or by 146,3% (+390,7 million lei) more than in 2006. MOLDCELL invested 154,6 million lei or by 10,6% (-18,3 million lei) less than in 2006. EVENTIS MOBILE invested 266 million lei, and UNITE – about 80,6 million lei.

[3] The official exchange rate of € 16,6469 lei per 1 €, as per September 30, 2007
[4] http://www.comreg.ie/_fileupload/publications/ComReg07106

The substantial increase of investments in mobile networks was determined mainly by the entry of two new operators – MOLDTELECOM (brand UNITE) and EVENTIS MOBILE, by the re-branding of VOXTEL/Orange Moldova and also by Orange Moldova and MOLDCELL extending their capacities.

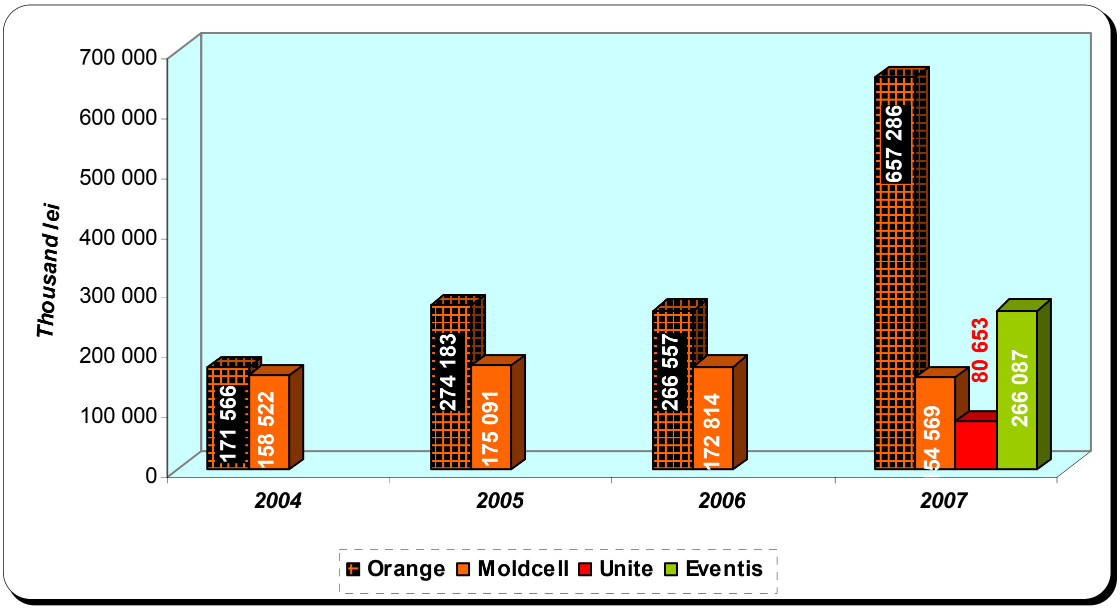


Fig. 2.21 Evolution of Investments in Mobile Telephony Sector, in lei

2.4.4 Coverage and Quality

In 2007, Orange Moldova increased territorial coverage by 2,27% and population coverage – by 1,02%, whereas MOLDCELL increased both by 1,63% and 3,23% accordingly.

As shown in the reports submitted to the Agency, as per December 31, 2007, Orange Moldova network covered 96,75% of the territory of Moldova, which corresponds to 97,98% of the population. MOLDCELL network covered - 94,72% of the territory and 94,77% of the population. UNITE reported 95,0% geographical coverage, which is 78,4% of population and EVENTIS - 30,0% and 40,0%.

The Call Drop Rate in the networks of both mobile operators kept to the admitted level, an acceptable indicator as related to the 2% admissible. The Call Blocking Rate kept to the admitted level, as well.

2.4.5 Users

In 2007, the number of mobile users increased by 38,6% and reached 1million 882,8 thousand .

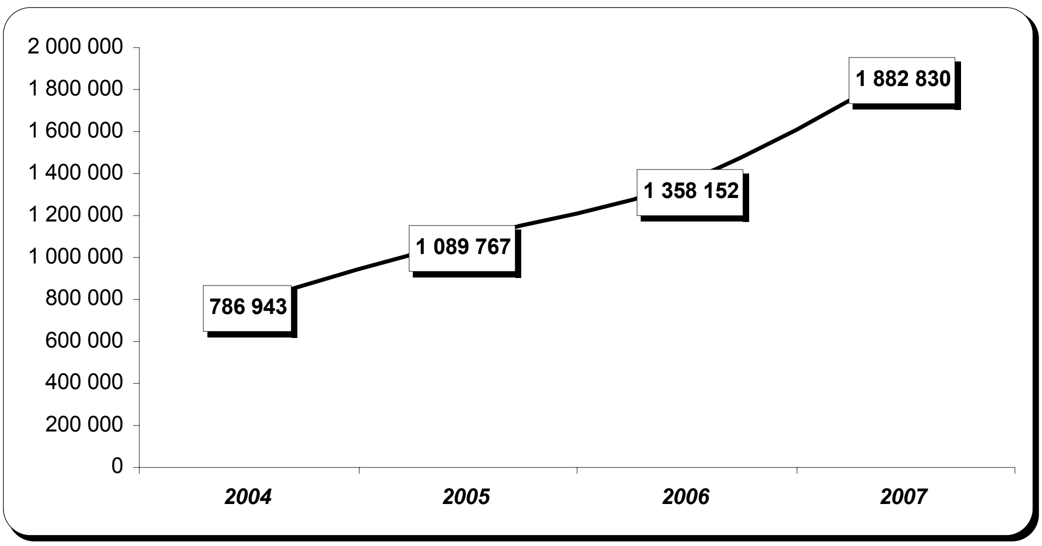


Fig. 2.22 Evolution of the Number of Mobile Users

Orange Moldova obtained highest increase in the number of users - 396,5 thousand or 45,4 % more than in 2006. MOLDCELL connected 72,4 thousand users to its network – 15% more than in 2006. UNITE, during 11 months of operation, connected 53,6 thousand and EVENTIS, in 10 days – its first 2,2 thousand users.

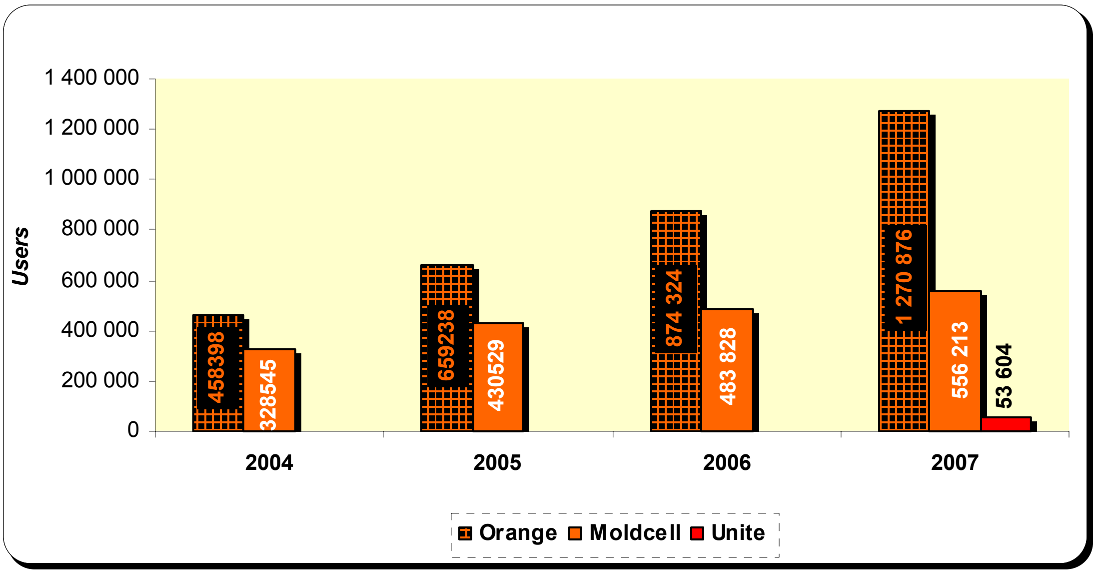


Fig. 2.23 Evolution of Number of Mobile Users per Operator

In 2007, the market structure as per number of users was influenced by Orange Moldova strengthening its position. Its market share increased by 3,1% and came up to 67,5%. Company MOLDCELL had a 29,5% market share, UNITE –2,85% and EVENTIS – 0,012%.

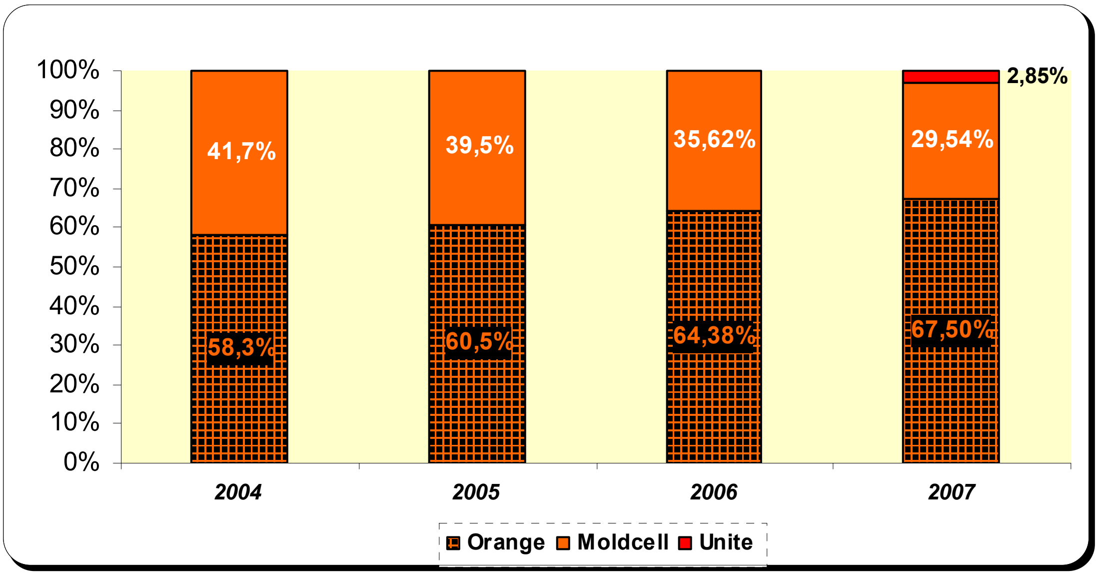


Fig. 2.24 Market Structure as per Number of Users

Due to a significant increase in the number of users, the mobile penetration rate of mobile services as per 100 residents increased in 2007 by 15,4% and constituted about 55%.

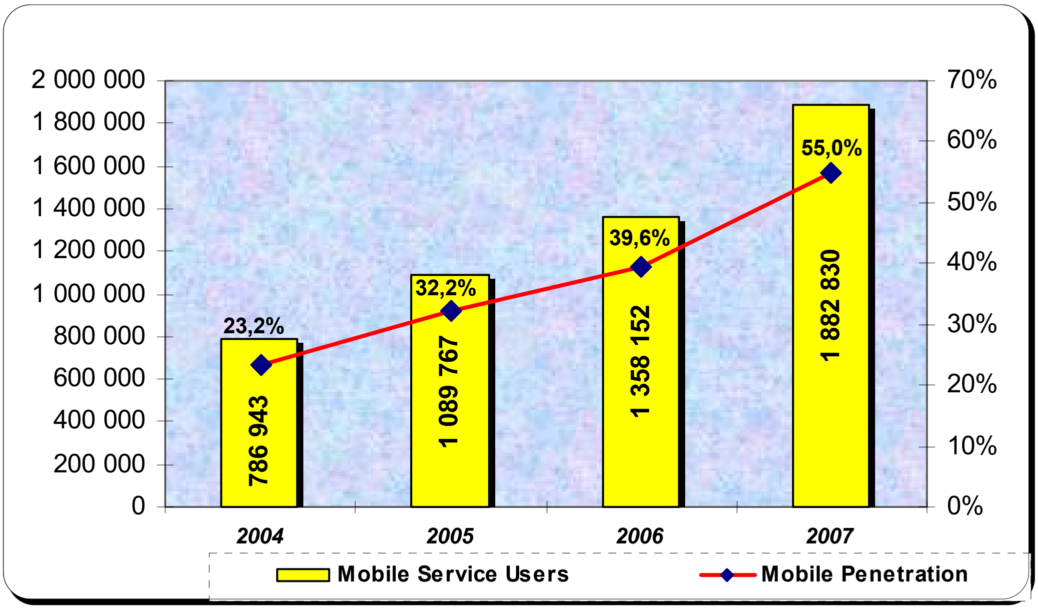


Fig. 2.25 Evolution of Number of Users and Mobile Penetration

For comparison, the figure below shows the mobile penetration rate in some EU countries.

