



Georgian National Communications Commission

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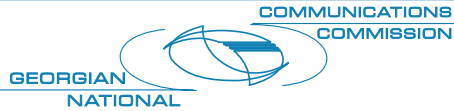
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Mission

Drive Georgia into the new
Era of info-communications

Vision

Support the development
of electronic communications market

Create flexible and adequate
mechanism for quick responding
to the market changes

Support the development
of communication society

Play an active role in mediation
between the companies and also
between them and consumers

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

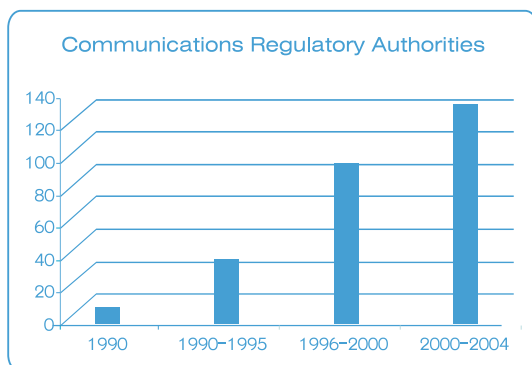


**Georgian
National
Communications
Commission**

Georgian National Communications Commission

End of 20th century is highly characterized by the rapid development rate and scope of the telecommunications market in the world. New realities and environment have clearly shown the necessity of introducing adequate tools and measures ensuring the market sustainability and stable development.

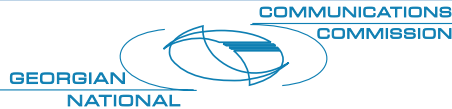
Figure № 1



Independent regulating authorities were established in order to elaborate effective and impartial mechanisms of market regulation; respectively telecommunications market development trends and activity rules have been defined.

The principles of creation and management of regulating authorities have been established on the basis of analysis of the functioning of similar structures and results achieved. The number of telecommunications regulating authorities has largely increased within the last ten years in the world; in 1990 there were only 10, in 2004 their number reached 136.

The existence of independent regulating authority is a State warranty of neutral regulation and free from political interested groups, accordingly, it encourages the establishment of reliable and stable investment environment, which naturally ensures: the development of technologically increasing and innovative electronic communications market; improvement of telecommunications network and development of the sector. Stable investment environment encourages liberalization of the market, lowers market entry barriers; also state-owned enterprises are privatized and rules for encouraging competition are determined.



Regulating authority has to establish legal environment, where market entrants are defended and do not allow abusive use of monopoly by relevant operators. Regulating authority plays the role of the sector arbiter and establishes principles of free market, like: non-discrimination, transparency and equality. Regulatory authority is the product and integral part of the sector reform. Thus, its establishment at the primary stage of the reform supports the sector challenges and reforms; also it should be objective and impartial in decision-making process.

In everyday life, the independent regulating authority is an expert and advisor for companies on the issues related to the current processes in telecommunications sector. Frequently, license holder (or license seeker) companies ask the independent regulating authority to clarify some issues. The independent regulating authority is open for discussion; its employees are ready, within their competence, to help interested people, provide the necessary information and professional support.

The independent regulating authority as an intermediary between the market and the State, possess much information about ongoing market processes, changes planned, new technologies and other issues. Its employees continuously upgrade their skills, competences and knowledge, participate in different exhibitions, informational or professional meetings and accordingly, establish close international contacts.

Accountability and Structure

Basic principles of the activities of Georgian National Communications Commission, independent regulating authority, are: independence, publicity and responsibility.

The Commission is obliged to act in accordance to the public interest and 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 number of its members has increased from three to five according to the law of Georgia «on

broadcasting» (23rd December, 2004). As for today, only three of them fill the post, an open competition has been announced for the position of two remaining members. 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 assistant professor. He gives lectures and carries out course of seminars — «International 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 is candidate of 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.

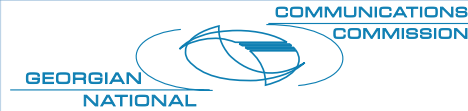
In 1996-2001, he worked at the structure of administrative inspection of the town council of Tbilisi at different positions at first and at the position of Head of Department afterwards.

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 Fruidze is married and has a son.

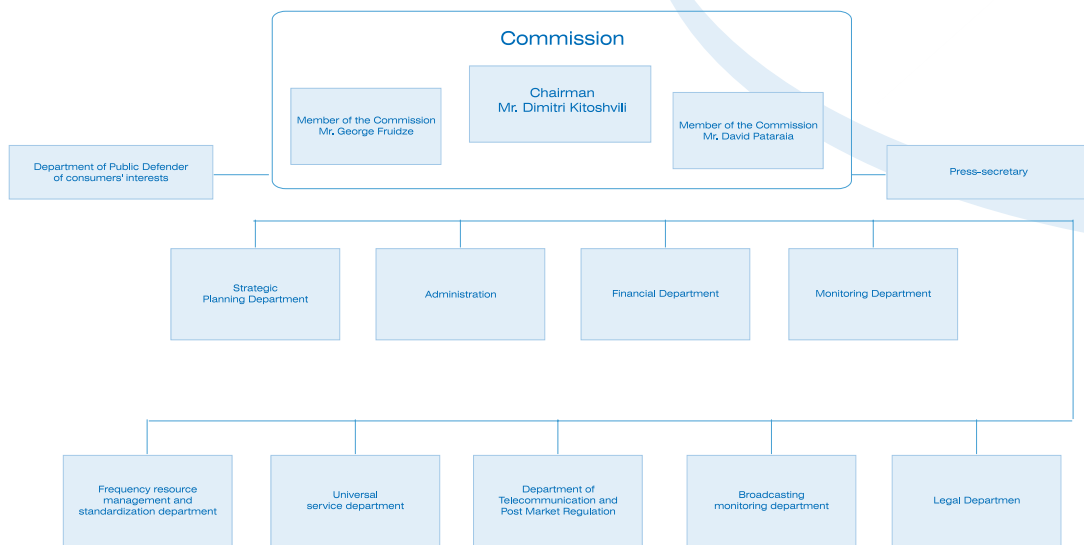


Resources of Georgian National Communications Commission

Human Resources

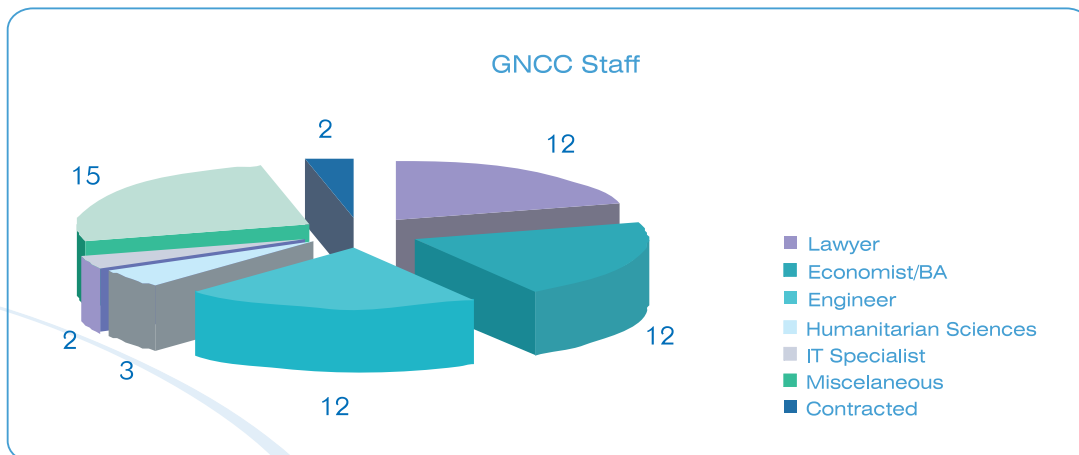
In 2004, due to the legislative changes and new environment, the Commission's structure was fundamentally changed. Previously it was structured according to the professional characteristics. New structure is based on functional characteristics. Administrative, strategic planning, monitoring, standardization and frequency resources management, regulation of telecommunications and post market, monitoring of broadcasting, legal, universal service and financial departments have been established instead of technical, economical, broadcasting, legal and consumers rights defense departments. Structural change aims to achieve balance between responsibilities and power of the Commission's staff, which is declared as to be precondition for the effective fulfillment of their functions.

The Commission's structure consists of 10 structural units, where there are 58 employees working.



The Commission recognizes that its effective functioning is directly dependent on the qualification, professionalism, impartiality and objectivity of its employees. The Commission encourages the professional growth of its employees and seeks for highly qualified personnel. Following the professional distribution of the GNCC staff is given.

Figure № 2



The employees of the Commission

Department of Public Defender of consumers' interests

Head	–	Lia Mukhashavria
Chief assistant	–	Revaz Shavishvili
Specialists	–	Alexander Abesadze
	–	David Kukhianidze

Press-secretary

–	Sopho Britanchuk
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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

Strategic Planning Department

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

Monitoring Department

Head	–	Mikheil Gotoshia
Chief specialist	–	Tsiala Ujmajuridze

Financial Department

Head	–	Ioseb Abuladze
Specialist	–	Natalia Janelidze

Department of Telecommunication and Post Market Regulation

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

Legal Department

Head	–	Kakhi Qurashvili
Chief specialist	–	Inga Todria
Senior specialists	–	Nikoloz Tsereteli
	–	Grigol Sulukhia

Universal service department

Head	–	Ana Nakashidze
Senior specialist	–	Maia Okruashvili

Frequency resource management and standardization department

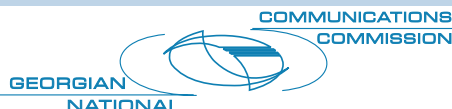
Head	–	Sergo Shavgulidze
Senior specialist	–	Temur Dzagnidze
Specialists	–	Ana Dabrundashvili
	–	Zaza Gonjilashvili
	–	David Pulariani

Broadcasting monitoring department

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

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



Financial resources: budget of the 2004 and conclusion of auditor

Annual regulation fee and license fee are the sources of formation of the Commission's budget. According to article 22 of the Law of Georgia «on communications and post», «license fee is a sum paid by license seeker for temporal usage of frequency spectrum and temporal usage of code for the provision of international phone connection.

