

Georgian National Communications Commission



**Annual Report
2008**

Table of Contents

Chapter I Georgian National Communications Commission	3
Accountability and Structure	3
Members of the Georgian National Communications Commission.....	4
GNCC Budget and Financial Resources	9
Legislative Changes in 2008	12
Chapter II.....	13
Performed Activities.....	13
Resolutions	13
Decisions	13
<i>Licensing</i>	14
<i>Imposing administrative penalties</i>	19
<i>Awarding radio-relay frequencies</i>	19
<i>Awarding radio frequencies and numbers for auxiliary technological purposes</i>	20
<i>Market Research</i>	20
Moreover, a tariff ceiling of monthly GEL 5000 per Gbit/sec (without VAT) was additionally established for the Caucasus Online Ltd and the United Telecommunications Company of Georgia Ltd, within a specific obligation of tariff regulation and cost estimation.....	23
Authorization.....	23
Management, Monitoring and Coordination of Radiofrequencies.....	23
International Activity.....	26
Disputes	26
Customer Rights	27
Chapter III	30
Review of Electronic Communications Service Market of Georgia.....	30
Share of sector's revenues in GDP	30
Dynamics of the development of Market Segments of Electronic Communications Service...31	
Fixed Communications Service.....	32
Mobile Telephony	33
TV and Radio Broadcasting	34
Internet service	35

Chapter I Georgian National Communications Commission

Mission

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

Vision

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

Values

We believe that:

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

Accountability and Structure

Georgian National Communication Commission as an independent regulating authority is guided by the principles of independence and publicity in its activities.

The Commission is accountable to the public which is logically based on its commitment to act in accordance with public interests. Its activities are transparent, meetings are public and open for interested persons; the Commission submits its annual report to the Parliament and the President of Georgia.

The Commission is a collegial body and under the Law of Georgia on Broadcasting (adopted on 23 December, 2004) consists of five members. The Commission, within the scope of its competence and by a majority vote issues legal acts: resolutions, decisions and the Chairman's

orders. The legal acts of the Commission may be appealed in the Court in accordance with effective legislation.

Members of the Georgian National Communications Commission

Chairman of the GNCC – Mr. Giorgi Arveladze

Date of birth: 15 April, 1982

Education:

2004-2005 Institute of Public Affairs of Georgia, Public Administration Master's course
M.A. in Public Administration

1999-2003 Georgian Technical University
The Faculty of Humanitarian and Technical Studies
Profession of a Banking Specialist
B.A.

Work

Experience:

2007-2008 GNCC, the Chairman
2006-2007 Ministry of Defence of Georgia
Head of the General Inspection
2005-2006 LLC Georgian Railway
Head of the General Inspection
2005-2005 Ministry of Economic Development of Georgia
Assistant Minister

Languages: Georgian, English and Russian

Marital Status: married, one child.

Member of the GNCC – Ms. Sopho Britanchuk

Date of birth: 11 February, 1980

Education:

2003-2005 Ivane Javakhishvili Tbilisi State University
M.A. in Public Relations

1997-2002 Tbilisi State Technical University
The Faculty of International Economic Relations
B.A.

Work**Experience:**

- 2008- GNCC,
the Member
- 2006-2008 Millennium Challenge Georgia Fund / MCG
Public Outreach Consultant
- 2004– 2006 GNCC,
Press Secretary
- 2005-2006 Ivane Javakhishvili Tbilisi State University
Media Relations and Journalism Course
History of Public Relations Course
Lecturer
- 2003 - 2004 Telenet, Telecommunications Company
Account Manager
- 1999 – 2003 AES Telasi, Energy Distribution Company
PR Coordinator
(Acting PR Manager from April 2003 to August 2003)

**Additional
Trainings:**

- 2005 Institute of Public Affairs of Georgia
Caucasian School of Journalism and Media Management, Media Management
Course
Certificate
- 2002 Conflict Management Group (CMG - www.cmgroup.org), Momentum
programme (conflict resolution and theory of negotiation) – Communication
Theory and Negotiations. Cambridge, MA
- 2001 – 2002 Caucasus Academic Centre - CAC
Media and Public Relations
Crisis Management
Lobbying, Advertisement and Positioning
Certificate
- 2000-2001 Tbilisi Business School
Western Accounting Course
- 1999 Management School
Problem Solving and Decision Making Course

Languages: Georgian, English and Russian

**Marital
Status:** married, three children

Member of the GNCC – Mr. George Pruidze

Date of birth: 23 September, 1968

Education:

2002-2004 Ivane Javakhishvili Tbilisi State University
Faculty of Economics
Specialty - Finances and Banking
1985-1992 University of Agriculture of Georgia
Faculty of Hydro-Melioration

Work Experience:

2004-2009 GNCC,
the Member
2003-2004 LEPL State Property Management Agency
Deputy Chairman
2001-2003 Ministry of State Property Management of Georgia
Head of the General Inspection
First Deputy Minister
1996-2001 Tbilisi City Hall
Administrative Inspection
Head of the Department
1994-1996 Hydrometeorological Department of Georgia
Construction Management
Engineer
1993-1994 JSC Sakgvirabmsheni
Constructional Bureau
Engineer

Languages: Georgian, Russian

Marital

Status: married, one child

Member of the GNCC – Mr. Zurab Nonikashvili

Date of birth: 6 July, 1957

Education:

1975-1980 Ivane Javakhishvili Tbilisi State University
Faculty of Economics
Specialty of Industry Planning Economist

**Work
Experience:**

2005-2009 GNCC,
the Member

2003-2005 Central Elections Commission of Georgia
Member of the Commission, Secretary of the Commission, Acting Chairman of
the Commission

1993-2002 Ministry of Defence
Budget Management Division of the Central Treasury-Budget Directorate
Budget Planning and Analysis Department
Head of the Department

1992-1993 Ministry of Finance of Georgia
State Inspection of Testing Supervision
Chief Accountant

1989-1992 “Macivarkombinati No. 4”
Head of the Planning-Production Department

1981-1989 “Samto Kimia”
Deputy Chief Accountant

1981-1981 Special Constructing Bureau of Temka
Engineer

**Additional
Trainings:**

1997 School of NATO
Germany

Military Rank: Reserve Officer

Languages: Georgian, Russian

**Marital
Status:** married, two children

Member of the GNCC – Mr. Karlo Kvitaishvili

**Date
of birth:** 9 August, 1958

Education:

1975 – 1980 Ivane Javakhishvili Tbilisi State University
Faculty of Chemistry

1984-1987 Petre Melikishvili Institute of Physics and Organic Chemistry of the Academy of
Sciences of Georgia
Postgraduate Course
Speciality in Petroleum Chemistry

**Work
Experience:**

2007- GNCC,
the Member

2007-2007 Poti Sea Port LLC
Advisor to the General Director

2005-2007 Poti Sea Port LLC
Chairman of the Supervisory Board

2003 Central Elections Commission of Georgia
Member of the Commission
Secretary of the Commission

1981-2007 Laboratory of Liquid Fuel Chemistry and Technology of the Petre Melikishvili
Institute of Physics and Organic Chemistry
Senior Laboratory Assistant
Junior Research Assistant
Senior Research Assistant
Deputy Head of the Laboratory

**Additional
Trainings:**

2001 Three-Step Course in Peace Building and Conflict Resolution at the International
Research Center for Conflicts and Negotiations

Degree: Ph.D. degree
He holds a copyright certificate on an invention

Published Articles:

1984-1999 four scientific articles
2003 five brochures published with regard to the elections

Languages: Georgian, Russian and French

**Marital
Status:** married, two children

GNCC Budget and Financial Resources

According to an annual plan of the approved GNCC budget for the year 2008, the accrued revenues by regulation fee made up GEL 5,456,399.28 (the report is enclosed), instead of the 2008 budget target of GEL 4,660,000.00 (including the reserve fund of 1,300,000.00), thus exceeding the approved indicator (the reserve fund inclusive) by GEL 796,399.28, or 17.09 percent. One of the reasons contributing to the growth of accrued revenues was the increase in revenues of authorized undertakings in the electronic communications sector and the delays in submitting calculations for 2007 regulation fees, i.e. the addition of some of 2007 revenues to the annual revenues in 2008.

As the revenues grew in 2008 so did the budget expenditure of the same year showing the increase of 12 percent or GEL 490,454.00 and reaching GEL 4,950,462.00 instead of targeted GEL 4,460,008.00.

Although savings were seen in most budget expenditure items, some overspending was still observed by separate items. To ensure the financing of certain priority expenditure items, the GNCC, within the authority granted under the Laws of Georgia on Electronic Communications and Broadcasting, deemed it expedient to revise, in separate cases, operational expenditure items and use additional resources generated through actual savings on separate budget items in 2008 as well as financial reserve of the past years for funding other priority items. In particular:

The communications, electricity and water supply service costs made up GEL 232,071.00 instead of GEL 200,000.00 target, which is higher by GEL 32,071.00 than the approved annual budget indicator. The total costs of electricity comprised GEL 34,247.06, water - GEL 9,176.80, natural gas - GEL 4,465.37, and communications - GEL 184,181.77 including GEL 60,127.22 as a lease payment for the Tbilisi-Poti digital (fibre-optic) channel to connect the GNCC with internet and radio monitoring fixed stations (mount Urta and mount Dzegvi) and GEL 124,054.55 as the cost of communication.

