A N N U A L R E P O R T

OF

THE COMMUNICATIONS REGULATION COMMISSION FOR 2011

ANALYSIS OF THE POSTAL SERVICES MARKET FOR 2011

Market Regulation Directorate

Department of Postal Services Regulation

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I. State of the Bulgarian postal market

Directive 2008/6/EC outlined the framework for the full establishment of a single internal market of Community postal services in the conditions of a fully liberalized market. Among the main goals of this Directive was, through the full opening of postal services market, to contribute to the increase of their total volume which in turn will facilitate the appearance of new market players in order to intensify the competition, open new vacancies, and work for the benefit of postal services users.

In compliance with the directive's requirements, in 16 European countries, including Bulgaria, the postal market liberalization is already a fact since 01.01.2011. As of this date, the Postal Services Act (PSA) requires full removal of the state monopoly on the postal services market, including on the reserved sector of the universal postal service (UPS). With the last legal barrier removed, the postal market shall be entered on an equal footing.

1. Bulgarian postal services market and market players

The Bulgarian postal services market comprises the universal postal service and the non-universal postal services (NPS), the provision of which is reviewed in detail in the respective sections of this report.

Postal services are provided in two regimes – licensing and notification. In accordance with Art. 39 of PSA, three types of individual licenses are issued: for performing UPS on the entire territory of the Republic of Bulgaria by an operator assigned with the obligation to perform UPS pursuant to PSA; for performing services included in the scope of UPS; for performing the "postal money orders" service. The "hybrid mail", direct mail and courier services are provided in the conditions of a notification regime. Operators performing these services are entered with a special registry after submitting a notification to CRC.

In 2011, the total number of postal operators was 102, as it grew by 6% since 2010.

In the past year, CRC issued one individual license for provision of the "postal money orders" service. Thus, as of 31.12.2011, the number of postal operators that hold licenses for provision of UPS reached 12, as follows

- "Bulgarian Posts" EAD, in the capacity of operator assigned by law with the obligation[1] to perform UPS (incumbent operator), for a period of 15 years as of 30.12.2010;
- "Econt Express" OOD, "Tip Top Courier" AD, "M&BM Express" OOD, "Star Post" OOD, and "Terra Post Services" EOOD - for performing services within the scope of UPS;
- "Bulgarian Posts" EAD, "Econt Express" OOD, "Cash Office" AD, "Tip Top Courier" AD, "Factor I. N." AD, "Finance Engineering" AD, "Cash Express

[1] *The obligation to perform UPS includes providing the service at all times, within the specified working hours and with a quality meeting the requirements set forth in Art. 15, Para 1, item 7 of PSA, at affordable prices and accessibility to each user on the territory of the country, regardless of his geographical location. The incumbent operator guarantees the provision of UPS during all working days, at least 5 days a week, except for settlements located in difficult-to-access areas. The provision of UPS includes at least one collection of postal items each working day from the access points and one delivery to recipients within the terms prescribed by law. The number and location (density) of access points take into account the needs of users, except for settlements and settlement formations located in difficult-to-access areas.*

Service" EOOD, "Terra Post Service" EOOD, "Toyota Tixim" EOOD, "EasyPay" AD, "M&BM Express" OOD, "Telepaid Bulgaria" OOD – for performing the "postal money orders" service.

As of 31.12.2011, the number of registered postal operators totaled 96, as CRC registered 12 new operators for performing NPS during the reviewed period.

2. Volume and structure of the Bulgarian postal market

2.1 Volume of the postal market

In 2011, the volume of the Bulgarian postal market was estimated on the basis of data submitted by 92% of all licensed and registered portal operators as of 31.12.2011.

The development trends in the postal market volume measured by the number of postal items and services are displayed on Figure1.

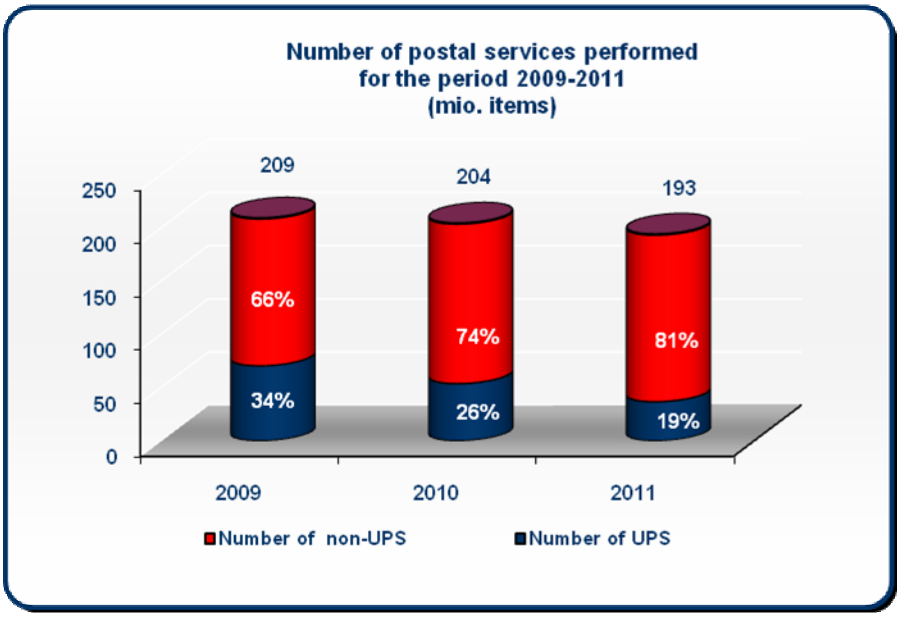


Figure 1 Source: Data submitted to CRC

The data show that there is a steady trend towards decrease of the relative share of UPS at the expense of NPS, the share of which reached 81% of the market volume in 2011, measured by the number of provided items and services.

The development trends in the postal market volume measured by the revenue generated from all postal services are shown on Figure 2.

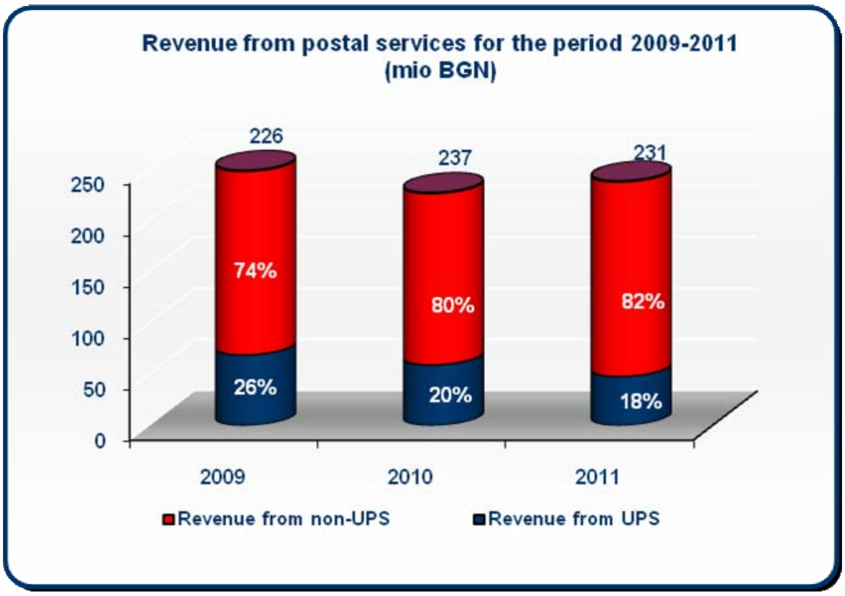


Figure 2 Source: Data submitted to CRC

In 2011, the volume of the entire Bulgarian postal market estimated on the basis of revenue from all postal services, reached approximately BGN 231 million, as a drop of nearly 3% was reported since 2010.

The data show that the volume of the postal market has been formed mainly by revenue from NPS, as the relative share of these services of the total amount of revenue from postal services grows each year. Although in 2011, as compared to 2010, less revenue was reported in an absolute value from performing NPS, the relative share of this services increased by 2 percentage points.

The decrease in the volume of the postal market for a one-year-period is related to both the registered drop in the number of postal services provided and the reduction in revenue from the performance of NPS.

2.2. Structure of the postal market

As it is clear from Figure 3, the structure of revenue from postal services remains almost unchanged for the period 2009-2011.

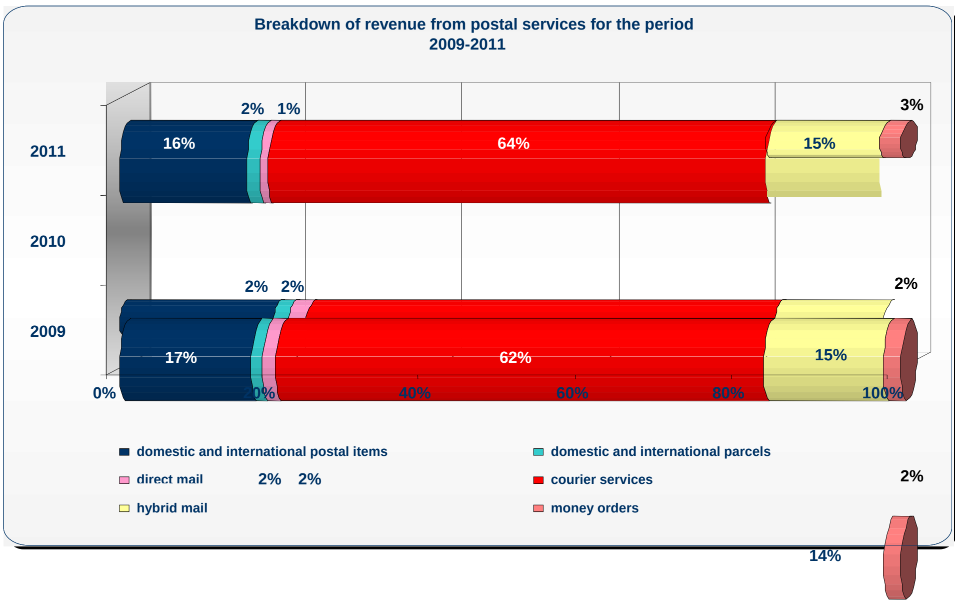


Figure 3 Source: Data submitted to CRC

Courier services take up the greatest relative share of the postal market structure, as revenue generated from them formed approximately 60% of the total amount of revenue from postal services on an annual basis. In the past year, when compared to 2010, their relative share of the volume of the postal market grew by 2 percentage points.

In 2011, a considerable growth was observed in the number of courier services provided. At the same time, revenue generated by them slightly dropped by 0.7%, which is due to a shift in the users' demand from more expensive and express services towards slower, yet more economic services.

The "Postal items"[2] segment preserved the second place in the structure of the Bulgarian postal market, as in 2011, compared to 2010, the relative share of revenue it generated of the postal market volume was down by one percentage point. In 2011, compared to 2010, revenue from the provision of services in the postal items segment decreased by 6%, and the number of items - by 5.7%.

