

**Georgian National Communications
Commission**

**Annual Report
2005**

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Mission

Drive Georgia into the new era of info-communications

Vision

1. Support the development of electronic communications market
2. Create flexible and adequate mechanism for quick responding to the market changes
3. Support the development of communication society
4. Play an active role in mediation between the companies and also between them and consumers
5. Support in creation of attractive and stable business environment

Values:

Development of electronic communications supports the development of the country economy

Open and transparent relationships support the reliable relations to be established between the market players and customers

Equality and non-discrimination are the preconditions for development of competition and introduction of novations on the market

Stable and forecasted environment are the preconditions for attracting the investment, also introducing new technologies and novelties

Correct regulations drives to the introduction of strong market principles and deregulation

Flexible regulatory mechanism, market orientation, simple and understandable rules are the preconditions for effectiveness and resultfulness

Development of the competition, customer rights defence and effective management of scarce resources are the preconditions for development of electronic communications

Chapter 1

Georgian National Communications Commission

Accountability and Structure

Georgina National Communication Commission, an independent regulating authority follows the principles of: independence, publicity and responsibility.

The Commission has to respond to the public interests and act in its accordance. It is accountable to the public. Its activities are transparent, meetings are open for interested people; the Commission submits its annual report to the Parliament and the President of Georgia.

The Commission is a collegial body. The Commission, in the scope of its competence and with the majority of votes, issues legal acts: resolutions, decisions and the Chairman's orders. The legal acts of the Commission may be appealed to the Court, under the rules determined by the legislation.

Members of the Georgian National Communications Commission

Chairman - Mr. Dimitri Kitoshvili

Mr. Dimitri Kitoshvili was born on September 3rd, 1979 in Tbilisi. In 2002 - graduated from Ivane Javakhishvili Tbilisi State University, faculty of law. From 2001 he was a partner of the law firm - "Okruashvili and Partners". From March 2003 he worked as the director of "Georgian Law Group" LTD. In August 2003, was appointed as a member of the Central Electoral Commission of Georgia; worked as Secretary of this Commission and then Acting Chairman. On 9th June 2004, by the order N 479 of the President, he was appointed as Chairman of the Georgian National Communications Commission. Mr. Dimitri Kitoshvili is married and has a son.

Member of the Commission- Mr. David Pataraiia

Mr. David Pataraiia was born on October 1st, 1971 in Tbilisi. After graduating the 150th secondary school of Tbilisi with golden medal in 1988, Mr. David Pataraiia continued his studies at Ivane Javakhishvili Tbilisi State University, at the faculty of law at first, and the faculty of international

law and international relations afterwards. In 1993, Mr. David Pataraiia graduated from Tbilisi State University with the qualification of lawyer.

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

In 1992, Mr. David Pataraiia became a member of the State Council of Georgia. Since 1997 till present, he works at the faculty of international law and international relations at the Ivane Javakhishvili Tbilisi State University as a teacher at first, and since 2004-as an assistant professor. Since 2005, he is an associated professor at the International Law Institute of the faculty of law of Ivane Javakhishvili Tbilisi State University. He delivers lectures and carries out course of seminars-“International Public Law”.

Since 1997 till May 2000, he worked as political reviewer of the radio “Tavisufleba”. At the same time, he carried out advocacy practice since 1996.

On 11th June 2000, Mr. David Pataraiia was appointed as member of the first staff of the National Communications Commission, for the 2 years term, according to the order N 596 of the President of Georgia. On 11th June 2002, according to the order N 751 of the President of Georgia, Mr. David Pataraiia was appointed as member of the Georgian National Communications Commission for the second term, with the term of 6 years.

Since 18th September 2002, Mr. David Pataraiia has Ph degree in legal sciences. He is married and has two children.

Member of the Commission- Mr. George Fruidze

Mr. George Fruidze was born on September 23rd, 1968 in Tbilisi.

In 1985, he graduated from Tbilisi secondary school N 102. In 1985-1992, he studied at the faculty of hydro-melioration of the Agrarian University of Georgia.

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

In 1987-1989, he passed the obligatory military service.

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

In 1994-1996, he worked in the building management of the hydro-meteorological department of Georgia, at the position of engineer.

In 1996-2001, he worked at the structure of administrative inspection of the town council of Tbilisi at different positions at first and at the position of Head of Department afterwards.

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

From 2003 till July 2004, he was a Deputy Chairman at State Property Management Agency

Since 19th July 2004, he is a member of Georgian National Communications Commission.

Mr. George Pruidze is married and has a son.

Member of the Commission-Mr. Zurab Nonikashvili

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

In 1975-1980, he studied at the faculty of economics at Ivane Javakhishvili Tbilisi State University, with 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 (the chief accountant at the end).

In 1989-1992, he worked at "4th Macivarkombinati" at the position of head of the planning-industrial department.

In 1992-1993, he worked at the state inspection of the Ministry of Finance of Georgia at the position of chief accountant.

In 1993, he was recruited to the State Army of Georgia, where he worked till 2002, at the position of assistant of the head of the treasury-budget department of the Ministry of Defense and at the position of the 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 Election Commission of Georgia at the following positions: member of the Commission, secretary of the Commission, acting chairman of the Commission.

On July 5 2005, he was appointed as a member of the Commission by the order N 533 of the President of Georgia.

Mr. Zurab Nonikashvili is married and has two children.

Resources of the Commission

Human Resources

The Commission's structure consists of 9 structural units: strategic planning, administrative, monitoring, financial, regulation of telecommunications and post market, legal, universal service, standardization and frequency resources management and broadcasting regulatory units. Consumer Defender's unit and press secretary are out of the apparatus.

Structure of the Commission

The employees of the Commission

Strategic Planning Department

Head	-	Gela Butbaia
Senior specialists	-	Grigol Gogelia Anna Mikeladze
Specialists	-	Mzia Gogilashvili Revaz Svanidze Tamar Popiashvili

Administration

Head	-	Ioseb Kharebava
Deputy Head	-	Iuza Loria
Chief specialist	-	David Chankotadze
Specialists	-	Maia Kadeishvili Natia Janelidze Revaz Morgoshia Dimitri Rakviashvili
Technical secretaries	-	Veriko Shugliashvili Nino Kalandadze Nino Javakhidze Nino Chikovani

Financial Department

Head	-	Ioseb Abuladze
Specialist	-	Natalia Janelidze

Monitoring Department

Head	-	Mikheil Gotoshia
Chief specialist	-	Tsiala Ujmajuridze

Frequency resource management and standardization department

Head	-	Sergo Shavgulidze
Chief specialist	-	Temur Dzagnidze
Senior specialist-		Nodar Aspanidze
Specialists	-	Ana Dabrundashvili Zaza Gonjilashvili David Pulariani
Chief Engineer of Management Center	-	Roman Kurdadze
Chief Engineer of Mobile System	-	Nikoloz Kondoleli
Electro technician		Otar Janashia
Driver of Mobile System	-	Kakhaber Mamiseishvili

Department of Telecommunication and Post Market Regulation

Head - Eliso Asanidze
Chief specialist - David Kutateladze
Senior specialist - Irma Dekanosidze
Specialists - Nino Nijaradze
Gocha Giorgadze

Broadcasting monitoring department

Head - George Ratishvili
Senior specialist - Amiran Shushanashvili
Specialist - Mariam Aroshidze

Legal Department

Head - Kakhi Qurashvili
Chief specialists - Inga Todria
Nikoloz Tsereteli
Grigol Sulukhia

Universal Service department

Acting Head - David Kiknadze
Specialist - Tea Tkeshelashvili

Press-secretary - Sopho Britanchuk

Department of Public Defender of consumers' interests

Head - Pavle Beria
Chief assistant - Revaz Shavishvili
Specialists - Alexander Abesadze
Nathia Shovnadze

Technical personnel

Technician - Nukri Razmadze
Assistant manager - Zurab Mirotadze
Mechanical engineer - Artur Avetisov
Electrician - Jimsher Stvilia
Specialist of communications - Givi Broladze
Drivers - Avto Amirajibi
Sergo Peikrishvili
Emzar Matiashvili
Archil Nonikashvili

Office-cleaners - Nargiza Zakradze
- Izolda Saganelidze
- Guliko Revazishvili
- Ada Amirajibi

Budget and Financial resources

In 2005, before the enforcement of the Georgian law “on electronic communications”, the main sources of the Commission’s budget were the regulation and license fees. According to the legislation of Georgia, 20% of the license fee was transferred to the Commission’s account by license holder and the rest 80% of the license fee was transferred to the special account (Universal Service Fund) opened by the Commission at the State Treasury. The sum at the special account was accumulated in order to ensure availability of service provided by communications and post networks and facilities and satisfaction of demand.

Beginning from the second half of 2005, after enforcement of the law “on electronic communications”, the regulation fee has been determined as the main source for financing the Commission’s budget. By paragraph 4 of article 12 of the above-mentioned law, the amount of the regulation fee is 1% of difference between the total value (excluding VAT) from the activities and/or product (service) provided by the authorized undertaking and subject to regulation and the fees determined for access and/or interconnection services provided by other authorized undertakings within the same financial month. According to paragraph 5 of article 12 of the Georgian law “on broadcasting”, broadcasting license holders also pay the regulation fee. The amount of the regulation fee to be paid is 1% from the total value (excluding VAT) from the activities conducted and/or product (service) provided by the license holder and subject to regulation.

