

C O N T E N T

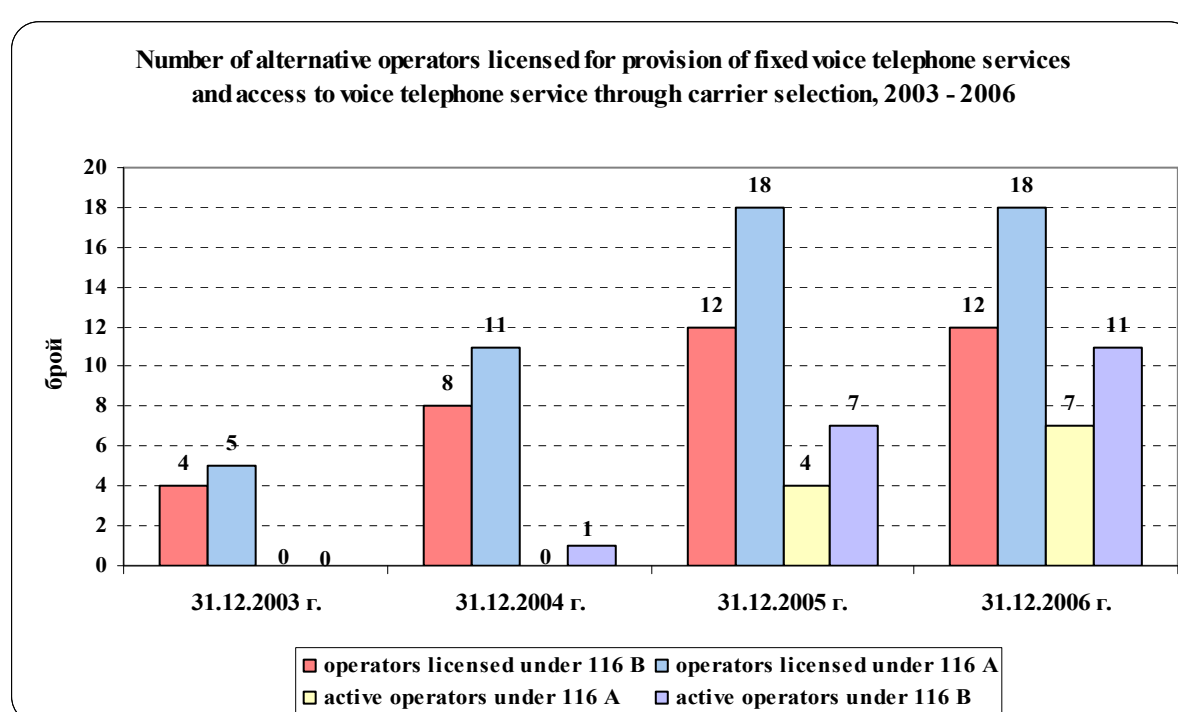
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2. Fixed telephone networks and provision of fixed voice telephone services

2.1. Players on the market of the fixed voice telephone service

A durable trend of gradual decrease of the revenues from fixed voice telephone services is observed during the last three years. This is caused by drop in the prices and the consumption due to increasing competition among the operators and substitutability between fixed and mobile telephony.

As of 31 December 2006, 20 alternative operators are entitled to carry out telecommunications through fixed telephone networks and provide fixed voice telephone services, of which eight have licenses of the type 116 A for carrying out telecommunications through public fixed telecommunication network and provision of fixed voice telephone service, two of them – under individual licenses of the type 116 B for carrying out telecommunications through public fixed telecommunication network for provision of the service access to voice telephone service through carrier selection, and ten are licensed under both types of licenses (116A and 116B). There are no newly licensed operators during the year. For the same period, 9 interconnection agreements between BTC and the alternative operators and 22 agreements of the same type between alternative operators were concluded.



Source: CRC

Figure 17

As of 31.12.2006 the total number of licensed issued (116A and 116B), including BTC and the alternative operators is 30. All licenses cover Republic of Bulgaria.

Table 1

				<i>Name of the operator</i>	<i>Licenses under 116 A</i>	<i>Licenses under 116 B</i>
<i>As of 31.12.2006</i>	<i>As of 31.12.2005</i>	<i>As of 31.12.2004</i>	<i>As of 31.12.2003</i>	CABLETEL AD	√	√
				EASTERN TELECOMMUNICATION COMPANY AD	√	√
				NEXCOM BULARIA EAD	√	√
				NETPLUS OOD	√	√
				ORBITEL AD	√	√
				BULGARIA TELECOM NET AD	√	–
					√	√
				VESTITEL BG AD	√	√
				SPECTRUM NET AD	√	√
				TELECOM PARTNERS NETWORK OOD	√	–
				TRANS TELECOM OOD	√	√
				EUROCOM CABLE EAD (as of 31.12.2006 EUROCOM CABLE MANAGEMENT BULGARIA)	√*	–

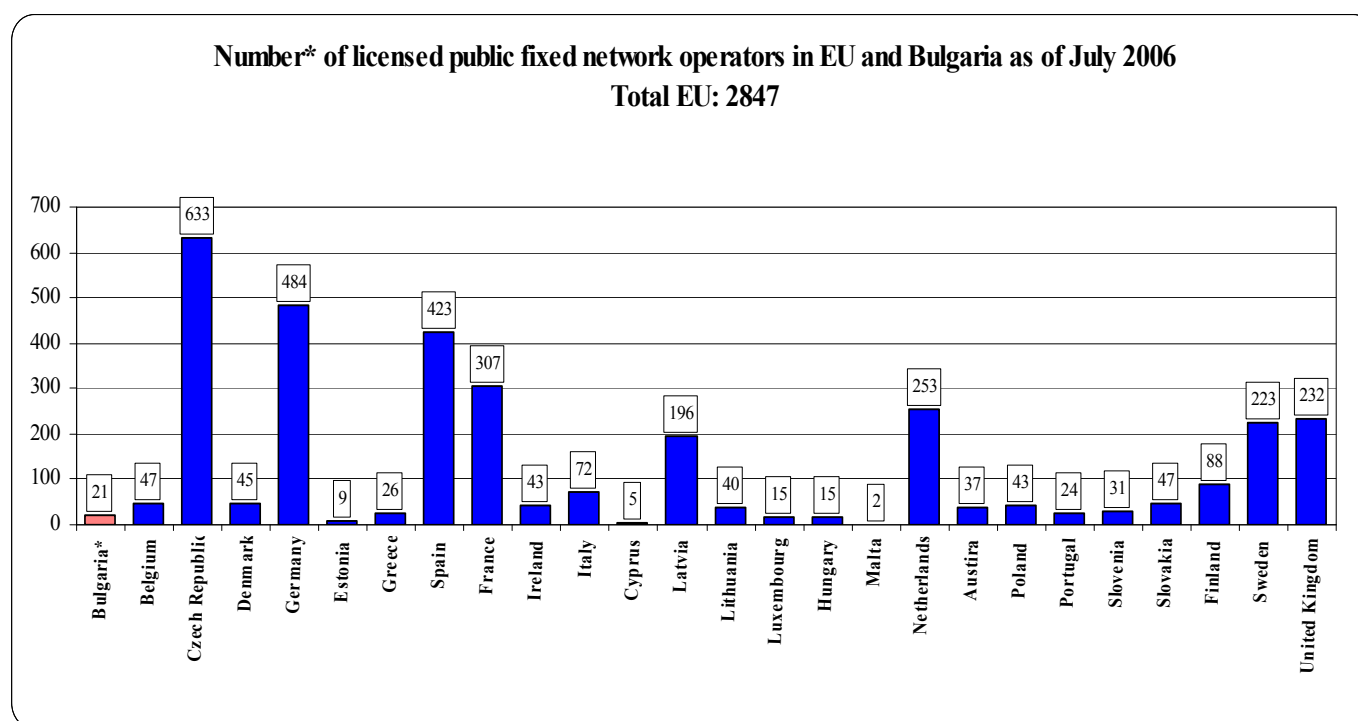
			GOLD TELECOM BULGARIA AD	–	√
			ITD NETWORK AD	√	√
			COSMO BULGARIA MOBILE EAD	√	√
			MOBILTEL EAD	√	–
			NET IS SAT OOD	√	–
			NOVO EOOD	√	–
			SCAT TV OOD	√	–
			TELECOM 1 OOD	√	–
			BTC NET EOOD	–	√

* The license under 116A is issued in 2004.

Source: CRC

Whereas in almost all EU member-states and in the candidate countries of South-Eastern Europe (SEE) are issued authorizations with national and regional coverage, in our country, according to the Telecommunications Law in force for the examined period, all issued licenses are with national coverage. In most European states the issued licenses are for networks and services, as well as just for provision of services, whereas in Bulgaria all licenses are for networks and services – for carrying out telecommunications through public telecommunication networks and provision of fixed voice telephone service and for carrying out telecommunications through public telecommunication networks and provision of access to voice telephone service through carrier selection.

At a European scale, the number of operators licensed to provide fixed voice telephone services through fixed telephone networks and for provision of carrier selection service varies strongly: from 633 in the Czech Republic¹ to 2 in Malta (Figure 18). For the EU 25 the average number of these operators is around 134. It should be noted that the data of some countries include the number of VoIP providers. The figure of licensed operators for Bulgaria remains unchanged compared to the preceding year – 21 (including BTC). It is higher than the one in countries, such as Estonia, Cyprus, Luxembourg, Hungary and Malta. Anyway, if the number of VoIP providers is added to the number of licensed fixed operators, the total number of providers of voice telephone service in Bulgaria would reach several hundreds.



* Estimated

Note: The indicated number includes the incumbent operators; data for Bulgaria valid as of 31.12.2006 too.

Source: *European Electronic Communications Regulation and Markets 2006 (12th Report), Volume II, Annex 2 Market Overview, p. 9 and CRC data*

Figure 18

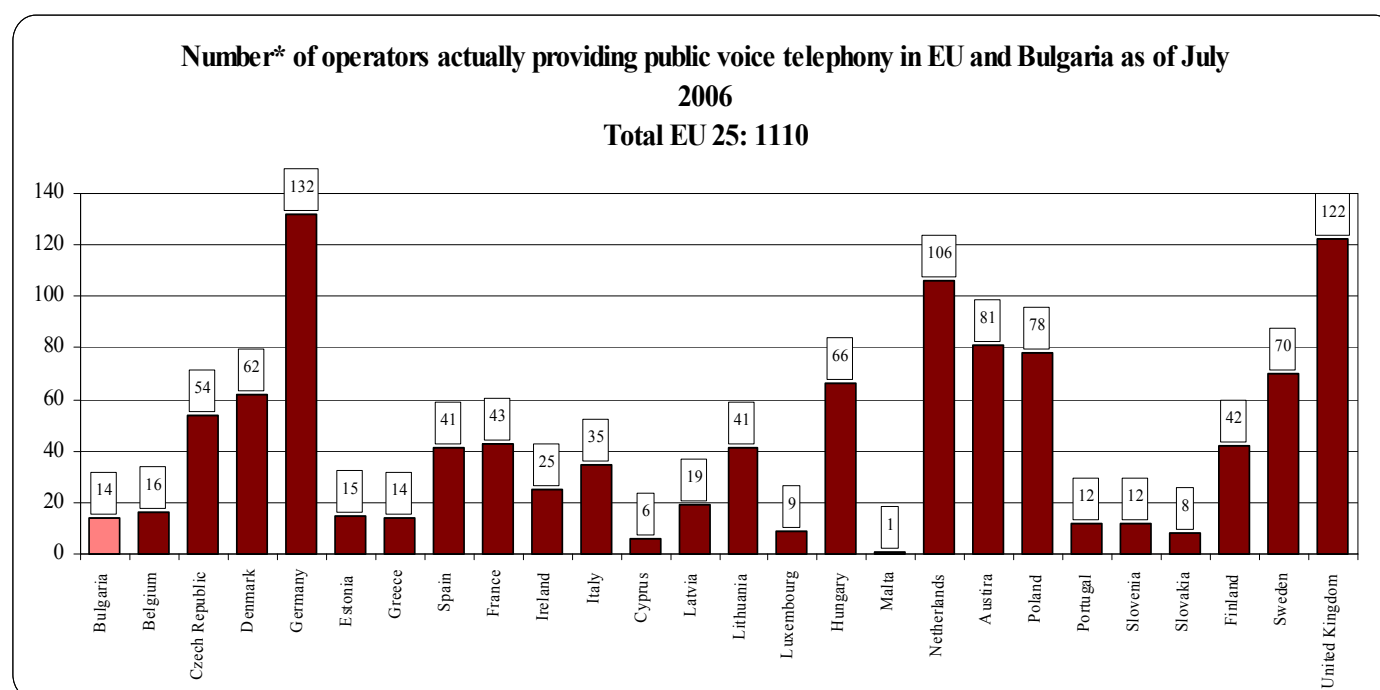
¹ The data received from the Czech regulator are not comparable to those of the other countries and the EU Implementation report of last year (the licensing regime is completely changed since May 2005)

Amongst the countries of SEE² Romania has the highest number of operators licensed to provide fixed voice telephone services – around 2 400, followed by Republic of Macedonia and Bulgaria. The rest of the countries in the region have less licensed operators.

