

# **Georgian National Communications Commission**



**Annual Report  
2007**

## Table of Contents

<b>Chapter I.....</b>	<b>3</b>
Accountability and Structure .....	3
Members of the Georgian National Communications Commission.....	4
Budget and Financial Resources .....	7
Governing Legislation .....	9
Legislative Changes 2007 .....	9
<b>Chapter II Review of Performed Activities .....</b>	<b>10</b>
Resolutions of the Commission .....	10
Decisions of the Commission .....	12
Auctions/ Contests .....	14
Contests.....	15
Authorization .....	15
Licensing.....	16
Numbering Resource .....	17
Research and analysis of market segments .....	18
Defining tariff caps .....	19
Monitoring and management of radio frequencies .....	19
Disputes.....	21
<b>Chapter III Review of Electronic Communications Service Market of Georgia.....</b>	<b>24</b>
Share of Revenues of Electronic Communications Sector in GDP .....	25
Dynamics of Development of the Segments of Electronic Communications Service.....	26
Market .....	26
Fixed Communications Service .....	27
Mobile Telephony.....	29
TV and Radio Broadcasting.....	30
Internet Service .....	31
<b>Chapter IV Strategic Plan.....</b>	<b>32</b>
2007-2010 .....	32
Strategic Goals .....	32

# Chapter I Georgian National Communications Commission

## Mission

Drive Georgia into the new era of informational-communication technologies.

## Vision

- Support the development of the electronic communications market
- Support the formation of a competitive and open environment
- Create a flexible and adequate response mechanism to the market changes
- Support the development of the informational society
- Act as a mediator between the companies and the customers
- Support the creation of an attractive and stable business environment for investing

## Values

### We believe that:

- the development of electronic communications sphere supports the overall economic growth of the country;
- open and transparent relationships support the building of confidence between the market actors and customers;
- regulation based on transparent market principles and equality and non-discrimination in decision-making are the preconditions for the development of competition and introduction of innovations on the market;
- establishment of a competitive market environment supports increased access to services and protection of customer rights;
- stable and predictable market environment is the basis for attracting foreign investments and implementing new technologies and innovations;
- flexible regulation mechanism, market-oriented approach, introduction of simple and understandable rules lead to effective and successful results;
- effective distribution of limited resources is the prerequisite for the development of competition in the electronic communications sphere.

## *Accountability and Structure*

Georgian National Communication Commission (hereinafter “the Commission”), as an independent regulating authority is guided by the principles of independence, publicity and responsibility in its activities.

The Commission is accountable to the public, which is logically based on its commitment to act in accordance with public interests. Its activities are transparent, meetings are public and open for interested persons; the Commission submits its annual report to the Parliament and the President of Georgia. The Commission is a collegial body and under the Law of Georgia on Broadcasting (adopted on 23 December 2004) consists of five members. The Commission, in the scope of its competence and by a majority vote issues legal acts: resolutions, decisions and the Chairman’s orders. The legal acts of the Commission may be appealed in the Court in accordance with effective legislation.

## ***Members of the Georgian National Communications Commission***

### ***Chairman of the GNCC – Mr. Giorgi Arveladze***

Giorgi Arveladze was born on April 15, 1982, in Tbilisi.

In 1999 he entered the Georgian Technical University, the faculty of humanitarian and technical studies on the profession of a banking specialist. He graduated in 2003 with a B.A. diploma. In 2004 he entered the Institute of Public Affairs on the Public Administration Master's course and graduated in 2005 as the M.A in Public Administration.

In 2005 he was appointed as the Assistant Minister of Economic Development of Georgia. In 2005-2006 he headed the General Inspection of the LLC Georgian Railway. In 2006-2007 he continued his career on the post of the Head of the General Inspection at the Ministry of Defence. Since 2007 to present he is the Chairman of the GNCC.

He is fluent in Georgian, English and Russian languages; is married and has one child.

### ***Member of the GNCC - Mr. David Pataraiia***

David Pataraiia was born on October 1, 1971, in Tbilisi.

After graduating the secondary school #150 of Tbilisi with a golden medal in 1988, he continued his studies at the Ivane Javakhishvili Tbilisi State University on the faculty of law and later on the faculty of international law and international relations. In 1993 David Pataraiia graduated from the Tbilisi State University with a lawyer's degree.

In 1992-1993 he studied in Germany - first in the University of Nierenberg and later in the University of Saarland.

In 1992 he became the member of the State Council of Georgia.

Since 1997 till present he has been working at the faculty of international law and international relations at the Ivane Javakhishvili Tbilisi State University first as a lecturer, and since 2004 - as an assistant professor. He delivers lectures and conducts the course of workshops on "International Public Law".

Since 2005 he is an associate professor at the International Law Institute of the faculty of law of Ivane Javakhishvili Tbilisi State University; conducts the lectures on "International Public Law".

Since 1997 till May 2000 he worked as political reviewer of the radio "Tavisufleba". At the same time, he has been conducting law practice since 1996.

On June 11 of 2000 under the President's Order No. 596 David Pataraiia was appointed as the member of the first staff of the National Regulatory Commission of Georgia in the sphere post and communications for the term of 2 years. On June 11 of 2002 under the President's Order No. 751, he was appointed for the second term as the member of the Georgian National Communications Commission for the term of 6 years.

Since September 18, 2002, he is the holder of Ph.D. degree in legal sciences.

He has two children.

***Member of the GNCC - Mr. George Pruidze***

George Pruidze was born on September 23, 1968, in Tbilisi. In 1985 he graduated from the Tbilisi secondary school N 102. In 1985-1992, he studied at the faculty of hydro-melioration of the University of Agriculture of Georgia.

In 2002-2004 he studied at the faculty of economics at the Ivane Javakhishvili Tbilisi State University, on the specialty of Finances and Banking.

In 1987-1989 he attended the obligatory military service.

In 1993-1994 he worked at the constructional bureau of “Sakgvirabmsheni” as an engineer.

In 1994-1996 he worked in the building management of the Hydrometeorological Department of Georgia as an engineer.

In 1996-2001 he worked at the Administrative Inspection of the Tbilisi City Hall on different positions and finally as the Head of the Department.

In 2001-2003 (till the liquidation) he worked at the Ministry of State Property of Georgia, on the positions of the Head of General Inspection of the Ministry and the First Deputy Minister.

From 2003 till July 2004 he was the Deputy Chairman of the LEPL – “State Property Management Agency”.

On 19 July 2004 under the President’s Order No. 618 he was appointed as the member of the Georgian National Communications Commission and keeps the post until today.

George Pruidze is married and has a son.

***Member of the GNCC - Mr. Zurab Nonikashvili***

Zurab Nonikashvili was born on July 6, 1957, in Tbilisi. In 1974 he graduated from the Tbilisi secondary school N 2.

In 1975-1980 he studied at the faculty of economics at the Ivane Javakhishvili Tbilisi State University, on the specialty of industry planning economist.

In 1981 he worked as an engineer at the special constructing bureau of “Temka”.

In 1981-1989 he worked at “Samto Kimia” at different positions (finally the Deputy Chief Accountant).

In 1989-1992 he worked at “Macivarkombinati #4” on the position of Head of the planning-production department.

In 1992-1993 he worked at the State Inspection of the Ministry of Finance of Georgia on the position of Chief Accountant.

In 1993 he was recruited to the State Army of Georgia, where he served till 2002 as the Assistant of the Head of the Treasury-Budget Department of the Ministry of Defence/Head of the Budget Planning and Analysis Department.

In 1998 he was sent to the school of NATO in Germany. He is a reserve officer.

From November 30, 2003 to June 7, 2005, he worked at the Central Elections Commission of Georgia at the following positions: member of the Commission, secretary of the Commission, acting chairman of the Commission.

On July 5 of 2005 he was appointed as the member of the GNCC by the President's Order N 533.

Zurab Nonikashvili is married and has two children.

### ***Member of the GNCC – Mr. Karlo Kvitashvili***

Karlo Kvitashvili was born on August 9, 1958, in Kutaisi.

In 1965-1975 he studied at the Tbilisi secondary school #60. In 1975 he entered and in 1980 graduated from the Ivane Javakhishvili Tbilisi State University, the faculty of chemistry. In 1984-1987 he completed the postgraduate course at the Petre Melikishvili Institute of Physics and Organic Chemistry of the Academy of Sciences of Georgia with speciality in petroleum chemistry.

In 2001 he passed a three-step course in “Peace Building and Conflict Resolution” at the International Research Center for Conflicts and Negotiations. He holds a Ph.D. degree.

In 1984-1999 he participated in the publishing of four scientific articles, attended twelve union and international assemblies, symposiums and conferences. He is the author of theses and holds a copyright certificate on an invention. He has been the participant of many conferences and workshops dedicated to the themes of the elections and conflict resolution in 2001-2005. He is the author of five brochures published with regard to the elections in 2003.

In 1981-2007 Karlo Kvitashvili worked on the positions of the senior laboratory assistant, junior research assistant, senior research assistant and deputy head of the laboratory at the Laboratory of Liquid Fuel Chemistry and Technology of the Petre Melikishvili Institute of Physics and Organic Chemistry. In 2003 he was appointed as the member of the Central Elections Commission of Georgia. In 2004 within the CECG he was transferred to the post of the secretary of the Commission. In 2005-2007 he continued to work as the Chairman of the Supervisory Board of the LLC “Poti Sea Port”. In 2007 he was appointed as the advisor to the general director of the LLC “Poti Sea Port”. Since 17 November of 2007 he is the member of the GNCC.

He is fluent in Georgian, Russian and French; is married and has two children.

## ***Budget and Financial Resources***

### **Budget of the Georgian National Communications Commission for 2007**

The Georgian National Communications Commission (hereinafter “the Commission”) states, that according to the approved annual budget plan of GNCC for the year 2007 the annual gross revenue from the regulation fee has amounted to GEL 6,498,980.85 (account attached) instead of GEL 6,960,000.00 projected by the budget 2007 (including the provision of 1,200,000.00), which is less by GEL 461,019.15 than the approved figure. Without the provision, the amount is GEL 6,498,980.85 as opposed to GEL 5,760,000.00 envisaged by the budget, which is by GEL 738,980.35 or 12.83% more than planned. One of the reasons of growth of gross revenues is the increase in revenues of the authorized undertakings in the sphere of electronic communications and delayed submittance of calculations of the “2006 Regulation Fee”, i.e. addition of certain earnings of 2006 to the annual revenues of 2007.

