



TRR

Telecommunication &
Radiocommunication
Regulator

Annual Report 2010



Message from the Telecommunication & Radiocommunication Regulator



Vision:
A communications
environment that
enriches the social,
cultural, customs and
commercial fabric of
Vanuatu

It gives me great pleasure to introduce this, the third Annual Report of the Office of the Telecommunications and Radiocommunications Regulator (TRR).

Vanuatu has been able to move forward at a rapid pace in the development of a competitive telecommunications market through the leadership of its Government and the support of AusAid and The World Bank. A key decision of Government was the exchanging of its shareholding in Telecommunications Vanuatu Ltd (TVL) in exchange for ending the monopoly 4 years earlier than agreed. This paved the way to the entry of Digicel. Mobile coverage extends to over 85% of the population with the majority of consumers having a choice of mobile service provider.

I have a lot to thank my predecessor, Mr John Crook, who established the Regulator's Office, recruited a core team of Ni Vanuatu staff as well as overseeing the licensing of Digicel and their interconnection with TVL. He further licensed

a number of other operators who are primarily offering internet services. The challenge is now to build the regulatory competencies of the TRR staff to manage the increasing number of competition related issues. It is the Regulator's responsibility to ensure consumers are protected and that there is no abuse of dominant position of any one operator.

I have enjoyed my first few months as Regulator and look forward to working with my team to further the Policies of Government. Policies which will maximise the use of Information and Communications Technologies (ICT) to further employment, social and economic programmes and in turn the wealth of the Nation.

Introduction

This is the second formal Annual Report produced by the Telecommunications and Radiocommunications Regulator (TRR) in accordance with Article 11 of the Telecommunications Law 2009.

Extract from the Telecommunications & Radiocommunications Act No. 30, 2009 (The Telecoms Law)

11 Annual report

- (1) The Regulator must provide to the Minister an annual report including, but not limited to:
 - (a) a summary of the activities of the Regulator, and
 - (b) such financial statements and auditor's reports as are required by this Act or other law; and
 - (c) a list of all entries and deletions to the Register in the preceding year; and
 - (d) a summary of material litigation involving the Regulator; and
 - (e) a list of consultants and advisors retained by the Regulator and a description of the matters in relation to which they have consulted or advised.
- (2) A contravention of subsection (1) is deemed to be a serious breach of duty by the Regulator.
- (3) The annual report provided to the Minister pursuant to subsection (1) must be made available to the public on the website.

Vanuatu's Telecommunications History

Vanuatu has 63 inhabited islands, an aggregate land area of 12,200 square kilometres and a total population of 235,000 (2009 census).

The country has a growing tourism industry with over 240,000 visitors over the past 12 months. The population is dispersed with many small villages on remote islands making it challenging to economically provide voice and internet services to the entire population.

Reliable telecommunication services are an essential tool to support the private sector and Government's economic and social policies. The tourism industry, in particular, relies upon high speed internet access in order to be competitive with other regional destinations.

The major turning point in the Telecommunications market occurred in 2007 when the Government, under a Settlement Agreement, exchanged its 33.3% shares in the incumbent operator Telecom Vanuatu Limited (TVL) for ending the monopoly. Government now has no commercial investment in any telecommunications market player. The 2009 Act established the Telecommunications and Radiocommunications Regulator (Regulator). The Regulator is responsible for enforcement of the 2009 Act, making administrative decisions and advising the Minister as to policy matters. The Regulator is also empowered to make regulations on a broad range of matters.