Besides the number of authorized operators, the number of telecommunication operators that are actually carrying out telecommunication activities should also be taken into account as a more accurate criterion for the presence of efficient competition on a given market.

In Bulgaria, as of the end of 2006, besides BTC AD thirteen more alternative operators have stated to carry out telecommunication activity and provide fixed voice telephone service. Eleven operators (“EASTERN TELECOMMUNICATION COMPANY” AD, „CABLETEL” AD, „NEXCOM BULGARIA” EAD, „ORBITEL” AD, „SPECTRUM NET” AD, „TELECOM PARTNERS NETWORK” AD, „TRANS TELECOM” OOD, “ITD NETWORK” AD, „BULGARIA TELECOM NET” AD, “VESTITEL BG”AD AND “NOVO” EOOD) carry out telecommunications through public telecommunication networks and provide fixed voice telephone service. Seven of the alternative operators (“NEXCOM BULGARIA” EAD, “ORBITEL” AD, “SPECTRUM NET”AD, “TRANS TELECOM” OOD, “BTC NET” EOOD, “GOLD TELECOM BULGARIA” AD and “ITD NETWORK” AD) carry out telecommunications through public telecommunications networks for provision of access to voice telephone service through carrier selection.

Germany has the highest number of real players on the market of fixed voice telephone services in EU 25 – 127, and less than those for Bulgaria are in the figures for Cyprus (6), Luxembourg (9), Malta (1) and Slovakia (8) (Figure 19).



* Estimated

Note: The indicated number includes the incumbent operators; data for Bulgaria valid as of 31.12.2006 too.

Source: *European Electronic Communications Regulation and Markets 2006 (12th Report), Volume II, Annex 2 Market Overview, p. 11 and CRC data*

Figure 19

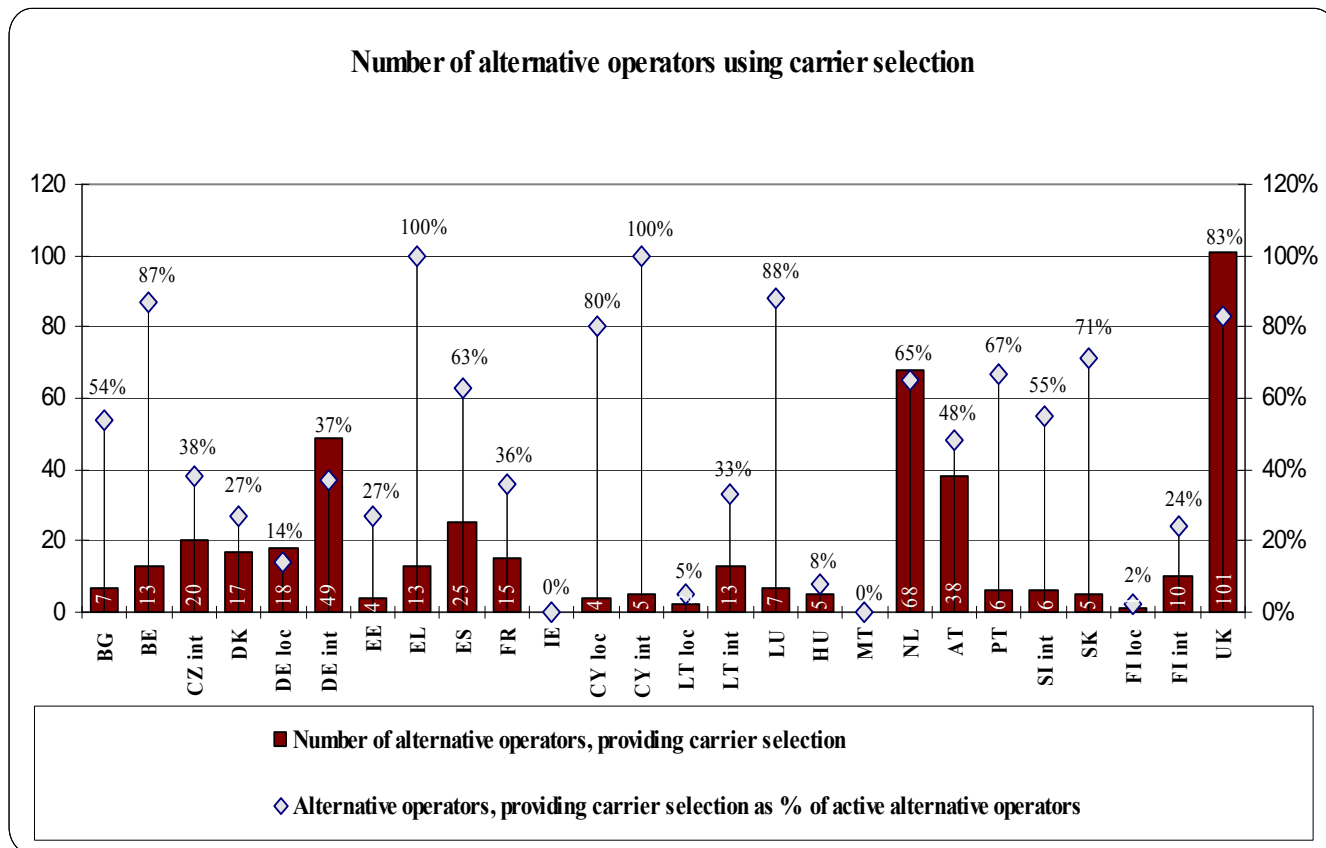
While the market shares of the incumbent operators are decreasing and the fixed sector growth is going down, in 2006 in EU is observed increasing number of submitted applications for authorization to provide fixed services, despite of the registered drop in the market compared to last year. Until mid-2006 there were 2846 operators in EU licensed to provide services through public fixed networks. Around 50% of these operators have actually provided telecommunication services during the same period³.

In Bulgaria, as it was mentioned above, there were no newly licensed operators during the year, but until the end of the period the number of operators actually carrying out activities has increased by 3.

² Report 3 - Country Comparative Report Supply Of Services In Monitoring Of South East Europe - Telecommunications Services Sector And Related Aspects

³ European Electronic Communications Regulation and Markets 2006 (12th Report), Volume I

The following charts represent the number of alternative operators providing access to voice telephone service through carrier selection – in absolute value and in relative value (referred to the number of all active alternative operators).

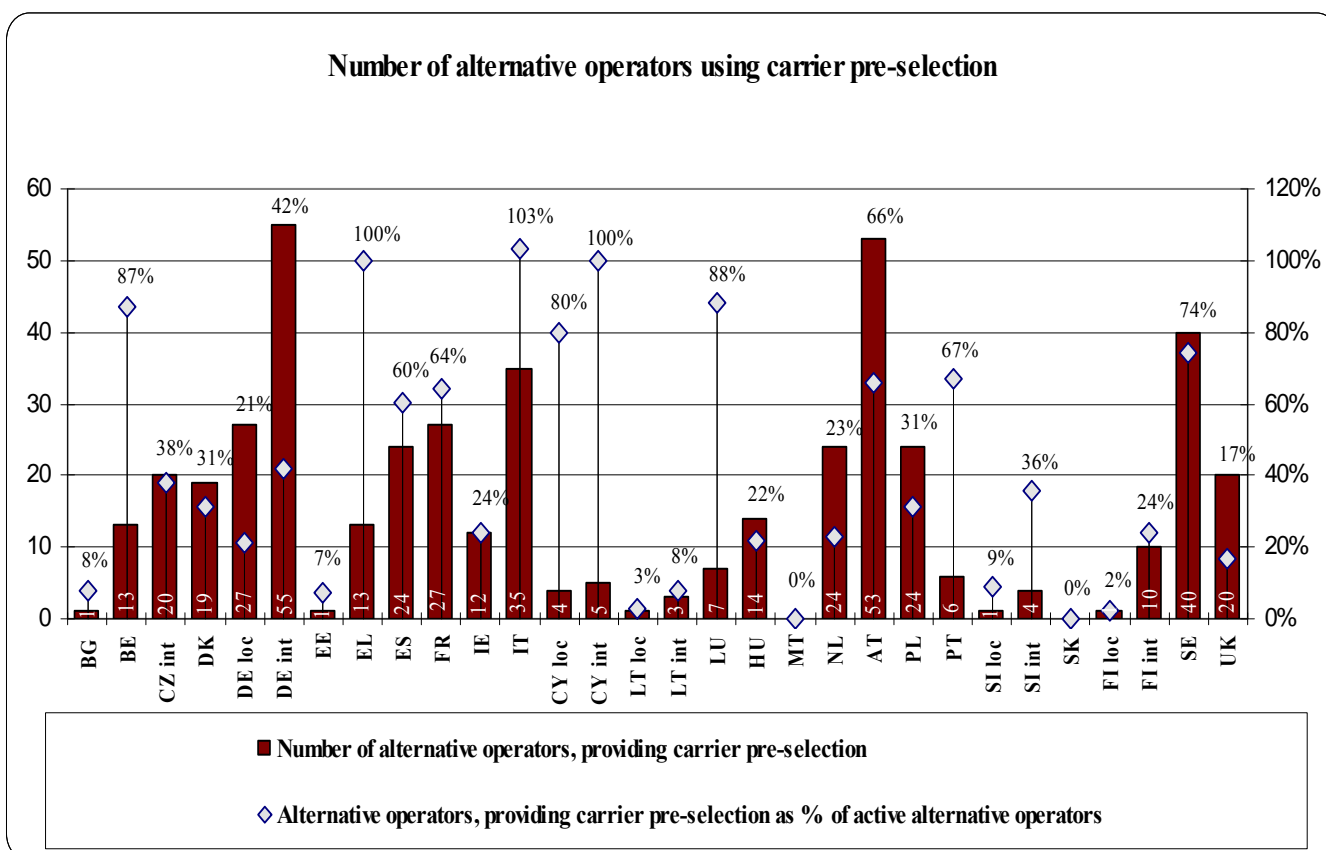


Note: Data for Bulgaria valid as of 31.12.2006 too.

Source: European Electronic Communications Regulation and Markets 2006 (12th Report), Volume II, Annex 2 Market Overview, p. 23 and CRC data

Figure 20

As of July 2006 around half of the alternative operators carrying out activities in the EU member states offer voice telephone service through carrier pre-selection⁴. The share of the alternative operators providing fixed voice services through carrier selection, represented as percentage of the number of active operators, remains stable and even decreases in some member states due to the greater number of unbundled lines or to the bigger network investment⁵.