The Commission, under the Georgian legislation, shall define the amount of the license fee as well as payment rules.

20% of the license fee shall be transferred to the Commission's account and does not represent revenue received from economical activity. The Commission covers the expenses defined by the Commission's budget with this sum.

80% of the license fee shall be used for ensuring the demand satisfaction making telecommunications and post service available. Therefore, the sum is transferred to the special account of the Commission opened for this purposes»; License holders pay the regulation fee.

Growth of Commission's annual budget (Annex 1) was naturally followed to the increase of telecommunications market income. In 2004, a sum of GEL 840,587.55 (2001-2004) was accumulated on the above-mentioned special account of the Commission.

The distribution of the sums transferred to the account by years is given on the Figure 4.

Figure № 3

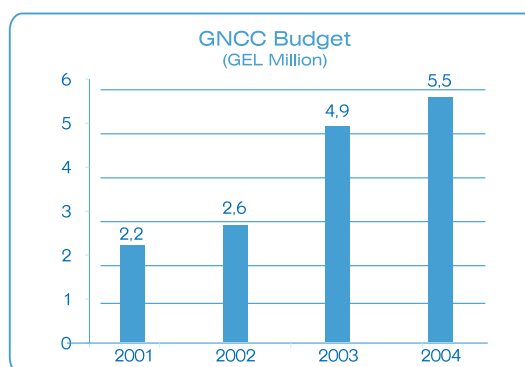
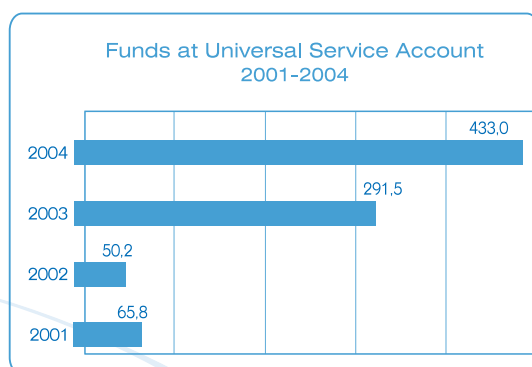


Figure №4



According to the requirements of legislation, the Commission annually carries out financial audit of its accountings and expenses. The auditor's conclusion is annexed to the present report (Annex N 2).

Functions, Obligations and Regulatory Legislation

Three laws, «on Independent National Regulatory Authorities», «on Communications and Post» and «on Broadcasting», as well as other laws in force in Georgia and normative acts lay in the basis of the Commission's activities.

According to the Law of Georgia «on communications and post», the main functions, rights and obligations of the Commission are as follows:

- Define the licensing condition in the field of communications and post in Georgia, issue licenses under the rules determined in this law, and modify, prologue, suspend and cancel the licenses;
- Establish tariff floors and tariff caps and their regulation;
- Certify communications and post facilities, standardize and provide metrological services;
- Regulate technical-economical conditions of interconnection;
- Define and allocate radio frequency spectrum with the participation of the Ministry and other interested entities;
- Assign radio frequencies;

- Encourage the development of a competitive environment;
- Solve disputes between license holders acting in the field of communications and post, as well as between them and consumers, within its competence;
- Supervise the fulfillment of the license conditions and take relevant measures determined by the legislation in case of violation of these conditions;
- Ensure open, public and transparent relationship with the society;
- Elaborate norms on monopolistic conditions and activity in order to encourage the development of a competitive environment in the field of communications and post. Supervise and control the fulfillment of these norms;
- Define the rules and conditions for allocation of numbering resources and allocate them.

The Commission ought to consider the principal trends and directions of the State policy in the field of communications and post. It shall give the opportunity to the parties to freely present their interests at the meetings.

The Commission, within its competence, is entitled to request and receive from license holder any kind of information related to its activity. The Commission, within its competence, is entitled to check the correctness of the submitted documentation and data.

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;

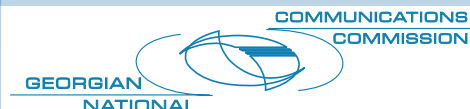
- Definition and allocation of frequency spectrum by the rules determined by the law;
- Granting frequencies;
- Supervision and control on fulfillment of license conditions and the requirements of the law by license holder; in case of violation of the requirements of the law or the license conditions, 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.

Analysis of the Work Conducted

At the end of every year, the Commission analyses the results of the precedent year, elaborates an activity plan for the next year and determines the principal directions of its activity. The ongoing changes in the country and in the sector naturally have some influence and relevantly adjust any plan. The market condition and legislative requirements are two key points for the elaboration of activity plans. According the analysis of the results of the year 2003 and taking into consideration the current situation, the Commission initiated legislative changes, issued resolutions and decisions, realized works described below in 2004.

Following are the important legislative changes introduced:

- Law «on Broadcasting»,



For the enforcement of this law, changes have been introduced into:

- Law of Georgia «on Communications and Post»
- Administrative-Court Code of Georgia
- Electoral Code of Georgia
- Law of Georgia «on Defending Minors from Unwholesome Influence»
- Law of Georgia «on Executive Proceedings».

In 2004, the Georgian National Communications Commission has issued the following resolutions:

- In order to defend the consumers' rights, regulate relations between consumers and operators and improve the quality of the service provided, the Commission has issued **Resolution N 1** on approval of sample invoice form for the telecommunications services received (13.08.2004). It takes into consideration the submission of conjoint invoice for the services provided by operator to consumer, to the address indicated in the contract before 20th of the following month. Important change that was reflected in the resolution and represents a strong tool for defending the consumers' rights concerns to the system of switching the telephone off due to non-payment. According the Resolution, a company is only able to switch the telephone off if three working days after warning the customer.

- **Resolution N 2** of the Georgian National Communications Commission on confirming the regulation of certification of radio equipment and telecommunications terminal equipment (24.12.2004) determines regulating rules for confirmation of radio equipment conformity and telecommunications terminal equipment with essential requirements in Georgia, placing them on the market and their free movement, as well as putting them into service. German consulting company «Detecon», working in the framework of World Bank project, advised the Commission to issue the Resolution. The confirmation of regulation of certification of radio equipment and telecommunications terminal equipment aims to define rules for enforcement of European Harmonized Standards in Georgia, rules for confirming of conformity of radio equipment and telecommunications terminal

equipment with essential requirements, rules for placing them on the market and their free movement, as well as regulating rules for putting them into service. The issuance of this Resolution was resulted from the necessity of conformity of radio equipment and telecommunications terminal equipment with European Harmonized standards.

- The **Resolution N 3** (31.12.2004) of the Georgian National Communications Commission annulled the tariff floor for the termination of international call coming to Georgia in the networks of operators providing service with local connection (14 tetry) and in the networks of operators providing mobile connection service (25 tetry), as well as tariff floors and tariffs caps of international connection for the consumers of operators providing local phone connection service and mobile phone connection service.

According to the requirements of the Law of Georgia «on Communications and Post», the Commission «is entitled to set up tariff floors and tariff caps on any types of telecommunications and post in case if it considers the concrete service market to be non-competitive. The Commission is entitled to annul the tariff floors and tariff caps, in case if it considers that competitive environment has already been established and it will naturally stipulate just and reasonable tariff to be set up.

In 2001, the Commission used this mean effectively and established tariff floors and tariff caps on international call service also for the service with post networks and means.

This decision has encouraged the development of competition on telecommunications market and concretely, on this segment of the market. Since 2001 till at present, the increase of revenues received from international call service and the interest of companies for this market are proving the above-mentioned development of competition.

At present, thirty-three licensed operators carry out their activity on the international call market of Georgia; several of them provide service using the Internet telephony technology. The market is

mature. The Commission admitted that competitive environment was already established on the mentioned segment of the market and considered the issue on total annulment of tariff floors and tariff caps of international call. The Commission thinks that the prices existing at present on the mentioned services will be reduced; also, it will stipulate the growth of income and diversity of services.

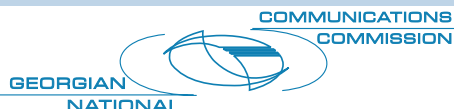
- By means of **Resolution N 4** of the Georgian National Communications Commission, tariff floors and tariff caps on post service in Georgia have been changed (31.12.2004). This Resolution changes one, issued on May 15th 2001, as the revenues received according to the established tariffs did not cover the expenses. A decision on arrangement of tariffs on the post service has been taken and the tariff caps were increased at the first stage (also taking into consideration the socio-economic situation). The types of postal service with established tariff floors and tariff caps were also diminished. However, license holders independently determine the amount of tariffs on international postal service, in accordance with the legislation in force. The above-mentioned changes in the tariff policy, have allowed Ltd «Georgian Post» to increase its revenues approximately by 55-60%, from the simple-type and ordered correspondence within the territory of Georgia. According to this Resolution, the tariff cap for sending a simple-type letter, card and postal wrapper weighted up to 20 grams was increased by 10 tetri, and the tariff cap for sending an ordered letter, card and postal wrapper weighted up to 20 grams was increased with 20 tetris. Herewith, the tariff cap for sending parcels within the territory of Georgia was reduced from GEL 3.0 to GEL 2.5.

In 2004, the Commission has issued 724 decisions. Following are the key issues of the decisions taken.

□	Type of decision	Quantity
1.	Issuing the licenses	62
2.	Modification of licenses	1
3.	License suspending	20
4.	Annulment of licenses	23
5.	Rewrite of license	1
6.	Prolongation of license duration	27
7.	Issuance of permissions	279
8.	Definition of the initial amount of license fee	9
9.	Tenders	31
10.	Normative Acts	4
11.	Refusal to accept in proceedings	7
12.	Frequency assignment	67
13.	Coordination of the assigned frequencies	41
14.	Code assignment	2
15.	On disputes	21
16.	Confirmation of agenda (various)	54
17.	Administrative torts	9
18.	Monitoring and verifications	5
19.	Consideration and confirmation of budget and accounts	9
20.	Various	56

It is useless to discuss all decisions, thus, following are some of them, directly influencing functioning of the Commission itself, defending the consumers' rights and encouraging competition.