In line with the growth of 2007 revenues, the expense side of the budget 2007 of GNCC is by GEL 394,941.03 i.e. by 5,9% less than planned amounting to GEL 6,261,746.97 instead of GEL 6,656,688.00.

The Commission states that despite the savings achieved in most items of the expense side of the budget, in separate items overspendings were reported. The savings in separate budget items as per the actual 2007 data were used by the Commission within the authority granted under the Laws of Georgia on Electronic Communications and Broadcasting to finance some priority operational items of expenditures and as considered reasonable, in some cases, to make changes to the operational expense items and reallocate the additional financial resources releases due to the savings obtained in separate items and the financial reserve of the past years to other priority items of the budget, namely:

The costs of communications, electricity and water have made up GEL 230,623.18 instead of the planned GEL 180,000.00, which exceeds the approved annual budget indicator by GEL 50,623.18. From the expenses under this item the total cost of electricity amounted to GEL 37,649.72, water - GEL 8,180.40, gas - GEL 6,823.61, and the cost of communications - GEL 177,969.45, in which the rent payment for renting the Tbilisi-Poti digital channel (fibre-optic) for connection with the internet and radio monitoring fixed stations (mount Urta and mount Dzegvi) of GNCC made up GEL 64,071.00, which is more than the planned annual budget figure by GEL 50,623.18 or by 28.12% in total.

The vehicle fuel, maintenance and repair costs amounted to GEL 123,404.67 according to the actual expenses of the year 2007, which is by GEL 43,404.67 i.e. by 54.26% more than projected by GNCC budget. The increase in the expenditures side was caused by the increase of fuel prices, the number of service vehicles for the GNCC needs and the constant and regular travel and field visits of the monitoring group to the fixed radio monitoring stations (mount Urta and mount Dzegvi).

The annual business trip expenses increased by GEL 30,046.40 as opposed to the planned figure exceeding the corresponding 2007 parameter by 20.03%. The increase in business trip expenses was due to actual funding of required and targeted business trips to increase the efficiency of the business; here the participation in conferences and work groups outside the country associated with the implementation of new technologies of digital broadcasting and coordinated international distribution of new broadcasting standards and frequencies (Radiocommunications Regional Conference RRC,

Radiocommunications World Conference ITU) should be noted, as well as business trips on the territory of Georgia, mainly carried out for verification of license terms and radio electronic equipment of licensee companies and on-site checking of technical parameters.

The costs of conducting conferences, workshops, trainings and service fees for specialists and experts and other expenses according to the actual annual data amount to GEL 45,992.73 i.e. the expense is by GEL 11,255.33 (37.52%) more than the planned budget indicator, basically attributed to payments of membership (GEL 29255.33) and training (GEL 16,737.40) fees of employees during their participation in conferences and workshops.

Expenses foreseen by other common expense items have increased by GEL 39,607.55, which instead of the planned GEL 100,000.00 made up GEL 139,607.55. This overspending was caused by: the cost of advertising services for spreading announcements, amounting to GEL 15,001.28 according to the actual 2007 data, building security costs - GEL 58,800.00, actual costs for transportation, installation and maintenance of air conditioners - GEL 6,688.79, insurance costs (excluding health insurance) - GEL 4988.00, sanitary service fees - GEL 2,710.94, administrative expenses - GEL 11,169.06, vehicle service (taxi) costs - GEL 4,881.06, car wash services - GEL 11,930.00, other preliminary expenses (cartridge re-fills, procurement of computer parts) have amounted to GEL 17,788.31, costs of computer hardware/software and other payments (notary fee) have totalled to GEL 5650.11.

Meanwhile, the following savings were obtained in the basic budget articles of the 2007 GNCC budget, in particular:

The expenses spent on procurement of fixed assets made up GEL 2,266,947.57 (including: the telemetric electronic devices (peoplemeters)) i.e. by GEL 333,052.43 (12.80%) less than planned for the period.

The annual expenditures for stationary, post, purchase of press and poligraphic services have amounted to GEL 48,329.11 i.e. GEL 1,670.89 (3.34%) less than planned, including: stationary expenses - GEL 10,940.65, post expenses - GEL 8,467.75, poligraphic expenses - GEL 15,557.00, subscription to newspapers and magazines - GEL 8,376.10.

The costs for scientific and consultancy services made up GEL 22,045.00 i.e. by GEL 27,955.00 or 55.91% less than projected in the annual budget: auditor's review - GEL 2,545.00, sociological research - GEL 19,500.00.

According to the actual 2007 data for the corresponding period the expenses under the representation expenses item made up GEL 10,668.00 vs. the planned GEL 15,000.00, which is by GEL 4,332.00 or by 28.88% less than the figure approved by the annual GNCC budget.

Under the ongoing repair works of the GNCC office for the corresponding period of 2007 GEL 500.00 are spent for the repair of the electric door, GEL 4,061.44 – for the repair of the building façade; GEL 70,000.00 were allocated to this item in the budget for the corresponding period, otherwise, the saving is GEL 65,025.56.

Savings are obtained also in the annual actual employee remuneration costs, which together with budgetary deductions amounted to GEL 3,069,019.51 i.e. by GEL 74,980.49 less than planned.

There are savings in the basic expenditure side for the Public Defender's Service for Protection of Customer Interests, where the expenses amounted to GEL 102,348.81 instead of the planned GEL 152,688.00, i.e. less by GEL 50,339.19.



## ***Governing Legislation***

The Commission is guided in its activity by the Laws of Georgia on Electronic Communications, on Independent National Regulating Authorities and on Broadcasting, as well as the bylaw acts adopted by the GNCC.

## ***Legislative Changes 2007***

In 2007 changes were made to the Laws on Electronic Communications and on Broadcasting. In particular, the Paragraph 4 of Article 12 of the Law of Georgia on Electronic Communications was amended. Under this amendment, the regulation fee was defined by 0.5 percent of the difference between the total value of delivery of goods (services) and/or performed work subject to regulation and implemented by an authorized undertaking and the approved payments for granted access and/or interconnection services by other authorized undertakings in the same reporting month; the Law of Georgia on Broadcasting was edited, namely, the term for adopting the broadcaster's code of conduct was defined by 1 July, 2007.

## **Chapter II Review of Performed Activities**

### ***Resolutions of the Commission***

#### **Resolution No. 1**

Introducing the changes in the Resolution No. 6 of June 30, 2006 of the Georgian National Communications Commission On approval of the national plan for allocation of radiofrequency spectrum.

The amendment specified and clarified the concepts of frequency range and frequency bandwidth and the Resolution was brought into compliance with the Law of Georgia on Electronic Communications.

#### **Resolution No. 2**

Introducing the changes in the Resolution No. 313 of December 12, 2005 of the Georgian National Communications Commission On approving the charter of conducting auctions for obtaining the right of use of the frequency spectrum and/or numbering resource.

The amendment to the Resolution adopted in 2005 provides for the increase of the initial auction fee for obtaining the right of use of the customer numbering resource and the right of use of the three-digit resource, what was preconditioned by the fact that on the auctions conducted by the Commission in 2006-2007 for obtaining the right of use of the numbering resource to implement local telephone connection services using the customer numbering the difference between the initial and final prices for the use of the resource has amounted to no less than 5%, and in some cases the auction gain of the price was min. by 5.8 times. Based on this the Commission considers it expedient to establish the initial auction value of obtaining the right of use of the customer numbering resource close to the average price recorded on performed auctions in the amount of GEL 2000 for a one-thousand customer numbering block, instead of GEL 1500.

#### **Resolution No. 3**

On adopting the Charter of the Georgian National Communications Commission

In the result of restructuring of the Commission it was necessary to elaborate and approve the new charter of the Commission, which defined the legal status, the order of formation and the goals of the Commission, its functions and objects of activity, competencies of authorized representatives, the organizational structure of the Commission's office staff, budget, and the terms and conditions of liquidation.

#### **Resolution No. 4**

Introducing the changes in the Resolution No. 6 of June 30, 2006 of the Georgian National Communications Commission On approval of the national plan for allocation of radiofrequency spectrum.

The amendments specified the issues associated with the usage of the frequency range provided by the national plan for allocation of the radiofrequency spectrum in accordance with the principle of technological neutrality envisaged by the Law of Georgia on Electronic Communications.

#### **Resolution No. 5**

On approval of Methodological rules of defining appropriate market segments and analysis of competition.

The Resolution establishes transparent procedures and methodological rules for conducting research and analysis by the Commission for the purposes of preliminary regulation of competition within the scope of competence granted by the law, which provide for: methodological rules and regulations for defining appropriate market segments for the services of shared electronic communication networks and means, conducting research and analysis of competition in the activities of authorized undertakings in these segments, defining the terms for undertakings with significant market power or jointly for undertakings with significant market power and specific obligations imposed on them, as well as conducting preliminary research to reveal competition among respective market segments during acquisition of shares and merging.

### **Resolution No. 6**

On introducing changes and amendments to the Resolution No.5 of April 20, 2006 of the Georgian National Communications Commission On approving the methodological rules of independent allocation of cost estimates and expenditures by authorized undertakings.

With changes and amendments to the Resolution the requirement of using methodological rules for recording-allocation of costs within the application of methodological rules provided by the articles of the resolution and respectively defining the tariffs was specified even in case of establishment of tariff caps by the Commission.

Introduction of additional clarifications in the Article 2 of the Resolution was preconditioned by the necessity of defining the new category international benchmarks and the subsequent period oriented approach. Defining the above mentioned benchmarks and methodological principle was due to the need to harmonize the newly introduced methodology in Georgia with the methodology used in the best international practices for cost allocation.

Another change attributed to the more specific and transparent definition of methodological rules for clear-cut calculation of the amount of capital value of a specific authorized undertaking and its distribution by service types.

### **Resolution No. 7**

On introducing changes and amendments to the Resolution No. 3 of March 17, 2006 of the Georgian National Communications Commission On approval of the Rules and Regulations (Regulation) for providing services and protecting the customer rights in the sphere of electronic communications.

The changes introduced in the Regulation are intended for improvement of the existing conditions for customers in provision of internet, mobile, international and inter-city connection services and implementation of rules for provision of communication services in line with the present conditions. The amended Regulation regulates the terms of providing services and obligations of the companies, on the one hand, and on the other hand, the rights and responsibilities of customers. While working on the amendments the experience of European countries in regulation of this field of communications has been considered. Based on customer claims a number of issues was prioritized, such as the quality of services compliant with standards, protection of customer data, defending minors from unwholesome influence, accountability and responsibility of the company, internal appeal procedures, etc.

