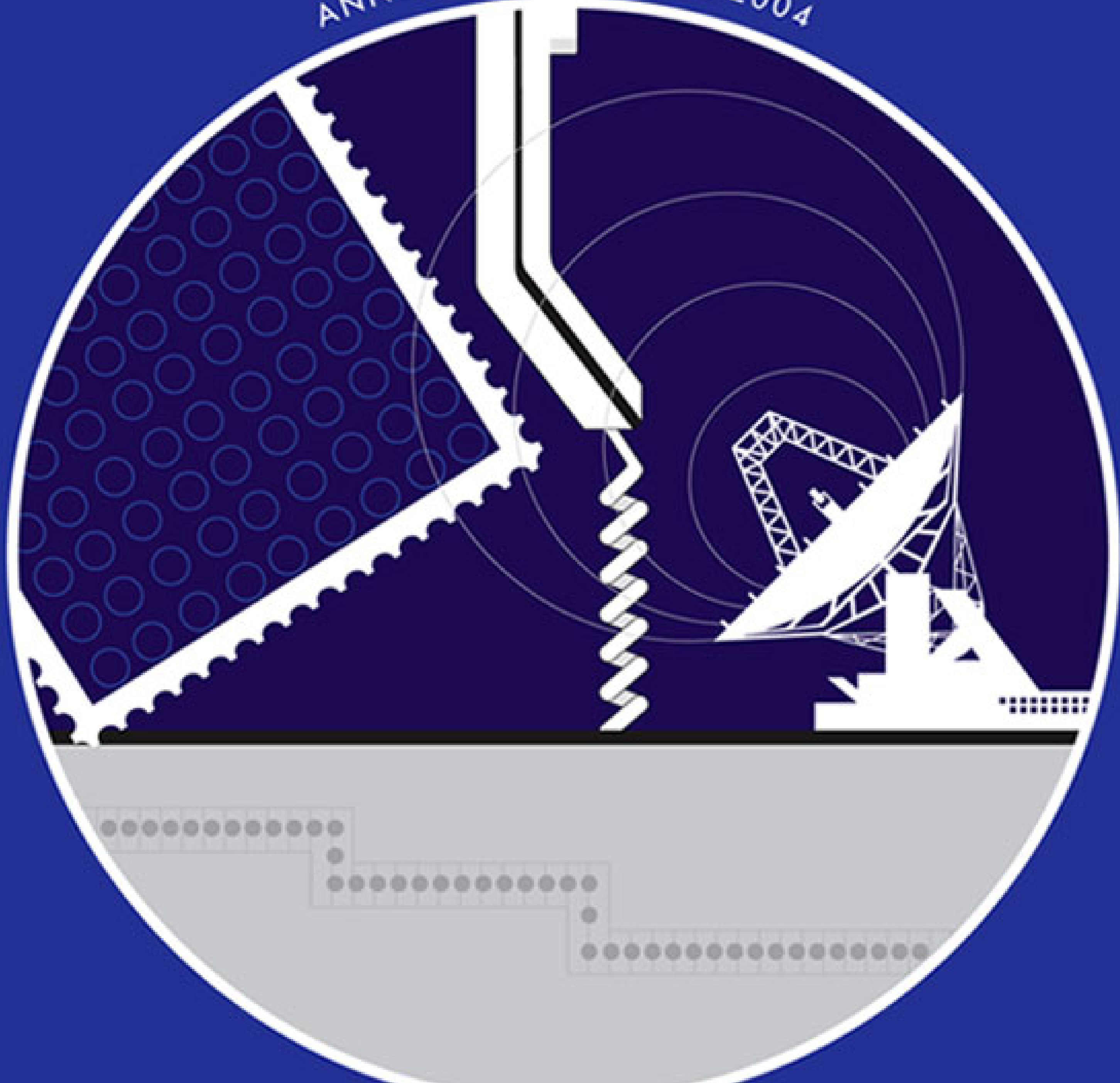
ANNUAL REPORT 2003/2004



CCK

Communications Commission of Kenya

Mandate of the Commission

The Communications Commission of Kenya (CCK) was established in February 1999 by the Kenya Communications Act, 1998, to license and regulate telecommunications, radiocommunications and postal services in Kenya.

VISION

Enable access to reliable communications services by all Kenyans.

MISSION STATEMENT

To ensure that the communications sector contributes to the country's overall development through efficient and enabling regulation and public participation.

STATEMENT OF VALUES

Integrity and Fairness

CCK will ensure that it applies impartiality, transparency and accountability, internally and externally, while carrying out its mandate in an honest and responsible manner.

Disclosure and Good Corporate Governance

CCK will conduct its affairs in a progressive style that will direct and control the organization to excel and attain its objectives as well as promote the communication and dissemination of all appropriate information.

Quality and Value for Money

CCK will endeavour to consistently provide quality services and an enabling environment to all interested parties in order to assure its self-sustenance to ensure that Kenya is efficiently exploiting its communication resources.

Innovation

CCK will regulate the communications sector in a manner that will encourage creativity.

Competence and Motivation

CCK will ensure that it puts in place a Human Resource strategy that attracts, develops and retains individuals with relevant competencies.

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The Board

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Peter Morris Kariuki
Chairman

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Director-General

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Director

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Director

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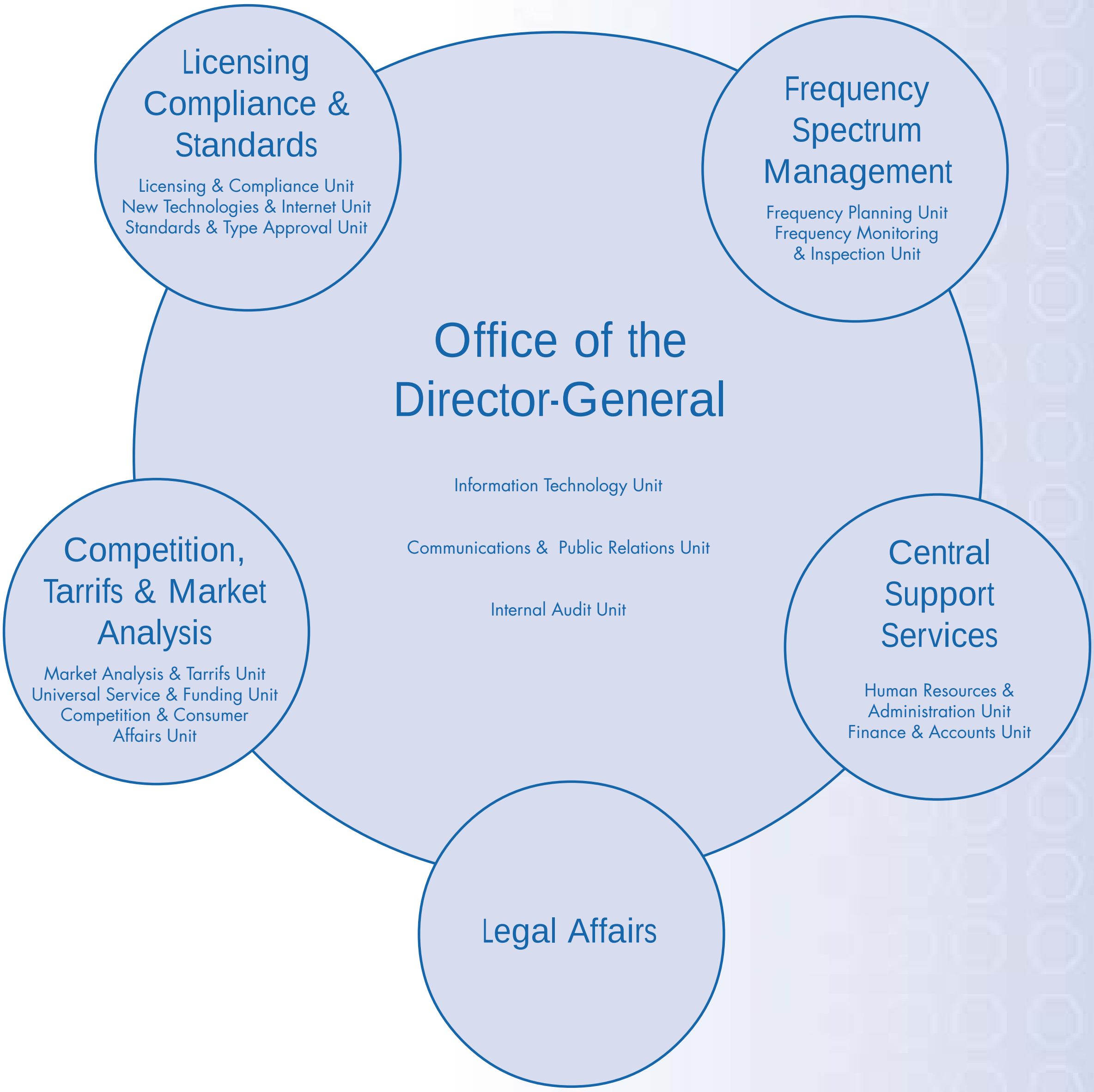
Alternate Director