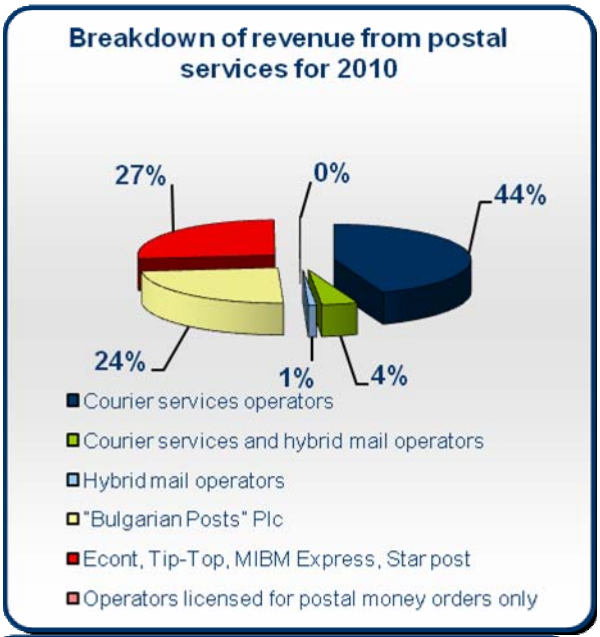
The relative shares of the remaining postal services of the market structure for 2011 are as follows:

- revenue from the "hybrid mail" services made up 15%, as its relative share remained unchanged since 2010. During the preceding years, the "hybrid mail" service was characterized by a steady growth rate, however, for a one-year period, a decline was observed both in number and revenue generated from the service, by 6.2% and 7.5%, respectively;
- revenue from performing the "postal money orders" service constituted 3%, as their share grew by one percentage point against 2010;
- 2% was the share of revenue from delivering parcels up to 20 kg, which remains unchanged, as compared to 2010;
- revenue from performing the "direct mail" service formed an insignificant relative share of 1%, as it decreased by one percentage point compared to 2010.

2.2.1 Breakdown of revenue by operators and types of postal services. Market shares of postal operators.

Figure 4 and Figure 5 clearly show that no significant change was observed in the relative shares of the separate types of postal operators of the market volume for the period.

[2] The "Postal items" segment includes domestic and international outgoing, registered, non-registered, with or without declared value, priority or non-priority postal items



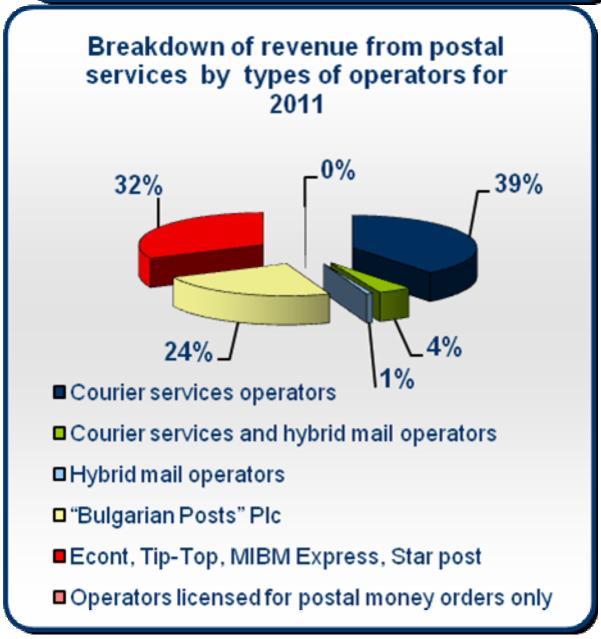


Figure 4 and Figure 5 Source: Data submitted to CRC

In accordance with the market development, the greatest share was held by operators performing courier services only. In 2011, this share amounted to approximately 39%, which represents a decrease by 5 percentage points since 2010.

The market share of “Bulgarian Posts” EAD (of the total postal market) in 2011 remained unchanged since 2010, and in the past year it represented 24%.

The market share of operators “Econt Express” OOD, “M&BM Express” OOD, “Tip Top Courier” AD that are licensed to perform the services within the scope of UPS, but they also provide NPS, reached 32% in 2011, as it increased by 5 percentage points for a one-year period (2010 -2011). The increase in the market share of this postal operators group is related to the fact that in 2011 the operator “Star Post” OOD reported activity related to performing UPS for the first year (after it obtained an individual license for performing services within the scope of UPS).

Figure 6 and Figure 7 present the breakdown of revenue generated by the different types of operators by postal services[3].

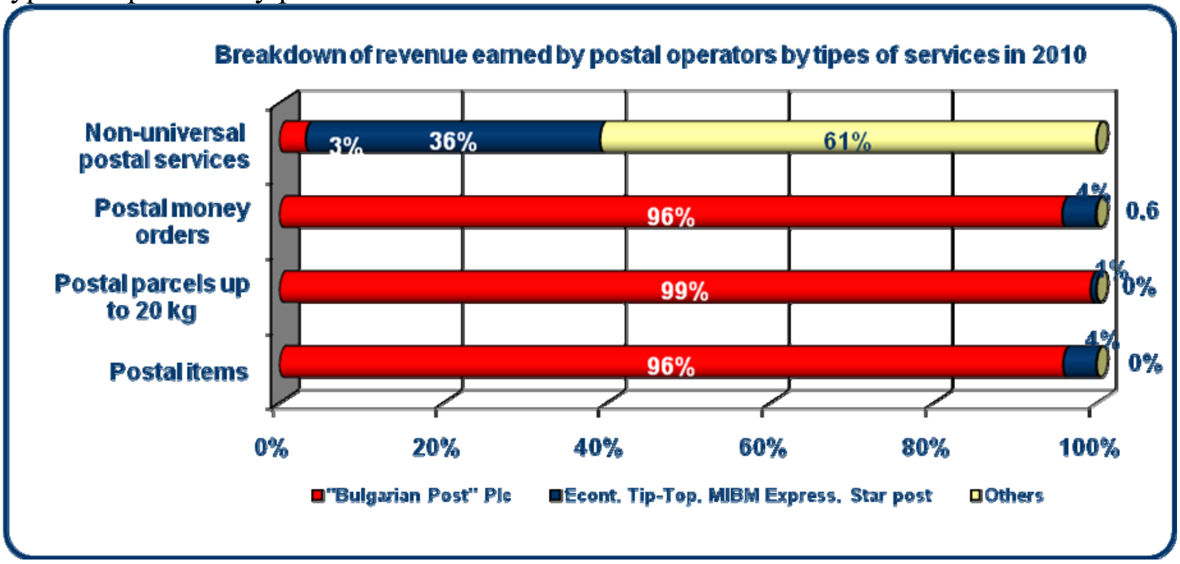


Figure 6 Source: Data submitted to CRC

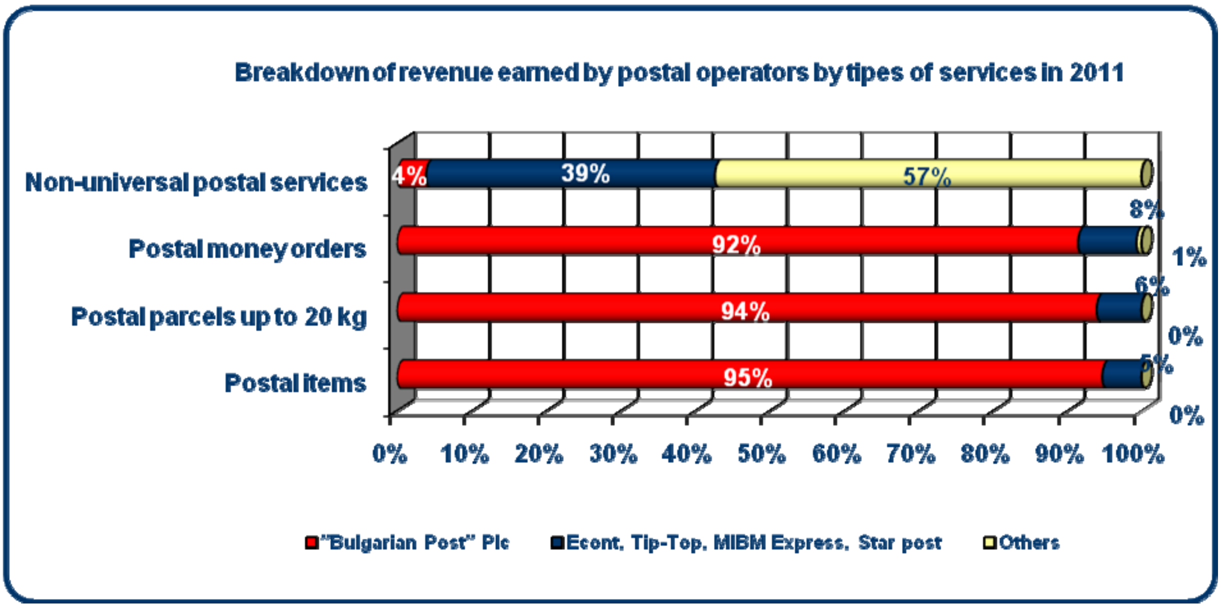


Figure 7 Source: Data submitted to CRC

The presented data reveal that for the period 2010 - 2011, the incumbent postal operator formed over 95% of revenue from UPS (postal items and postal parcels up to 20 kg). For a one-year period, the relative share of its revenue from postal items and postal parcels delivery dropped by 1 percentage point and 5 percentage points, respectively.

The calculation of the share of "Bulgarian Posts" EAD of UPS was mainly influenced by revenue earned from postal items delivery, as they made up over 85% of the total amount of revenue from UPS.

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[3]With reference to the"postal money orders" service, in the "others" group was reported revenue earned by the remaining operators licensed for performing the service. With reference to NPS, in the "others" group was reported revenue generated by: courier services operators, courier services and hybrid mail operators, and hybrid mail operators.

The remaining licensed postal operators increased their relative share of revenue from postal items and postal parcels by 1 and 5 percentage points, respectively, and as a result, their share of the UPS segment was up by 1 percentage point since 2010.

Relatively small (4%) was the share of revenue earned by “Bulgarian Posts” EAD from performing NPS in 2011, although it grew by 1 percentage point, as compared to 2010. This increase is due to a great extent to the transfer of the “direct mail” service within the scope of NPS from the beginning of 2011.

The trends observed in providing the different postal services outline several significant regularities in terms of the Bulgarian postal markets. In the first place, the market development is predetermined by the development of NPS and the courier services in particular, while the services within the scope of UPS remain in the background. Their demand decreases every year at the expense of new services based on internet technology, such as hybrid mail, electronic commerce, etc. During the first year of full liberalization, no significant changes were observed in the UPS segment, where revenue is mainly formed by the operator obligated to perform UPS, while the remaining licensed operators strive to expand their market presence generating revenue from both UPS and the entire postal market.

