ANNUAL REPORT

OF
COMMUNICATIONS REGULATION COMMISSION FOR 2008

ANALYSIS OF THE POSTAL SERVICES MARKET FOR 2008

Directorate Market regulation

Department Postal services regulation

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INTRODUCTION

In 2008, two sign events in the postal world were clearly delineated, which generally marked the postal policy and determined it in long-term period - the Third postal directive at European level and the 24th Congress of the Universal Postal Union (UPU) worldwide.
The most significant international forum in the field of postal services, in 2008, was the 24th Congress of the UPU. One of the most important decisions taken at the Congress was the adoption of the Nairobi Postal Strategy, which will be leading for the governments of 191 countries - members of the Union, regional postal operators and postal organizations over the next four years (2009-2012).
The Nairobi Postal Strategy includes the following main objectives:

- ✓ Improving the interoperability, quality and efficiency of the three-dimensional postal network in order to keep the sector relevant to the market and customer needs;
- ✓ Stimulating a universal postal service adapted to the social, economic and technological environment;
- ✓ Promoting sustainable development of the postal sector and its economy;
- ✓ Fostering the growth of the postal market(s) and services.

Directive 2008/6/EC of the European Parliament and Council of 20 February 2008, amending Directive 97/67/EC, with the view of the full accomplishment of Internal Market for postal services, represents the European model for development of postal services and predominantly that of the universal postal service. This model is user-oriented, flexible, and adaptable, because the Directive provides a framework, leaving each country the opportunity to define the precise contours according to its national circumstances and level of development.

- ✓ A minimal scope of the universal postal service is defined;
- ✓ Each country may designate one operator obliged to provide the service or to assign this obligation among more operators on a regional basis or by type of services;
- ✓ Each country is free to choose a financing mechanism for providing the universal postal service;
- ✓ The service quality standards and rules on access to service also remain a national prerogative. Exceptions are the intra-Community quality standards, which are set by the European Commission;
- ✓ There are fostered changes to the licensing procedures and the implementation of notification procedures aimed at reducing the barriers to entry of new postal operators in the postal market and creating conditions for increasing the effectiveness of competition.

The national regulators play an extremely important role for the implementation of these ambitious programs. Some of the most important authorities of the Communications Regulation Commission (CRC), as the national regulatory authority in the field of postal services, are the following:

- ✓ Provides conditions for carrying out of universal postal service (UPU) in the entire country;
- ✓ Provides conditions for competition in the postal market and equality of the postal operators;
- ✓ Issues, amends, supplements, suspends, terminates and revokes individual licenses for providing of UPU or part of it;
- ✓ Issues registration certificates for provision of non-universal postal services (NPS), obliterates registration for carrying out of NSP;

- ✓ Protects interests of the postal services users;
- ✓ Controls the compliance with:
  - the regulations in the field of postal services;
  - the requirements for provision of UPS under the Postal Services Act (PSA);
  - the established state monopoly on reserved area of UPS;
  - the terms on fulfilment of the issued individual licenses and registration certificates, etc.;

Under the PSA, the provision of domestic UPS or part of it is authorised by individual licenses. Universal postal service includes clearance, transport, and delivery of domestic and international items of correspondence, small packets, direct mail, printed matter, secograms, and parcels; postal money orders; the additional services "registered" and "insured".

For provision of NPS, there are issued registration certificates. Non-universal postal services include courier services and acceptance of messages submitted in a physical or electronic form by the sender, transmitting them by electronic communications means and delivery of these messages to the addressee as postal items.

Pursuant to Art. 18, para. 4 of the Constitution of the Republic of Bulgaria, up to 31.12.2010, there is established state monopoly on the reserved area of UPS in favour of the main postal operator BULGARIAN POSTS PLC. The weight limit in the reserved area is 50 g, and the price does not exceed more than 2.5 times the price of the standard item of correspondence with advantage of the main postal operator.

In 2008, the Communications Regulation Commission continued to perform its duties and functions in accordance with the PSA, as it:

- ✓ has issued an individual license for provision of part of the universal postal service - postal money orders, and amended the individual licenses of two operators of the universal postal service;
- ✓ has registered 6 new operators for provision of non-universal postal services;
- ✓ has agreed prices of three licensed operators, pursuant to the provisions of Art. 65, para. 3 of the PSA, and for ensuring of affordable price of the UPS;
- ✓ has agreed a list of positions of employees and officers, subject to obligatory insurance against accident of one operator of part of UPS;
- ✓ has agreed changes to the list of settlements and settlement formations, located in difficult of access areas of the BULGARIAN POSTS PLC;
- ✓ has taken position on and arbitrated the reaching of agreement on a contract conclusion for mutual access to networks of two operators of the UPS;

One of the main CRC priorities is the protection of consumer interests, as within its authorities falls the coordination of the General Terms and Conditions of the agreement with the users of postal services and the taking of position on disputes between users and operators.

In 2008, the CRC has agreed more than 20 Terms and Conditions. Positions on 30 complaints has been adopted, as in many cases the measures taken have resulted in customer satisfaction, because the operators have taken measures to improve the quality of postal services, due to the inspections or the positions required.

In regulatory aspect, after conducted public consultation with persons concerned, the CRC adopted the latest secondary regulation in the PSA - A system for the formation of postal codes of UPS operators' networks.

During the past year, the CRC participated in Round Table conducted by the State Agency for Information Technology and Communications with representatives of the European Commission on “Liberalized Postal Market in Bulgaria - to create it together” with a presentation “State of the Bulgarian postal market and development of the competition”.

In international aspect, the CRC participated in the work of the 24th Congress of the Universal Postal Union (UPU), participated with presentation in a workshop on postal regulation for the French-language network of telecoms regulators (FRATEL), continued its work within the European Committee of postal regulators (CERP), and participated in a working group “Economic issues” to CERP.

I Analysis of the postal services market

1. State of the postal services market in Bulgaria

1.1 Volume of the postal services market in Bulgaria

The CRC annually analyzes the state of the postal services market in Bulgaria by taking into account changes in the number of the provided postal items and services, and the revenue gathered by providing the following postal services:

I. UPS:

1. Clearance, transport and delivery of domestic and international: items of correspondence up to 2 kg; small packets up to 2 k; direct mail up to 2 kg; printed matters up to 5 kg; secograms up to 7 kg;
2. Clearance, transport and delivery of domestic and international postal parcels up to 20 kg;
3. Postal money orders;
4. Additional services "registered" and "insured".

II. NPS:

1. Courier service;
2. Acceptance of messages submitted in a physical or electronic form by the sender, transmitting them by electronic communications means and delivery of these messages to the addressee as postal items (the so-called hybrid mail).

In 2008, the volume of the postal services market in Bulgaria, evaluated on the base of the revenue gathered from postal services, amounted to nearly BGN 248 million, as compared to 2007 it increased by 20 percent. The market volume was calculated as an expert evaluation, based on data submitted by 96 percent of the registered operators as of 31.12.2008. Over the past three years, a trend of sustainable growth, of more than 20% annually, in revenue, generated by the provision of postal services was observed.

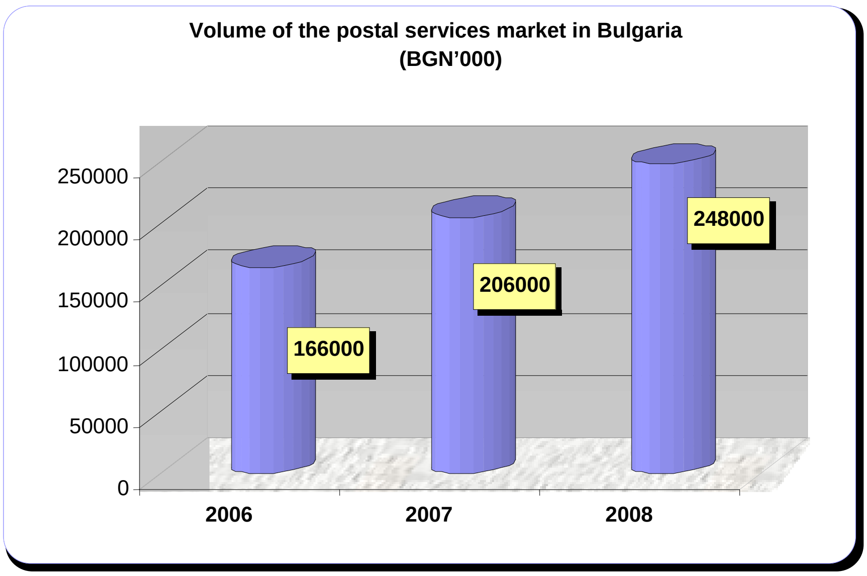


Figure 1 *Source: Data submitted to CRC*

During the past year, the total number of provided postal items and services in the postal market in Bulgaria was 197 million, as it increased compared to those of 2007 by 24 percent.
In 2008, the total number of licensed and registered postal operators was 81, as 48 of them have actually provided NPS, four of them, including the main postal operator, have provided NPS and services in the UPS scope, and three have provided only the service “postal money orders”.
Over the past 3 years, primarily the revenue from NPS form the volume of the postal services market, as their sustainable growth by about 27 percent annually determines the overall market growth.

1.2. Development of the postal services market in Bulgaria

For the period from 2006 to 2008, the breakdown of revenue from the provision of postal services remained almost unchanged, as the correlation between UPS and NPS revenue toward the total market volume was 2 to 1.

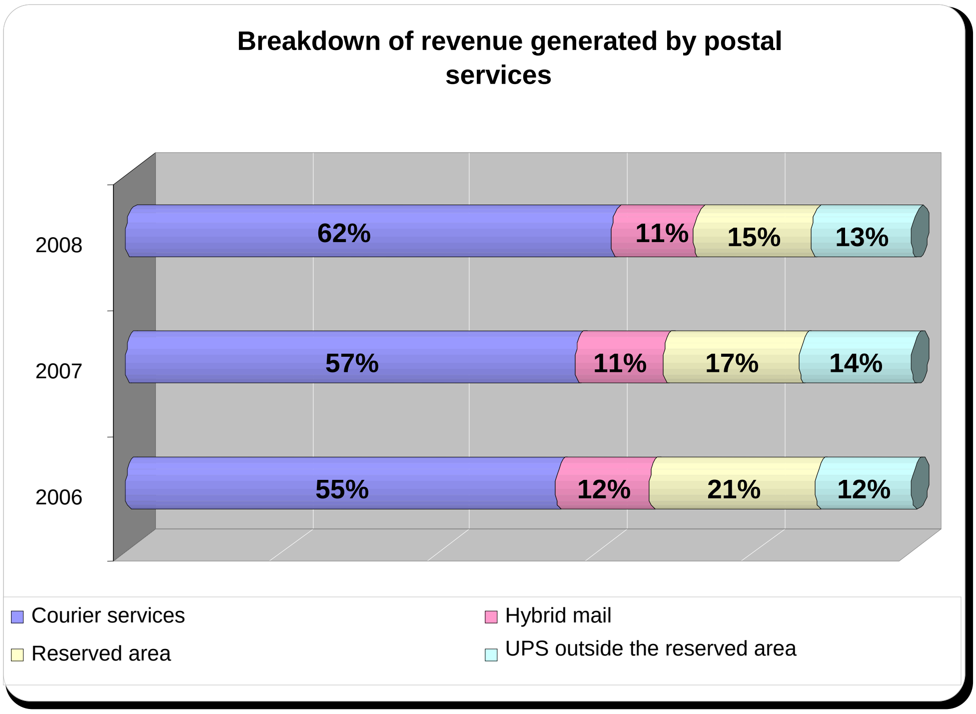


Figure 2 ***Source: Data submitted to CRC***

With highest relative share of the market volume are the revenue from the courier services, as in 2008 their share had increased by 5 percent compared to 2007. For the period concerned, revenue generated by these services grew annually by about 30 percent.
Over the past three years, revenue from the hybrid mail service formed between 11 percent and 12 percent of the postal market volume in Bulgaria. Since 2006, there has been registered an increase in revenue, number of postal items and operators that provided the service.
The expansion of the hybrid mail service was associated to a great extent with the technology of its provision, which combines the transmission of data by electronic communication means as postal items, and the delivery of these messages to the addressees. The service allows large business users, on one hand, to save time and money, and to reach a large number of their

clients, on the other. In this regard, more and more companies from the "Utility" sector (including operators from the telecommunication sector, Electric power companies, Water Supply and Sewerage, Heating power companies, etc.) and from the financial sector were redirected to the hybrid mail at the expense of using traditional postal services in the scope of UPS. This tendency leads to reduction in consumption of items of correspondence up to 50 grams (services within the reserved area). The relative share of the revenue from the reserved area in the volume of the postal market in Bulgaria has been decreasing over the past three years.