The cost of fuel, maintenance and repair of vehicles amounted to GEL 181,566.06, higher by GEL 31,566.06, or 21.04 percent, against the approved GNCC budget indicator. This expenditure is made up of GEL 111,375.00 for consumed fuel and GEL 70,191.06 for the repair of vehicles being on the balance of the GNCC. The growth of this expenditure was caused by price fluctuations on fuel, increase in the number of vehicles for GNCC needs, regular trips to the fixed radio monitoring stations (mount Urta and mount Dzegvi) and working site visits of the monitoring group.

The spending on conferences, workshops, training, consultant and expert service fees and other similar expenses made up GEL 474,313.91, according to the actual annual data. This spending exceeded the planned budget indicator by GEL 444,313.91 largely due to foreign expert service fees which stood at GEL 462,332.09 including payments to the budget, auditor service fees at GEL 1,500.00 and participation fees for attending conferences and workshops during business trips at GEL 10,481.82.

Other expenses envisaged under a common expenditure item increased by GEL 21,983.95 to GEL 171,983.95 instead of planned GEL 150,000.00. This overspending resulted from the cost of advertising services used by the GNCC for the dissemination of announcements, which stood at GEL 5,518.00; security of the building at GEL 59,400.00; transportation, installation and maintenance of air conditioners at GEL 4,176.30; insurance (excluding health insurance) at GEL 16,386.58; sanitary service at GEL 4,433.98; administrative expenses at GEL 51,337.68; other

preliminary expenses (refill of cartridges, procurement of computer parts) at GEL 7,427.41; computer software and other fees (notary fee) at GEL 600.00; medical insurance, including payments to the budget, comprised GEL 22,704.00.

Overspending was seen in actual annual labour costs which exceeded the budget target by GEL 250,181.65 and comprised GEL 3,495,397.65 including payments to the budget. This overspending resulted from the increase in employees to improve the efficiency of the GNCC activity.

On the other hand, according to actual results, savings were seen in main GNCC budget items in 2008. In particular:

The cost of annual business trips comprised GEL 116,731.26 instead of anticipated GEL 150,000.00, that is less by 22.183 percent, or GEL 33,268.74, than the approved GNCC budget indicator.

The spending on the procurement of fixed assets totaled GEL 162,046.18, less by GEL 37,953.82, i.e. 18.98 percent, than the approved budget indicator.

The annual spending on stationary, post service, newspaper and magazine subscription and poligraphic services comprised GEL 47,277.57, lower by GEL 2,722.43 (5.44 percent) than the planned indicator, and included stationary costs at GEL 8,455.85, post expenses at GEL 7,083.22, poligraphic expenses at GEL 19,576.00, newspaper and magazine subscription costs at GEL 12,162.50

The spending for scientific and consultancy services stood at GEL 1,500.00 i.e. less by GEL 48,500.00 (97.00 percent) than the approved annual budget indicator.

Although GEL 70,000.00 was envisaged under the corresponding budget item for a planned refurbishment of the GNCC office, no refurbishment took place in 2008.

Representation expenses in the accounting period made up GEL 10,514.98, less by GEL 4,485.02 than the approved annual budget target of GEL 15,000.00, according to the actual 2008 figures.

The saving is also seen in the spending of the department of public defender of consumer rights. It expended GEL 39,928.68 which is less by GEL 74,863.32 than the approved budget indicator of GEL 114,792.00.

The overdue license fees of 41 licensed companies made up GEL 328,814.36, as of 31 December 2008.

Paragraph 4, Article 12 of the Law of Georgia on Electronic Communications says: "The size of the regulation fee shall be 0.5 percent of the difference between the gross income (excluding VAT), as defined in the Tax Code of Georgia, received by an authorised undertaking and the approved payments for access and/or interconnection services rendered by other authorized undertakings in the same reporting month. An authorised undertaking shall, no later than the 20th day of the following month and in the form as determined by the Commission, submit monthly information on a calculated regulation fee and transfer the fee onto the Commission's account".

As Paragraph 5, Article 12 of the Law of Georgia on Broadcasting reads: "License holders shall pay annual regulation fee. The annual regulation fee shall be no more than 0.5 percent of a

license holder's individual income, which includes his/her gross income (VAT excluded) as defined in the Tax Code of Georgia. The annual regulation fee is calculated throughout a calendar year from a licensee's income on an accrual basis proceeding from an actual monthly income since the beginning of a year. License holders shall transfer the annual regulation fee onto the Commission's account on a monthly basis no later than the 20th day of a reporting month and submit information to the Commission in the form as determined by the Commission".

The failure to fulfill the abovementioned obligations is considered a breach of the effective legislation and licence conditions.

Substantial delays in submitting license fee calculations to the Commission on the part of certain licensees are still observed, preventing the Commission from timely determining an accurate amount of income for an accounting period.

The analysis of the calculations of regulation fees submitted to the Commission has revealed that as of 31 December 2008, annual regulation fee calculations were not submitted over the last two or more months and regulation fees were not paid by 107 license holders and/or authorized undertakings, calculations of annual regulation fee were submitted but fees were not paid by 25 license holders and/or authorized undertakings and regulation fees were paid but annual regulation fee calculations were not submitted by 12 license holders and/or authorized undertakings.

The calculations of annual zero regulation fee were submitted by 54 companies.

The total indebtedness incurred by 70 license holders and/or authorized undertakings to the Commission comprised GEL 1,237,828.57 (form No. 8) as of 31 December 2008.

Consolidated financial indicators for the year 2008:

a) Accrued revenues:

Regulation fee and other income ----- GEL 5,456,399.28

b) Operating costs ----- GEL 4,788,415.82

c) Fixed assets procurement costs ----- GEL 162,046.18

d) Financial reserve fund ----- GEL 252,968.64

(without financial reserve)

According to the actual 2008 indicators, the GNCC revenues exceeded the expenditure by GEL 505,937.28.

Legislative Changes in 2008

The following amendments were made to the regulatory legislation in 2008:

- **June 27, 2008** – Amendments to the Georgian Law **on Broadcasting** were prompted by a dynamic technological development of the broadcasting sphere necessitating the adjustment of the legal framework of this sphere to modern requirements. It was needed to amend legal norms as to create a competitive environment and define the regulatory principles matching modern technologies.

The adoption of the Law of Georgia on Electronic Communications and further amendments to it invalidated the Law of Georgia on Communications and Post. It therefore became necessary to rectify the deficiencies in the Law of Georgia on Broadcasting, which emerged after the enactment of the Law of Georgia on Electronic Communications. Namely, the term “Law of Georgia on Communications and Post” in the Law on Broadcasting was replaced with “the Law of Georgia on Broadcasting”; also, flaws which resulted from invalidating the Law of Georgia on Communications and Post were rectified. The above mentioned change was aimed at harmonizing the Georgian legislation with the European legislation.

- **July 15, 2008** – The amendments to the **Code of Administrative Violations** of Georgia were made to extend the Article 144¹ to include unauthorized operation as a punishable act. In particular, an unauthorized operation in the sphere of electronic communications is an administrative violation similar to that of the use of radiofrequency spectrum or/and numbering resource without license or allotment.

The amendments resulted in determining administrative penalties for an unlicensed or unauthorized activity as well as the use of unassigned radiofrequency spectrum or/and numbering resource in the sphere of electronic communications and broadcasting on the territories of the Autonomous Republic of Abkhazia and former autonomous republic of South Ossetia in the amount of GEL 50 000 for the violation committed for the first time, GEL 500 000 - for the second time and GEL 1 000 000 for violations committed for the third and each subsequent time.

- **October 23, 2008** – The adoption of the Law of Georgian on **Occupied Territories** was prompted by an illegal economic activity of Abkhaz and Ossetian companies that were set up by residents of the Russian Federation or with their participation (affiliate companies) in Abkhazia and Tskhinvali regions. This Law states that an illegal economic activity on the occupied territories is a criminal offence committed not only by persons directly conducting the illegal economic activity but also their affiliates.

- **December 19, 2008** – The amendments and addenda to the Law of Georgia **on Broadcasting** defined a new rule for appointing commissioners to the GNCC. Namely, the parliament majority nominates at least three candidates to fill a vacancy of a commissioner, also, the parliament factions (faction), which are not part of the majority, or/and independent MPs nominate at least three candidates to fill a vacancy of a commissioner.

- **December 26, 2008** – The amendments to the Law of Georgia **on Electronic Communications** were made due to the failure of the Ministry of Economic Development to adopt an overall national plan on numbering, thus necessitating the change to the Law in relation to the transfer onto a new system of numbering, namely, setting the deadline of January 1, 2011, for the completion of the transition to an overall numbering system.