### **Resolution No. 8**

On introducing changes and amendments to the Resolution No.1 of June 27, 2003 of the Georgian National Communications Commission On approving the regulating rules of the activity of the Georgian National Communications Commission.

With changes implemented with regard to procedural issues, the Resolution was brought into compliance with the requirements of Article 95 of the General Administrative Code of Georgia.

### **Resolution No. 9**

On introducing changes and amendments to the Resolution No. 3 of March 17, 2006 of the Georgian National Communications Commission On approval of the Rules and Regulations (Regulation) for providing services and protecting the customer rights in the sphere of electronic communications.

The amendments have been introduced in order to bring the order of issuing personal customer information by the service company into compliance with the requirements of Georgian legislation. The revised Article 8 of the Regulation was drafted so as to prevent conflict of laws, on the one hand, and to avoid interruption in the operation of law enforcement authorities, on the other hand.

## ***Decisions of the Commission***

In 2007 the Commission took 810 decisions in total, which can be classified according to the decision types as follows:

Table 1	
Decisions 2007	
Types of decisions	Quantity
On leaving applications unconsidered	6
On issuing permission for the usage of frequencies allocated to neighbouring countries	9
On warnings	6
On imposing administrative penalties/fines	8
On declaring failure of auctions	2
On announcing auctions	17
On declaring a winner of the auction	20
On announcing contests	8
On declaring a winner of the contest	7
On issuing a license	34
On assigning the numbering	21
On transfer of license	14
On extension of the license term	3

On cancelling a license	8
On approving the Commission's agenda	53
On assigning corns for the usage of high frequency equipment and radio electronic facilities for radio amateurs in order to realize amateur radio connection with amateur radio station	21
On assigning identification marks and corns to marine vessels	19
On assigning frequencies for auxiliary technological purposes for on-line radio connection	334
On commencement of administrative proceedings for cancellation of license	6
Notification on commencement of administrative proceedings	14
Notification of termination of administrative proceedings	5
On commencement of administrative proceedings for modification of the license	5
On termination of administrative proceedings on imposing penalty sanctions	2
On reviewing a dispute	25
On termination of administrative proceedings on a dispute	10
On appointing the date of a dispute	27
On commencement of administrative proceedings on various issues	15
On termination of administrative proceedings on various issues	10
On assigning radiofrequencies for auxiliary technological purposes	6
On assigning retransmitting frequencies for auxiliary technological purposes	15
On commencement of administrative proceedings on imposing penalty sanctions	3
Miscellaneous	77

Based on Paragraph 11 of Article 64 of the Law of Georgia on Electronic Communications, “unauthorized undertakings, whose activities are not connected with provision of shared electronic communication networks and means and/or delivery of services with theses networks and means, but require the usage of numbering for auxiliary technological purposes, the Commission assigns the numbering for auxiliary technological purposes for the term of one year”. Based on this, the Commission has taken decision to assign the numbering in 21 cases.

As it was shown in Table 1, the Commission has taken decisions towards 8 companies to cancel the license. In four cases out of the eight, the company directors have requested to cancel the license themselves; and in the remaining four cases the Commission within its authority took the decision individually due to nonfulfillment of practical activities by the companies.

The Law of Georgia on Electronic Communications provides for creation of the secondary market of the exhaustible resource and, respectively, the procedure of its transferring. During the 2007 the

Commission has made 14 decisions on transferring, according to which the total of 8 licenses for the use of the numbering resource and 10 licenses for the use of the frequency spectrum were subjected to transfer.

In 2007 the Commission took 3 decisions (4 licenses in whole) on extension of the term of licenses owned by the companies. In 2 cases the matter concerned the license for the use of the numbering resource and in 2 cases the license for the use of the frequency spectrum.

17 decisions have been taken on issuing the license for the use of the numbering resource, from which GEL 394,031 have been paid in favour of the state budget. In 2007 the Commission issued 5 licenses for private general radio broadcasting, 1 for private specialized radio broadcasting, 1 private general TV broadcasting and 1 private TV broadcasting (total of 8 licenses in the sphere of TV and radio broadcasting), from which GEL 196,277 were paid in favour of the state budget.

In 2007 the Commission issued 4 licenses for the use of the radio frequency spectrum, in the result of which GEL 32, 862.288 were transferred in favour of the state budget.

334 decisions have been taken for allocation of frequencies designed for on-line radio connection and usage for auxiliary technological purposes. 5 decisions concern the allocation of frequencies and all of them are intended for auxiliary technological or non-commercial activities. Only in one case the requirement of the Article 64 of the Law of Georgia on Electronic Communications was applied, according to which “authorized undertakings that need the radio relay network or one or more sections of the radio relay line to ensure implementation of authorized activity, for non-commercial and internal technological purposes, in accordance with the applications submitted by them to the Commission with indication of basic technical parameters of stations and networks, the Commission is entitled to assign the frequencies to such undertakings for the term of 10 years without the auction. In this case the undertaking pays the initial auction fee for obtaining the right of use of the resource, which is specified under the Regulation of conducting auctions for obtaining the right of use of the frequency spectrum and/or numbering resource; Based on this the liability of the company towards the state budget was determined in the amount of GEL 22.680.

In 2007 15 decisions have been taken with regard to allocation of radio relay frequencies. Out of these in 11 cases the allocated frequencies shall be used for auxiliary technological purposes and in accordance with the legislation, for these the payment is not defined; in two cases the radio relay frequencies were assigned to an authorized undertaking for non-commercial and inner technological purposes, from which GEL 26,348 were transferred to the state budget; one decision was concerning the usage of radio frequencies for mobile communication services, from which GEL 2,780,211 were paid to the state budget.

### **Auctions/ Contests**

From the decisions taken in 2007 54 concerned the auctions and contests.

- 20 Declaring the winner of the auction
- 17 Announcing the auction
- 2 On failure of announced auction
- 8 Announcing the contest
- 7 Declaring the winner of the contest

In 2007 auctions were announced for:

- obtaining license for the usage of radiofrequency with local wideband wireless gateway networks and means – 3

- implementing local communication services using customer numbering – 8 (two were declared void)
- obtaining the license for the use of the numbering resource- 3
- obtaining the license for the use of the radio frequency spectrum -1
- obtaining the license for the use of the radio frequency spectrum for implementing mobile communication services -1

In 2007 the auctions announced in 2006 were conducted for:

- obtaining the license for the use of the radio frequency spectrum - 1 auction with the gain of GEL 19 768
- implementing local communication services using customer numbering - 2 auctions with the gain of GEL 618,750
- obtaining the license for the use of the numbering resource - GEL 34,250.

On the whole the gain from the auctions conducted in the year 2007 amounted to GEL 54,166,839,013.

## **Contests**

In 2007 7 contests were announced for obtaining the license for private general radio broadcasting (one was not conducted in 2007), and 1 contest for obtaining the license for private specialized radio broadcasting.

The earnings were allocated as follows:

Private general radio broadcasting – GEL 147,932  
 Private specialized radio broadcasting – GEL 48,357  
 Total of GEL 196,289

## **Authorization**

By the end of 2007 total of 212 companies had undergone authorization, out of these, for:

- local communication service - 82
- inter-city communication service - 68
- international communication service - 76
- mobile communication service - 20
- internet service - 83
- other communication services - 22
- cable transit TV broadcasting - 97
- cable transit radio broadcasting - 20
- broadcasting services - 10

In 2007 41 legal and physical entities have passed authorization, of these, for:

- local communication service - 18
- internet service - 25
- cable transit TV broadcasting - 21
- international communication service - 17
- mobile communication service - 7

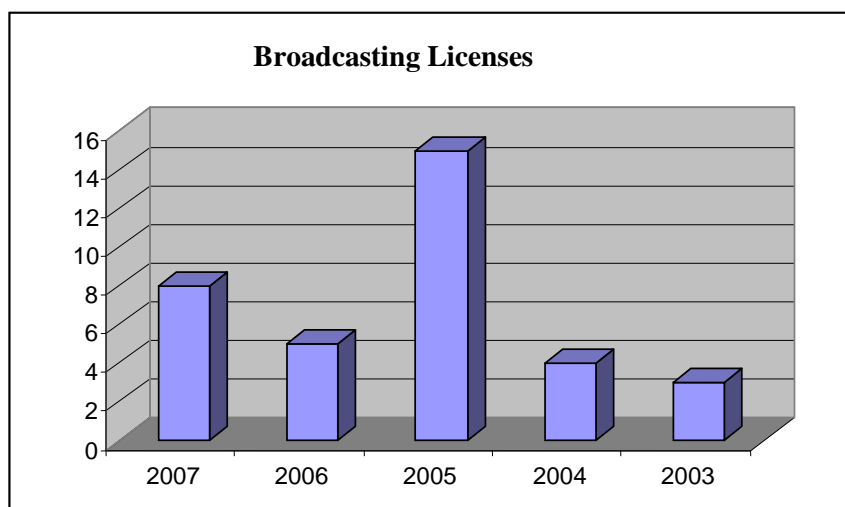
- inter-city communication service - 14
- broadcasting services - 7
- cable transit radio broadcasting - 14.