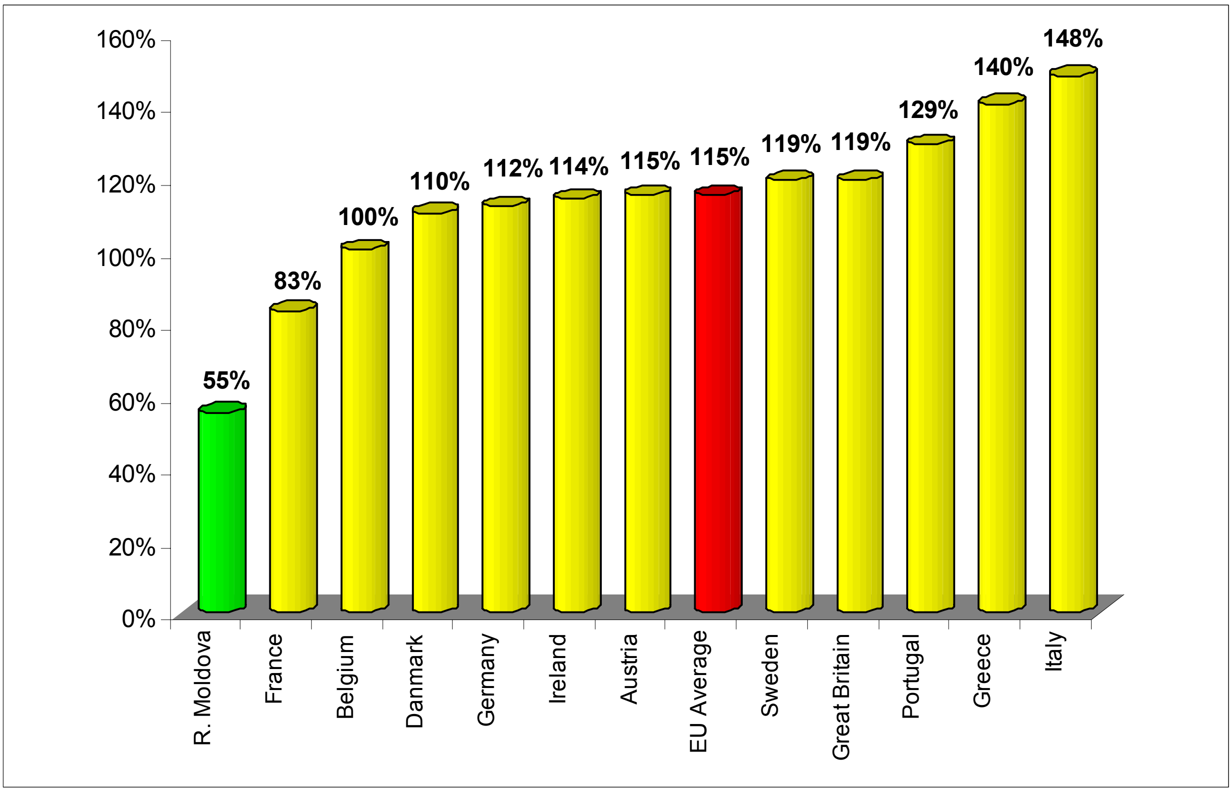


Fig. 2.26 Mobile Penetration Rates in Some EU Countries, September 2007

Pre-paid cards users continue to prevail in the structure of mobile users (Orange PrePay, ALOCARD, Unite Card) - 79,1% of the total number of users, the rest 20,9 % using subscriptions. Nevertheless, the number of subscription users increased by 4,2%, distributed as follows: Orange Moldova (40,3%), UNITE (32,2%), MOLDCELL (27,2%).

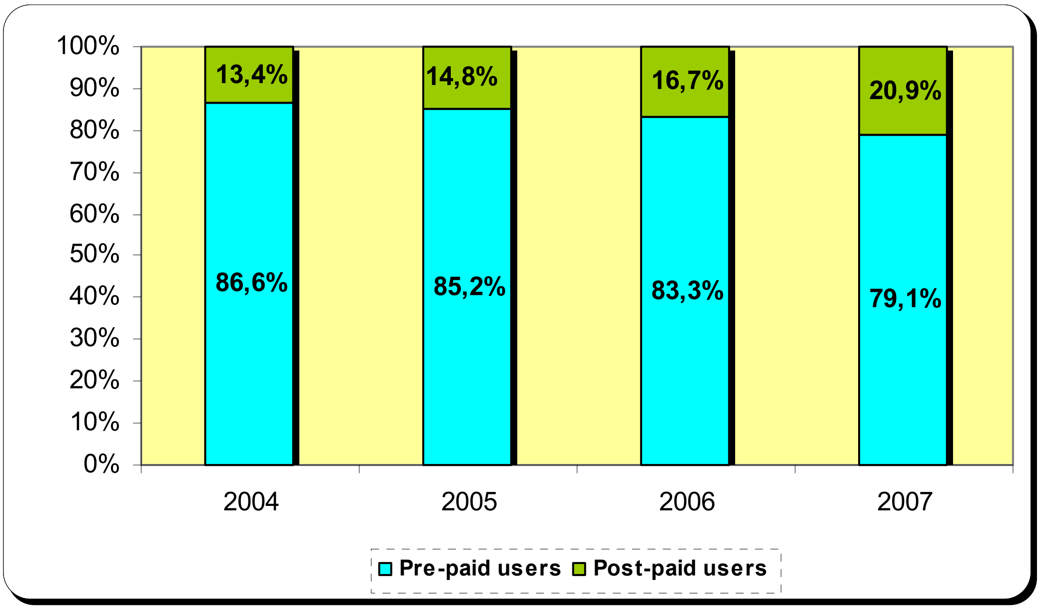


Fig. 2.27 Market Structure, as per Type of Users

2.4.1 Traffic

The analysis of statistical data reported by the operators proves a significant growing of traffic on most of the market segments, except for interconnection traffic with fixed networks. So, the total voice traffic in public mobile networks grew, compared to 2006, by 51,5% and worked out at 1 billion 491 million minutes.

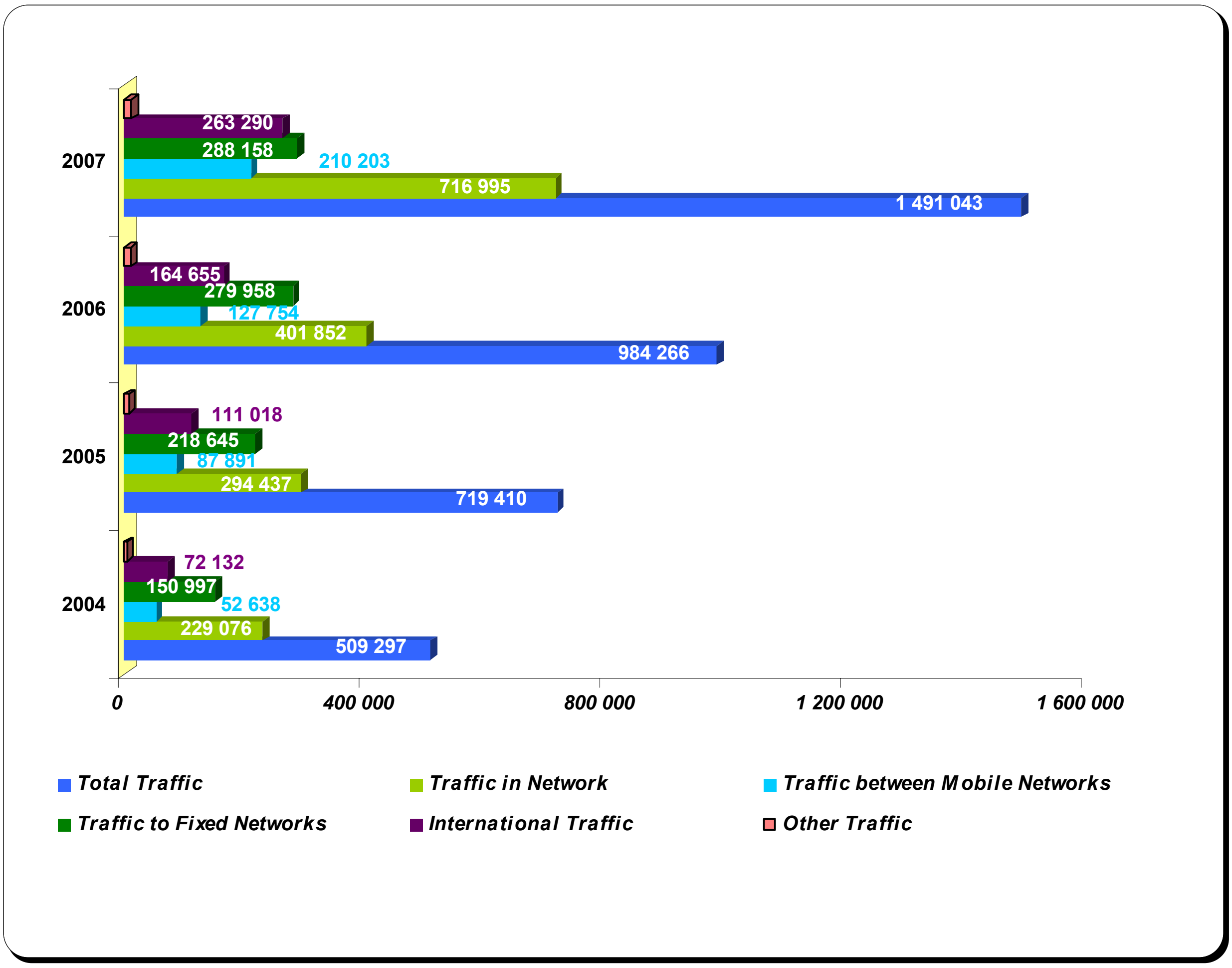


Fig. 2.28 Evolution of Traffic in Mobile Networks, in minutes

The traffic in mobile networks registered the most significant increase - 78,4%. The interconnection mobile-to-mobile traffic increased by 64,5%, whereas the fixed-to-mobile traffic – by 12,8%. But the mobile-to-fixed dropped by 13,7%.