II. Provision of UPS

1. Volume and structure of services within the scope of UPS

In 2011, UPS and services within its scope were performed by “Bulgarian Posts” EAD, “Econt Express” OOD, “Tip Top Courier” AD, “M&BM Express” OOD, “Star Post” OOD.

“Terra Post Services” EOOD, licensed for performing services within the scope of UPS at the end of 2010, did not report any activity for 2011.

Services within the scope of UPS may be divided into two main groups – postal items and postal parcels. In addition to some types of items and parcels, “registered” and “declared value” services are also offered and they may not be performed separately.

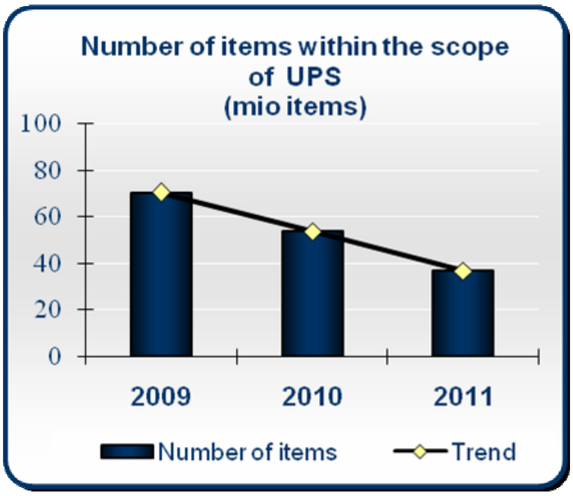
Postal items are classified in terms of speed of delivery of items (“priority/non-priority” items) and on the basis of their contents: items of correspondence, small packets and printed matters. Postal parcels may be ordinary or with “declared value”.

International postal services and items within the scope of UPS are divided into “priority/non-priority” items and international postal items up to 31.5 kg, while domestic services within the scope of UPS are divided by contents (items of correspondence, small packets and printed matters), and they may also be “priority/non-priority”.

According to data submitted to CRC, the total number of domestic and international items and services within the scope of UPS was approximately 37 million, and generated revenue – BGN 41 million.

In 2011, revenue from UPS represented 18 % of all revenue generated on the postal market, of which 95 % were formed by “Bulgarian Posts” EAD. Revenue earned from UPS are distributed as follows: 68 % were revenue from domestic items and services, and 32 % were earned from international postal services.

Figures No. 8 and No. 9 display data on the number of items and revenue generated from performing services within the scopes of UPS.



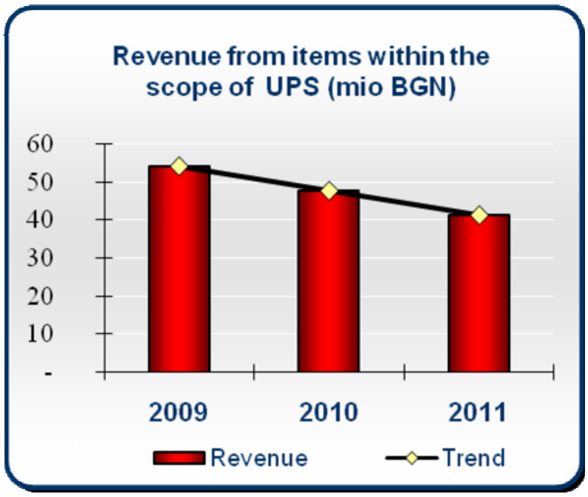


Figure 8 and Figure 9 Source: Data submitted to CRC

The above data reveal a preserved trend towards decrease in the number of items/services within the scope of UPS and revenue generated from them. In 2011, as compared to 2010, the registered number of items/services was down by 32 %, which caused a reduction of 13 % in revenue from UPS.

The decrease may be explained, on the one hand, by the removal of the “direct mail” services from the scope of UPS, and on the other hand – by the change in consumption of some services within the scope of UPS and their replacement with other types of postal services.

1.1. Number of domestic items/services and revenue within the scope of UPS

According to data submitted by licensed postal operators that carried out activity in the past year 2011, the total number of domestic items and services from UPS was nearly 33 million items, and revenue generated from them – approximately BGN 28 million. When compared to 2010, the decrease in this segment was 35 % in the number of items and services, and 21 % in earned revenue.

Figure No. 10 displays data submitted for revenue by types of items within the scope of UPS for the country, for the period 2010 - 2011.

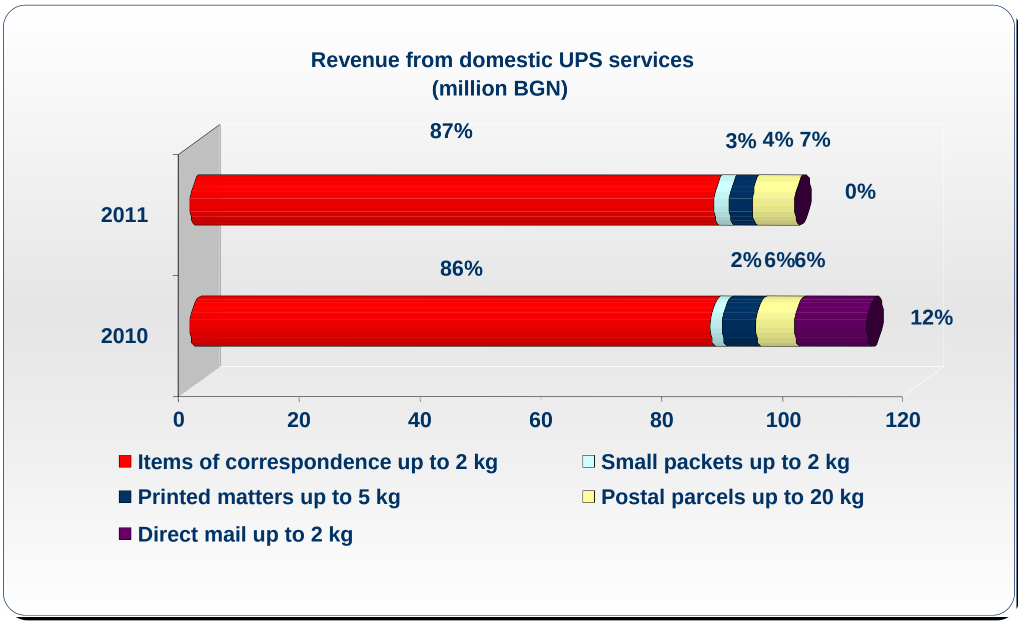


Figure 10 Source: Data submitted to CRC

Revenue from items of correspondence up to 2 kg ("priority/non-priority") occupied a share of 87 % of the total revenue from domestic UPS. Almost half of this revenue was generated from registered non-priority items of correspondence, and the other half – from non-registered non-priority items of correspondence. Postal parcels, printed matters and small packets formed the remaining revenue reported in 2011.

"Bulgarian Posts" EAD reported a drop of 13 % in revenue from items of correspondence since 2010, as this decrease is partly due to the removed state monopoly over a reserved sector for items of correspondence up to 50 g.

Revenue reported by "M&BM Express" OOD from items of correspondence up to 2 kg was nearly eleven times more than the previous reporting period. For the first year after the issuance of an individual license, revenue from items of correspondence was reported by "Star Post" OOD.

When compared to the year before, small packets registered a growth of 14 % in reported revenue, which is mainly due to the increased small packets of "Bulgarian Posts" EAD and "Econt Express" OOD.

Printed matters up to 5 kg occupied nearly 4 % of the total number and revenue from domestic UPS, while these items registered a decrease in number of 37 %, and in revenue - 41%.

The reported number and revenue from postal parcels up to 20 kg for the country retained the level achieved during the previous reporting period. A decline of 13 % in the number, and 14 % in the revenue from postal parcels with declared value was observed, which was compensated by an increase reported in the number and revenue from postal parcels without declared value.

1.2. Number of international items/services and revenue within the scope of UPS

In the past year, the total number of outgoing international items within the scope of UPS was around 4 million items, and revenue generated from them was approximately BGN 13 million. These are mainly items/services and revenue reported by the incumbent postal operator "Bulgarian Posts" EAD. Out of the remaining operators, "M&BM Express" OOD and "Tip Top Courier" AD performed international services, yet the revenue they reported were below 1 % of all revenue for abroad.

Compared to 2010, a growth of 10 % was observed in the reported number of international items and services within the scope of UPS, and respectively - 9 % in gained revenue.

Outgoing international items and services within the scope of UPS made up 10 % of the total number and 31 % of the total revenue from UPS.

Figure No. 11 presents data submitted on revenue earned from the types of items within the scope of UPS for abroad, for the period 2010 - 2011.

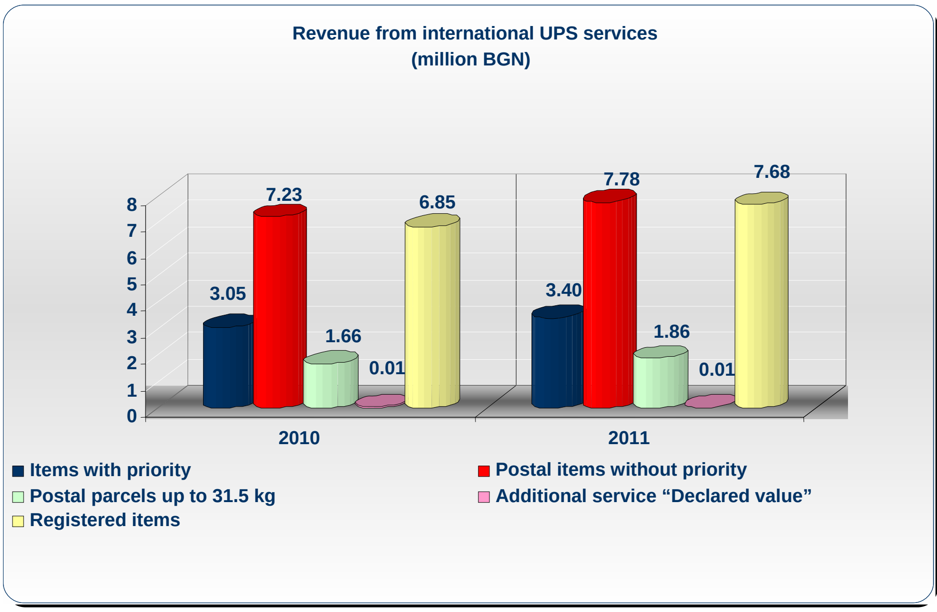


Figure 11 Source: Data submitted to CRC

The items "without priority" reported by "Bulgarian Posts" EAD for 2011 held the greatest share – 76 % of all items and services within the scope of international UPS, and revenue generated from them were approximately 60 % of the total revenue from this group. Registered items generated 58 % of the revenue in this segment. When compared to 2010, an increase of 11 % was observed in the items "with priority", the items "without priority" were up by 8 %, postal parcels for abroad grew by 12 %.