In 2008, the profit of the main postal operator from providing services in the reserved area has decreased compared to 2007 by 69 percent and the number of handled postal items - by 14 percent. According to the main postal operator's data, one of the main factors affecting the financial result of performing the services in the part of the reserved area is the change, respectively the termination of some contracts, predominantly with operators in the telecommunications sector. In 2008, services in the scope of UPS outside the reserved area formed 13 percent of the volume of the postal market in Bulgaria, of which the largest share - 28 percent, have the revenue gained from the provision of postal money orders.

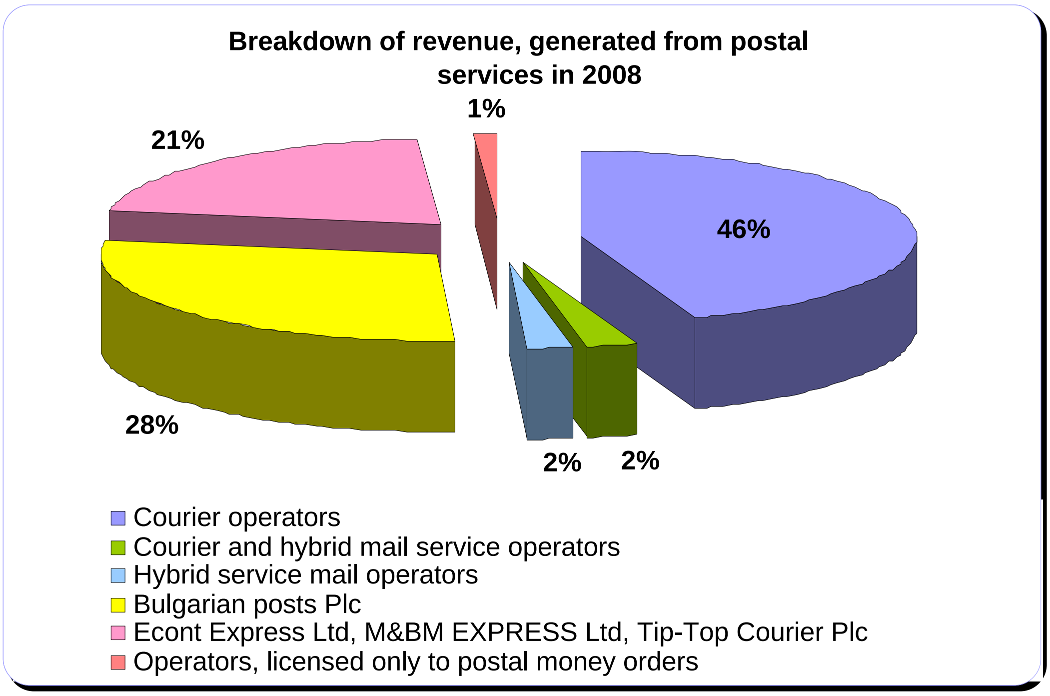


Figure 3 ***Source: Data submitted to CRC***

Over the past year, companies providing only courier services, of which over 80 percent consists of operators providing both domestic and international courier services, made 46 percent of the revenue from postal services in Bulgaria.

In 2008, BULGARIAN POSTS PLC has formed 28 percent of the postal market volume in Bulgaria. Over the past three years, the trend of reduction in market share of the main postal operator of the total national postal market persists, as in 2007, it decreased from 36 percent to 33 percent compared to 2006, and the reduction in 2008 compared to 2007 is 5 percent.

The size of market share of BULGARIAN POSTS PLC of the national postal services market was influenced, on the one hand, by the fact that, since 2006, the operator has formed approximately the same relative share of total revenue from NPS, while the growth rate of the revenue from NPS outpaced that of the revenue from UPS. On the other hand, the relative

share of the company of total revenue from UPS has fallen from 97 percent in 2007 to 94 percent in 2008.
The revenue from the provision of domestic items of correspondence up to 2 kg, which in the last two years formed about 59 percent of the revenue of BULGARIAN POSTS PLC from the provision of postal services, have increased in 2008 compared to 2007 by only 2 percent, and the number of postal items decreased by about 6 percent.
The operators ECONT EXPRESS Ltd, M&BM EXPRESS Ltd and TIP-TOP COURIER Plc, which similar to the main postal operator, are authorised, on one hand, to provide all services in the scope of UPS, and on the other, provide NPS too, have formed 21 percent of the postal market volume in 2008. The three companies are still in the process of recognition of UPS in the market, but over the past three years, they increased annually their revenue generated from providing courier and hybrid mail services. As a result, their share of the entire postal services market grew and in 2008 increased by 3 percent compared to 2007.
In 2008, the breakdown of consumption of postal services remained almost unchanged compared to that of postal services in 2007. The postal services and items used by business users formed primary the total number of postal items for the last year.

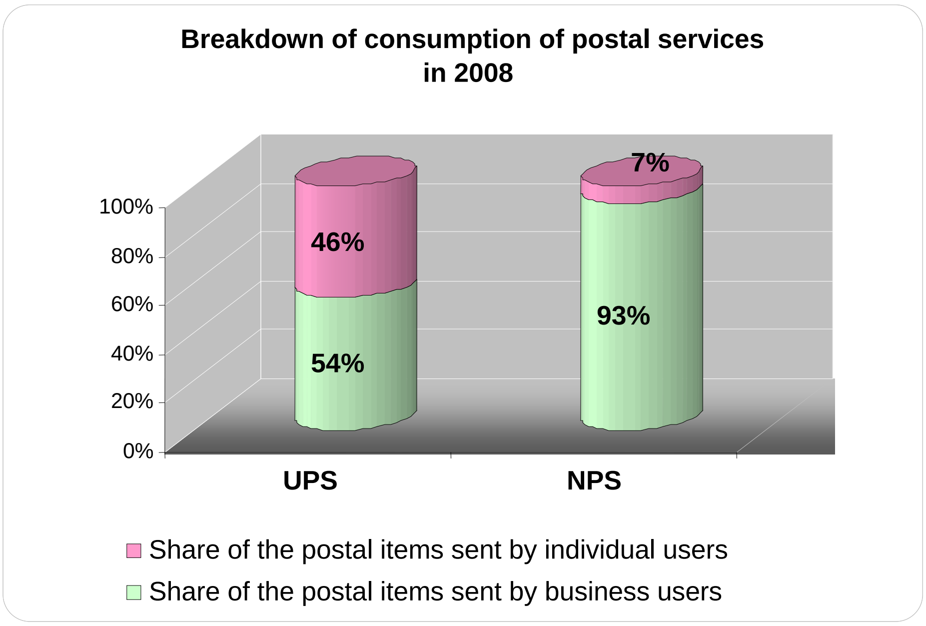


Figure 4 ***Source: Data submitted to CRC***

The correlation between postal services used and postal items sent by business and individual users differs in NPS and UPS.
The requirement for permanent provision of UPS, within a specified working time, of quality that complies with certain standards and at affordable prices, determines the UPS as a service aimed in greater extend at the individual users, compared to NPS. According to licensed operators' data, in 2008, the postal items submitted by individual users formed 46 percent of the total postal items of UPS, and their share increased by 1 percent compared to 2007.

Respectively, 85 percent of the postal items and services submitted by business users has been directed to individual users, which is 5 percent more compared to 2007. Over the last year, most of the postal items and services in the scope of UPS have been used by companies from the "Utility" and the commercial sector that have used mainly the services “items of correspondence up to 2 kg”, “direct mail” and “insured postal parcels”.
Traditionally, NPS refer mainly to business users, as according to registered operators' data for 2008, business users submitted 93 percent of the total postal items. Because the main users of courier services are predominantly companies from the commercial sector, over the past year, business users have sent most of the courier parcels to other business users. In recent years, there has been registered an increasing consumer interest in electronic commerce, leading to an increased share of the courier parcels that were sent by business to individual users. With the increasing number of individual addressees, courier companies face the challenge to find various ways of notification and delivery of the parcels. In this relation, some of the leading registered operators have indicated that last year new services have been offered, such as delivery at a specific time, respectively, introduction of an hour and two-hour delivery, reduction in the delivery time while retaining of prices, etc.
Users of hybrid mail service, in 2008, were solely business users, predominantly companies from the "Utility" sector, the items of which were addressed primarily to individual users. Since delivery period is not essential to the hybrid mail service, operators, carrying out this service, in opposite to the courier companies, have concentrated, over the past year, primarily on the formation of competitive prices and quality of the service.

2. Indicators for assessment of the state of competition in the postal services market in Bulgaria.

According to the provisions of Art. 17, para. 1, item 4 of the PSA, the CRC annually analyzes the state of competition in the provision of the various postal services.
In order to assess the level of competition in the national postal services market, in 2008, the CRC took into consideration the following indicators:

- ✓ Existing barriers for entering the market;;
- ✓ The change of revenue from UPS and NPS;
- ✓ The change of number of market participants;
- ✓ Size of market shares of different participants;
- ✓ Degree of market concentration.

The barriers for entering the market represent factors that hinder or impede the potential new emerging companies from entering the relevant market and from competing successfully with the existing companies therein. Overall, according to the principles of competition law, existing barriers to potential market entrants (in that case, postal service operators) can conditionally divide into two major groups:

1. Economic, divided into two main groups - structural and strategic.

    a) Structural barriers arising from the given structure and state of the relevant market in terms of technology, costs, size and nature of the product, demand and supply. These barriers include: initial costs, economy of the scale, transportation costs and others;

b) Strategic barriers resulting from the actions and behaviour of the existing companies in the industry. These include barriers such as different types of agreements in respect of raw materials supplies and intermediate products, as well as the supply of products to the market.

2. Legal and administrative barriers such as licensing procedures, price regulation, subventions, grants, and other provisions.

Likewise, it could be the matter of absolute advantages for the existing market players, just when they have the entire disposal of necessary factor, inaccessible to other actors, in order to provide the service; and in second place, of strategic advantages for the existing enterprises. The latter category includes economies of the scale, initial costs, differentiation, vertical market push, predatory behaviour.

According to the principles of competition law, the Herfindahl-Hirschman Index (HHI) and the concentration ratio (CR) assess the degree of concentration. HHI index is calculated on the base of the sum of squares of market players' shares, while the CR rate reflects the biggest participants' shares (CR3 and CR4). According to the values of both indicators, the market is determined as normal competitive market with low level of concentration, relatively competitive market with average level of concentration, and less competitive market with high level of concentration.

Differences in the specificity and dynamics of UPS and NPS, and the fact that they are provided under two different regimes (licensing and registration), impose in 2008 as well as in 2007, to be made separate analysis of the competitive situation for both types of services. Assessment of the existing barriers to potential UPS and NPS operators, as well as of the concentration rate, has been made for each one of the markets respectively in: item 2: "State of competition by UPS" of Section II Universal postal service, and item 3: "State of competition by NPS" of Section III Non-universal postal services.