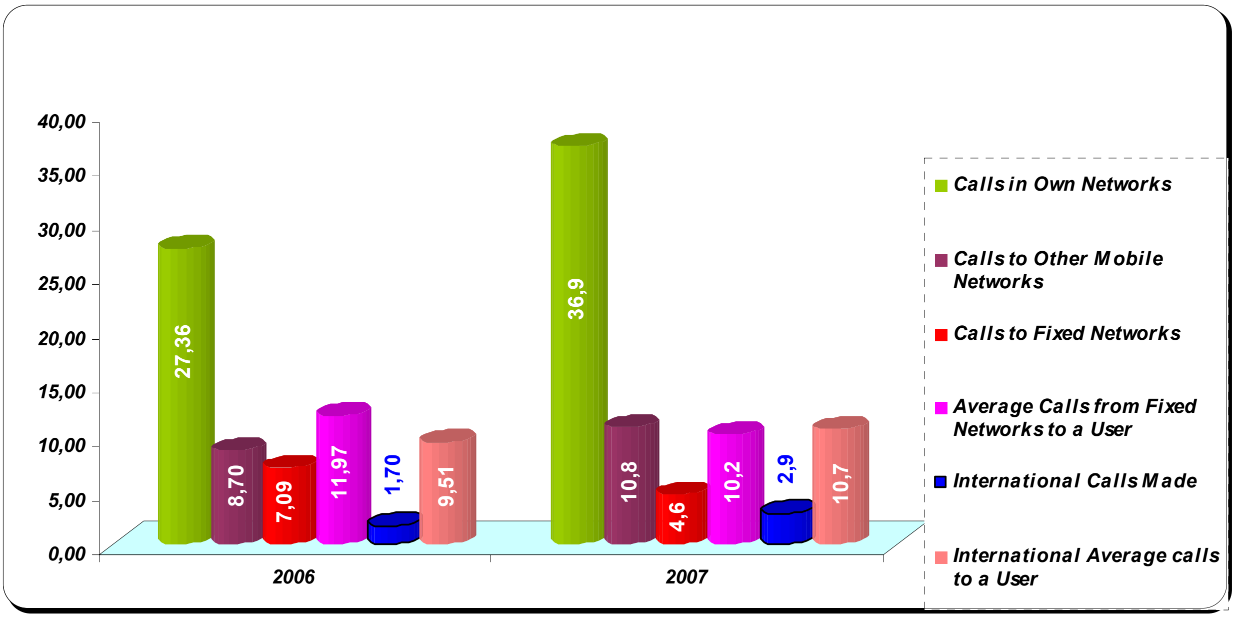


Fig. 2.29 Minutes Consumed on Average per Users (MoU), according to Direction

According to the analysis of the traffic in mobile networks, mobile users prefer mobile-to-mobile calls, especially within the same network. In 2007, the share of mobile-to-mobile calls in mobile traffic structure increased by 8,4 % and reached 62,2%. Taking into consideration the insignificant increase of the mobile-fixed traffic share of (by 0,4 %) and significant reduction of the fixed-mobile traffic share (by 4,6 %), we can acknowledge the substitution of fixed telephony by mobile.

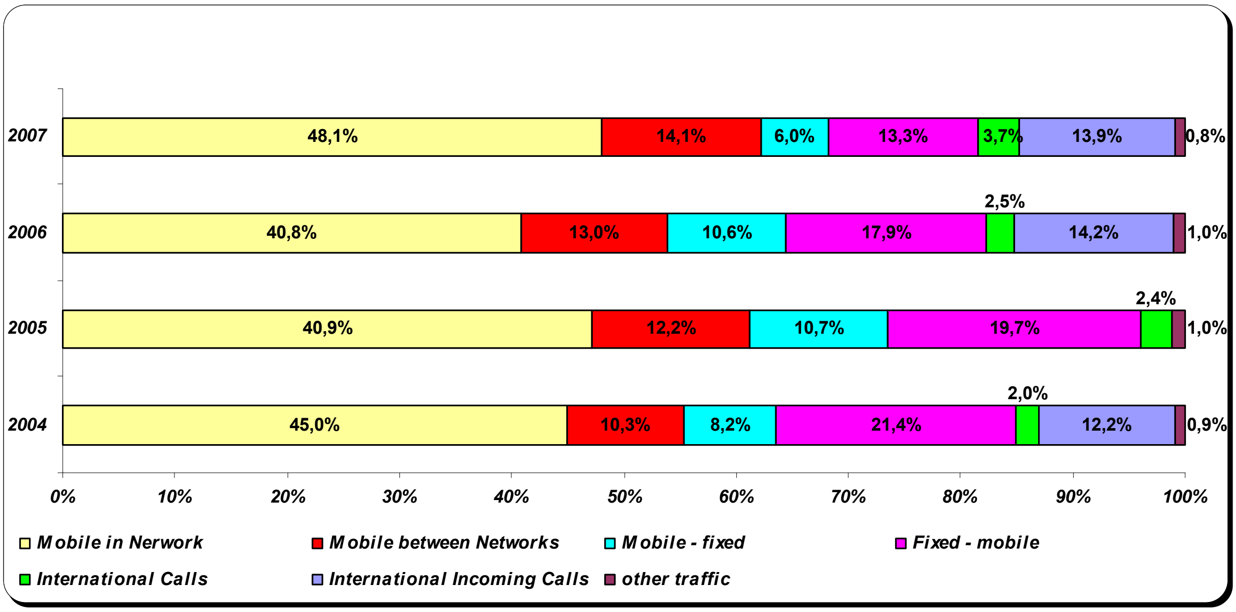


Fig. 2.30 Structure of Mobile Traffic

According to the data provided by mobile operators, in 2007, the number of short massages (SMS) in mobile networks increased by 48% compared to the number of SMS in 2006, while the number of multimedia messages (MMS) increased three times.

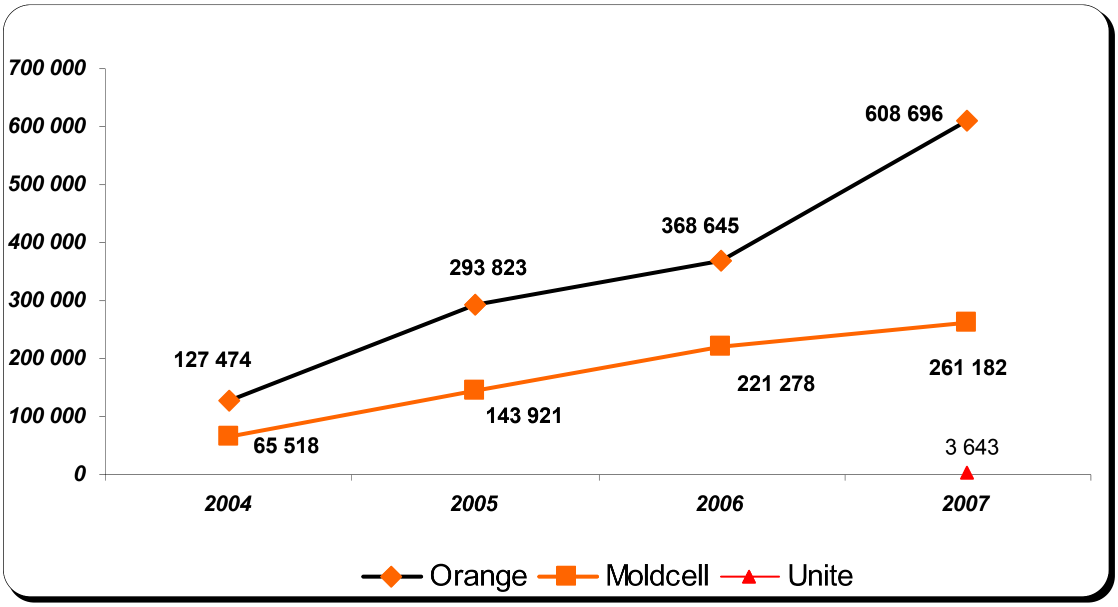


Fig. 2.31 Evolution of Number of SMS via Mobile Networks

Of the total of 873,6 million SMS, 69,67% were Orange Moldova messages, 29,9% - MOLDCELL and 0,42% - UNITE messages. In 2007, the average estimated price of one call minute in mobile networks was 1,33 lei or 0,11 USD.

2.4.2 Conclusions

In 2007, the mobile telephony sector was one of the most dynamic sectors on the telecommunications market. Though the mobile penetration exceeded by far the fixed penetration, the Agency expects an increase of this sector in 2008 comparable to the one of 2007. These expectations are based on the rationale that mobile penetration is much lower than the one on neighboring markets, and on the fact that some of the operators will widen the options they offer to users. The Agency considers that in 2008 the mobile penetration could exceed 68-70%.

In the previous years the mobile telephony was mainly complementary to fixed telephony. Yet, in 2007 the tendency of fixed – mobile substitution persisted and in 2008 it will become even more perceptible, due to the reduction of tariffs for mobile services and increase in the volume of traffic by bonuses, promotions, loyalty support. On the one hand users will prefer mobile-to-mobile calls to fixed-to-mobile, while on the other hand the fixed-to-fixed traffic will migrate to mobile-to-mobile. The same tendencies will affect the international traffic as well.

If the voice mobile services were subject to a very dynamic development, the data transport services via mobile networks are still at an incipient stage. Though the operators offer data transport services via GPRS/EDGE, CDMA 2000 1x and EV-DO networks, they are not sufficiently attractive to cause a significant increase in the mobile Internet market. The tariffs for mobile Internet via GPRS/EDGE are still high and the coverage of the EV-DO networks are insignificant, limited to municipalities and district centers. In this context, an active process of license issuance for UMTS service provision will lead to extended options of mobile Internet at affordable prices.

2.5 Data Transport and Internet Access Sector

2.5.1 General Description

By the beginning of 2008, NRATI had 914 registered companies, authorized to provide informatics services, including 325 – data transport via terrestrial and VSAT, of which 25 provided Internet access services. The number of license holders providing Internet services in public places increased to 505, of which 214 operated in rural areas and district centers.

In the timeframe under report, the turnover in this sector was increased by 15,3% and summed up to 226,3 million lei. Of the total of sales as reported by service providers, 95,1% are revenues from data transport and Internet access service provision. The rest of revenues were generated by Internet access in public places and other services.

In 2007, The share of data transport and Internet access services in terms of turnover, within the structure of the electronic communications market was on the decrease, in comparison with 2006, by 0,2% - coming to 4,2%. It decreased mainly because of the fast growth, in 2007, of mobile and audiovisual service market.

JSC MOLDTELECOM maintained the leading position on data transport and Internet access market, according to turnover, having a 49% share. The incumbent was followed by JSC Telemedia Group with 10,7%, and company Starnet - 9,6%.

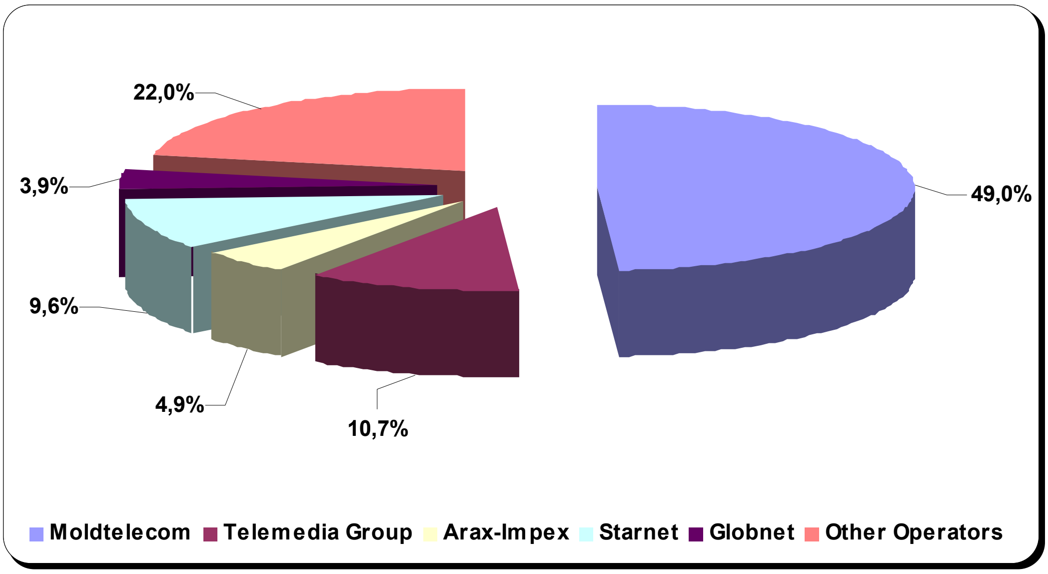


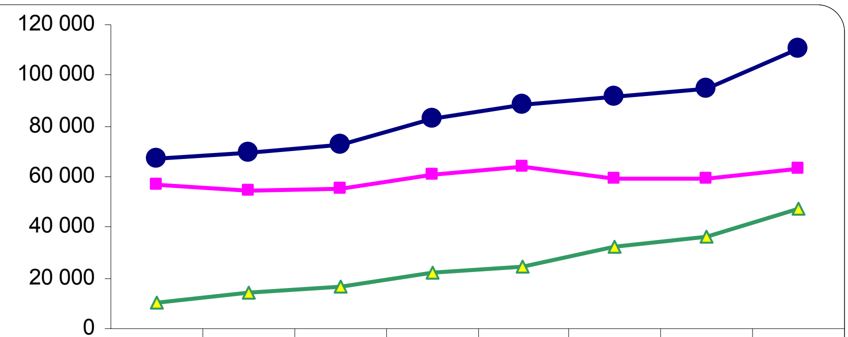
Fig. 2.32 Market Structure in According to Turnover

Compared to 2006, JSC MOLDTELECOM increased its market share, in terms of turnover, by 5,1 %, company Starnet - by 0,27 %, whereas other operators reduced market shares.