2. Prices of services within the scope of UPS

Prices of services within the scope of UPS are formed by the postal operator obligated to perform UPS - "Bulgarian Posts" EAD, in compliance with the requirements of the Ordinance[4] under Art. 66, Para 1, and the Method[5] under Art. 15, Para 1, item 13 of PSA. Prices are regulated by CRC. The remaining licensed operators form the prices of services within the scope of UPS on a supply-and-demand basis.

Considering the decreasing consumption of services within the scope of UPS, as well as the full liberalization of the UPS market, "Bulgarian Posts" EAD, as of 01.08.2011, changed the prices of several services within the scope of UPS. Reduced were the prices of letter items "with priority" for the country by 10 to 20 %, with the purpose to stimulate consumption. On the other hand, another reason to change the prices was the strive of

[4] Ordinance for the determination of rules for pricing the universal postal service and the enforcement of its prices

[5] Method for pricing the universal postal service

"Bulgarian Posts" EAD to bring closer the prices by weight steps and the steps in the group of postal items itself (items of correspondence, printed matters and small packets) as much as possible, and to fully transfer to pricing domestic items on the basis of speed of processing and delivery only, similarly to international items which are only divided into items "with" and "without priority".

2.1. Comparison of prices of operators in Bulgaria

The reserved sector removal caused great changes in the price lists of market players in the lowest weight step (up to 50 g), as in 2011 only the incumbent operator did not change its tariffs for this market segment. "Econt Express" OOD and "Tip Top Courier" AD reduced their prices for items of correspondence up to 50 g. The change is especially considerable with the second postal operator – by BGN 0.81, or 53.6 %, while the reduction introduced by "Econt Express" OOD was by BGN 0.40, or 16.7 %. Despite the reduction which took place during the past year, "Econt Express" OOD retains the highest price in the segment (Figure 9).

The other two operators ("M&BM Express" OOD and "Star Post" EOOD) have been offering this service since 2011, as their prices are lower than those of "Bulgarian Posts" EAD – BGN 0.55 and BGN 0.50, respectively. As a whole, a strive for a competitive offering of this service is observed in the segment which was until recently dominated by the incumbent operator.

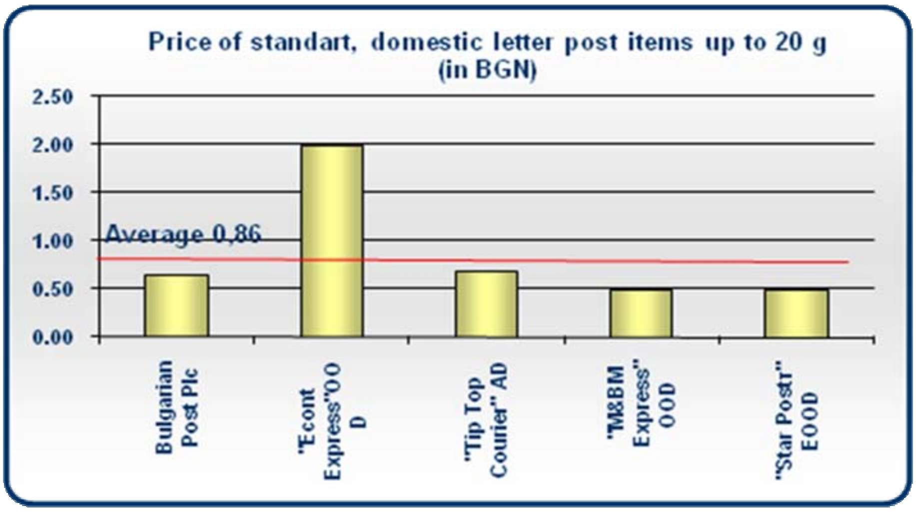


Figure 12 Source: Data submitted to CRC

2.2. Comparison of prices in the EU

In an international comparison carried out by "Deutsche Post" AG, which includes the EU countries plus Switzerland and Norway, Bulgaria has one of the lowest average prices in Euro for a standard domestic letter up to 20 g – EURO 0.43. The prices are lower in six countries only. The data is displayed on Figure No. 13

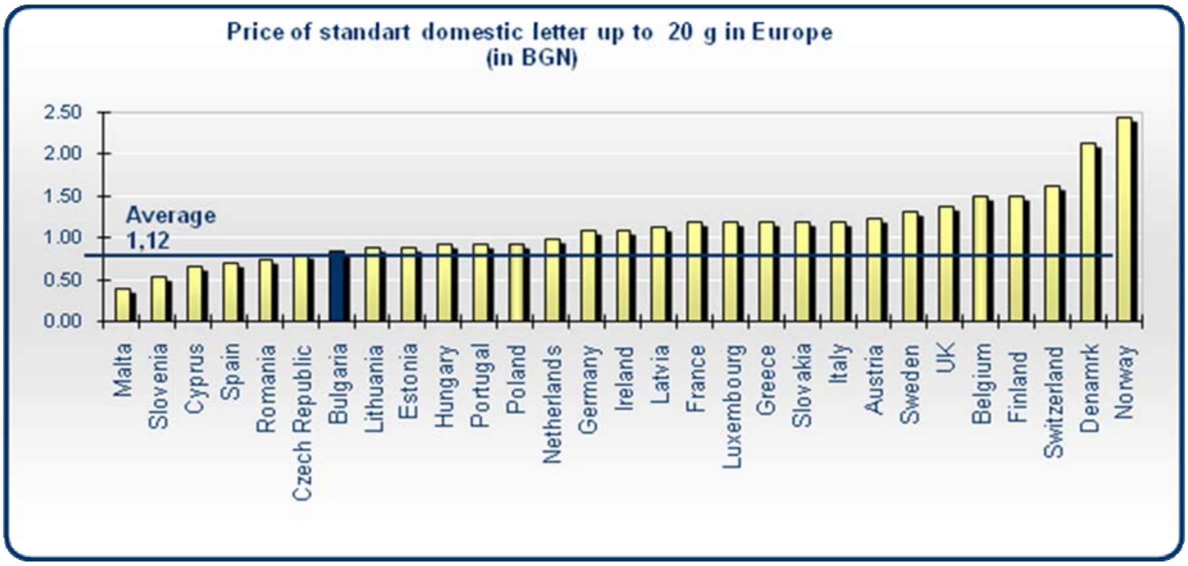


Figure 13 Source: "Letter prices in Europe", a study of Deutsche Post AG

On the other hand, the comparison studies the affordability of the postal service in terms of purchasing power in the respective country and labour costs. According to these parameters, the price of a standard letter up to 20 g in our country is the highest, therefore it is least affordable when compared to all participants in the study.

3. Access to the network of the incumbent postal operator

According to data submitted to CRC, "M&BM Express" OOD and "Tip Top Courier" AD have entered into contracts for access to the network of "Bulgarian Posts" EAD. Subject matter of the contracts are domestic and international items of correspondence, printed matters, small packets with/without priority, additional services, such as "registered", "declared-value" items and "advice of delivery". Under access contracts, the incumbent postal operator reported a total of 142 thousand domestic and international items, and revenue of BGN 254 thousand from them. "Bulgarian Posts" EAD possesses the largest and most developed postal network on the entire territory of the country, and the service of granting access to the network of the incumbent postal operator has the potential to develop.

4. Users of services included in the scope of UPS

According to data submitted by "Bulgarian Posts" EAD, the greater share of UPS consumption was occupied by business users - 57 %, while individual users consumed 43 %. Compared to the preceding year 2010, this ratio changed slightly towards an increase in the share of business users at the expense of individual ones. "M&BM Express" OOD reported almost 100 % consumption of services within the scope of UPS by business clients.

The chart below displays the consumption of services within the scope of UPS for the country and abroad by business clients of "Bulgarian Posts" EAD in 2011.

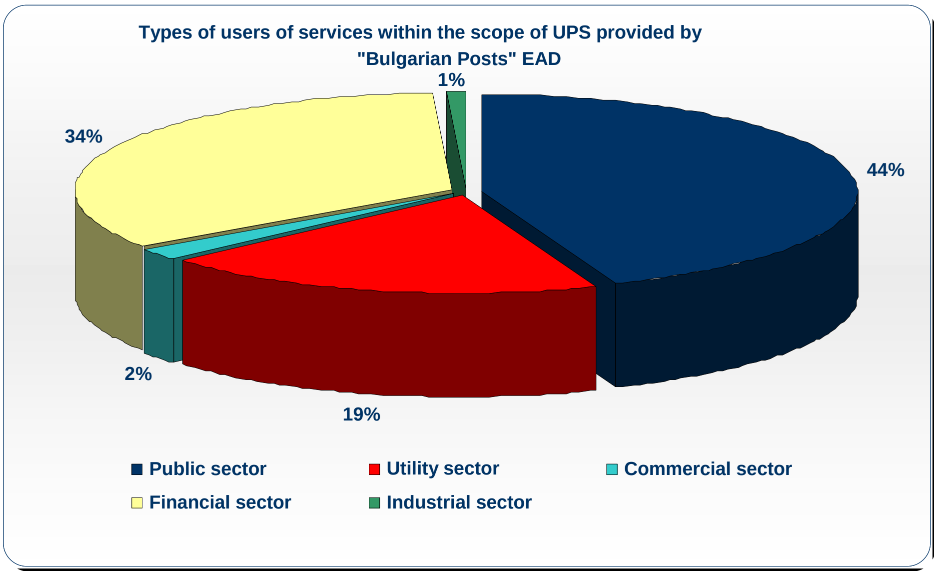


Figure 14 Source: Data submitted to CRC

Clients are provisionally grouped in sectors according to their line of business. According to submitted data, with highest consumption of items and services within the scope of UPS is the public sector - 44 %. This sector includes ministries, municipalities, organizations, agencies. It is followed by clients from the financial sector with a share of 34%, such as banks and other financial institutions. Companies providing utility services are classified within the public sector and form a consumption of 19 %. This sector also includes telecommunication and electric power companies, water supply and sewerage, and heating power companies. The remaining 3 % are distributed between the commercial - 2 % and industrial sector - 1 %.

5. Financial result from UPS provided by "Bulgarian Posts" EAD

The financial result from the performance of UPS in 2011 represents a loss in the amount of BGN 18.3 million, which comprises BGN 39.2 million revenue and BGN 57.5 million expenses. The balance from international financial estimates with foreign postal administrations was in the amount of BGN 1.8 million. Adjusted with the positive balance from international payments, the loss reported on the territory of the country formed final negative financial result from performance of UPS in 2011 in the amount of BGN 16.5 million.

In 2011, for the first year out of the last three financial years, "Bulgarian Posts" EAD reports a negative financial result from the performance of UPS. For the last three years, the result from the performance of UPS on the territory of the country represented a loss, with a steady growth rate for the period in question. The positive balance from payments with foreign postal administrations affected the negative result from the provision of UPS. As a result, in 2009 and 2010, the final financial result from the performance of UPS remained positive as a whole.

Figure 15 below follows the trends in the financial result for the period in question.