Mr. A. Gakere
Alternate Director

Mr. L. Kollum
Alternate Director

Mr. G. Kithinji
Alternate Director

Organizational Chart



Chairman's Foreword

On Behalf of the CCK Board, it is my great pleasure and privilege to present to you the Commission's Annual Report for the year ended 30th June 2004. This is in compliance with section 22 (1) of the Kenya Communications Act 1998.

The year witnessed the reorganization of the communications sector, which culminated in the consolidation of information, communication and broadcasting functions under a new Ministry of Information and Communications. This was indeed a step in the right direction in view of the convergence in telecommunication, computing broadcasting technologies. For this reason, I wish to commend the government for this timely decision, as it will ensure effective regulation and management of the sector.

With regards to performance, it is gratifying to report that the Commission, to a great extent, met its goals set out at the beginning of the year in terms of licensing and regulating the communications sector. This Report outlines achievements and challenges faced by the Commission in discharging its mandate.

It is worth noting that great strides have been made in the communications sector. The Commission conducted tender processes for the third mobile operator and a second national operator to compete with Telkom Kenya Ltd. The anticipated entry of the two operators into the market, during the next financial year, is expected to further improve service delivery through increased competition.

I am also happy to report that with the much-awaited end of the exclusivity granted to Telkom Kenya, the Commission is ready to play its rightful role by opening up areas that were previously under monopoly. To this end, a new market structure that will govern the licensing of new players has been prepared and will be implemented during the next financial year.

The Board visited the communication regulatory authorities of Botswana and Tanzania to exchange ideas and experiences. The visits provided opportunity for benchmarking on best industry practices. The Commission also hosted delegates from other countries' regulatory authorities.

At the international plane, the Commission continued to discharge its role as the designated government representative to various intergovernmental organizations and met all its obligations to the said organizations. Arising from goodwill cultivated over the years, Kenya was elected Chairman of the International Telecommunication Union (ITU) Council for a period of one year. Consequently, the CCK Director-General, Mr. Sammy Kirui, chaired the ITU Council 2004 at the ITU headquarters in Geneva, Switzerland, following his inauguration to the seat. The election to chair the ITU Council is, indeed, a big honour to Kenya.

In conclusion, I would like to express my heartfelt appreciation to the Government, our licensees and the public at large for their support in assisting the Commission carry out its mandate. I also wish to commend the Commission's staff for their dedication and commitment under the able leadership of the Director General. I would like to thank my colleagues on the Board for making my tasks easy, for without their help the sector would not be what it is today.

Major General (Rtd) Peter M. Kariuki
Chairman

Director-General's Review

The year under review was significant for the Commission in many respects. It is the year during which the Commission attained five years of uninterrupted success. More notably, the year coincidentally ended with the elapse of the exclusivity granted to the incumbent fixed operator, Telkom Kenya, ushering in the era of a fully liberalized communications market.

To actualize the new era and consolidate the gains of the previous years, the Commission took a number of initiatives during the review period. Of particular note was the initiation of the licensing process for the Second National Operator (SNO) to compete with Telkom Kenya. Three firms submitted both technical and financial bids. The evaluation process, which started during the period under review, and award of the licence are expected to be completed in the next financial year.

Preparations to introduce competition in the fixed market segment took place at a time when subscriber connections declined for the very first time. During the year under review, the number of subscribers for the fixed network reduced from 328,000 to 299, 225. The Commission is looking forward to the entry of the SNO and the planned privatization of the incumbent to inject the required efficiency in the fixed telecommunications segment in order to satisfy unmet demand.

The mobile telecommunications segment marked yet another year of growth. The subscriber base grew by 60 percent to stand at 2.5 million up from 1.6 million in the previous period. The mobile network is now seven times the size of the fixed, and covers all the major towns and highways in the country. The two mobile operators have consistently exceeded their rollout targets for the fourth year running. The impressive network growth and subscriber connections were, however, accompanied by a reduction in the quality of service as manifestation in or by congestion. The Commission has been working closely with the industry to redress the situation.

To augment the mobile sub-sector successes and widen consumer choice, the Commission completed the tendering process for the third mobile operator, which had started in the previous financial year. ECONET Wireless Kenya, a consortium between Econet Wireless International and a number of local companies, emerged winner with a financial bid of US$27 million. The licence shall be granted in the next financial year upon successful completion of licensing negotiations with the applicant.

In a bid to curb the increasing menace of mobile handset theft, mobile operators in consultation with the Commission successfully implemented an Equipment Identification Register (EIR) system that facilitates blocking of blacklisted stolen handsets from being used on the networks. However, these efforts have been rendered ineffective by emerging trends where fraudsters using software have managed to modify the electronic identities of stolen handsets. This brings to the fore the need for speedy enactment of legislation to deal with the challenges posed by electronic transactions and crimes.

Another notable success of the year under review was laying down a concrete foundation for the provision of services on the last mile through facilitating consultations with the incumbent operator. As a result of the discussions, the local loop segment continued to elicit investor interest. In addition, the Commission licensed one

Regional Telecommunications Operator (RTO) to provide fixed telecommunications services in the North Eastern region of Kenya. Bell Western Limited is expected to roll out services in the region in the next financial year.

The Commission initiated the development of guidelines and best practices for implementation of wireless systems such as Wireless Local Area Networks (WLANs) and Wireless Fidelity (Wi Fi) that use frequencies in the Industrial, Scientific and Medical (ISM) bands. The Commission also commenced the process of putting in place regulatory provisions on Voice over Internet Protocol (VoIP), a technology that allows cheap calls over the Internet or internet-protocol based networks. These processes are scheduled for completion in the next financial year.

During the year under review, the installation and commissioning of the Radio Spectrum Management and Monitoring System (RSMS) was completed. The acquisition of the system enhanced the Commission's frequency management function, particularly in interference resolution, planning and licensing. As a result, a number of frequencies were cleared for assignment.

Following the reorganization of government towards the end of the year, the Commission is looking forward to transforming itself to a converged regulator. The necessary mechanisms shall be put in place in readiness for the transition as we await enactment of the requisite policy and legal instruments. The change will expand the Commission's mandate in broadcasting beyond assignment of frequencies.

The Commission reviewed frequency fees for fixed wireless access in an effort to harmonize rates in the East African region in line with recommendations of the East African Regulatory, Posts and Telecommunications Organization (EARPTO). The review, which saw the fees go down by between 20 to 30 percent, was also geared towards encouraging use of higher frequency bands that are relatively under-utilized. A realignment process for GSM spectrum was initiated to ensure efficient utilization of this scarce resource.

In the postal sub-sector, the Commission licensed 11 additional postal and courier operators. The increase is largely attributed to a reduction in licence fees effected in the previous financial year, and a deliberate effort by the Commission to bring freight and forwarding firms handling mail and parcels under the regulatory regime. During the period July 1999 to June 2004, the number of private letterboxes grew from 343,601 to 395,811. The public postal licensee implemented a modernization programme using satellite communication technology aimed at interconnecting its branches countrywide. As a result, the reach of Internet services was enhanced throughout the country. The number of postal outlets,

however, dropped from 890 to 872 during the year ended June 30th 2004, increasing the challenge of attaining universal access in the sub-sector. The number of private letterboxes and stamp vending machines also reduced by 1920 and 733, respectively.