Note: Data for Bulgaria valid as of 31.12.2006 too.

⁴ European Electronic Communications Regulation and Markets 2006 (12th Report), Volume II

⁵ European Electronic Communications Regulation and Markets 2006 (12th Report), Volume I

Source: *European Electronic Communications Regulation and Markets 2006 (12th Report), Volume II, Annex 2 Market Overview, p. 11 and CRC data*

Figure 21

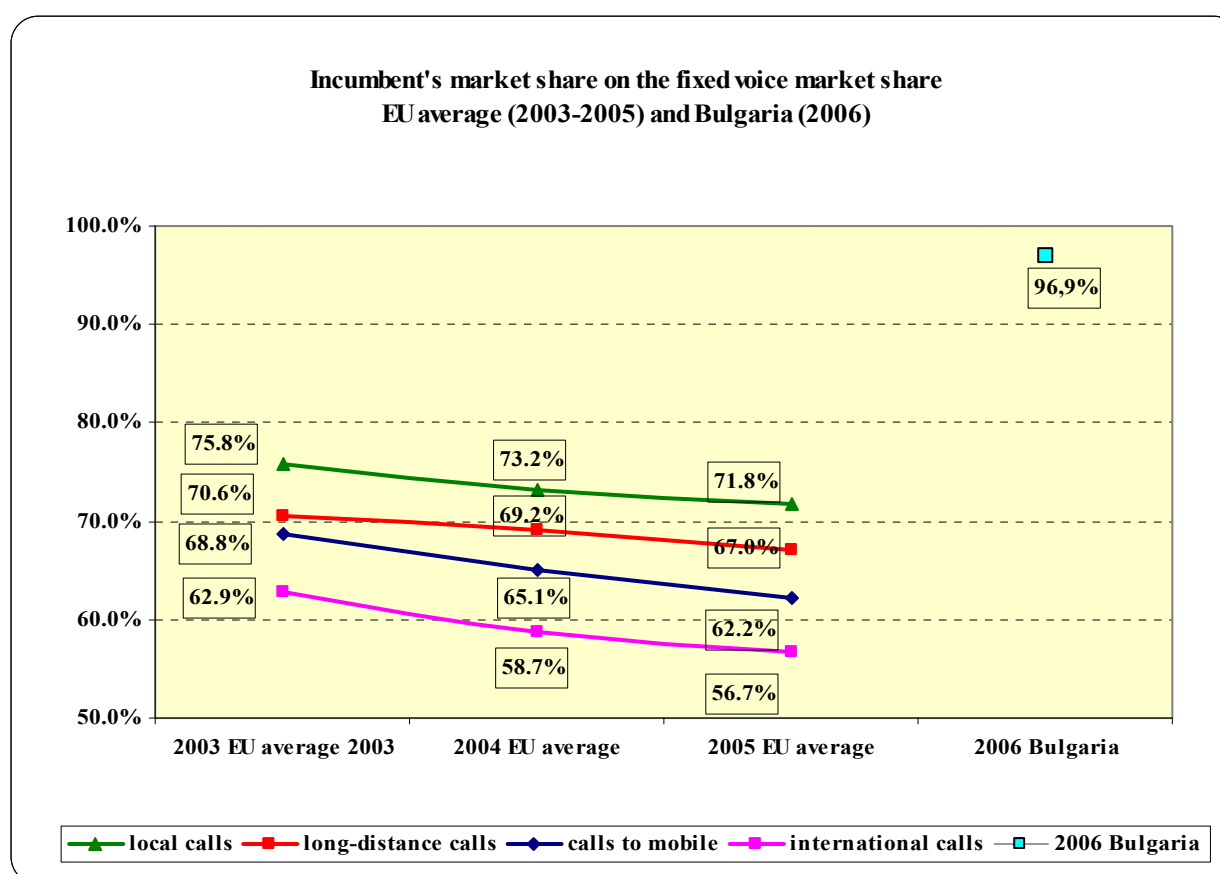
In Bulgaria the number of operators providing access to fixed voice telephone service through carrier pre-selection has increased by 3 in comparison to 2005 and at the end of the year their number is 7.

During the last year carrier pre-selection service was provided in Bulgaria for a first time. Among all operators licensed to carry out this type of telecommunication activity, only one (“ORBITEL” EAD) is actually providing the service.

2.2. Development of the fixed voice telephone service market

In 2006 the total revenues from provision of fixed voice telephone service amount to 780 mln BGN and decrease by 8% compared to the preceding year. This reduction is a result of the drop in the BTC AD revenues which is not compensated by the revenues generated by the alternative operators.

This year once more the concentration rate on the market of fixed telephone networks and provision of voice telephone services is close to the rate from the first years after the market liberalization and still there is no real competition. Despite the availability of 13 active alternative operators on the market of fixed voice telephone networks and services, the relative share of BTC AD revenues from provision of those services remains too high (96,9%). It should be noted that the BTC AD market share based on revenues from fixed voice telephone networks and services has decreased by less than 1%.



Note: No breakdown of the revenues from local, long-distance and international calls for Bulgaria, so the market share of the incumbent operator for 2006 is calculated based on the total revenues from fixed voice telephone services.

Source: *European Electronic Communications Regulation and Markets 2006 (12th Report), p. 10 and CRC*

Figure 22

For the sake of comparison, Figure 22 illustrates the EU average share of the incumbent respectively for local, long-distance, international calls and calls to mobile networks. The data analysis shows that the EU average incumbent's share, calculated based on revenues, is going down during the last three years and the drop is greatest for the international calls (up to 56,7%), followed by the calls to mobile networks (up to 62,2%), long-distance calls (up to 67%) and local calls (up to 71,8%).

Despite the drop in the total revenues from fixed voice telephone service and the high market share of the incumbent operator in our country, it should be noted that in 2006 the revenues of the alternative operators have increased by 13%. The target audience of the alternative operators is mainly the small and medium enterprises and the residential subscribers (when making international calls). The data shows that

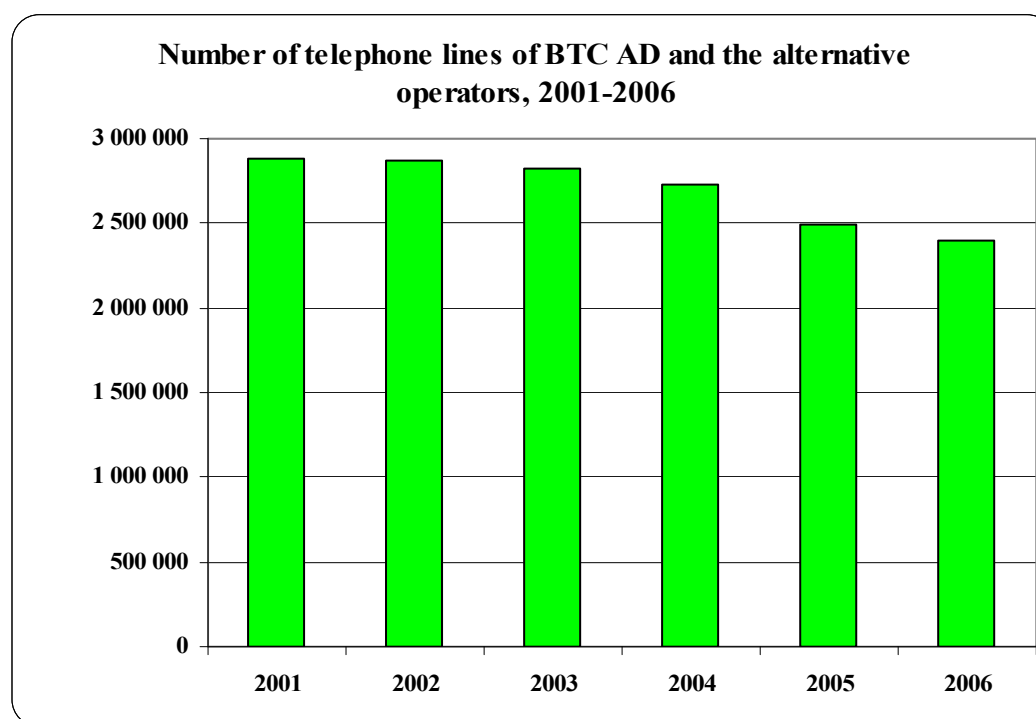
the outgoing international traffic of BTC has decreased by 40% for one year and that of the alternative operators has increased by 130%.

Another indicator for the emerging competition in this market is the traced trend of increase in the share of numbers from the NNP assimilated by the alternative operators at the expense of those by BTC: as of 31.12.2006 the ratio is 95,5% to 4,5% in favour of the incumbent operator.

2.3. Fixed telephone lines

During 2006 99% of the fixed telephone lines in Bulgaria are lines of the incumbent operator.

At the end of the year the total number of fixed telephone lines in Bulgaria has decreased by 4% in comparison to the preceding year, although the telephone lines of the alternative operators are 3,5 times more.



Source: CRC

Figure 23

The decrease of the fixed telephone lines can be explained by consumer migration to the services of the alternative operators, usage of mobile voice telephone services, and more and more popular free of charge PC-to-PC real time voice transmission through Internet.

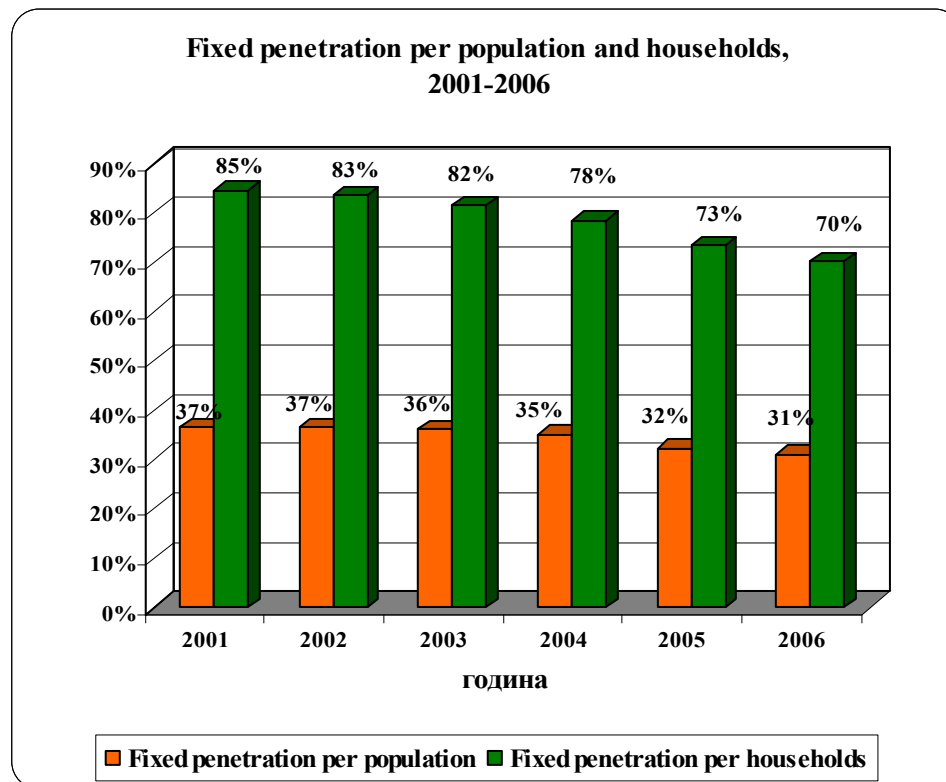
During 2006 was observed retention in the BTC AD fixed telephone lines reduction rate. This could be due to the tariff plans offered by the company (including free minutes for local, long-distance and/or international calls), the promotions held during the year (Eastern, summer and Christmas ones for international calls) and the wide range of telecommunication services provided to the customers through one subscriber line (fixed voice telephone service, ISDN, ADSL, etc.).