Last telecoms impact study found widespread access and use of mobile telephony is "helping rural and urban households to offset household vulnerabilities, maintain social relationships, reduce household costs, narrow gender gaps in ownership and access, reduce costs and increase the profitability of small and medium enterprises, and expand rural productivity". *

* Going Mobile – 2009 Research Report on the Social and Economic Impact of Introducing Telecommunications Throughout Vanuatu

TIMELINE OF EVENTS

| | | | | | | |
|---|---|--|---|------------------------------------|---|---|
| Nov 07 CoM approves new Telecommunications Policy | Dec 07 Telecom Act amended | 19 Dec 07 Settlement Agreement | 28 Feb 08 Regulator appointed and delegation | 10 Mar 08 Settlement Day | 11/14 Mar 08 TVL & Digicel licences | |
| 13 Mar 08 Interconnect Agreement | 25 Jun 08 Digicel Launch (duopoly until March 2011) | 11 Mar 09 CoM approves open licensing policy | 2009 More telecom licences (not mobile telephone) | 2009 New Telecom Act | Sep 10 TVL receive VT 80 M for uneconomic customers | Sep 10 TVL awarded UAP 10 sites |

Coverage & Customers

Over 85% of Population have mobile phone coverage
11,000 internet users
7,000 fixed line customers (whom can access TVL dial up access)

Competition

The Vanuatu Government policy of increasing competition in the telecommunications sector has continued to deliver major dividends, with sustained price reductions and further increases in both coverage and access throughout Vanuatu.

Growth in the telecommunication sector is estimated to have contributed around 1% per annum to GDP. Over 85% of the population now have mobile coverage. Penetration has increased from 11 to 71 mobiles per 100 population since 2007. Latest 2009 census indicates 76% of households have a mobile phone.

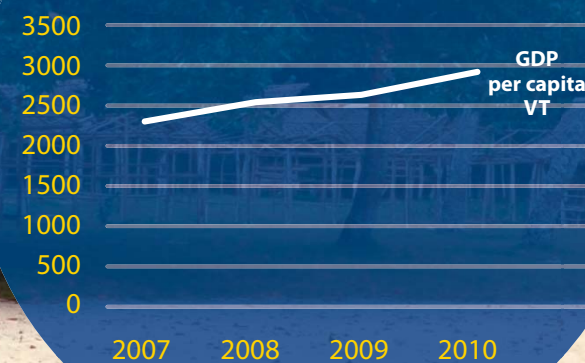
- **Internet access will grow with six new licenses recently issued. Four internet service providers are now operating, ending the monopoly from 2009:**
- **increased competition in the sector is expected to deliver faster internet at lower prices**
- **The ICT revolution is expected to contribute strongly to GDP growth in coming years**
- **Telecommunications reform is a catalyst for further private sector investment. For example, the proposed submarine cable is expected to dramatically improve internet connectivity and contribute to economic growth and tourism in the years ahead.**

Total Telecoms Revenue

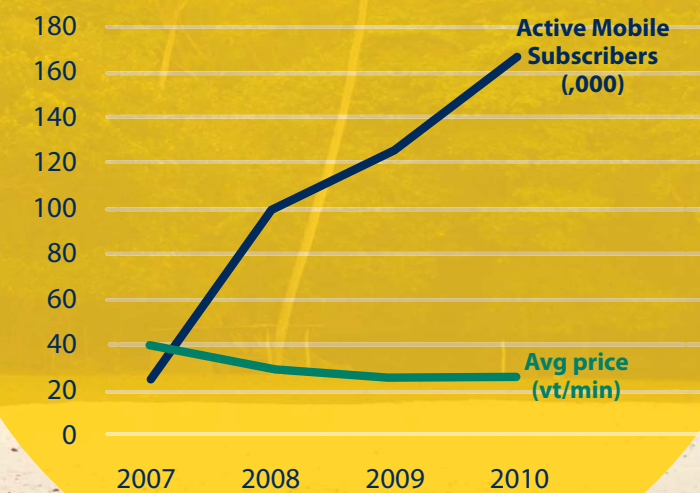
(VT ,000)



GDP per capita VT



Number of Active Mobile customers & Falling Mobile retail prices from 2007 to 2010



The Telecommunication & Radiocommunications Regulator

In 2010 TRR published its Vision, Mission and Values:

VISION

A communications environment that enriches the social, cultural, customs and commercial fabric of Vanuatu.