The universal access study initiated in the previous financial year under a co-funding arrangement with the International Development Research Centre (IDRC) of Canada remained on course. The study, which is expected to be finalized in the next financial year, will come up with service supply options and mechanisms for underserved areas of the country.

The Commission remained active on the international level through participation in key conferences and meetings. Some of the conferences in which the Commission participated included the World Summit on Information Society, the Regional Radio Conference 2004, the Pan African Postal Union Plenipotentiary Conference and the ATU Administrative Council meeting. As a result of goodwill cultivated over the years, Kenya was elected chair of the International Telecommunication Union (ITU) Council for the next one year. The Commission will continue to discharge its role as the government designated representative to various intergovernmental organizations dealing with communications.

To keep pace with the fast changing business and technological trends, the Commission continued to expose its staff through relevant training, and participation in key study groups. Also staff were sent on short benchmarking visits to other ICT regulators to ensure that the Commission discharges its mandate in line with international best practices. In this regard, the Commission exchanged experiences with the US and Singapore on Number Portability, in readiness to expanding competition in the fixed and mobile telecommunications market segments.

The aforementioned achievements would not have been realized without the support of staff, government and industry players. I wish to take this opportunity to thank Commission staff for their unflinching dedication in the discharge of our statutory mandate. I also wish to thank the Board of Directors for their dynamic articulation of the Commission's general policy and strategic direction. The Ministry of Transport and Communications has also been very supportive. Lastly, I wish to express my gratitude to the industry and particularly the private sector for the commendable roll out of communications infrastructure in the country.

Sammy Kirui
Director-General

Postal Sub-sector

Market Review

Since the liberalization of the postal sub-sector in 1999, post office outlets have steadily fallen from 1,036 to 872 in 2004, representing an average annual decline of about 2.7%. The Public Postal Licensee, Postal Corporation of Kenya (PCK), which is mandated to offer universal postal services, attributed the decline to closure of non-commercial outlets countrywide.

There were 872 post offices in the year under review compared to 890 the previous year. Total post office outlets, therefore, fell by 18 during the year thereby negating PCK's role as the universal service provider. During the same period, the number of private letterboxes and stamp-vending licences reduced by 1920 and 733, respectively. The total number of licensed postal/courier operators in the country as at June 30, 2004 stood at 74, as shown in Table 1 below, representing an increase of 11 licensees from the previous year.

Table 1

Postal Performance Indicators

	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004
Total post offices	1,036	909	900	891	890	872
Private letter boxes	343,601	351,441	388,281	394,121	397,731	395,811
Stamp vending licences	3060	3,840	4,193	3,650	4,466	3,733
Private courier outlets	-	183	185	320	330	341
No of Licensed courier operators	-	21	40	52	63	74

Figures 1 and 2 below summarize the postal sector growth and cumulative number of operators respectively.

Figure 1

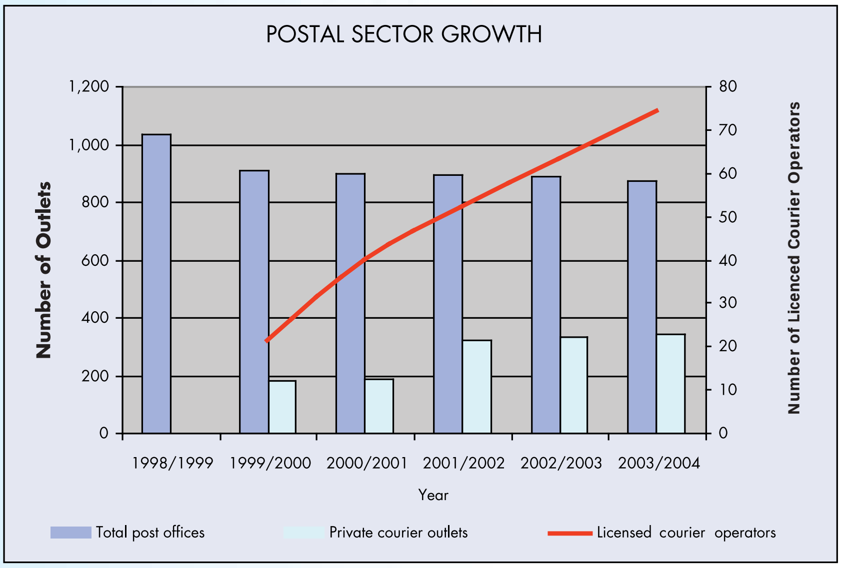
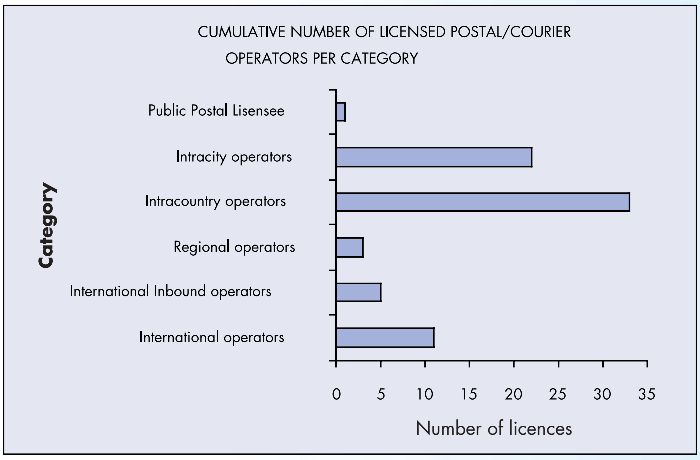


Figure 2



Postal Market Regulation

The Commission, in its efforts to streamline private courier operations, shifted its focus to the freight and forwarding sector that was discovered to operate courier services in competition with licensed courier operators. Following unsuccessful consultations with the Kenya International Freight & Warehousing Association (KIFWA) in an effort to bring its members offering courier services under the licensing regime, the Commission decided to pursue individual freight and forwarding operators.

As a result of this strategy, five of the 11 new courier operators licensed during the year under review are members of KIFWA. The Commission will continue to ensure that all the estimated 200 courier operators are brought under its regulatory regime.

Inspections of licensed postal and courier operators continued with emphasis on the Public Postal Licensee. Of particular concern to the Commission, as the consumer watchdog, were the mounting volumes of blind and undeliverable mail owing to slow adoption of the new postcode addressing system by consumers.

The inspections also revealed five operators whose minimum charges contravened the basic letter rate rule as provided for in the Kenya Communications Act. As a result, the Commission took appropriate measures against the offending firms.

Modernization of Postal System

During the year under review, PCK implemented a modernization programme using satellite communications technology to interconnect its branches countrywide. As a result, a total of 504 post offices out of the existing 872 branches were connected to the satellite based "posta surf", a public Internet access service. This has enabled PCK's post offices to be online and in addition, the network has facilitated the provision of Internet based services such as web browsing, email and Internet fax. This initiative was largely supported by the Government, which provided the requisite funds. The project is the first of its kind in Africa in terms of using Satellite technology in the postal system. Similar applications have largely been implemented in Kazakhstan, China, Brazil and the United States. For instance, the United States Postal Service, has one of the largest VSAT networks in the world, with about 12,000 sites in operation. The use of this technology in the postal sector is one of the strategies that will result in closing the communication gap and bridging the digital divide, especially in rural areas.

Telecommunications Sub-sector

Introduction

The telecommunication industry has experienced tremendous activity over the last five years. Of much significance was the growth of cellular mobile connectivity, which continued to outperform that of fixed telephony services. For instance between July 1999 and June 2004, the switching capacity of the fixed telecommunications network increased from 420,370 to 531,442. The subscriber connections also grew from 296,400 in June 1999 to 328,358 in June 2003, before reducing to 299,255 by June 2004. This translates to an overall fixed line teledensity of 1.02%, which is a drop from the previous year's teledensity of 1.04%. Over the same period, mobile capacity increased from 35,000 to 3.9 million. The number of mobile subscribers rose from a mere 15,000 to 2.5 million by June 2004. This was a tremendous growth in spite of the late introduction of mobile services in Kenyan market.