The investments in the data transport and Internet access market increased by 36,2% and worked out at 107,6 million lei. JSC MOLDTELECOM invested the bulk (54,4% of the total amount), State Company Special Telecommunications Center (20,4%) and Starnet (13,94%). JSC MOLDTELECOM mainly invested in optical fiber and ADSL trunks, Starnet – in FTTH/LAN networks and State Company Special Telecommunications Center – in providing public authorities with Internet access services.

2.5.2 Users

In 2007, the number of subscribers to Internet access services at fixed locations increased by 33,2%, amounting to 110,2 thousand. Of those, about 63 thousand are Dial-up subscribers and 47,2 thousand – to broadband Internet.



	end of 2005	II quarter 2006	III quarter 2006	end of 2006	I quarter 2007	II quarter 2007	III quarter 2007	end of 2007
Total number of subscribers at Fixed Locations	66 981	69 232	72 307	82 741	88 637	91 731	94 986	110 170
Number of Dial-Up subscribers	56 586	54 853	55 355	60 949	63 857	59 565	58 934	63 006
Number of broadband subscribers	10 395	14 379	16 952	21 792	24 780	32 166	36 052	47 164

Fig. 2.33 Evolution of Number of Subscribers to Internet at Fixed Locations

The number of Dial-up subscribers at fixed locations increased by 3,4% and reached 63 thousand, due to a higher demand for Internet access services in the country and for broadband Internet services outside Chisinau. In areas outside Chisinau the number of Dial-up subscribers grew by 23,3%, whereas in Chisinau municipality, where there are competitive offers for broadband Internet access, the number of subscribers reduced by about 9%.

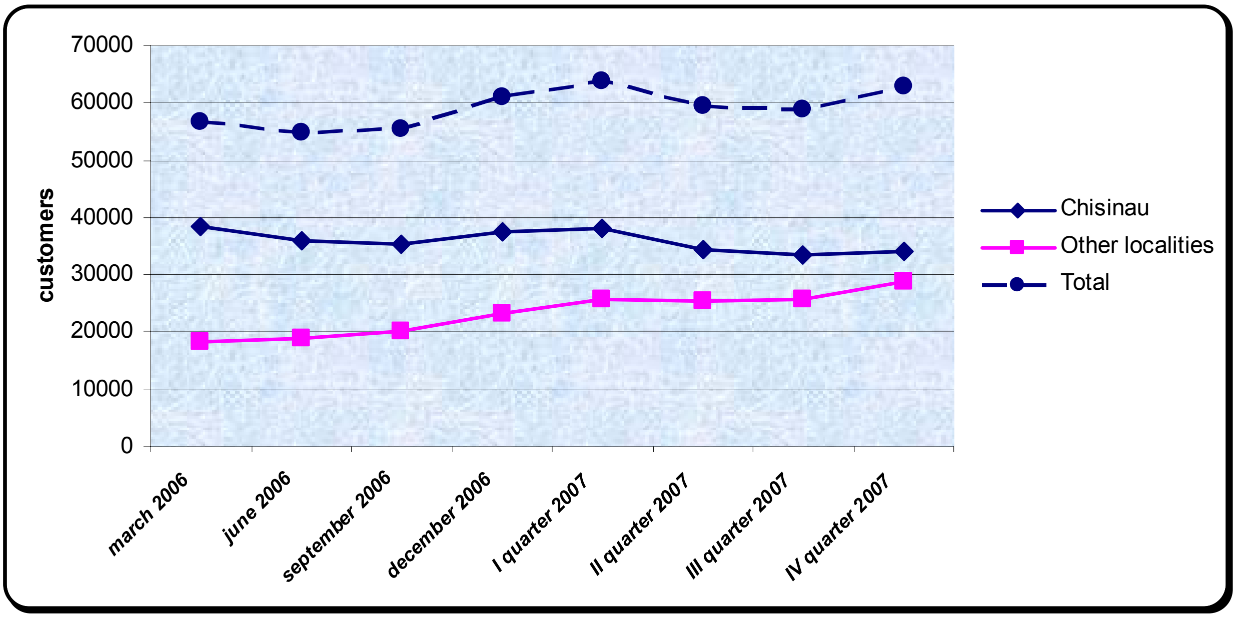


Fig. 2.34 Evolution of number of Subscribers to Dial-up Internet at Fixed Locations

It should be mentioned that the number of Dial-up users increased faster at the beginning of 2007 in the whole country, whereas in the second half year the increase slowed down, especially in Chisinau municipality. This tendency occurred due to new offers being launched for broadband Internet access services and the migration of Dial-up subscribers to those offers.

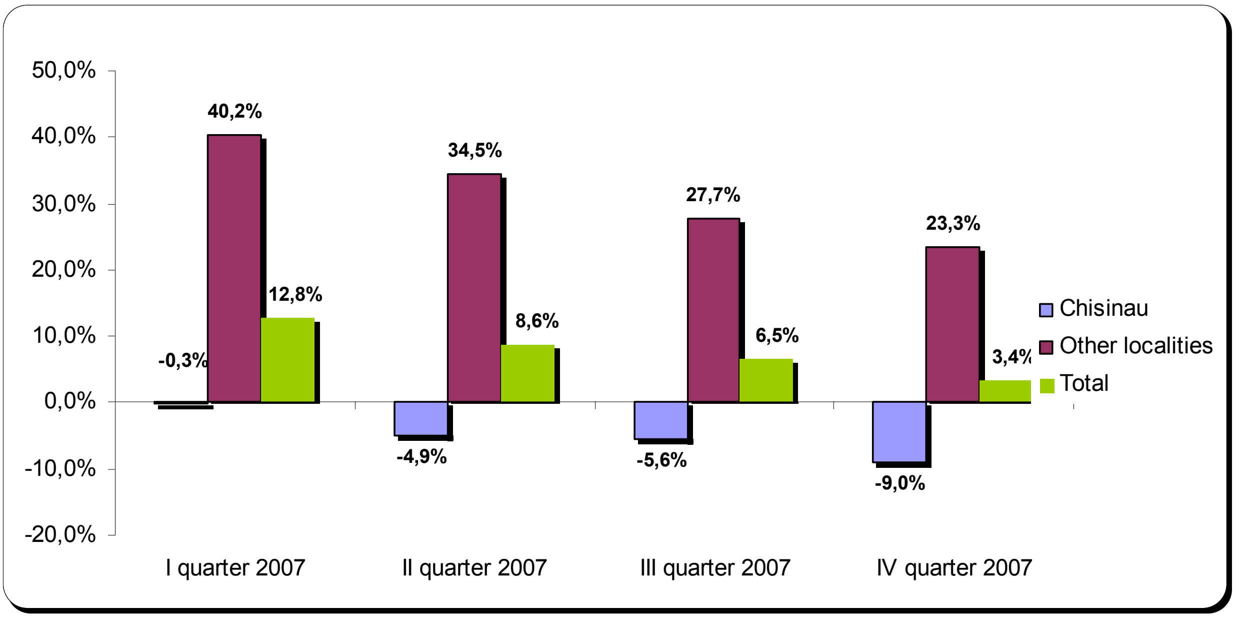


Fig. 2.35 Rhythm of Increase/Decrease in the Number of Dial-up Subscribers at Fixed Locations, in Comparison with Corresponding Timeframes of 2006

As a result of this evolution, the share of subscribers to Dial-up Internet in Chisinau municipality reduced from 68%, In March 2006, to 54%, in December 2007, whereas the share of Dial-up subscribers in other areas, in the same timeframe increased from 32% to 46%.

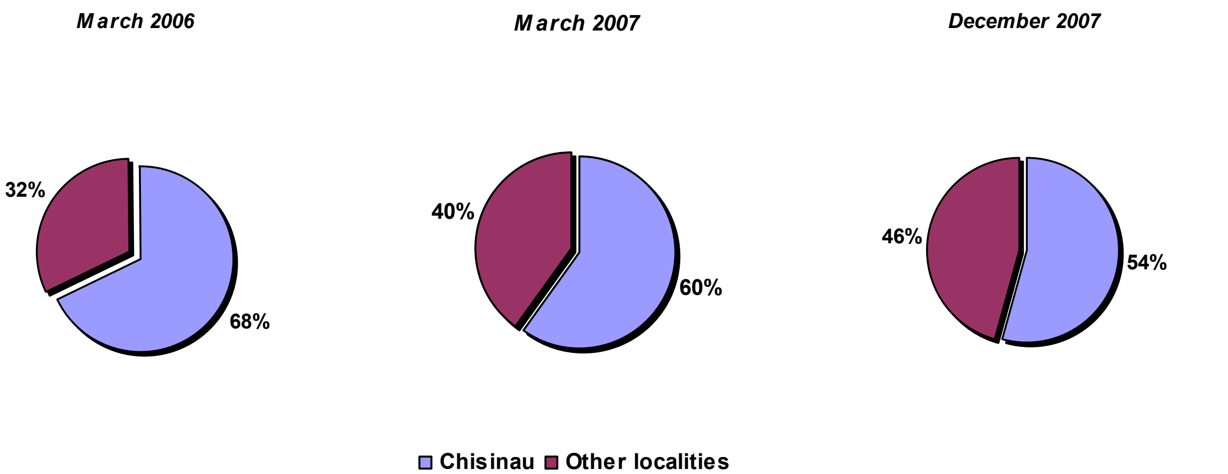


Fig. 2.36 Share of Dial-up Subscribers in Chisinau municipality and other Areas of the Country

2.5.3 Broadband Internet Access Services

In 2007, the market segment of broadband Internet access services was subject to significant growth - by 116,4%: from 36 thousand in 2006, to about 47,2 thousand , in 2007.

The revenues from broadband Internet access services in 2007 was 135,43 million lei, i.e. 59,8% of the total revenue collected by operators on this market.

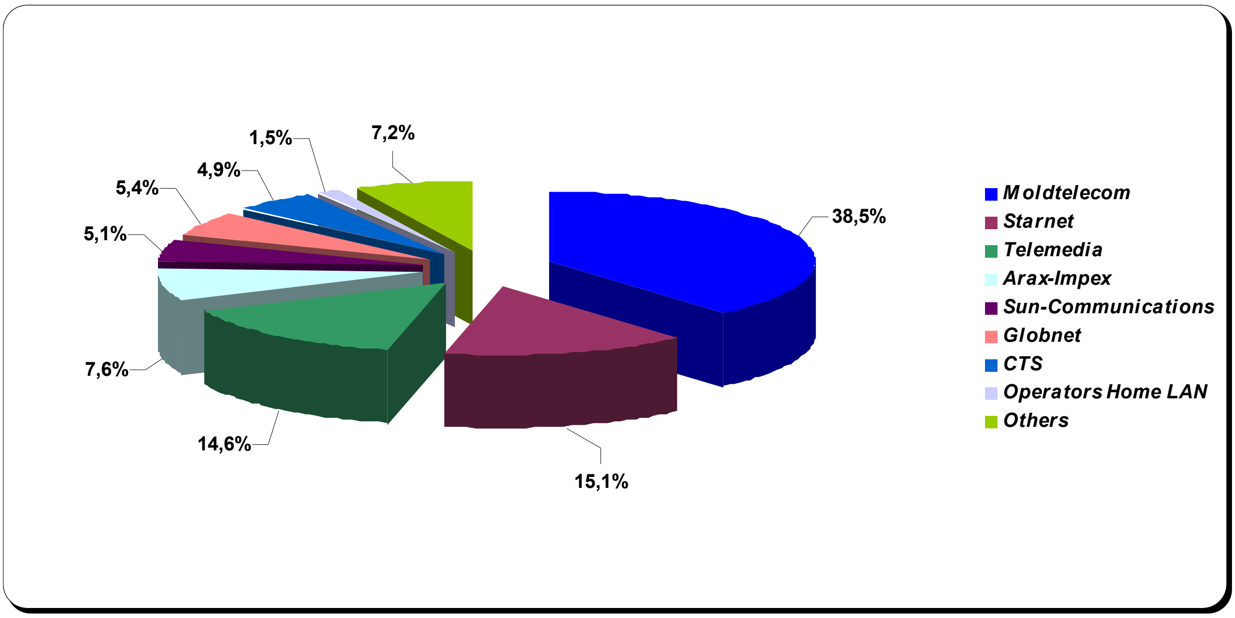


Fig. 2.37 Market Share of Operators, according to Revenues from Broadband Services

As seen in the figure above, the market shares of the same operators, in terms of turnover and number of subscribers, are different. The share of JSC MOLDTELECOM, according to number of broadband subscribers, is by over 20% higher than its share in terms of turnover. The comparatively different subscriber bases of operators account for this situation: residential subscribers prevail in the subscriber bases of JSC MOLDTELECOM, STARNET and Sun Communications, whereas business clients prevail in subscriber bases of JSC Telemedia Group , ARAX-IMPEX and Globnet.