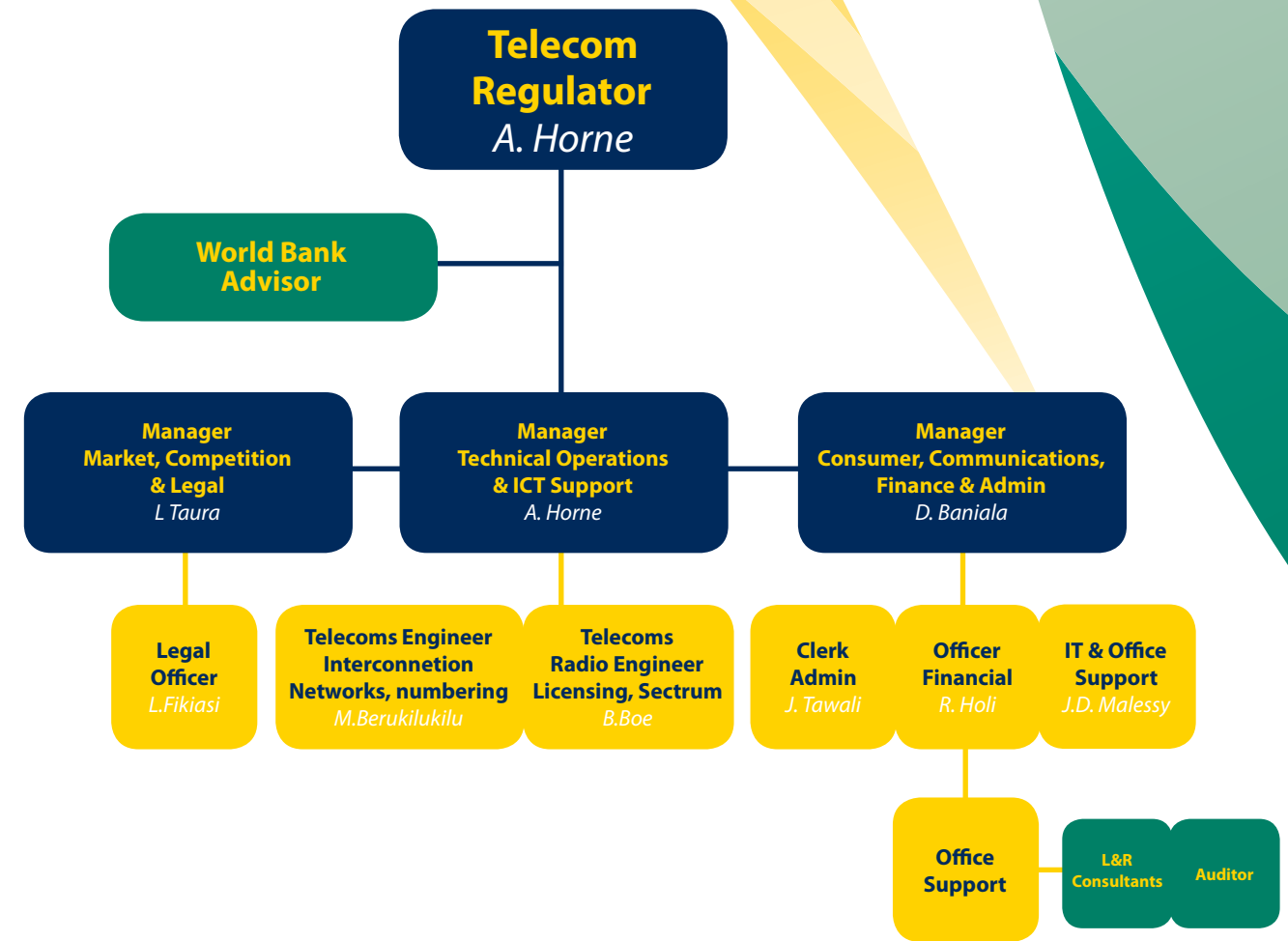
MISSION

To develop a competition led market for the provision of innovative information and communications services, available to all, which: encourages sustainable, economically efficient investment; respects the interests of consumers; fosters ecologically friendly initiatives; and supports the social, cultural, customs and commercial welfare of Vanuatu.