In 2007 7 companies and 4 individual entrepreneurs applied to the Commission with a request to cancel the authorization. The cancelled declarations can be distributed among the segments as follows:

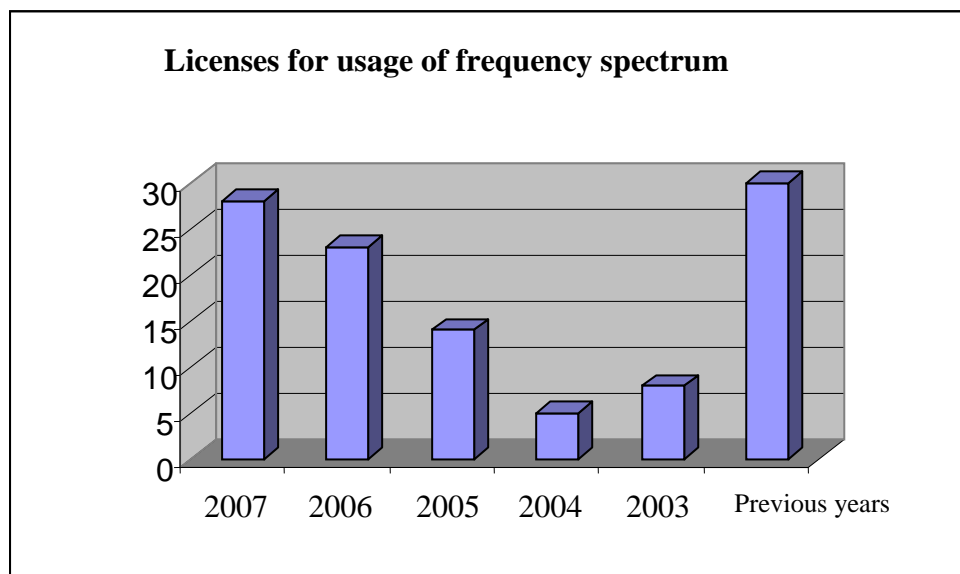
- international communication service - 2
- local communication service
- inter-city communication service - 1
- internet service - 4
- cable transit TV broadcasting - 7
- mobile communication service

Out of the above mentioned cancelled declarations 4 companies and 3 individual entrepreneurs had not started the activity at all due to certain technical and financial difficulties. According to the obtained information the authorizations of other companies were cancelled as a result of technological progress and high competition in the competitive market segment.

## Licensing



By the end of 2007 in total 99 licenses were issued for broadcasting, their distribution by years is shown on the figure.



As of 2007, the Commission has issued the total of 57 licenses for the use of radio frequency spectrum, which are distributed by years as follows:



## Numbering Resource

The Commission is authorized to regulate one of the exhaustible resources of the country – the numbering resource; under the legislation the Commission assigns the numbering resource to the company by a license or a decision according to the purpose of the resource.

In total the Commission has issued 339 licenses for a numbering resource. For instance, throughout Georgia licences have been issued for the total of 48 numbering resources:

Table

Coverage Zone	Resource	Company
Georgia	880	Alphacom
Georgia	861	Adjara Electric Communications
Georgia	8057	Newcom
Georgia	896	Magticom
Georgia	850	Magticom
Georgia	851	Magticom
Georgia	895	Magticom
Georgia	855	Geocell
Georgia	08	Geo Info
Georgia	897	Mobitel
Georgia	890	Magticom
Georgia	818	Global One
Georgia	819	Infotel
Georgia	866	Caucasian Digital Networks
Georgia	814	Goodwill Communications - Goodwillcom
Georgia	816	Georgian United Telecommunications Company
Georgia	810	Georgian Telecom
Georgia	007	Georgian Telecom
Georgia	811	Egrisi
Georgia	812	Egrisi
Georgia	817	Egrisi
Georgia	865	Egrisi
Georgia	815	Saktelcom Plus
Georgia	862	Geocell
Georgia	813	Macrocom
Georgia	807	Georgia Online
Georgia	864	Georgian Central Communications Corporation
Georgia	869	Service
Georgia	863	Black Sea Telecom
Georgia	868	Maxtel
Georgia	899	Magticom
Georgia	898	Magticom
Georgia	877	Geocell
Georgia	893	Geocell
Georgia	891	Magticom
Georgia	853	Communications Consultancy Group
Georgia	06	Telenet
Georgia	8051	Telenet
Georgia	860	Geonet

Georgia	854	Lagi
Georgia	867	Geotel
Georgia	870	Mineta Ventures S.A.
Georgia	878	Georgian United Telecommunications Company
Georgia	858	Geocell
Georgia	879	Mobitel
Georgia	878	Lunet
Georgia	8040	Intelphone
Georgia	871	Mobitel

In Tbilisi the licenses have been issued for 87 numbering resources in different years.

## **Research and analysis of market segments**

In 2007 the research and analysis of market segments for retail and wholesale internet services and main channel access services was carried out.

The research and analysis of market segments for retail and wholesale internet services was focused on the following topics: in the retail market segment - “internet connection services to the end user” and in the wholesale market segment – “access to the packet switched terminal elements of the basic communication network, their resources and capacities”, conducting the research and analysis of the established competition, as well as disclosure of authorized undertakings with significant market powers for the purpose of preliminary regulation of competition on these segments and imposing specific obligations on them in accordance with the Law of Georgia on Electronic Communications. The Commission was addressed by authorized undertakings with the request to conduct the mentioned research. The authorized undertakings state, that the above mentioned group of internet service providers limits the access of their customers to the internet sites placed on their own servers (so-called content), and also vice versa, limits access for their own customers to the internet resources, including web-sites, placed in other internet service provider companies’ networks.

The Commission defined the following segments as respective for the retail market of internet network services to the end user and closely connected wholesale market, as well as respective segments of the internet service retail market:

- Retail market segment of internet services
- Segment closely related with the retail market of access to the wideband resource of steel line-cable customer pairs
- Segment of the retail service market with internet network

In the result of the performed research the Commission decided to define the types of wideband internet-services to end users and “the so-called dial-up switching internet services” within the retail market segment of internet network services to end users. The Commission defined the geographical boundaries of retail market segments for internet network services and specified the operators with significant market powers within. The nominated undertakings were imposed with obligation of ensuring transparency of information and non-discrimination of end users, on specific terms.

The Commission defined the retail market segment of internet network services to end users and the respective retail market segment of access to the wideband resource of steel line-cable customer pairs as the closely connected segments and specified their geographical boundaries. The authorized undertakings with significant market powers on the respective retail market segment of access to the

wideband resource of steel line-cable customer pairs were revealed. They were assigned with the obligation of ensuring transparency of information on specific terms.

The focus of the research and analysis of the service market segments of access to the main channels was defined as the research and analysis of “access to the terminal elements of main digital communication systems and their resources” and “access to line resources of the main communication (transmission) digital system and their resources”, appropriate segments of the retail market, as well as disclosure of authorized undertakings with significant market powers for the purpose of preliminary regulation of competition on these segments and imposing specific obligations on them in accordance with the Law of Georgia on Electronic Communications.

### **Defining tariff caps**

The Commission performed the research and analysis of the retail and wholesale market segments of internet services, in the result of which the authorized undertakings with significant market powers were specified in the respective segment of the retail market of access to wideband resource of the steel line-cable customer pairs. Along with other specific responsibilities an obligation of tariff regulation and segregate accounting of expenses was assigned to them. The Commission used the right granted by the legislation and defined tariff caps for respective undertakings.

Within the specific obligation of tariff regulation and segregate accounting of expenses imposed on the retail market segment of access to wideband resource of the steel line-cable customer pairs the Commission defined the tariff cap for the access to the wideband resource of line-cable pairs in the amount of 11 Lari and 68 Tetri, including VAT.

### **Monitoring and management of radio frequencies**

Within the Georgian National Communications Commission there is a Department of Management, Monitoring and Coordination of Radiofrequencies, which regularly performs the respective functions, which include analysis of issues related with obstructions created by usage of frequencies, broadcasting or other high-frequency equipment or electromagnetic incompatibility and preparation of technical conclusions, drafting of appropriate documentation on the basis of monitoring and software based estimations to observe the terms of compatibility of high-frequency radiating equipment in the electromagnetic environment, technical analysis of monitoring results (spectral, quantitative, qualitative and other parameters of the radiating source), establishing and evaluation of compliance with recognized standards and preparation of appropriate technical documentation (technical conclusion, recommendations) if necessity for response measures, allocation of frequency bands for issuing of licenses for usage of frequencies and arrangement of radio relay lines with consideration of modern technologies and principles of channel formation. In this regard the systematization of frequency resources planned and used by radioelectronic means and high-frequency equipment was performed in towns and populated areas identified under coverage zones.

In 2007 The Commission developed a software program, which enabled interconnection of the register database and the existing data; processing of mathematical model for calculation of various units and its further integration into the existing system; processing of coverage zones with regard to the register; development of the EDX software interface for its further integration in the developed software, searching for the software with video recording capacities and its integration on the server, debugging; sorting of received personal data and letters – systematization; creation and operation of

the database for recording of activities carried out by each customer and the employees of the monitoring department and its managing interface; elaboration of protection mechanisms for the database and assigning exclusive rights to all customers.

With respect to the management of radiofrequency spectrum the following activities were carried out:

1. Defining radiofrequency band limits for various purpose application:
  - a) wireless wideband networks;
  - b) wireless local networks;
  - c) radio relay lines;
  - d) radio navigation and radio location systems;
  - e) data exchange systems with aircrafts (ground-to-air, air-to-ground).

## **International Coordination**

The World Radiocommunication Conference (WRC-07) held in Geneva in 22 October-16 November October, was attended by more than 2800 delegates from 164 countries. Previous to the Conference Radiocommunication Assembly (RA) gathered in Geneva on 15-19 October.

The Georgian communication administration was represented by the Commission's representatives at both events. They actively participated in the work of the Assembly concerning reorganisation of the Study Groups. The Working Parties of Spectrum Management Methodologies and Spectrum Monitoring were set up within Study Group 1 (SG1) and their Chairmen and Vice Chairmen were elected. Georgian delegates worked also on the Group dealing with broadcasting (TV and Radio) issues. All of the 28 topics on the Assembly's agenda (as mentioned above) were studied during sittings. Given the future prospects for radiocommunication system and its usage the delegates focused on 3 issues of the WRC-07 Agenda and, particularly, on paragraphs 1.4, 1.6 and 1.13, concerning allocation of new frequency bands for new generation mobile communication systems (IMT-2000), distribution of additional frequency spectrum for air radio navigational systems in 108.0 MHz and 6 GHz diapason and allocation of frequency bands for landline and movable services in 4-10 MHz frequency diapason.

We have developed and submitted proposals which were taken into consideration by Study Groups. It is noteworthy that our proposals were similar in essence to the general suggestions offered by European Regional Organisation (CEPT) and which were also signed by us. This fact was mentioned during the Conference as well as in the course of the CEPT's official and informal meetings.

Inasmuch as national frequency allocation plan should be compatible with Radio Regulations we suggested that Georgia should be incorporated in certain "footnotes". In particular, we developed the proposals (which were subsequently considered and taken into account by relevant committees) and after reaching agreements with neighbouring states new frequency spectrum between 450-470 MHz, 806-862 MHz, 2.3-2.4 and 3.4-3.6 GHz were defined for introduction and further development of IMT. These ranges are compatible with both Georgia's National frequency allocation net and the Regulations of Radio Union. We would like to note that before the Conference the National frequency allocation scheme was not in line with the unified allocation scheme as provided by the ITU Radio regulations.