II Universal postal service (UPS)

The Universal postal service is a service provided at least 5 days a week, throughout the country, permanently within a certain time, with quality complying with standards, at affordable prices, and the possibility of their use by any user, regardless of user's geographic location, except in settlements and settlement formations located in hardly accessible areas.

UPS comprises the following services:

1. Clearance, transport, and delivery of domestic and international postal items, as follows:
   - items of correspondence up to 2 kg;
   - small packets up to 2 kg;
   - direct mail up to 2 kg;
   - printed matters up to 5 kg;
   - secograms up to 7 kg;
2. Clearance, transport, and delivery of domestic and international postal parcels up to 20 kg:
3. Postal money orders.
4. Additional services “registered” and “insured”.

According to § 6 of the Transitional and Final provisions of the PSA, pursuant to Art. 18 of the Constitution of the Republic of Bulgaria, there has been established state monopoly in a reserved area of UPS. Services in the reserved area include clearance, transport, and delivery of domestic items of correspondence and of international incoming and outgoing items of correspondence up to 0.050 kg.

At the end of 2008, with amendments adopted for the PSA, prom., SG, 109/23.12.2008, the period of the established government monopoly of BULGARIAN POSTS PLC of the reserved area under 50 g of UPS is extended until December 31, 2010.

1. State of UPS in 2008, volumes, and revenue

At the end of 2008, the number of operators providing UPS was ten, four of which have provided all services in the scope of UPS: BULGARIAN POSTS PLC, TIP-TOP COURIER PLC, ECONT EXPRESS Ltd AND M&BM EXPRESS Ltd. Accordingly, the operators FINANCIAL ENGINEERING PLC, FACTOR I.N. PLC, EASYPAY PLC, CASH EXPRESS SERVICE Ltd, CASH OFFICE PLC AND TELEPAID BULGARIA Ltd have provided only the postal money orders service.

During the year, total 85 979 thousand postal items and services in the scope of UPS have been accepted, cleared and delivered, and revenue in amount of BGN 68 625 thousand have been generated.

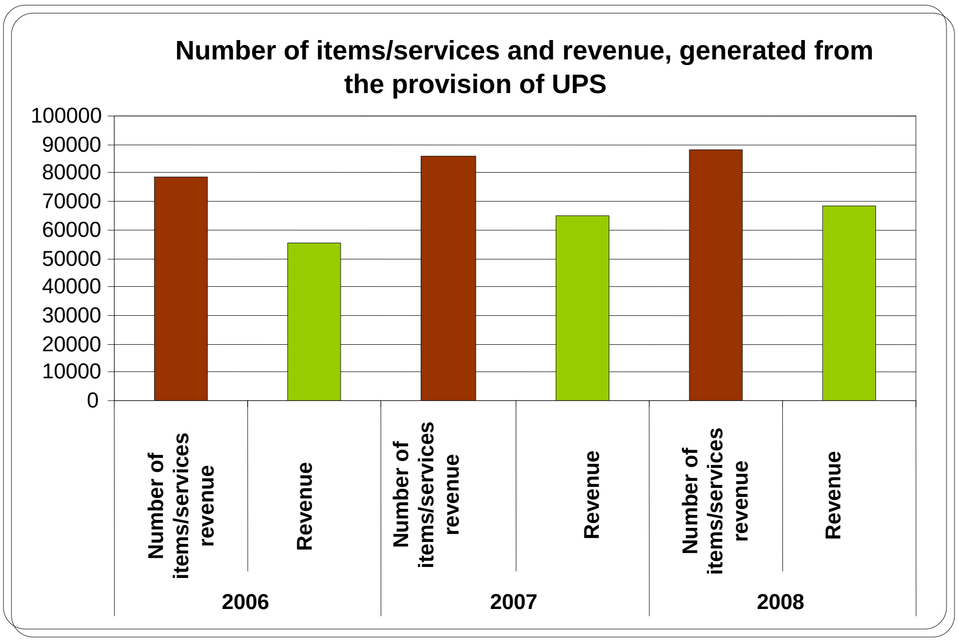


Figure 5 *Source: Data submitted to CRC*

In 2008, the number of delivered items and services in the scope of UPS remained almost unchanged compared to that of 2007.
There has been registered an increase of 5 percent in the revenue generated from the UPS provision, compared to the previous period.
The revenue generated by the provision of UPS in the country formed 83 percent of total revenue from UPS. Compared to 2007, their share in total revenue from UPS has increased by only 1.03 percent.

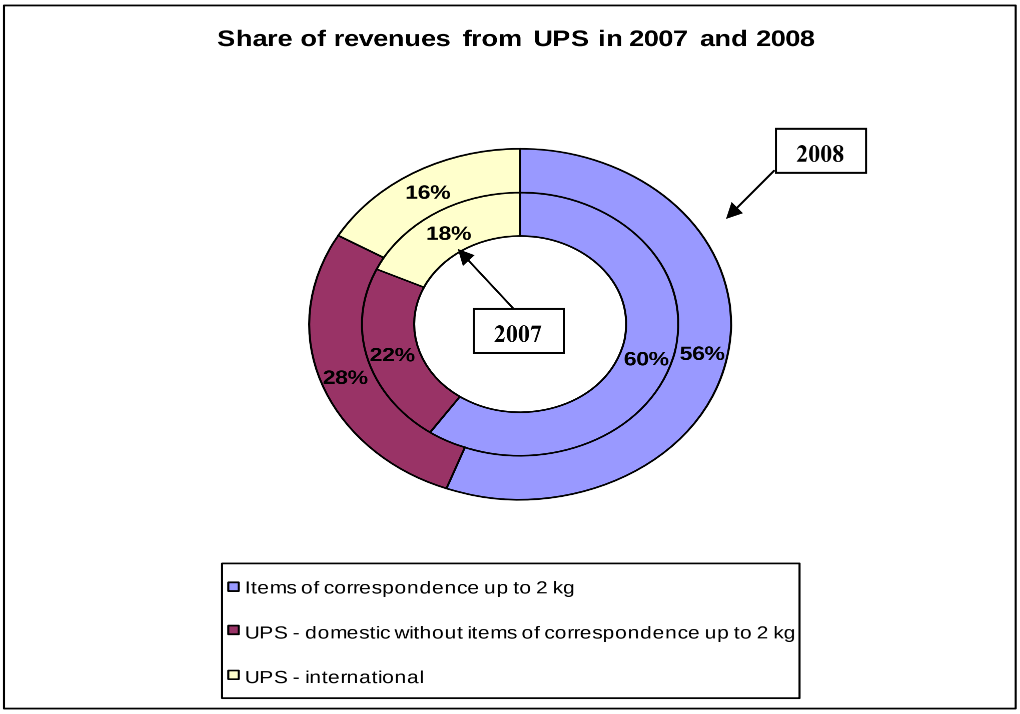


Figure 6 *Source: Data submitted to CRC*

The breakdown of revenue from the provision of UPS in 2008 has shown no significant changes compared to 2007. Revenue were primarily generated from revenue from domestic items of correspondence up to 2 kg.

1.1. Types of UPS users

Regarding the analysis of the UPS consumption structure, users are conditionally divided into residential and business users. Business users are companies of the public, financial, and commercial sector, as well as enterprises of the "Utility" sector.

According to operators' data, in 2008, as well as in 2007, business users have formed a higher share of the total postal items of the UPS. The correlation between business and individual clients of the incumbent postal operator was 54:46.

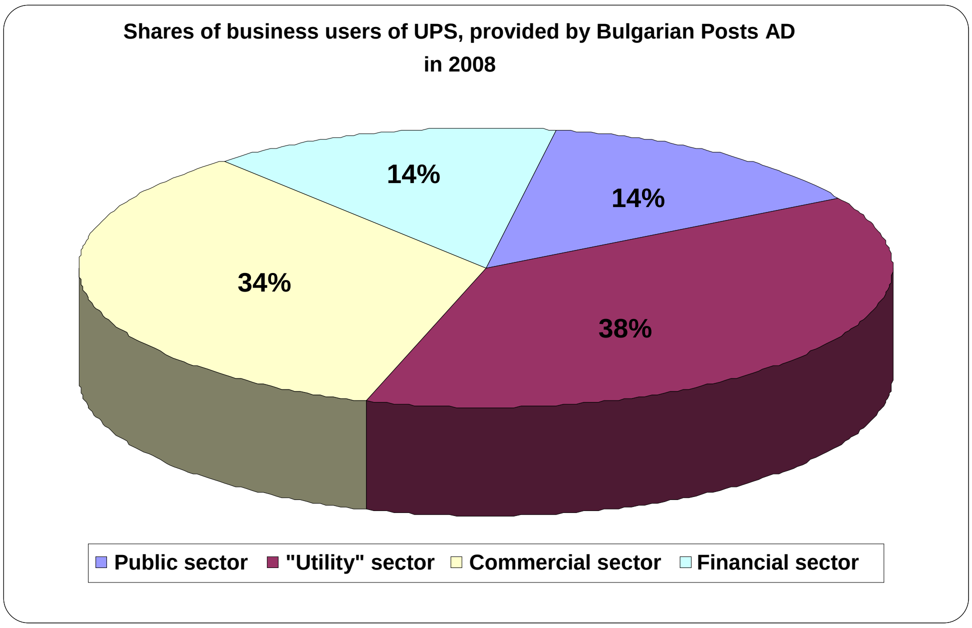


Figure 7 ***Source: Data submitted to CRC***

UPS provided to business users by the incumbent postal operator BULGARIAN POSTS PLC were allocated as follows: the companies from "Utility" sector indicated the highest share - 38 percent, followed by companies and enterprises from the commercial sector - 34 percent, equal shares held the public and financial sectors - by 14 percent each.

Mainly the clients of the “Utility” sector use the non-registered items of correspondence without priority service; companies from the commercial sector have generated traffic from the direct mail without priority service, non-registered items of correspondence and insured postal parcels by the catalogue trade companies. The financial sector used the following services: registered items of correspondence without priority and postal money orders. The public sector used non-registered items of correspondence without priority, registered items of correspondence without priority, and postal money orders.

Compared to the clients of the incumbent postal operator, for the licensed UPS provider TIP-TOP COURIER PLC prevailed the business customers, where the ratio was respectively 92 percent to 8 percent. Only business users used the UPS provided by the postal operator M&BM EXPRESS Ltd in 2008.

1.2. Provision of domestic UPS

In 2008, the total number of items and services in the scope of UPS, provided throughout the country, was 82 274 thousand pieces, which represents 95 percent of the total provided services in the UPS scope.

In 2008, the revenue generated from the provision of UPS within the country were BGN 57 258 thousand, and compared to the revenue generated in 2007 has been registered a growth of 6.81 percent. The increase in UPS services, provided in 2008, was insignificant compared to the previous year, less than 1 percent. This was due to the transformation of a large number of items with weight up to 0.100 kg in hybrid mail. The increased prices of UPS exerted major influence on the increase in revenue from those services, during the period under review.