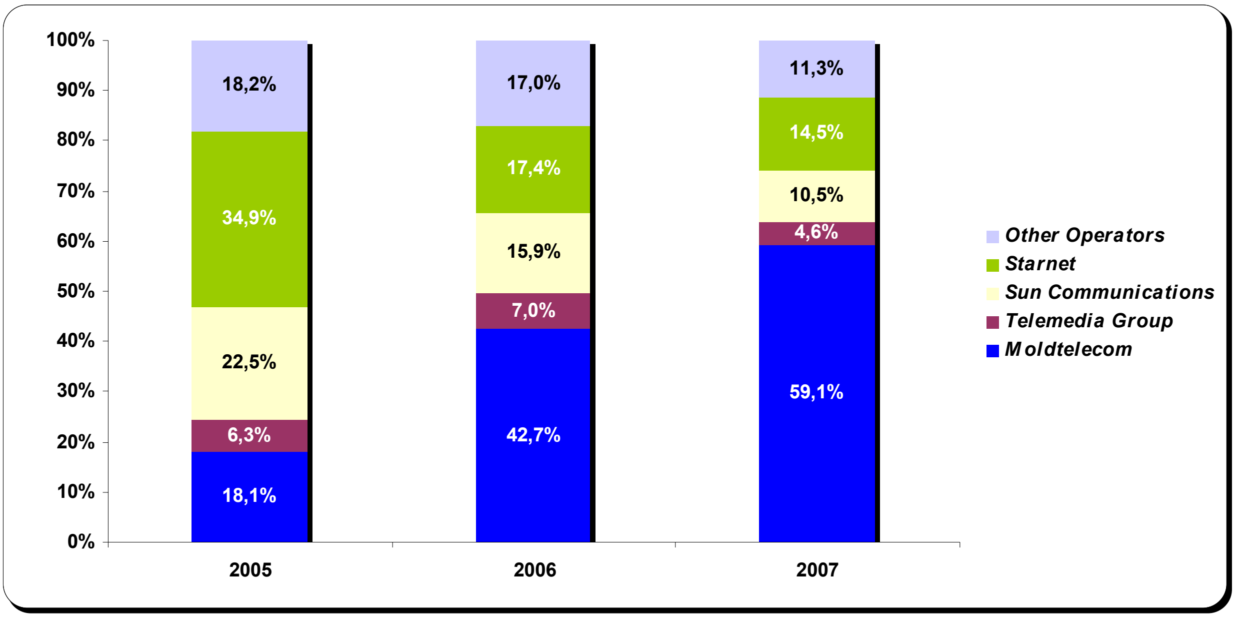


Fig. 2.38 Evolution of Market Shares, depending on Number of Broadband Subscribers

JSC MOLDTELECOM's market share depending on number of broadband subscribers was subject to very fast increase. This is due to competitive advantages of the incumbent in terms of existing infrastructure and superior financial capacities in relation to alternative operators.

According to the technologies used for the provision of broadband Internet access services, ADSL[5] is the most widely-spread form of access. The number of ADSL Internet connections increased by 0,5 % and reached 77,7% of the total of broadband connections.

[5] It also includes other types of access of xDSL group, with insignificant shares

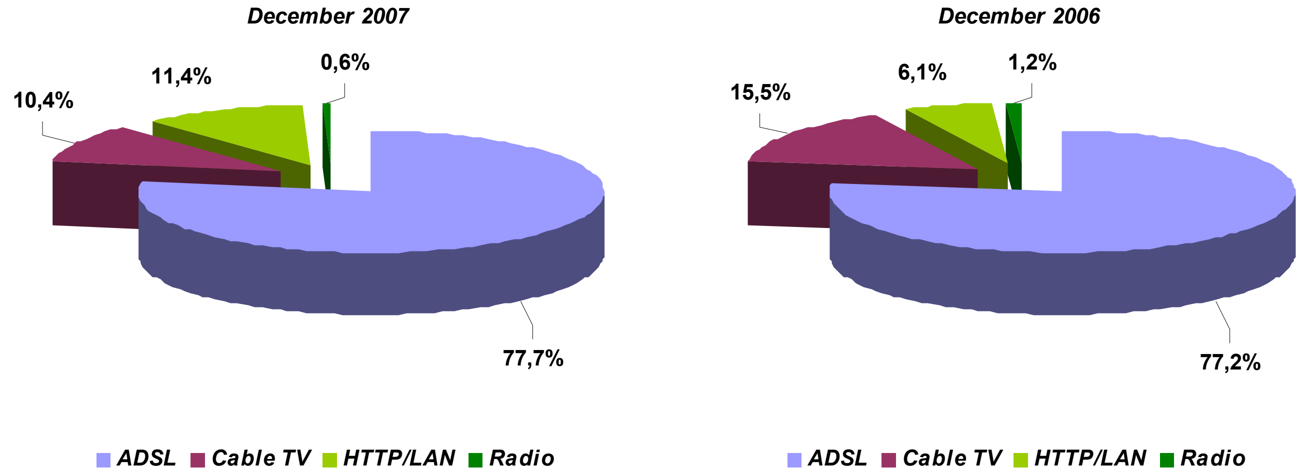
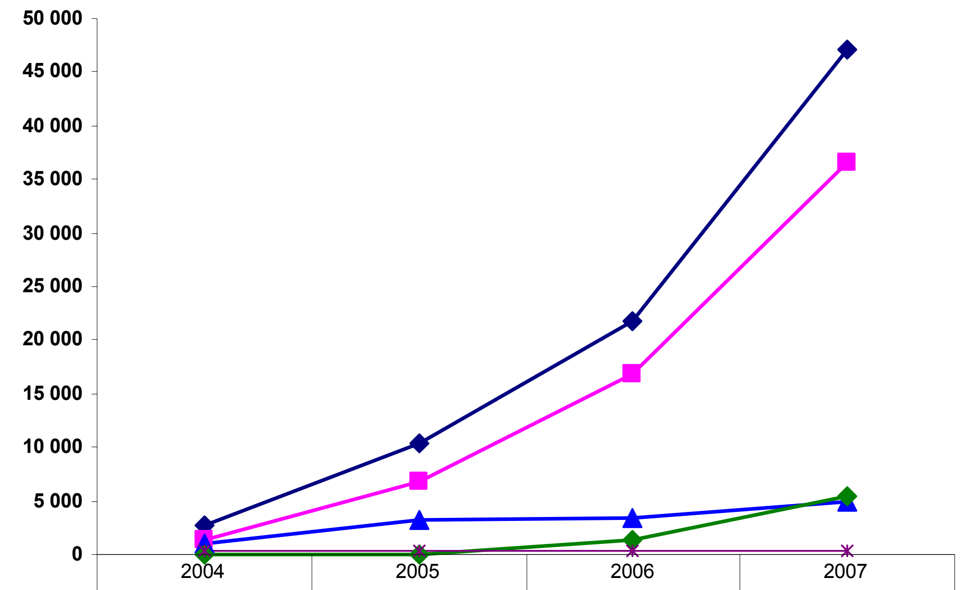


Fig. 2.39 Structure of Broadband Connections, depending on Technology Used



	2004	2005	2006	2007
Total Broadband Connections	2 791	10 395	21 792	47 164
ADSL	1 415	6 798	16 823	36 636
Cable TV	969	3 283	3 375	4 886
FTTH/LAN	0	0	1 327	5 373
Radio	407	314	267	269

Fig. 2.40 Number of Broadband Connections, depending on Technology Used

In 2007, 78,1% of broadband Internet subscribers preferred ADSL technology, 15,9% - FTTH/LAN, and 6% – cable TV Internet.

The significant percentage of ADSL Internet connections persisted due to geographic availability of local telephone loop, high speed, simplicity and efficiency in terms of costs related to the deployment of such networks and re-equipping of existing telephone lines.

Yet, what alerts is that the increase in the number of ADSL subscribers is increasingly determined by a single operator - JSC MOLDTELECOM.

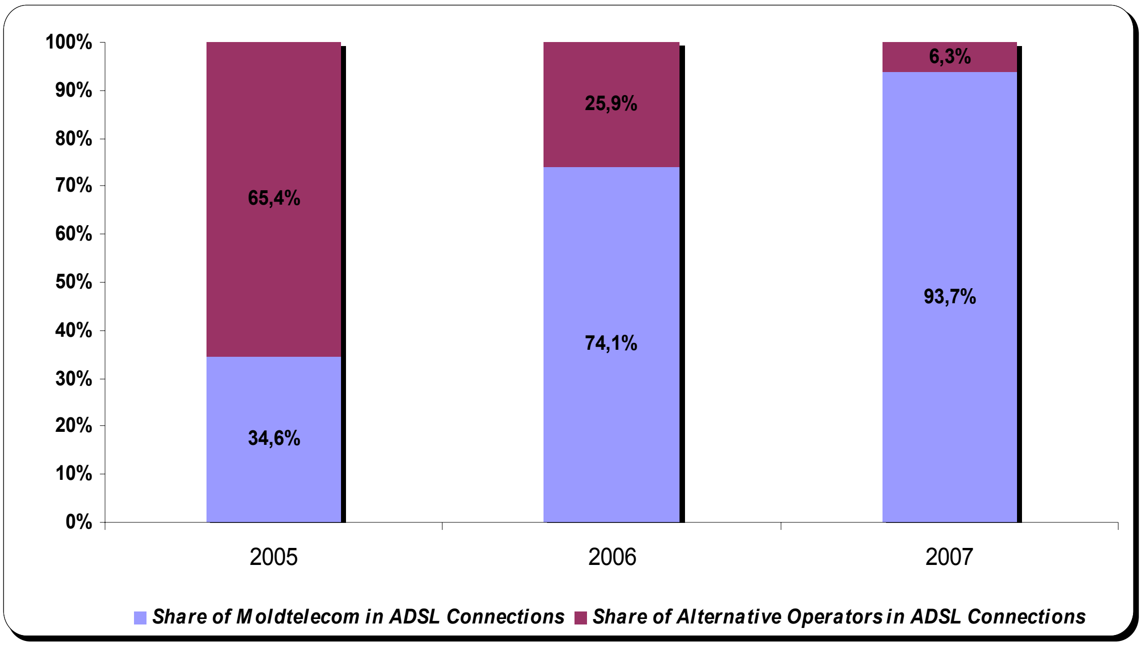


Fig. 2.41 Contribution of JSC MOLDTELECOM and Alternative Operators to the Increase of ADSL Subscriber Base