The issues on the agenda of WRC-2007 were studied and considered by communications administrations as well as regional organizations CEPT, RCC, ABU. Due attention was given to them during preparatory meetings before the Conference (CPM). Main objective of the meetings is to

support and coordinate the proposals submitted by the communications administrations. On behalf of the Georgian communications administration the Georgian National Communications Commission (I was a head of Georgian delegations) took active part in pre-Conference working meetings organised by Regional Community (RCC) in Bishkek on 2-5 April, 2007 and Bureau of Radio Union (BR) in Geneva, 17 February-3 March, 2007.

Based on the aforementioned, the WRC 07 decided to approve Georgia's joining the European broadcasting zone thus ensuring possibilities for further development of free media in Georgia and its integration in common European sphere.

Our Commission gained support from CEPT member states too. We conducted negotiations regarding these topics during CEPT Assembly held on 20-21 June of the current year in Amsterdam. It has been the first Assembly of CEPT to be attended by a Georgian delegation.

In addition, with respect to international coordination the Commission carried out following works:

- 1) The Commission obtained computer program concerning information on coordination of radio broadcasting stations to be submitted to the ITU in electronic form thus enabling us to send coordination data to neighbouring states according to accepted T01 form;
- 2) The letters on coordination from Russian federation, the Ukraine, Turkey and Azerbaijan were studied and responses were prepared. Coordination of some of the stations (namely, Simpheropol's medium wave broadcasting stations ) was carried out in compliance with the notes which were required by us;
- 3) For carrying out coordination of radio broadcasting stations the letters were sent to the licensed broadcasting companies working in Georgia;
- 4) The Commission periodically considered and analysed BR International Frequency Information Circulars in DVD/ROM format published once every two weeks by the Radiocommunication Bureau and prepared relevant responses to them. Particular emphasis was put on the coordination of digital broadcasting stations. Demand on coordination was made from the Ukraine and Azerbaijan;
- 5) In order to coordinate works on the borderlines of two neighbouring states (Georgia and Azerbaijan) and prevent radio interferences (radio obstructions) the Commission organised and carried out monitoring on the territories of both countries which resulted in a bilateral protocol signed by both sides. In addition, necessary measures were also carried out.

In 2006 the ITU published a new allocation scheme for digital TV channels. In result of preliminary allocations Georgia was granted 72 digital channels in the beginning of 2005. Due to the fact that the Commission held numerous negotiations with the neighbouring states and reached agreements with them the number of digital channels was raised from 72 to 175 and in November the channels were eventually confirmed. It is noteworthy, that the number of channels was also approved by the ITU which praised Georgia for "having exemplary achievements in this sphere".

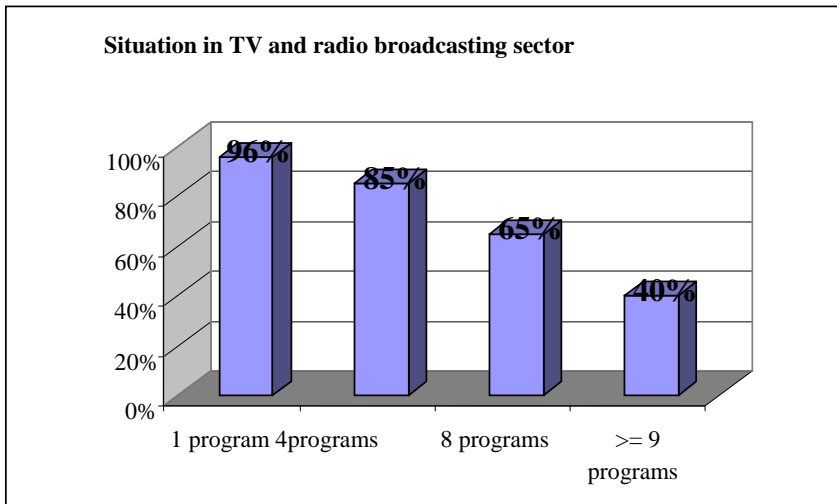
## ***Disputes***

In 2007 the Commission resolved 13 disputes between the following companies:

- “Akhali Kselebi” (New Nets) and “United Telecommunication Company of Georgia”. Plaintiff “Akhali Kselebi” demanded restoration of connections among the subscribers of the companies in Zestaphoni without any delay (a city in West Georgia). The claim was satisfied.
- “Bolnisi Akhali Kselebi” Ltd (New Nets) and “United Telecommunication Company of Georgia”. The latter repeatedly ignored activation of the 8-258-30XXX-31XXX indices which were granted to the Bolnisi Akhali Kselebi Ltd on the basis of decision adopted by the Commission. 8-258-30XXX-31XXX. The claim of the plaintiff was satisfied.
- Akhtel and the United Telecommunication Company of Georgia. JSC United Telecommunication Company of Georgia did not meet obligations set out in the agreement concluded between them and repeatedly disconnected cables. The dispute was settled friendly and voluntarily.
- Akhali Kselebi (New Nets) and the United Telecommunication Company of Georgia. The subject matter concerned determining terms and conditions of the agreement to be concluded between two companies on the provision of two-core cable telephone network service in the automatic telephone stations of 62, 66, 67 and 68 zones; and concluding an agreement.
- Maxtelcom and the United Telecommunication Company of Georgia. The latter violated obligations of the agreement concerning use of a duct bank. The dispute was settled friendly.
- Magticom and Saktelcom Plus. The latter violated obligations of the interconnection agreement concluded between two companies and accumulated debts to the Magticom. The dispute was suspended.
- Georgian Telephone Company Ltd and the United Telecommunication Company of Georgia. The latter violated terms and conditions of the interconnection agreement concluded between them. The claim was satisfied.
- Georgian Telephone Company Ltd and the United Telecommunication Company of Georgia. The subject matter of the dispute concerned consideration of a counterclaim filed by the United Telecommunication Company of Georgia. The claim was not satisfied.
- Akhtel and the United Telecommunication Company of Georgia. The latter violated obligations of the agreement and repeatedly cut off the cables to switch off telephone subscribers. The claim was satisfied.
- Office of Public Defender of Consumers’ Rights at the Georgian National Communication Commission and Caucasus Online. The dispute concerned obstacles in the course of providing Internet service. The claim was partially satisfied.
- Caucasus Digital Networks and JSC United Telecommunication Company of Georgia. The latter violated obligations set out in the agreement on access concluded between the parties. The claim was partially satisfied.
- Egrisi and the United Telecommunication Company of Georgia. The subject matter of the dispute concerned violation of the agreement duration and other obligations set out in the agreement. The dispute was suspended.
- JSC Egrisi and Caucasus Online. The dispute concerned securing access for the JSC Egrisi to the Caucasus Online’s corresponding elements. The claim was satisfied.
- Infotel and the United Telecommunication Company of Georgia. The dispute concerned violation of the obligation agreement stipulating use of a duct bank. The dispute was suspended.
- Akhali Kselebi (New Nets) and the United Telecommunication Company of Georgia. The subject matter concerned switching off the Akhali Kselebi subscribers through cutting cables in the automatic telephone station 69 zone by the United Telecommunication Company of Georgia. The claim was satisfied.

- Akhali Kselebi (New Nets) and the United Telecommunication Company of Georgia. The dispute concerned failure of striking an agreement between two companies on service provision with cable-line couples. The claim was not satisfied.

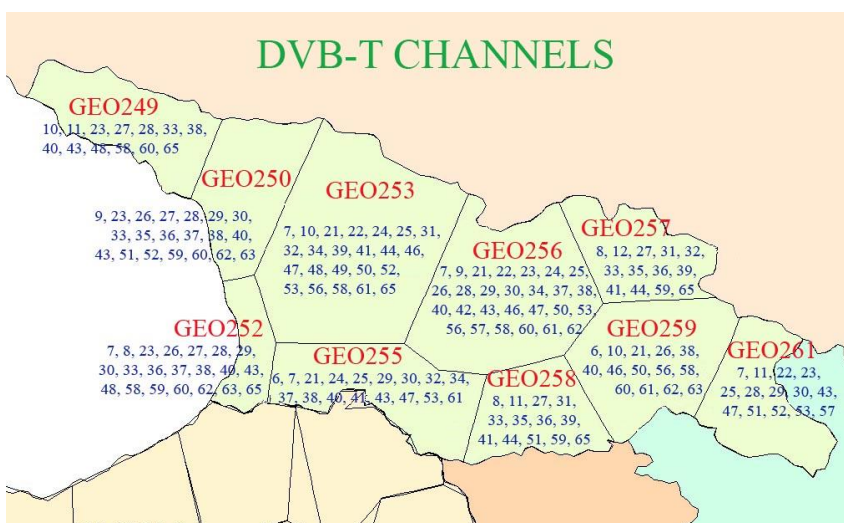
As technology advances, conversion from analog to digital TV broadcasting takes place everywhere in electronic communications sphere including TV and radio broadcasting. Main objective of the broadcasting development strategy for Georgia in 2009-2015 should be allowing population to exercise its constitutional right to get information on social issues.



As the figures indicate citizens of Georgia do not have equal access to mass communication media. Expansive methods of broadcasting development on the expense of analog broadcasting require large scale investments.

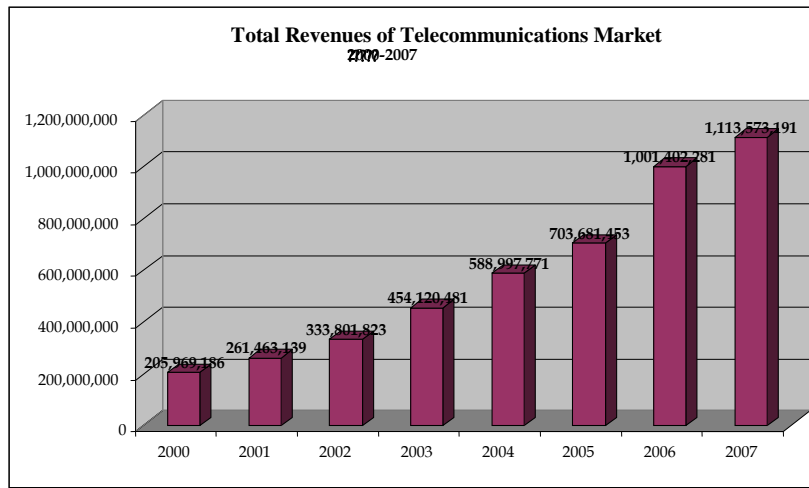
In 2006 the Regional Radiocommunication Conference adopted final acts for planning digital terrestrial broadcasting service in parts of the 1<sup>st</sup> and 3<sup>d</sup> Regions in the frequency bands 174-230 MHz and 470-862 MHz (RRC-06).