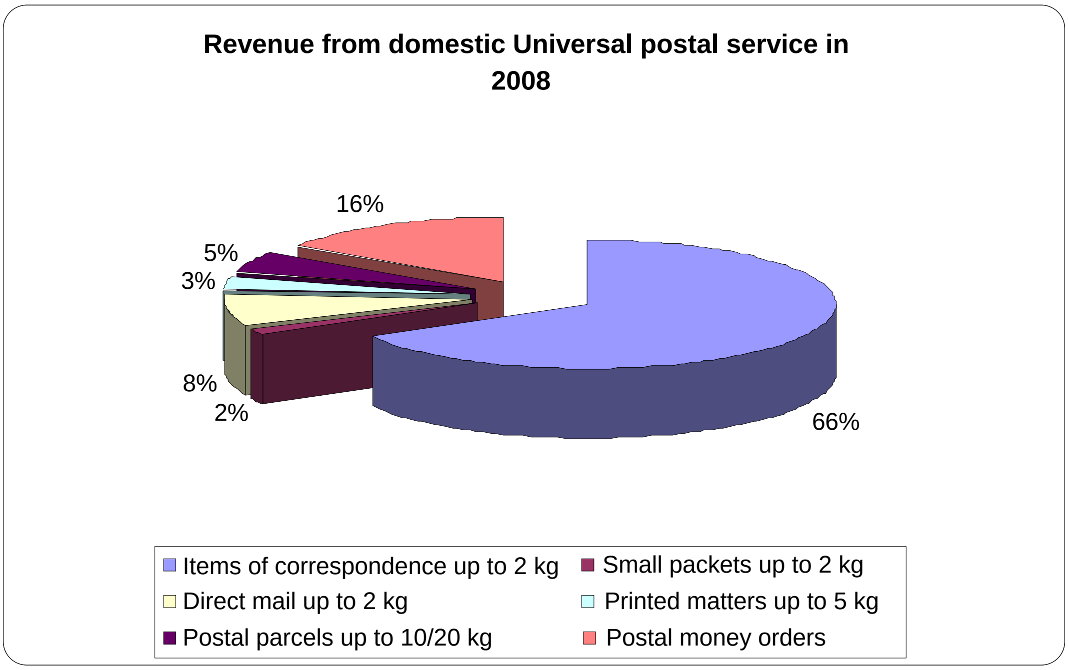


Figure 8 ***Source: Data submitted to CRC***

- The items of correspondence up to 2 kg took the highest share in total postal items and generated 66 percent of total domestic UPS revenue. Compared to the previous year, revenue generated from these items increased by 2 percent. The insignificant growth was due mainly to the decreasing share of the service compared to other services - small packets, printed materials, and direct mail. Compared to 2007, the number of items of correspondence during the reporting period decreased by 6.3 percent.
- Small packets have the lowest share in total domestic UPS revenue, amounting to 2 percent, but in recent years marked the highest increase. In 2008, revenue from that service increased by 115.8 percent, compared to 2007, while the number of provided services increased by 51 percent.
- Direct mail service up to 2 kg is postal item containing a message aimed at marketing and advertising with the same content, and is addressed to a significant number of persons. In 2008, the service held 8-percent share of the total UPS domestic traffic revenue and indicated revenue increase of 21 percent, compared to 2007. The number

of delivered items of the “direct mail up to 2 kg” type increased, compared to the previous year, by 31 percent.

- Printed matters up to 5 kg held 3 percent of the UPS revenue. In 2008, their increase, compared to 2007, amounted to 22.2 percent, and followed the previous period trend. Items number increased by 4 percent.
- Postal parcels up to 20 kg held nearly 3 percent of the UPS revenue. In 2008, revenue increased, compared to 2007, by around 8 percent, the number of delivered postal parcels recorded decrease by 10 percent.

1.2.1 Provision of the service “postal money orders”

In 2008, six postal operators continued to provide the service “postal money orders”. One new operator was authorised to provide the service “postal money orders” – TELEPAID BULGARIA Ltd, which had not started its activity during the reviewed period.
The number of provided postal money orders increased by 8.8 percent, compared to 2007, and the revenue generated from it – 16.4 percent. The share of those revenue comprised 16 percent of total revenue from the domestic traffic.

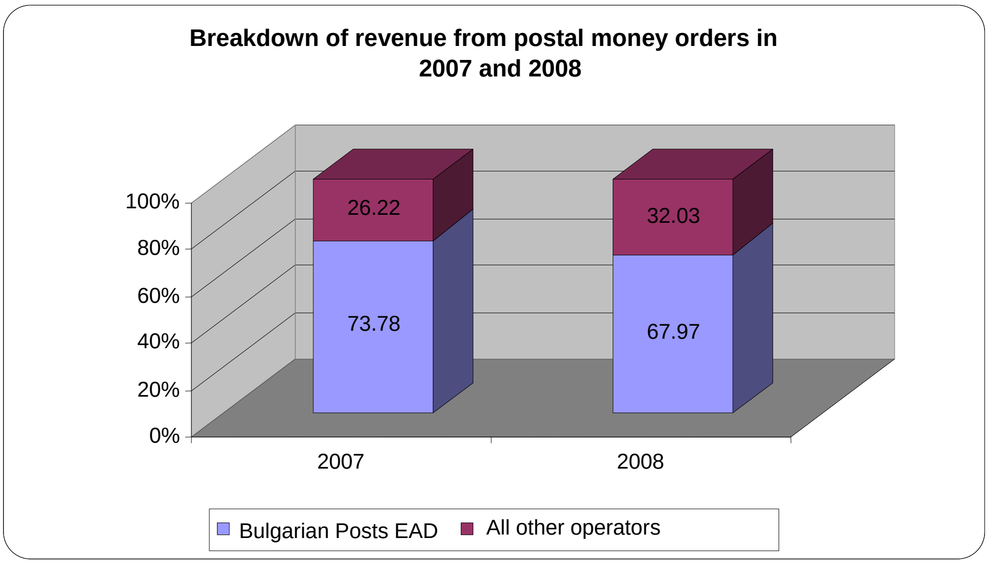


Figure 9 ***Source: Data submitted to CRC***

Money orders represent a service in the UPS scope that has been provided on the postal market for 3 years, under the conditions of growing competition. Nevertheless, in 2008, the incumbent postal operator continued generating the bigger part of revenue from that service in the domestic traffic. BULGARIAN POSTS PLC registered revenue growth by 7.24 percent, with increased number of services provided by 5.43 percent.
The revenue share of BULGARIAN POSTS PLC dropped, compared to previous years, and comprised 67.97 percent of the total revenue, generated by the service. EASYPAY PLC held the next largest share in amount of 31 percent. This operator appears on the market in 2005 and continues establishing its network. The postal operators TIP-TOP COURIER PLC, ECONT EXPRESS Ltd, FINANCE ENGINEERING Ltd, FACTOR I.N. A PLC have also provided money orders for the period in review.

1.3. Provision of international UPS

In 2008, the incumbent postal operator generated all the revenue from international UPS in amount of BGN 11 366 thousands. Typical for those kinds of services is that their prices have not changed since 2006. These revenue held 17 percent of the total revenue and respectively 4 percent of the total number of items in UPS. Compared to 2007, the revenue recorded significant dropdown of 0.5 percent, and the number of used items – 6.3 percent.

The particular group of services registered following tendencies:

- In 2008, non-registered postal items with and without priority recorded a decline compared to 2007. Compared to 2007 declines amounts to 9.4 percent per volume and 8.1 percent per revenue;
- Registered postal items with and without priority marked a growth in the consumption, 8.3 percent of volumes and 4.0 percent of revenue;
- Non-registered postal parcels up to 31.5 kg marked a growth too. In 2008, volumes grew by 12.5 percent, with revenue growth of 4.6 per;
- In 2008, insured international postal items recorded volume growth of 44.0 percent and revenue growth of 21.7 percent, compared to 2007. The calculated increases were based on real insured items volumes, 504 for 2007 and 730 for 2008.

In 2008, insured letter items marked significant growth of 132.0 percent, with decline of insured postal parcels of 8.3 percent.

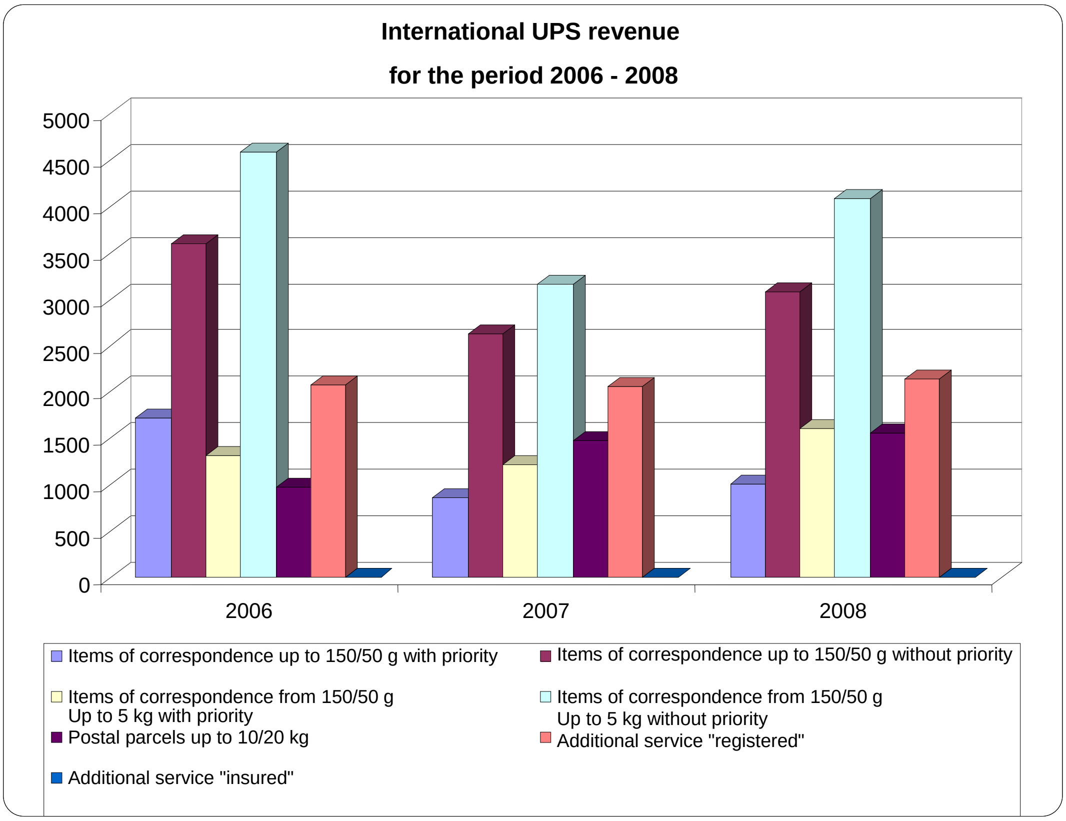


Figure 10 ***Source: Data submitted to CRC***

1.4. Reserved are of UPS

In 2008, the state monopoly of the incumbent postal operator in the reserved area of items of correspondence up to 50 g was extended until 31 December 2010.
The revenue generated from the reserved area, in 2008, held 53.47 percent of the total UPS revenue. The observed tendency of decline in the reserved area items, in recent years, show respectively 63.48 percent in 2006, and 55.01 percent in 2007. The reserved area items, domestic and international, fell in the largest group of services – domestic and international items of correspondence, representing 64 percent of the revenue from the entire UPS. The share of revenue generated from the postal items up to 50 g of the items of correspondence group amounted to 84.5 percent.
Over the previous year, compared to 2007, the number of items of correspondence up to 50 g declined by 7.4 percent, due to the changes made in the contracts with the corporate clients of the holding. The revenue from items in the reserved area recorded growth of 3.8 percent, compared to 2007, due to UPS price increase as of the middle of the reviewed period.