- The Commission has issued Decision N670 «elaboration of framework project on strategy problems of the develop-



ment of the telecommunications market» (10th December 2004), aiming to increase the effectiveness of the regulating activity. This decision describes in details the functions and obligations of the structural units of the Commission. Reorganization of the Commission's structure and passing from professional to functional type dictated the necessity of issuing this decision.

- Decision N 637 (26th November 2004) concerns establishment of the system for public discussion (electronic forum) of the existing problems in the field, drafts of the Commission's decisions and normative documents (resolutions) elaborated by the Commission. It is an informational, Internet-based system, where every interested entities and persons can be registered. Drafts of documents (those, subject to public discussion) elaborated by the Commission have to be published on the official web site. Any relevant remark, proposal, opinion or documentation related to the topic of discussion and received from the members of the forum, shall also be published on the web site.
- Related to highly intensive usage of frequency spectrum in Georgia and the usage of resource in some bands of the frequency spectrum, taking into consideration increasing demand, the Commission has decided to purchase a modern frequency spectrum monitoring system and software for planning of into spectrum radiating sources. By means of the Commission's decision N 600 (05/11/2004), a tender on purchasing the radio frequency spectrum monitoring system and software of planning of into spectrum radiating sources on the territory of Georgia was announced.
- The Commission's decision N 559 (22nd October 2004) approved the charter of the commission of experts, evaluating the documents and archive of the Georgian National Communications Commission.
- In July 2004, the Commission has ordered LTD «Business Consulting Group-Monitoring» to carry out public opinion' analysis on the whole territory of Georgia. The analysis has determined the priorities of TV and radio broadcasting for the years 2004-2005. Based on the results, the Commission issued Decision N 506 on August 28th 2004. The

Commission takes into consideration the above priorities, while announcing a tender for TV and radio broadcasting.

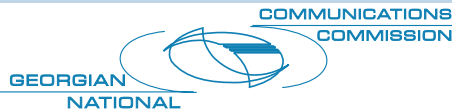
- An independent authority (decision N 500 of the August 24th 2004) consisting of 5 members has been formed, in order to elaborate a broadcasting frequencies' allocation plan.

The Commission systematically carried out:

- Monitoring on fulfillment of license conditions and discussion of cases of activity without license.
- Analysis of transactions of license fees and license levies paid by companies wishing to obtain or prolong license.
- Content analysis of the issues raised in the correspondence addressed to the Commission and generalization of problems.

Additionally, the following work has been done:

- ICT strategy was prepared in the framework of joint project with UNDP and has been presented to public for consideration.
- The data bank of TV (radio broadcasting) frequencies for coordination procedure has been elaborated.
- The analysis of results received by means of questionnaires from companies, acting in the field of telecommunications, has been carried out.
- The analysis of public opinion has been organized in order to determine priorities of TV and radio broadcasting.
- Monitoring group made from the employees of the different divisions has been established. The group prepared comparative analysis of the billing information submitted by operators and proposals on settlement of disputable matters.
- The work towards to the elaboration of system for the publication of statistical and accounting analytical documentations of the communications field is carried on.



In 2004, the Chairman of the Commission issued 24 orders on different internal organizational matters and improvement of the Commission's activity.

Within the period from May 2004, till May 2005, 13 decisions of the Commission have been appealed to the Court. At present, 11 issues are current at the Court with the participation of the Commission, 4 issues have been considered (2 of them were raised in 2003 and 2-in 2004). The Court has annulled none of the appealed Administrative Acts.

Activity Rules

One of the Acts encouraging the fulfillment of the Commission's functions is «the internal activity rules of the Georgian National Communications Commission», which defines the system of organization of the Commission's clerical work, determines rules of activity of the Commission's units on the non-secret correspondence of the Commission, as well as mechanisms for fulfillment of cross-functions imposed on structural units of the Commission.

The structural units of the Commission carry out their activity on the basis of «Activity Rule of the Georgian National Communications Commission's Staff» and «Internal Working Rules of the Georgian National Communications Commission's Staff». These Acts are approved by order of the Chairman of the Commission.

The exact fulfillment of the above-mentioned Acts by the structural units of the Commission's staff is a precondition for the fulfillment of the obligations imposed on the Commission by the legislation, as an independent regulating authority.

Activities Planned

The elaboration of the draft law «on Electronic Communications and Post» has begun in 2004. New requirements of the European Union and framework directives will be taken into consideration in the new law. Following are the main principles of the law:

Flexible regulation – The process of technological development of the world telecommunications market, also the convergence of different technological facilities and informational-telecommunications service types have required the necessity of similar approaches and accordingly – the establishment of united regulating legislative base.

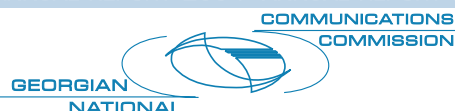
Scope of regulation – New regulating directives consider every field of informational-telecommunications service types, such as service with electronic communications networks and means, cable broadcasting, transmission of data (the field does not include the regulation of the content of this service or media informational products).

Neutral approach of regulation to telecommunications technologies – The regulation of the telecommunications field shall maximally be based on the character of service provided to the end user and not on consideration of the utilized technological facilities.

Harmonization of the regulating processes – Harmonization after regulation is the key topic in the new package of regulating directives. The exchange of practice between regulating authorities of different countries and the establishment of a united consulting system by the aegis of European Commission are the effective ways for the future increase of harmonization.

System of authorization of activity and liberalization of licensing process – New package of directives require regulatory authorities to change the system of licensing and go to that of authorization. In that case, the undertakings are authorized to provide service using the telecommunications network and means. Only in case of having significant market power, limitations and special conditions can be imposed.

Secondary trade system of frequency scarce resources – The modern structure of regulating directives encourage the issuance of decisions on initiatives of establishment of secondary trade system of frequency spectrum and other scarce resources by member countries.



Following are the items annulled according to the draft law:

- System of activity licensing;
- Prolonged procedure for receiving license of activity;
- Strict sanctions of cancellation and annulment of activity license;
- Sanction of annulment of permission;
- Non-market mechanisms for obtaining the right of use of scarce (frequency, numbering) resources.

Novelties foreseen in the draft law:

- Passage to the system of authorization (declaration and registration of activity) of activity in the field of communications;
- The dissociation of carrying out activity in the field of communications and provision of service from the ownership of communications networks and technical facilities; (activity with communications networks and means and authorization of the provision of communications service);
- The Commission is not entitled to refuse authorization to an undertaking seeking to carry out activity in the field of telecommunications;
- Authorization of activity for indefinite term (till the cessation of activity);
- Obtaining the right to use scarce resources by means of auction, addressing the principal part of the revenues to the State Budget of Georgia;
- Possibility to transmit the scarce resource to another undertaking (establishment of a market of secondary circulation of scarce resources);
- Economic system of sanctions;
- Regulation of monopolized activity.







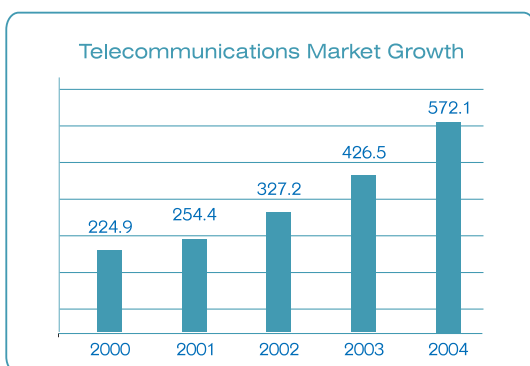
Telecommunications Market

2

Development Trends

Telecommunications market is increasing for the last several years and in 2004 its total revenue reached up GEL 572.1 millions, by GEL 145.5 millions more than in 2003.

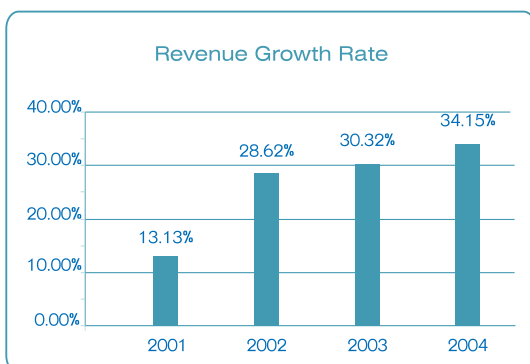
Figure № 5



Looking at the figure above, we see that telecommunications market is slightly growing since 2000 (2000 is the year of GNCC establishment and it begun to regulate the market. Some other data, like growth of investment, can also be the result of correct regulation). Creation of reliable and stable business environment is one of the key functions of the

Commission that respectively ensures the increase of revenues, attraction of investments and forwarded activities on behalf of the market players.

Figure № 6



Sector can only be declared as to be successful, when the growth is stable and not fragmented.

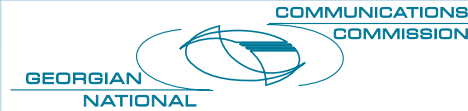
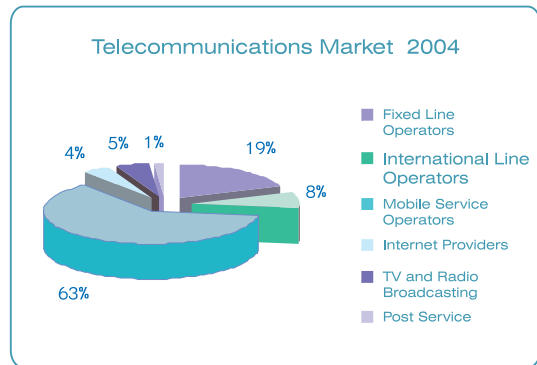


Figure 7 shows the distribution of the telecommunications market by segments by its shares in percents as for 2004. Mobile companies possess 63 % of the total telecommunications market share, while fixed line operators—19%, international operators—8%, internet-providers 4% and radios and TV companies — 5% of the market.