It is worth noting that significant growth was achieved in market segments where full liberalization had been effected compared to those partially liberalized.

The telecommunication market is expected to be more vibrant with the end of exclusivity period for Telkom Kenya (TKL) paving way for full liberalization of the sector. In this new environment, the Commission plans to license more players in all areas to compete in the provision of telecommunication services.

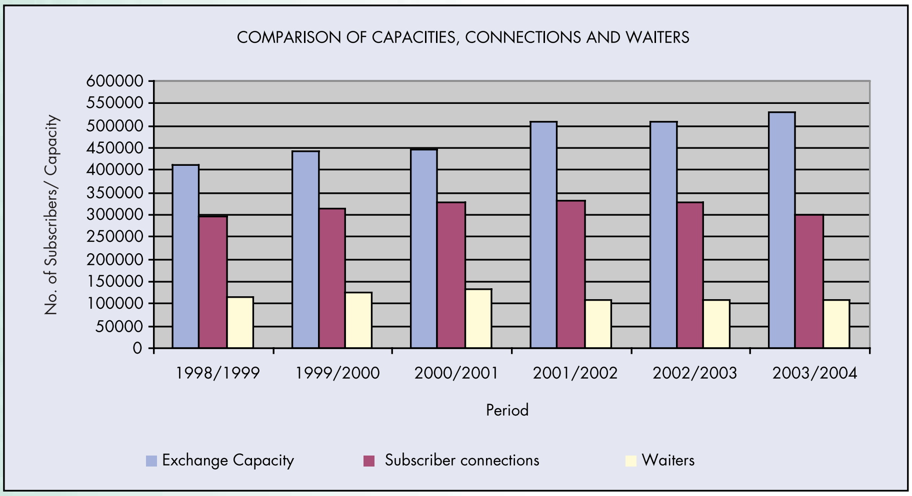
Market Performance:

Fixed telephony performance

The growth of the incumbent's fixed telephone network during the year under review was well below the targets set forth in the licences. For instance, between 2002/2003 and 2003/2004 the switching capacity of fixed network increased from 508,230 to 531,442, whereas the subscriber connection went down by 29,133 to stand at 299,225 as at 30th June 2004 as indicated in Figure 3.

Similarly, the number of waiters for fixed services has remained fairly constant since 1999. According to statistics provided by the incumbent, the waiters list has remained well above 100,000. However, it is likely that the unmet demand as reported, is grossly underestimated and could be higher given that customers are unwilling to apply for services knowing very well that TKL is not in a position to deliver.

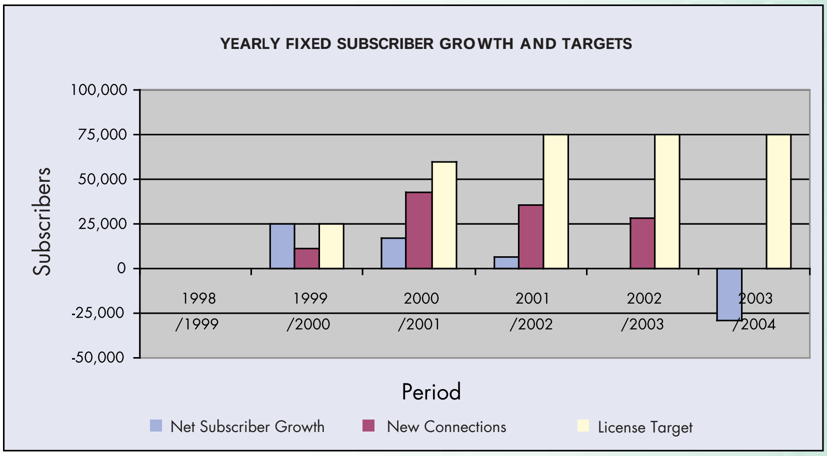
Figure 3



The poor performance of the incumbent's fixed network has largely been attributed to low investment due to the delay in its privatization. The privatization process is expected to be completed by June 2005.

In spite of the growth in the exchange capacity and the negligible reduction in the number of waiters, the incumbent has to date failed to meet the minimum targets set by the Commission as shown in Figure 4. During the period under review the incumbent, for the first time, registered a negative growth in the number of subscribers. The Commission, in consultation with the government, is taking corrective measures to address this situation.

Figure 4



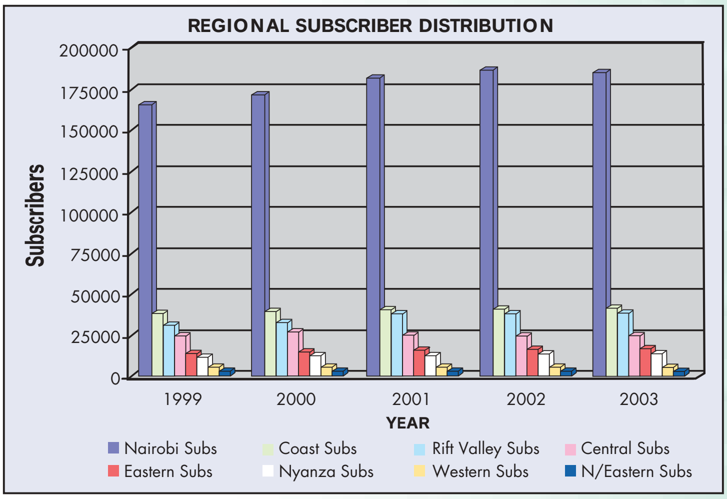
Subscriber Distribution

The availability of fixed telephone services has continued to be based largely in urban areas, with Nairobi having the highest teledensity. As shown in Figure 5 below 56% of the total subscribers in the country are in Nairobi while the remaining 44% (distributed as Coast (13%), Rift Valley (12%), Western (2%), Eastern (5%), North Eastern (1%) and Central (7%)) are distributed in the rest of the country.

It is therefore, evident that in the larger part of the country, telecommunication services continued to be inadequate, and thus the need for more incentives to attract investment to address the communications needs in these areas.

It is worth noting that fixed telephony continues to be more cost effective in urban areas given the high level of incomes, population density and business establishments.

Figure 5

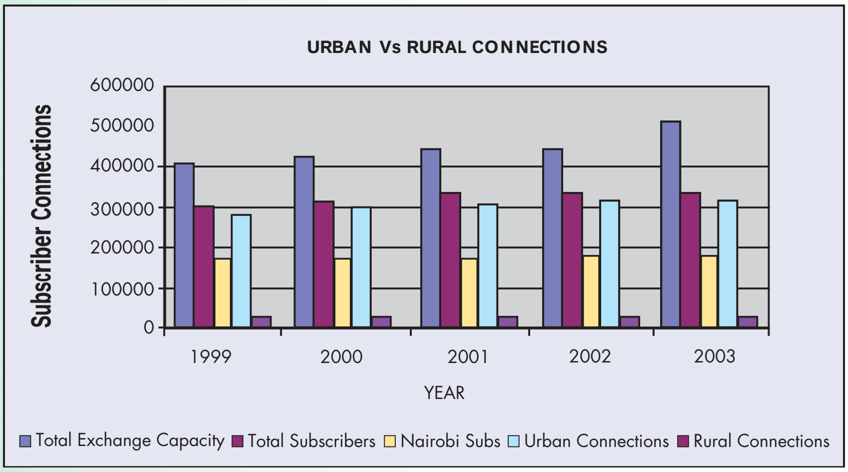


Rural/Urban Subscriber Line Distribution

Urban areas have the highest concentration of subscribers (94%) relative to the rural areas (6%). As depicted in Figure 6, the total connections in rural areas have always been five times lower than that of urban areas. For instance, during the year under review, there were 309,070 connections in urban areas compared to 19,288 connections in rural areas as at February 2004.

Given that over 80% of Kenya's population resides in the rural areas, this trend needs to be reversed tavailable and well spread but also affordable for any meaningful and sustainable development to be achieved in the country. To address the rural/urban disparity, the Commission believes that the ongoing Universal Access initiative will play an important role.