Chapter II

Performed Activities

Resolutions

The GNCC adopted two resolutions in 2008:

- The aim of the **amendment on 19 February 2008 to the Resolution No. 13 of December 12, 2005, “On the Approval of the Charter on Conducting Auction for the Right to Use Radiofrequency Spectrum or/and Numbering Resource”** was to bring an initial price of the acution for the right to use the numbering resource for rendering communications service by applying subscriber numbers and/or three-digit numbering code, close to an average price observed on auctions conducted for the right to carry out the activity by using subscriber numbers and/or three-digit numbering code
- **The amendment on 1 February 2008 to the Resolution No. 13 of December 12, 2005, “On the Approval of the Charter on Conducting Auction for the Right to Use Radiofrequency Spectrum or/and Numbering Resource”** resulted in defining the total number of transmission stations across Georgia in 900 MHz, 1800 MHz, 1900 MHz, 2200 MHz, 3500 MHz and 5 GHz frequency bands to establish an initial price of the use of exhaustible resources for the acquisition of the license for radiofrequency spectrum in the range of a concrete radiofrequency spectrum and on the entire territory of Georgia. At the same time, for establishing an initial price of the use of resource for the acquisition of the license for radiofrequency spectrum, the communication coefficient was set by types of activities, namely, by internal technological activity, by the delivery of communications service to end users by TV and radio broadcasters and authorized undertakings through radiofrequency spectrum.

Decisions

The GNCC took the total of 768 decisions in 2008, of which:

Decision type	Quantity
On the approval of the GNCC agenda	55
On allotting call signs to radio amateurs for carrying out radio communication through amateur radio stations by using radio electronic facilities and high frequency equipment	13
On allotting call signs and identifiers to marine vessels	8
On assigning radiofrequencies and/or numbers for auxiliary technological purposes	341
Licensing	116
On imposing administrative penalties	19

On assigning radio-relay frequencies	24
On disputes	64
On conducting administrative proceedings	47
On miscellaneous issues	81

The GNCC received 44 letters with the request to issue public information, mainly minutes of GNCC meetings, excerpts from minutes and decisions by the GNCC; information on the GNCC; copies of licenses and authorization certificates issued by the GNCC; various data on license holders and broadcasting companies; information concerning financial issues as well as other information. All the letters were responded.

Licensing

Among the GNCC decisions taken in 2008, 116 were in the area of licensing. Brief summaries of the mentioned decisions are provided below¹:

Annulment of licenses

Three of the decisions were about the annulment of licenses.

- The Decision No. 17 annulled the license of the Tbilisi Davit Aghmashenebeli University which held it since 2005. The type of the license was private broadcasting whilst the subject was cable TV broadcasting. The inspection revealed that the abovementioned company was not carrying out the licensed activity which, under the law, is a basis for the annulment of the license.

- The Decision No. 158 annulled the license of the TV Company Obiektivi 2 Ltd. This company held the license for specialized broadcasting since 1998 and the subject of the license was TV-radio broadcasting (TV shopping). The management of the company applied itself to the GNCC for the annulment of the license. Later on, a representative of one of the founders of the TV Company Obiektivi 2 Ltd applied to the GNCC with the demand that he, as an interested party, be involved in the administrative proceeding. The application also stated that the director of the TV Company Obiektivi 2 Ltd requested the annulment of the TV broadcasting license No. 499 unilaterally, without agreeing it with partners or obtaining approval of partners' meeting. However, during the consideration of the application, the representative of a new director of the TV Company Obiektivi 2 Ltd came in to declare that the company was not going to resume the suspended broadcasting and supported the request of the TV Company Obiektivi 2 Ltd for the cancellation of the license.

- The Decision No. 710 annulled the license of Akhteli Ltd for the use of numbering resources obtained in 2007, which envisaged the application of the awarded numbering resource in Batumi.

Modification of licenses

Eight decisions of the GNCC were passed to modify licenses in 2008:

- Three decisions (No. 55, No. 205 and No. 741) were on the modification of the license held by the TV Company Rustavi-2 Ltd. On all the three occasions, the modifications were carried

¹ When reviewing the mentioned decisions one should pay attention to the fact that one of the decisions (172) is indicated as the decision on cancelling the auction as well as declaring the winner in the auction.

out upon the request of Rustavi-2. Two decisions were about the replacement of defined frequencies with other UHF channels whilst the third one about modifying the company's own license No. 908 into a specialized (educational musical entertainment) TV broadcasting license.

- The Decision No. 539 was about modifying the license of the Atinati association (union) which holds the license for general TV and radio broadcasting (city of Zugdidi). The company requested the amplification of capacities.
- The Decision No. 326 added an explanation to three licenses for radiofrequency spectrum held by the Magticom Ltd, specifying the wording and accordingly, the obligation, "to cover the entire territory of Georgia".
- The Decision No. 407 modified the licenses of WiMAX Georgia Ltd and the TV Company Pirveli Stereo Ltd. These companies jointly applied to the GNCC with the request to lift the right of secondary use of part of radiofrequency band indicated in the licenses.
- The Decision No. 712 modified the license B87 of Studia Maestro Ltd from a specialized license (educational musical entertainment) into a general broadcasting license. In accordance with the Decision No. 279 taken in 2008, the GNCC has suspended the issuance of new licenses and modification of existing license types until the identification of TV-radio broadcasting priorities. Nevertheless, the GNCC followed an act on settlement approved by the Tbilisi Appeal Court on October 27, 2008, and within the timeframe as established by the law, ensured the modification of a private specialized license No. B87 of Studia Maestro Ltd into a license of private general broadcasting instead of issuing a new private general broadcasting license as requested by the company but declined by the GNCC on the basis of Paragraph C, Article 42 of the Law of Georgia on Broadcasting.
- The decision No. 742 modified the broadcasting frequency specified in the B72 license (private general radio broadcast) of Chveni Radio Ltd upon the request of the company.

Reassignment of license

The GNCC was approached by 15 companies in 2008 with the request to reassign licenses (all the requests were satisfied). They are:

- No. 124 – Partial reassignment of the license for the use of radiofrequency spectrum (F50) between Selcom Ltd and Giticom Ltd;
- No. 157 – Partial reassignment of the license for the use of radiofrequency spectrum (F50) between Selcom Ltd and Aleksandre + Ltd;
- No. 220 - Reassignment of the license for the use of radiofrequency spectrum (F11) between Mineta Ventures S. A. and JSC United Georgian Telecommunications Company;
- No. 221 - Reassignment of the license No. 105 between Lunet Ltd and JSC United Telecommunications Company of Georgia (8-7-6);
- No. 334 – Direct reassignment of the license No. F37 and partial reassignment of the license No. F 29 for the use of radiofrequency spectrum between the TV company Pirveli Stereo Ltd and WiMAX Georgia Ltd;

- No. 343 – Partial reassignment of the licenses F47 and F52 for the use of radiofrequency spectrum between Technonet Ltd and WiMAX Georgia Ltd;
- No. 407 – Direct reassignment of the license No. F37 and partial reassignment of the license No. F29 for the use of radiofrequency spectrum between the TV company Pirveli Stereo Ltd and WiMAX Georgia Ltd;
- No. 452 – Reassignment of the license No. 33 for the use of numbering resource between the Ajara Elektrokavshiri Ltd and the JSC United Telecommunications Company of Georgia;
- No. 453 – Partial reassignment of the license No. 22 for the use of numbering resource between the JSC Egrisi and the Akhali Kselebi Ltd;
- No. 454 – Reassignment of the license F6 for the use of radiofrequency spectrum between the JSC Telenet and Kavkasus Online Ltd;
- No. 455 - Reassignment of the license No. 56 for the use of numbering resource between the JSC Telenet and Kavkasus Online Ltd;
- No. 456 - Reassignment of the license No. 75 for the use of numbering resource between the JSC Telenet and Kavkasus Online Ltd;
- No. 457 - Reassignment of the license No. 78 for the use of numbering resource between the JSC Telenet and Kavkasus Online Ltd;
- No. 458 - Reassignment of the license No. 79 for the use of numbering resource between the JSC Telenet and Kavkasus Online Ltd;
- No. 524 - Reassignment of the license No. 34 for the use of numbering resource between the Akhali Kselebi Ltd and Akhteli Ltd.

Refusal to issue/modify license

In 2008, the GNCC declined the applications of companies for the issuance/modification of licenses on three occasions:

- The Decision No. 190 on the refusal to issue to the Studia Maestro Ltd a license for private general broadcasting by using a cable network. By the Decision No. 143, the GNCC imposed the penalty on Studia Maestro Ltd, which is specified in Paragraph 1, Article 71 of the Law of Georgia on Broadcasting (warning for the failure to observe license conditions). The GNCC followed Paragraph C, Article 42 of the Law of Georgia on Broadcasting saying that “The Commission shall not accept an application if: ... c) a new application concerning acquisition of a license or authorization is submitted by a license holder penalized by the Commission for any violation envisaged in this law, if the application is submitted within a year of such a decision being taken”.
- The Decision No. 264 on refusing to issue a license to Futurescom Invest Ltd for the use of radiofrequency spectrum and declaring the auction held on April 4, 2008, for a license on the use of radiofrequency spectrum nil and void. By the Decision No. 173/8 dated April 4, 2008, Futurescom Invest Ltd was declared the winner in the auction for the radiofrequency spectrum and agreed to pay the cost of the use of exhaustible numbering resource in the amount of GEL

3,818,148.03 (three million eight hundred eighteen thousand one hundred forty-eight lari and three tetri). The winner was to pay 30 percent of the above sum to Georgia's central state budget within a month's time. As the winning company failed to meet this requirement, the GNCC declared the auction nil and void and refused to issue the license to Futurescom Invest Ltd.