To continue to build as an exemplar regulator within the region through thought leadership and to be the employer of choice by: investing in our people to develop a professional, passionate team; transparency and fairness in operations; and adherence to quality assurance."

VALUES

- Inspiring** Our imagination, clarity of thought and clear leadership stimulates innovative thinking that meets the needs of tomorrow.
- Commitment** Our drive and determination to achieve excellence, our discipline in the execution of our duties, our focus on the development of our team, and our sense of responsibility instil passion for the development of Vanuatu.
- Respect** Our respect for each other is ensured by listening, collaborating and having consideration for each other, the public and licensees we work for, the rule of law, confidentiality, intellectual property, customs, environment, future generations.
- Balanced** Our evidence based approach to decision making and our adaptability ensure that we remain proportionate, consistent, fair and just.
- Transparency** Our open and inclusive approach to regulation ensures that we are held responsible and our actions and decisions are understood.



A New Regulator was appointed on the 1st October 2010 as a result of an international open and transparent Public recruitment process following procedures set out in the 2009 Act. This resulted in Alan Horne, a British born national, replacing John Crook, a New Zealand National, who had successfully completed a two and a half year term as independent Regulator. The 2009 Act sets out the independence of the Regulator. Other than the Regulator and World Bank Advisor, all staff in the TRR office are Vanuatu Nationals and all have signed contracts agreeing to independence from political activities.

"Vanuatu has set an excellent example in the region by the establishment of the independent regulator and the opening up of the market.

One of the most important actions the Government took was to sell its shares in TVL ensuring that, going forward, it did not have any conflict of interest through being independent from the operation of a telecommunication network." says Mr Horne. "The next stage of development is to achieve a rapid roll out of fast internet access at lower prices to be accessible to every citizen throughout Vanuatu.

To achieve this the private sector, which has already invested in the expansion of the mobile services, will be required to show its confidence in Vanuatu by now investing in new submarine cables, the first to Fiji. Further significant investment is needed in fixed and wireless access to give high speed connections to everyone".



An event was held on 21st Oct. 2010 headed by the Honourable Minister Moana Carcases Kalosil, Minister of Interior at the time, who was representing the Prime Minister. The event was held in honour of Mr John Crook who had completed his 2 ½ year term as Telecommunications Regulator. The event was also used to formally welcome the new Regulator Mr Alan Horne. The Honourable Minister opened the evening saying that over the past two years Vanuatu had seen a rapid growth in the use of mobile phones since the opening up of the market and the introduction of Digicel. The Minister thanked John for his work in making this happen.

Honourable Minister Sela Molisa, then Minister of Finance Minister said in his speech that the growth in economic activity was considerably assisted by the increase in people now owning mobile phones. Honourable Minister Raphael Worwor, Acting Minister for Infrastructure & Public Utilities, at the time, thanked John for his hard work and presented him with locally crafted gifts to remind John of his time in Vanuatu.

Presentations of thanks were also given by Mr John Clancy, CEO of Digicel, Mrs Anniva Tarilongi, CFO of TVL and Simon Cramp of AusAID Governance for Growth Program.

Mr John Crook praised the vision of the Prime Minister and his Ministers in opening up the Telecommunications market. During his term John not only implemented the Policy of the

Government but built up a strong and increasingly talented ni-Vanuatu team in the Office of the Telecommunications Regulator. John also thanked AusAID for supporting the establishment of the Office and training of the staff".