In 2005, the Commission planned to receive 6,440,665.67. In practice, the revenue received reached GEL 9,993,991.37, by 54.2% more than planned. 20 % of the total sum (GEL 4,830,478.57), is from the license fee and the rest (GEL 5,089,32.80) from the regulation fee.

Table 1

	Articles of the budget	Budget Planned (GEL)	Real Budget	Difference	Difference in %
1	Total annual revenue	6,440,655.67	9,933,991.37	3,493,335.70	54.24%
1.1	Annual operational revenues	4,000,000.00	9,919,831.37		
1.1.1	Regulation fee		5,089,352.80		
1.1.2	20% of the license fee		4,830,478.57		
1.2	Other revenues		14,160.00		
1.3	Financial reserve fund of last year	2,440,655.67			
2.	Total expenses	6,225,043.00	5,114,583.75	-1,110,459.25	-17.84%
2.1	Purchase of main facilities	2,500,000.00	1,681,176.01	-818,823.99	-32.75%
2.2	Annual	3,475,093.00	3,285,115.20	-189,977.80	-5.47%

	operational expenses				
2.2.1	Expenses on stationary, printing, post and newspapers	60,000.00	88,034.48	28,034.48	46.72%
2.2.2	Expenses on water, communications and energy	100,000.00	108,243.70	8,243.70	8.24%
2.2.3	Expenses on fuel, repair and maintenance of cars	70,000.00	67,284.79	-2,715.21	-3.88%
2.2.4	Expenses for missions	100,000.00	158,702.92	58,702.92	58.70%
2.2.5	Expenses of bank service	8,000.00	12,838.67	4,838.67	60.48%
2.2.6	Expenses on conducting conferences, seminars, hiring of experts and specialists	50,000.00	30,359.99	-19,640.01	-39.28%
2.2.7	Membership fee	40,000.00	13,746.14	-26,253.87	-65.63%
2.2.8	Expenses for scientific and consulting services provided	80,000.00	55,200.00	-24,800.00	-31.00%
2.2.9	Representative expenses	10,000.00	19,719.69	9,719.69	97.20%
2.2.10	Expenses of current repair	250,000.00	134,084.91	-115,915.09	-46.37%
2.2.11	Work reimbursement	2,005,415.00	1,995,100.84	-10,314.16	-0.51%
2.2.12	Payments to the State Budget	621,678.00	399,020.16	-222,657.84	-35.82%
2.2.13	Other common operational expenses	80,000.00	202,778.92	122,778.92	153.47%
2.3	Expenses of the department of consumer rights' defender	249,950.00	148,292.54	-101,657.46	-40.67%
3	Total formation of the financial reserve fund	215,612.67	4,819,407.62		
3.1	Financial reserve fund of the financial year	215,612.67	4,819,407.62		
4	Universal		5,118,900.18		

	Service Fund				
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The reason for increase of GNCC budget is the growth of the total sector revenue.

Following the results of the end of 2005, the total sum transferred by license holder companies since 2001 to the special account (Universal Service Fund- opened at the operational department of the Treasury of the Ministry of Finances of Georgia) reached up to GEL 5,950,647.44; GEL 5,110,059.89 out of the total sum was transferred in 2005.

GNCC, ensuring fulfillment of the obligations and realizing its power has spent GEL 5,114,583.75 in 2005, which is by 17.83% (GEL 1,110,459.25) less than planned in advance.

The Commission spent GEL 1,681,176.01 on purchase of main facilities, which is by 67.25% (GEL 818,823.99) less than planned. The changes made in conditions on provision of frequency spectrum monitoring and planning software technical system and in the dates of exploitation, has resulted significant difference mentioned above.

GNCC spent GEL 3,285,115.20 (by 5.47% less than planned) on operational activities.

The Commission made changes in the budget articles of operational expenses and decided to finance some other articles of the priority importance by using the additional financial resources, gained from the economy. The Commission, in scope of its competence defined in the paragraph 5 of the article 6 of the GNCC charter, made the decision in order to ensure the financing of the separate articles of the operational budget.

Following is the list of the main expenses made:

- Stationery, post, printing and newspapers annual expenses - GEL 88,034.48 (by GEL 28,034.48 -46,72% more than planned). This was resulted from the increase of factual expense of these articles: stationery expenses reached a sum of GEL 11,141.09; post expenses- GEL 8,529.09; printing expenses- GEL 53,363.00; and expenses made to purchase newspapers- GEL 10,935.39.
- Communications, electricity and water costs- GEL 108,243.70, which is 8,24% more than planned by the budget.
- Maintenance, repair and purchase of fuel for cars- GEL 67,284.79 GEL, which is by GEL 2,715.21 (3,88%) less than the sum planned.
- Missions of members of the Commission and its employees increased by GEL 58,702.92 (58,70%). It was caused by the need to finance the representatives of the Commission, in order to increase the effectiveness of activity of the Commission.
- Conducting conferences, seminars, upgrading the skills and expenses made for the service of specialists and experts - GEL 30,359.99, which is by GEL 19,640.01 (39,72%) less than the sum planned by the budget.
- Scientific and consulting activities - GEL 55,200.00, which is by GEL 24,800.00 (31,00%) less than the sum planned by the budget.

- Repair of the Commission's office - GEL 119,827.91, and the repair of computers- GEL 14,257.00. Total expenses made for the repair of office and computers is by GEL 115,915.09 (53,63%) less than the sum planned by the budget.
- Reimbursement of work - GEL 1,995,100.84, which is by GEL 10,314.16 less than the sum planned by the budget.
- Covering the costs under the article of general expenses of the budget, the Commission has spent by GEL 122,778.92 more than planned (GEL 202,778.92, instead of GEL 80,000). Increase of fee for special announcements to be made on behalf of GNCC (as required by the legislation) - GEL 46,341.65, security service- GEL 28,800.00, transportation, installment and repair of air conditioners- GEL 11,445.80, and the service (which was not planned in advance) provided by the department of observing electromagnetic compatibility and interference to the Commission- GEL 69,627.64, these are key reasons for overcoming the planned budget in the mentioned article.
- Activities of consumer defender's office- GEL 148,292.4 (instead of GEL 249,950.00).

An audit studied financial accounting of the activities of the Commission and articles of expenses and revenues of the Commission's budget. Auditor's report is attached to the annual report.

Regulating legislation

In 1999 began and in 2005 ended the first stage of system reform of the electronic communications market of Georgia. The sector has undergone vital institutional and structural changes. Developed regulatory framework is harmonized to the best international and European practices.

The positive development trends of the electronic communications networks and facilities and formation of informational society and the introduction of innovative electronic informational technologies have dictated the changes and amendments of legislation.

On June 6th, 2005, the Parliament of Georgia discussed and approved the law "on electronic communications", initialized by the President and elaborated by the Commission. The law reflects the new State approaches and views to the development of electronic communications. Priorities given in the new law are as follows: liberalization, competition and harmonization to the global informational and communications society.

The law meets the requirements and directives elaborated by the European Union and the World Trade Organization. It is a step towards to the integration in the European Community.

The law "on electronic communications" determines the main principles for establishment of conditions of a competitive market environment and deepening the process of liberalization of the electronic

communications market. The most important legislative regulating initiatives are: the changing of individual licensing regime by the simple system of general authorization in order to simplify the beginning and carrying out activity; the establishment of a secondary circulation market of radio frequency spectrum resources after the primary placement of these resources on the radio frequency spectrum resources market (system of secondary trade of frequency resources); determination of operators having significant market power in order to prevent the abusive use of their power, and usage of methodological approaches when carrying out competition analysis on the electronic communications market segments; recognition of principles of convergence and technological neutrality; application of the economical system of sanctions in case of violation of legislation or the Commission's decision committed by authorized undertakings. Considering the new approaches defined by this law, changes and amendments have been made in other legislative normative acts determining the Commission's regulating powers and obligations, such as the Georgian laws "on broadcasting" (2004/12/23) and "on independent regulating authorities", several resolutions and charters of the Commission.

The Commission's functions, powers and obligations

Main duties and responsibilities of the Commission are determined by the law "on electronic communications", they are as follows:

- Authorization of activity in the field of electronic communications;
- Management of scarce resources and ensuring its effective usage. Establishment of transparent and non-discriminatory conditions and rules for obtaining the right to use radio frequency spectrum and/or numbering resource, issuance and cancellation of relevant licenses;
- Carrying out research and analysis of relevant market segments, determining significant market power (SMP) operators; in order to ensure competitive market environment, imposing specific obligations on SMP, also supervise and control its fulfillment;
- Certification of electronic communications facilities, standardize and provide metrological services according to the regulation on certification of radio equipment and telecommunications terminal equipment;
- Regulation of technical-economical and legal relations of interconnection and/or access to the elements of electronic communications networks;
 - Salvation of disputes between authorized entities acting in the field of electronic communications, as well as between them and consumers, within its competence;
 - Supervision on fulfillment of the authorization conditions in the field of electronic communications and license conditions for the use of radio frequency spectrum and/or numbering resource take relevant

measures determined by the legislation in case of violation of these conditions;

- Ensuring open, public and transparent relationship with the society;
- Coordinating of electromagnetic compatibility of radio electronic facilities and international legal measures of its security;
- Representation of Georgia in international organizations acting in the field of electronic communications and defending the interests of Georgia within its competence and the competence delegated by the government of Georgia;
- Defining the rules for using of amateur radio stations and establishing of amateur radio connection;
- Other functions, pursuant to the law and the objectives of the GNCC;
- Solving of disputes between license holders (for the use of radio frequency spectrum and/or numbering resource).