- The Decision No. 411 on refusing to modify the license B25 of the TV company Tanamgzavri Ltd. The TV company Tanamgzavri applied with the request to amplify the TV transmission signal specified in its own license No. B25 (private general broadcasting). According to the opinion by the GNCC Radiofrequency Management, Monitoring and Coordination Department, the request of the license holder was not substantiated and the modification of the license was refused.

Extension of license term

The GNCC, in 2008, decided to extend for 10 years the licenses of six companies:

- Teleimedi Ltd license B16 for private general broadcasting (Decision No. 202)
- Giticom Ltd license F16 for the use of radiofrequency spectrum (Decision No. 237)
- Aleksandre + Ltd license F62 for the use of radiofrequency spectrum (Decision No. 238)
- Omega Ltd license B61 for private general broadcasting (Decision No. 461)
- Georgian Telephony Company Ltd license No. 63 for the use of numbering resource (Decision No. 496)
- Caucasus Digital Networks Ltd license No. 18 for the use of numbering resource (Decision No. 583).

Refusal to extend license term

Three companies were refused an extension of their license terms. In all the three cases the GNCC refused because of the failure of these companies to pay the fee for using exhaustible resources within the timeframe specified by the law.

- The refusal to extend the term of the license F61 held by the Giticom Ltd
- The refusal to extend the term of the license F62 for the use of radiofrequency spectrum, held by Aleksandre + Ltd
- The refusal to extend the term of the license No. 18 for the use of numbering resource, held by Caucasus Digital Networks Ltd

Announcement of contests

In 2008 the GNCC announced five contests with the three amongst (No. 26, No. 141 and No. 142) on the acquisition of licenses for private general broadcasting, the fourth (No. 27) for specialized radio broadcasting and the fifth (No. 278) for private general radio broadcasting.

Identification of winners in contests

In 2008, the GNCC took six decisions concerning the identification of the winners in contests:

- Private general broadcasting – Zugdidi – Apkhazeti TV Ltd was declared the winner in the contest. The license fee comprised GEL 36.609 (Decision No. 84 – this contest was announced in 2007);

- Private general broadcasting – Batumi – TV Company Sakartvelo Ltd was declared the winner in the contest. The license fee comprised GEL 40,343 (Decision No. 144);
- Private specialized radio broadcasting – Tbilisi - Folk Radio Ltd was declared the winner in the contest. The license fee comprised GEL 10,692 (Decision No. 145);
- Private general broadcasting –Tbilisi – Alania Ltd was declared the winner in the contest. The license fee comprised GEL 52,812 (Decision No. 269);
- Private general broadcasting – by using 16 transmitters in the cities of Signaghi, Bolnisis, Dusheti, Martvili, Terjola, Marneuli, Lagodekhi, Kharagauli, Keda, the villages of Sioni, Khala, Nabeghlavi, the towns of Bakuriani, Manglisi, the villages of Kumisi and Opreti. Rustavi-2 Ltd was declared the winner in the contest. The license fee comprised GEL 192,360 (Decision No. 270);
- Private general broadcasting – by using 1422 kHz radiofrequency; in the medium wave band – within the boundaries of the entire territory of Georgia. The media center, Ghia Apkhazeti, was declared the winner in the contest. The license fee comprised GEL 2016 (Decision No. 414).

Announcement of auctions

In 2008, the GNCC announced 22 auctions with nine amongst for the right to use three-digit or/and four-digit numbering codes, seven for the use of numbering resource to render a local communication service through subscriber numbers and six for the use of radiofrequency spectrum.

Declaring winners in auctions

Winners were declared in 18 cases out from all the announced auctions. The total revenue to the state budget from the conducted auctions made up GEL 2 981 913, of which:

- GEL 379,350 from licenses for the use of three-digit or/and four-digit numbering codes
- GEL 267.000 from licenses for the use of numbering resource to implement the local communication service through subscriber numbers
- GEL 2.335.563 from licenses for the use of radiofrequency spectrum.

In 2008, the GNCC took 24 decisions on granting licenses for:

- the use of numbering resources - 15
- the use of radiofrequency spectrum - 3
- private general broadcasting - 4
- private general radio broadcasting - 1
- specialized radio broadcasting - 1

Declaring auctions nil and void

Four auctions were declared nil and void (decisions No. 172, No. 264, No. 591 and No. 744) of which:

- One auction was announced for license for the use of numbering resource to render a local communication service through subscriber numbers in Gori and Gardabani districts. The application was submitted only by the JSC United Telecommunications Company of Georgia which had changed its mind to participate in the auction before the auction was held.

- Two auctions were declared nil and void due to the failure of winners in the auctions to pay license fees. By the Decision No. 173 dated April 4, 2008, Futurescom Invest Ltd was declared the winner in the auction for the license to use radiofrequency spectrum and agreed to pay the cost of the use of exhaustible numbering resource in the amount of GEL 3,818,148.03. The JSC Clearstrem Georgia was declared the winner in the auction announced under the Decision No. 629 of October 31, 2008, for the license to use radiofrequency spectrum and agreed to pay the cost of the use of exhaustible numbering resource in the amount of GEL 9,312,582. Due to the failure of the winners to fulfill the abovementioned liability, the auctions were declared nil and void.

- The fourth auction was declared nil and void due to the absence of any application for a license to use radiofrequency spectrum.

Imposing administrative penalties

In 2008, the GNCC applied the powers granted under the law and took nine decisions on issuing warning to the companies.

Throughout 2008 the GNCC passed 10 decisions on imposing penalties, of which:

- In five cases for unlicensed and unauthorized activity (open society Megafon – twice, radio station Vesti FM of the Russian Federation, public broadcaster of the Russian Federation and Ajara Elektrokavshiri Ltd);
- In two cases for illegal use of numbering resource (Akhali Kselebi Ltd);
- In two cases for the failure to start operations (Ateli Ltd and Black Sea telecom Ltd);
- In two cases for the violation of the requirements under the Election Code of Georgia (Teleimedi Ltd and Mze Ltd – under one decision). On the basis of the opinion of the Broadcasting Monitoring Department of the GNCC it was established that in December 2007 the TV companies Rustavi-2 Ltd, Mze Ltd and Teleimedi Ltd reported the results of an opinion poll conducted by the information center Common European Cause. The reporting of the information did not comply with the legislative norm, namely, the requirements of Subparagraphs b) and f), Paragraph 8, Article 731 of the Election Code of Georgia. The GNCC, therefore, considered it the violation of the Election Code of Georgia.

Awarding radio-relay frequencies

Pursuant to Paragraph 4, Article 47' of the Law of Georgia on Electronic Communications “The Commission is entitled to allocate, without conducting an auction, for the period of 10 years, radio frequencies to authorized undertakings needing a radio relay network or one or more sections of a radio relay line to perform an authorized activity for auxiliary technological, non-commercial purposes, in accordance with the application submitted by them to the Commission which shall contain basic technical specifications of the network and stations. In this case an

applicant, to acquire the right to use the resource, shall pay the sum totaling an initial auction price determined under the Charter for Conducting Auctions for Acquisition of Right to Use Radio Frequency Spectrum or/and Numbering Resource”. In 2008, the GNCC applied the abovementioned right on 24 occasions. As a result of this activity the budget of Georgia received GEL 2.181.221.

Awarding radio frequencies and numbers for auxiliary technological purposes

Pursuant to Paragraph 3, Article 47' of the Law of Georgia on Electronic Communications “Unauthorized undertakings who are not engaged in providing electronic communications networks and facilities or/and rendering service through these networks and facilities but, in their activity, need to use radio frequencies or/and numbers for auxiliary technological purposes, are awarded by the Commission the right to use frequencies or/and numbers for auxiliary technological purposes temporarily, for the period of one year.

Market Research

The competition on market segments of the access of fixed and mobile communication network operators to switching terminal units and interconnection service, and the wholesale market of internet service were studied in 2008.

Research and analysis of the competition on market segments of the access of fixed and mobile communications network operators to switching terminal units and interconnection (call origination and termination) service

In 2005, the GNCC researched and analyzed one of the service market segments, namely, a call origination/termination service in the local telephone network and identified undertakings with significant market powers. However, adhering to the principle of minimal intervention, the GNCC did not establish any specific requirement for tariff regulation and accounting, or a tariff ceiling. The above mentioned research in 2008 was prompted by claims from a number of companies. Within the scope of the research and analysis the GNCC identified wholesale market segments and geographic boundaries:

- A wholesale market segment of the access of a particular fixed communications service operator to the main network's switching terminal units and call origination;
- A wholesale market segment of the access of a particular fixed communications service operator to the main network's switching terminal units and call termination;
- A wholesale market segment of the access of a particular mobile communications service operator to the main network's switching terminal units and call origination;
- A wholesale market segment of the access of a particular mobile communications service operator to the main network's switching terminal units and call termination;
- Geographic boundaries for fixed communication network operators were defined as Tbilisi, Kutaisi, Zugdidi, Poti, Autonomous Republic of Ajara and the rest of Georgia, whereas for mobile communication network operators - the whole of Georgia.