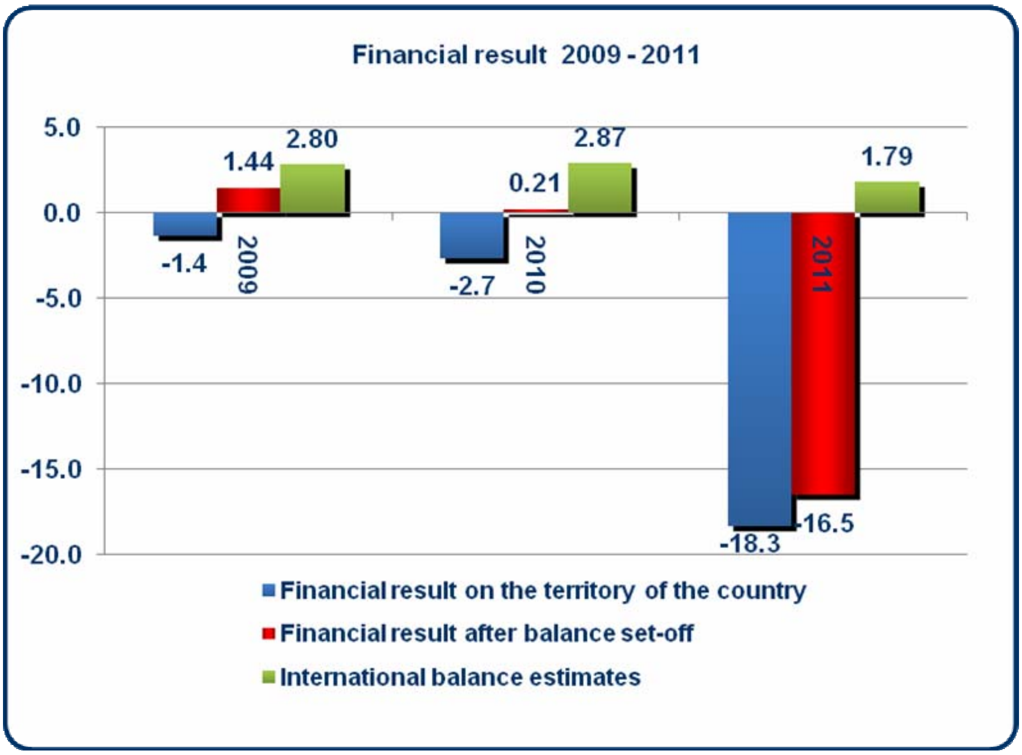


Figure 15 Source: Data submitted to CRC

Pursuant to the provision of Art. 29 of PSA, the incumbent postal operator is compensated from the state budget when the obligation to perform UPS incurs net costs and represents an unfair financial burden for it. The volume of the unfair burden is determined based on net costs for performing UPS which are calculated as per the Method for calculation of net costs from performing UPS adopted by the Council of Ministers by Decree No. 199/11.07.2011.

In compliance with the requirements of Art. 29a of PSA, the incumbent postal operator submits to CRC an application to be compensated for the unfair financial burden from performance of UPS in the preceding year, along with the necessary proofs, up to 31 May of the current year. The application contains the amount of requested compensation for the unfair financial burden, as determined in accordance with the Method for calculation of net costs from performing UPS.

In 2012, "Bulgarian Posts" EAD submitted for the first time an application to be compensated for the unfair financial burden for 2011, as determined in accordance with the Method for calculation of net costs.

III. Provision of NPS

1. Scope of the NPS market

With the latest amendment and supplement to PSA effective as of 30.12.2010, the "acceptance, transport and delivery of direct mail" service was moved from the scope of the universal postal service to the non-universal postal services. Thus, the following services are included in the scope of NPS:

- ✓ courier services;
- ✓ 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*);
- ✓ direct mail;
- ✓ postal money orders, as for the purposes of this report, the services in question are divided in two groups – courier services, "hybrid mail" and "direct mail", provided based on notification regime, and postal money orders, provided based on licensing regime.

The development of the "postal money orders" service, although it is within the scope of NPS, is reviewed separately in this report and is not included in the calculation of the total amount of revenue and items from performing NPS.

In 2011, the number of registered postal operators providing courier services, "hybrid mail" and "direct mail" services reached 96, of whom 24 declared that they have not been active during the past year. The number of operators that filed applications to delete their entry with the "Registry of operators providing NPS" was 6, whereby the number of operators who actually performed services within the scope of NPS for 2011 was 67.

1.1. Volume and structure of services within the scope of NPS

The total number of processed postal items for 2011 was 154 million items, as it has increased by 4.17% since 2010.

Courier services made up 80%, hybrid mail - 18%, and direct mail - 2% of the total amount of revenue generated from the three services.

Figure 16 displays data regarding the revenue from performing courier services, "hybrid mail" and "direct mail" service for the period 2009-2011.

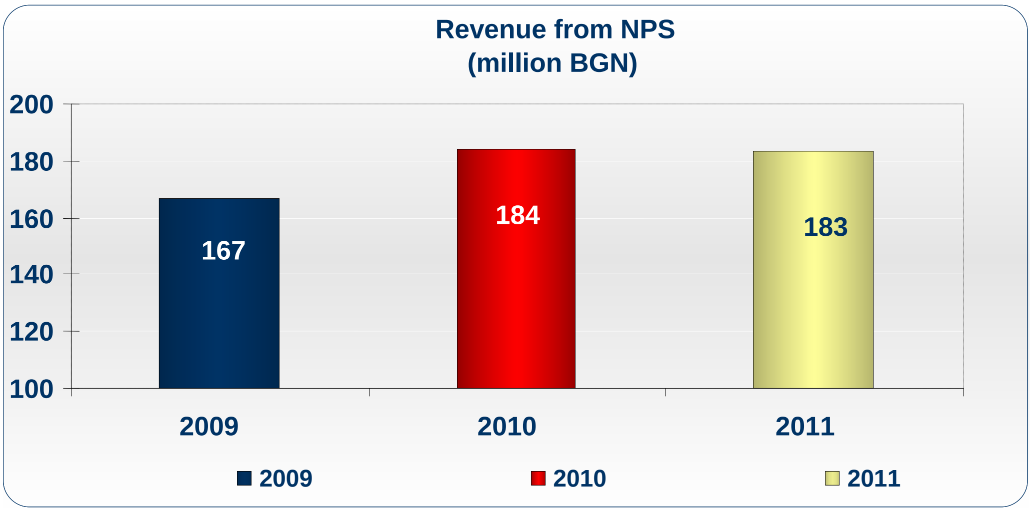


Figure 16 Source: Data submitted to CRC

The above data show that the revenue from performing the three services amounts to BGN 183 million, which represents a drop by approximately 0.5% compared with 2010.

The decreasing revenue, compared to the increased volume of items, may be explained by the economic crisis which, according to the already mentioned study of the 15 leading operators in the sector, redirected the demand from more expensive and express services to slower, yet more economic services.[6]

1.1.1. Breakdown of revenue from performing services within the scope of NPS

According to data submitted to CRC, the group of operators providing courier services and the "hybrid mail" service who hold the greatest market shares, changed in 2011, as compared to 2010. [7]

1. "Bulgarian Posts" EAD	**6**. "Expresso" AD	**11**. "Polipost – Post and Logistics" EAD
2. "D&D Express" EOOD	**7**. "In Time" OOD	**12**. "Speedy" AD
3. "DHL Bulgaria" EOOD	**8**. "Interlogistics Courier" EOOD	**13**. "Star Post" OOD
4. "Evropat – 2 000" AD	**9.** "Leo Express" EOOD	**14.** "Tip Top Courier" AD
5. "Econt Express" OOD	**10**. "M&BM Express" OOD	**15**. "TNT Bulgaria" EOOD

The group of operators providing courier services, hybrid mail and direct mail service who hold the greatest market shares in 2011 was joined by "Expresso" AD and "Polipost – Post and Logistics" EAD which restored its positions since 2009, at the expense of operators "City Express" OOD and "Flying Cargo Bulgaria" OOD who lost market shares.

The above operators formed over 93% of revenue earned from performing NPS. Similarly to the preceding years, most of these operators have already gained grounds on the postal services market and in 2011 retained their positions of leading operators in the sector.

1.2. State of the courier services

In the past year, the total number of accepted, transported and delivered courier items was 23.5 million. In 2011, as compared to 2010, the total number of courier items increased by 21%.

Revenue from courier services amounted to BGN 146 million, as it has dropped by 0.7% for a one-year period.

Figure 17 displays data regarding the structure of revenue from performing courier services for the period 2009-2011.

[6] "Logistics" Magazine, issue 4/2011

[7] The operators are listed in alphabetical order, and not by the size of their market share.

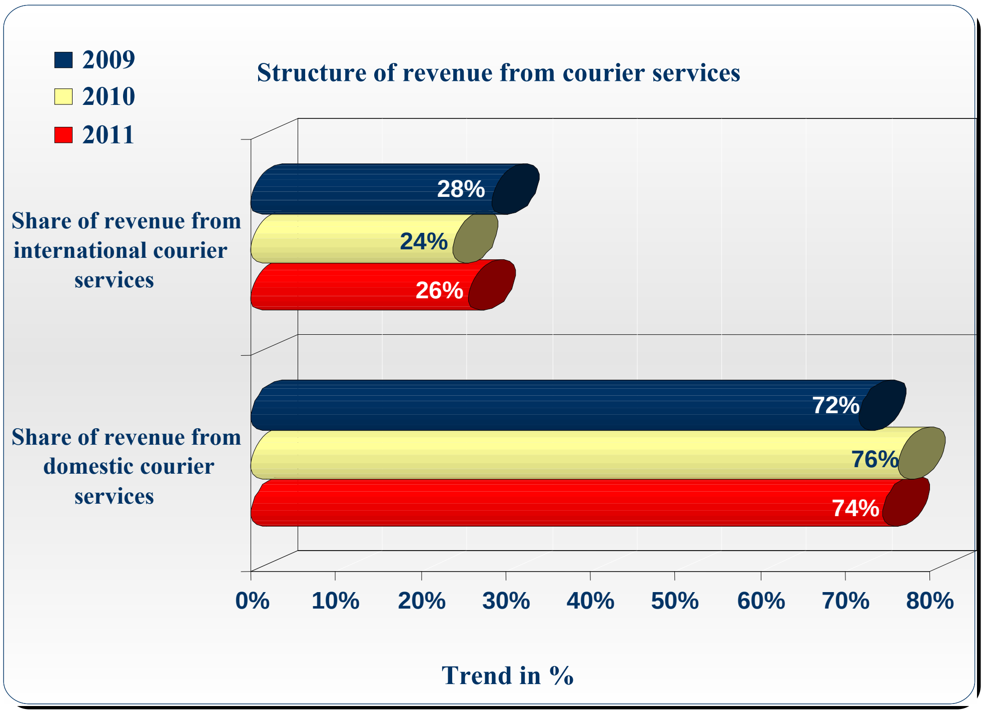


Figure 17 Source: Data submitted to CRC

In 2011, revenue from domestic courier services made up 74% of the total amount of revenue from courier services. Their relative share of the total amount of revenue for courier services was down by 2 percentage points against 2010. On the other hand, an increase was observed in the relative share of international outgoing courier services by 2 percentage points for a one-year period.