The Law of Georgia “on broadcasting” determines its functions and obligations in the field of broadcasting. According to the law, the Commission ensures:

- Elaboration of proposals on principal directions of the State policy in the field of broadcasting, taking into consideration public opinion and results of analysis of broadcasting market, as well as supervision and control on the fulfillment of these directions;
- Definition of license conditions, issuing, modification, suspending, renewal and cancellation of licenses;
- Definition and allocation of frequency spectrum by the rules determined by the law;
- Granting frequencies;
- Supervision and control on fulfillment of license conditions and the requirements of the law by license holder; in case of violation of the requirements of the law or the license conditions, the Commission imposes relevant sanctions;
- Encouraging the establishment and development of a competitive environment within its competence, determining the amount of the license and regulation fee and the payment conditions;
- Supervision and control on fulfillment of legislative acts on advertisement, defending minors from unwholesome influence and copyright;
- Settlement of disputes between license holders, as well as between license holders and consumers, within its competence;
- Issuing legislative acts.

Chapter II

Analysis of the activity carried out by the Commission in 2005

In 2005, the Commission in the scope of its competence and while executing the obligations imposed on it by the legislation, issued a number of administrative-legal acts of a regulatory nature. The administrative-legal acts are: resolutions, and decisions, mainly on the following issues: assigning the right to use frequency spectrum and numbering resources, resolution of disputes between operators, ensuring competition on different market segments, defense of the consumers' rights, violations found in the activity of authorized undertakings and license holders. In 2005, totally, the Commission has issued 12 resolutions and 818 decisions.

Resolutions

In 2005, the Commission issued the following resolutions:

N1- introducing the changes and amendments in the Resolution N2 of December 20, 2002 of the Georgian National Communications Commission -“On approval of the charter on defining the initial amount and the rule of payment of the license fee for providing international carrier selection code and using the frequency spectrum- 2005/01/11

The Resolution clarified some regulatory rules used when providing international carrier selection code and methodology for defining the initial license fee for using frequency spectrum and respective conditions.

N2 – introducing the changes in the Resolution N5 of May 22, 2001 of the Georgian National Communications Commission”-“On approval of tariff floors and tariff caps for the international telephone service” 2005/03/11

In 2005, the Commission has analyzed the competition environment on international telephone service market segment and considered it to be at the satisfactory level, applied its powers and cancelled the tariff floors and tariff caps on international telephone service established in 2001.

N3- – introducing the changes in the Resolution N6 of July 10, 2001 of the Georgian National Communications Commission “On changes and amendments (2005/03/23) in the Resolution “on approval of the charter on interconnection of communications networks”.

The changes and amendments made by the Resolution relate to the conditions of agreement of interconnection, those cover to ensure fair and transparent tariffs imposing, for the retail telephone and interconnection service inside own network by the operators acting in local telephone systems and networks, also those, using mobile and fixed radio telephone connections and mobile network operators.

N5-- introducing the changes in the Resolution N2 of May 15, 2001 of the Georgian National Communications Commission (2005/03/25) on “submission of building-technical documentation to the Georgian National Communications Commission and its consideration’.

The Resolution simplified some procedures of consideration and submission of the building-technical documentation submitted by license seeker to sub-commission.

N6-“On putting changes and amendments in the Resolution N1 of June 27, 2003 of the Commission (25/04/08) on the approval of “Regulating rules of activity of the Georgian National Communications Commission”.

On the basis of this Resolution, the regulating norms for the use and registration of amateur radio stations have been added to the regulating rules of the Commission’s activity.

N7- – introducing the changes in the Resolution N3 of 2005 of the Georgian National Communications Commission (2005/04/26) “on introducing the changes and amendments in the Resolution N6 of July 10, 2001 of the Georgian National Communications Commission on “approving the charter on interconnection of communications network”.

After putting into force of the Georgian law “on electronic communications”, the resolution “on interconnection of the communications networks” was declared invalid.

N8-- introducing the changes in the Resolution N5 of May 22, 2001(2005/05/19) of the Georgian National Communications Commission “on establishing of tariff floors and tariff caps for international telephone service”.

The principle of technological neutrality, declared in the law “on electronic communications” as to of a priority importance, dictated the necessity to issue the Resolution. The changes introduced ensure the impossible to create barriers for the use of inter-compatible technical standards by operators owning electronic communications network. The Resolution defines the conditions of obligation to put the characteristics of networks in conformity with harmonized technical standards for the operators providing local and international telephone service, in order to ensure interoperability. The Ministry of Justice of Georgia included the Resolution into the State Register of Normative Acts; nevertheless it has not been published in the Legislative Information Sheet. Later, the Commission declared this Resolution invalid by its Resolution N11.

N9-“On approving tariff caps and tariff floors for the interconnection service”- 2005/06/06

The Resolution established tariff caps for interconnection service;

- Call initializing and/or termination of the main interconnection service in the own networks of mobile operator- GEL 0,188;
- Call initializing and/or termination of the main interconnection service in the own networks of local fixed operator- GEL 0,04.

- Call initializing and/or termination of the tandem and double tandem call in local connection area- GEL 0,05.

The Resolution also determined the general rule for the defining the tariffs for terminating the call from mobile telephone network to local telephone network and terminating the call from local telephone network to mobile network.

N10-“On approving the Regulation on Universal Service”-2005/09/16

The Regulation defines the issues on the provision universal service in the field of electronic communications.

N11- introducing the changes in the Resolution N5 of May 22, 2001 of the Georgian National Communications Commission (2005/10/21) “changes in Resolution on approving tariff caps and tariff floors for international telephone service”.

The Resolution introduced the changes in the Resolution N5 of May 22, 2001 of the Commission.

N12- “Rules of definition and payment of regulation fee” (2005/10/28)”

According to the article 12 of the Georgian law “on electronic communications”, article 12 of the Georgian law “on broadcasting” also to the paragraph 2 of article 3 of the Georgian law “on regulation fee”, the Commission approved a declaration form and the submission rule for regulation fee to be submitted to the Commission monthly by undertakings carrying out activity in the field of electronic communications and broadcasting.

N13-“On charter of the auctions, carried out for winning the right of use of radio frequency spectrum and/or numbering resource (2005/12/12)”.

The charter determined the powers and obligations of the Commission, procedure of carrying out an auction, rules for declaring a winner and issuance of license certificate, rules for definition of the initial amount of the fee to be paid for the use of resources at the auction carried out for the right of use of radio frequency spectrum, quantitative, qualitative and periodically defined norms and rules of use of scarce resources.

Decisions

In 2005, the Georgian National Communications Commission has taken totally 818 Decisions. These are:

Table 2

	Type of Decision	Quantity
1	Assignment of frequencies	134
2	Issuing of license	58
3	Prolongation/Modification of license term	9
4	Transfer of license	2
5	Cancellation of license	7
6	Declaration of a commercial auction	11
7	On declaring a winner	12
8	Consideration of a dispute (and related issues)	21
9	Commencement of cases (revocation, fixing of date)	50
10	On issuing permission for the use of numbering resource	4
11	On issuing permission for using high frequency equipment	17
12	On issuing permission for importing high frequency equipment in Georgia	89
13	On assigning identification mark and corns to marine vessels	30
14	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	63
15	On warning	67
16	On issuing permission for the usage of frequencies assigned to radio broadcasting station on neighboring territory	71
17	On leaving declaration without consideration	13
18	On introducing the changes in the Commission's decisions	27
19	On approving the agenda of the Commission's meeting	52
20	Miscellaneous	81

Mainly the decisions (132 from the total 134), taken on assigning the right to use the radio frequency spectrum was related to the usage of radio frequencies for internal and technological, non-commercial purposes.

A number of decisions have been taken based on the results of the monitoring carried out by the Commission. In order to ensure the fulfillment of requirements defined in the legislation by the license holders and authorized undertakings, the Commission has taken decisions: 67 decisions on warning on the eliminate the violation, 62 cases out of them were related to violations by TV companies and 5 of them-in the activity of communications companies. As for the TV companies, practically every warning concerned to the issues of meeting the demand of the laws “on copyright” and “on broadcasting”.

In 2005, number of decisions taken was about licensing, in concrete:

- 58 -issue the licenses;
- 7 - -modify of license conditions;
- 2 – prologue the term;
- 2 - transfer of license;
- 12- declare a winner;
- 7 – cancel of license.

Enforcement

Imposing a fine

In 2005, the Georgian National Communications Commission applied its powers in nine cases and imposed a total sum of GEL 28,000.00 of administrative fine on different companies for the benefit of the State Budget of Georgia. In 6 cases from 9, the Commission imposed sanctions on license holder companies for the illegal retranslation of foreign channels by violating the copyright. In one case, a fiction film was broadcasted without having the relevant permission. The Commission also fined the settlement of Russian Army in the South Caucasus two times, for the illegal usage of frequency resources and retranslation of programs.

Defending minors from unwholesome influence

In 2005, several facts of violating the requirements defined by the Georgian laws “on broadcasting”, “on defending minors from unwholesome influence” and “on advertising” by the broadcasting companies have been discovered. On the basis of demand addressed to the Commission by the public, the Commission confirmed the fact of the non meeting the requirements defined by the Georgian law “on defending minors from unwholesome influence” by “Mze” LTD and “Broadcasting Company Rustavi 2” LTD and relevantly, dictated both companies to spread an announcement about the violation within 5 days, at prime time. It also imposed the

registration of films owned by the companies within 10 days, and ensures the assigning of categories defined by the legislation.