Alan brings a wealth of practical experience in the development and regulation of new markets in more than 20 countries. His experience over the last three years as the Telecoms Regulator in Bahrain will be particularly useful in Vanuatu in the next stage of market development.

On behalf of the Telecom Regulators Office, Alan Horne presented a specially commissioned painting by local artist Mr J John depicting ni-Vanuatu people using different forms of communications, from drums to modern day mobile phones.

TRR's staff capacity has been strengthened through development of job descriptions and introduction of a new performance management system.

National Information & Communications Technology (ICT) Services Policy

MIPU formed a steering group, chaired by DG MIPU, in 2010 to prepare the National ICT Services Policy. The working group is being chaired by the Regulator.

The National ICT Vision is "ICT for all". With this vision the Government of Vanuatu aims to use ICT as a tool to create jobs, put more food on everyone's table, provide more job opportunities, give children a better education, enhance health services, educate people about environment and climate change issues, and secure a brighter future for all.

To enact the vision, 7 Goals have been identified:

- (i) Access and Affordability of Communications
- (ii) Human Resource Development
- (iii) Economic Growth
- (iv) Social Development
- (v) Environmental support
- (vi) Good Governance and
- (vii) Legal Framework and Security

The National ICT Services Policy will be submitted to the Council of Ministers by MIPU after a Public consultation period in Q1 2011.



Universal Access Policy

Section 17 of the Telecommunications Law requires that the Minister for Infrastructure and Public Utilities (MIPU) develop a Universal Access Policy (UAP) for improving access to telecommunications services for locations which are not or not adequately served by existing services. The Policy must be approved by the Council of Ministers (COM). The Telecommunications Law requires that consultations must be held with TRR and interested parties in developing the UAP.

In Q4 of 2010 a draft UAP policy was prepared which will go out for consultation in Q1 2011.

Sections 18 and 19 of the Telecommunications Law address a number of important top level policies. These include TRR being the manager of the funds and the source of funds. Article 19 (3) requires that the UAP Fund be used for two areas. The first is to compensate TVL for uneconomic or loss making customers pursuant to the Settlement Agreement. The second is to use the fund to subsidise service providers.

The Draft Universal Access Policy (available on www.trr.vu) proposes that a key objective of the UAP Fund is to support achieving Ubiquitous Broadband Communications for all. It envisages that funding will be provided for uneconomic areas and infrastructure. If, for example, commercial funding is not forthcoming for the diverse submarine cable then it is intended that the UAP Fund will be used to subsidise the supply of this important infrastructure after a competitive tendering process.

In August 2010 the Government agreed to the extension of the mobile telephone service in areas where TVL and Digicel have indicated that they do not intend to provide services on a normal commercial basis. The Government decided that mobile service should be provided in the ten remote locations: Aneityum, Futuna, Gaua, North Maewo, Pentecost East, Santo North West, Vanua Lava, East Erromango, South East Tanna and the Torres Group. The Regulator through competitive tendering awarded the first UAP Fund contract with TVL to provide mobile services in these areas.

Under the Settlement Agreement signed in 2007 between the Government and TVL shareholders, TVL was able to make a claim each year up to the end of 2012 against the Universal Access Policy Fund for the losses it incurs in providing fixed-line services to the remote areas.

In September 2010 TVL was awarded, from the UAP Fund, 80 Million Vatu in full and final settlement to cover any losses on uneconomic customers. This arrangement now finalises the Settlement Agreement. This arrangement relates to about 1200 of TVL's fixed line customers in remote locations that receive telephone service via rural radio systems.

The Council of Ministers approved the TVL settlement payment, as required by the Public Finance and Economic Management Act and associated Regulations. The money used was placed in the UAP Fund by the Regulator which was received from Licence fees paid by Telecoms operators including TVL.



Investments under Universal Access Policy fund are expected to further increase mobile coverage to even more rural and remote areas.

Access has been extended in 2010 to four out of ten sites identified under UAP (North Maewo, Gauau, Vanua Lava, and East Pentecost). With further sites being implemented in 2011.