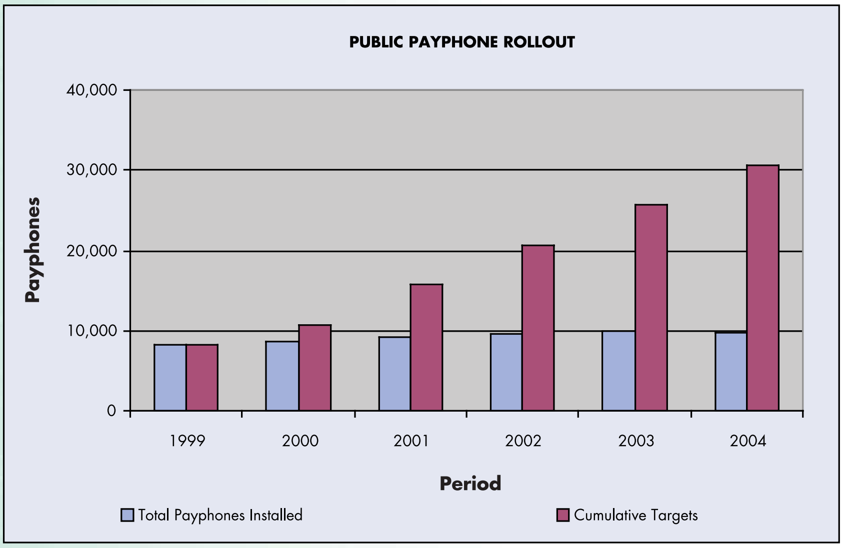
Figure 6



Public Payphone Rollout

Over the last four years, the licence targets required an increase of 17,500 payphones in the network. However, only 1,781 payphones were added to the network over the period, representing 10% of the expected increase. During the period under review the total number of public payphones reduced to 9,798 from the 9,964 as shown in Figure 7.

Figure 7



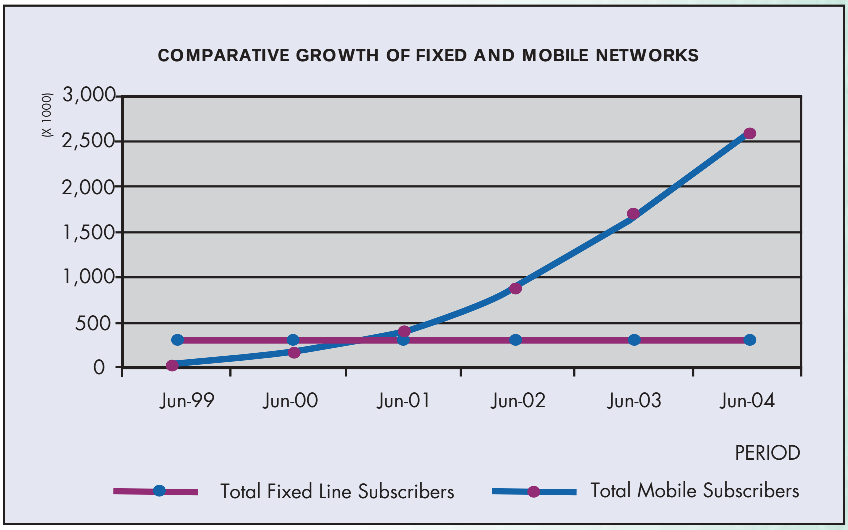
Tariff Regulation

During the year under review, TKL launched prepaid billing using its intelligent network (IN) platform. The prepaid billing, which has gained popularity with mobile services, was as a response to customers' demand vis-a-vis management of their phone bills. The Commission approved the tariffs for this billing method.

The Commission has in the past five years regulated the tariffs for Telkom Kenya as stipulated in the licence. Telkom Kenya has within the last five-year period (July 1999 to June 2004) effectively complied with the "Rate Regulation" requirements of their respective rate-regulated service licences.

This being the final year under which TKL is to rebalance its tariffs before the introduction of a price cap regime, the Commission approved the last batch of TKL's tariffs for the period 2003/2004. The new tariffs are expected to be in force by 1st September 2004. Thereafter, TKL tariffs are to be regulated using a price cap formula, (RPI-X) as stipulated in their licence.

Figure 8



Mobile Network Performance

It is now four years since competition was introduced in the mobile telephony market segment. The two mobile operators currently have a subscriber base of over 2.5 million with a combined network capacity of more than 3.9 million. The mobile network is now seven times the size of the fixed network.

Figure 8 (above) shows a comparative growth of fixed and mobile networks.

The introduction of competition has resulted in drastic reduction in connection charges and handset prices. This has led to increased demand and usage of the service in both rural and urban areas.

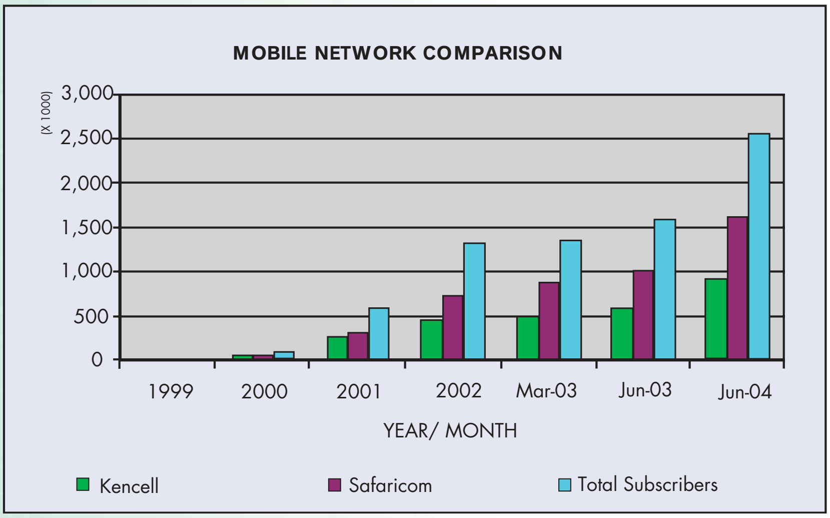
Mobile Network Subscriber Rollout

During the year under review, the mobile market continued to exhibit good performance with the number of subscribers increasing to 2.5 million by June 2004. As indicated in Figure 9, Safaricom and KenCell had 1,627,378 and 918,779 subscribers, respectively.

In terms of rollout, the two mobile operators had covered all major towns and highways as provided for in the coverage obligations of their licences. During the review period, the expansion of the mobile networks went beyond the areas specified in the licences.

The unprecedented growth in the mobile networks has not been without some problems such as reduced quality of service due to occasional congestion. The Commission has been working closely with the industry to arrest this situation.

Figure 9



Mobile Payphones

The mobile operators also had obligations in their licences to provide payphone services. In year 2002, KenCell started rolling out un-manned payphones and had installed over 800 payphones throughout the country by October 2003. Thereafter, KenCell shifted their focus to community payphones citing such reasons as quick rollout, costs and vandalism. Safaricom began installation of community payphones in late 2003 and had over 2,000 community payphones by June 2004.

Mobile Tariffs

The two mobile operators continued to file tariffs for services such as the Community payphones, the General Packet Radio Service (GPRS) and other tariffs for post-paid and pre-paid services as provided for in their licences.

Ownership Change

During the year, the foreign stake in KenCell Communications Ltd, changed hands. Vivendi International, a strategic partner with Sameer Limited of Kenya, sold its equity shareholding to Celtel International. Celtel, with presence in a number of African countries such as Uganda, the Democratic Republic of Congo and Zambia, now owns about 60 percent of KenCell. Consequently Kencell changed its brand name to Celtel Kenya.

Other Market Segments

The industry witnessed a steady growth in the various market segments as shown in Table 2. For instance, the number of licenses issued to data operators increased from two in the previous year to seven during the year under review. Out of these licensed data operators, only four were in operation at the end of the year.

Value Added Service (VAS) provision such as Premium Rate Service (PRS), Electronic Data Interchange, Store and Forward Fax saw a tremendous increase from three (3) to seventeen (17). Some of the reasons cited for the growth include ease of entry, minimal regulatory intervention and low start-up capital.