The plan (Geneva 6) under the acts aimed at using radio frequency spectrum more effectively both on national and international levels.



Consequently, main objective of technical policy may be assumed to be conversion of radio frequency spectrum which will enable us to expand broadcasting possibilities. The digital broadcasting Geneva 06 plan scheduled 175 digital channels for Georgia which will be allocated in the country's entire territory in 10 broadcasting zones.

In the period of conversion from analog to digital broadcasting it is advisable to use common European standard DVB for digital television and MPEG-4 or more advanced standard while compressing a signal. Using such standards will allow to



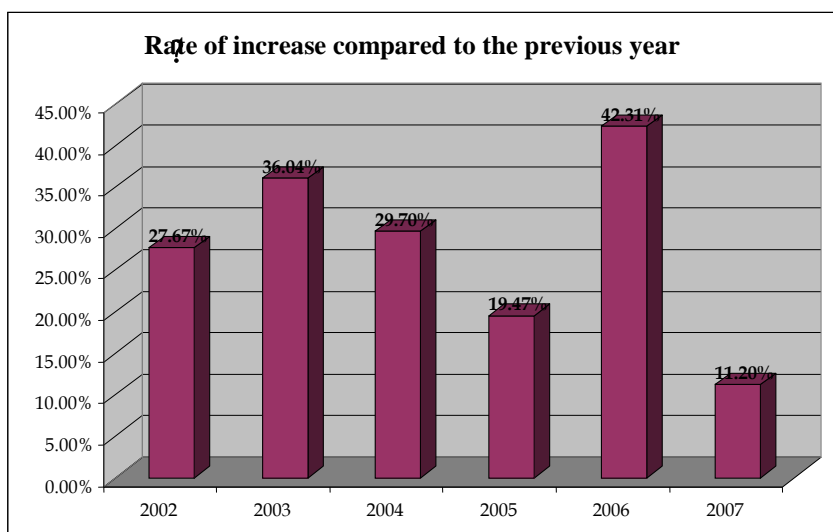
simultaneously broadcasting 6-8 standard quality TV programs and 4 radio channels on the same bandwidth. Due to deficiency of frequency resources in the initial stage of transition to digital broadcasting, it is preferable to use digital bandwidth allowing maximum distance and minimal

speed for data transmission. Due to economic reasons and practical usage TV digital transmitters with more than 5 kw are not usually produced. In TV diapasons 4 and 5 ratio of antenna strengthening does not exceed 12 dB. Therefore it enables us to put in production 49 dBw transmitters which would be sufficient for providing Georgia's certain regions with single frequency networks.

After digital TV broadcasting networks have been expanded it will be possible to increase data transmission speed. This in its turn will raise number of broadcast programs (however, TV transmitter service zone will diminish). Modernization of digital broadcasting networks is achievable by 64-QAM regime. This will increase number of programs and improve their quality. Strategy of conversion from analog to digital broadcasting will be implemented in three stages. It is based on existing frequency resources allocated by the Geneva 06 plan, arrangements of new digital networks and readiness of interested parties to create digital broadcasting network infrastructure.

## Chapter III Review of Electronic Communications Service Market of Georgia

Total revenues of electronic communications service market (including VAT) maintained tendency of increase throughout 2007 and reached GEL 1 billion 117 million. The figure exceeds amount of the previous year by GEL 112,170,190.



Growth rate in 2003-2005 reflected decrease in annual growth rate of total revenues in the communications sector. By 2006 and 2007 annual growth rate reached 42.31% and 11.20% respectively. Average amount of monthly revenues per person from the sector of communications increased from GEL 9.48 in 2003 to GEL 21.1 in 2007. It is noteworthy that revenues increased against the background of decrease in communication service tariffs. While analyzing indicators for developing competitive



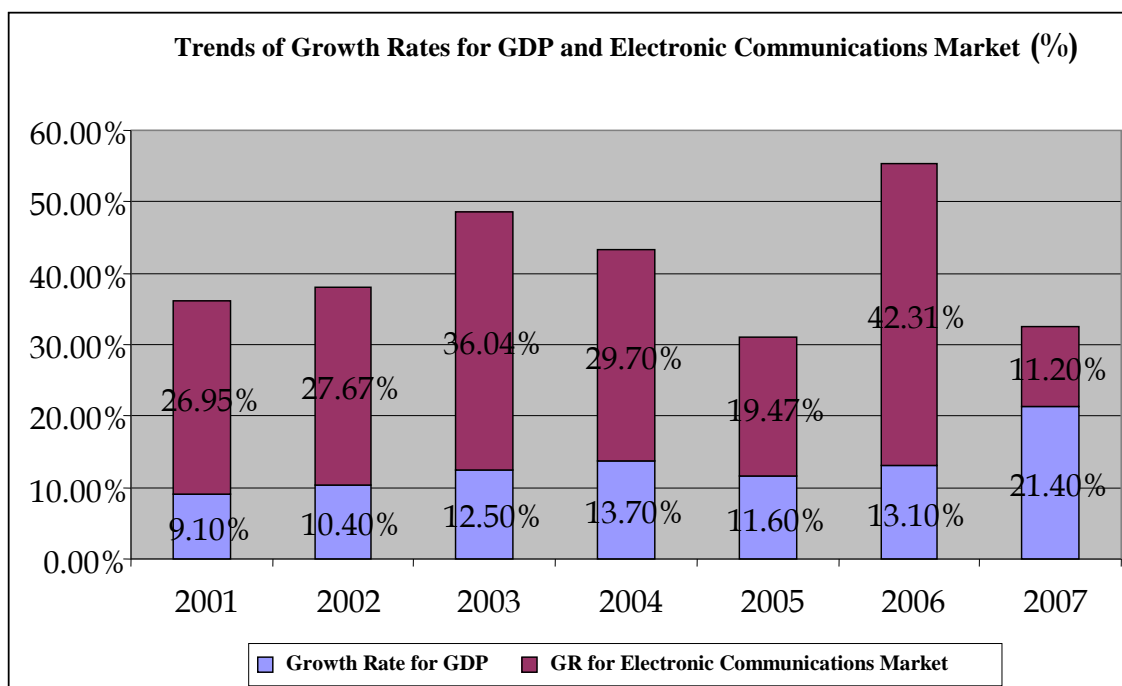
environment (including measure of market concentration -HHI) on the fixed segments of communication market tendency of quality growth in competition (e.g. in the segment of local wideband wireless access) became obvious. The research enabled us to identify those objectives which need to be achieved to support and enhance market competition.

### ***Share of Revenues of Electronic Communications Sector in GDP***

From 2000 on the share of revenues from the sector in GDP has increased. In 2001 the share made up 3.79% while by 2006 it reached 7.49%. In 2007 the indicator decreased against the background of unprecedented growth rate of GDP. It can be explained by rapid developments in other fields of Georgian economy.

	2001	2002	2003	2004	2005	2006	2007
Revenues in communications sector	261,463,139	333,801,823	454,120,481	588,997,771	703,681,453	1,001,402,281	1,113,573,191
GDP ( GEL million)	6,956	7,763	8,872	10,278	11,621	13,370	16,999
Share of revenues in communications sector in GDP (%)	3,76%	4,3%	5,1%	5,7%	6,1%	7,5%	6,6%
GDP growth rate	9.10%	10.40%	12.50%	13.70%	11.60%	13.10%	21.40%

The Commission made comparative analysis of rates of growth for total revenues of communications sector and GDP. In 2000-2006 annual growth rate of revenues in communications sector exceeded that of GDP indicating low rate of GDP growth and slow improvement in other sectors of economy. As for 2007 the rate of GDP growth surpassed that of the communications service market.



## *Dynamics of Development of the Segments of Electronic Communications Service*

### *Market*

Percentages of revenues received by the operators in separate segments of the communication market distributed according to the types of services they render and dynamics of their growth clearly shows the tendencies of overall improvement in the sector.

If we divide the communications market into three segments, those of fixed and mobile telephonies and broadcasting, we will get this picture of their revenues in absolute data:

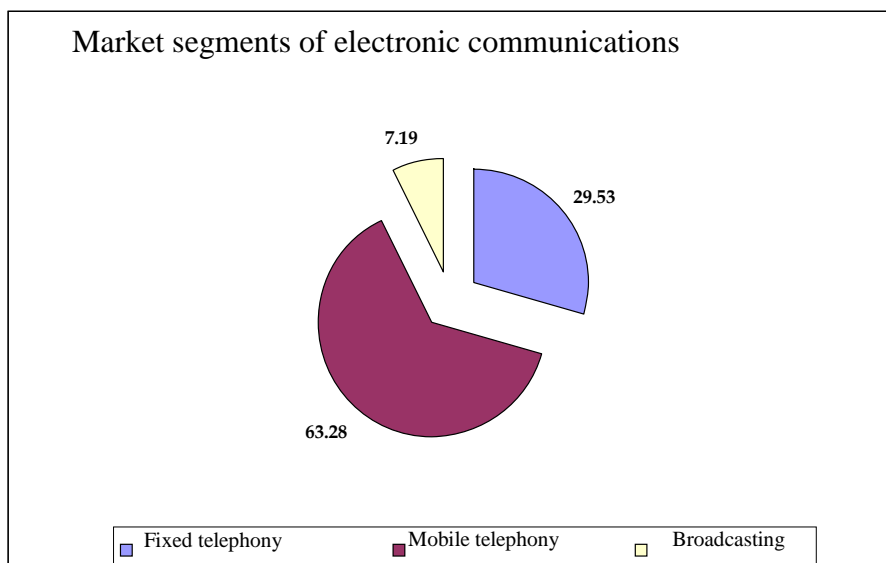
#### **Revenues received according to the segments of electronic communications**

	2003	2004	2005	2006	2007
<b>Fixed telephony</b>	170,179,961	208,219,929	247,040,637	298,832,881	328,880,274
<b>Mobile telephony</b>	265,061,278	354,903,747	424,911,866	650,345,176	704,632,634
<b>Broadcasting</b>	18,879,242	25,874,095	31,728,950	52,224,224	80,060,284

Percentages in 2007 according to the segments:

**Figure 5**

Market segments of electronic communications



Mobile communications contributed as much as 63% to the total revenues of electronic communications. In 2003 the share was 58%, in 2005- 60% and in 2006 it reached 65%. Total revenues of the operators in mobile communications segment have increased by GEL 54.3 million compared to the figures of 2006.