Within the framework of the research and analysis:

- The GNCC defined retail market segments, and corresponding geographic boundaries, of the telephone service closely connected to respective wholesale market segments of the access of a particular fixed communications service operator to the main network's switching terminal units and call termination.

- The following undertakings with significant market powers were identified on wholesale market segments of the access of a particular fixed communications service operator to the main network's switching terminal units and interconnection:
 - Within the Tbilisi local service zone:
 - JSC United Telecommunications Company of Georgia
 - Akhali Kselebi Ltd
 - Akhteli Ltd

 - Within the Kutaisi local service zone:
 - Akhali Kselebi Ltd

 - Within the Rustavi local service zone
 - Central Communications Corporation of Georgia Ltd

 - Within the Poti local service zone
 - JSC United Telecommunications Company of Georgia

 - Within the Zugdidi local service zone
 - JSC United Telecommunications Company of Georgia
 - Iveria Kseli Ltd

 - Within the territory of the Autonomous Republic of Ajara
 - Ajaris Elektrokavshiri Ltd

 - Within the rest of Georgia
 - JSC United Telecommunications Company of Georgia

- The following undertakings with significant market powers were identified on wholesale market segments of the access of a particular fixed communications service operator to the main network's switching terminal units and interconnection:
 - The whole of Georgia
 - Magticom Ltd
 - Jeocell Ltd

- The following undertakings with significant market powers were identified on retail market segments of the telephone service closely connected to respective wholesale market segments of the access of a particular fixed communications service operator to the main network's switching terminal units and interconnection, call origination/termination and call termination:
 - Within the Tbilisi local service zone:
 - JSC United Telecommunications Company of Georgia
 - Akhali Kselebi Ltd
 - Akhteli Ltd

- Within the Kutaisi local service zone:
 - Akhali Kselebi Ltd
- Within the Rustavi local service zone
 - Central Communications Corporation of Georgia Ltd
- Within the Poti local service zone
 - JSC United Telecommunications Company of Georgia
- Within the Zugdidi local service zone
 - JSC United Telecommunications Company of Georgia
 - Iveria Kseli Ltd
- Within the territory of the Autonomous Republic of Ajara
 - Ajaris Elektrokavshiri Ltd
- Within the rest of Georgia
 - JSC United Telecommunications Company of Georgia
- Undertakings with significant market power were imposed with the requirements, on various specific conditions, to ensure transparency, non-discrimination, access to corresponding network units, separate record keeping of expenses and revenues, and tariff regulation and accounting.

Research and analysis of internet service wholesale market

In 2007 the GNCC conducted a research and analysis of the retail and wholesale market of internet service and revealed an undertaking with significant market power. An application submitted to the GNCC in 2008 stated that one of the companies was abusing its market power by establishing non-cost based tariffs on expanded interconnection for the wholesale internet service. This application prompted the conduct of new research and analysis.

The research resulted in identifying operators with significant market power on the wholesale market segment of internet service, which were required to meet specific obligations of ensuring transparency, non-discrimination, access to relevant units of electronic communications network, separate record keeping of expenses and revenues, tariff regulation and accounting. Operators with significant market power are:

1. Caucasus Online Ltd
2. JSC United Telecommunications Company of Georgia
3. JSC Egrisi
4. Railways Telecom Ltd
5. Namio Ltd
6. Wanex Ltd
7. Service Ltd
8. Grena Ltd
9. Caucasus Digital Networks Ltd
10. Geonet Ltd
11. Ultracom Ltd
12. Global One Ltd

The above listed operators were tasked to publish, within the limits of a specific obligation for ensuring the transparency of information, conditions of an offer (invitation to offer) for the delivery of wholesale internet service.

Moreover, a tariff ceiling of monthly GEL 5000 per Gbit/sec (without VAT) was additionally established for the Caucasus Online Ltd and the United Telecommunications Company of Georgia Ltd, within a specific obligation of tariff regulation and cost estimation.

Authorization

Forty-two legal and physical persons got authorization in 2008 for the following services (one and the same company got authorization for several services):

- Local communications service - 22
- Internet service - 36
- Cable transit TV broadcasting - 18
- International communication service - 18
- Mobile communication service - 9
- Inter-city communication service - 20
- Broadcasting service - 5
- Cable transit radio broadcasting - 8
- Other communication services - 8

In 2008, three individual entrepreneurs applied to the GNCC with a request to cancel the authorization. The cancelled declarations by segments are as follows:

- International communication service - 1
- Local communication service - 1
- Inter-city communication service - 1
- Internet service - 3

From amongst the abovementioned cancelled declarations none of the individual entrepreneurs had started the activity at all.

Management, Monitoring and Coordination of Radiofrequencies

The Department for Management, Monitoring and Coordination of Radiofrequencies operating within the GNCC is a multifunctional department. Main activities performed by the Department in various areas are provided below.

The following activities were carried out in 2008 in the area of radiofrequency spectrum management and monitoring:

- When detecting radio frequency interferences, the information provided by customers was systematically considered and handed over to technical personnel of the Department to carry out relevant works.

- As a result of the consideration of submitted materials on the import of high frequency equipment to Georgia, 310 corresponding documents were issued to companies for the customs clearance of cargo. A corresponding data base was also created.
- As a result of the consideration of the documentation concerning the allotment of call signs and identifiers to vessels sailing under the state flag of Georgia, eight decisions were drafted for the total of 41 vessels.
- Thirteen decisions were drafted on assigning call sign to radio amateurs for amateur radio communication by amateur radio stations through radio electronic facilities and high frequency equipment; a personal data base on radio amateurs was also created.
- Frequency boundaries of radiofrequency bands to be used for various purposes were defined: wireless broadband networks, wireless local networks, radio relay lines, radio navigation and radio location systems, systems of data exchange with aircrafts (ground-to-air, air-to-ground).
- Radio relay frequencies and frequency pairs were selected on certain directions (from point to point) for various companies to operate radio relay stations. An initial amount for the use of frequency resource was determined in cases envisaged by the law.
- The protection compatibility in common bands and conditions for the maintenance of technically acceptable levels were analyzed and established in cases of electromagnetically interactive radiating equipment.
- More than 30 projects were prepared on the assignment of radio relay frequencies, frequency bands for the operation of local data transmission networks, and fixed frequencies in HF, VHF and UHF bands.
- When assigning frequencies to law-enforcement bodies, operational capacities of various bodies in common frequency bands were studied and considered.

The following activities were performed in 2008 for ensuring software for data base management and monitoring:

- A software was developed which allowed to interconnect the register database and the existing data; a mathematical model was worked out to calculate various units and was further integrated into the existing system;
- Broadcasting zones were worked out in relation to the register.
- The EDX software interface was developed for its further integration into the software created by the GNCC
- The software with video recording capacities was obtained and further integrated on the server and debugged.
- The methodology and software were developed and implemented for a daily monitoring; in particular, a data base was created, storing visual images of all the TV-radio broadcasters' signals in accordance with the data of analyzer in fixed monitoring stations located in Tbilisi and western Georgia; a daily monitoring (once every four hours) and data storing were conducted;

given the size of data, a reserve copying of the data base and its transfer and duplication after a certain amount were carried out.

- Basic data of organizations was processed. The existing data base on the server of the Department for Frequency Management, Monitoring and Coordination was updated to include a) more than 3500 frequencies nationwide, including the frequencies in licensed (radio, TV and other broadcasting), relay and unlicensed spectra for operative radio communication; b) more than 500 organizations with allotted frequency resource and/or license (licenses) issued by the GNCC

- The radio planning for the transition to digital broadcasting was performed by means of software and digital maps provided by the ATDI, as well as WiMax network planning and the estimation of the coverage zone of existing GSM and CDMA stations.

The following activities were carried out in 2008 in the area of radio frequency spectrum coordination:

- Modified data of digital broadcasting stations for 10th, 50th and 58th TV channels, existing in the RRC 06 plan, was prepared and sent for coordination. The agreement over the coordination of the abovementioned channels was achieved with the Republic of Azerbaijan during a CEPT meeting in Baku. Relevant entities of the two countries also carried out a coordination process, taking into account the agreement signed in 2007; this activity is necessary to protect frequency assignments in terms of the international law.

- In the period of preparation for the World Radiocommunications Conference (WRC 2011), the GNCC, together with the CEPT member states, participated in drawing up a common proposal of European countries regarding the issues to be considered at the Conference. This activity was needed to ensure the accommodation of our country's interests in the process of modifying the European harmonized frequency network.

- The GNCC participated in the meetings of CEPT WG FM studying group held in Athenes and Baku, where the issues related to the regulation of radiofrequency spectrum in Georgia were discussed. Prior to the meetings on these issues, the GNCC sent the responses to WG FM questionnaires and consultation topics. The total of seven technical issues were prepared and presented, and further taken into account in final materials prepared by the WG FM.

- WG FM attaches great significance to the improvement of the European Common Allocation Table (ECA Table) and the compliance of national frequency tables of other countries with it. The GNCC is involved in a relevant WG FM coordination group to work on these issues. In 2008, a number of changes were made to the ECA Table, which are desirable to be considered in the national plan of frequency allotment.