Paging service provision experienced a marked downturn following the withdrawal of ten licences by the Commission at the request of the licensees. This was occasioned by stiff competition from the mobile services.

Table 2

LICENCE CATEGORY	**Number of Licensees (Cumulative)**				
	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004
Vendors & Contractors	184	740	783	813	888
Technical Personnel	30	71	108	139	182
Cyber Cafes/Telephone Bureau	-	-	-	51	70
Internet Service Providers	43	66	72	76	78
Internet Exchange Point Providers	-	-	1	2	2
Paging Service Providers	14	16	12	12	2
Value Added Service Providers	-	1	1	3	17
Public Data Network Operators	1	1	1	4	6
Public Switched Network Operators	1	1	1	2	2
VSAT Hub Operators	1	1	1	2	2
Local Loop Providers	-	-	-	2	4
VSAT Terminal Licences	36	56	75	130	336

Major Licensing Initiatives

3rd Mobile Operator

The tendering process for the third mobile operator, which began during the previous financial year, continued during the year under review. Four out of the five pre-qualified consortia proceeded to the final evaluation stage. ECONET Wireless Kenya Ltd (a consortium of Econet Wireless international, Kenya National Federation of Co-operatives (KNFC), Rapsel Ltd and Corporate Africa Ltd) emerged the winner with a financial bid of US$ 27 million.

The Commission was, however, not able to issue Econet with the licence as initially planned, since licensing negotiations had not been concluded. The Commission expects to grant the licence in the next financial year, after which Econet is expected to begin service rollout.

Second National Operator

During the year under review, the Commission embarked on the process of licencing of a second national operator (SNO) to compete with the incumbent fixed line operator, Telkom Kenya Ltd. Invitation for bids for the licence were placed in both international and local media in November 2003. Subsequently, the Commission received seven (7) bids for pre-qualification.

Five (5) of the seven (7) bids submitted met the set pre-qualification criteria. The five qualified consortia were thereafter invited to participate in the tender process. However, only three consortia participated in the final tendering process. The Commission expects to complete the evaluation and award of the licence in the next financial year.

Local Loop Operators (LLO)

In an effort to operationalise the LLO concept, the Commission organised a consultative meeting between the licensed local loop operators and the incumbent operator. The forum yielded a number of successes. For instance, it was agreed that the local loop operators shall be allowed to connect to both fixed and mobile operators and shall operate a full fixed network within administrative district boundaries. As a result of these positive developments, the Commission has licensed two more operators.

Regional Telecommunication Operator (RTO)

The tendering process which the Commission began in 2000/2001 financial year to license regional telecommunication operators, achieved mixed results. During this year, the Commission issued Bell Western with an RTO licence to operate a fixed telephone network in the North Eastern region of Kenya.

However, during the same year, the Commission revoked the intended award of a licence to Telair Communication Ltd, which had won the licence for Central, South Rift, Coast, Nyanza and Western regions and to Satifel Ltd, which had won the licence for North Rift and Eastern regions.

The Commission expects Bell Western to begin service delivery to users in North Eastern Province in the next financial year.

Numbering

During the year under review, the Commission continued to monitor the implementation of the new national numbering scheme. The implementation process which started in year 2003, was 90% complete as at the end of the review period. During the year under review, the Commission embarked on a consultative effort on the implementation of number portability. This process is expected to be completed during the next financial year. The Commission has also embarked on E.164 Number Mapping (ENUM) re-delegation issues. ENUM is a "protocol" that allows the translation of normal telephone numbers into a format that can be used to store and retrieve Internet addressing information, which can in turn be used to route communications over the Internet. As such, ENUM can help bridge the gap between the traditional telephone network and the Internet.

Table 3

Year	Phones	PABXs	Data/	Radios	VSAT Facsimile	Broadcast Eqpt	Total
2001/2002	23	7	4	47	3	5	89
2002/2003	21	7	1	48	5	8	90
2003/2004	10	1	1	37	10	7	66

Type Approval

With respect to type approval of tele-communication equipment, the Commission processed a total of 66 applications as compared to 90 for the previous year. The details are shown in Table 3. (previous page)

Only 5 type-approval applications were rejected.

During the year the Commission conducted eight educational and sensitization seminars countrywide, focusing on CCK's activities in telecommunications network standards. The seminars also targeted end users to educate them on their rights and obligations in regard to the services provided by licensees.

The Commission compiled data on approximately 600 completed and commissioned telecommunications installations from both the network operators and the contractors, more than double that of the previous year. Of the 600 installations, 342 were from the areas where sensitization seminars were conducted alongside certification exercises.

The field certification exercises were carried out in eight of Telkom Kenya's regions during the period. The aim of certification exercises is to ensure that systems connected to the PSTN comply with stipulated standards and that licensees observe the same in the provision and maintenance of tele-communication installations.

It is worth noting that improvements on installation standards have been observed in several areas with higher contractor participation in the seminars during the year.

Table 4 below gives a summary of sensitization seminars and certification activities carried out during the year.

Table 4

TKL REGION AND ACTIVITY INSTALLATIONS

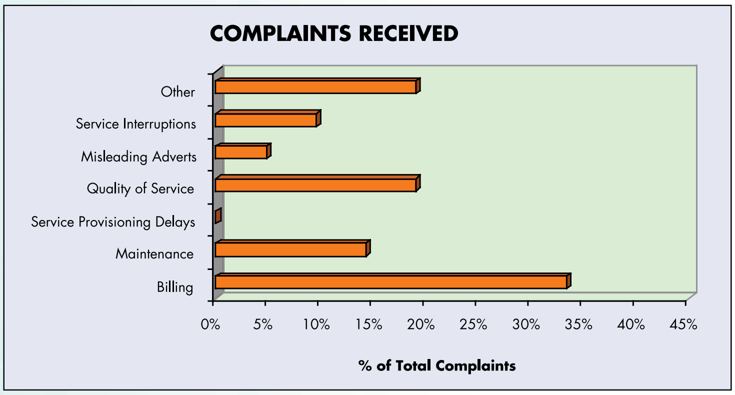
	Pending	Total Certified	Accepted	Rejected	Cancelled	Deferred	Balance
NAIROBI CENTRAL (S CE)	75	62	14	45	2	1	13
NYANZA (S CE)	39	32	13	11	5	3	7
WESTERN (S CE)	11	8	1	7	0	0	3
NORTH RIFT (S CE)	22	17	3	11	1	2	5
NAIROBI NORTH (SCE)	56	43	6	23	8	6	13
MOMBASA (S 2CE)	106	91	48	27	14	2	15
MALINDI (S CE)	17	13	3	6	3	1	4
VOI (S CE)	16	9	3	2	3	1	7
TOTALS	342	275	91	132	36	16	67

Key to activities: S-Sensitization seminar, CE-Certification Exercise, 2CE-Two certification exercise in the same area

Complaints and Disputes

During the year under review, the Commission received a total of 21 complaints. As shown in Figure 10, billing complaints constitutes about 30%. The number of complaints reduced significantly largely due to the proliferation of mobile phones. This may be attributed to the fact that many residential fixed line users tended to give up their fixed lines in favour of mobile lines in cases where the fixed line operator did not resolve their complaints quickly. As regards mobile services, the billing complaints received mainly revolved around consumer contracts and were dealt with by explaining the contractual obligations on the part of the affected consumers.

Figure 10



Frequency Management

Introduction

Management of the radio frequency, plays a vital role in the development of national communications infrastructure. In view of increasing application of wireless technologies by operators in the deployment of their networks, the Commission continued to ensure sound management of this finite and scarce resource in an attempt to satisfy demand.

The management of the radio frequency must take into account international developments in view of the fact that radio waves traverse national boundaries. During the period under review, the Commission actively participated in key international radiocommunication conferences and meetings to ensure that the country's radiocommunication interests were promoted and safeguarded.

FREQUENCY LICENSING

Radio Networks

In the year under review, the Commission renewed 3,525 licences for private radio networks. In addition, 69 applications for radio network expansions and 80 new applications in the HF and VHF bands were processed. The Commission also issued two new Citizen Band licences. On the broadcasting front, a total of six new frequencies were assigned for TV and FM sound broadcasting. The details of the new radio stations licensed during the period under review are as given in Table 5.