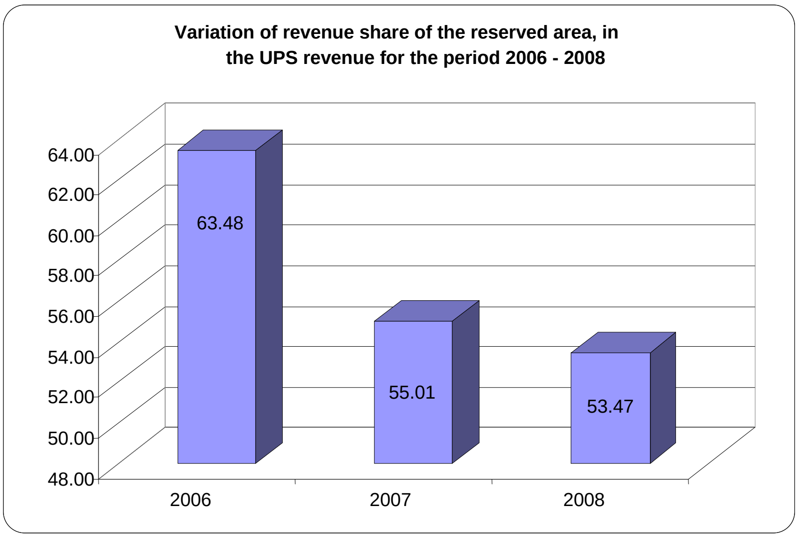


Figure 11 ***Source: Data submitted to CRC***

1.5. Financial result from the provided UPS under economic unfavourable conditions in 2008

According to the PSA, BULGARIAN POSTS PLC is the incumbent postal operator obliged to provide UPS through its postal network in the entire country, including under unfavourable economic conditions. In terms of PSA, economic unfavourable conditions mean provision of UPS or part of it at affordable prices for each user that results in financial losses for the postal operators obliged to provide the service through their own organized and managed postal network all over the country, including the hardly accessible areas.
According to the licence issued to BULGARIAN POSTS PLC, the operator is obliged to provide UPS constantly, within certain working time, with a quality relevant to the requirements set by the standards, at affordable prices and with opportunity for their usage by each client within the country regarding his or her geographic location.

With the view of insuring the provision of UPS, the incumbent postal operator receives State budget compensation for proven loss from providing of UPS under economic unfavourable conditions. Over the recent years, BULGARIAN POSTS PLC achieved positive financial result from the provision of UPS; therefore, it has not applied, respectively, used State budget compensation.

In 2008, the incumbent postal operator registered positive financial result from the provision of UPS in amount of BGN 3 144.2 thousand. The balance of financial estimates with foreign postal administrations was positive and amounted to BGN 2 126.8 thousand. Financial results from the provision of UPS in the reserved area amounted to BGN 1 534.8 thousands, of which BGN 962.2 thousand were due to the positive balance of financial estimates with foreign administration in the reserved area. In 2008, compared to 2007, the holding's profit from the UPS provision declined by 68 per cent.

Over the recent year, UPS was provided more efficiently compared to 2007, as the contribution of each Lev as a relative number increased by 12.67 percent and the cost efficiency of each Lev declined by 11.25 percent. The juxtaposition of the relevant revenue efficiency and cost efficiency ratios for 2008 and 2007 evaluates the efficiency of UPS provided.

In 2008, the services in the reserved area scope have been provided more inefficient compared to 2007. In 2008, costs of the provision of postal items up to 50 g, as relative number of each Lev in the revenue, increased by 11.86 percent, and the cost efficiency of each Lev decreased by 10.61 percent.

Factors that affected the financial result from the UPS provision in 2008 were as follows:

- ✓ In 2008, the number of UPS postal items and services provided decreased, compared to 2007, by 1 percent. The decline related to the change of the contracts that the holding has with corporate clients, predominantly operators in the telecommunications sector;
- ✓ Revenue in 2008 increased by 3 percent, compared to the previous year, despite the number of items and services provided. Main reason for this was the price change of UPS, enforced on 01.06.2008;
- ✓ In 2008, the incumbent recorded profit from the services provided by both non-registered and registered domestic items of correspondence, small packets and direct mail up to 2 kg, printed materials up to 5 kg, secograms up to 7 kg, and international postal items with and without priority, while the result from the rest of the UPS services provided indicates loss. In 2008, compared to the previous year, the financial result from the provision of non-registered items marked decrease by 85 percent, and for the registered items, the decrease for the relevant period was 52 percent.

In 2008, TIP-TOP CURIER PLC und ECONT EXPRESS Ltd also recorded negative results from their activities. The relative volume weight of the delivered items and their revenue was insignificant and did not affect visibly the USP comparative analysis. The new operator M&MB EXPRESS Ltd that started activity in 2008 is still in process of establishing its own network.

2. State of the competition in UPS

As it was pointed already regarding the reserved area, in § 6 of the Transitional and Final provisions of the PSA, Art. 18, para. 4 of the Constitution of Republic of Bulgaria foresee state monopoly. According to para. 4, BULGARIAN POSTS PLC is the company that the monopoly was given to. With the amendment of the PSA at the end of 2008 (SG, 109/23.12.2008), the term of this monopoly is extended until 31 December 2010.

Therefore, the reserved area has monopoly status (in theory – „legal monopoly”) in terms of Art. 19 of the Law on protection of competition. In the presence of monopoly, a company owns the exclusive right to implement the respective activity. In this sense, as far as it concerns, the reserved area competition does not exist and in the market acts mainly BULGARIAN POSTS PLC. Considered as a barrier for entry, legal monopoly is an insuperable barrier. Given the fore mentioned, for the services within the reserved area, the analysis of other indicators of competition is objectless. In the presence of monopoly, regulation has a role in preventing from abuse and consumers protection. In this sense, the Commission for Protection of Competition plays a significant role as a general competition regulator.

Outside the reserved area, in 2008, as more significant barriers for UPS market entry could be pointed the following:

- *Economic* - high amount of initial investments related to the requirement for building and maintenance of postal network in the entire country. The incumbent postal operator BULGARIAN POSTS PLC enjoys also the following competitive advantages: presence of the well-known trademark, well developed network, and opportunity for implementing economy of the scale.
- *Legal-administrative*, the imposed licensing procedure of the PSA, according to which CRC is authorized to assess, on expedience, which candidates, intending to provide UPS, comply with the legal requirements and can perform the relevant activity. As other legal barriers could be pointed out the imposed requirements for ensuring of sufficient penetration of access points, which will report the users need and conditions for provision of UPS postal items; requirement for harmonisation by CRC of UPS services’ prices, as well as payment of licence fees.

The consequences drawn, regarding the entry barriers level, is confirmed by the actual penetration on the market in 2008, finding expression in the issuing of new licence for provision of UPS – postal money order. Although the pointed market entry barriers are significant, they are not insuperable, that is confirmed by the entering of nine UPS postal operators over the last five years.

Although ten authorised operators provided UPS over the last year, the state of the competition remained unchanged. BULGARIAN POSTS PLC formed 94 percent of all UPS revenue. The CR4 index kept its high level, 99.97 percent. In general, the HHI index for UPS amounted to 8 885, and therefore for this sector the penetration level can be assessed as high by law competitive market.

The postal money orders service is the only service that is provided under conditions of competition since 2006. The number of made orders registered an average increase of approximately 10 percent per year, the revenue also increased. However, the competition in the postal money orders still cannot be characterized as effective, because the incumbent postal operator remained with the highest share, in 2008 as well, being 68 percent in the total revenue generated from that service. The shares of the next largest participants are as follows: EASYPAY PLC – 31 percent, ECONT EXPRESS Ltd – 0.29 percent, TIP-TOP COURIER PLC – 0.17 percent, FINANCE ENGINEERING PLC – 0.15 percent, and FACTOR I.N. PLC with 0.03 percent. The penetration rate of the provision of that service, measured by the HHI index, was 5 606. Its value was calculated based on data submitted by operators providing services by the end of 2008. Expectations for the coming years show enhancing of competition, respectively penetration decline. In confirmation of this is also the competition decrease registered in 2008, compared to 2007, respectively from 6124 to 5606.

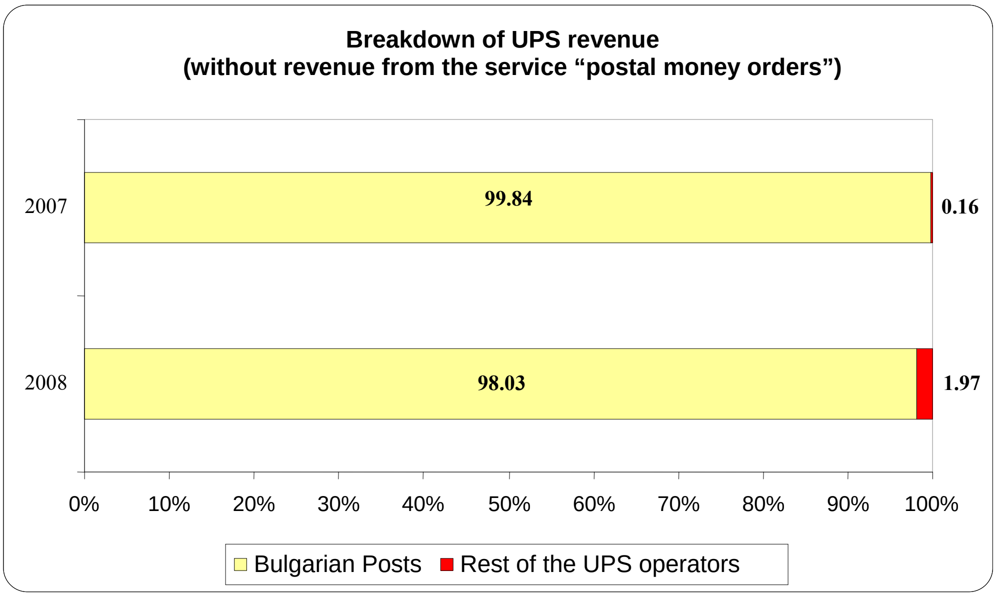


Figure 12 ***Source: Data submitted to CRC***

BULGARIAN POSTS PLC continues to be the biggest provider of the rest of services in the scope of UPS (items of correspondence, small packets, direct mail, printed materials) by holding of 98-percent share, as in the total revenue generated by all services, as well as per types of services. In 2008, compared to 2007, the revenue share of these UPS services formed by the new authorized postal operators - TIP-TOP COURIER PLC, ECONT EXPRESS Ltd, and M&BM EXPRESS Ltd, increased just by 2 percent. This increase, although insignificant, is an indicator for competition emerging also for these services in the scope of UPS. Nevertheless, in presence of share in such a size it is matter of a state similar to “natural monopoly”.

In 2008, the first contract on mutual access to networks of BULGARIAN POSTS PLC and TIP-TOP COURIER PLC for services in the scope of UPS has been signed, which opened the network of the incumbent postal operator BULGARIAN POSTS PLC for competitive operator. Thus, the beginning of overcoming of one of the economic barriers has been set, being the need of large investments for building of own networks by the new emerged postal operators.

III. Non-universal postal services

1. NPS market analysis

The annual analysis and monitoring of the NPS market in Bulgaria, in recent years, was a prerequisite for the actual determination of guidelines for the development of this segment. Pursuant to the PSA, the scope of NPS includes the following services: courier services and acceptance of messages submitted in a physical or electronic form by the sender, transmitting them by electronic communications means and delivery of these messages to the addressee as postal items (the so-called hybrid mail).
Although, in recent years, the NPS market increased steadily by around 27 percent a year, as well as the number of registered postal operators was increasing annually, the impact of the global financial and economic crisis, beginning in 2008, became noticeable in the sector. The impact was mainly indicated by the expectations of big operators for market shrinking and smaller funds, planned for investments, in comparison with the last 4 years.
In 2008, the number of registered postal operators, providing NPS, reached 77, 39 of which were providing courier services only, 9 were providing courier services and hybrid mail services, 2 were providing the hybrid mail service only, and 24 have declared that they have not been active in the past year.
In 2008, the volume of the NPS market, estimated based on revenue generated from NPS, was BGN 179 million, as compared to 2007, it has increased by 27 percent. The market volume was calculated as an expert evaluation, based on data submitted by 96 percent of the registered operators as of 31.12.2008.