Figure № 7



Compared to the similar data of 2003, the market shares of mobile companies, international operators and Internet providers have increased, while that of local operators has decreased.

Figure № 8

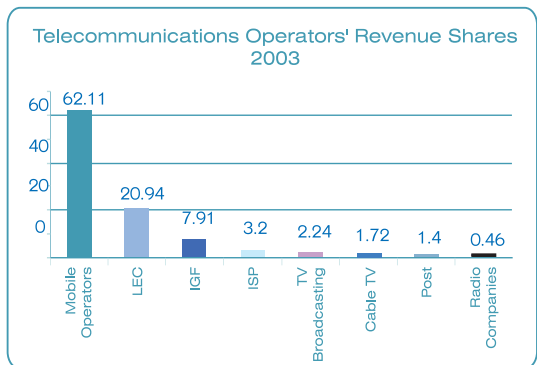
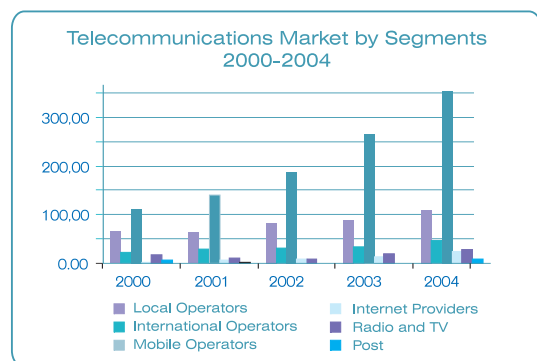


Figure N 9 provides the telecommunications market share distribution and its trends for 2000-2004.

If looking at the growth of telecommunications market segments growth trends, we see, that the total income (2000-2004) of local operators increased by 75.59%, of international providers by 68.61%, of mobile operators by 153.54%, of internet providers by 231.08% and of

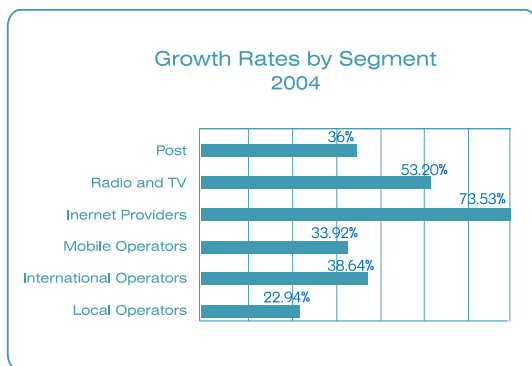
Figure № 9



radio and TV companies – by 184.44%. The least developing segment was post, with the slight increase of 18.32%. Mobile telephony segment is most stable in growing – 25-30% annually. In 2004, the revenues of international operators has recordly raised by 38.64%. In 2001, revenues of internet providers has also grown recordly by 206.75%. Following years, the rate of growth became stable and in 2004, it reached 73.53%. In 2001-2002 the revenues of TV and radio companies decreased (by 44.99 and 11.82% respectively), thus it increased by 110.56 in 2003 and 53.20% in 2004. In 2004, the revenue of post has also increased by 36% and reached up to GEL 8.160 million (GEL 2.176 million more compared by the data of 2003).

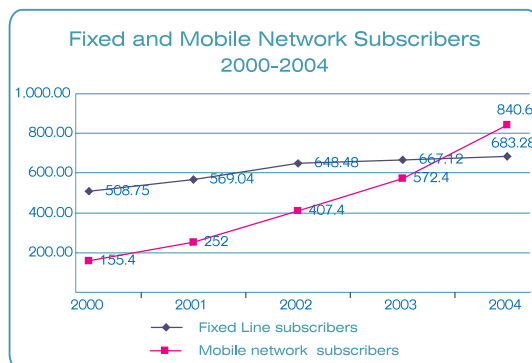
As for the year 2004, the following figure N 10 shows the increase by segments.

Figure № 10

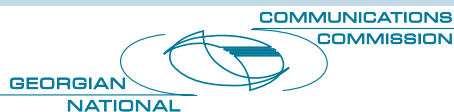


The revenues of local line operators increased by 22.94%, of international operators-by 38.64%, of mobile operators – by 33.92%, of Internet providers – by 73.53%, of TV and radio companies – by 53.20% and of post by 36%. As clearly seen in the figure 9, in 2004 the revenue of post has firstly been shown in 2004. Mobile telephony and Internet still keep a stable increase rate.

Figure № 11



There is a common global tendency in telecommunications sector lately: development of mobile network and increase of mobile network subscribers. Their number often exceeds to those of fixed lines. This tendency is also true for



Georgian reality as well. More and more subscribers prefer mobile connection to fixed network one. In Georgia, in 2000, the number of mobile network subscribers was 155.4 thousand and in 2004, the number reached 840.6 thousand. In 2000 the number of subscribers of fixed network was 508.750 thousand and in 2004 – 683.275 the.

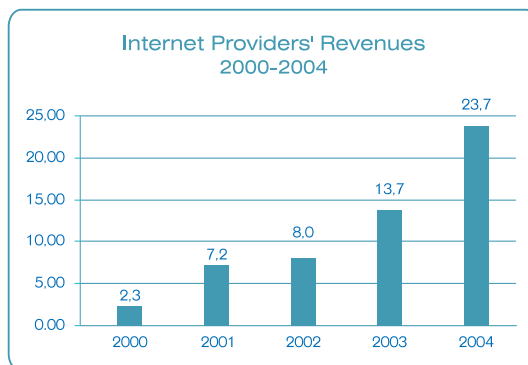
The number of fixed network subscriber increases by 25.5% for the last several years; at the same period, the number of mobile network subscribers increased by 441%. Respectively, as a result, the number of subscribers of mobile network exceeded those of fixed network in 2004 (by about 157 thousands).

Development of global internal network is the second pillar of telecommunications market growth. The competition in this segment is one of the most increasing and strict. Looking at the number of licenses issued for Internet service provision, we see, that there were only 21 up to 2001 and there is 49 at the end of 2004. Following is the data of the segment revenue by years.

Simultaneously with the increase of competition level, the number of proposed types of services has also increased.

The problems of estimation the number of Internet consumers and calls done by using Internet network complicate the definition of the forecasted and really received income.

Figure № 12



Sector Revenues and GDP

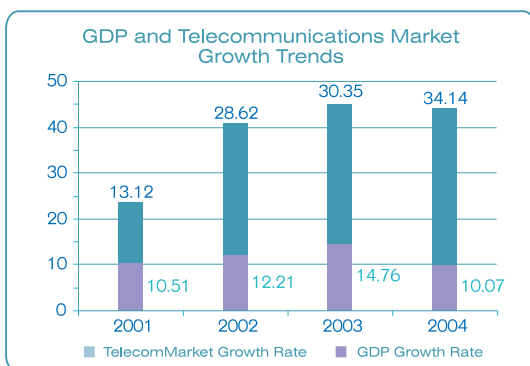
The ratio of telecommunications sector revenues in the GDP is continuously increasing lately.

Telecommunications Revenues in GDP

	2000	2001	2002	2003	2004
Telecommunications Revenues	224.90	254.40	327.20	426.50	572.10
GDP	6,015.40	6,647.90	7,459.40	8,560.10	9,422.00
Percentage of telecommunications revenues in GDP	3.74	3.83	4.39	4.98	6.07

The growth rate of telecommunications revenues is higher than that of gross domestic product of the country. The GDP growth rate is 10.07%, and that of telecommunications sector is 34.14% in it.

Figure № 13



The growth of telecommunications sector's ratio in gross domestic product does evidently mean absolutely successful functioning of the sector. This also indicates the low development rate of other sectors of the national economy. The similar data usually do not exceed 2-2,5% in developed countries.

Investments

Liberalization of the market is usually followed by attraction of investments. In Georgia, the pick level of investment was reached in 2004. By its nature, communications sector needs continuous capital investment.

Investments (USD, Mln) 2000-2004

	2001	2002	2003	2004
Investments	84.8	68.63	66	123.52

In 2000-2004, the total of investments made in the telecommunications sector reached up to GEL 685.9 million.

Competition

Since the establishment of the Georgian National Communications Commission, it issues licenses and on the basis of these licenses companies are allowed to carry out activity in the telecommunications sector. Following is the number and nature of the issued licenses:

1	Provide service to receive, send, transport, carry local and international postal parcels	21
2	Provide service with local exchange carrier system and network	30
3	Provide long-distance and international telephone service	21
4	Provide service by cable TV and radio broadcasting network	4
5	Provide service by data transmission and internet cable network	18
6	Provide service by symmetric, coaxial and optical-fibrous international and local magisterial	14
7	Provide service by terrestrial stations of TV and radio broadcasting satellite systems	6
8	Provide long-distance and international telephone service using satellite system	15
9	Provide service of data transmission and internet network using satellite system	26
10	Hold activities by mobile and fixed radio telephone connection	3
11	Provide service of data transmission and internet network using radio lines	1
12	Provide mobile telephony service	5
13	Common TV and radio broadcasting	64
14	Provide service of data transmission and internet terrestrial network using the frequencies	3
15	Paging service	1
16	Provide service by trunk system	1
17	Specialized TV and radio broadcasting	1
18	TV and radio broadcasting	26
19	Provide service by transit cable TV and radio broadcasting network	31
20	Provide service by cable TV and radio broadcasting network	32

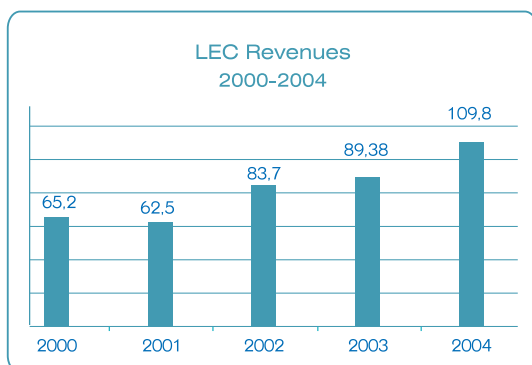
At present, 323 licenses have been issued for 209 different companies. 155 of the licenses in force have been issued before 2001 and 168 – after 2001. Out from all licensed companies 16 of them possess 2 licenses, 15 companies – 3, 9 companies – 4, 5 companies – 5, 2 companies – 6, 1 company – 7 licenses, 1 company – 8 and 1 company – 22 different licenses. Following is the breakdown data on issued licenses by years:

		2001	2002	2003	2004
1	Provide service to receive, send, transport, carry local and international postal parcels	4	1	5	6
2	Provide service with local exchange carrier system and network	5	6	7	3
3	Provide long-distance and international telephone service	5	4	4	6
4	Provide service by cable TV and radio broadcasting network		1	1	1
5	Provide service by data transmission and internet cable network	4	6	1	6
6	Provide service by symmetric, coaxial and optical-fibrous international and local magisterial	1	4	2	3
7	Provide service by terrestrial stations of TV and radio broadcasting satellite systems		1	2	1
8	Provide long-distance and international telephone service using satellite system	3			
9	Provide service of data transmission and internet network using satellite system	2	5		2
10	Hold activities by mobile and fixed radio telephone connection				
11	Provide service of data transmission and internet network using radio lines				1
12	Provide mobile telephony service			1	
13	Common TV and radio broadcasting			2	2
14	Provide service of data transmission and internet terrestrial network using the frequencies.	1			
15	Paging service			1	
16	Provide service by trunk system				
17	Specialized TV and radio broadcasting			1	1
18	TV and radio broadcasting				
19	Provide service by transit cable TV and radio broadcasting network	2		8	21
20	Provide service by cable TV and radio broadcasting network	7	8	10	

Local Service Operation

30 licenses (30 different companies possess them) have been issued for providing the services using local exchange carrier system and network and 21 of these licenses have been issued in the period of 2001-2004; 3 licenses have been issued in 2004. Thus, JSC «Sakartvelos Eleqtrokavshiri», LTD «Akhteli» and LTD «Axali Kselebi» possess the largest share of this segment. The above-mentioned companies have almost 90% of market shares.

Figure № 14

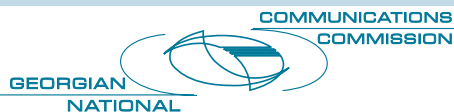


Increase of revenues by years is clearly shown on the figure 14. If transferring the data in to percentage, it means that income increased by 6.7% in 2003 and by 22.94% in 2004. The potential of this segment is still large and possibly a greater increase will be noticed in 2005; however, regulating tools are not enough for increasing of the segment income; there-

fore attraction of relevant investments and elaboration/introduction of consumer-oriented business policy orientated is also necessary.

International Call Market

21 licenses have been issued for long-distance and international connection; 15 licenses have been issued for the providing for long-distance and international connection service using satellite system; 6 of them have been issued in 2004. This segment of the telecommuni-



cations market also increases annually and in 2004 represents 8% of the total telecom market. Following the growth tendency, and in compare to the results of the previous year, its revenues increased by 38.64%. Figure 15 gives the clear picture of the segment growth.

Beginning from 2000, in 2004 a record achievement in growth of the segment was observed. In 2005, after the annulment of tariff floors and tariff caps by the GNCC, more positive changes are foreseen on this segment.

The difference of revenues by years of local and international operators is also interesting to see (Figure 16):

Figure № 15

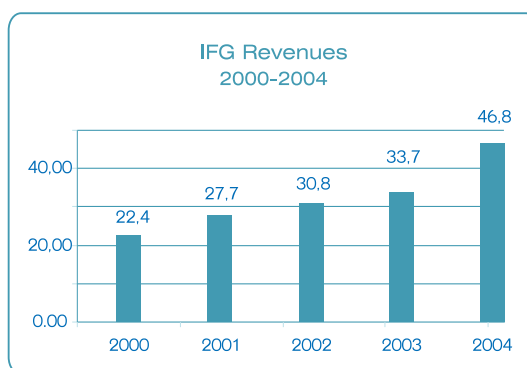
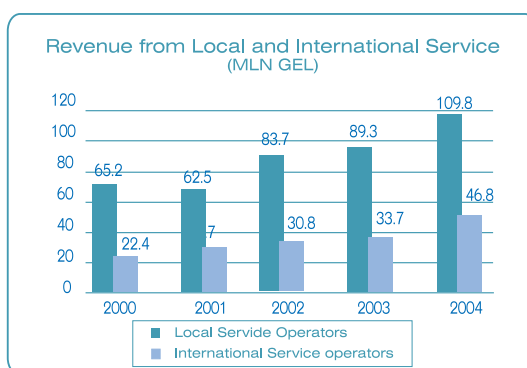


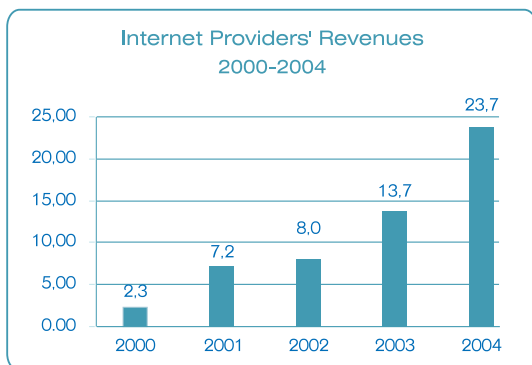
Figure № 16



Internet

Internet service and revenues received from the provision of this service represent 4% of the telecommunications market of Georgia. It is continuously increasing and the revenues received from the provision of Internet service reached up to GEL 8,003,704.19 in 2002, GEL 13,667,777.87 in 2003 and GEL 23,717,954.74 in 2004. Transferring the data into the percentage indicates that in comparison with the similar data of 2003, in 2004 it increased by 73.53% (compare to those – 70.77% – in 2003, 11.72% – in 2002, 206.75% – in 2001).

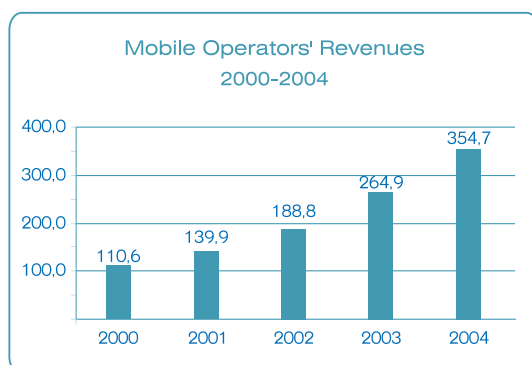
Figure № 17



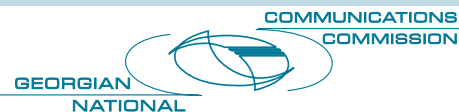
At present, the Commission has issued 48 licenses for providing Internet service. There are 4 types of licenses for internet service provision: service by data transmission and internet cable network – 18 licenses issued, service by data transmission and internet network using satellite system – 26 licenses, service by data transmission and internet network using radio lines – 1 license and service by data transmission and terrestrial internet network using frequencies – 3 licenses. Income received from all the above-mentioned services exceeded GEL 23 millions. The number of licensed companies providing such service is increasing, but not equally to the increase of revenues received from the provision of this service. For comparison: 7 licenses (from 27) have been issued in 2001 and the incomes reached GEL 7,163,820.24; 11 licenses (from 39) have been issued in 2003 and the revenues reached GEL 13,667,777.87; in 2004, 9 licenses have been issued in addition and the total income of internet providers reached up to GEL 23,717,954.74.

Mobile Telephony

Figure № 18



Mobile telephony segment was still growing in 2004 and the growth rate compared to the previous year was 33.92% (GEL 354,712,895.00). Since 2000 mobile communications is stably increasing. In comparison with 2000, in 2004 the revenues increased by GEL 214,809,020. It remains



the most profitable and developing segment of the telecommunications market.

The table below shows developing trends revenues received by mobile operators in 2000-2004 by percent.

Mobile Operators' Revenues 2000-2004

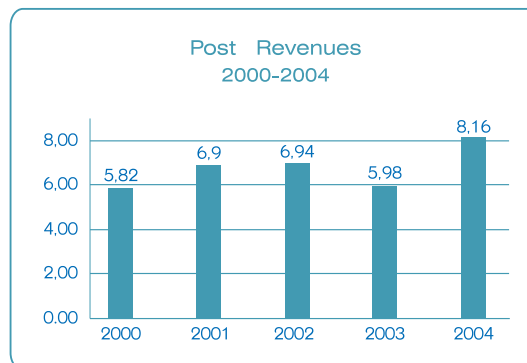
	2000	2001	2002	2003	2004
	110,646,960.0	139,903,874.4	188,788,821.6	264,870,783.6	354,712,895.0
Increase compared to the previous year		26.44%	34.94%	40.30%	33.92%

The increase in number of subscribers for the mobile telephony has also to be remarked. In 2004, the number of subscribers of mobile network exceeded the number of fixed network subscribers and reached 840.6 thousand. There are two mobile companies Ltd – «Magticom» and Ltd «Geocell», operating on mobile communications market in Georgia. These two companies, together, cover 95% of the territory of Georgia. Such almost total coverage and the low quality (especially in regions) of fixed telephony network stipulate the increase in the number of subscribers for mobile network and correspondingly decrease of the number of subscribers of fixed network.

Post Service

Liberalized market stipulated the development of the most competitive international post service segment. Only one company – Ltd «Sakartvelos Posta» carries out its activity on the internal service market. The State owns 100 % of its shares.

Figure № 19



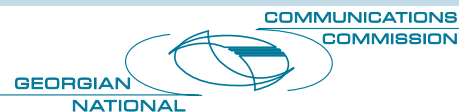
In 2002, the revenue growth rate of post was 1%. In 2003 the revenues decreased by 14% thus it increased by 36% in 2004 (totally GEL 8,160,743.66). The share of money transfers is still the highest in the postal services (writing correspondence, parcels, money transfers, transfers of pensions and aids), but their number is proportional to the development of bank network in the country and is related to the number of citizens who gone abroad and the funds sent by them to relatives represent (frequently) the main source of income of these people.