At the same time, due to the non-existence of relevant legal bases and circumstances, the Commission did not satisfy requests on: revocation of license of the "Broadcasting Company Rustavi 2" LTD; warning of "Mze" LTD; fining and revocation of license of "TV Company Tbilisi"; imposing the transmission of declaration on "Teleimedi" LTD and "TV Company Tbilisi" LTD.

System of Statistical Accounting

In order to provide system research and analyze of the development trends of electronic communication's market, GNCC decided to establish an accounting system of statistics.

The forms of financial-economic and technical data and deadlines for their provision to GNCC, concerning the activities carried out in the field of broadcasting and different segments of electronic communications by respective undertakings are determined by the decision. It also clarifies the data analysis, efficient criteria for identification of development trends of electronic communications market and evaluation issues.

Authorization Form

In accordance to the requirements of the Georgian law "on electronic communications", the Commission elaborated and approved a special form (declaration) for undertakings wishing to carry out activity in the field of electronic communications service.

Commercial Auctions

In 2005, the Commission carried out commercial auctions for the right to carry out activity, the right to use of frequency spectrum resources, as well as for licensing of TV and radio broadcasting. Commercial competitions and auctions were carried out:

- on service provision by mobile telephone connection in 850 MHz frequency range;
- for carrying out activity with mobile and fixed radio telephone connection in 1900 MHz frequency range;
- on different types of TV and radio broadcasting, as well as specialized and private general radio broadcasting and general TV broadcasting.

"Case of Aquaphone"

Since 2003, the Commission is informed that a GSM operator, JSC "Aquaphone" operates on the territory of the autonomous republic Abkhazia, which is doubtfully controlled by the Russian company "Megaphone". The representatives of "Megaphone", officially deny any business connection with "Aquaphone" except roaming, but at the same time, they often mention the above-mentioned company in their speeches and in press-releases. "Aquaphone" functions in 900 MHz frequency band and uses code 282-67.

Clearing the procedure of allocation of codes is very important to understand the matter.

International Telecommunications Union (ITU), as defined by its charter, coordinates allocation of codes on international level, also assign the codes (the so called "MCC Code") to countries for carrying out activity with mobile connection networks. Code 282 (as well as code 995 for international telephone connection) has assigned to Georgia.

After passing the procedure of authorization defined by the Georgian legislation for the provision of mobile communications service, every authorized undertaking shall be granted a network identification code (the so called "MNC Code") (for example: 01, 02, 03 etc). The Georgian National Communications Commission takes Decision on allocation of this second segment of code and informs ITU about the decision for further adding in the coordinating data base.

The company "Aquaphone" is not registered at the Georgian National Communications Commission and has not passed the authorization for carrying out activity with mobile connection service. Relevantly, the Commission could not take decision on allocation of 282-67 MNC code to this company. Following the information existing at the Commission, the company "Aquaphone" is not registered in the Russian Federation either.

According to the above-mentioned facts, the company "Aquaphone" does not represent an authorized undertaking, relevantly, pursuant to the requirements of legislation, code 282-67 was not allocated to this company officially and this company is not a tax-payer to the Budget of Georgia. The company operates illegally. Together with the illegal usage of the code, "Aquaphone" illegally uses GSM frequencies, those assigned to other companies under the requirements of legislation.

Factually, the above-mentioned company exists, operates, uses the MCC code allocated to Georgia and appropriated the MNC code 67 and made it internationally recognizable by illegal means.

The Commission addressed these issues several times to ITU, but pursuant to the received official letters, the International Telecommunications Union has no relations to the established circumstances and according to its Charter, ITU cannot take any sanctioning measure.

Market Research and Analysis of Competition

In 2005, the Commission carried out several research and analysis of competition on different market segments. Based on the research, the Commission took Decisions determining operators having significant market power on relevant market segments, also conditions of obligations imposed on them in order to ensure competition. Main conditions of obligations are: to ensure transparency of information related to the activity, prohibition of discrimination, access to relevant elements of electronic communications network, tariff regulation and accounting. In order to ensure competition, the Commission carried out market research and analysis on the following segments of the market:

- Segment of the service market of access to line cable pairs (lease of subscribing lines);
- Segment of the service market of access to the channels of communications decks and passage of cables;
- Segment of the service market of local and interurban telephone connection of end users with fixed communications networks;
- Segment of the service market of initializing/terminating of telephone calls in local service area by fixed communications networks operators.

Dispute Resolution

In 2005, the Commission heard 12 disputes raised between companies. The disputes were mainly related to:

- Issues related to the conditions of interconnection agreement;
- Tariffs, accounting for the provided service of interconnection and access;
- Violating the conditions of a signed interconnection agreement;
- Provision and conditions of unbundling access to the subscribing pairs, allocation of co-location area;
- Violating the conditions of use of the numbering resources;
- Establishment of a cost-orientated tariff for additional service types of interconnection etc.

JSC “United Telecommunications Company of Georgia” mainly represented one part at the majority of cases (8 cases). 3 disputes have been solved by means of negotiations between operators.

Consumers’ Rights

Consumers’ rights defense and ensuring the improvement quality of the service provided is the main priority of the Commission.

In 2005, the analysis of complaints submitted to the Commission by the consumers, show number of main problems related to the quality of service:

1. Unauthorized intervention of third persons in telephone lines;

2. Making international calls without the permission of the consumer, by means of the so called virus programs;
3. Low quality telephone service, imposing of non-justified bills and disconnecting the telephones;
4. Problems related to informing the consumers;
5. Non-defending minors from unwholesome influence at broadcasting.

Public discussions held, also analysis and generalization of the consumers' complaints and declarations conducted, demonstrated a list of main questions and issues to be solved for ensuring the defense of the consumers' rights and legal interests. The ways to solve these issues have been also defined. The Commission continues to solve these important issues also in 2006.

International Relations

The Commission gives a great importance to the collaboration and coordination of activities with international organizations. The Commission represents Georgia in several international organizations. The Commission actively collaborates with the European Telecommunications Standards Institute (ETSI), Governmental Advisory Committee of Internet Corporation of Assigned Names and Numbers (ICANN/GAC) and International Telecommunications Union (ITU).

On November 20-21 2001, the Commission became an associated member of the European Telecommunications Standards Institute (ETSI), in order to acquaint with general European Harmonized Standards and their future implementation.

In 2005, Georgia became the 100th member of the Governmental Advisory Committee of Internet Corporation of Assigned Names and Numbers (ICANN/GAC).

The Commission already made the first steps to become a member of the conference of the European Telecommunications and Post Administrations.

Since its establishment, the Commission collaborates actively with the International Telecommunications Union (ITU). The representatives of the Commission participate annually in the Regulators Global Symposiums organized by ITU.

Radio Frequency Spectrum Monitoring System

The most effective way to receive real information in due time on the situation established in the field of broadcasting is the creation of an automatic system of radio monitoring. The Commission continued to work on this direction in 2005.

In 2005, the company "Aerosystems International INC" was declared as a winner in tender carried out for the provision of radio frequency spectrum

monitoring and into the spectrum radiating sources planning software on the territory of Georgia. The entire completion of the management center and radio monitoring stations as well as bringing the system in exploitation regime is planned for 2006.

During 2005, the Commission actively collaborated with the International Telecommunications Union (ITU) and neighbor countries in relation with the issues of frequency coordination. Several works have been carried out for the registration of digital and analog television stations for Georgia, as well as frequency assignments. At the transitional stage of passing from analog to digital broadcasting, 178 radio frequency channels carried out digital TV broadcasting, a coordination procedure has been carried out for 418 analog television station and 7 frequency assignments have been realized for the air navigation department.

Chapter III

Review of the electronic communications service market of Georgia

Licenses issued for activity and dynamics following years

At the end of 2005, 230 companies carried out their activity on the electronic communications market, 15 of them begun their activity in the field of electronic communications in 2005.

Within 2000-2005, one of the indicators of the tendency of increase of effective competition and attraction of investment in this sector is the increase of amount of licenses issued for activity on different segments of the service market of electronic communications networks and facilities of Georgia. At the end of 2005, 385 licenses were issued for undertakings carrying out their activity on the electronic communications market, 160 of them were issued before the establishment of the Commission and the Commission realized their re-registration in the license register in 2000.

Table 3

Number of active licenses	Before 2000	2001	2002	2003	2004	2005
Fixed communications service	21	37	56	70	88	100
Mobile communications service	8	8	8	10	11	16
Service with satellite systems	28	33	38	38	40	40
TV and radio broadcasting	97	106	116	140	166	194
Post service	6	10	11	16	22	26
Other						9

Total number of active licenses	160	194	229	274	327	385
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In 2005, the Commission issued a total of 58 licenses for different types of activity and the number of active licenses increased of 2,4% from 2000. Within this period, the biggest increase of number of the issued licenses was remarked on the segment of the service market of electronic fixed communications networks-from 21 units to 100. The segment of the service market of mobile communications was also attractive for wishing undertakings, where the number of the issued licenses doubled and reached 16 units for the end of 2005.