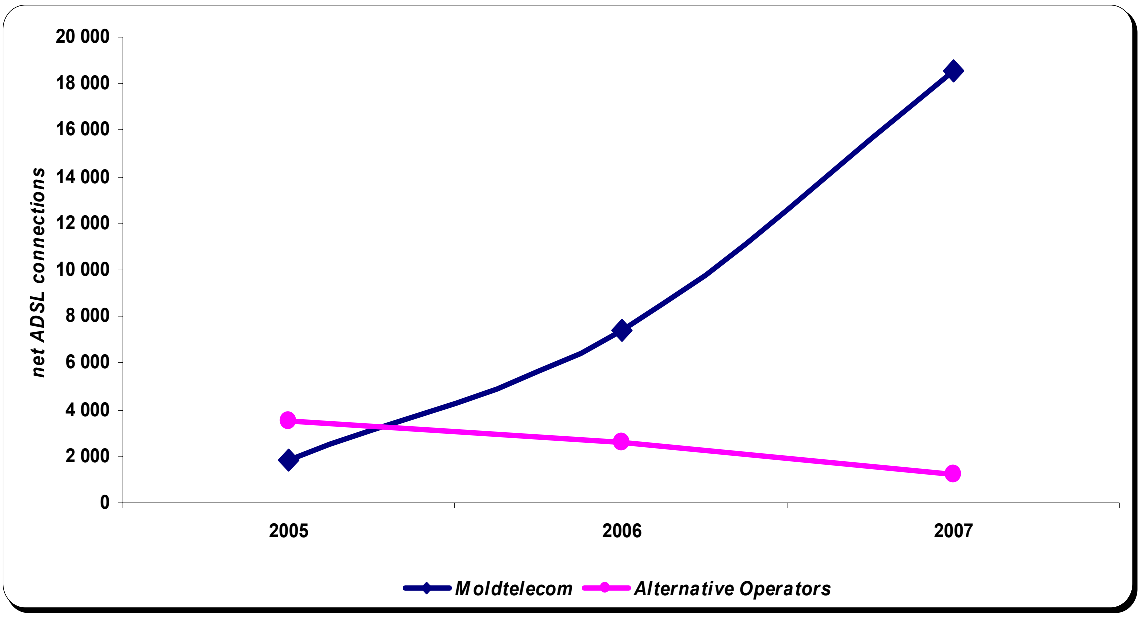


Fig. 2.42 Evolution of ADSL Connections

In the timeframe under report, the increase in the number of ADSL net connections was exclusively determined by the connections made by JSC MOLDTELECOM. On the one hand, the situation is caused by the growing demand for broadband services in rural areas, where the incumbent has practically no competitors. On the other hand, the reduction of the number of net ADSL connections by alternative operators in relation to the increase of their subscriber base for other technologies prove the existence of barriers for alternative operators' access to the local loop. So, in 2007, the number of ADSL subscribers by JSC MOLDTELECOM exceeded 14,8 times the total number of subscribers connected by all its competitors. In 2006, this proportion was 2,85 times.

One of the main reasons of the incumbent strengthening position on the broadband market is the lack effective offers of leased lines nation-wide. This situation restricts competition in areas outside Chisinau and alternative possibilities of access to Internet.

2.5.4 Internet Access Connections

In 2007, the total number of Internet access connections via mobile networks, by means of GPRS/EDGE , CDMA 2000 1x and EV-DO technologies increased by 82,2% and equaled to 667,4 thousand . In 2007, the number of mobile Internet connections six times exceeded the number of connections at fixed locations. But the former type of connections represents mainly WAP connections, the use of GPRS/EDGE links for personification of mobile phones and a small part – the use of mobile phones as modems for accessing the Internet from a PC or lap-top.

According to data reported by operators, the total penetration rate of Internet access connections, per 100 residents, was about 3,22%, while the penetration rate of broadband Internet services was even lower - 1,38%.

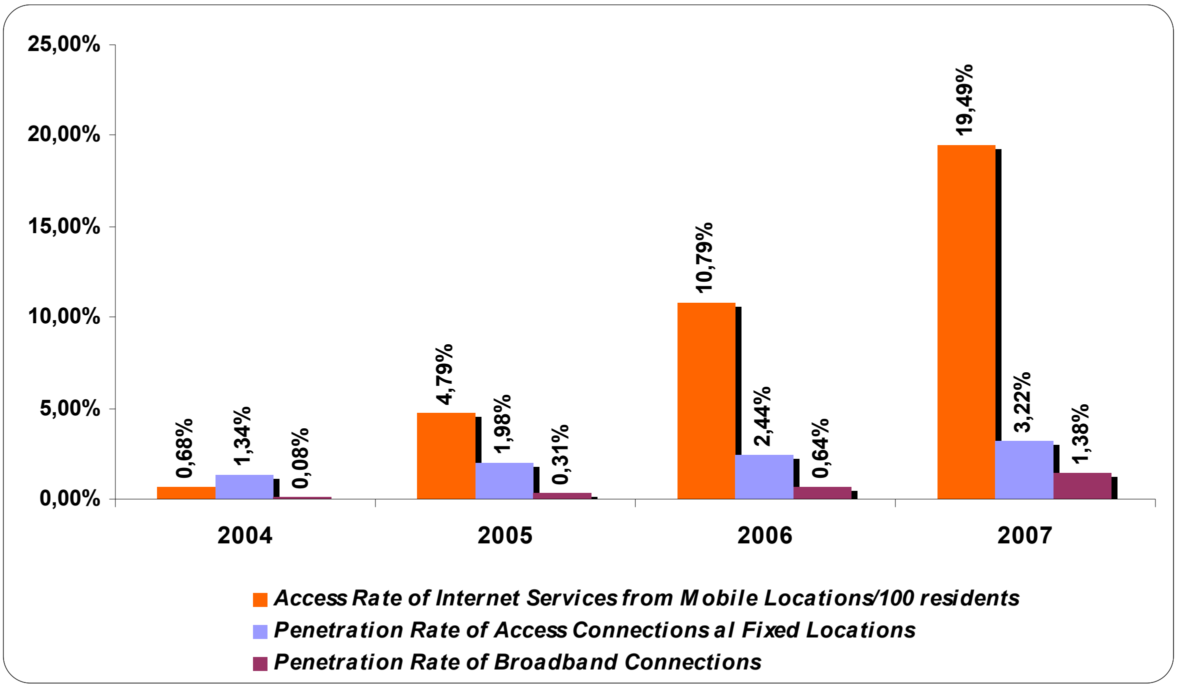


Fig. 2.43 Evolution of Internet Access Connection Penetration Rates

Compared to EU states, in the Republic of Moldova the broadband penetration rate is very low.

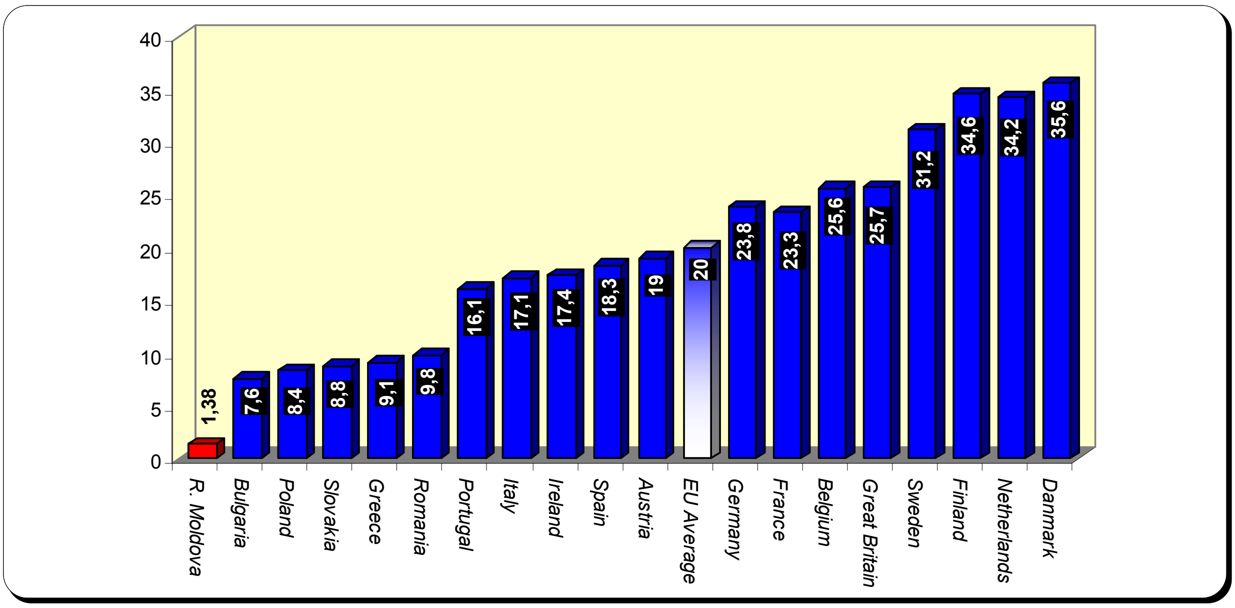


Fig. 2.44 Broadband Penetration Rates in the Republic of Moldova and EU states, in %
Source: NRATI, European Commission

2.5.5 Conclusion

Though in 2007 the data transport and Internet access market continued growing, it is for the time being under the level of current needs of an information society. The general Internet access penetration rate is 3,22% and 1,38% for broadband Internet speak about a huge digital divide between the situation in Moldova and in EU states. Additionally, the market share of *Internet* access services within the structure of electronic communications market was, in 2007, only 4,2%, or by 1,3 % less than in 2006, which proves this market is evolving more slowly than the others.

The demand for data transport and Internet access is growing rapidly, but the offer fails to meet the demand. This fact is also proved by the dynamic increase in the number of Dial-up Internet subscribers, this technology being the only possibility to access the Internet in many areas of the country. The situation is alarming because the dial-up access is out-dated and does not meet the users' needs. EU countries have surpassed this stage, focusing exclusively on broadband.

In Moldova the number of broadband subscribers is dynamically increasing, but this increase is comparatively smaller in comparison with neighboring and EU countries. The quality of broadband subscriber base increase is even more worrying, as the incumbent is strengthening its position while barriers to local loop access and associated infrastructure for alternative operators are persisting. The quality of broadband segment increase is also limited due to the lack of effective offers of leased lines nation-wide.

According to the estimations of the Agency, in 2008 the data transport and Internet access market is going to evolve and can become one of the most dynamic market in the electronic communications sector. Still, this perspective directly depends on how JSC MOLDTELECOM is going to treat this market, as it practically controls the existing telecommunications infrastructure. Under these circumstances, the alternative operators will seek to continue widening their subscriber bases by means of alternative technologies, avoiding the barriers to local loop access. Yet, they may face limitations in terms of geographical market because of both the lack of leased lines and competition with the incumbent, if the latter deploys FTTP/LAN networks.

Given this state of things, the alternative operators will need to make efforts in order to improve quality and contents of their offers by launching broadband video and voice services, as well as IPTV, DVB-C and VoIP services. But the development of those services can be impeded by the low tariffs for cable analog TV services and fixed telephony, applied by JSC MOLDTELECOM.

2.6 Audiovisual Service Sector

2.6.1 General Overview

In 2007, the sector was operated by 251 technical license holders for construction and/or maintenance, operation and creation of television and/or radio stations, of which 166 provided cable TV services, 35 – air TV services, 8 – MMDS services, 41 – Radio services and 1 – cable radio services.