As a whole, the alternative operators in the SEE⁶ countries still have quite a low share of the total number of fixed telephone lines. This percentage varies strongly across the region: from 0,04% for Croatia to 15% for Romania, while in Montenegro and the Republic of Macedonia alternative operators are still missing.

In 2006 the indicators telephone penetration by population and by households continue to diminish. The reduction of the indicator “fixed telephone penetration” by population is 1 point and the “fixed telephone penetration” per households indicator decreases by 4 points on annual basis for a third consecutive year, but still keeps its traditionally high rate: 70%⁷.

⁶ Report 3 – Country Comparative Report Supply of services in monitoring of South East Europe - telecommunications services sector and related aspects, March, 2007, p. 115-116

⁷When calculating the penetration by households, the number of residential telephone lines is related to the data available on the number of households from the latest census of the National Statistical Institute in 2001.

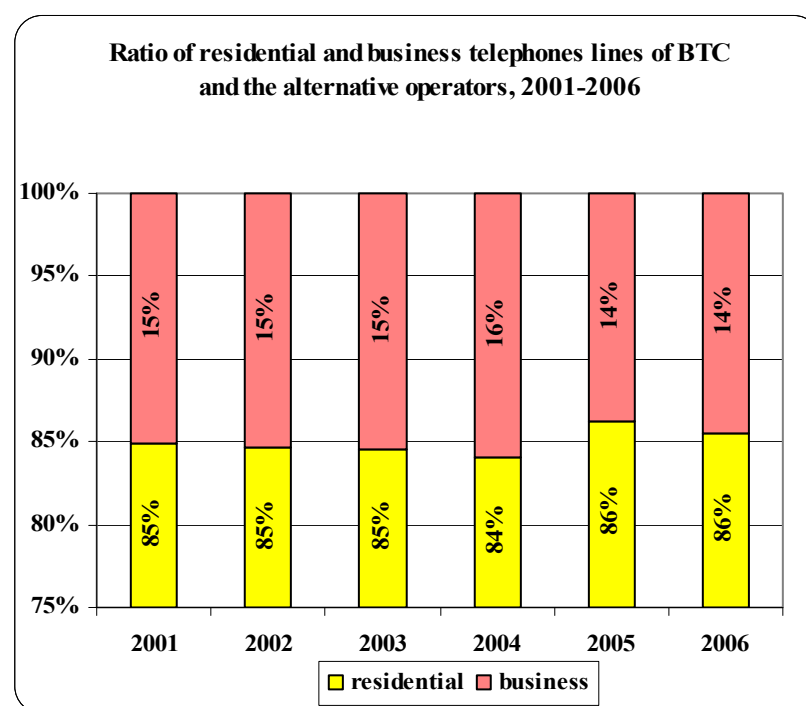


Source: CRC

Figure 24

For the sake of comparison, the indicator fixed telephone penetration per population varies strongly across the SEE countries⁸: from 31,45% in Croatia to 5,47% in the district of Kosovo. Within the region, the telephone penetration by population in Bulgaria is one of the highest (31%), being lower just in comparison with that of Croatia.

There was no change in the ratio between residential and business telephone lines during the year (Figure 25).



Note: The percentages indicated in the chart above are round.

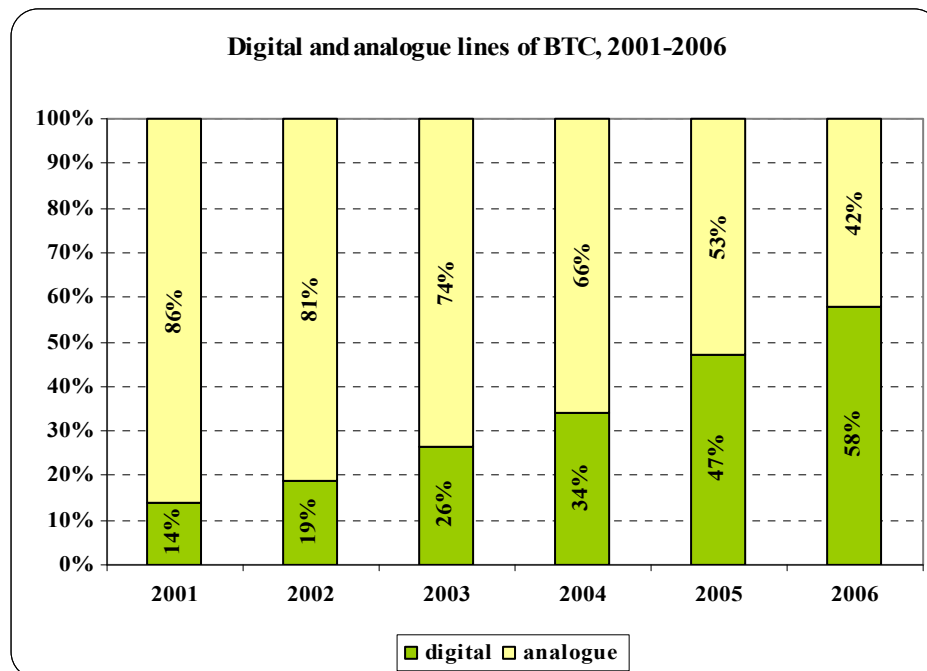
Source: CRC

Figure 25

While the ratio residential to business telephone lines is 6:1 for BTC AD, the same ratio for the alternative operators is 1:6, which indicates that the target audience of the alternative operators is namely the business subscribers.

As of end 2006 58% of the BTC AD telephone lines are digital and the company has fulfilled its licensing obligation to raise the digitalization rate up to 50-55% (Figure 26).

⁸ Report 3 – Country Comparative Report Supply of services in monitoring of South East Europe - telecommunications services sector and related aspects, March, 2007, p. 111



Source: CRC based on data submitted by BTC

Figure 26

Despite the achieved results, the digitalization rate for the fixed telephone network of the incumbent in Bulgaria is still among the lowest ones within the SEE countries⁹. Within the region, this percentage is lower only in Kosovo, while in the rest of the countries it is over 90% and in Republic of Macedonia and Croatia since 2004 it is 100%. In line with the commitments under Chapter 19 “Telecommunications and information technologies” of the negotiations for Bulgaria’s accession to the EU, by the end of 2008 the digitalization of the BTC AD fixed network must reach 75-81%.

2.4. Services provided and competition development

As it was already mentioned, in 2006 there was still no real competition in the market for fixed telephone networks and provision of voice telephone services: the market share of the incumbent operator calculated based on number of lines and revenues is too high (over 96%).

On the Bulgarian telecommunications market carrier selection is provided by seven telecommunication operators¹⁰: ITD NETWORK AD, BTC NET EOOD, GOLD TELECOM BULGARIA AD, NEXCOM BULGARIA EAD, ORBITEL EAD, SPECTRUM NET AD and TRANS TELECOM EOOD. All of them provide carrier selection and during the last year ORBITEL EAD launched carrier pre-selection as well.

In 2006 less than 1%, or 16 219 BTC AD subscribers, have used carrier selection service. It may be expected that during the next year the usage of both carrier selection and pre-selection services will be pushed up.

For 2007 is foreseen that the subscribers of the alternative operators shall have the possibility to make calls to non-geographical numbers from the BTC AD network, and vice versa. This will bring advantage for the customers in the form of enlarged scope of fixed voice telephone services used.

In compliance with the European market development trends, the importance of the “triple play” service for the development of competition keeps growing. Among the alternative operators, only CABLETEL AD provides service of the type voice transmission, cable television and Internet. It is envisaged that in the next year the service will be provided by other alternative operators as well.

BTC AD and the alternative operators of fixed voice telephone service face the strong competition of the mobile operators (offering wide range of services, mobility when using them and flexibility in terms of tariffing), of the VoIP providers, as well as of the data transfer operators, having the possibility to provide triple play of the type VoIP, Internet and online IP television.

In 2005 three of the telecommunication operators with issued licenses for fixed telephone network and provision of services through it, TRANS TELECOM OOD, NEXCOM BULGARIA EAD and MOBILTEL AD, have been awarded licenses of the type “point-to-multipoint”. The license provides for WiMAX technology to be used for supply of voice transmission and voice telephone service. In accordance with the licensing conditions the operators are obliged to launch service within one-year period after the issuance of

⁹ Report 3 – Country Comparative Report Supply of services in monitoring of South East Europe - telecommunications services sector and related aspects, March, 2007, p. 114

¹⁰ In 2005 the service was provided by four telecommunication operators: GOLD TELECOM BULGARIA AD, NEXCOM BULGARIA EAD, ORBITEL AD and SPECTRUM NET AD

the license. In 2006 the efforts of these operators are directed mainly towards that, and for the next year it is envisaged that they shall provide for the consumers wireless services of high quality.

It is expected that in 2007 the mobile operators with strong positions on the market shall start provision of fixed voice telephone service, which shall be a prerequisite for emerging convergence of fixed and mobile networks in the country. This could be confirmed by the fact that in mid-2006 were concluded interconnection agreements between the mobile network of MOBILTEL EAD and the fixed network of COSMO BULGARIA MOBILE EAD, between the fixed network of MOBILTEL EAD and the mobile network of COSMO BULGARIA MOBILE EAD, as well as between the public fixed networks of BTC AD and COSMO BULGARIA MOBILE EAD.

2.5. Fixed voice telephone service

In compliance with the provisions of the legislation in force during 2006 the regulated prices can not: contain pricing elements based solely on the significant market power and discounts breaking the competition possibilities; create advantages for separate consumers regarding the same or similar service; be under the level of the costs incurred for their provision. The price of the fixed voice telephone service is set based on the Regulations for determining the prices of the fixed voice telephone service (the Regulations), adopted by CRC Decision No 1050/15.04.2004, promulgated in State Gazette, No 42/2004 and on the costs for its provision, while observing the requirements for regulated prices. According to the Regulations, the price of the fixed voice telephone service is determined based on the consumer price basket, including the following elements: charge for initial connection to the network, monthly rental charges and prices for calls. The price increase for the separate elements of the basket is limited by a common price ceiling, which maximum value is equal to the product of the consumer price index and the gross domestic product index.

BTC prices for the fixed voice telephone service

In April 2006 BTC submitted to CRC proposal for change in the prices for the fixed voice telephone service, which on one side, provided for total increase of the price of the elements included in the consumer price basket by 1,45%, and, on the other side – tariff changes concerning: restructuring of the existing three zones for long-distance calls and forming of only one zone; restricting the time zone for off-peak (from 21.00 to 7.00) for weekends and holidays and eliminating the time off-peak zone in the working days for local calls, while retaining the off-peak time zone for long-distance calls both for working days and for weekends and holidays; change in the groups of countries from the international calls list.

In compliance with its powers stipulated by law, by Decision No 1048/16.05.2006 CRC judged that because of discrepancies in the consumption volume included in the basket and because of the availability of different time zones for local calls compared to those for long-distance calls, the prices set by BTC do not follow the provisions of the TA and shall be revised.

In June BTC submitted amended proposal for change in the prices of the fixed voice telephone service – with total value of the common increase of the prices in the basket amounting to 0,97%, arising from corrected consumption. There was no evidence provided by BTC regarding the unchanged proposal of April 2006 to restrict the time zone for off-peak traffic (from 21.00 to 7.00) to the weekends and holidays and to eliminate the time zone for off-peak traffic in working days for local calls. At the same time, the assessment done by CRC with regard to the fulfilment of the legal provisions for regulated prices showed that the prices for long-distance calls offered by BTC hinders the competition development and premise application of price squeeze against the rest of market players and, therefore, are based solely on the significant market power on the market of fixed voice telephone service. With this ground CRC sent back once again the prices proposed by BTC (Decision No 1458/11.07.2006).