Table 5

RADIO NETWORKSTATION TYPE TYPE		NEW RADIO STATIONS		
		2001/ 2001	2002/ 2003	2003/ 2004
VHF/UHF	Fixed	216	127	132
	Mobiles/Portables	417	595	720
	Total	633	722	647
HF	Fixed	155	93	41
	Mobiles	235	195	120
	Total	390	288	161

The demand for spectrum above 1 GHz continued to increase as a result of rapid expansion of public telecommunications networks that require relatively large bandwidths which are not available in the lower bands.

Whereas the 3.5 GHz and 5.8 GHz bands registered increased demand mainly by public data communication network operators, growth was also evident in the use of the 26 MHz band by the mobile operators for Local Multi-point Distribution System (LMDS). The LMDS is considered a more cost effective replacement of the 15 GHz approach links especially in urban areas where mobile networks are dense.

During the year under review, the Commission made frequency assignments for fixed microwave links to telecommunications operators as shown in Table 6.

Table 6

FREQUENCY BAND(GHz)	Number of Links			
	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004
1.5	6	4	4	0
2.5	32	0	0	8
3.5	0	0	60	71
5.8	0	0	36	64
6	0	7	0	0
7	9	23	105	74
8	39	2	2	33
13	0	0	14	0
15	156	246	136	330
18	9	0	1	4
22	9	0	0	0
26	0	0	13	13

Frequency Monitoring

The Commission intensified radio monitoring activities using its newly acquired Radio Spectrum Management and Monitoring System (RSMS). This was critical because interference to radio communication services may result in disruption of essential communications services such as emergency, telecommunications and broadcasting.

Frequency clearance and interference resolution were carried out in various frequency bands in order to avail clean spectrum for radio-communication services.

The Commission, in the year under review, continued to undertake monitoring activities as summarized in Table 7.

Table 7

Frequency Monitoring Activities

	HF Band	V/U/SHF Bands	Total
Frequency Clearance	47	148	195
Interferences Resolved	16	52	68
Frequency Occupancy Tests	25	46	71
Inspections	18	21	39

In the area of broadcasting, the Commission began weekly surveillance of TV and FM broadcast frequencies. This was due to intermittent incidences of non-compliance by some broadcasters.

Radio Spectrum Management and Monitoring System (RSMS)

During the year under review, the installation and commissioning of the RSMS system was completed. The customization of the RSMS management sub-system was also completed. Data capture and validation are ongoing and is expected to be completed in the next financial year.

With the RSMS in operation, the frequency management activities such as monitoring, interference analysis and planning as well as licensing have considerably improved.

Review of Frequency Fees

During the year under review, the Commission reviewed the frequency fee charging methodology for the Fixed Wireless Access systems in an effort to harmonise the frequency fees with those applicable in the other East African countries, in line with the 12th EARPTO resolutions. The review was also to encourage the use of higher frequency bands that are relatively under-utilized. This resulted in frequency fees for fixed wireless reducing by between 20 - 30% for different frequency bands.

GSM Spectrum Realignment

The Commission initiated a spectrum realignment process for the GSM spectrum in an effort to ensure efficient utilization of the scarce spectrum resource. The Commission continued to hold consultations with the existing mobile operators in order to facilitate the realignment and a smooth migration that shall ensure services are not disrupted.

New developments

The Commission, in an endeavour to popularise the relatively unused Citizen Band, reviewed the licensing requirements to enable licences to be issued on a walk-in walk-out basis. The use of this band is, however, on the understanding that no protection can be given against interference. With this new development the Commission expects an increase in the number of applicants for this service in future.

In response to a request by the amateur radio users to review the amateur licensing procedures, the Commission came up with new procedures after benchmarking with other countries and organizations. During the year under review, the Commission issued eight new licences for amateur radio users, bringing the total number of licensees to 36.

ITU Regional Radiocommunication Conference, 2004 (ITU RRC-04)

The objective of the first session of the ITU RRC-04 was to prepare a report to the second session, planned for year 2006, that will facilitate planning of digital terrestrial broadcasting services in the frequency bands 174-230 MHz and 470-862 MHz in parts of ITU Region 1 and 3.

The ultimate objective of the Regional Radiocommunication Conference is to put in place mechanisms that will facilitate the gradual phasing out of analogue broadcasting in the African Broadcasting Area and the neighbouring countries and the European broadcasting area in favour of the introduction of digital terrestrial broadcasting in Bands III, IV and V. This will allow viewers to receive digital television channels of high picture quality in fixed, mobile or portable modes.

The Commission, which has actively participated in the RRC-04, will be preparing Kenya's digital broadcasting requirements during the inter-sessional period in readiness for the second session of the RRC that shall establish the new digital broadcasting plan.

Corporate affairs

Kenya Network Information Centre (KENIC)

In the year under review the Commission continued to support the activities of the Kenya Network Information Centre (KENIC) to fulfil its mandate of administering .ke domain name registration in the country.

In August 2003, KENIC achieved full online registration capability in line with the defined .ke policy and procedures using the .BR Registry software system. KENIC was officially launched on 23rd October 2003 with the full support of the Kenyan Government and Internet community.

KENIC has done exceptionally well having achieved an average of 100 new domain name registration per month. The total dot ke (.ke) domain names registered by KENIC at the end of the year under review stood at 1,307.

The Kenya Education Network (KENET)

The Commission, as one of the trustees of KENET, continued to support the project. During the year 2003/2004, the Commission released the last tranche of its financial commitment, to the tune of Kshs 2.9 million. Further, the Commission approved an extension for the trial period of KENET direct connection to the Internet portal through VSAT. This project is considered important by the Commission as it is envisaged to advance Internet connectivity to educational and research institutions.

The Commission is happy to note that currently KENET has managed to connect over 34 institutions countrywide.

World Summit on the Information Society (WSIS)

The first World Summit on the Information Society was held in 2003 in Geneva. This forum brought together world leaders to discuss the role of ICT in meeting the Millennium Development Goals. During this meeting, a number of issues were addressed and agreed upon including the need for countries to put in place mechanisms and plans for achieving specific goals. The next phase of WSIS is scheduled to be held in Tunis in the year 2005.

As part of preparations for the Tunis meeting, a national WSIS action plan implementation taskforce, of which the Commission is a member, has been constituted. The terms of reference of the taskforce is to articulate national common positions on the issues to be discussed in the Tunis Phase of the Summit. The taskforce is expected to interliase, initiate structured dialogue, facilitate and coordinate

the implementation of ICT show case initiatives, encourage the mainstreaming and integration of ICTs at the national development strategy, and lay down strategies on the implementation of the action lines set out in the Plan of Action using the CTO road map as a guide.

International Conferences

On the international front, the Commission continued to cooperate effectively with international organizations to which Kenya is a member. During the period under review, the Commission participated in various fora organized by the International Telecommunication Union (ITU), Universal Postal Union (UPU), Pan African Postal Union (PAPU), East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), Commonwealth Telecommunications Organisation (CTO), African Telecommunication Union (ATU), Association of Regulators for Information and Communication of Eastern and Southern Africa (ARICEA) and the East African Regulatory, Post & Telecommunications Organisation (EARPTO).

It is worthy to note that during the year under review, the Director-General of the Communications Commission of Kenya, Mr. Sammy Kirui, was elected the Chairman of the ITU Council for the next one year. Mrs. Rhodah Masaviru of the Postal Corporation of Kenya was elected Assistant Secretary-General of Pan African Postal Union (PAPU). These elections were a great honour to Kenya.