Table 4	
Market segment	Increase of the active licenses from 2000 (times)
Fixed Communications	4,8
Mobile Communications	2,0
Satellite Communications	1,4
TV and radio broadcasting	2,0
Post service	4,0
Total	2,4

From 2000 to 2005 period, the number of licenses issued for wishing undertakings is given in the board below, following the types of electronic communications services:

Table 5

	Type of license	Before 2000	2001	2002	2003	2004	2005	Total:
1	Service with local telephone connection system and network	10	5	6	7	3	4	35
2	Service with interurban and international telephone connections	2	5	4	4	6	5	26
3	Service with symmetrical, co-axial and fiber-optical gateways of the country's internal and international gateways	4	1	4	2	3	1	15
4	Service of interurban and international telephone connections with the use of satellite system	12	3					15

5	Activity with mobile and fixed radio telephone connection	3						3
6	Service of mobile telephone connection	4			1		5	10
7	Service of data transmission and internet cable network	3	4	5	1	6	2	21
8	Service of data transmission and internet network with the use of radio lines					1		1
9	Service of data transmission and internet terrestrial network with the use of frequencies	2	1					3
10	Service of data transmission and internet network with the use of satellite system	16	2	5		2		25
11	Service of paging system				1			1
12	Service of trunk system	1						1
13	Specialized TV broadcasting				1	1	1	3
14	Common TV and radio broadcasting	65			2	2		69
15	Transit TV broadcasting	23					8	31
16	Service of cable common TV and radio broadcasting network			1	1	1	2	5
17	Service of cable specialized TV and radio broadcasting network						1	1
18	Service of cable transit TV and radio broadcasting network	1	2		8	21	8	40
19	Service of cable TV and radio broadcasting network	6	7	8	10		8	39
20	Service of terrestrial stations of TV and radio broadcasting satellite systems	2		1	2	1		6
21	Service of receiving, sending, transporting and carrying local and international post parcels	6	4	1	5	6	4	26
22	Usage of the numbering resource						9	9
	Total	160	34	35	45	53	56	385

Review of development of the electronic communications service market

The tendency of general increase of the electronic communications service market has been maintained in 2005. The total income of the sector increased of 20,1% in comparison with 2004. The amount of the increase reached 119.6 million GEL.

Within 2000-2005, the general annual income (included VAT) of the communications service sector reached 715.5 million GEL instead of 211.5 million GEL, and increased of 2.38 times. This shall be considered as one of the indicators of success of reforms made in this sector of economy.

Figure 1

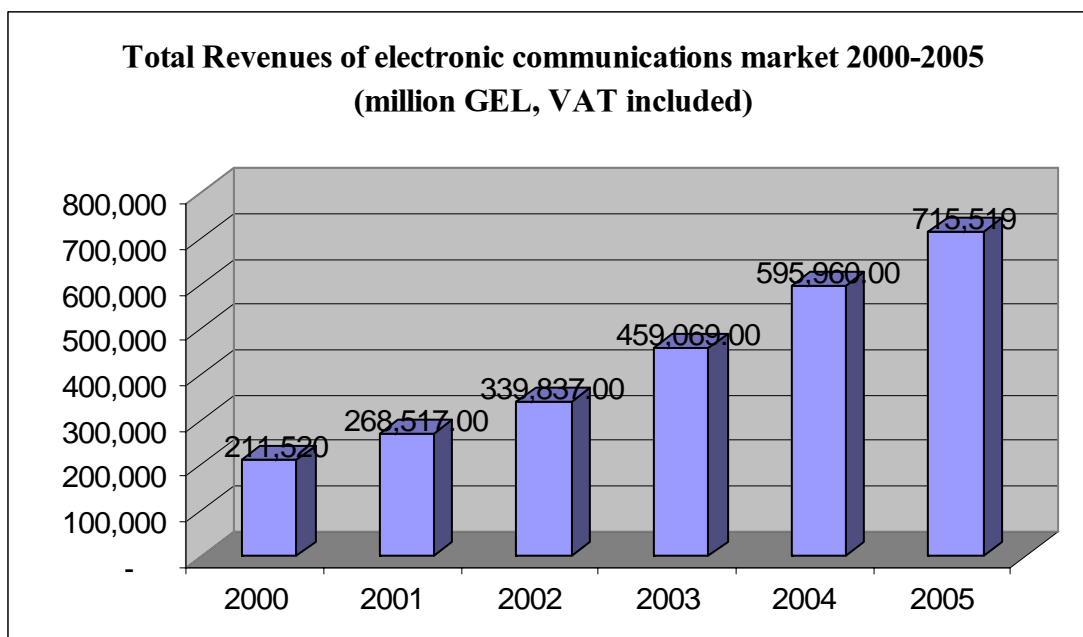
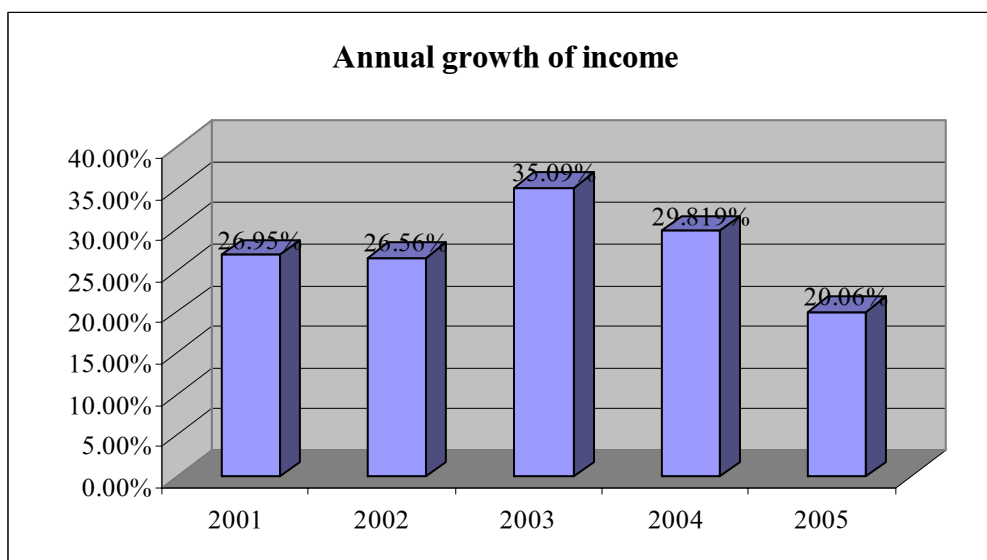
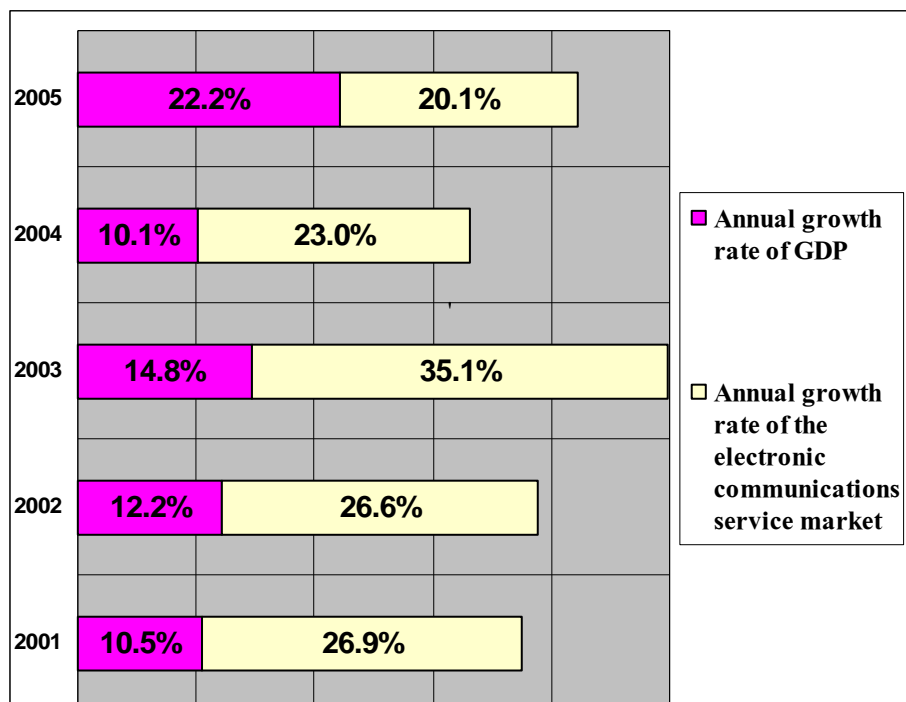


Figure 2



Within 2000-2005, the dynamics of the annual increase of the income of the electronic communications service market was unstably between 20.1% and 35.1%. The highest point of the annual increase of income in 2003 was 35.1%. Within 2003-2005, the indicator was decreased and constituted 20.1% in 2005. Despite this decrease, the fact should be taken into consideration that the amount of monthly income from the Georgian electronic communications service sector from one person residing in Georgia has increased from 4,3 GEL to 15,1. Also, it has to be borne in mind that within the indicated period, while rebalancing of communications service tariffs, they had not increased but in some cases had decreased (as for the segment of international telephone connection service market) though, the demand on electronic communications service had increased 4 times for one person residing in Georgia, shall be taken into consideration. If in 2000, the total amount of monthly income of operators providing service on mobile and fixed communications networks service constituted of 25,2 GEL for one active consumer, in 2005, the same indicator increased of 30.2% and reached 32,8 GEL monthly. This indicates the improvement of amelioration of the general conjuncture of the communications market and the increase in competitive demand.

Figure 3



Within the five years period of 2000-2005, the compound annual growth rate (CAGR) of Georgia's electronic communications service market reached 27.6%. For comparison, within the same period, the compound annual growth rate (CAGR) of the county's gross domestic product (GDP) constituted 13.86%.