TV and Radio Broadcasting

Georgian National Communications Commission issues different types of licenses for the activity in the field of broadcasting. At the end of 2004, the following types and number of licenses have been issued:

1. TV and radio broadcasting – 92
2. Cable TV and radio broadcasting – 67

In 2004, the biggest interest was shown to the provision of service with cable transit TV and radiobroadcasting network. 21 licenses have been issued for the provision of this service. 5 license holders out of them execute their activity in Tbilisi, 15 – in different regions of Georgia and 1 license holder carries out its activity on the whole territory of Georgia. In 2004, for the fulfillment of the established priorities and in accordance with their requirements, 2 licenses have been issued for the provision of general TV and radio broadcasting (radio company – Ltd «Europe Plus Tbilisi» and radio company – Ltd «Wave of the Georgian Culture»), 1 license for specialized TV and radio broadcasting (radio company – Ltd «Harale») and 1 license for the provision of service with general cable TV and radio broadcasting network (cable television – Ltd «Madi»). It is interesting that most of the companies (12) that have left the market used to provide TV and radio broadcasting (two licenses of similar types have been issued in



2004); however, the majority of the annulled licenses were operating in the regions and the above-mentioned two companies that have received licenses for general TV and radio broadcasting carry out their activity in Tbilisi.

The total income received from radio and TV companies reached 12% of the sector and this equals GEL 28,918,892.00. The income increases annually. As we can see it on the figure 20, this segment was not very profitable till 2002; its increase begins from 2003 and in 2004 the rate of increase reached up to 53.20%.

We hereby shall also mention the tendencies of stable increase of TV advertisement during the last several years, which prove the opportunity of more dynamics in the growth and the potential of the broadcasting market.

Figure № 20

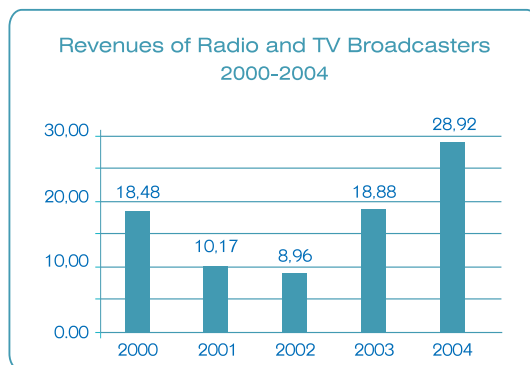
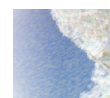
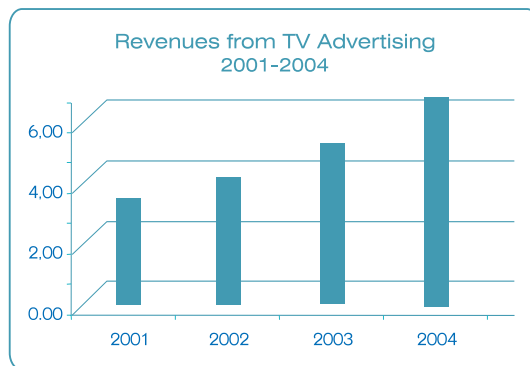


Figure № 21





Functions

3

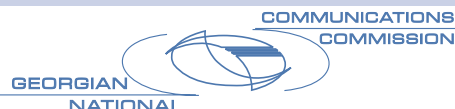
Licensing

Georgian National Communications Commission is authorized to issue several types of licenses in scope of its competences. Legislation defines concretely the types of licenses, also its duration, the basis and rule for issuing license on the basis of competition, prolongation, modification, revoking or annulment, also rule for definition of the amount of license levee and payment, as well as other details.

Detailed information on licensing activities, conducted in previous years by GNCC is given in the Annual Report 2003. Tasks, goals of licensing regime and system are also fully described there. Licensing system is planned to be changed by authorization in 2005.

In 2000-2004, 143 companies were granted different types of licenses. At present, 323 licenses are in force and 53 of them have been issued in 2004. Following is the distribution of the licenses for the different kind of services:

1. Provide service to receive, send, transport, and carry local and international postal parcels – 6.
2. Provide service with local exchange carrier system and network – 3.
3. Provide data transmission service and by Internet cable network – 6.
4. Provide data transmission service and by Internet cable network using satellite system – 2.
5. Provide data transmission service and by Internet cable network, using radio lines – 1.
6. Provide TV broadcasting – 2.
7. Provide specialized TV broadcasting – 1.



8. Provide service by cable TV and radio broadcasting network – 1.
9. Provide service by cable transit TV and radio broadcasting network – 21.
10. Provide long-distance and international call service – 6.
11. Provide service by terrestrial stations of TV and radio broadcasting satellite systems – 1.
12. Provide service by symmetric, coaxial and optical-fibrous international and local magisterial – 3.

The license levees received from for the licenses issued in 2004 reached up to GEL 132 thousand. 80% of the paid license fee was transferred to the State Budget. The price of the most expensive license sold is GEL 526.360.

Control and monitoring on the fulfillment of the license conditions

According to the legislation, the Commission is entitled to revoke or annul the license and impose fine on the license holder in case different kind of law violation (including that of license conditions).

In 2004, licenses of 40 companies have been annulled. The main reasons for annulment of licenses are as follows:

- Termination of the licensing period duration – 25
- Non-commencement of the practical activity – 4
- Cancellation of the activity permitted by the license – 7
- Non-payment of the annual regulation fee – 2
- On the basis of license holder's demand – 2.

Out of 40 companies mentioned, four of them, those the licensing period terminated immediately received new licenses; four of

them function using another, previously received licenses and the remaining companies, have left the telecommunications market. The majority (12) of the companies, those left the market, are TV broadcasting companies.

The Commission has imposed fines on four licensees (totally five impositions), due to the violations of Administrative Code provisions. Total sum of the fines is estimated at GEL 25 000.

Following is the list of the companies levied:

- Ltd «Edelweiss» – for functioning without the license;
- Ltd «Wanex» – for violation of license conditions;
- Ltd «Mze» – for breaking the law «on copyright»;
- Ltd «Rustavi 2» (twice) – for violating the laws «on copyright» and «on defending minors from unwholesome influence».

Scarce Resources

In 2004, the Commission has issued 275 permissions of different types. The permission levee paid to the State Treasury reached up to GEL 5 580.

Frequencies

GNCC continued to implement its activities on frequency management and coordination issues in 2004. A table of statistics on granted frequencies and frequency bands on different organizations and companies has been prepared. The table also shows the frequencies used for broadcasting, fixed and mobile telephone companies. According to the requirements and the procedure determined by the legislation in force, frequencies, those should be tendered for TV broadcasting, have been defined.

The Commission has appointed an independent body aiming at determining allocation plan of broadcasting frequencies. The allocation plan of frequencies for TV and radio broadcasting include the list of frequencies allocated to the cities and populated areas of Georgia, information on position data of transmission antennas, average range of their activity, power of antenna radiation and the type of radiation diagram. The planned net of broadcasting frequencies (Annex 3) lays into the bases of the plan mentioned.

Frequency allocation plan includes both, radio and TV broadcasting frequencies:

- Radio broadcasting frequency on FM (88-108 MHz) frequency range.
- Television frequency on meter and decimeter frequency range.

The planned net of broadcasting frequencies has been forecasted to empower simultaneous and independent functioning of the transmitters within the frequencies listed. Thus, using the transmission stations available, one can arrange broadcasting net of different conformations on the territory of Georgia, both for TV and radio broadcasting. While elaboration/planning the frequency net, its maximum capacity has been taken into account. Thus, the whole range available is used effectively. Influence of TV and radio transmitters on the work of TV and radio broadcasting from the neighborhood countries has also maximally been taken into account. Therefore there inter-influence would be of the minimal level.

The European standards are justified for terrestrial digital TV and radio broadcasting in Georgia (DVB-T – for TV broadcasting and T-DAB – for radio broadcasting), on the following accounts:

- Georgia neighbors European countries and the demands of boundary regions on inter-interferences will be met;
- The largest choice of receiving-transmitting and formatting equipment is expected to be from the West European manufacturers (taking into account, that the prices on the goods of these companies reduce time by time)

- European standards' concept covers increase of number of channels and possibilities to transfer to the digital broadcasting by minimal expenses
- In Georgia, digital TV broadcasting will be introduced in Georgia step by step substituting currently existing analogue system.

In order to ensure the functioning of radio amateur service and regulate the process of issuing the permission, the Commission has introduced the changes into the Resolution N 1 of 2003. The changes mentioned were mainly initiated and proposed by the Radio Amateur League and Association. Following the amendments, a separate chapter «Rules of Radio Amateur Station Using» has been amended into the «Regulating Rules of GNCC Activities».

Using rules, categories, technical requirements, mechanism for issuing the permissions, ranges of permitted frequencies of radio stations, allowed power and types of radio connection, rules of radio connection, call signals, usage and working rules of amateur relays, working on ultra short range are defined in the chapter. Responsibilities of radio amateurs (in case of any violations) and power of the Board of Experts are also determined in the amendment.

Establishing the rules on using the radio amateur stations is the precondition for settling the problems and interferences.

The Commission systematically carried out the following activities:

- Coordinating of frequencies with neighboring countries;
- Issuing permissions to import and use of the high frequency equipment, also to allocate them.

The purchase of radio frequency monitoring system and the software, planning the into spectrum radiating sources on the territory of Georgia is one of the preconditions for frequency spectrum management and monitoring. An international expert was hired in the framework of the WB project for providing support to the Commission. The expert was invited in order to:

- Conduct analysis and evaluation of the frequency spectrum management and monitoring equipment available in Georgia;

- Study and analyze the demand on frequency spectrum management and monitoring equipment;
- Elaborate short- and long-term purchase plan of the equipment;
- Prepare the purchase documents for frequency spectrum management and monitoring equipment;
- Support the Commission in the procurement process of frequency spectrum management and monitoring equipment.