According to a study, published on the Internet, of leading courier companies operating on the international markets, the largest partner of the Bulgarian business is Germany, where 47% of all courier outgoing items are sent. The share of companies sending items to Italy is also growing, as it registered an increase of approximately 30% since 2010. [8]

1.3. State of the "hybrid mail" and "direct mail" services

In the past year, the "hybrid mail" service was provided by 6 postal operators, as revenue generated from it amounted to BGN 33.6 million, which is by 8% less than revenue earned in 2010. The number of processed items was 120 million items, which is down by 6%, compared to 2010.

Figure 18 displays data regarding revenue and number of items from performing the "hybrid mail" service for the period 2009-2011.

[8] http://econ.bg "The market of courier services is recovering" from 28.03.2012

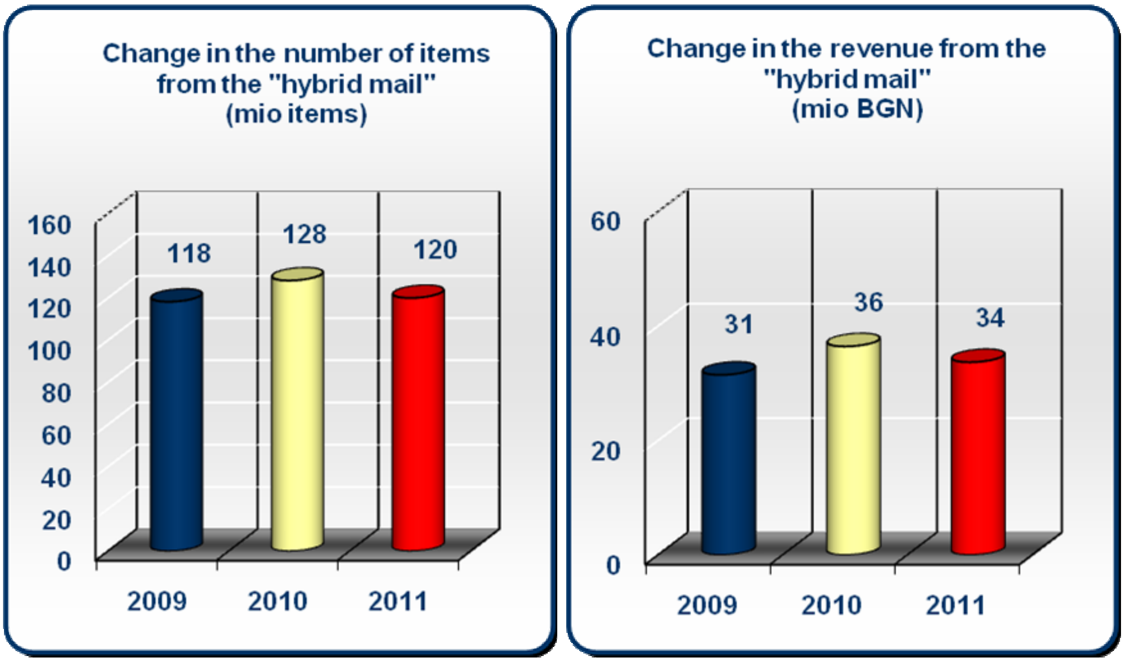


Figure 18 Source: Data submitted to CRC

Hybrid mail is no longer new to consumers, its advantages of time saving, lower costs for the provision of services, and respectively – low prices for consumers, have already made it a more preferred service, mostly by the business.

The options provided by hybrid mail are many and vary from acceptance, printing and delivery of text information under the form of personal and business items of correspondence, invoices and account statements, to graphic files, newsletters and magazines. They are delivered to the recipients' mailboxes as standard postal items. Long distances are overcome by electronic submission of information for a time which no post office may achieve. The services has the potential to develop further by investing in more powerful software, with huge capacity for printing of information, and by increasing the number of post offices situated in the same settlement where recipients are located.

In the past year, the "acceptance, transport and delivery of direct mail" service was included in the scope of NPS for the first time. Operators registered for performing the "direct mail" services were 10, but only two operators declared that they have performed the service in 2011 - "Bulgarian Posts" EAD and "M&BM Express" OOD.

Revenue from providing the "direct mail" service for 2011 amounted to approximately BGN 2.8 million, while the number of processed items was nearly 10 million items.

Essentially, direct mail represents a postal item which only comprises advertising or marketing materials and contains identical messages, except for the name, address and ID number of the recipient.

1.4. State of the "postal money orders" service

In February 2011, one more operator was licensed for performing the postal money orders service – "Toyota Tixim" EOOD, whereby the total number of operators licensed for performing the "postal money orders" service reached 12. Of them, only six reported activity: "Bulgarian Posts" EAD, "Econt Express" OOD, "Cash Office" AD, "Tip Top Courier" AD, "Factor I. N." AD, "Finance Engineering" AD.

For 2011, a total of 2 million and 600 thousand postal money orders were reported and revenue of approximately BGN 6 million was earned from them. When comparing this data to the previous reporting period, a growth is registered in the number of money orders by 22 %, and by 14 % in the revenue from this service.

“Econt Express” OOD, “Cash Office” AD, “Tip Top Courier” AD, “Factor I. N.” AD, “Finance Engineering” AD reported revenue by 50 % more than in 2010, and for this reason a decline was observed in the share of revenue of the incumbent postal operator “Bulgarian Posts” EAD.

Figure 19 contains data regarding the revenue from performing the postal money orders service for the country.

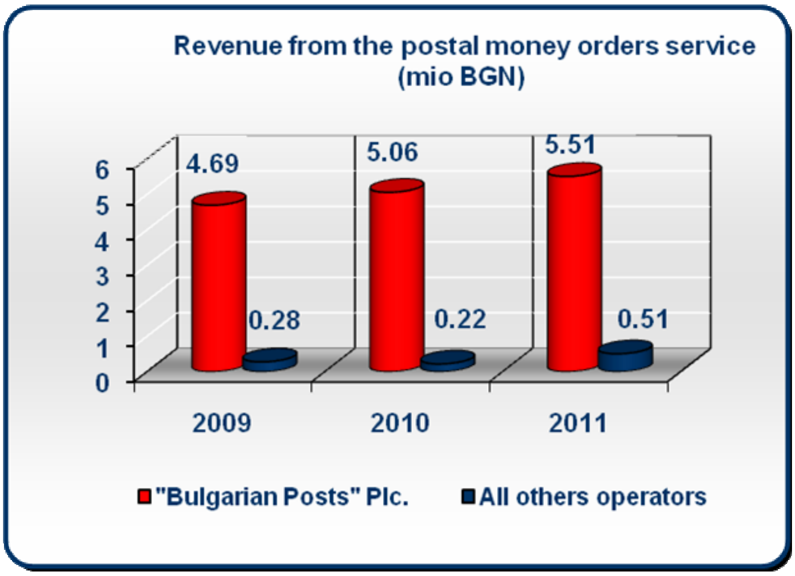


Figure 19 Source: Data submitted to CRC

Depending on the terms for provision of the service, postal operators provided to the users two types of postal money orders - ordinary and express. “Bulgarian Posts” EAD reported to have performed 70% ordinary postal money orders and 30 % express money orders, as this ratio remains unchanged compared to 2010. “Econt Express” OOD and “Cash Office” AD reported 100 % ordinary money orders, while “Tip Top Courier” AD performed 100 % express postal money orders.

“Bulgarian Posts” EAD reported a growth of 8.8 % in the number of money orders performed, while it retains the amount of revenue, which is due to changed prices of domestic postal money orders up to BGN 500, which is 96 % of the average monthly consumption.

Revenue from postal money orders reported by “Bulgarian Posts” EAD occupied a share of 92 % of all reported revenue from this service, while “Econt Express” OOD, “Cash Office” AD, “Tip Top Courier” AD, “Factor I. N.” AD, “Finance Engineering” AD formed the remaining 8 %.

As of 01.08.2011, “Bulgarian Posts” EAD began performing paper- and electronic based international outgoing postal money orders through the system Eurogiro.

IV. State of the competition in the Bulgarian postal market

1. Indicators for assessment of the state of competition in the Bulgarian postal market

Pursuant to the provisions of Art. 17, Para 1, item 4 of PSA, CRC carries out annual analyses of the state of competition in performing the different postal services.

Pursuant to the principles of competition law, the concentration degree is measured by the Herfindahl-Hirschman Index (HHI), and the concentration ratio (CR). The HHI value is calculated based on the sum of the squared market share of the market players, while the CR value shows the shares of the largest players. According to the values of both indices, the market may be defined as: normal competitive market with low level of concentration, relatively competitive market with average level of concentration, and less competitive market with higher level of concentration.

1.1. State of competition in UPS

In the conditions of a fully liberalized market, "Bulgarian Posts" EAD defines as its main competitors "M&BM Express" OOD and "Star Post" EOOD.

Although the "reserved sector" advantage was removed, in this reporting period "Bulgarian Posts" EAD occupied a market share of 95 % of the total amount of revenue from services within the scope of UPS. "Econt Express" OOD, "Tip Top Courier" AD, "Star Post" EOOD and "M&BM Express" OOD formed the remaining 5 % market share.

The share of revenue generated by "Bulgarian Posts" EAD by types of services is as follows: items of correspondence – 95 %, small packets – 88 %, printed matters – 95 %, and postal parcels – 88 %.

The calculated value of CR4 ratio is 99.65 %, which is slightly changed as compared to the preceding year 2010. In this respect, it can be concluded that the market of the UPS is still defined as low competitive with a high level of concentration.

1.2. State of competition in NPS

For the last five years, from 2007 until 2011, the number of registered operators to perform both services grew from 71 to 96. In 2011, this market segment remained cost-effective, comparatively competitive, with an average to moderate concentration. The concentration was measured by the Herfindahl-Hirschman Index, as its value in 2011 is 1,136 calculated on the basis of data provided by 82% of registered postal operators at the end of 2011. The CR5 ratio with a value of 66 % also proves relatively average level of concentration with a comparatively competitive market. In 2011, the five operators with the largest revenue from performing courier services and "hybrid mail" service formed between 5% and 22 %.

1.3. State of competition in the "postal money orders" service

In the reporting period under review, a decline of 4 points is observed in the market share of revenue from postal money orders of "Bulgarian Posts" EAD: from 96 % in 2010 to 92% for 2011.

To calculate the CR4 value, the market shares of the first four players holding the greatest shares of revenue from this service were used – of "Bulgarian Posts" EAD, "Econt Express" OOD, "Cash Office" AD, "Tip Top Courier" AD.