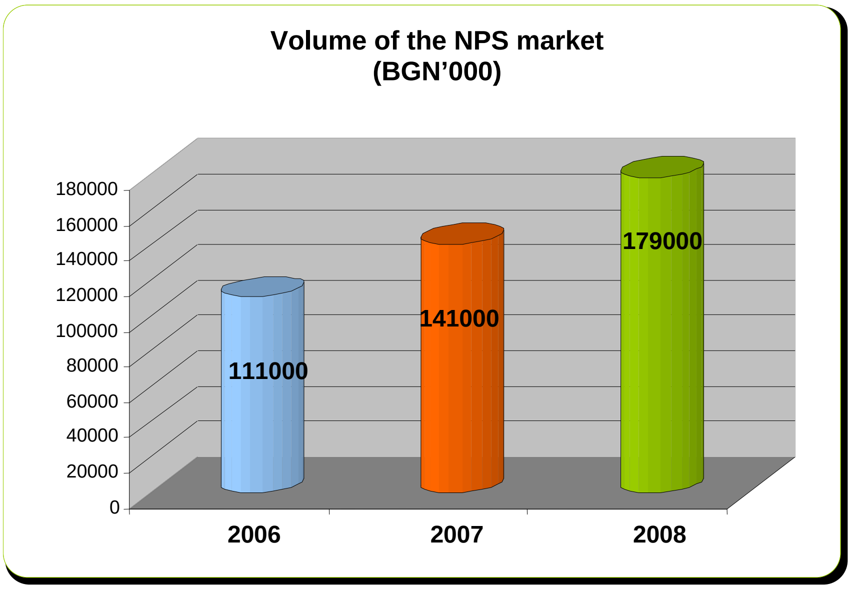
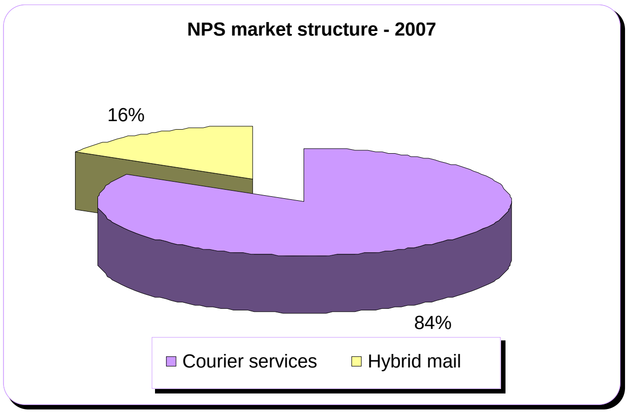


Figure 13 Source: Data submitted to the CRC

The total number of handled postal items, in the period in question, was 111 million, as it has increased by 53 percent, compared to 2007. In the period specified, courier services consignments form 18 percent of the total number of postal items.

In the past year, the NPS market structure remained unchanged, compared to 2007. Revenue from the NPS were formed mainly by the provision of domestic courier services.



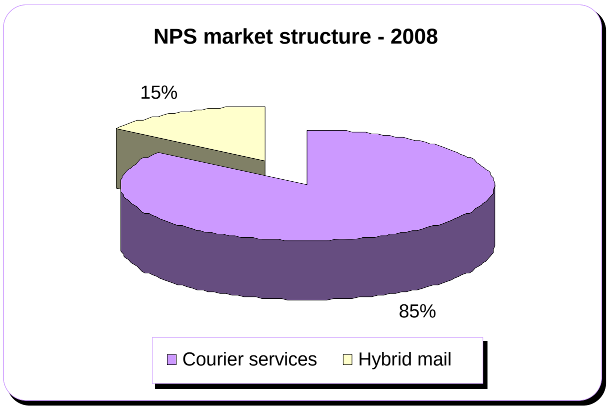


Figure 14 Source: Data submitted to the CRC

In 2008, operators with the highest NPS market shares according to data submitted to the CRC are as follows[1]:

1. BULGARIAN POSTS PLC	**6.** INTERLOGISTICA COURIER Ltd	**11.** SPRIDER COURIER PLC
2. DHL BULGARIA Ltd	**7.** M&BM EXPRESS Ltd	**12.** SPEEDY PLC
3. EVROPAT – 2000 PLC	**8.** POLIPOST-POST AND LOGISTICS PLC	**13.** TIP - TOP COURIER PLC
4. ECONT EXPRESS Ltd	**9.** LEO EXPRES Ltd	**14.** TNT BULGARIA Ltd
5. IN TIME Ltd	**10.** CITY EXPRESS Ltd	**15.** FLYING CARGO BULGARIA Ltd

Operators listed in the table have already established themselves on the NPS market and for the past year, as well as in 2007, formed mainly the revenue from NPS. In 2008, they have formed over 85 percent of the market volume.

1.1 Development of services in the scope of NPS

In 2008, revenue from courier services formed 85 percent of the NPS market volume, and increased by 30 percent compared to 2007. Revenue from domestic courier services, which formed 74 percent of total revenue from courier services, increased by 38 percent compared to 2007. The relative share of revenue from international outgoing courier services of the total revenue from courier services has decreased in 2008, compared to 2007, from 30 percent to 26 percent.

Over the past three years, revenue from courier services outlined the trend of dynamic increase, as in 2006 and 2007 it has also been registered an annual increase of investments with technological importance in the sector. In 2008, compared to 2007, a decrease of 5 percent has been observed in the number of provided courier items, and a decrease in investments with technological importance in the sector as well. In order to stimulate users, in

[1] The operators are listed in alphabetical order rather than market share

the past year, the majority of courier companies relied on the introduction of new services, such as:

- Delivery of incoming international postal items in Bulgaria, with specific time of delivery;
- Increasing the number of access points;
- Operators introducing one-hour and two-hour deliveries;
- Creating an electronic office, where consumers can prepare postal items themselves, which provides financial concessions; check the content before the payment of cash on delivery, pay the cash by bank transfer;
- Increasing discounts for loyal customers;
- Reducing delivery time while maintaining the existing prices;
- Online courier request;
- Introduction of specialized training programs for employees (couriers).

In the past year, revenue from the consumption of hybrid mail service generated 15 percent of the NPS market volume, as compared to 2007, they have increased by 14 percent.

In 2008, nine operators generated revenue from this service, while seven of them provided courier services as well.

The difference in the specific character of courier services and hybrid mail determines the different rate of change of items and revenue gained from both services.

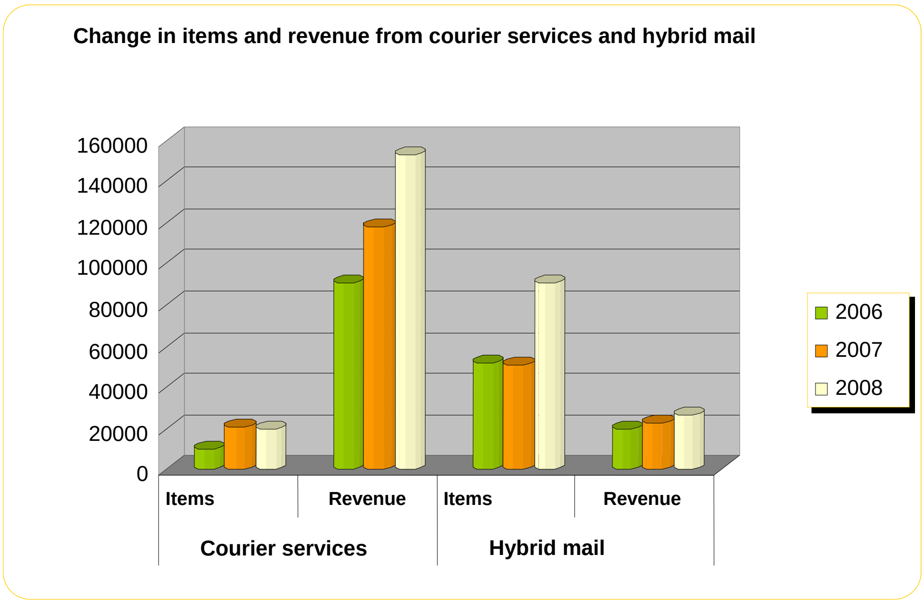


Figure 15   Source: Data submitted to the CRC

Over the past three years, the provision of the hybrid mail services has grown, as an annual increase is recorded both in the revenue from the service and the number of operators providing it.

In practice, this service includes sending of data by electronic means, transforming them into postal items, and delivering them to the addressees. Combining 21st century speed and means of communication with the stability of traditional postal services seems to be a perfect symbiosis between the established post technology and the modern technology.

The most up-to-date application version of the hybrid mail enables individual users to send messages from their personal computers to the nearest print centre, and thus these messages can then be delivered by mail to the recipient, neutralizing environmental impacts related to the transport of physical mail over long distances.

The main advantages of these services are aimed at businesses, but with the same success can be used by individual users. They are as follows:

- Time Saving;
- Lower transport costs than traditional postal services;
- High service quality;

2. A short comparative analysis of courier services development in countries from the Balkan region - Greece, Bulgaria and Romania

The publication of data on the development of courier service market, in 2007, by the Greek Hellenic Telecommunications and Post Commission (EETT) outlined some similar processes in the development of NPS in Bulgaria.

Before their presentation, it is necessary to indicate one of the leading differences in the regulation of both countries, regulating the provision of NPS, namely:

In Bulgaria, the provision of NPS requires registration to the CRC according to the statutory procedures, while in Greece the provision of these services is based on the so-called "notification regime" or "general authorization", terms introduced by the new Directive 2008/6/EC.

The notification regime is significantly more facilitated than the registration one, and aims at the overcoming of administrative and bureaucratic barriers to this kind of business, and at the supporting of the development of postal courier services.

Despite the differences in the procedures for starting a business for the provision of NPS, there are many similarities in the development of courier markets in both countries. Generally, they can be summarized in several attributes:

- Market power of the leaders in the provision of courier services;
- Retaining the existing market segment and reinforcing market positions;
- Maintaining the pricing policy;
- Trend of continuous increase in the number of NPS market operators.

According to a study of the Greek regulator EETT, in 2007, the operators providing courier services were 6 percent of the Greek postal market volume, and they have generated 39 percent revenue.

Similar to the Bulgarian market for courier services, the nine biggest operators are handling 90 percent of all courier postal items, as 91 percent of the postal items processed are items of correspondence. In Bulgaria, the 15 biggest operators have formed over 80 percent and 85 percent of the market for 2007 and 2008 respectively.

After several consecutive years of increase in the competition in the sector, in 2007, the leading operators in Greece introduced new services, adequately corresponding to user needs, which strengthened their leading market position. In 2008, a similar trend was also observed in the Bulgarian market, where, under the circumstances of global economic crisis, the operators pointed at the keeping of the market segments they have already won. At the same time, the pricing policy of both Bulgarian and Greek markets remains unchanged. Nine of the fifteen leading operators on the Bulgarian market indicated that they do not plan to increase their prices in order to maintain their competitiveness. Nevertheless, EETT indicated that courier service prices in Greece have increased, as the increase was prompted by the transport costs growth (which is a worldwide trend).

NPS users in Greece and Bulgaria are mainly business customers, while individual users form a very small percentage, which reinforced the trend, established for several years, to provide services according to market demand, and with significantly simplified customer service procedures.

Number of postal operators providing NPS					
	2003	2004	2005	2006	2007
Greece	295	266	301	341	377
Bulgaria	32	35	51	59	71

Figure 16 Source: Hellenic Telecommunications and Post Commission; CRC

Generally, the trend in both countries is towards the increasing of the number of operators providing NPS, although in 2004, in Greece has been registered a decrease in the number of the operators, while in Bulgaria the trend towards growth, though at a different rate, remained unchanged during the whole five-year period.

The provision of courier services in Romania, however, is slightly different. According to data reported in the 2007 Annual Report of the Romanian regulator - National Authority for Communications (ANC), the classification of operators of courier services or the so-called "express postal services" is different from that in Bulgaria and Greece, and is determined by:

- The type of the postal items, which operators carry;
- The area they serve (domestic and international market);
- The type of the postal items and the territory in which they are transported.

Under the Romanian legislation, express postal services include at least 3 main activities: collection of postal items at the address, specified by the sender, ensuring the delivery time and electronic tracking of the postal items.