Sites to be targeted under UAP include: North Maewo, Gaua, Vanua Lava, NW Santo, Aneityum, Futuna, Torres Group, SW Tanna and East Erromango.

Consultation

The Regulator released, on the 12th November 2010, a draft Consultation Guideline for Public Comment. The document aims to inform all stakeholders of the process by which the Regulator will consult on its Work Plan, Regulations, Orders, Determinations and Decisions. In carrying out the duties, as set out in the Telecommunications and Radiocommunications Regulation Act 2009, in a transparent manner The Regulator invited comments on the Draft Consultation Guidelines from telecom licensees, stakeholders and the public.

Respondents were given until 4 pm on 16th December 2010 to submit their comments.

Three Year Work Plan

The Regulator has undertaken a series of interviews with all stakeholders in preparing a Draft 3 year TRR Work Plan which will go out for Public Consultation before the end of 2010. The visibility of a three year plan should support regulatory stability and promote innovation and long-term investment. The Regulator is using consultations and the National Policies to develop a regulatory and policy framework that balances Governments' and investors' needs.

Number Plan

The Regulator has developed a Numbering Plan and issued blocks of numbers satisfying the needs of the two mobile operators.

The Government has exempted importation duties and VAT on mobile infrastructure equipment and software.

Licensing Policy

The issuing of a Licensing Policy setting out the Policy in managing spectrum and the issuing of a General Licence for certain spectrum usage.

International Connections

The Government and Regulator are supporting the commercial sector in its plans to lay diverse submarine cable. This is essential to bring down international internet access costs and support the investment in, and take up of broadband mobile and fixed line services.

Spectrum

In 2010 the Regulator prepared a National Spectrum Plan and stated it will make available additional spectrum for LTE mobile service if required by operators.

Licences – as of December 2010

Types of Licences issued by TRR

- a) Service Licence
- b) Radio Licence
- c) Spectrum Licence

Service Licences

A number of Service Licences have been issued since the liberalization of the Telecommunications sector and beginning of competition. These licences are generally known as 'Telecom Licences' or Service licenses. All Service Licences issued are non-exclusive – meaning that the licensees can provide any of the regular Telecommunication services with these licenses.

There have been 12 Service Licences issued (to 31 Dec 2010), and these have been issued to:

1. Telecom Vanuatu Limited (TVL)
2. Digicel (Vanuatu) Ltd
3. Telsat Broadband Ltd
4. Can'l Holdings Ltd
5. Computer & Network Services Ltd (CNS)
6. Hotspotz Limited
7. Incite Ltd
8. eTech Ltd
9. Wavecom Ltd
10. MICOMS Ltd
11. Interchange Ltd
12. Yumi Konek

Radio Licences

Radio licences are issued to individuals or organisations and companies who operate radio transmitting devices. A radio licence has a call sign and a radio frequency associated with it. A customer or licensee may have more than one radio licence depending on the number of devices and/ or frequencies he is licensed for. Radio licences are issued for 12 months or part there off and are renewed each year. The number of active radio licences as of December 2010 was;

- 130 customers/ licensees, and
- 550 radio licences

Spectrum Licences

Spectrum Licences are licences issued to individuals, organisations or companies who operate private or public networks and who are assigned a frequency or frequency band for use nationwide or in a specific location or geographical area of Vanuatu.

As of December 2010 no spectrum licences were issued. TRR plans to issue spectrum licences in 2011 once current activities to develop a new licensing fees schedule has been completed and adopted.

TRR Orders & Decisions in 2010

Decision on Predatory Pricing, September 2010.

This Decision relates to an allegation of predatory pricing by Digicel, made by TVL in June 2010. The Digicel promotion in question is "Free Calls Overseas". The Regulator concluded that there was 'no evidence to suggest that Digicel has undertaken predatory pricing.'