The CR4 values and the Herfindahl-Hirschman Index define the "postal money orders" market as being still low competitive.

V. Information related to CRC's regulatory and monitoring functions

1. Development of sublegislative regulations

For the last two years (2010-2011), the Communications Regulation Commission focused its activity mainly on the development of an adequate sublegislative regulations to complete the establishment of an effective regulatory framework harmonized with the requirements of Directive 2008/6/EC of the European Parliament and the Council of 20 February 2008 amending 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 establishment of a postal sector regulatory framework harmonized with the one of Community level is a necessary condition of first-degree importance for the liberalization of the postal market which became a fact on 01.01.2011 when the state monopoly over a reserved sector of the universal postal service was removed.

The regulator faced the challenges of the new conditions with enhanced powers of the operator obligated to perform UPS, and with the following main priorities: providing conditions for the performance of UPS on the entire territory of the country with a quality covering certain standards, providing equal conditions for postal operators with the purpose of developing effective competition on open postal markets, and protection of the interests of postal services users.

With the purpose of executing its legal obligation, CRC developed the Method for calculation of net costs from performing the universal postal service adopted by Decree of the Council of Ministers.

Following a public discussion, CRC adopted amendments to the following regulatory documents:

- Standard quality levels for the universal postal service and service efficiency;
- System for formation of postal codes for the networks of the postal operator obligated to perform the universal postal service and postal operators performing services included in the scope of the universal postal service.

By Decree of the Council of Ministers, adopted were the developed by CRC

- Ordinance for determination of rules for pricing the universal postal service and the enforcement of its prices, and
- Method for determination of the affordability of the price.

Drafts have been prepared about:

- Amendment to Standards for determining the density of access points to the postal network of the operator obligated to perform the universal postal service;
- Amendment to Criteria for keeping the confidentiality of correspondence;
- Ordinance for the rules for provision of access to the network of the postal operator obligated to perform the universal postal service and to set the rules for formation of the prices of the provision of access;
- Procedure for the content, way of cost allocation, order and terms for coordination of the system for cost allocation of the postal operator obligated to perform the universal postal service;

One individual license for performing postal money orders and 12 certificates for performing non-universal postal services were issued. All individual licenses and a part of the certificates for performing non-universal postal services were amended in compliance with the Postal Services Act (PSA).

CRC experts took part in interdepartmental working groups for amendment of Ordinance No. 6 for the postal security requirements and Law on Bulgarian identity documents.

In the sphere of postal services, many standards are used – Bulgarian and international. With the purpose of harmonizing the Bulgarian standards with the European ones, as well as their successful implementation, CRC took part in the work of Technical Committee (TC) 80 "Electronic data exchange in the administration, trade and services" to the Bulgarian Institute of Standardization.

At an international level, CRC took part in the plenary sessions of the European Committee of Postal Regulation (CERP) and the European Regulators Group for Post (ERGP), in a meeting with experts from the European Commission and in a meeting of the Postal Directive Committee. CRC also participated actively in the work of the created working groups to ERGP.

Another important international activity was the CRC's participation as a partner of the Ministry of Transport and Public Works in Spain in a twinning project "Support for the Croatian Post and Electronic Communications Agency (HAKOM) in the area of accounting separation in postal services". In the past year, the first two activities of the project were accomplished, as they comprised a review of the regulatory framework which settles the formation of the price of UPS, allocation of costs from performing UPS, and calculation of net costs from UPS and those of the main postal operator in Croatia – Croatian Post. The project aiming at preparing a draft of a final document – Manual of accounting separation, continues in the following year.

2. Information related to the performance of individual licenses

2.1. Postal network

Pursuant to Art. 5 of PSA, postal services are provided via postal networks. A postal network is an entity of organizationally and technologically interlinked units and means, including fixed and/or mobile post offices, postal agencies and desks, exchange and sorting centers and offices, vehicles and technical equipment, constructed and used to accept, transport and deliver postal items and perform postal money orders.

2.1.1. Postal network of the operator obligated to perform UPS

In 2011, the postal operator obligated to perform UPS "Bulgarian Posts" EAD did not extend neither proposals nor notifications to change the number and location of access points to its postal network. Thus, at the end of 2011, the number of fixed post offices remained unchanged – 2979, of which 636 are located in towns, and 2343 – in villages. Out of the post offices in villages, 201 are located in settlements with population of less than 150 residents, and 1354 – in settlements with population of over 150 and below 800 residents.

For the country, the average population serviced by 1 post office is 2471 people.

In addition to post offices, postal services are provided by postal agencies and country postmen. In the year, 13 postal desks were opened in big commercial chains and other strategically located places in the cities.

There are 4902 letterboxes for collection of unregistered items of correspondence in use.

At post offices, users have at their disposal 42802 subscription mailboxes.

2.1.2. Postal networks of operators licensed to perform services included in the scope of UPS and operators licensed to perform "postal money orders" services

A dynamic development is observed in the networks of operators licensed to perform services included in the scope of UPS and operators licensed to perform “postal money orders” services, as this development is expressed not only in the growing number of access points, but also in a change of their location. Some of these operators maintain a minimum number of own offices at the expense of a growing number of offices under contracts pursuant to Art.22 of PSA. Usually, the number of own offices is preserved, while the number and location of access points under contracts undergo a dynamic change. This is a flexible solution which allows operators to respond quickly to the changing economic conditions and infrastructure, and saves costs.

3. Quality of UPS in 2011

With reference to the amendments of PSA in force as of 30.12.2010 concerning the quality target of UPS and the efficiency of service (Quality target)[9], requiring CRC to ensure, at its expense, measurement of the compliance with the quality target by an independent organization, CRC opened a procedure for awarding a public procurement in accordance with the Law on Public Procurements. The public procurement with subject “Measurement of the “end-to-end” transit time of single domestic priority postal items in the network of the operator obligated to perform the universal postal service, according to the requirements of Standard BDS 13850:2002+A1:2007” was awarded to PricewaterhouseCoopers Business Solutions S.A. (PwC). During the past year 2011, the provider submitted control results from testing the quality monitoring system. On its part, the incumbent operator performs year-round quality monitoring as per the existing “Instructions for applying the quality target of the universal postal service”. The results from the measurements carried out by the provider and the incumbent operator, are given in the table below for comparison:

3.1 Time for conveyance of domestic unregistered priority postal items

End-to-end transit time	Quality target	Results PwC	Results BP EAD
D+1	Not less than **80%** of the postal items	68.2%	88.1%
D+2	Not less than **95%** of the postal items	95%	97.5%

3.2 Time for conveyance of domestic unregistered non-priority postal items

End-to end transit time	Quality target	Results 2009	Results 2010	Results 2011
D+2	Not less than **80%** of the items of correspondence	90.5%	92.4%	91.7%
D+3	Not less than **95%** of the items of correspondence	98%	98.9%	99%

3.3 Time for conveyance of domestic postal parcels

End-to end transit time	Quality target	Results 2009	Results 2010	Results 2011

[9] These refer to the operator obligated to perform the universal postal service “Bulgarian Posts” EAD

D+1	Not less than **80%** of the postal parcels	85.4%	85.8%	90.3%
D+2	Not less than **95%** of the postal parcels	97%	98.1%	99.3%

Results for the time for conveyance of domestic unregistered non-priority postal items and domestic postal parcels are obtained from measurements carried out by the incumbent operator. As it is clear from the above two tables, targets are met.

3.4 Time for conveyance of international postal items

The "end-to-end" transit time for international priority postal items is measured using the UNEX system, introduced to "Bulgarian Posts" EAD since the start of 2008. As of 2011, the system covers postal operators obligated to perform UPS from the 27 EU member states, such as Iceland, Norway, Switzerland, Bosnia and Herzegovina (part), Croatia, Macedonia, Turkey and Serbia. It is organized according to the requirement for independent measurement of the "end-to-end" transit time of Directive 97/67EC and measurements are carried out in line with the requirements of Standard EN 13850 acting in the given period. The so obtained results are official for all operators and serve as a basis for estimates between them.

3.4.1 International unregistered priority postal items from geographical zones within Europe

End-to end transit time	**Quality target**	**Results 2009**	**Results 2010**	**Results 2011**
D+3	Not less than **85%** of the postal items	71.4%	63.8%	59.1%
D+5	Not less than **97%** of the postal items	95.5%	92.4%	89.7%

The comparison of results for a three-year period shows not only failure to meet the target, but also a systematic decline in indices, in particular the speed target D+3. The following external factors are usually pointed out as having negative influence on results: contracts concluded by most key aircraft carriers with another road operator whose requirements do not allow shipment of mail using early flights, cancellation of flights of some airlines from Sofia Airport, etc.

The leaflet External Quality of Service Monitoring – 2011 Results published by International Post Corporation (IPC)[10], presents average performance of 35 countries participating in the measurement as follows:

D + 3 ⇒ 93.0%
D + 5 ⇒ 98.1%

The chart below shows average performance for D + 3 for countries which were covered by the measurement from 1997, when quality targets for cross-border mail within the Community were set (as Appendix to Directive 97/67/EC) until 2011.

[10] IPC measures the "end-to-end" transit times for international priority items using the UNEX system

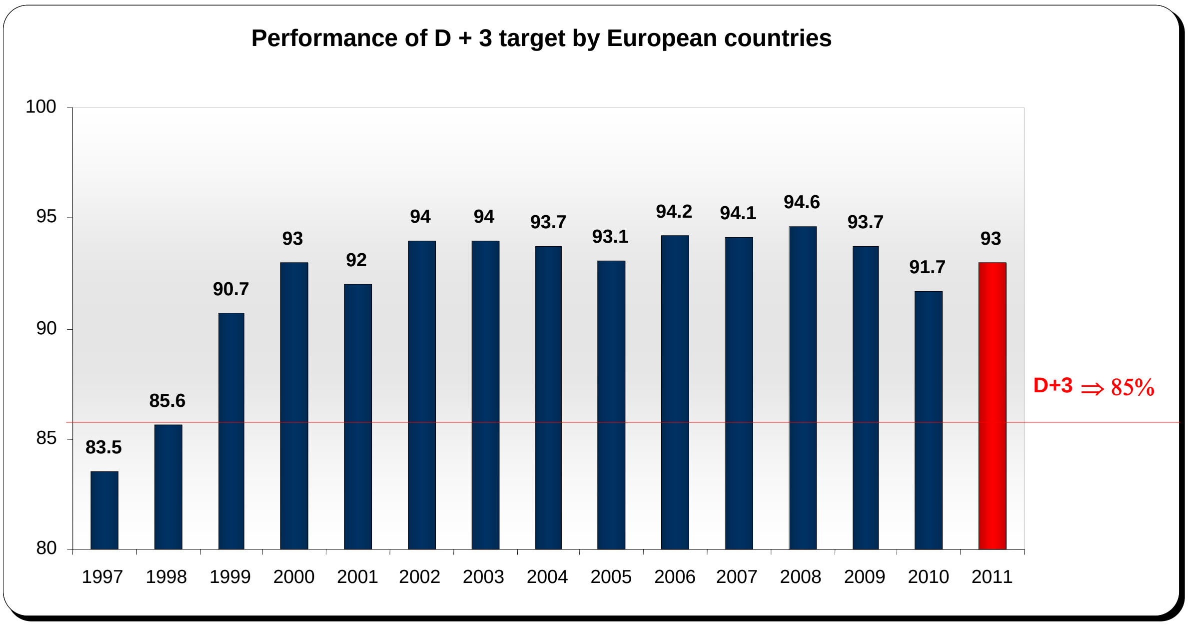


Figure 20 Source: Data submitted to CRC

3.4.2 International unregistered non-priority postal items from geographical zones within Europe

End-to end transit time	Quality target	Results 2010	Results 2011
D+5	Not less than **80%** of the postal items	69.6%	72.7%
D+7	Not less than **95%** of the postal items	92.2%	91.3%

Results in the table above reveal that targets are not met.