- The requirements from the Russian Federation, Ukraine, the Republic of Turkey and the Republic of Azerbaijan regarding the coordination procedures were considered and appropriate replies prepared. Remarks concerning the coordination were sent out to relevant administrations. The coordination was carried out in conformity with the ITU procedures. In order to eliminate radio interferences in bordering districts of two countries (Georgia and Armenia) and to undertake additional coordination measures, a project of measures was prepared and sent to the Armenia administration.

- In order to detect signals spread by unlicensed mobile companies operating in the territory of Georgia (the Russian company Megafon on the territory of Samachablo) and undertake

relevant countermeasures, the ITU monitoring department of aerial services was sent a request for an appropriate reaction.

- To determine digital TV broadcasting standards and to better familiarize itself with the advantages of this broadcasting type, the GNCC participated in an ITU-organized seminar in Odessa. During this seminar an agreement was reached with representatives of the French company THOMSON to hold a seminar and working meeting in Tbilisi primarily for TV broadcasters operating in Georgia.

International Activity

Upon the proposal of the European Telecommunications Standards Institute (ETSI), the GNCC, in early 2008, was granted the status of the ETSI national standards body in Georgia. This status was obtained by the GNCC after Georgia had become a member of the European Conference of Postal and Telecommunications Administrations (CEPT). The status of the ETSI national standards body grants the right of participating in the consideration of new/revised draft standards and voting for the approval/publication of a new/revised standard.

In 2008, the GNCC attended the 62nd and 64th meetings of the radiofrequency spectrum management working group (WG FM) of CEPT Electronic Communications Committee (ECC) held in Athens and Baku, respectively. Along with the 64th meeting in Baku, negotiations were conducted with representatives of the Azerbaijani administration on the issues of coordinating a digital broadcasting. Agreement has been reached that out from overlapping channels in the bordering regions, the Azerbaijani administration will use the 56th and 60th TV channels whilst Georgia will use the 10th and 58th channels. It is noteworthy that the area of the use of Georgian channels includes Tbilisi, which is a step forward towards the introduction of a digital broadcasting.

Disputes

In 2008, 51 decisions taken by the GNCC were challenged by various companies. The appealed decisions can be grouped by topics as follows:

- on interconnection – 10
- on tariffs – 4
- on unlicensed broadcasting – 3
- on license annulment -3
- on denial to extend license term – 1
- on denial to issue license – 2
- on failure to fulfill special obligations – 1
- on denial to modify frequency - 1
- on results of studies and analysis conducted in the GNCC – 9
- on access to various resources – 5
- on imposition of administrative penalties – 8
- on numbering resource – 3
- on removal of cables – 1
- on the protection of minors from harmful influence - 2

In 2008, the GNCC considered 34 disputes between companies:

- on the access to units or/and resources and interconnection – 17
- on service tariffs – 3
- on request for installation, replacement, repair of damaged cables and provision of service – 6
- on publication of offers – 1
- on amplification of capacity – 1
- on imposing penalty – 1
- on access of employees to sites – 1
- on restricting an exclusive broadcasting right – 2
- on switching on telephone numbers – 1
- on resuming service to a citizen - 1

Of which:

- claim was non sustained, a court ruling did not enter into legal force – 1
- claim was not sustained, a court ruling entered into legal force – 3
- claim was sustained, a court ruling did not enter into legal force – 1
- claim was sustained, a court ruling entered into legal force – 9
- case hearing was suspended - 3

Customer Rights

The service of public defender of consumer rights operating under the GNCC is set up to create additional guarantees for the protection of consumers' interests. The claims received by the service reveal a set of problems requiring time, efforts and more importantly, the readiness and willingness on the part of companies to have them resolved.

The majority of claims to the public defender's service concerned a poor quality of the telephone service, the interruption of telephone service to customers, the break down of cable infrastructure, removal of a telephone number in breach of effective legislation and discord between service providers. The number of claims on imposed arguable liabilities has increased recently.

In 2008 the total of 57 written and 88 oral (telephone) claims were received by the public defender service. The written claims can be grouped by topics as follows:

- arguable liabilities – 19;
- breakdown of telephone service – 13;
- quality of internet service – 7;
- failure to issue billing data – 6;
- removal of telephone number – 2;
- re-registration of telephone number – 1;
- allowances – 1;
- claims in broadcasting sphere – 3
- tariffs – 1;
- claims on environmental issues – 1;
- arbitrary connection of a third person into a telephone line – 1;

By content, telephone claims were about:

- telephone consultation – 11;
- breakdown of telecommunication – 63;
- quality of internet service – 12;
- claim in broadcasting sphere – 1;
- information service 09 – 1;
- installation of radio line – 1;
- installation of telephone – 1;
- failure to issue billing data – 1;
- recalculation of liability – 1;
- allowances – 2.

Most of the abovementioned consumer claims were satisfied.

In 2008 the effective legislation in the sphere of electronic communications proved to be inefficient as far as it concerned internet service providers. This put the issue of amending the legislation on the agenda.

Given a speedy development of modern technologies and diversification of service in the electronic communications sphere, consumers increasingly face the problem of the lack of information or the difficulty in the access to information.

Part of received claims was about the failure of companies to consider claims submitted by consumers or to observe timeframe established under the law for handling claims.

Unlike previous years when the disruption of telephone service was caused by the theft of unprotected cable network, disruptions in 2008 occurred due to the break down of telephone cables. This problem, however, is much lesser in its scale than it used to be before, which can be attributed to two main factors: an intensive activity undertaken by the public defender's service in this area and the replacement of old automatic telephone exchanges with digital ones by service providers.

2008 saw the increase in disputes between consumers and service providers on the accuracy of imposed liabilities for rendered service. In a lot of cases arguable liabilities were written off upon the demand of the public defender service.

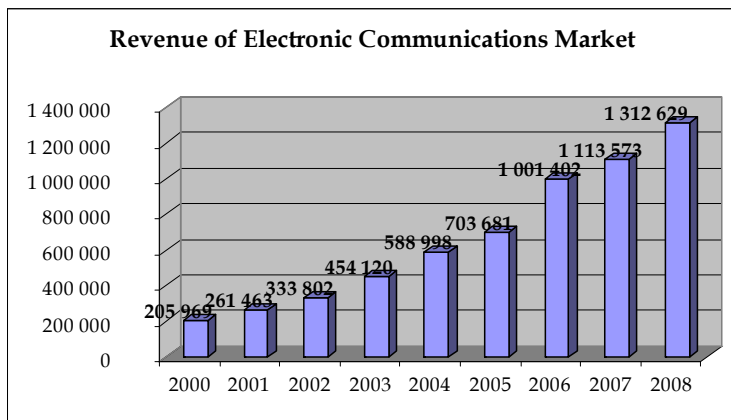
Removal of telephone numbers in violation of effective legislation was repeatedly observed in 2008, which can be explained by a low level of awareness among consumers about terms of service and the absence of service contracts with customers. The demand from the public defender for telephone numbers to be reestablished to customers was satisfied in the majority of cases.

The interruption in telephone and internet service to customers due to disagreements between service providers was rife in 2008. There were even the cases when certain service providers prevented consumers from opting for internet service of other service providers. There were also frequent cases when consumers did not receive communications service because the cable network, providing them with communications service, belonged to another company which refused to eradicate the existing damage on the grounds that the customers were not its subscribers. Such cases revealed the inefficiency of the electronic communications legislation in dealing with disagreeing internet service providers and pressed for the improvements in the legislation.

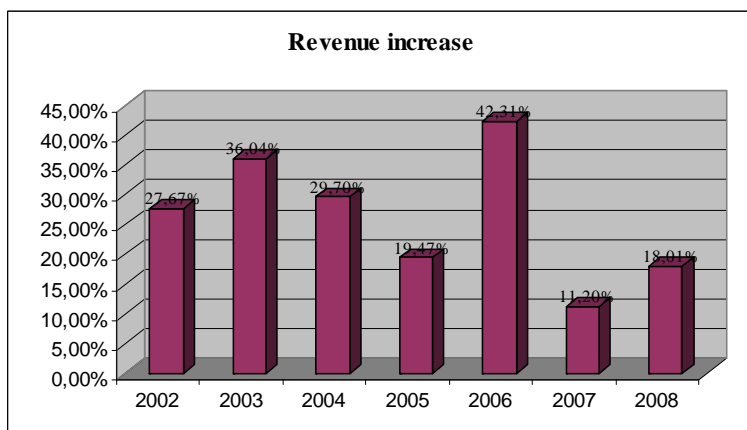
Late 2008, the GNCC drew up a draft resolution on amendments and addenda to the procedure for Providing Service and Protecting Consumers' Right in the Sphere of Electronic Communications. The mentioned changes are designed to improve and increase the efficiency of the rules for the elimination of faults in electronic communications. The public defender's service was actively involved in drafting the above mentioned changes and addenda. As a result of these amendments and addenda the rules for eliminating faults, defined in the procedure for providing service and protecting consumers' right in the sphere of electronic communications, will apply to any type of electronic communications service, including internet service. Moreover, such instances where timeframes were not established for the elimination of interruptions in providing service will also be regulated by the legislation. The changes to the procedure will notably increase the accountability of service providers to their customers and also, help avoid violations of consumer rights due to disagreements between companies.