TVL ordered to connect with new Internet Service Provider Can'l.

On 1st November 2010, the Regulator Mr. Alan Horne ordered TVL to provide interconnect link with Can'l. Can'l is a New Caledonia-Based Internet Service Provider that has a local company in Port Vila to provide Internet Service, and was issued a Telecommunications licence in September 2009. However, due to inability to obtain connectivity with TVL for its required services, Can'l had requested the Regulator to intervene as required under the Telecommunication and Radiocommunications Act No.30 of 2009.

*This Decision may be viewed in full at:
<http://www.trr.vu/attachments/article/35/Regulator's%20Decision.pdf>*

*The detail of this Order may be viewed at:
<http://www.trr.vu/attachments/article/35/Order%201.pdf>*

| | National Fixed | International Calls | Mobile | Internet | Leased Line | Radio | TV | Other Data Services |
|------------|----------------|---------------------|--------|----------|-------------|-------|----|---------------------|
| TVL | √ | √ | √ | √ | √ | | | √ |
| Digicel | √ | √ | √ | √ | | | | |
| Can'l | | | | √ | | | | |
| Telsat | | | | √ | | | √ | |
| SPIM | | | | √ | | | | |
| Yumi Konek | | | | √ | | | | |
| Hotspots | | | | √ | | | | |

Income Statement For the year ended 31 December 2010

| | 2010 | 2009 |
|---|--------------------|-------------------|
| Operating revenue | 89,535,918 | 84,445,356 |
| Operating expenses | (68,062,550) | (18,808,255) |
| Operating surplus before payment to Universal Access Fund | 21,473,368 | 65,637,101 |
| Universal Access Fund | (30,000,000) | (50,000,000) |
| Operating (deficit) / surplus after payment to Universal Access Fund | (8,526,632) | 15,637,101 |

Statement of Financial Position As at 31 December 2010

| | 2010 | 2009 |
|----------------------------------|-------------------|-------------------|
| Current assets | | |
| Cash and cash equivalents | 39,132,956 | 54,551,127 |
| Receivables | 21,456,897 | 22,299,620 |
| Other assets | 14,553,915 | 931,812 |
| | 75,143,768 | 77,782,559 |
| Non current assets | | |
| Plant and equipment | 11,687,297 | 3,338,485 |
| Total assets | 86,831,065 | 81,121,044 |
| Current liabilities | | |
| Creditors and accruals | 14,555,533 | 1,151,399 |
| Provisions | 458,699 | 60,822 |
| | 15,014,232 | 1,212,221 |
| Non current liabilities | | |
| Provisions | 1,813,820 | 1,379,178 |
| Total liabilities | 16,828,052 | 2,591,399 |
| Net assets | 70,003,013 | 78,529,645 |
| Accumulated surplus | 70,003,013 | 78,529,645 |
| Total accumulated surplus | 70,003,013 | 78,529,645 |

The statement of financial position is to be read in conjunction with the notes forming part of the full financial statements available from TRR.

Compte de résultat pour l'exercice clos le 31 décembre 2010

| |
|--|
| Produits d'exploitation |
| Charges d'exploitation |
| Résultat de l'exercice surplus avant versement au fond d'accès universel |
| Fond d'accès universel |
| (Déficit) D'exploitation / excédent après versement au fond d'accès universel |

Bilan Au 31 décembre 2010

| |
|-------------------------------|
| Actif circulant |
| Disponibilités |
| Créances |
| Actifs divers |
| Actif immobilisé |
| Immobilisations corporelles |
| Total de l'actif |
| Dettes à court terme |
| Fournisseurs et autres dettes |
| Indemnités du personnel |
| Dettes à long terme |
| Indemnités du personnel |
| Total des dette |
| Actif net |
| Report à nouveau |
| Report à nouveau |

Le bilan doit être lu en tenant compte des notes faisant partie du bilan financier disponible à TRR.



Telecommunication & Radiocommunication Regulator

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