The definition of courier services under the Bulgarian legislation is similar, and besides speed and reliability, it ensures all or some additional services, namely: collection at sender's address, delivery by a certain date, monitoring of postal items, etc.

In Romania, 35 operators provided non-universal postal services, 21 of which specialized in the domestic market, 6 in the international market, and 8 in both domestic and international markets for express postal services. In comparison, during the same period, in Bulgaria were active 71 operators, as 16 of them provided also outgoing international courier services, and three of them accepted, carried and delivered only international postal items, and in 2008 the total number of operators, registered for the provision of NPS, in the country, has increased to 77.

As it is evident from the summary statistics of the three neighbouring countries, the NPS market constitutes an important link in the development of postal services in general. This results from the fact that businesses remain the primary user of these services. Entirely market oriented, they dictate innovative solutions and technological innovations in the provision of courier services.

3. Competition state in NPS

Over the past three years, NPS were provided under the circumstances of competition based on supply and demand. In the period from 2006 to 2008, the number of registered operators has increased from 59 to 77. Revenue, generated from the provision of courier services and hybrid mail, were growing annually by about 27 percent. In 2008, the NPS market remained effective, and was characterized by low to moderate concentration. The Herfindahl - Hirschman index was used for the measurement of the NPS market concentration, as its value for 2008 was 1011, calculated based on data submitted by nearly 96 percent of the registered postal operators at the end of 2008. The CR4 index, amounting to 55, also demonstrated the relatively low level of concentration. In the past two years, the five operators with the highest revenue from the provision of NPS have formed market shares between 6 percent and 20 percent.

Over the past year, compared to 2007, an increase in the concentration of NPS provision was observed, as compared to the courier service, the hybrid mail service was characterized by a high degree of concentration.

Under the conditions of competition, the main barriers, faced by potential players on the NPS market, were related to the actions of the dominant postal operators. The NPS market is occupied by courier companies and hybrid mail providers, which have already strengthened their positions, and which are well known to users, have established postal network throughout the country, offer a wide range of additional services, and annually account for over 80 percent of the market volume. These companies offer domestic and international courier services at attractive prices and high quality, which is related to the conclusion of contracts between them and the economies of scale and scope. These absolute advantages of the active operators cannot be defined as insurmountable barriers to the NPS market penetration. From a legal perspective, potential NPS operators also do not face significant barriers because the provision of NPS is based on registration regime and is not related to requirements for construction of a postal network throughout the country, coordination of prices, etc.

IV. CRC regulative and control functions

1. Report on CRC control activity

In connection with the fulfilment of the legal obligation to exercise control functions, in 2008, authorized officials of the CRC have conducted 132 inspections, as the majority of them were planned.

The incumbent postal operator BULGARIAN POSTS Plc and operators licensed to provide UPS or part thereof were subject to 93 inspections. Under the licensing conditions, operators are required to maintain and develop postal networks comprised of organizationally and technologically interconnected units and means, according to the phases and with a view to the location plan of the access points to the postal network. This is an ongoing process requiring substantial resources. The inspections established that some of the operators are lagging behind in the development phases of the postal networks, so for this type of violation an administrative liability is imposed on one of the operators. No other violations are found in the provision of UPS.

Operators registered for the provision of NPS were subject to 39 inspections and subsequently there were 14 prescriptions given. Two of the operators were penalized with administrative liability after the detection of PSA violations. Five of the inspected operators were not active under the registrations issued to them.

As regards to the protection of consumer interests, the CRC uses two instruments - the coordination of the General Terms and Conditions of the agreement with the users of postal services, and the right of the users to make complaints and address communications to the CRC. 12 complaints/communications against UPS operators and 22 complaints/ communications against NPS operators were considered during the past 2008, most of which were unjustified. Most complaints were about delays in payment of cash on delivery, followed by complaints about lost courier items, as for the latter, applicants have received appropriate compensation. Upon a violation of the PSA, found in the response of a submitted communication, there was an administrative liability imposed on one operator.

2. Information on the implementation of the individual licences

2.1. Postal networks of the operators, providing UPS or part of it

According to Article 5 of the PSA, postal services are provided through postal networks. A postal network is an entity of organizationally and technologically interconnected units and means, including postal offices, exchange and sorting centres, transport vehicles and technical equipment, constructed and used to accept, transport and deliver postal items, and provide postal money orders service.

At the end of 2008, the number of postal offices of BULGARIAN POSTS PLC was 2981, where 631 were located in towns and cities, and 2350 – in villages. 206 of the post offices located in villages were in settlements with less than 200 inhabitants, and 1171 - in settlements with population between 200 and 800 inhabitants. Postal services were provided not only by postal offices, but also by 141 postal agencies and 2420 inter-settlement postmen – postal employees and employees under contract.

The correlation between different ways of postal servicing in the settlements is as follows:

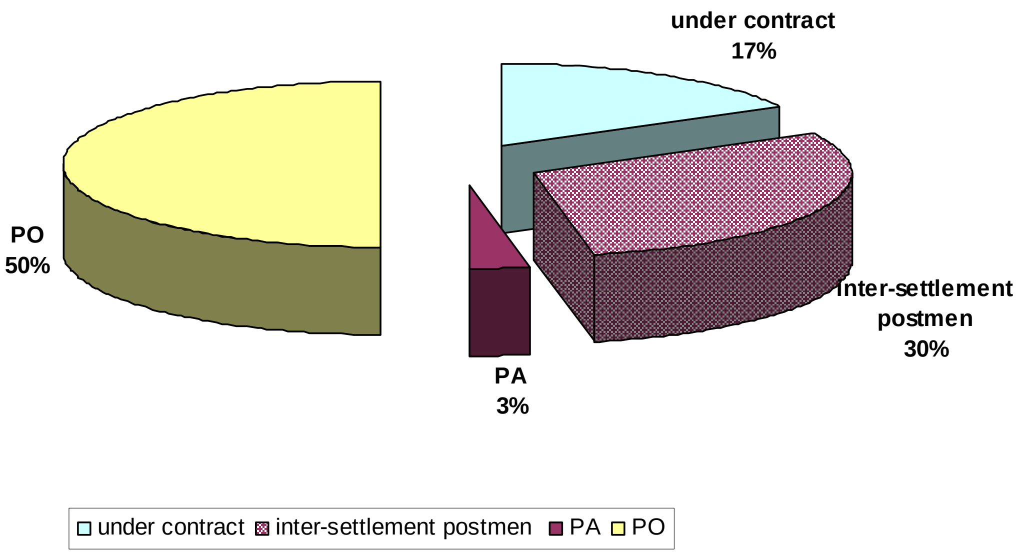


Figure 17 *Source: Report of BP EAD for UPS provision in 2008*

5286 mailboxes are in operation for collection of non-registered letter items. The population served by one mailbox is 1:1674 inhabitants on average for the country.

The density of points for access to the postal network exceeds the requirements established by the CRC with decision No. 703/26.06.2003.

In the comparative table below are listed other country average data, characterizing the changes in the postal network for a period of 3 years:

	2006	2007	2008
1. Number of postal offices	2986	2986	2981
In towns and cities	636	636	631
In villages	2350	2350	2350
2. Number of population served by one postal office	2596	2570	2865
In towns and cities	8581	8517	9889
In villages	988	959	974
3. Service coverage area of one postal office, km2	36.95	36.95	37
4. Number of postal agencies	144	141	141
5. Number of mailboxes for collection of letter items	5391	5332	5286
6. Number of PO boxes			44154

Source: Report of BP EAD for UPS provision in 2008

TIP TOP COURIER Plc- an operator licensed to provide the whole UPS, which is lagging behind in terms of building up its own postal network, has 34 centres for postal services (4 of them in Sofia), 27 of which were built in 2008. There are 10 mailboxes for letter items placed near the centres for postal services. The operator also has 32 PO boxes.

The other operator licensed to provide the whole UPS - ECONT EXPRESS Ltd, has 213 offices, 23 of which are in the territory of Sofia. There are 680 mailboxes placed throughout the country, 365 of which are in the petrol stations of PETROL. Regardless of the data cited, this operator also lags behind in the building up of its postal network.

M&BM EXPRESS Ltd, another operator licensed to provide the whole UPS, in 2008 completed the first phase of the construction of its postal network with 34 access points, under the terms of the license.

With regard to the operators licensed for provision of part of the UPS (postal money orders), the most dynamically developing network is that of EASYPAY Plc with 851 registered access points, 224 of which are in Sofia. The company continues working together with partner organizations - banks, business centres, and major retail chains, where the service is provided by their employees. A major trend, in 2008, was the development of a network of own offices and centres, amounting to 80, with hired and trained own personnel.

In 2008, FAKTOR I.N. Plc has built only 1 access point, reaching the total number of 64, and FINANCE ENGINEERING Plc has 36 offices. Both companies have significant delays in the construction of the postal network.

KESH EKSPRES SERVIS Ltd has not been operational in 2008, and CASHOFFICE Plc closed all its offices, opened over the year, due to the economic crisis.

3. Quality of the universal postal service in 2008

After BULGARIAN POSTS Plc introduced the new categorization of postal items based on speed, the new categories of postal items "with" and "without priority" are available for inland since June 1, 2008. End-to-end transit time for priority items of correspondence is measured by systems organized according to the requirements of Directive 97/67/EC and BDS EN 13850:2004:

DIAMON – for domestic priority items of correspondence;
UNEX – for international items of correspondence;

In 2008, the CRC has not organized any UPS quality measurements by an independent external organization, which has no connection to the UPS providers. Therefore, the following data on quality are taken from the measurements made by BULGARIAN POSTS Plc and concern the UPS quality of the incumbent postal operator.

3.1 Transit time for domestic non-registered priority postal items

The average results, reported by the DIAMON system, for priority mail service, which was launched in June during the reporting year, are as follows:

End-to-end transit time	Quality target	2008 Results
D+1	Not less than **80%** of the postal items	68.78%
D+2	Not less than **95%** of the postal items	91.43%

Results indicate that the target has not been reached.

3.2 Transit time for domestic non-registered postal items without priority

End-to-end transit time	Quality target	2008 Results
D+2	Not less than **80%** of the items of correspondence	84.96%
D+3	Not less than **95%** of the items of correspondence	96.09%

3.3 Transit time for domestic postal parcels

End-to-end transit time	Quality target	2006 Results	2007 Results	2008 Results
D+1	Not less than **70%** of the postal parcels	88.54%	86.34%	85.46%
D+2	Not less than **80%** of the postal parcels	98.21%	97.55%	97.84%
D+3	Not less than **95%** of the postal parcels	99.71%	99.60%	99.71%

3.4 Transit time for domestic postal money orders

End-to-end transit time	Quality target	2006 Results	2007 Results	2008 Results
D+1	Not less than **85%** of the postal money orders	88.43%	85.96%	81.75%
D+2	Not less than **92%** of the postal money orders	98.51%	97.55%	96.82%
D+3	Not less than **98%** of the postal money orders	99.68%	99.73%	99.61%

Evident from the results, presented in the tables, for a three-year period, generally UPS quality target and service efficiency are fulfilled, but in 2008 results of the first indicator D+1 for postal parcels and postal money orders were lower than those in the previous two years, while the quality target of postal money orders has not even been reached.

The UNEX system for measuring the transit time for international priority international postal items is applied by BULGARIAN POSTS Plc since the beginning of 2008. The requirement for independent measurement of end-to-end transit time is part of Directive 97/67/EC on common rules for the development of the internal market of Community postal services and the improvement of quality of service. The system is managed directly by the International Post Corporation - IPC in Brussels, and is uniform and independent (correspondents are external) for all postal operators, members of PostEurop. In order not only to establish the quality level, but also to enable operators to influence the transit time, the system is upgraded with a diagnostic system for monitoring and analysis.