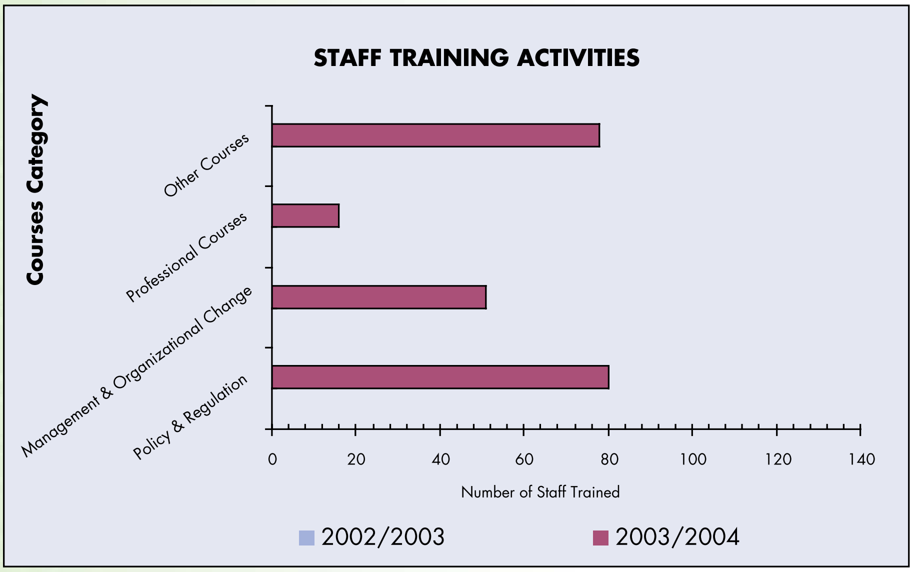
Human Resources and Administration

During the year under review, the Commission, as part of its capacity building effort, sponsored several staff members on various training programmes locally and overseas. To enhance productivity, a number of staff members were trained in areas such as spectrum management, policy and regulation, and ICT. A comparative analysis of the training and development activities undertaken is illustrated in Figure 11. Policy and Regulatory courses accounted for 42 % of all the courses while those on Management accounted for 27%. Professional and other courses accounted for 19% and 12%, respectively. Table 8 gives a summary of the courses attended by members of staff.

Table 8

Category	Number of Courses in Category
Policy & regulation	25
Management & Organizational Change	16
Professional	11
Other Courses	7

Figure 11



During the year under review, the Commission recruited four additional members of staff bringing the total number of employees to 130.

Welfare

The Commission is committed to the government's strategies of fighting the HIV/ AIDS epidemic. In an endeavour to achieve behaviour change amongst staff, an awareness seminar was held during the year under review. This is an ongoing initiative which the Commission intends to support by holding other similar seminars.

Office Accommodation

The headquarter building which was under construction was completed and all staff accommodated in the building. With the Commission's staff now under one roof, service delivery has been enhanced and the Commission has made substantial savings on office accommodation

The new building boasts spacious office accommodation, state-of-the art voice and data communication facilities and modern conference and catering facilities. This will enable the Commission to host some of its meetings within the building, thus saving on costs.

Pension

The staff pension scheme, which was established in year 2000, has continued to file audited annual financial statements in accordance with the statutory requirements. The preparation of financial statements for the period under review is already completed and auditing by the appointed external auditors is in progress and is expected to be completed by the end of August 2004, ready for filing with the Retirement Benefits Authority before 30th October 2004.

The total active membership to the scheme currently stands at 127.

The scheme has three pensioners.

The Commission, Telkom Kenya and Postal Corporation of Kenya (PCK) held joint meetings with Telposta Pension scheme to discuss the finalization of transfer of assets and liabilities to each of the three pension schemes.

Future Outlook

The expiry of TKL's monopoly and the gazettement of Section 5(5) of the KCA, 1998, heralded a new era in Kenya's info-communications sector. In line with this spirit the Commission intends to promote the provision of additional services into the country's market through various regulatory and licensing mechanisms:

- Allowing cellular mobile operators to construct and operate their own international gateways;
- Licensing of additional Internet Backbone and Gateway Operators, Signal Distributors and Commercial VSAT Operators;
- Allowing Public Data Network Operators to establish International Gateways for data communications
- Development of a unified and technology-neutral licensing framework that optimises the use of available communications infrastructure;
- Reviewing the existing licensing framework with a view to eliminating potential barriers to market entry in order to support the above objectives.

It is also the Commission's intention to ensure the conclusion of the licensing processes for the 3rd GSM and SNO licences in order to provide more choices to users and increase competition, which will likely lead to more affordable services. On the same token, the Commission intends to ensure that the quality of services provided to users is in line with expectation. To this end, it intends to explore the use of modern Quality of Service monitoring devices for fixed and mobile services.

In the next financial year, the Commission also intends to undertake a comprehensive telecommunications cost study in order to provide a more objective basis for determining both retail and interconnection charges in the sector.

Further, the Commission will foster new universal access provision policies and strategies upon the conclusion of the on-going universal access study as a means of promoting the economic linkages between ICT services and socio-economic well-being of Kenyans.

Financial Information

Annual Budget Estimates And Revised Budget

In accordance with section 19 of the Kenya Communications Act, 1998, and the provisions of the exchequer and Audit regulations, the estimates of revenue and expenditure of the Commission for the year 2004/2005 were prepared and submitted to the Ministry of Transport and Communications.

Annual Accounts For Financial Year 2002/2003

In compliance with the financial requirements as set out in relevant legislation and in various Government financial guidelines, the Commission's Annual Accounts were prepared, approved and submitted to the Controller and Auditor General for statutory audit.

The Annual Accounts for the financial year 2003/2004 are under preparation in readiness for submission to the Controller and Auditor-General on or before 30th September 2004. The un-audited balance sheet for the financial year 2002/2003 is reproduced overleaf:

Balance Sheet as at 30 June 2003

	2003 Kshs'000	2002 Kshs'000
ASSETS		
Non Current Assets		
Property, plant and equipment	**1,186,627**	**822,751**
Current Assets		
Debtors	**1,029,168**	**718,283**
Cash and cash equivalent	908,549	909,615
	1,937,716	1,627,898
TOTAL ASSETS	3,124,344	2,450,648
EQUITY AND LIABILITIES		
Capital and Reserves		
Owners equity	**740,069**	**740,069**
Revaluation reserve	161,138	161,138
Retained surplus	1,538,256	1,531,148
	2,469,463	2,432,355
Current Liabilities		
Corporation tax for the year	**229,371**	**-**
Creditors	425,510	18,293
	654,881	18,293
TOTAL EQUITY AND LIABILITIES	3,124,344	2,450,648

The accounts were approved by the Board of Directors on 29th September 2003 and were signed on its behalf by:

Maj.Gen.(Rtd.) Peter Morris Kariuki
Chairman

Sammy K. Kirui
Director-General

ANNEX

Communications Statistics

		1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004
Fixed Telephony:	Capacity	420,370	446,302	490,000	508,000	531,442
Connections		296,400	321,482	328,116	328,358	299,225
Payphones		9,000	9,135	9,264	9,964	9,798
Mobile Telephony: Capacity		24,000	640,000	1,500,000	2,000,000	3,935,000
Connections		23,757	340,731	944,128	1,590,286	2,546,157
Payphones		-	-	805	814	ß2,955
ß - Includes Community payphones						
Postal Services:	Total Postal Outlets	909	900	891	890	872
Private Letterboxes		351,441	388,281	394,121	397,731	395,811
Letter Posting Boxes			1,168	1,136	1,137	1,138
Public Counter Positions		1,373	1,356	1,429	1,394	1,378
Stamp Vending Machines		308	296	299	4,466	3,733
Private Operator Outlets		185	296	320	330	341
Key Economic Indicators, 2004						
Description	Factor/Unit	1999	2000	2001	2002	2003*
Population	(Millions)	29.5	30.2	30.8	31.5	32.2
Growth of GDP at Constant prices	(%)	1.4	0.2	1.2	1.2	1.8
GDP per capita (Current) (Kshs)		21,736.6	22,690.6	24,902.0	26,969.2	30,075.3
Consumer prices, Annual Average	[Index numbers 1982=100]	112.7	123.9	131.0	133.6	146.7
Kenya Inflation Rate [June] (%)		5.8	10	5.8	2	9.8

* Provisional

Source: Economic Survey, 2004

Mandate of the Commission

The Communications Commission of Kenya (CCK) was established in February 1999 by the Kenya Communications Act, 1998, to license and regulate telecommunications, radiocommunications and postal services in Kenya.

Contacts

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