In 2007 the revenues of the operators in fixed communication service market increased by GEL 30 million compared to the previous year

and made up almost GEL 329 million, which makes up 29,5% of the total revenues of the market.

Liberalization and expansion of the TV and radio broadcasting sector was noticeable in 2007. This segment has turned into a quite profitable field of the Georgian economy. According to 2007 data its share in total electronic communications is 7.2%; in absolute data it made up GEL 80.1 million and exceeded previous year's figures by GEL 27.8 million.

The table below clearly shows the trends of development in various segments of the communications market throughout 2003-2007.

**Percentages of the segments of electronic communications 2003-2007**

	2003	2004	2005	2006	2007
<b>Fixed telephony</b>	37.47	35.35	35.11	29.84	29.53
<b>Mobile telephony</b>	58.37	60.26	60.38	64.94	63.28
<b>Broadcasting</b>	4.16	4.39	4.51	5.22	7.19

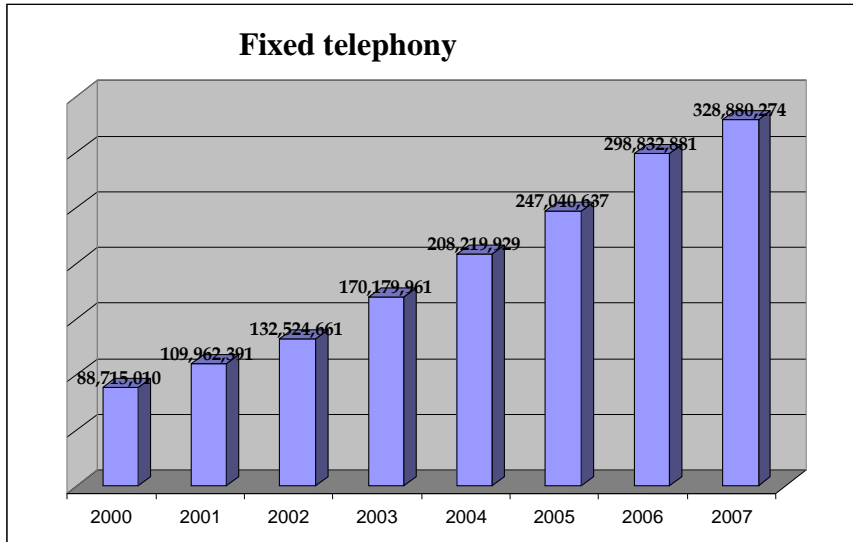
***Fixed Communications Service***

The biggest share in the fixed communication service segment belongs to the JSC United Telecommunication Company of Georgia. Combined shares of three companies, those of Akhteli Ltd, Akhali Kselebi Ltd and JSC United Telecommunication Company of Georgia reach almost 90% in this segment.

Number of subscribers of fixed telephone communications service (active telephone line) increased by 12.6% during 2000-2007 and by the end of 2007 it made up 556.000 subscribers.

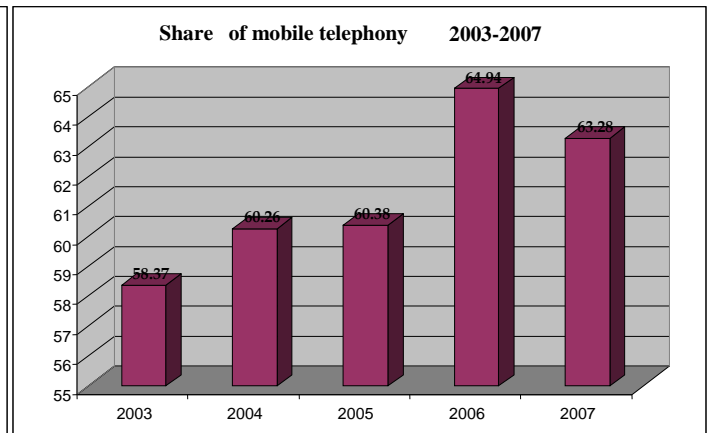
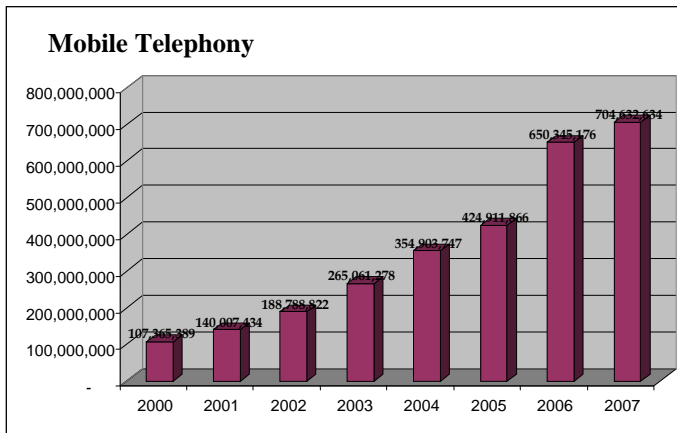
Subscribers of fixed communications networks in 2000-2007

	2000	2003	2004	2005	2006	2007
Subscribers of fixed communications networks	493,999	519,581	532,755	544,417	553,105	556,088



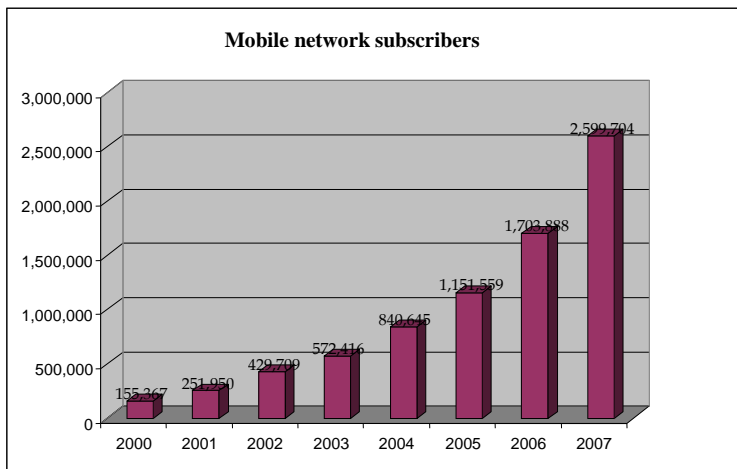
Total revenues of fixed communications market increased up to GEL 328,880 million. In 2007 the share of this segment in total revenues of the communication field made 29.5%.

## Mobile Telephony

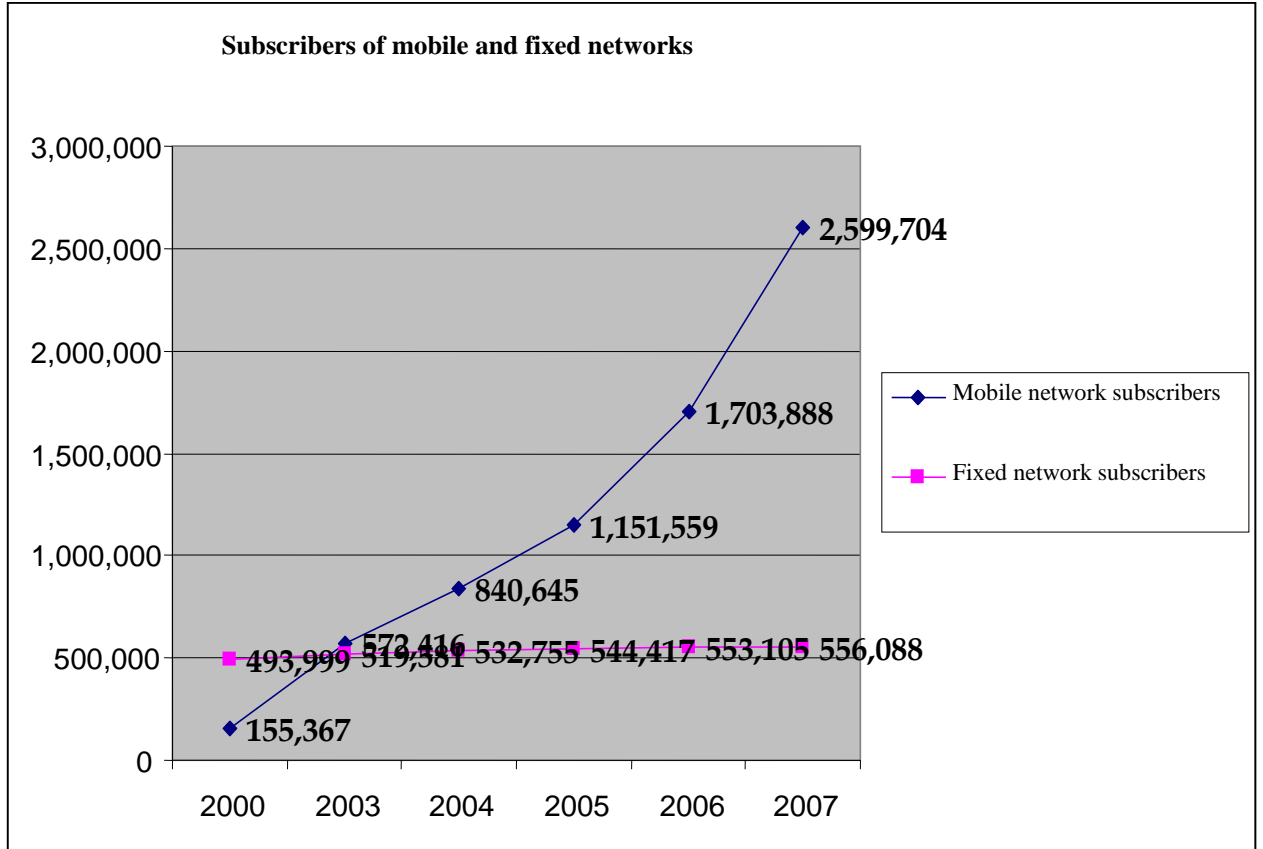


The tendency of growth in mobile communications service sphere has been maintained in 2007. In 2007 the revenues collected from this sector of economy exceeded GEL 704 million (including VAT). It should be noted that mobile communications sector enjoys highest growth rate and its share in the entire market makes almost 63%.