In October 2006 BTC submitted for a third time amended proposal for change in prices of the fixed voice telephone service. It was based on the grounds and motives of CRC to send back the prices for amendment for a second time. In order to ensure that price squeeze will not be applied, BTC concluded additional agreements as part of the interconnection agreements negotiating lower prices for some of the interconnection services. By Decision No 2280/14.12.2006 CRC judged that because of the reduction of some interconnection rates, the prices set by BTC and proposed by the company in October 2006 are in compliance with the provisions of the TA. The mentioned decision gives ground to BTC for application of the amended prices and according to the proposal of October 2006 the changes in the price levels compared to the prices in force, weighted with the number of subscriber lines and the call minutes volumes are as follows:

1. **Opening a telephone line** – decrease in the connection fee for all subscribers (residential and business) by 26,75%¹¹.

2. **For monthly rental** – increase in the monthly rental price for all subscribers (residential and business) by 26,98%.

3. **For calls:**

3.1. For local calls of subscribers on time based charging – decrease by 1,87%, the decrease for residential subscribers amounts to 0,45% and for business subscribers to 3,13%.

3.2. For long-distance calls of subscribers on time based charging – increase by 6,54%, the increase for residential subscribers amounts to 8,97% and for business subscribers to 2,84%.

3.3. For international calls of subscribers on time based charging – decrease by 11,60% for all subscribers, the decrease for residential subscribers amounts to 12,84% and for business subscribers to 10,55%.

The time zone for calls, off peak time, from 21.00 to 7.00 in working days, Saturday, Sunday and official holidays remained unchanged for all type of calls.

By CRC Decision No 2280/14.12.2006 were changed the names and the amount of minutes included in the tariff plans for residential subscribers, “At Home” and “At Home City”. The tariff plans for business subscribers “BTC Office” and “BTC Planet” didn’t change.

The changes entered into force at the end of 2006 and as a result of this the prices for the fixed voice telephone service of the incumbent remained unchanged during 2006 compared to 2005.

Prices for fixed voice telephone service of the alternative operators

In compliance with the TA the prices of the fixed voice telephone service, provided by the alternative operators, in force during 2006 were set according to supply and demand and are not subject to regulation. The alternative operators, providing fixed voice telephone service have the obligation to notify CRC for price changes at least 7 days before its publishing, to publish them 7 days before entering into force and to provide information about them to the subscribers/consumers free of charge in all offices of the company in the country.

As a whole, the alternative operators, who have submitted prices to CRC during 2006 apply aggressive price policy, having price levels lower than those of the incumbent operator and offering free on-net calls. The prices of these operators are not differentiated for the different hours of the day and for the majority of the operators their levels for 2006 have not changed compared to 2005.

Prices for the carrier selection service

In compliance with its obligations as operator with significant market power, BTC provides to its subscribers possibility to choose the operator when making long-distance and international calls, while the prices of the alternative operators offering carrier selection are lower than the BTC prices for the same types of calls. Data from the incumbent operator shows that 28% of the traffic of long-distance and international calls of the BTC subscribers in 2006 was realized through carrier selection service of alternative operator.

Bulgaria – EC comparison of the fixed voice telephone service prices

A comparison among the prices for fixed voice telephone service of BTC, the Bulgarian alternative operators and the incumbent operators in the Member States of the European Union (EU) for the period 2005-2006 is made below. The comparison is done under the following conditions:

- 2006 data for Bulgaria and the EU as of September 2006.
- For the sake of comparison the report of the European Commission (EC) on the regulation of the electronic communications and markets¹² is used. from where data for the incumbent operators of the EU member states were taken into account.
- When making a comparison of the price of 3-minute call the following references were used:
 - the price of 3-minute call in EU at 3 km distance corresponds to the price of 3-minute local call of BTC and the alternative operators;
 - the price of 3-minute call in EU at 200 km distance corresponds to the price of 3-minute long-distance call, III long-distance zone of BTC, distance over 100 km, and to 3-minute long-distance call of the alternative operators;

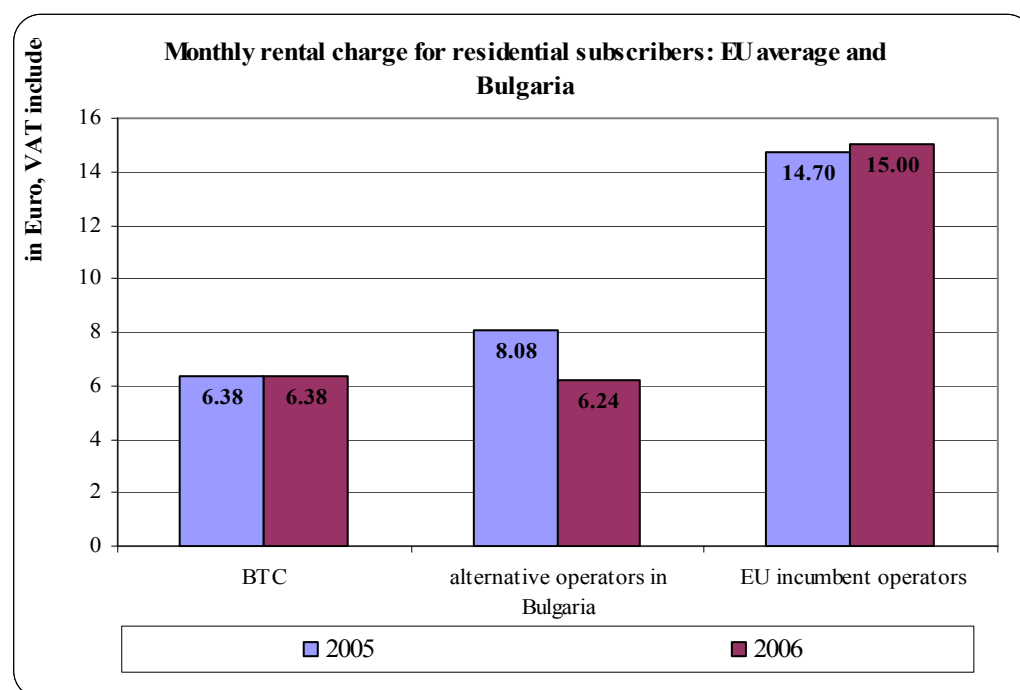
¹¹ The percentage does not take into account the data for the number and revenues out of the ISDN introduction, R2D disabled I st group

¹² European Electronic Communications Regulation and Markets 2006, 12th Report, http://ec.europa.eu/information_society/newsroom/cf/itemlongdetail.cfm?item_id=3304

- As the operators in Bulgaria (BTC and the alternative ones) apply tariffs for international calls that do not correspond to the distance zones used in the tariffs for international calls in the EU member states, the comparison of these prices shall be considered under condition. For this purpose, when comparing the prices for a call to neighbouring country in Bulgaria, the prices of BTC and the alternative operators for a call to Albania, Slovenia, Romania, Turkey, Serbia and Montenegro, Macedonia were taken into account. For a call to distant European country the prices of the Bulgarian operators for a call to the United Kingdom were used.
- The comparison of 3-minute local and long-distance calls of BTC and the EU refer to peak traffic hours. The alternative operators, as it was already specified, do not apply differentiated prices for the different time of the day.
- The price of a 3-minute international call in EU refers to peak traffic hours. No difference in the price of a 3-minute international call in Bulgaria for the different time zones as neither BTC, nor the alternative operators apply differentiated prices for the different time of the day when making international calls.

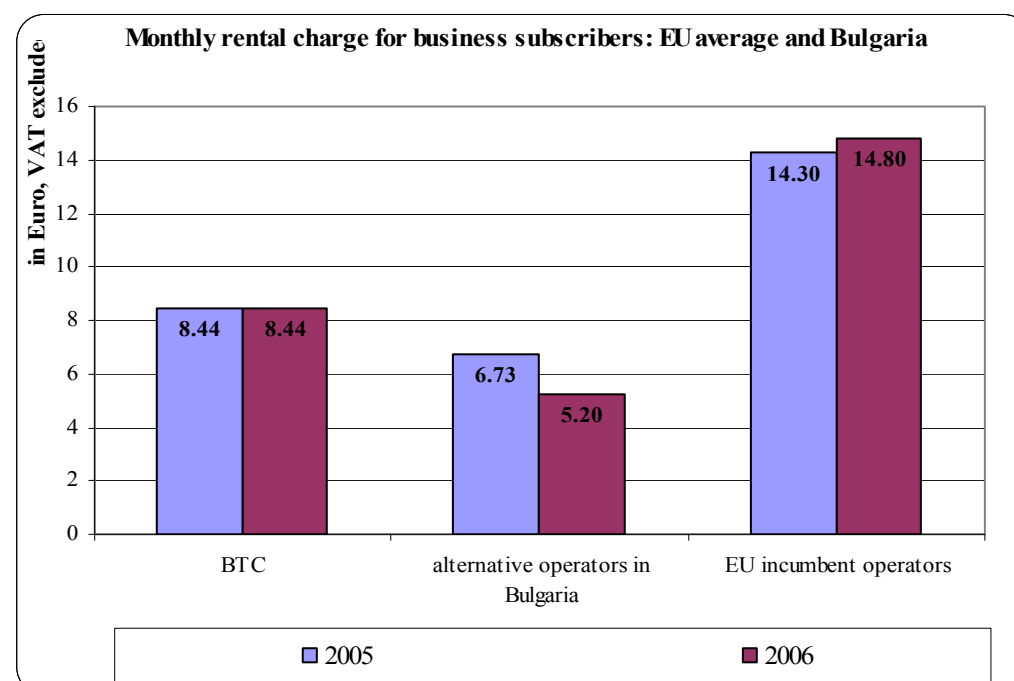
The comparison made shows that, during the year as a whole, the prices of the fixed voice telephone service in Bulgaria remain unchanged compared to 2005, while the EU prices for fixed voice telephone service for the same period change as follows: the monthly rental charge is increasing, as well as the price of a 3-minute local call, the price of a 3-minute long-distance call slightly decreases and the price of a 3-minute international call to neighbouring country increases by 6% and to distant European country and USA decreases respectively by 1,20% and 16,50%.

Figures 27 and 28 illustrate the comparisons of the average monthly rental charges in Bulgaria¹³ and the EU for 2005 and 2006.



Source: *European Electronic Communications Regulation and Markets 2006 (12th Report)*, CRC calculations based on data submitted by BTC and the alternative operators

Figure 27



¹³ Monthly rental charge of BTC for subscribers of Standard tariff plan, i.e. subscribers using special plans are excluded.