The part of the sector's income in gross domestic product of economy

Within the last 5 years, the part of the income of the electronic communications service market in gross domestic product had a tendency of increase. If in 2000, the amount of this indicator was 3.52%, in 2005, the part of the sector's income in gross domestic product of the country increased of 1,8 times (almost doubled) and reached 6.21%.

Table 6

Part of income of electronic communications sector in gross domestic product

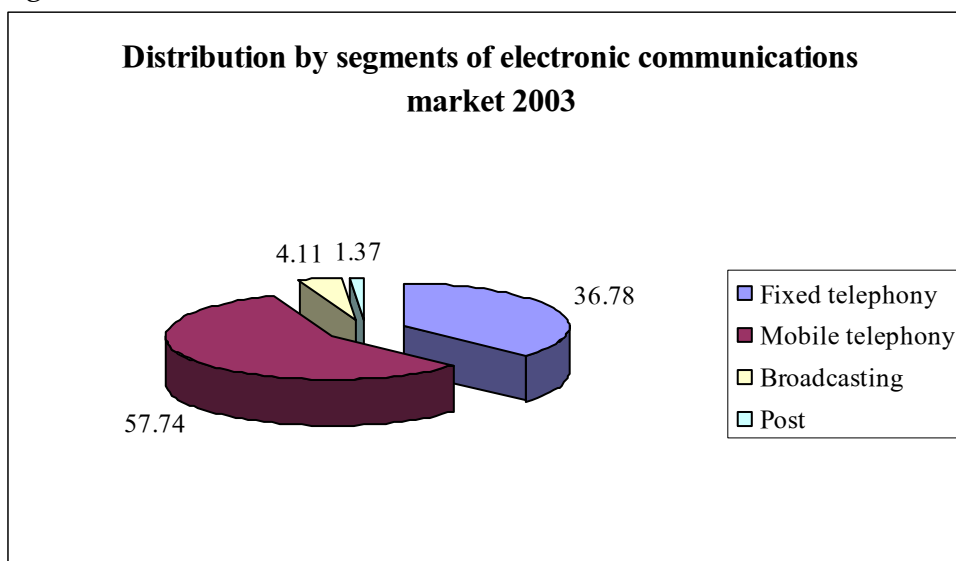
	2000	2001	2002	2003	2004	2005
Income of electronic communications service market Million GEL	211,5	268,5	339,8	459,1	595,9	715,5
GDP Million GEL	6 015.3	6 647.9	7 456.0	8 563.9	9 422.0	11 513
Part in percents	3.52%	4.04%	4.56%	5.36%	6.33%	6.21%

Dynamics of development of segments of the electronic communications service market

Tendencies of the general development of the sector are clearly reflected by the percent division of income received following the types of services by operators carrying out activity on different segments of the electronic communications service market and the dynamics of their increase.

In 2005, 59.39% of the total income of the electronic communications service consisted by the income of the segment of mobile communications service. The same indicator was of 50.8% in 2000.

Figure 4



Within the period of five years, the part of income of operators carrying out activity on the segment of fixed telephone service market decreased from 42% to 35.2% in the total income. The above-mentioned factors indicate the fact that the consumers prefer the “mobility” of the communications service and the beginning of the convergence process of fixed and mobile communications networks.

Tendencies established on the TV and radio broadcasting market segment reflect the priorities set in the development of electronic media. The “opening” of the TV and radio broadcasting market is a part of liberalization process and within the past period, this segment was established as one of the most important and economically profitable sectors of the market for advertising. Although, the part of TV and radio broadcasting in the sector’s total income was only 4.25% within 2000-2005, the income received by operators holding broadcasting licenses increased almost 3,2 times within these five years and following the data of 2005, reached 31,7 million GEL instead of 9,89 million GEL.

Fixed Communications Service

The segment of the fixed communications service market includes the provision of telephone services to subscribers of local, interurban, international and mobile network operators, as well as the provision of service of internet network to consumers and access to the wholesale market segment by operators owning network and interconnection to different elements of the network, their resources or capacities.

Table 7

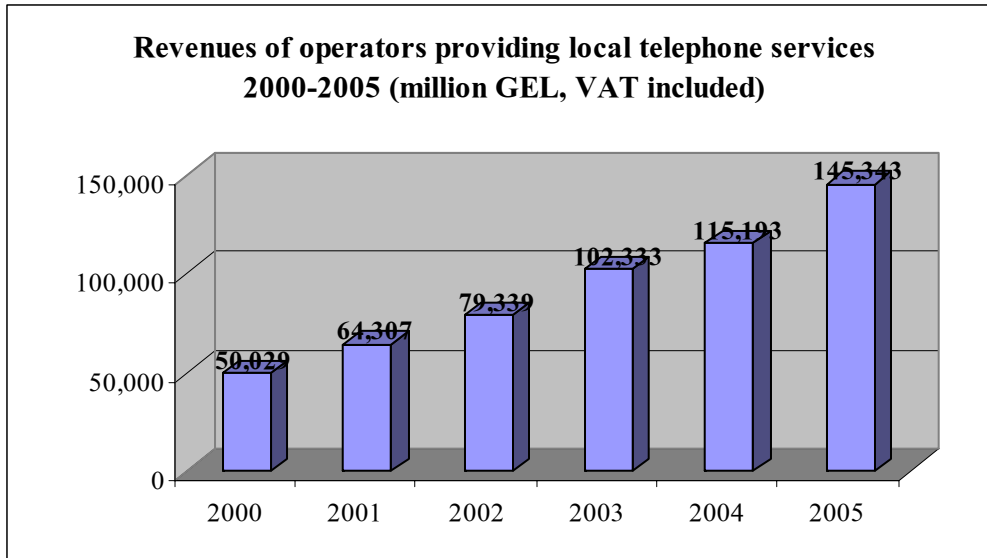
Division of the electronic communications market segments in 2000-2005 (%)

Service segment	2000	2001	2002	2003	2004	2005
Fixed communications	41.9%	40.9%	38.7%	36.8%	34.7%	35.2%
Mobile communications	50.8%	52.1%	55.5%	57.7%	59.5%	59.45
TV and radio broadcasting	4.7%	4.3%	3.7%	4.1%	4.3%	4.4%
Post service	2.6%	2.6%	2.1%	1.4%	1.4%	0.9%

The number of subscribers of fixed telephony service (active telephone lines) increased by 10.2% within the period of 2000-2005 and following the data of 2005, reached a number of 544,000. The biggest part of income of operators carrying out their activity on this segment was received by JSC “United Telecommunications Company of Georgia”, “Akhteli” LTD and “Akhali Kselebi” LTD. These companies hold almost 90% of the fixed communications networks of Georgia. The indicator of density on fixed telephony service was of 107 for 1000 persons in 2000 and in 2005, the indicator reached 122.

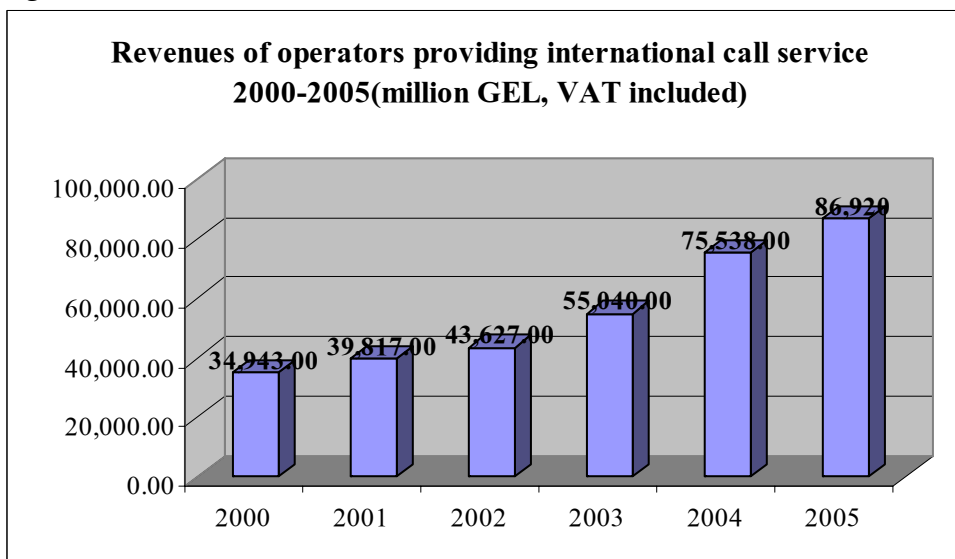
Total income of the fixed communications service market increased from 88,7 million GEL to 252 million GEL since 2000. The compound annual growth rate (CAGR) of income of the segment reached 23,2%. In 2005, this service segment had a part of 35,2% in the total income of the communications sector.

Figure 5



In the reviewed period, annual income (except the income received from the provision of international connection and Internet service) of the fixed telephony service operators increased from 50 million GEL to 145,3 million GEL. The compound annual growth rate of this segment reached 23.8%.

Figure 6



The tendency of increase was also shown on the segment of international connection service market. In 2005, the total income of operators carrying out activity on this segment constituted 12.2% of the total income of the communications sector. In comparison with the last year, the increase of income reached 15.1%. The increase of income was took place in the conditions of the growth of competition on the segment of the communications service market, annulment of tariff floors and tariff caps established by the Commission, important decrease of the general level of these tariffs and the increase of the total volume of international outgoing and incoming

traffic. In comparison with 2000, in 2005, the volume of international traffic outgoing from the country's communications networks increased of 77,8% and reached 106 million minutes. Within the same period, the volume of international traffic incoming in the country increased 3,6 times and reached 284,9 million minutes.