Chapter III

Review of Electronic Communications Service Market of Georgia



Total revenues of the market of electronic communications service (including VAT) maintained its upward trend in 2008 and reached GEL 1 billion 312 million in total, exceeding the last year corresponding indicator by GEL 199,056 million .



An annual growth rate of the consolidated revenues of the communications sector in 2003-2005 was marked with a downward trend. In 2006, an annual growth rate of total revenues was at 42.31 percent, in 2007 at 11.20 percent whilst in 2008 it stood at 18.01 percent.

Average monthly revenues of the Georgian electronic communications sector per capita was GEL 9.48 in 2003, GEL 21.1 in 2007 and GEL 24.96 in 2008. This increase was observed against the decrease in general tariffs on communications service.

Share of sector's revenues in GDP

Since 2000, the share of revenues of the electronic communications service in the GDP was marked with a sustained increase. It grew from 3.76 percent in 2001 to 7.49 percent in 2006. In 2007, however, this indicator decreased against an unprecedented GDP increase (which can be explained by the development of other sectors of the national economy) slightly increasing again in 2008.

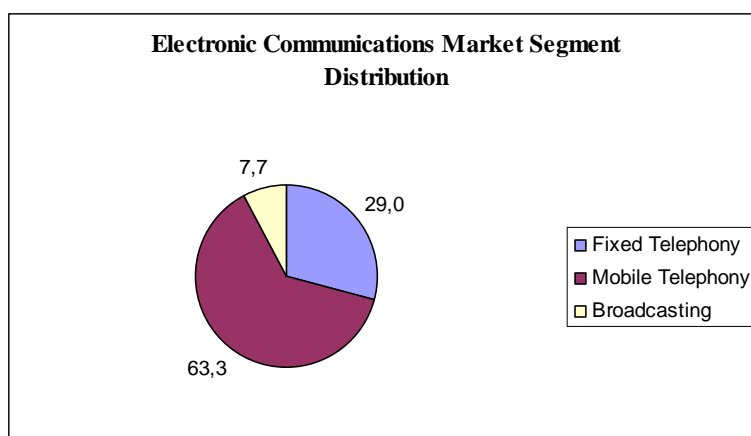
	2003	2004	2005	2006	2007	2008
Communications sector revenues	454120	588998	703681	1001402	1113573	1312629
GDP (GEL mln)	8871	10278	11621	13370	16999	19070
Share of communications sector revenues in GDP	5.12%	5.73%	6.06%	7.49%	6.54%	6.88%

Dynamics of the development of Market Segments of Electronic Communications Service

The distribution of revenues of various service type operators among different segments of the electronic communications market and the dynamics of their increase demonstrate common trends in the development of the sector. The revenues received in three segments of the electronic communications market - fixed telephony, mobile telephony and broadcasting, in absolute terms are as follows:

	2 004	2 005	2 006	2 007	2 008
Fixed telephony	208 219 929	247 040 637	298 832 881	328 880 274	381 146 580
Mobile telephony	354 903 747	424 911 866	650 345 176	704 632 634	830 858 248
Broadcasting	25 874 095	31 728 950	52 224 224	80 060 284	100 523 326

The market segments, in 2008, were distributed as follows:



In 2008, the mobile communications accounted for 63.3 percent of the total revenues of the electronic communications market. This indicator has not virtually changed over the past few years. It comprised 58 percent in 2003, 60 percent in 2005 and 65 percent in 2006. The total revenues of operators on the mobile communications segment in 2008 increased by GEL126,226 million as compared to a year ago.

The total revenues of operators on the fixed communications segment in 2008 increased by GEL 52 million as compared to a year ago, and reached GEL 381 million, which is 29 percent of the total market revenues.

The liberalization and expansion of the TV and radio market continued in 2008. This market segment has developed into a profitable one with its share comprising 7.7 percent of the electronic communications market, according to the 2008 data. In absolute terms it comprised GEL 100,5 million, higher by GEL 20.5 million than in the previous year.

The table below shows the trends in the development of separate segments of the communications market.

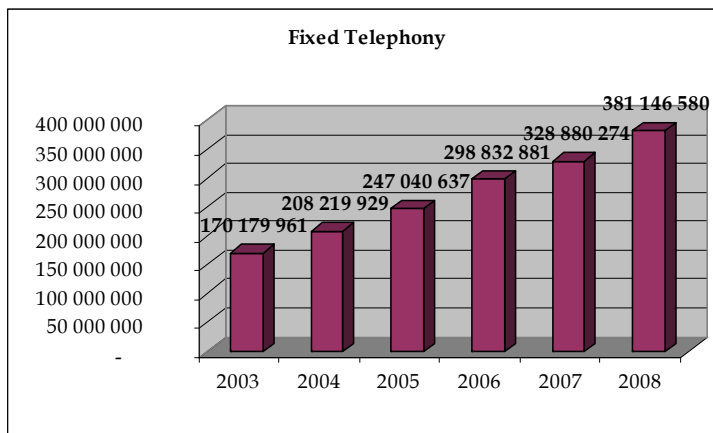
	2003	2004	2005	2006	2007	2008
Fixed telephony	37.47%	35.35%	35.11%	29.84%	29.53%	29%
Mobile telephony	58.37%	60.26%	60.38%	64.94%	63.28%	63.3%
Broadcasting	4.16%	4.39%	4.51%	5.22%	7.19%	7.7%

Fixed Communications Service

Largest part of the revenues on the fixed telephony market segment came from the JSC United Georgian Telecommunications Company. The total share of this company together with the Akhteli Ltd and Akhali Kselebi Ltd comprises 90 percent of the above mentioned segment.

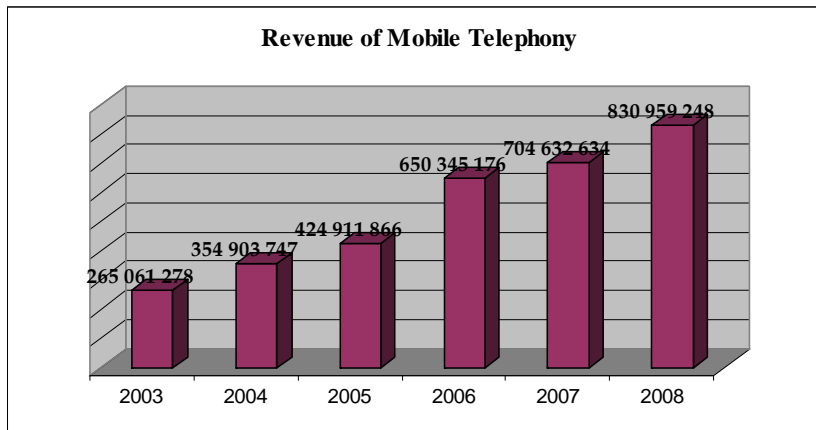
The number of fixed telephony (active telephone lines) subscribers grew by 98 447 over the period between 2000 and 2007, reaching 618 thousand by the end of 2009.

	2004	2005	2006	2007	2008
Fixed network subscribers	532 755	544 417	553 105	556 088	618 028



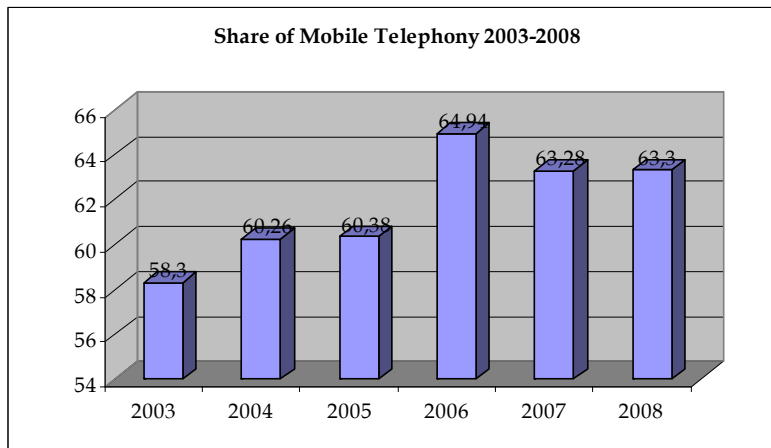
The total revenues of the fixed communications service market increased to GEL 381 million in 2008, whilst the share of this segment in the total revenues of the communications sector comprised 29 percent.