Taking into consideration the recommendations of the international experts and the results of the additional research conducted by the Commission, first step of the purchase process of the equipment is already on the way (2 fixed and 1 mobile stations). The whole purchase process will end in 2005.

Numbering

Numbering is state scarce resource and it should be distributed objectively and transparently. The law «on Communications and Post» splits the functions between the sector Ministry and the Commission on definition and allocation of numbering resources. The Ministry (in cooperation of the Commission and other stakeholders) elaborates numbering policy; the Commission defines the conditions and rules of numbering allocation and is also responsible for its allocation process.

The regulating rules of the Commission's activity determine the rule for receiving permission on usage of numbering resource by an operator or license seeker.

According to the legislation, the Commission calls for a tender in order to grant a license on international call (by code using); the access code into the mobile network, also telephone indices for local access, shortened numbers (two, three, four digits), including the emergency numbers which are given on the bases of permissions. In association with the Ministry of Economic Development, the elaboration of the numbering plan and numbering policy is planned for 2005.

German consulting company «Detecon» analyzed current numbering situation and problems (inefficient distribution of numbering

resources, using of soviet period local and international assess codes, non-existence of number portability, non-existence of free indices in large cities of Georgia, non-existence of classifications and resource for paying and free service and shortened numbers) and draw out the recommendations in order to achieve the numbering policy goals, which are as follows: ensure effective management of numbers, planning, coordination, distribution, allocation, registration and monitoring of using the telephone numbers.

The numbering plan shall be managed in a way that satisfies every reasonable requirement of end user, operator or service provider. The numbering plan and relevant rules shall ensure just and open competition, support to the development of competition; the numbering plan, procedure of assignment, the provisions and conditions of the usage of numbers shall not be discriminatory for operator or service provider.

In 2004, the Commission has issued permissions for the usage of numbering resource for the following companies:

- Ltd «Railway Telecom of Georgia»
- Ltd «Telephone Company of Georgia»
- Ltd «Central Communications Corporation»
- Ltd «Magticom»
- Ltd «Telenet»
- Ltd «Georgian Telephone Company»
- Ltd «Georgia Online».

Ltd «Service» received permission for the provision of service with international connection using the code.

Broadcasting

The new law «on Broadcasting» (adopted on 23rd December, 2004) changes the current regulation regime of broadcasting. The law foresees formation of independent public broadcasting, ensures transparency of service and activity in the field of broadcasting, encourages establishment of free competitive environment among broadcasters; also ensures effective usage of frequency spectrum and

the conformity of activity of license holders based on the principles of equality and independency.

According to the provision of the new law, State TV and radio broadcasting will be reorganized into the Public broadcasting formed on the basis of state property and free from any political or commercial influence. Public broadcaster is financed from the public financings, is an independent (from the authority) legal entity, accountable to the public.

Creation of public TV channel aims at taking into account the interests of all groups of society, supports to study and discuss non-commercial issues, those of public interest.

The law defines another type of broadcasting – Community broadcasting. It ensures participation in the broadcasting process of that group of the society for which the broadcasting service is mainly provided. Community broadcasting ensures the projection of opinions/ideas of different groups, minorities living in the service areas. Private broadcasting is the third type of broadcasting.

At the same time, it is the achievement and the defender of democratic society and its principles. Private broadcasting company, as well as any other legal entity of private law, is profit-orientated, at the same time, the existence of mechanisms for defending it from the state influence, is naturally in the interests of the society.

The law establishes licensing rules, conditions and content requirements in the field of broadcasting. The law also foresees the issuance of Code of Conduct of broadcasters; determines the mechanisms and conditions for imposing sanctions on broadcasters in case of violation of legislation, license conditions and Code of Conduct; special conditions of warning, fining, license revoking and license annulment.

The law regulates the issues related to the placement of advertisement and sponsorship. The broadcasting of non-conformable, non-honest, non-feasible, non-ethic and false advertisement and TV shopping is forbidden. The issues related to the placement of commercial, social and electoral advertisements, their duration, carrying out TV debates are also determined there; as well as the cases when sponsorship is inadmissible.

The approval of the above-mentioned law will encourage regulation of the current situation on the broadcasting market, development of broadcasting and formation of civil society.

In accordance with the legislation in force, the Commission determines the priorities of TV and radio broadcasting (taking into consideration the public opinion and based on its analysis). In July 2004, «Business Consulting Group» has carried out the public opinion analysis on the overall territory of Georgia, ordered by the Commission.

The recent priorities of the population on broadcasting production are defined. One third of the questioned population wants to watch Georgian movies. The demand on the broadcasting of entertainment, cognitive, sport, musical and children's programs are also high.

More than 46% of the respondents (both in Tbilisi and in regions), have desire to watch the specialized channel (majority of them wants specialized channels, broadcasting movies (56.1%), music (43.6%), sport (39.3%), information (29.7%), humor/entertainment (25.6%)).

The majority of the questioned radio listeners prefer Georgian variety when listening the radio. 40.5% of the respondents are interested in old Georgian variety, 39.8% – prefer modern Georgian variety. Modern foreign and Russian varieties have priorities accordingly, for 6.6% and 6.4% of the respondents.

Based on the results of the above-mentioned public research and in accordance with the legislation in force, the Commission determined the priority trends of the TV and radio broadcasting for the period of 2004-2005. The announcement of competitions for broadcasting, using the frequency spectrum and the analysis of the submitted broadcasting concepts, are carried out on the basis of these trends.

In 2004, the Commission, within its scope of competence, carried out:

- The comparison of broadcasted programs with the programs indicated in advance by the TV and radio broadcasting license holders in their broadcasting net.
- Study and analysis of contractual documentation related to

the defense of copyright on the programs indicated in broadcasting net by TV and radio broadcasting license holders.

- Taking measures determined by the legislation in case of discovering violations in the activity of TV and radio broadcasting license holders.
- Consideration of claims and declarations of citizens, public organizations and license holder companies related to violations of the requirements of the Georgian laws «on Copyright» and «on Defending Minors from Unwholesome Influence».

The broadcasting area has been significantly freed from unlicensed production after carrying out the above-mentioned activities. Cable TV operators signed contracts with 60 channels of Georgia, NIS and other foreign countries. Broadcasting of programs of more than 30 Russian and foreign TV companies via cable television has been switched off from due to non existence of the respective contracts.

Interconnection

The Commission, during the period of its existence, solved one of the most important problems, which existed in the field of communications-interconnection of telecom service providers and ensured the regulation of relations at the level of modern requirements between undertakings acting on telecommunications market. First of all, the Commission has created a normative base, and ensured its realization into life. Interconnection is physical and logical connection of electronic communications network and is used by one or different operators in order to enable consumers of one operator to be connected to the consumers of the same or another operator or use the service provided by another operator.

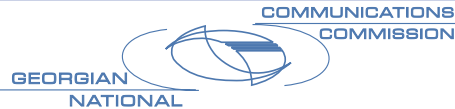
The Commission has approved a charter «on interconnection of communications networks» on 10th July, 2001. It contains basic norms

for the regulation of relations between operators and operators and consumers. It is a very important and vital document that influenced the total situation of telecom market. The charter covers requirements to all types of phone operators: local, international and long distance, transit and mobile, as well as companies providing service of broadband interconnection.

The Commission had heard disputes among local operators, mobile operators, local and mobile operators, mobile and international operators, local and international operators, internet-providers. Disputes concerned to drawing up interconnection contract, definition of interconnection points, billing, activation of international code etc.

In 2004, Georgian National Communications Commission has considered the following disputes related to interconnection between license holders:

- Dispute between Ltd «Central Communications Corporation of Georgia» and JSC «Sakartvelos Elektrokavshiri» on billing in local network and definition of interconnection point.
- Disputes between JSC «Sakartvelos Elektrokavshiri» and Ltd «Axali Qselebi», JSC «Sakartvelos Elektrokavshiri» and Ltd «Axteli», Ltd «Axali Qselebi» and JSC «Sakartvelos Elektrokavshiri», dispute between Ltd «Axtel» and JSC «Sakartvelos Elektrokavshiri» related to billing in local network, between Ltd «Axali Qselebi» and JSC «Sakartvelos Elektrokavshiri», Ltd «Axteli» and JSC «Sakartvelos Elektrokavshiri» – related to the definition of interconnection point.
- Disputes between Ltd «Caucasus Network» and Ltd «Axali Qselebi», Ltd «Axteli» and JSC «Sakartvelos Elektrokavshiri» related to the service tariff for telephone pairs necessary for DSL Internet service.
- Dispute between Ltd «Magticom» and Ltd «Axali Qselebi» related to imposing the payment of debt on Ltd «Axali Qselebi» on the basis of requirement of Ltd «Magticom» following the interconnection contract.



- Dispute between Ltd «Lagi» and Ltd «Axali Qselebi» related to the billing of international calls.
- Dispute between Ltd «Central Communications Corporation of Georgia» and Ltd «Metacom» related to the issue of billing of calls executed on the basis of interconnection agreement.

During the financial year, the Commission determined conditions of interconnection agreement between JSC «Sakartvelos Elektrokavshiri» and Ltd «Axali Qselebi», JSC «Sakartvelos Elektrokavshiri» and Ltd «Axtel».

Universal Service

For equal development of telecommunications infrastructure and service in the country and in order to reduce the inequality of telecommunications service availability between urban and rural areas, Georgian National Communications Commission has begun active collaboration with international organizations and independent experts since 2002, with the aim of elaborating a stable system of Universal Service.

Under the rules defined by legislation, the Ministry of Economic Development shall work out the Universal Service policy, according to which, the Commission shall carry out its activity within the scope of its competence.

In 2004, several important works have been carried out in order to achieve the goals of Universal Service in the field of telecommunications and post. Universal Service Department has been established at the Commission; existence of separated structural unit will support the establishment of minimal level/standard of Universal Service in Georgia. In order to serve the goals of Universal Service better, the Commission has been equipped with Geo-Informational facilities (digital map).