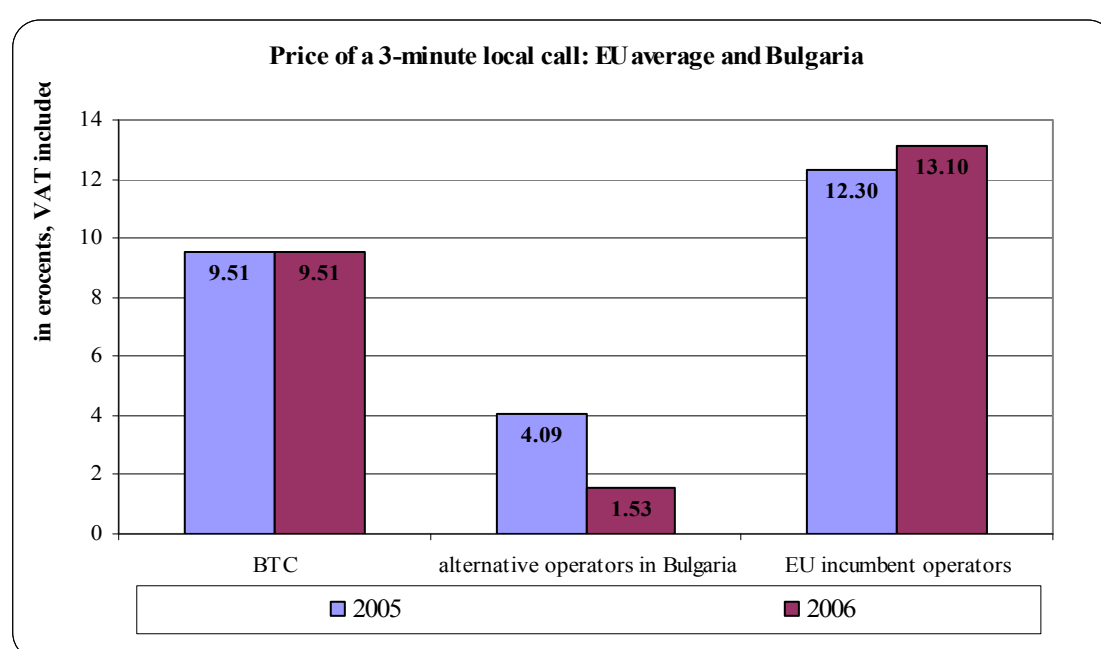
Source: *European Electronic Communications Regulation and Markets 2006 (12th Report)*, CRC calculations based on data submitted by BTC and the alternative operators

Figure 28

The comparisons show that the monthly rental charge of BTC in 2006 is significantly below the average price level of EU. Despite the social dissatisfaction because of the high monthly rental charge of the incumbent operator, the price for residential subscribers in Bulgaria is 60% lower than the EU average and for business subscribers – around 43% lower.

The monthly rental charge of the Bulgarian alternative operators for residential subscribers does not differ significantly from those of BTC – it is only by 2% lower. The monthly rental for business subscribers of the alternative operators is lower than those of BTC by 38%. In comparison to the EU average prices, the monthly rental charges of the alternative operators in our country for residential and business subscribers are respectively by 58% and 65% lower.

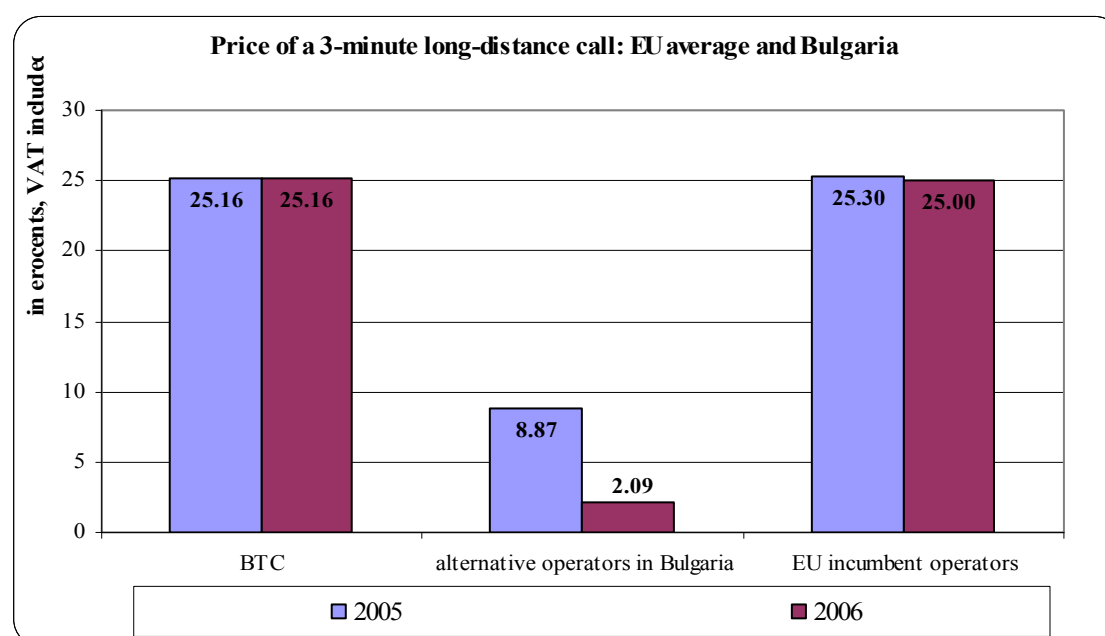
The charts below (Figures 29, 30 and 31) represent comparisons of the average prices for a 3-minute local, long-distance and international calls of BTC, the alternative operators and the incumbent operators in the EU member states.



Source: *European Electronic Communications Regulation and Markets 2006 (12th Report)*, CRC calculations based on data submitted by BTC and the alternative operators

Figure 29

As it is obvious from the data presented in Figure 29, the price of a 3-minute local call of the Bulgarian incumbent operator for 2006 is 27,5% lower than the EU average price of the same type of call, while the price of a 3-minute call of the alternative operators is by 88,2% lower compared to the EU average of such a type of call. The lower price of the alternative operators is conditioned by the free on-net calls in the networks of some of the operators.

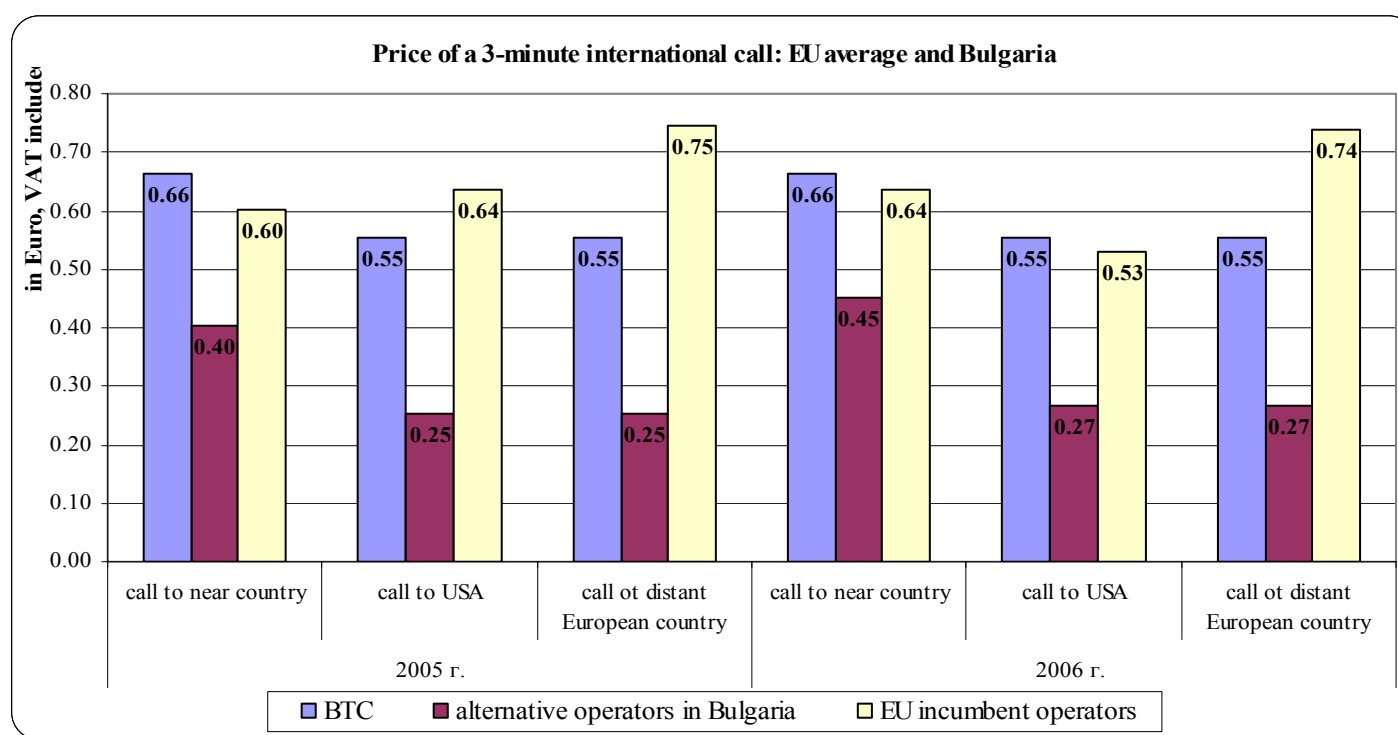


Source: *European Electronic Communications Regulation and Markets 2006 (12th Report)*, CRC calculations based on data submitted by BTC and the alternative operators

Figure 30

The comparison of the prices for a 3-minute long distance call of BTC, alternative operator and the EU average shows that the prices offered by the alternative operators are considerably lower for long distance calls as well, compared to those of BTC. The price of a 3-minute long distance of alternative operator in Bulgaria is by 94% lower than the EU average price for such a call. The indicated lower price levels for our country are once more due to the fact that the majority of the alternative operators offer zero prices for calls. It is obvious from the comparison shown in figure 30 that the price of a long distance call within the BTC network is at the EU average price level.

Figure 31 illustrates the prices of a 3-minute international call to neighbouring country, distant European country and USA made through the incumbent operator in Bulgaria, alternative operator in Bulgaria and the average price for such a call in the EU member states.



Source: *European Electronic Communications Regulation and Markets 2006 (12th Report), CRC calculations based on data submitted by BTC and the alternative operators*

Figure 31

The price of a 3-minute international call of BTC in 2006 is higher compared to the price for the same type of call of the alternative operators. The average price for a 3-minute international call to neighbouring country of the alternative operators is by 32% lower compared to the one of BTC. The average prices of the alternative operators for a 3-minute call to distant European country and USA are by 52% lower than those of the incumbent operator.

The BTC prices for international calls in 2006 are close to the EU averages. The price of a 3-minute call to neighbouring country and USA are respectively by 4,5% and 4% higher than the EU averages, while the 3-minute call to distant European country is by 25% lower than the EU average price.

2.6. Interconnection and unbundled access

In compliance with the law provisions, the prices for interconnection and unbundled access are set by the operators with significant market power on the fixed voice telephone service markets and leased lines markets, based on the costs for their provision, calculated according to approved by CRC cost accounting system.

Cost accounting system

In compliance with the provisions of article 121, par.5 of the TA (in force during 2006), stipulating obligation for implementation of a cost accounting system with a view to prove cost orientation of the prices, BTC, designated as operator with significant market power on the markets of fixed voice telephone service and leased lines, is the only operator applying Cost Accounting System (the System), approved by CRC decision No 1049/15.04.2004.

The dynamic development, the introduction of new telecommunication technologies, the emergence and supply of new services by BTC caused non-conformities regarding the services offered by the company and

the services included in the System approved in 2004. This caused problems when forming the prime cost of the services with regulated prices and challenged the capability of the System for serving as a tool for proving the cost orientation of the prices because of breach of the proportions when allocating the costs according to the accounting data (exclusive of depreciation) in regard to common costs. Based on all stated above and in compliance with article 217a, par.1 of the TA, by Decision No 882/11.05.2006 CRC imposed obligation on the company to amend the System, as follows:

- Correction of the services included in a list – Annex 1.1 of the System.
- Inclusion of rules for introduction of new services and elimination of services introduced in the System, but not provided by the company any more.
- Specification and addition of the System principals.
- Specifying of the texts related to the cost of capital.
- Full description of the algorithm for cost allocation.

The draft amendment of the BTC System submitted in September 2006 did not correspond completely to the instructions given by CRC Decision No 882/11.05.2006. Because of the presence of significant social interest when determining the prices based on the System, by Decision No 2278/14.12.2006 CRC imposed on the company to implement the instructions for amendment of the System given by CRC.