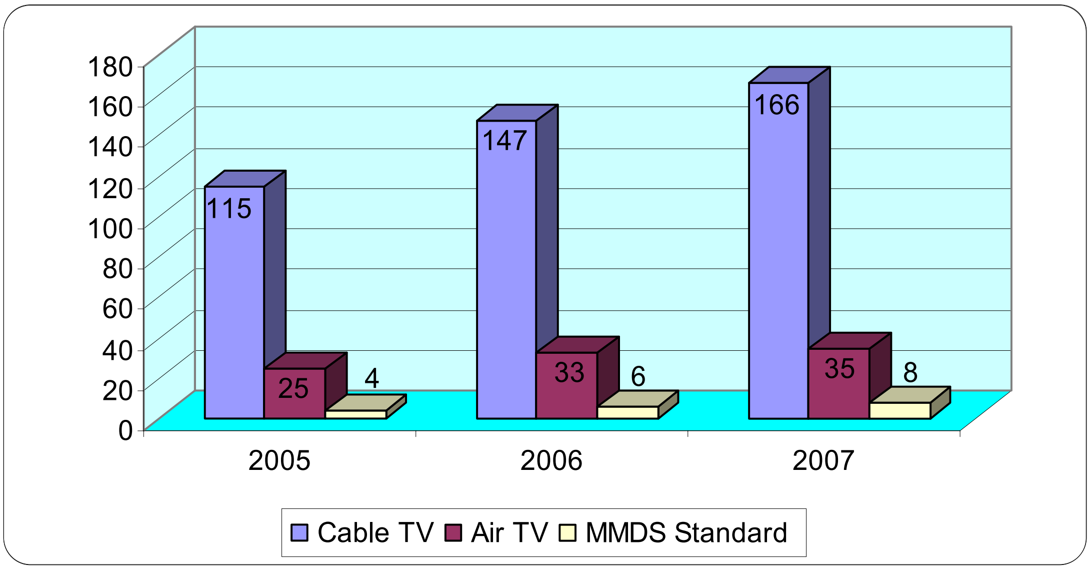


Fig. 2.45 Evolution of Number of Cable/Air TV Service Providers

The majority of technical license holders (66,14%) operated on cable TV segment, 16,33% provided air radio services, 13,94% – air TV services and 3,19% – MMDS TV services..

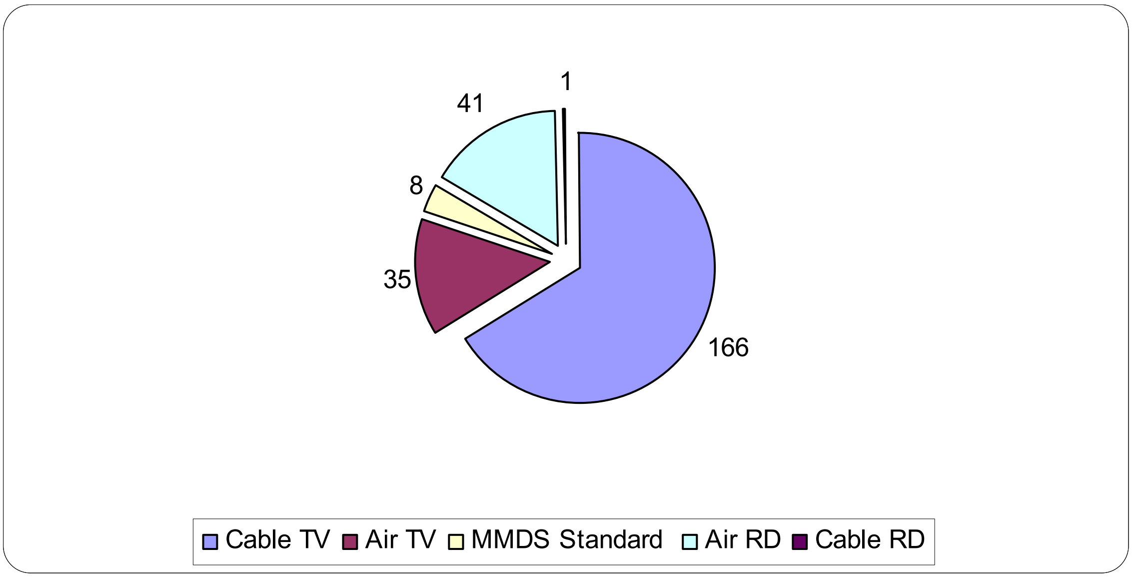


Fig. 2.46 Structure of Audiovisual Service Market (TV and Radio)

In 2007, the turnover of providers of broadcasting and TV/radio program re-transmission services increased, compared to 2006, by 72,82% and reached 153,24 million lei.

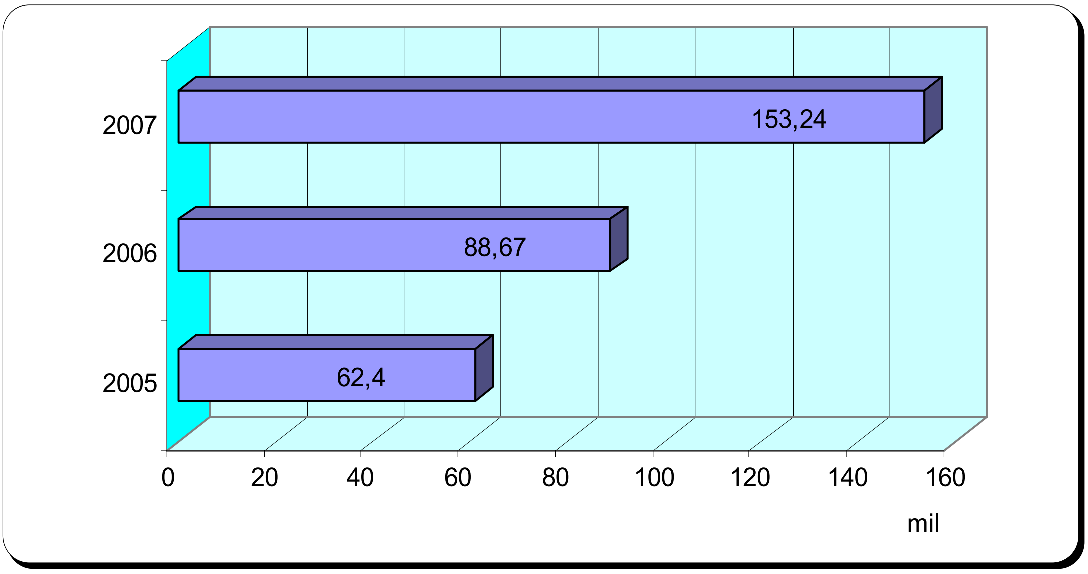


Fig. 2.47 Evolution of Turnover in Cable/Air TV and Radio Sectors, million lei

According to the data presented by providers the cable TV sector had the highest turnover – 73,8 million lei. The air TV sector collected 54,2 million lei revenues, air radio sector – 25,3 million lei.

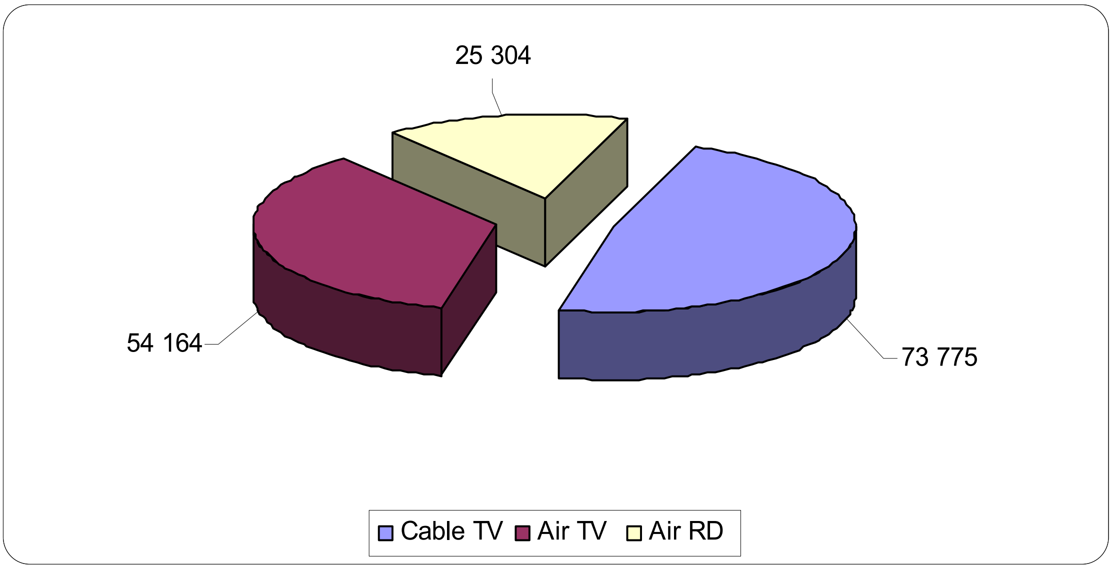


Fig. 2.48 Structure of Turnover, depending on Services, in thousand lei

The average Monthly Revenue per Users (ARPU) of cbla TV service providers in 2007 was 41,13 lei. the ARPU of the biggest operator - Sun Communications - was 44,24 lei.

In terms of turnover realized in 2007, the most important market shares of cable TV service providers are as follows:

Sun Communications – 49,56%,
AMT – 12,66%,
CTC ALFA – 4,32%,
Vertamar – 2,98%,
Electronservice – 2,64%,
Tele-Luci – 2,26%,
TSV-com – 1,91%.
Other cable TV service providers - 23,68%.

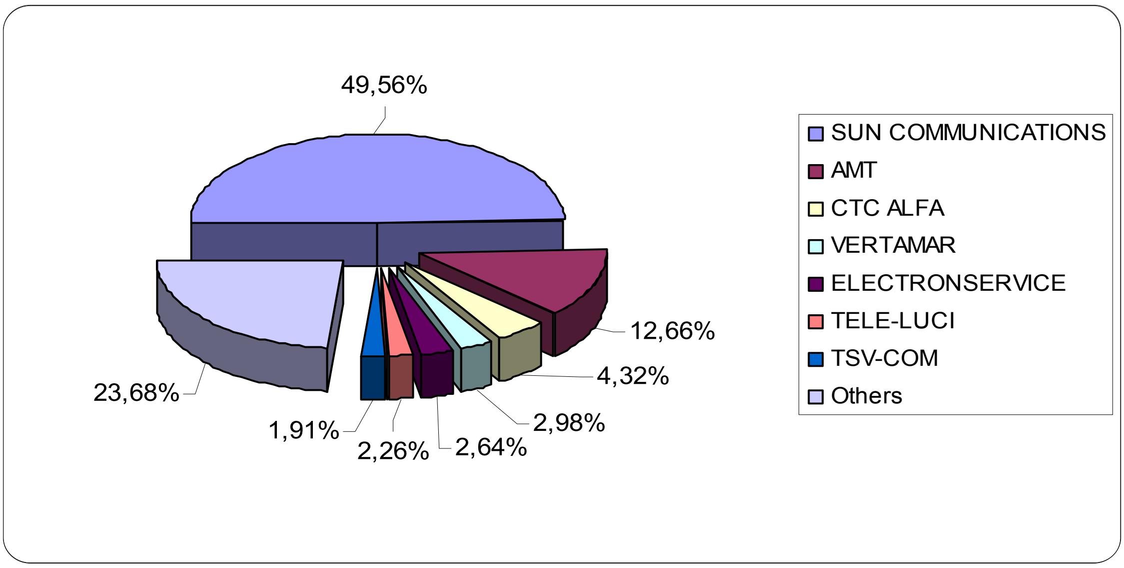


Fig. 2.49 Structure of Cable TV Service Market, according to Turnover

As shown in the statistical data provided by TV and radio service providers, in 2007 the number of employees in the sector increased by 37,4% and worked out at 1395 people.

2.6.1 Investments

Compared to 2006, the investments in the audiovisual service sector increased twice and reached 44,7 million lei. The bulk of the funds was invested in networks equipment. The increase in the investments in this sector beat a record of about 295%.