In the framework of regional project on universal service in the South Caucasus, financed by Public-Private Infrastructure Supporting Agency, frame of regional and local policy of universal service has been defined. On 26-27 April 2004, regional seminar of South Caucasus countries has been organized: «Investment opportunities in the field of telecommunications in the South Caucasus region – Universal Access Strategy for Georgia and future perspectives for Armenia and Azerbaijan».

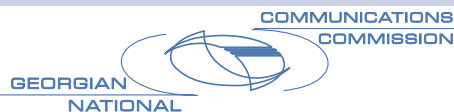
The representatives of government, business and non-governmental sectors of three countries discussed different aspects of Universal Service and worked out a common activity plan. In the framework of the same project, the analysis of telecommunications infrastructure of Kakheti (region of Georgia) has also been carried out. It is planned to conduct the research of telecommunications infrastructure of other regions of Georgia in 2005.

The usage of accumulated data and geo-informational systems will enable the Commission to better analyze the requirements and situation existing in regions and make development prognosis. Respectively, it will give better opportunity to the Commission to plan and implement Universal Service projects.

Consumer Rights

One of the main functions of the Commission is to defend the consumers' rights; every activity of the Commission is finally directed to protect the customer interests and increase the service quality provided. The Commission is open to receive and discuss the claim or opinion from the public. The employees of the Commission's staff, also those of the separate unit of consumer rights defense (Ombudsman) are responsible to work on the consumer rights' issues.

In 2004, number of claims was addressed to the Commission from the citizens and the analysis of these claims lays into the base of activity of the relevant department of the Commission. There are several issues, which are still problematic, and the ways of solving them is under elaboration.



More particularly, 140 individual applications from 290 addressed to the Commission in 2004, were related to facts of violation of legal interests and rights of consumers in the field of telephone service. The analysis of the above-mentioned applications and claims demonstrates several basic problems. These are:

1. Unofficial connection of third party to telephone lines. A great part of applications concerns of this problem. In this case, third persons use the telephone line of subscriber without his agreement and make long distance, international and mobile calls and a concrete subscriber has to pay a sum for the service he has not received.
2. Problems related to the Kooky islands. When connecting Internet by dial-up, using the code 8-10 (JSC «Georgian Telecom»), the subscribers have to pay the tariff of international calls for calls to Kooky islands, Guinea-Bissau, Tokelau and some other countries (mostly connected to the remote countries, where the tariff is highest. For example, calling to Kooky islands costs GEL 14 per minute and that's why the amount of the sum to pay is so high). In this case, the consumer is a victim of some swindler, which has created a «virus program».
3. Low quality telephone service. Some of the applications concern of the low quality telephone service.
4. The violation of the requirements of the Georgian law «on Defending Minors from Unwholesome Influence» by broadcasting companies. Mr. G. Kipiani on behalf of the association of parents have submitted 6 applications, concerning the violation of the requirements of Georgian law «on Defending Minors from Unwholesome Influence» by TV companies.
5. Applications on interconnection.

The generalization and analysis of the consumers' claims and applications demonstrated the most important matters while defending the consumers' rights and legal interests. Although the ways to solve them have been defined.

A draft contract on the provision of local telephone service to be drawn up with the consumers has been worked out and published on



the Commission's official web site for the attention of communications operators. In our opinion, the presented draft contract perfectly regulates every issue on the defense of the consumers' rights during the provision of local telephone service.

The issues are on: informational provision, tariffs, billing, privileges, deposit, limitation of service, special numbers, cancellation of service, renewal of cancelled or limited service and other issues related to the defense of the consumers' rights and legal interests.

The draft Resolution «on Confirmation of Service Provision Rules in the Field of Electronic Communications, Post and Broadcasting» of the Georgian National Communications Commission is in elaboration and it is planned to be issued in the 4th quarter 2005. This normative-legal act will regulate entirely almost every aspect of defense and provision of the consumers' rights and legal interests in the field of electronic communications, broadcasting and post.

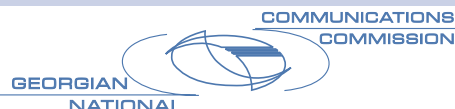
International Environment and Relations

International Environment

The development of the Georgian electronic communications sector is a part of the global telecommunications sector.

The liberalization process in the field of electronic communications technologies has begun in 1988. Firstly, the exclusive rights granted to operators having monopoly and related to the ownership of telecommunications terminal equipments and their placement on the market, as well as to the provision of communications service, have been annulled.

In 1998, after the establishment of liberalized principles in the field of telecommunications, it was necessary to determine the strategy directions of future development of public electronic communications field. For the future increase of competition of the market environment established during the liberalization period, on the basis of



the European Commission's request, a review analysis of regulating legislative-normative base has been carried out. The new tendencies of the communications market development have been demonstrated in the harmonized document of electronic communications regulating directives, worked out by the European Commission.

The kit of these directives (6 documents) has been published in the official publication of the European Commission and was enforced on 25th June 2003. The new kit of harmonized regulating directives contains several documents, including:

- Framework Directive – 2002/21/EC
- Directive on access to and interconnection of electronic communications and associated facilities (2002/19/EC);
- Directive on the authorization of electronic communications networks and services (2002/20/EC);
- Directive on universal service and users' rights relating to electronic communications networks (2002/22/EC);
- Directive on competition in the markets for electronic communications networks and services (2002/77/EC);
- Directive on the processing of personal data and the protection of privacy (2002/58/EC).

Together with the above-mentioned directives, the following documents are to be taken into account as well:

- Decision on a regulatory framework for radio spectrum policy (676/2002/EC);
- Regulation on unbundled access to the local loop (2887/2000);
- Decision on methodological rules of evaluation of significant market power and electronic communications market analysis (2002/C 165/03);
- Recommendations on definition of interrelated service types on consumer market.



- Standards and specifications of electronic communications networks and service and related to terminal facilities and service quality (2002/C 331/04).

The legal bases of relations between operators functioning on the market, service providers, market entrants and regulating authority existed before they have been dramatically changed following to the provisions of regulating directives.

The necessity to introduce new regulatory initiatives and degree of its success mainly comes from the modern phase of development of electronic informational technologies and communications sectors of different countries.

International relations

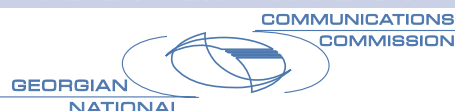
Projects terminated in 2004

A. Structural Reform Support Project – World Bank.

Telecommunications component of Structural Reform Support project has been financed (2001-2004) within the framework of credit received from International Development Agency of the World Bank. The project aimed at the development of normative and technical base of the sector and its harmonization to the best international practice, introduction of European Harmonized Standards in Georgia and elaboration of policy of concrete trends of the sector and strategy with the assistance of international experts.

The above-mentioned World Bank project was terminated in September 2004. The following works have been carried out within the project:

1. German consulting company DETECON International GmbH has been hired, in order to support GNCC to the development/improvement of the regulatory framework. Number of documents has been worked out. The elaborated documentation includes the analysis and review of the



sector and regulating framework, strategy options and draft normative acts on interconnection, licensing, certification, standardization, competition, universal service, numbering, tariff policy, consumers' rights defense and organizational structure.

2. An international consultant (Mr. Edward Farrell) has been hired, in order to support the frequency spectrum management and monitoring process in Georgia; also to analyze current condition of the respective equipment and ensure future modernization and purchasing of modern-style equipment. International expert was selected in the framework of WB project sub-component. Number of requested documents: on analysis of current condition, short- and long-term purchase plan of frequency equipment tender documents for short-term purchases has been elaborated.
3. One of the project's components implied the elaboration of development strategy of informational and communications technologies for Georgia. The national consulting group of UNDP has worked out a draft frame-document of informational and communications technology development, where the role, goals and tasks of ICT technologies and the priority objectives, supporting the development of information society, are defined.

B. Development of telecommunications strategy in rural areas and elaboration of pilot project for the countries of South Caucasus (Georgia, Armenia and Azerbaijan) (PPIAF)

PPIAF has allocated a grant on the basis of application of Telecommunications Department of World Bank, for technical assistance of the telecommunications sector development in South Caucasus countries. It mainly covered the development of relevant strategy with the support of the consulting company APOYO Consultoria, the development of telecommunications infrastructure with the participation of the private sector in the so called service – deficit rural areas and the elaboration of pilot project.

On 26-27 April 2004, within the framework of the same project, the Ministry of Infrastructure and Economic Development of Georgia and Georgian National Communications Commission supporting by the World Bank and APOYO Consultoria, have organized out a regional seminar: investment opportunities of South Caucasus region in telecommunications field-universal access strategy of Georgia and future perspective for Armenia and Azerbaijan. The current situation in the region in the telecommunications field, obstacles and the ways for solving them were also discussed at the same seminar.

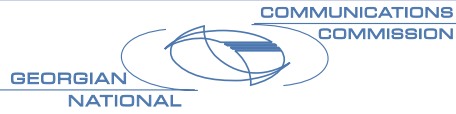
C. Law «on Broadcasting» — European Council

The elaboration of draft law «on Broadcasting» carried out in association with the experts of the European Council. In 2002, the working meeting dedicated to the broadcasting regulation and its future perspectives, organized in Tbilisi by the European Council and the Ministry of Foreign Affairs of Georgia demonstrated the necessity to elaborate of new legislation on broadcasting in Georgia, that in compliance with existed international standards on the media liberty

Membership

In 2004, Georgia has become 100th governmental member of governmental-consulting committee of internet-corporation of granted names and numbers. Within the power delegated to the Commission by the Ministry of Foreign Affairs of Georgia, the Commission represents the interests of the country in the organization. The responsibility of internet-corporation of granted names and numbers includes the allocation of IP address of internet-protocol in space, granting of protocol identifier, general (characteristic) and country code, management of high level domains system and management functions of «root server» system.

The key role of governmental-consulting committee of internet-corporation of granted names and numbers is to provide consulta-



tions related to Internet names of state policy and issues on system of addresses to the internet-corporation of granted names and numbers.

Governmental-consulting committee has been established at the end of 1998. In 1999, the committee included 23 governmental members. At the end of 2004, the number of its members is 100 (Georgia is the 100th member of the organization).