Prices for interconnection

With the designation of BTC as operator with significant market power on the market for fixed telephone networks and provision of fixed voice telephone services in 2006, the company kept on fulfilling the obligations related to interconnection stipulated in the TA and the individual license. In compliance with the law provisions BTC submitted to CRC proposal for amendment of the conditions and the prices in the Reference Interconnection Offer (RIO) approved by Decision No 2295/29.12.2004 and in accordance with the instructions given by CRC Decision No 2296/29.12.2004. At the same time, in accordance with Decision No 8647/06.10.2005¹⁴ of the Supreme Administrative Court (SAC), CRC, by Decision No 1953/20.10.2005 opened a public consultation procedure for the 2004 version of the RIO approved by decision No 1410/29.06.2004. Taking into account that for the period mid-2004 – October 2005 the BTC interconnection costs have changed, CRC required from the company adaptation of the data.

By Decision No 572/30.03.2006, after the end of the public consultation procedure and taking into account the System costs data submitted by the company, CRC approved the draft RIO, giving obligatory instructions to BTC for amendment of some of the RIO provisions and imposing limitations over the prices for interconnection and unbundled access set by BTC. The price limitations were imposed because of the lack of enough evidence for cost orientation of the prices determined by the company and in order to stimulate the operator's effectiveness accordingly to its investment costs.

The limitations imposed by CRC provided for reductions of the BTC interconnection prices, compared to the prices set in the RIO approved by Decision No 1410/29.06.2004 and to the prices suggested by the company in September 2004, which we as a whole higher than the prices according to the interconnection agreements concluded between BTC and the fixed network operators. The table below presents a comparison¹⁵ of the interconnection prices (for termination), set in the RIO approved by Decision No 1410/24.06.2004, the prices valid for 2006 in accordance with the concluded interconnection agreements and the price limitations imposed by CRC.

Table 2

Prices for traffic services (in BGN per minute)	Prices – RIO adopted by Decision No1410 of 24.06.2004	2006 prices – interconnection agreements	CRC price limitations – decision No 572 of 30.03.2006

¹⁴ By its own decision No 8647/2005 r. the SAC revoked Decision No 1410/2004 of CRC for approval of the RIO of BTC.

¹⁵ Prices in BGN, VAT excluded.

	Peak traffic	Off-peak traffic	Peak traffic	Off-peak traffic	Peak traffic	Off-peak traffic
Fixed-to-fixed termination on the BTC network:						
Local level	0,020	0,019	0,018	0,017	0,0165	0,0145
Metro level	0,028	0,026	0,027	0,026	0,0230	0,0208
Single transit	0,360	0,033	0,033	0,031	0,0270	0,0240
Single transit – termination of international calls	0,360	0,033	0,034	0,032	dropped	dropped
Double transit	0,100	0,080	0,090	0,075	0,0600	0,0530
Double transit – termination of international calls	0,100	0,080	0,100	0,075	dropped	dropped
Mobile-to-fixed termination on the BTC network	0,100	0,080	0,100	0,075	0,0600	0,0530
Trunk traffic						
Single transit	0,030	0,030	0,030	0,030	0,024	0,024
Double transit	0,080	0,080	0,080	0,080	0,055	0,055

Decision No 572/30.03.2006 in its part concerning the interconnection prices was completely appealed by BTC and the preliminary execution of the price limitations imposed by CRC was rejected by the court, therefore, in practice, the prices according to the concluded interconnection agreements between BTC and the operators remained the valid ones for 2006 when providing interconnection. In such a way the BTC interconnection prices in 2006 remained unchanged compared to the preceding year.

In 2006 by its Decision No 210/28.09.2006 CPC sanctioned BTC for applying of price squeeze. The real reduction of the interconnection prices is expected to result in lower prices for the end consumers, better competitiveness of the alternative operators and creation of competitive environment for the telecommunications market in the country.

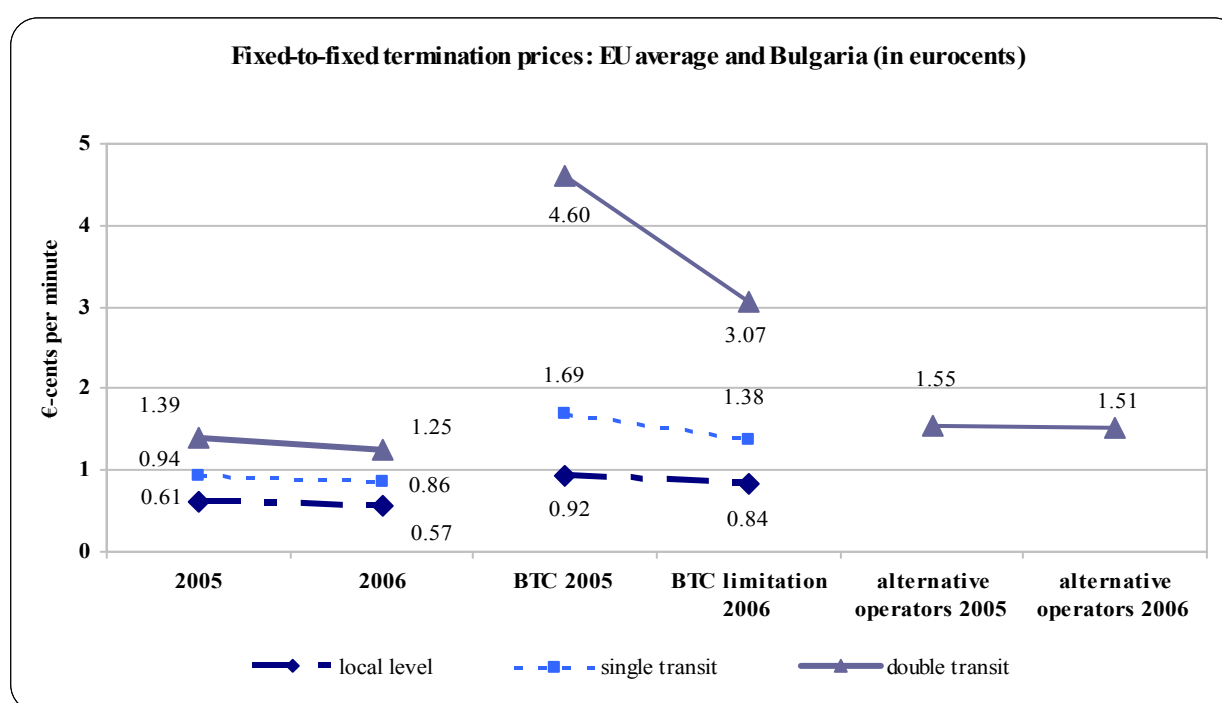
In December 2006 BTC concluded additional agreements, providing for reduction of the prices for termination on the BTC network at metro level, single and double transit levels, as well as for reduction of the prices for carrier selection at single transit level of the BTC network. The prices negotiated with these agreements are in compliance with the price limitations imposed by CRC Decision No 572/2006.

Bulgaria – EC comparison of the termination rates

While the level of the interconnection prices in Bulgaria remains almost unchanged in 2006, the interconnection prices in the EU member states keep on tending towards reduction. The average price for local level drops by 6,5% in 2006 compared to 2005, the single transit price decreases by 8,5% and the one for double transit – by 10%. The reduction of the termination rates in the EU is due to regulatory intervention as a result of market analyses and modifications of the cost accounting systems used by the incumbent operator to determine cost oriented prices.

The comparison of the weighted by the traffic average rates for termination on the fixed network of an alternative operator, set on the basis of free negotiations, shows retention of the 2005 levels (0,0304 BGN per minute) in 2006 (0,0295 BGN per minute). The insignificant reduction is due to the greater traffic volume realized among the networks of the alternative operators.

Figure 32 illustrates a comparison of the average termination rates for the fixed networks of the incumbent operators in the EU member states (for 2005 and 2006), the CRC price limitations (for 2006), the BTC termination rates (for 2005) and those of the alternative operators (for 2005 and 2006). The average rates are calculated for the peak traffic hours, while the prices for Bulgaria are recalculated in eurocents.



Source: *European Electronic Communications Regulation and Markets 2006 (12th Report), Volume 2, Annex 2 Market Overview; CRC data*

Figure 32

As it is obvious from the data presented with the chart above, the BTC prices are considerably higher than the EU member state averages, even if the limitations imposed by CRC are taken into account. As it was stated above in Table 2, the Bulgarian incumbent operator offers interconnection at metro level (for calls within one and the same settlement) and the price for termination on metro level is respectively 15% lower than the local level price. It should be noted that the majority of the points of interconnection of the alternative operators are at metro level and the mobile operators can interconnect solely at double transit level.

The price for termination on the network of alternative operator is visualized on the chart of Figure 32 as double transit termination, due to the fact that there are no levels defined in the networks of the alternative operators. The alternative operators carry traffic among their networks using H.323 and SIP protocols and negotiate prices that are lower compared to the BTC ones. This is the reason why there is difference between the fixed termination prices of BTC and the alternative operators.

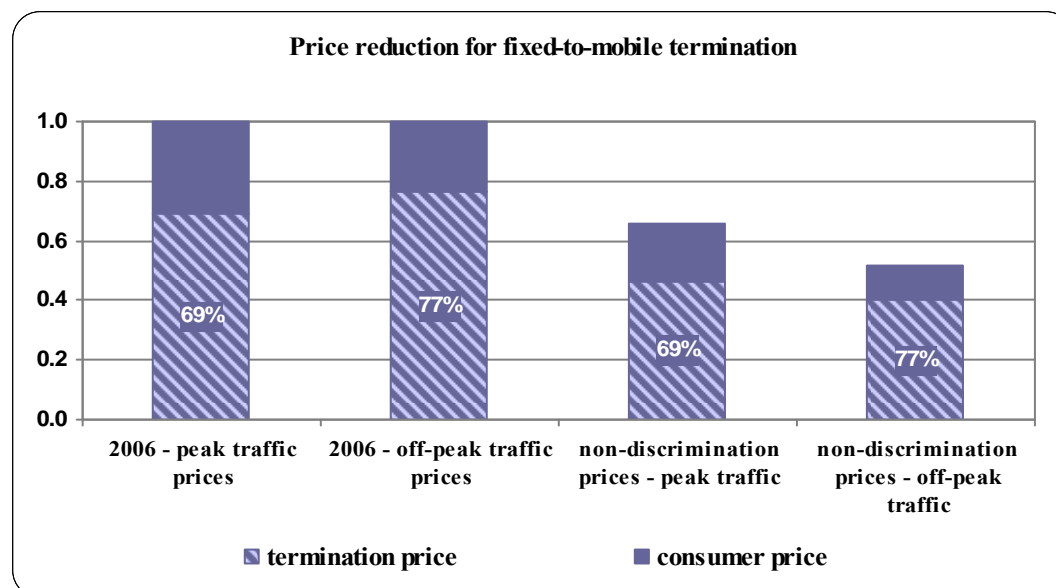
There are no different prices in the EU member states depending on the traffic origin. Therefore, with the price limitations imposed, CRC sets equal fixed-to-fixed and mobile-to-fixed termination rates for double transit level of the BTC network. At present, these prices have not entered into force for the mobile operators.

Because of the higher fixed-to-mobile termination rates, the alternative operators and BTC negotiate higher prices for termination of traffic originating from mobile networks compared to those for traffic terminating from fixed networks. In 2006 the weighted average mobile-to-fixed price of the alternative operators is 0,103 BGN per minute.

Based on the monitoring report of the European Commission¹⁶, chapter 19 “Telecommunications and information technologies”, and taking into account the social importance of the problem regarding the too high mobile termination rates in Bulgaria, by Decision No 1322/28.06.2006 CRC started a public consultation procedure for reduction of the fixed-to-mobile termination rates.

In order to encourage competition and to protect the consumers’ interests, within the opened procedure were discussed different options to reduce the prices, which, if the non-discrimination principle is applicable, should go down by 34% for the peak traffic hours and by 48% for the off-peak traffic hours. Following the non-discrimination principle, the relative share of the termination rate in the consumer price remains unchanged.