While analyzing the characteristics of the development of competition (as well as the concentration rate of Herfindal-Hirschmann-HHI) on the fixed communications market segments it was demonstrated the tendency of qualitative growth of market competition on different segments and the tasks to be solved necessarily in order to encourage this processes and the competitive widening of the market segments became clear.

Table 8

HHI (Herrfindal-Hirschmann rate)

Market segment	2000	2005	Change
Lease of subscriber couples	4 733	3 909	-17.42%
Local telephone connection	3 789	2 974	-21.52%
Lease of gateways channels	9,567	9 527	-0.41%
Telephone connection to mobile subscribers	2 101	3 281	56.18%
Interurban telephone connection	2 801	1 396	-50.17%
International telephone connection	2 522	1 924	-23.71%
Service of Internet network	3 376	1 745	-48.33%
Local wideband wireless access	10 000	10 000	0.00%
Interconnection and access	2 179	3 671	68.51%
Mobile communications service	5 670	5 572	-1.74%

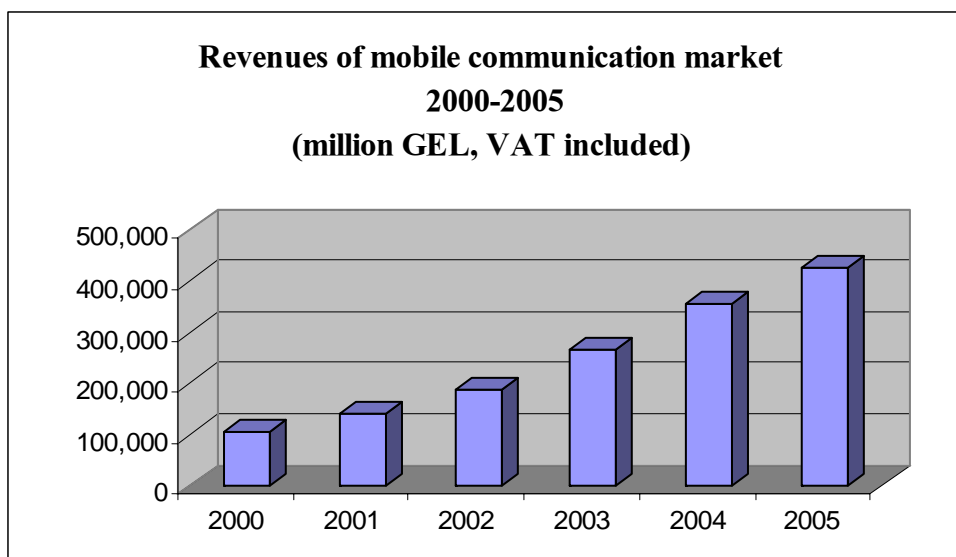
Within the period of 2000-2005, the indicator of HHI rate on the market segment of ULL and subscriber line access had a tendency of decrease. The decrease of indicator (increase of competition) reached 17.42%. The indicator of HHI rate also decreased on the market segment of local telephone connection of 21.52%. The indicator of HHI rate did not change and is the highest on the market segment of lease of inter-area gateways channels.

The same is on the market segment of fixed wideband communications service. On these segments of service, encouraging the increase of competition is a strategically priority aim in the Commission's future activity.

Mobile communications service

The tendency of increase of the mobile communications service market established during the last years was also maintained in 2005.

Figure 7



During 2005, in comparison with the last year, the number of active subscribers of mobile communications service operators increased almost by 40%, exceeding the “million edge” and constituting 1 million 174 thousand.

Within the five-year period, the number of the “active” subscribers of the mobile communications service increased almost 8 times. In 2003, the number of “mobile” subscribers exceeded the number of “fixed” subscribers. In 2005, the difference was 115.7%. This means that the number of mobile communications service subscribers is twice more than the number of fixed telephony service subscribers.

The “density” of the active subscribers of mobile communications service consisted of 3.4% in 2000, and within the past five years increased to 26%.

**Table 9
Annual increase of income of the mobile operators (%)**

	2001	2002	2003	2004	2005
Increase in percents In comparison with The precedent year	30.4%	34.8%	40.4%	33.9%	19.7%

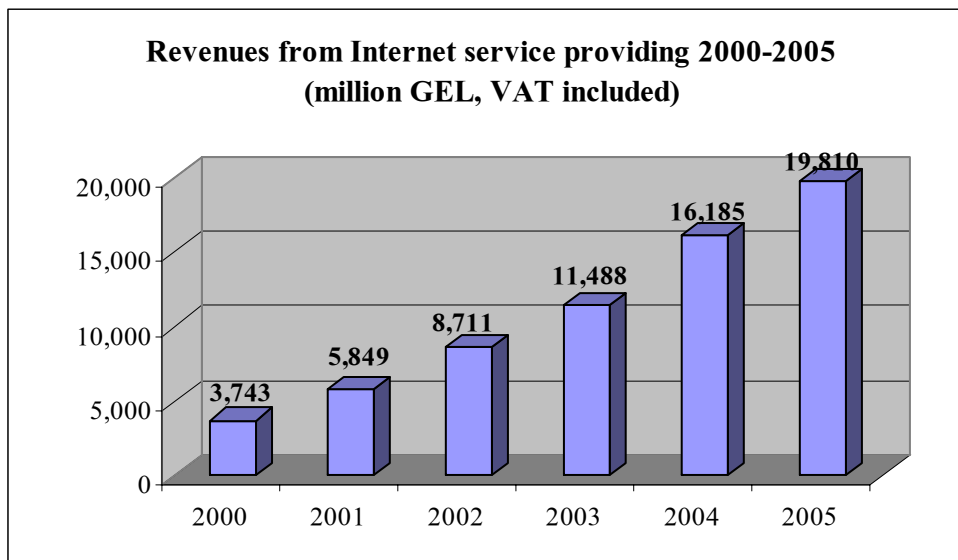
In 2005, the income from mobile communications service increased by 19.7%, 70 million GEL in comparison with the last year and reached 425 million GEL. Within the period of 2000-2005, the compound annual growth rate (CAGR) of income reached 31.7%. Within the five-year period of development, the rate of increase of the mobile communications service market is one of the highest in the sector. Compare to 2000, in 2005, the income increased by 317.5 million GEL and nowadays, it remains as the most intensively increasing and profitable segment of the electronic communications market.

The amount of monthly income from the mobile communications service consisted of 62,4 GEL (31,7 USD) approximately for one “active” subscriber in 2000. The same indicator decreased to 34,9 GEL (19,5 USD) in 2005. According to the international practice, this tendency of decrease is reasonable and was resulted from the increase of number of low-budget consumers in the whole subscribers’ base together with the increase of availability of service and the growth of mobile communications networks.

Service of Internet network

Within the period of 2000-2005, the total income of operators providing service of internet network increased from 3,7 million GEL to 19,8 million GEL (5,3 times).

Figure 8



In comparison with the last year, in 2005, the increase of income reached 22,4%. The segment of service of internet network is the most increasing segment on the electronic communications market. Within the period of 2000-2005, the compound annual growth rate (CAGR) of income reached 40% approximately.

The number of consumers of Internet with ADSL technologies reached 15,3 thousand at the end of 2005. In comparison with 2004, the number of these subscribers increased almost by 3,6 times. The number of consumers of internet with Dial-up technology increased by 40% in 2005, in comparison with the last year and reached 178 thousand.

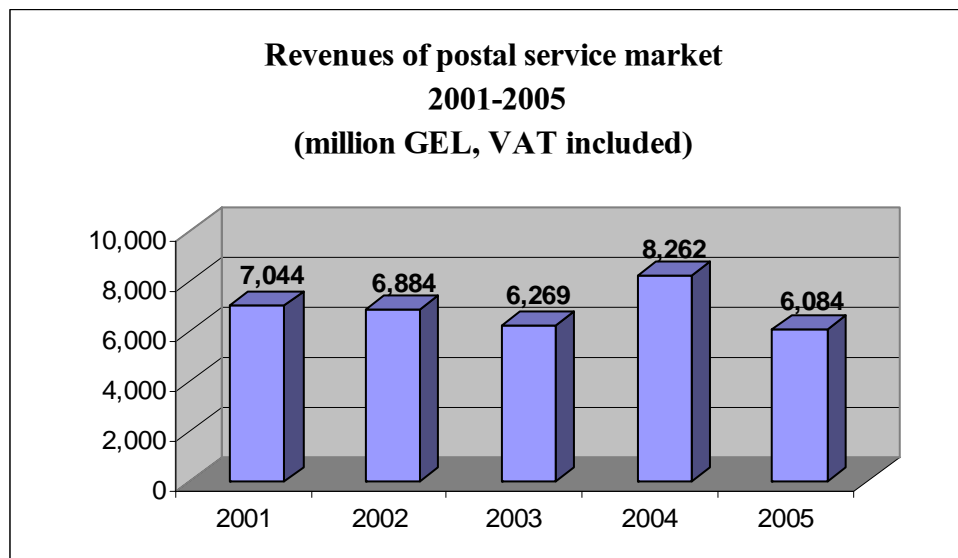
In 2000-2005, on the segment of internet service market, together with the increase of general income, the market competition level between operators has also increased. The HHI rate decreased from 3 376 to 1 745 units (48.3%) within the above-mentioned period.

Post service

In the conditions of a liberalized market, the most attractive market segment for operators was the market segment of international postal service.