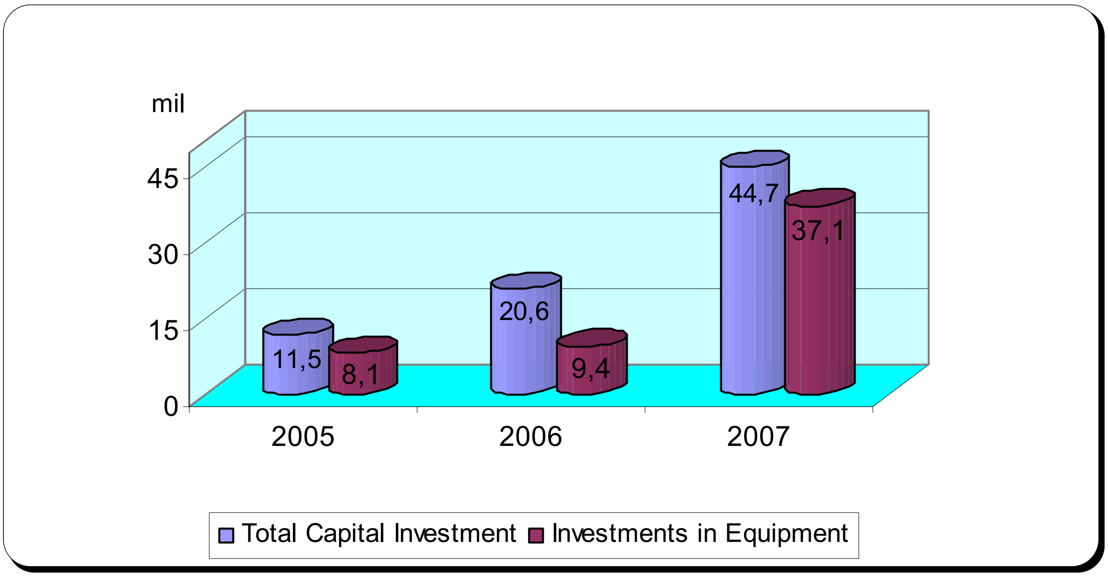


Fig. 2.50 Investments in Cable/Air TV and Radio Sector, in million lei

The Agency specialists explain the significant increase of investments in the audiovisual sector, in particular in network equipment, by the need of new services, based on advanced technologies, such as digital and satellite television.

The cable TV sector benefited from highest investment percentage - 79,18%, followed by air radio sector - 13,4%, and air TV - 7,42% of the total volume of investments.

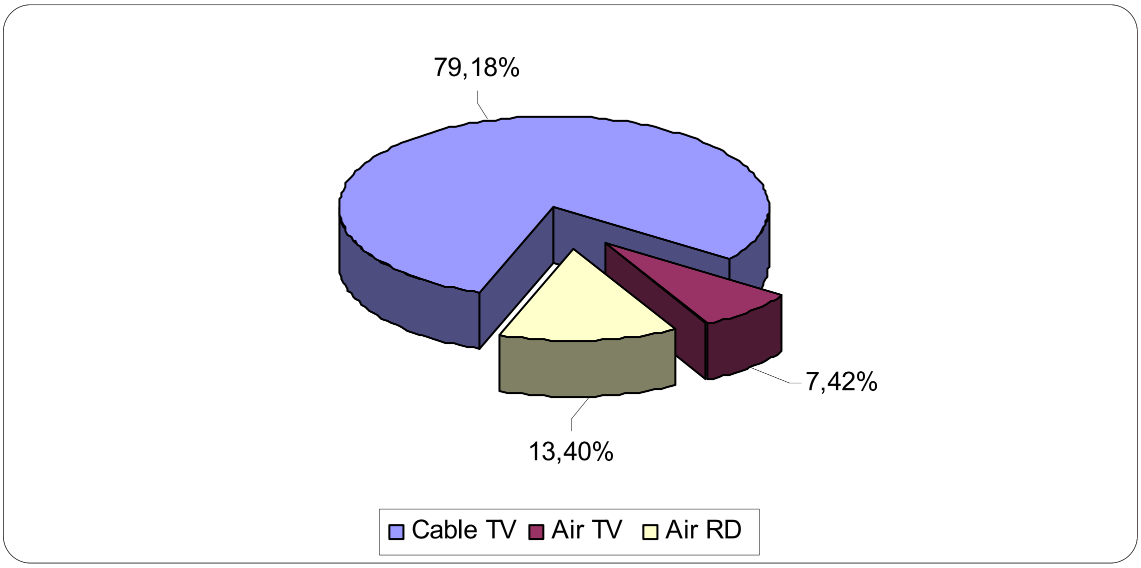


Fig. 2.51 Distribution of Investments per Market Sectors

2.6.2 Users and Tariffs

In 2007, the number of cable and air TV users increased by over 31,88% and exceeded 175 thousand. The penetration rate of TV services per 100 residents increased by 32,3% and constituted 5,12 %.

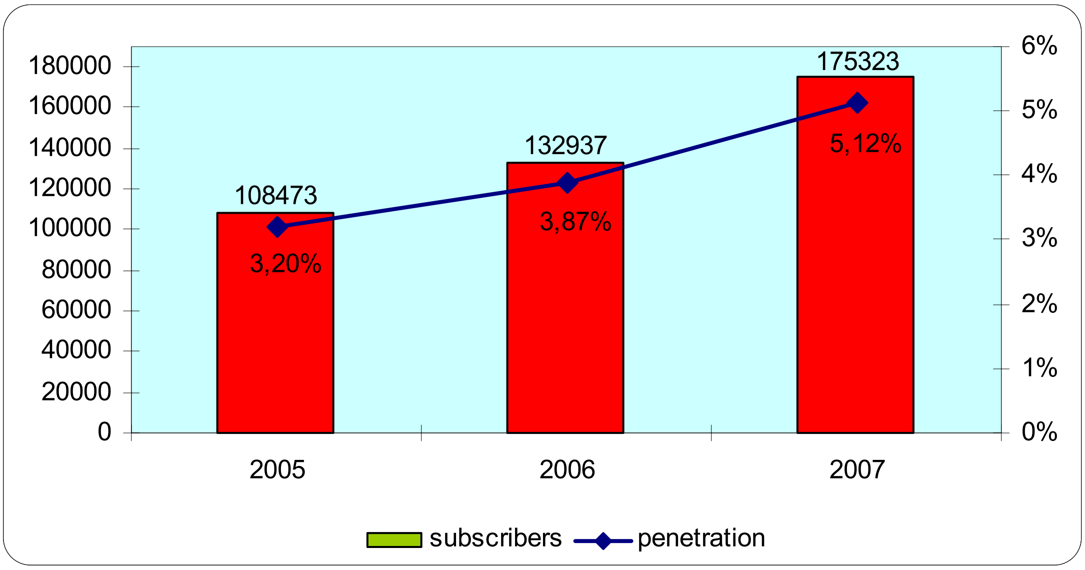


Fig. 2.52 Evolution of Number of Users and TV Penetration Rates

About one quarter of the total number of users are rural area residents. The situation is determined by their low purchasing power and high infrastructure costs in rural areas, hard to subsequently recover on account of low demand for cable TV services.

In 2007, cable TV service subscribers had the biggest share in the structure of TV users - 94,7%, followed by encoded air TV subscribers (MMDS technology) - 5,3%.

In terms of number of subscribers, company Sun Communications was leading the market, with 45,07% market share.

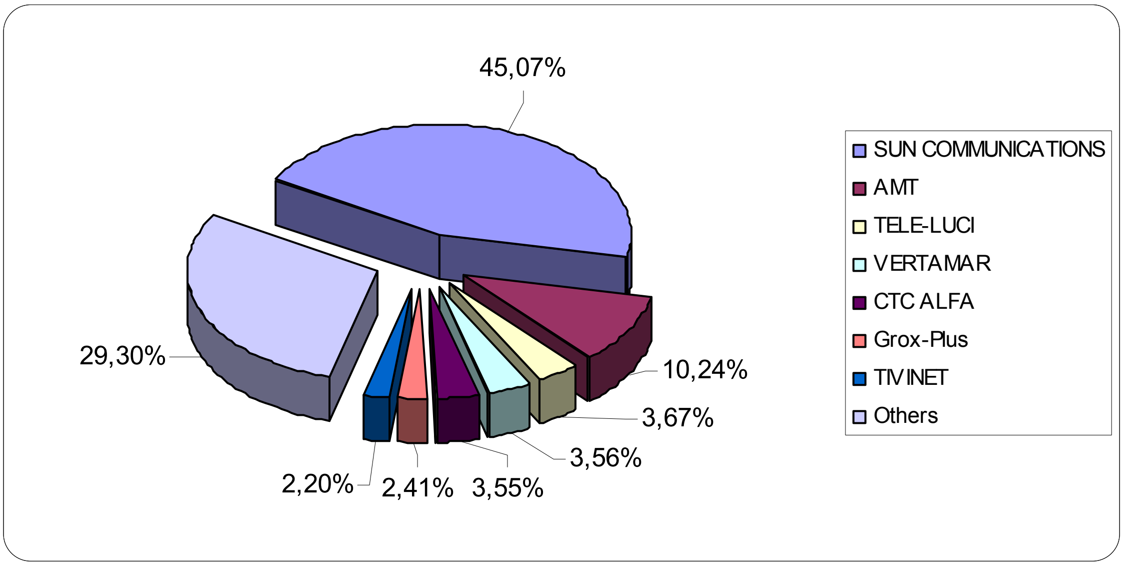


Fig. 2.53 Market Structure, according to Number of Users

In the timeframe under report, the preferences of cable TV users did not undergo essential changes. 34,11% of subscribers preferred 50-channel packages, 19,58% packages including 20-to-30 channels, 18,09% – 40-to-50 channels, 15,57% – 10-to-20 channels, 11,88% – 30-to-40 channels. 0,77 % of the total number of subscribers preferred less than 10 TV channels.

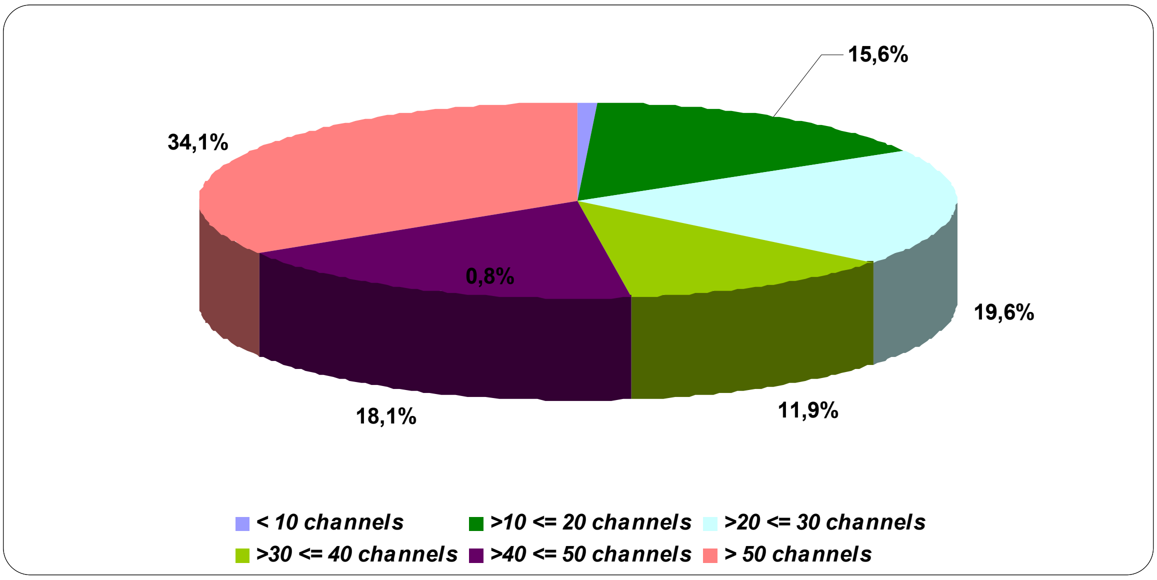


Fig. 2.54 Cable TV Users, according to Number of Channels Received

Conclusions

As estimated by the Agency, in 2008 investments in audiovisual sector will continue to grow rapidly. This tendency is mainly determined by the analog to digital network migration. As a result, in the nearest future, the number of operators providing digital TV services will considerably increase, they focusing mainly on the use of DVB-C, DVB-S, DVB-T and IP TV systems. It will be the DVB-C and DVB-T systems that will predominantly serve to the migration from CATV (DVB-C) analog networks and (DVB-T) terrestrial analog television. At the same time IP TV systems will be used by broadband Internet service providers launching multiple-play offers (Voice, video and Internet services in one package).