The chart below (Figure 33) represents the probable effect from the fixed-to-mobile termination rates reduction over the prices paid by the consumers, under the condition that the latter decrease by the percentage of reduction of the termination rates.



Source: calculations of CRC based on data submitted by the mobile operators

Figure 33

Within the public consultation procedure, some of the mobile operators, taking advantage of the gap in the legislation in force in 2006 (lack of formal legal ground for the Commission to impose the obligation for termination rate reduction), rejected the proposal for glide path reduction of these prices on free will.

Prices for local loop unbundling

As operator with significant market power on the market for fixed telephone networks and provision of fixed voice telephone services, BTC has an obligation to elaborate Reference unbundled offer (RUO), part of which are the prices for local loop unbundling.

The RUO approved by CRC Decision No 2297/29.12.2004 was appealed to the Supreme Administrative Court and was revoked with the reasons that the RUO public consultation procedure was not in compliance with the one stipulated in the TA. Following the SAC decision, CRC, by Decision No 647/13.04.2006 opened a public consultation procedure for the draft RUO of BTC, submitted at the end of 2004. Considering that the BTC costs for unbundled access have changed for the period end-2004 - April 2006, CRC demanded from the company to update the unbundled access costs. It was obvious from the data, submitted by BTC, that the prices for local loop unbundling set based on that are not formed in compliance with the law provisions and are not calculated in accordance with the System, approved by CRC Decision No 1049/15.04.2004.

By its Decision No 135/22.06.2006 CPC¹⁷ stated for availability of price squeeze applied by BTC impeding new operators entering the market of voice and xDSL services and sanctioned the operator for breach of the Competition Protection Law.

By Decision No 1459/11.07.2006, after carried out public consultation procedure, CRC approved the draft RUO. CRC Decision No 1459/11.07.2006 was appealed by BTC. The court rejected the company’s claim for stay of the decision’s preliminary execution, by which, in spite of the court dispute, the maximum price limitations, imposed by CRC in compliance with the CPC decision quoted above, entered into force. Despite the preliminary implementation of the CRC decision allowed by the court, BTC didn’t renegotiate

¹⁶ See <http://www.europa.bg/htmls/page.php?id=3492&category=229&page=5>

¹⁷ Because of court appeal by BTC the CPC decision is not in force.

the connection prices in accordance with the CRC limitations imposed, as well as did not provide new agreements or amendments of the unbundled access agreements already concluded.

The table below presents a comparison between the local loop unbundling prices in accordance with the RUO, approved by CRC Decision No 2297/29.12.2004 and the upper limit of the local loop unbundling prices, imposed by CRC Decision No 1459/11.07.2006.

Prices for local loop unbundling services (in BGN)	Prices – RUO approved by Decision No 2297/29.12.2004		CRC price limitations – Decision No 1459/11.07.2006	
	Shared access	Full access	Shared access	Full access
Internal connection cable – instalment of 100 pairs	6 200	2 900	Up to 2 900	Up to 1 200
Internal connection cable – monthly rental charge for 100 pairs	43	43	Up to 43	Up to 43
Connection of twisted copper pair – opening of pair connection line	32	18	Up to 68	Up to 35
Connection of twisted copper pair – monthly rental charge for pair connection line	18	26	Up to 8,50	Up to 19,50

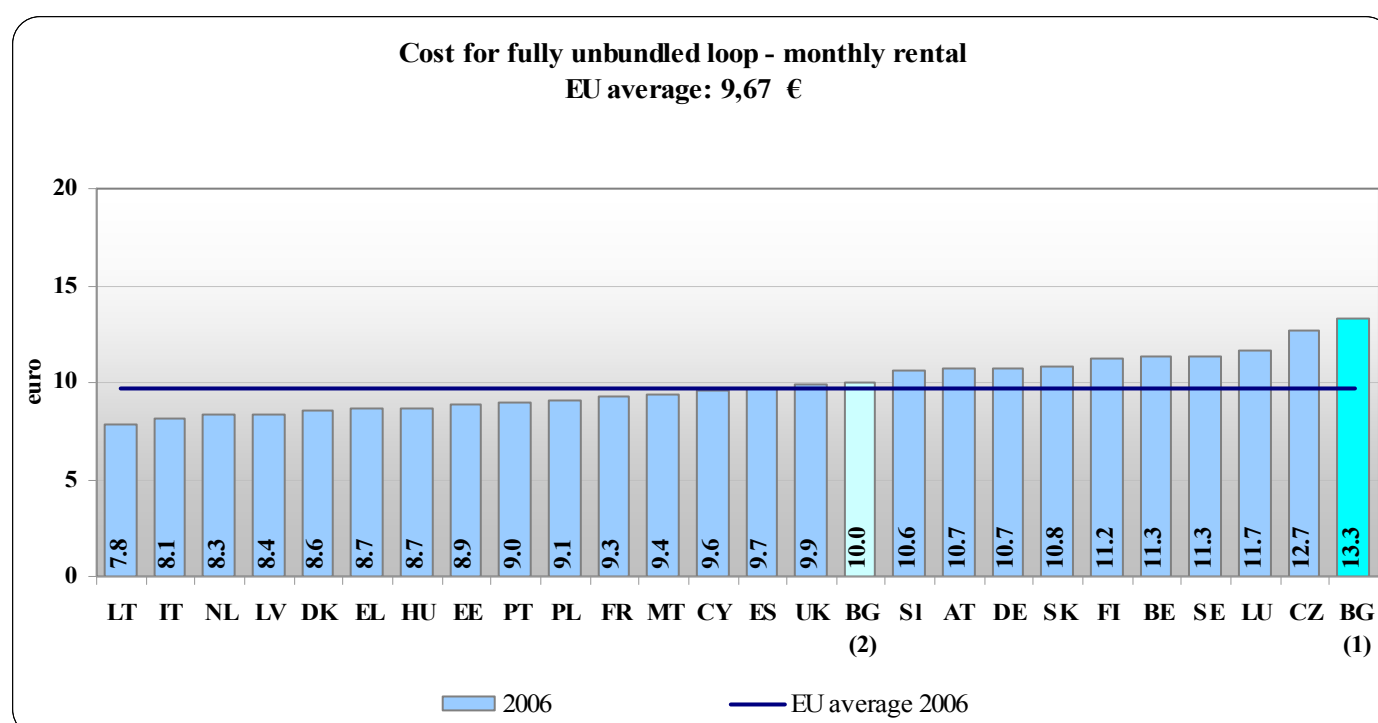
Table 3

Bulgaria – EC price comparison of the monthly rental for twisted copper pair

Through the limitations imposed by CRC on the connection charges the local loop unbundling prices in Bulgaria are tending towards the EU average price levels. The charts below present the monthly rental charges in Bulgaria and the EU member states and the EU average in Euro, VAT excluded.

The BTC data are presented in the comparisons as 2005 prices (BG1) and the CRC limitations as upper limits (BG2), while the values are recalculated in Euro.

Figure 34 illustrates the monthly rental cost for the fully unbundled loop and figure 35 – the one for shared access. The names of the member states and Bulgaria in the chart are replaced by their Latin abbreviations¹⁸.



¹⁸BG- Bulgaria, BE- Belgium, CZ- Czech Republic, DK- Denmark, DE- Germany, EE- Estonia, EL- Greece, ES- Spain, FR- France, IE- Ireland, IT- Italy, CY- Cyprus, LV- Latvia, LT- Lithuania, LU- Luxembourg, HU- Hungary, MT- Malta, NL- Netherlands, AT- Austria, PL- Poland, PT- Portugal, SL- Slovenia, SK- Slovakia, SE- Sweden and UK- United Kingdom.

Figure 34

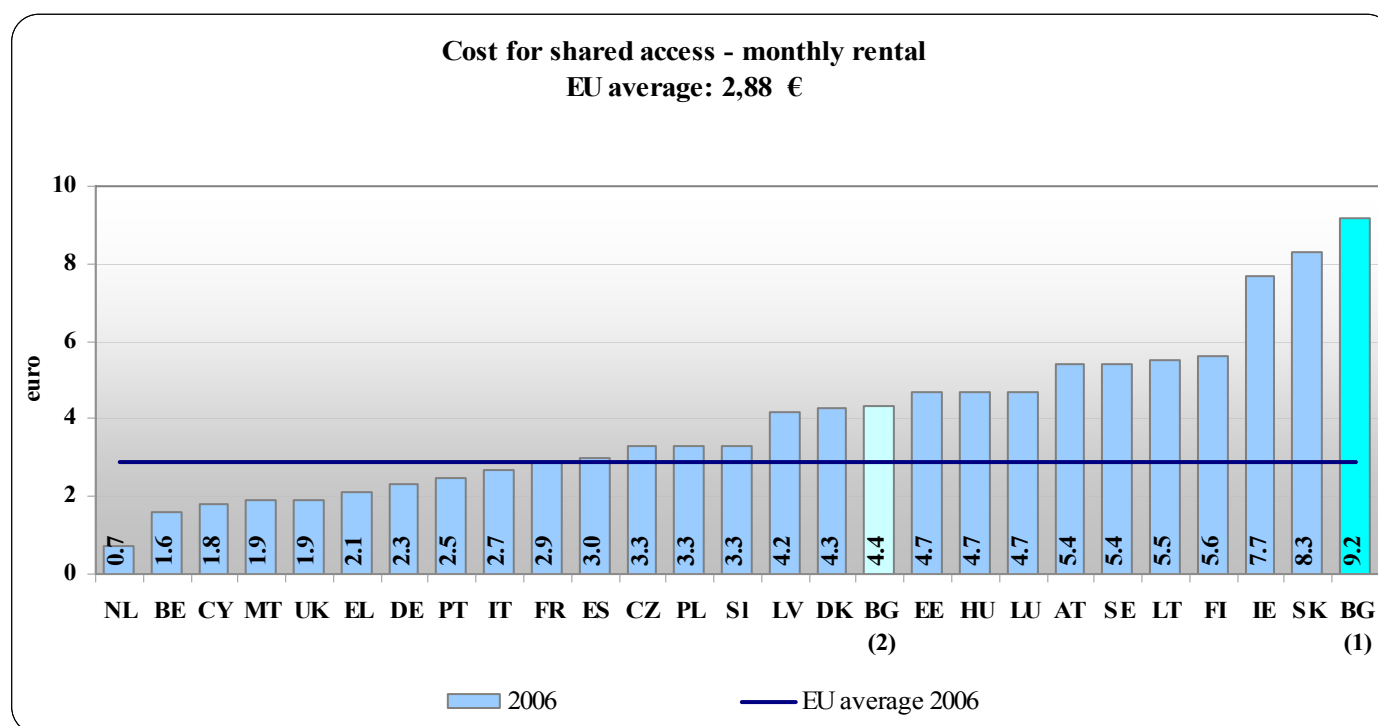


Figure 35

The comparison between the maximum price limits for the monthly rental for twisted cooper pair in Bulgaria and the average price for the EU member states in 2006 shows that the monthly rental for full access (BTC price of 9,97 €, indicated as BG2 in the chart) is close to the EU average (9,67 €), while the shared access price is by 51% higher: 4,35 € for BTC (indicated as BG2 in the chart) against 2,88 € for the member states.

By Decision No 1459/11.07.2006 CRC imposed on BTC the obligation to submit within one-month period prices and relevant documentation with evidence for the cost orientation for backhaul and distant collocation services, as well as to propose conditions for access to the subscribers loop (sub loop), which shall be a part of the RUO. Within the period indicated above, BTC did not fulfil its obligation to propose price for backhaul and distant collocation, in accordance with the law provisions.

Even with a delay, until end-2006, the company submitted twice to CRC price proposals which were set not on the basis of the System (what the law provides for) and the proposals were not accompanied by documents and information, proving their cost orientation.