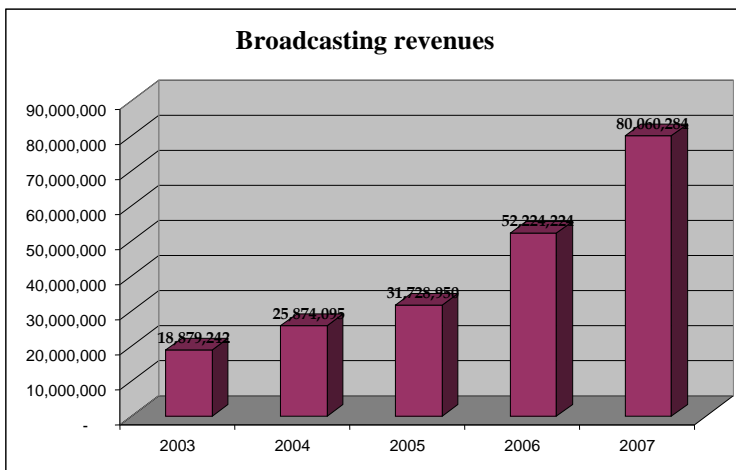
Number of active subscribers of mobile communications network reached a record high making 2,600,000 in 2007. Even in 2003 the number exceeded that of subscribers of local telephone operators.



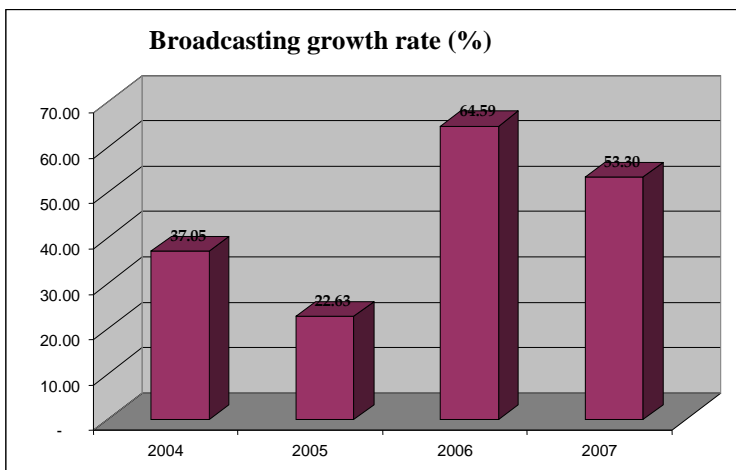
Monthly revenues from the mobile communications service per person made GEL 57.74 in 2000 while in 2007 it climbed to GEL 217.



## TV and Radio Broadcasting

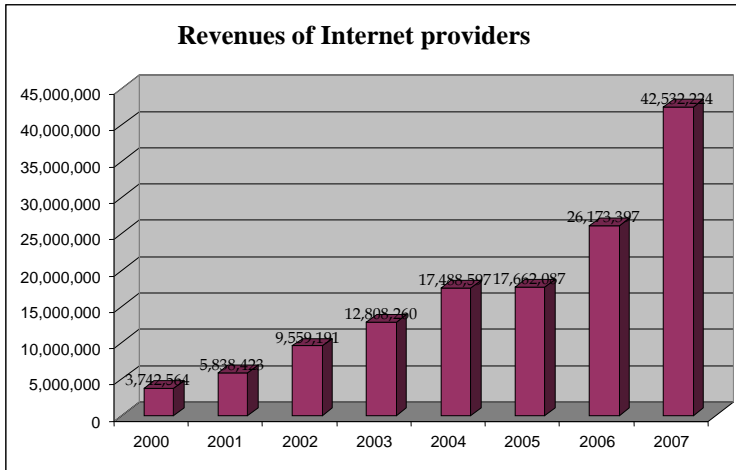


In 2007 the companies operating in TV and radio broadcasting field collected GEL 80 million revenues in total which made 7.2% of the entire communications market.



Before 2002 this segment of electronic communications was not particularly attractive due to a small size of commercial advertising market and low growth of development. Since 2003 the segment has expanded sharply.

## *Internet Service*



In 2000-2007 revenues of the operators working in the Internet providing increased from GEL 3.7 million to GEL 42.5 million. In 2006 growth of revenues compared to a previous year's figures reached 62.5%. After mobile communications the Internet service is steadily growing segment in the market of the electronic communications. In 2007 number of the consumers using the ADSL modem technology was still increasing and by the end of the year it went beyond 41,000.

## **Chapter IV Strategic Plan**

***2007-2010***

Strategic plan aims at scheduling the Commission's works and activities, defining goals and short and long term objectives. Strategic plan makes it easier to conduct internal control thus enhancing effectiveness and efficiency of management of human, technical and financial resources. Strategic plan is also vital in identifying needs, whether informational, expertise or technical needs.

Georgian legislation grants certain rights and obligations to the Georgian National Communications Commission thus directing it in the course of development of action plans.

After the commission has studied and analyzed electronic communication market and possibilities and prospects for further development on a global scale it decided to support and develop certain directions. Taking into consideration these directions it worked out relevant strategic goals.

### ***Strategic Goals***

#### **Goal 1: Broadband and LLU, DLL Development**

The Commission stated that its strategic goal is to expand market of broadband communications service due to increasing demands for this type of service and consequently, ensure competition in local access network by providing operators with relevant conditions. Development of the market is conditioned by process of convergence which in this case stipulates use of broadband communications service not only for bandwidth rates but also for VoIP technologies (voice transmission through the Internet protocol) which has recently become quite popular in the European countries.

#### **Goal 2: Promotion of competition**

Promoting competition on the market ensures providing customers with broader choice and stimulates enhancing quality of service. Regulation of competition policy in advance aims at developing effective, competitive, long-term and open market environment which in its turn gives a boost to investments in electronic communications and facilities and motivates introduction of modern technologies. Competition policy is regulated by the principles of objectivity, technological neutrality, functional equivalence, necessary minimal regulation requirements, and by observing rules of transparency and non-discrimination as well as by a principle of imposing proportionately equal specific obligations.

Introduction of objective and effective competition regime requires development of methodological rules for identifying relevant segments of the market and carrying out research on competitiveness.

In order to prevent abuse of power by an authorized undertaking with significant market power it is necessary to carry out research of relevant market and impose obligations. This requires development of methodology and on how to identify market and criteria for identifying an operator with significant market power.



### **Goal 3: Frequency resource management**

Frequency resources are one of the most profitable resources of the country. If closely observed, we can see that revenues received through their use exceed those brought in by other resources.

Methods and approaches of frequency spectrum management must be in non-stop process of renovating and improving. Constant and rapid advancement of technologies and relevant demands should be taken into account while managing frequency resources. Non-existence of adequate mechanisms for management hinders introduction and further development of new technologies and in addition it will lead to limited competition and failure of the state to bring its society in global information cycles. Besides the country's budget will not get due revenues. Georgia's interests should be taken into account while allocating and coordinating frequency resources, otherwise it will be impossible to present Georgia as successful state on global communications arena and it will fail to get high quality technological service.

### **Goal 4: Reforms in numbering**

Numbering is one of the limited and exhaustible resources of the country and its system is an instrument for identifying Georgia on a global scale. Poor maintenance of the system damages competitive environment and consumers do not get services which should correspond increasing demands.

Current numbering system has become obsolete and fails to satisfy latest requirements. With competitiveness increasing day by day demands on numbering resources mount. Moreover new technologies and expansion of areas require use of numbering resources. When working on modern numbering scheme advances in technologies and fresh demands are to be taken into account. Transition to a new system of numbering requires big efforts and well thought out measures including conducting comprehensive research on demand and selecting suitable strategy. After a new numbering system has been developed the works related to country's transition to it should be carried out and afterwards population's demand on portability of numbers should be satisfied.

### **Goal 5: Development of Broadcasting Market**

Development and expansion of electric communications year by year has had a great impact on broadcasting market. It changed previously worked out directions for development of the latter. Today rules for activities in electronic media and its policy requires changes to enable us meet new challenges and needs.

The Commission should study whether current regulations and legislative norms meet requirements of convergence both existing and future; study should be carried out also for preparing a fixed-mobile convergence base and corresponding platform should be prepared. After studies have been conducted regulations and legislative norms should be harmonized. The Commission should focus its efforts on improvement of competitive environment, introduction of digital technologies and support of convergence.

### **Goal 6: Tariff rebalancing**

The Commission has been working on rebalancing tariffs in telecommunication service for several years. Solving tariff rebalancing problem means redistribution of expenses on retail as well as interconnection services rendered by operators in compliance with requirements set by current legislation and elimination of subsidizing as well as establishment of effective and competitive tariff

system in telecommunication industry. Tariffs are cost oriented in tariff rebalancing thus ensuring growth of competitiveness of the market.

### **Goal 7: Enhancing regulatory effectiveness**

In order to enhance regulatory effectiveness the unified automatic information system should be introduced. The system's main goal is to maintain departmental register of authorized undertakings and license holders, make more effective the process of granting authority to interested persons and increase effectiveness of provision of required statistical data (generalized indicators) on their functions, objectives and regulatory authorities as defined and granted by current legislation and regulatory acts issued by the Commission. Regulatory effectiveness should be enhanced in three stages: on the first stage departmental register data base and methods of its maintenance should be developed and consumer interface module should be worked out and introduced. On the second stage automatic format of authorization should be developed. It means identification of authorization and its types according to current legislation, and automatization of authorization procedures. The third stage should be dedicated to development of the forms for automatic statistical report.

### **Goal 8: Modernization of the Georgian National Communications Commission**

Georgian National Communications Commission is well aware of its great responsibility in regulating electronic communications sphere. Inasmuch as jurisdiction of the Commission covers electronic communications the sphere which is the most rapidly changing and developing sector of economy and because the Commission ought to be effective and innovative, result oriented and efficient agency, it should be committed to regularly making changes to be capable of facing new challenges. The Commission should not only respond to market demands but it should also encourage consumers to create demands.

The Commission should become more effective, efficient, flexible and analytical; it should be more open for discussions and be ready for providing interested persons with all information they need under its competence.