Mobile Telephony

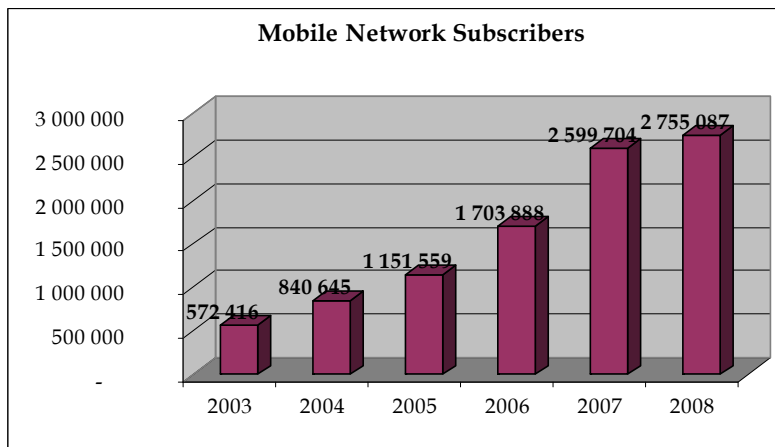


The mobile communications service maintained its upward trend in 2008. The revenues of this segment in 2008 reached GEL 831 million and exceeded the corresponding 2007 indicator by 126,327 million. The growth rate of the market segment of mobile communications service is the highest in the sector with this segment accounting for 63 percent of the total

market.

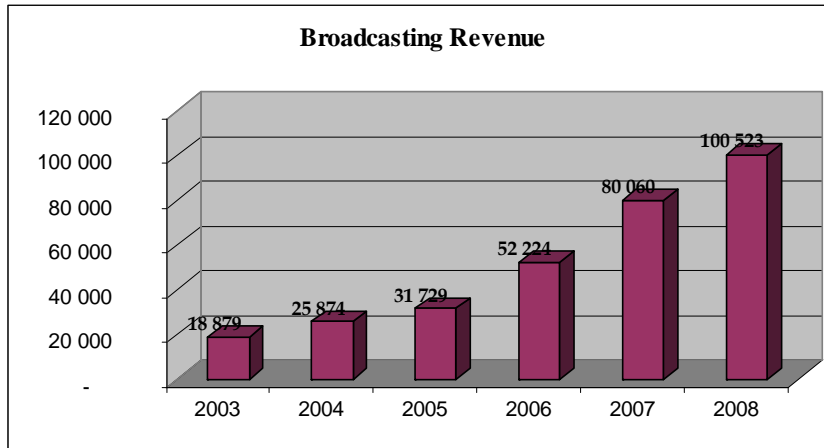


2008 saw a further increase in the number of mobile network subscribers (although it did not reach a record high notch of increase by 895 thousand which was observed in 2007). The increase comprised 155,383 in 2008, thus making up the total of 2,599,704 mobile network subscribers.



The number of active users of the mobile telephone service exceeded that of local telephone service users back in 2003. Average monthly revenue of the mobile communications service per subscriber was at GEL 57.74, GEL 22.59 in 2007 and GEL 25.13 in 2008.

TV and Radio Broadcasting



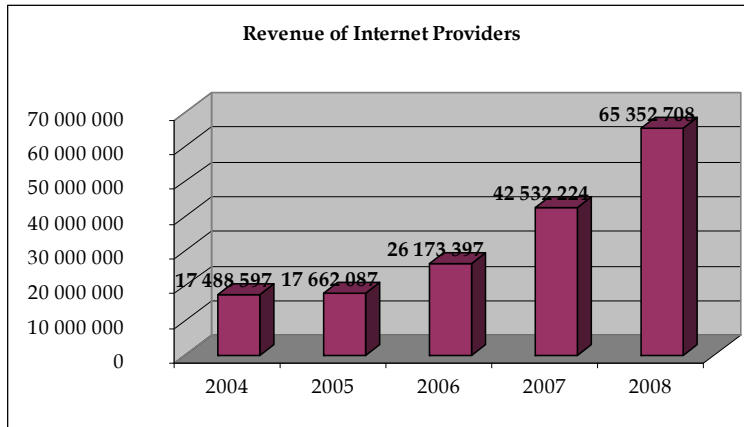
The total revenues of the companies in the sphere of TV-radio broadcasting in 2008 were over GEL 100 million and comprised 7.7 percent of the total revenues of the communications market.

The breakdown of these revenues into TV, cable TV and radio broadcasting looks as follows:

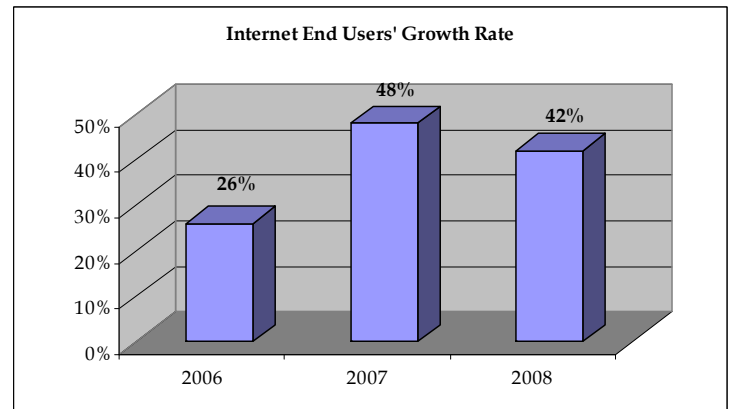
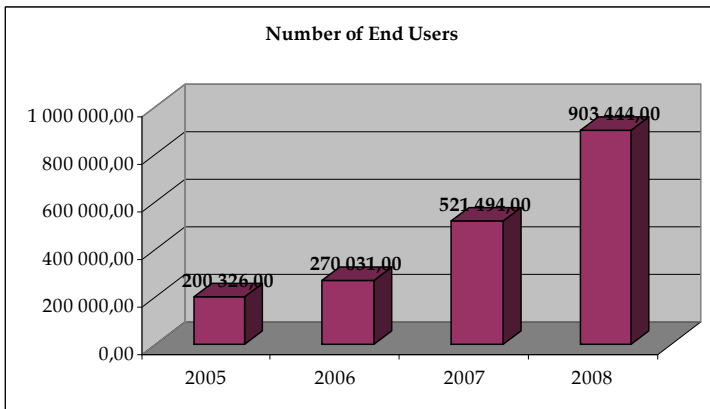
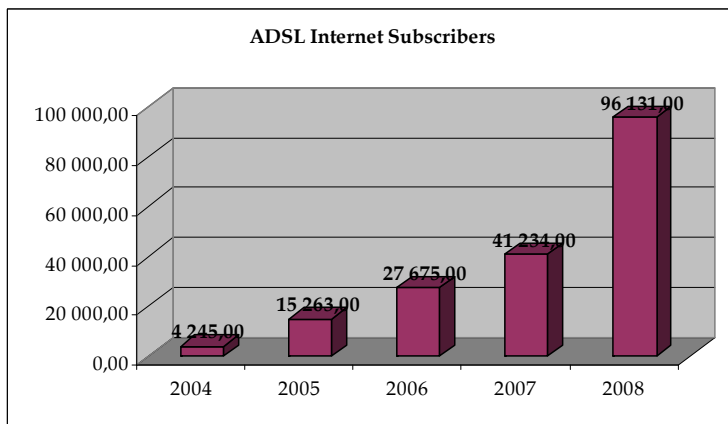
	2004	2005	2006	2007	2008
TV	15 501 126	20 282 182	36 953 026	62 549 141	80 878 997
Cable TV	8 570 838	9 087 730	9 924 091	10 253 378	11 365 587
Radio	1 802 130	2 359 039	5 347 107	7 257 765	8 278 742

As of the end of 2008, the total of 105 licenses was issued for various types of broadcasting with six licenses amongst issued in 2008.

Internet service



Revenues from the internet service as well as number of internet service users steadily increase on a year to year basis. The increase in revenues in 2008 comprised GEL 23 million, as compared to a year before. As regards the increase in ADSL users, it increased from 4 245 in 2004 to 15 263 in 2005 and further to 41 234 in 2007, reaching 96 131 in 2008. End users of the internet in 2008 exceeded 903 thousand.



RATING

“Rating” Audit Firm

The audit council operating
under Parliament of Georgia

16, Vazha Pshavela Avenue, 14th floor,
0106, Tbilisi
Tel: 37-49-38
Mobile: 899-56-68-13

No. 9-1/105

26 June 2009

Auditor’s Opinion

Over the period between 15 and 22 June, 2009, the audit firm Rating conducted the audit of the financial statement for the year 2008 of the Georgian National Communications Commission (in accordance with the agreement of June 15, 2009).

Pursuant to Article 14 of the Law of Georgia on Auditing Activities, the management of the Georgian National Communications Commission is responsible for correct accounting. Our responsibility is to express, based on the audit results, our opinion regarding the financial status of the company and issue an auditor’s opinion in compliance with ISA 700.

We conducted our audit in accordance with the universally accepted international auditing standards which require that we plan and perform the audit to obtain reasonable assurances about whether the balance sheet is free of material misstatements. The audit also includes examining evidence supporting the total amounts in the balance sheet, assessing the accounting principles used, the results of estimates made by the management as well as the study of the balance sheet.

We believe that the balance sheet is drawn up in conformity with the requirements of those legal and normative acts, which regulate the accounting in Georgia

The accounting and financial documents for the year 2008 were mainly drawn up in compliance with international auditing standards, international accounting standards and the requirements of the Tax Code and universally recognized principles. They represent, in every of its material part, the financial status of the Georgian National Communications Commission as of 01 January, 2009.

Irakli Jalalashvili,

Director of Rating Audit Firm

License No. 224
License z. No. 175