Only one company-“Post of Georgia” LTD provided service on the internal market. 100% of shares of this company are owned by the State.

Figure 9

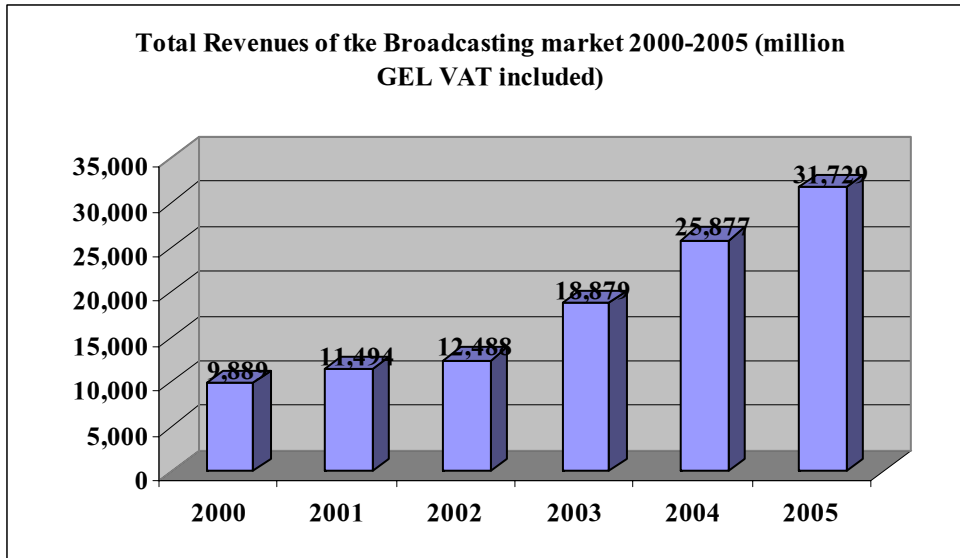


Within 2000-2005, the income of the post has been changing and less increasing. The part of income received from the following postal services: writing correspondence; postal parcel; money sending and transferring (including pensions and aids); financial service was still high in the total income, although the amount of part of income received from the above-mentioned services proportionally decreased year by year with the development of the banking system in the country.

TV and radio broadcasting

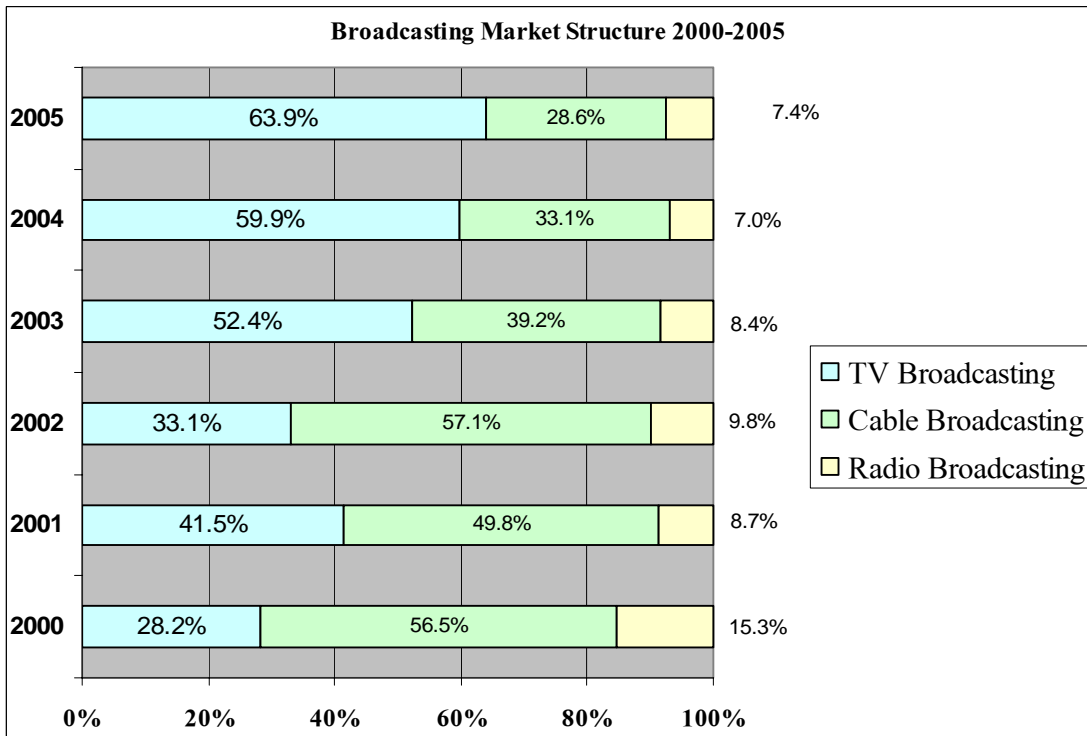
In 2005, the total income received from companies in the field of TV and radio broadcasting increased to 31,729 million GEL and

Figure 10



constituted 4.43% of the total income of the electronic communications market of Georgia.

Figure 11



Until 2002, this segment was not very attractive for economic profit. This was resulted from the low volume of the advertising market and low development level in that period.

Table 11

Compound annual growth rate of income

Market segments	2001	2002	2003	2004	2005	CAGR
TV broadcasting	71.21%	-13.20%	138.81%	56.82%	30.84%	48.75%
Cable broadcasting	2.35%	24.58%	3.86%	15.79%	5.98%	10.20%
Radio broadcasting	-33.76%	21.73%	30.34%	13.42%	30.90%	9.31%

In 2003, this segment of the market begun to enlarge. The increase of the total income was mainly resulted from the enlargement of TV broadcasting segment, the part of which in the total income of the broadcasting sector increased from 28,2% to almost 64% in five years. Within this period, the compound annual growth rate of income of TV broadcasting reached 48,8%. The same indicator on the segment of cable TV broadcasting was-10,2%, and on the segment of radio broadcasting-9,3%. This difference was resulted from the factor that the agencies placing advertising products gave priority to TV broadcasting in the electronic media technologies. In accordance with the requirements defined by the legislation in force, the Commission determines the priorities of TV and radio broadcasting on the basis of analysis of the public opinion. For this aim, in July 2004, the Commission ordered and the Business Consulting Group carried out a research on public opinion. The results of this research demonstrated the priorities for the development of TV and radio broadcasting market segment for 2004-2006. One third of the population questioned declared they wished to see Georgian films. The demand for entertainment, documentary, sport, musical and children programs is also high. More than 46% of the questioned population declared wishing the existence of a specialized channel (within the types of specialized TV broadcasting channels, the highest demand is for: fiction films-56.1%, musical-43.6%, sport-39.3%, informational-29.7%, humoristic-entertainment-25.6%), in Tbilisi and regions.

The research demonstrated that the most part of radio broadcasting listeners give priority to Georgian music to listen. 40.5% of the population questioned was interested in the old Georgian music, 39.8% preferred contemporary Georgian music. Accordingly, 6.6% and 6.4% of the population questioned prefer contemporary foreign and Russian music.

The Commission takes into consideration these priorities and the conformity of the broadcasting conceptions submitted by license seekers with these priorities when announcing a competition for TV and radio broadcasting license and declaring the winner of competition following the aspect of programming.

Independent Audit Report

To the management of the “Georgian National Communications Commission”

We have carried out the audit of accounting balance and attached financial registers of the Georgian National Communications Commission, for the situation established till December 31 2005. The management of the Georgian National Communications Commission is responsible for the authenticity of the presented balance and financial registers. Our duty is to declare our opinion on the presented financial accounting on the basis of audit of balance and issue a report.

We carried out audit of the accounting balance in accordance with the recognized audit standards. These standards require to plan and carry out the audit of balance in a way, which guarantees that the balance does not contain false information. The audit also includes the verification of that data which confirms the total indicators of the balance, consideration of the accounting principles used, results of evaluations made by the management and the study of the balance.

The main aim of the audit was to elaborate an opinion on the information and facts given in the verified financial documents. We searched and verified the documents, on the basis of which we would have been able to analyze the conformity of the facts with the established criterions. The aim of the audit was also the definition of the conformity level of the information given in the financial account and the accounting principles with those accounting data the account is based on. Information on economical operations was received from accounting operations and last results. We would like to mention several issues, which should be corrected and/or are not reflected in documents. One of these issues is the recognition of hopeless and uncertain debtors and creditors and the elaboration of relevant documents (acts of comparison) in order to precise the debt and credit. The acts of comparisons with licensed operators and other responsible persons are elaborated with taking into consideration the changes made in the program, but frequently, are not reflected in documents. This is confirmed by the sums received on the Commission’s account which need to be précised. We would like also to mention another issue related to the inventory accounting, the results of the inventory accounting were unknown at the date of elaboration of the balance, on December 31 2005, but the inventory accounting ended before the date of elaboration of the audit report.

The financial accounting of the year ended by December 31 2004, was audited by other independent audits, relevantly, an audit report was presented. We believe that the results of balance audit represent the base for us to develop our opinions. Accordingly, in our point of view, the balance was elaborated in conformity with the recognized principles. Except the influence of the above-mentioned issues, the presented balance and financial registers completely reflect the financial situation and its every important aspect of the Georgian National Communications Commission

for December 31 2005, in accordance with the accounting principles defined by the legislation in force in Georgia.

“Audit Company” LTD

Director G. Gagnidze

Auditor K. Khmelidze

June 05, 2006
Tbilisi, Georgia