3.5 Transit time for international postal items

3.5.1 International non-registered priority postal items from geographic areas within Europe

End-to-end transit time	Quality target	2006 Results	2007 Results	2008 Results
D+3	Not less than **60%** of the postal items	59.29%	50.89%	49%
D+5	Not less than **80%** of the postal items	83.95%	84.03%	85.1%

3.5.2 International non-registered priority postal items from geographic areas outside Europe

End-to-end transit time	Quality target	2006 Results	2007 Results	2008 Results
D+6	Not less than **58%** of the postal items	61.47%	54.73%	58.74%
D+7	Not less than **75%** of the postal items	84.98%	80.64%	82.58%
D+8	Not less than **90%** of the postal items	95.32%	94.73%	94.68%

3.5.3 International non-registered postal items without priority from geographic areas within Europe

End-to-end transit time	Quality target	2006 Results	2007 Results	2008 Results
D+4	Not less than **55%** of the postal items	53.31%	51.85%	57.83%
D+6	Not less than **80%** of the postal items	83.11%	81.44%	84.13%

3.5.4 International non-registered postal items without priority from geographic areas outside Europe

End-to-end transit time	Quality target	2006 Results	2007 Results	2008 Results
D+10	Not less than **60%** of the postal items	70.59%	67.02%	73.41%
D+14	Not less than **85%** of the postal items	96.29%	93.59%	93.36%

3.6 Regularity of collection of postal items and postal money orders – number of collections from letterboxes and postal offices

Settlement	***Days of the week***	***Number of collections per day***	***Quality target***	***2006 Results***	***2007 Results***	***2008 Results***
Sofia	*From Monday to Friday Saturday and Sunday*	*2 1*	***95%***	*98.82%*	*99.06%*	*99.48%*
With RSC	*From Monday to Saturday*	*1*				
Without RSC	*From Monday to Friday*	*1*				

3.7 Regularity of postal items and postal money orders delivery – number of deliveries

Settlement	***Days of the week***	***Number of deliveries per day***	***Quality target***	***2006 Results***	***2007 Results***	***2008 Results***
Sofia	*From Monday to Saturday*	*2*	***95%***	*99.30%*	*98.81%*	*99.57%*
With RSC	*From Monday to Saturday*	*1*				
Without RSC	*From Monday to Friday*	*1*				

3.8 Time limits for handling of complaints

Standard term for handling of complaints	**Quality target**	**2006 Results**	**2007 Results**	**2008 Results**
30 days for domestic postal services	Not less than **90%** of the complaints	90.32%	86.81%	94.44%
90 days for international postal services	Not less than **90%** of the complaints	88.73%	91.31%	95.75%

Generally, the results of the quality measurement of international postal items, in 2008, exceeded the quality target. Cause for concern, however, is the state of quality in priority postal items within Europe, where the quality target for D+3 was not only unfulfilled, but the result was even lower than the previous two years. Part of the results in 2007 (international non-registered priority postal items from geographic areas outside Europe, international non-registered postal items without priority from geographic areas within Europe) registered a decrease, but in 2008 an apparent stabilization was observed, as the appropriate quality targets were fulfilled and exceeded.

The enclosed table contains information on the achievements of some European countries in the field of service quality in 2008[2]

Country	Target (D+1)	Result 2008
Belgium	90%	93.8%
Bulgaria	80%	68.8%
Czech Republic	90%	90.6%
Denmark	95%	93.7%
Estonia	90%	91.5%
Finland	85%	95%
France	83%	83.9%
Germany	80%	95%
Greece	87%	79.9%
Hungary	85%	92.7%
Ireland	94%	79%
Latvia	97%	96.1%
Lithuania	85%	75.5%
Luxembourg	95%	98.1%
Malta	92%	93.3%
Norway	85%	87.1%
Poland	82%	66.3%
Portugal	94.5%	95%
Slovakia	96%	96.1%
Slovenia	95%	92%
Sweden	85%	94.9%
Switzerland	97%	95.9%
United Kingdom	93%	92.8%

Almost half of the operators, obliged to provide UPS, from the 23 countries presented in the table have not fulfilled their objectives in terms of service quality.

[2] The information is from private research

The chart below presents the percentage fulfilment of the targets for service quality in the respective countries.

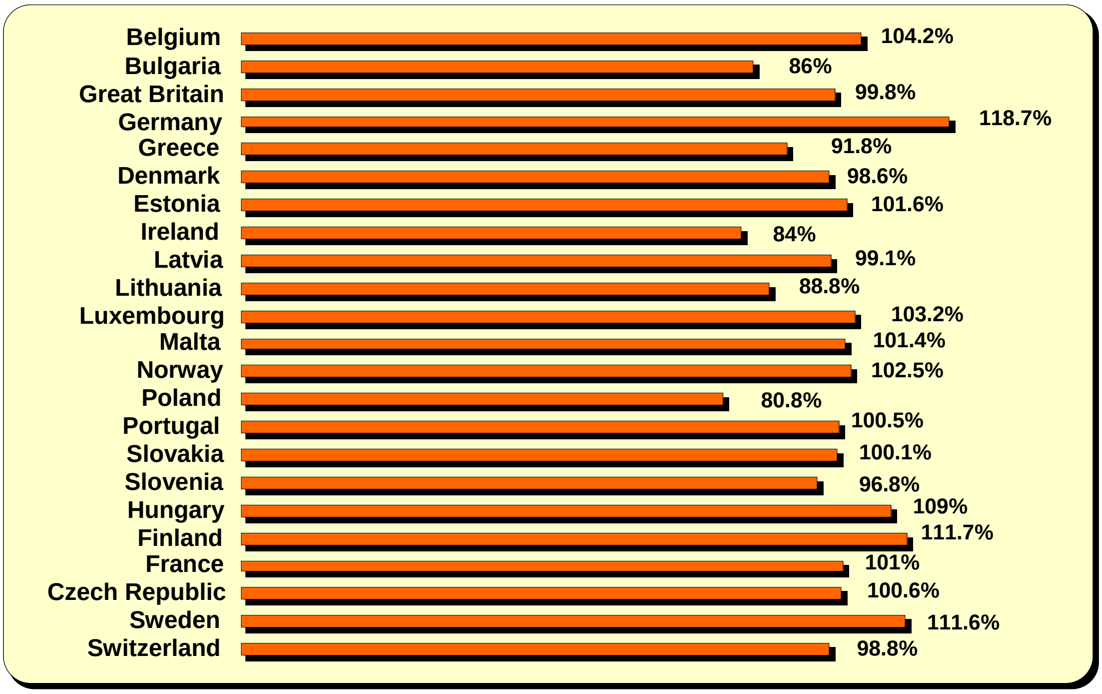


Figure 18

3.9 Complaints for services in the UPS scope

In 2008, total 3555 complaints were submitted concerning services in the UPS scope, which are broken down as follows [3]:

[3] Data are taken from the annual questionnaires for operators providing UPS or part thereof

Written complaints submitted in 2008	**Number**	
	domestic	**international**
Complaints (in total)	**510**	**3045**
Justified **complaints**	142	190
Breakdown of *complaints* ***according to cause:***		
1. lost item	40	145
2. delayed item	74	16
3. damaged or with missing content (totally or partially) item	6	6
4. mis-delivery	7	2
5. returned postal parcel without reason for non-delivery		2
6. unpaid or wrongly paid postal money orders	3	
7. general complaint (claim based on a general dissatisfaction with the service the postal operator provides)		
8. concerning the behaviour and competence of the postal employees	7	1
9. concerning treatment of complaint	2	7
10 other complaints	3	11
Complaints with payment of compensation	**number**	**BGN**
	135	**4067**

Generally, the number of complaints submitted in 2008 has increased compared to 2007, the number of complaints deemed justified has increased slightly as well. However, there is a difference in the breakdown of complaints according to their cause: the number of complaints about lost and delayed items has increased at the expense of a significant reduction in complaints for damaged items or items with missing content. The number of complaints concerning the behaviour and competence of the postal employees, and concerning the treatment of complaints has increased as well. Justified complaints amounted to 9.33 percent of the total number of submitted complaints.

The number of complaints with payment of compensation fell more than twice, and the total amount of compensations paid was seven times smaller. Compared to 2007 is observed a trend of reduction in the number of justified complaints and of increase in users' requirements in terms of professional competence and culture of the postal service employees as well.

3.10 Complaints for non-universal postal services

NPS f complaints for 2008 are broken down by number according to cause as follows[4]:

Complaints (in total)	**7006**	
including justified complaints	2647	
Breakdown of complaints according to cause:		
1. damaged item (the integrity of the item is violated)	765	
2. lost item (the item is not delivered to the customer)	163	
3. rifled item (postal item with wholly or partially missing content)	40	
4. destroyed item (postal item so damaged that it cannot be used as intended)	18	
5. item delivered with a delay of the deadline for delivery	1070	
6. others	591	
Complaints with payment of compensation	**number**	**BGN**
	2080	**173135**

Data on submitted complaints indicate that during the past year 2647 justified complaints were filed compared to 2296 complaints submitted in 2007. The number of complaints concluded with payment of compensation has increased almost twice, and the total amount of compensations paid was two times higher. The number of justified complaints has increased, as most of the submitted complaints were for delayed delivery, followed by complaints for damaged items. Justified complaints represent 37.8 percent of the total complaints submitted, which is 10 percent more compared to the previous year, and significantly exceeds the percentage of justified complaints for items and services in the UPS scope. The large number of complaints for items delivered with delay shows that customers demand their rights in terms of service quality because they had preferred the courier service to the traditional type of postal services due to the speed. Here comes the role of the CRC as a defender of interests in view of the compensation requirement for delayed delivery in coordination of the General Terms and Conditions of the agreement with the users of postal services. On the other hand, the fast development of the NPS market clearly has a negative impact in terms of technology and skills of employees.

[4] Data are taken from the annual questionnaires for operators providing NPS.

V. Conclusion. Prospects for the postal market development

Over the last three years, development prospects of the postal market in Bulgaria were associated with the sustained annual growth of the market volume, the increasing number of items delivered and of registered and licensed operators. In 2009, as a result of the global financial crisis, respectively, the contraction in consumption and investment in general, the following changes in the provision of postal services are expected, namely:

- The postal market volume in Bulgaria will remain unchanged or will increase, compared to 2008, with percentage lower than the previous three years;
- The number of postal operators will exceed 85, as the number of new postal operators licensed to provide part of the UPS is expected to increase as well;
- The correlation between revenue from NPS and from UPS in the total market volume, being 2 to 1, will remain unchanged;
- The number of items provided by UPS will decline compared to 2008, as the decrease will be mainly in the consumption of items of correspondence. Generally, the relative share of the items of correspondence without priority will grow at the expense of that of the priority items;
- The number of items consumed by business users will decrease, but the share of UPS items, intended from business users to individual users, will increase;
- The amount of revenue generated from NPS will increase compared to 2008, with percentage lower than the previous three years;
- Compared to 2008, the number of courier items given will decline slightly, while that of the consumed hybrid mail items will increase;
- The market share of alternative licensed operators in the entire postal market will grow;
- New contracts for network access between the main postal operator and other licensed operators will be concluded;
- Competition in services outside the reserved area will increase;
- NPS will still be provided under the conditions of strong competition, but with increase in the level of concentration, especially in respect of courier services.

In the short term, the CRC activity in the regulation of postal services is related to the improvement of the conditions for interconnection of operators' networks, providing UPS, and the examination and analysis of the draft system for allocation of costs of the main postal operator.

In relation to the notably sensitive issue of the UPS quality offered by the main postal operator, CRC will propose legislative changes that will be aimed at optimizing the entire process of measuring, reporting, and monitoring the achievement of the quality targets of the universal postal service and the targets for service efficiency.

The main priority in the CRC work will be preparation for the implementation of the requirements of Directive 2008/6/EC, amending Directive 97/67/EC, concerning the full development of the internal postal market in the Community.