With regard to regularity of collection and delivery of postal items, there is a steady trend towards compliance with objectives, and results achieved are sustained.

3.5 Time limits for handling complaints

Standard term for handling complaints	Quality target	Results 2009	Results 2010	Results 2011
30 days for domestic postal services	Not less than **90%** of the complaints	91.39%	93.44%	98.39%
90 days for international postal services	Not less than **90%** of the complaints	94.67%	94.45%	93.16%

The results displayed in the table above show that targets are met.

3.6. Complaints regarding services within the scope of UPS

In 2011, according to data from the annual questionnaires for operators providing UPS or part thereof, a total number of 2459 complaints were submitted, of which 323 justified, classified as follows:

Written complaints submitted in 2011	Number	
	domestic	**domestic**
Complaints (in total)	**300**	**2159**
Justified complaints	**188**	**135**
Breakdown of complaints according to their cause:		
1. lost item	39	117
2. delayed item	68	8
3. damaged or with missing content (fully or partially) item	15	5
4. misdelivered item	10	
5. returned postal parcel without reason for non-delivery		3
6. general complaint (complaint based on a general dissatisfaction with the operator's services)	50	2
7. concerning the behaviour and competence of postal employees	6	
8. concerning complaint processing		
Complains resulted in payment of compensation	**number**	**BGN**
	149	**8994**

The total number of complaints in 2011 was half the number in 2010, yet the number of justified complaints which represent 13% of the total number of submitted complaints, remains almost unchanged. The number of complaints that were settled by payment of compensation increased two times, and the amount of paid compensations was up by 67%. Lost items hold the biggest share of justified complaints – they make up 52% of the total number of justified complaints, of which 75% are complaints for lost international items. The chart below shows that the number of this kind of complaints remains high. When compared with the preceding year, complaints for delayed items increased almost 5 times. The number of general complaints based on general dissatisfaction with the services of a given operator, including in terms of the behaviour and competence of postal employees, increased 3 times.

The chart below presents the dynamics of changes in the number of justified complaints according to the reasons for making them for a three-year period.

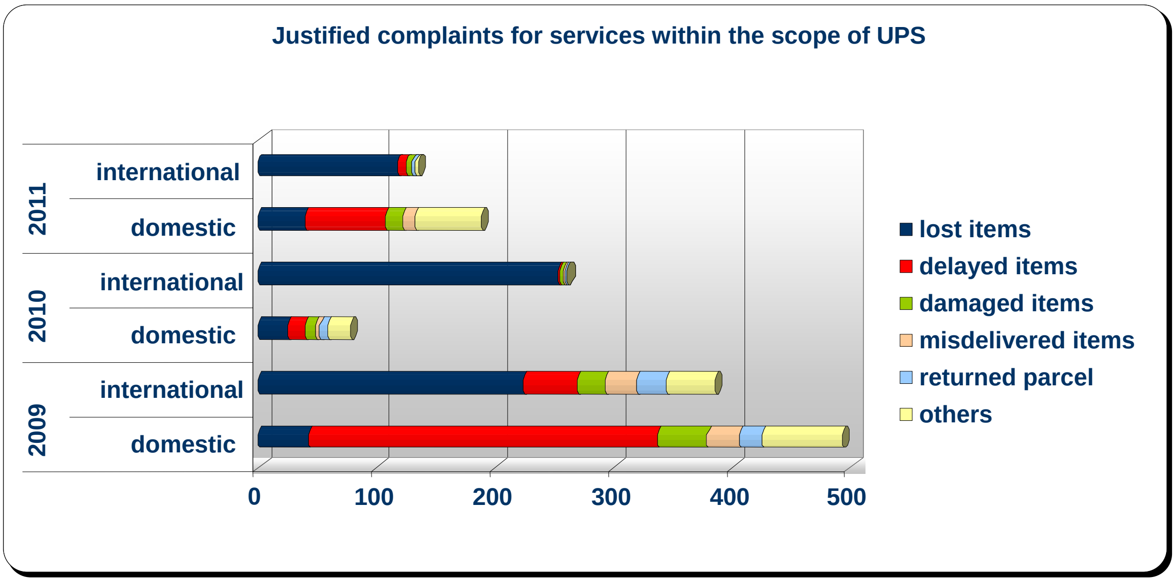


Figure 21 Source: Data submitted to CRC

3.7 Complaints regarding NPS

Complaints regarding NPS in 2011 are distributed by number and reasons as follows[11]:

Complaints (in total)	**8770**	
including **justified** complaints	**6173**	
Breakdown of complaints according to cause:		
1. damaged item (the integrity of the item is violated)	1377	
2. lost item (the item is not delivered to the user)	342	
3. rifled item (item with wholly or partially missing content)	255	
4. destroyed item (the item is damaged in a way making its intended use impossible)	223	
5. item delivered with delay of the deadline for delivery	3116	
6. others	849	
7. complaints regarding postal money orders (PMO)	11	
Complaints with payment of compensation	**Number**	**BGN**

[11] The data are from annual questionnaires for operators providing NPS.

	2391	**299 113**

As compared with 2010, the total number of submitted complaints increased by 56%, and the number of justified complaints grew almost two times. The number of complaints settled by payment of compensation increased by 9%, but the amount of paid compensations registered a slight increase.

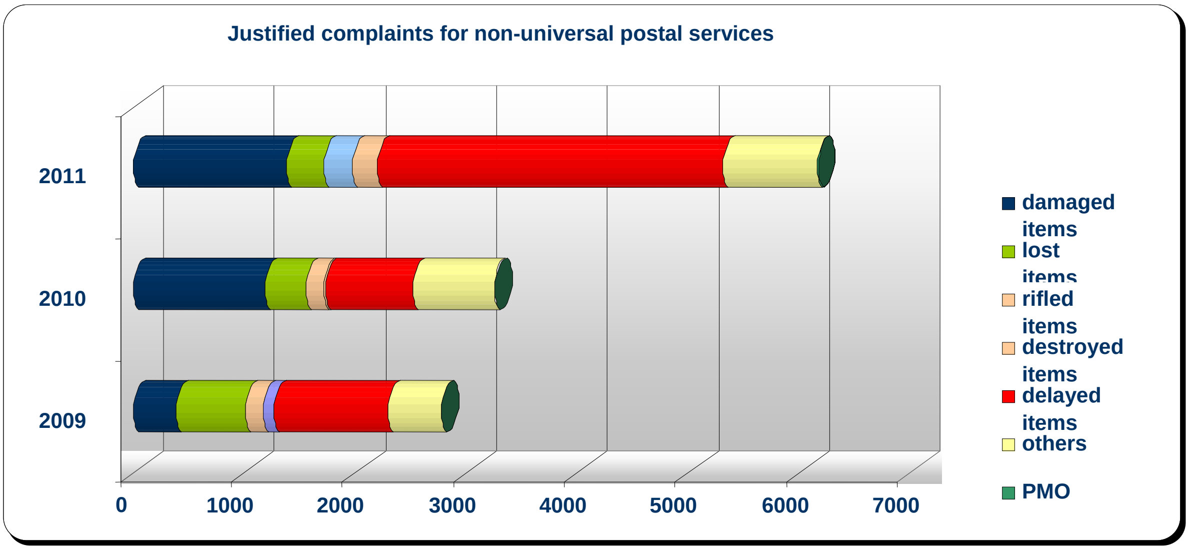


Figure 22 Source: Data submitted to CRC

Chart 22, presenting the change in the number of justified complaints according to the reasons for making them for a three-year period, shows that the greatest share for the three years was held by complaints for late delivery, damaged items, lost items and "others". In the past year, the number of complaints for delayed items increased most drastically – 4 times, as this is the largest number of complaints not only by this index, but in general, for the last five years.

4. Analysis of the postal security measures

Postal security is a combination of measures and actions related to the security and protection of postal items, money and valuables, the property of the postal operators, the life and health of postal employees and the users of postal services, keeping the confidentiality of correspondence, ensuring the inviolability of postal items, protection of personal data and prevention of money laundering through the postal network. The postal security also aims at protecting the postal traffic and not allowing any forbidden objects and substances into the postal network. Acceptance, transfer, and delivery must not be allowed for postal items that have been prepaid by forged or out-of-use postage stamps, or by invalid postage prints. The area of postal security is legislatively settled by Ordinance No. 6 for the postal security requirements (the Ordinance), Measures for keeping the confidentiality of correspondence and Postal Services Act (PSA). These provisions are valid for all operators performing postal services on the territory of the Republic of Bulgaria, as every operator is obliged to build a security structure in its organizational form in order to comply with the above requirements.

Another obligation is to take precautions not to allow items containing forbidden objects and substances into the postal network. If, when accepting an item, it is doubted to contain any forbidden objects or substances, its sender is required to grant his consent to open it, and if consent is not granted, the item is not accepted. When there are sufficient grounds to believe that an already accepted item contains forbidden objects or substances, it is retained and its sender or recipient is required to grant his written consent to open it. In case of refusal or lack of reply, the respective competent authorities are notified and the latter undertake subsequent actions. The aim is to guarantee a high level of security regarding the contents of items, while not violating the users' right to correspondence confidentiality.

The Ordinance was amended in 2011. To this end, an interdepartmental working group was created comprising representatives of the Communications Regulation Commission (CRC), the Ministry of Transport, Information Technologies and Communications, Ministry of Interior, State Agency "National Security" and "Bulgarian Posts" EAD. The goal of the working group was to propose measures for enhancing the level of postal security, to distribute the monitoring functions among the different authorities in an optimal way, and to facilitate the work of postal operators. The revised Ordinance was promulgated in the State Gazette at the end of 2011. The monitoring of the security and protection of money and valuables, prevention of money laundering through the postal network, protection of the postal traffic and not allowing acceptance, transfer, and delivery of forbidden objects and substances via the postal network is no longer among the powers of CRC which releases it from performing activities that are not typical of it.

At the same time, the procedure of coordinating the necessary technical devices and software for monitoring owned by postal operators with the competent bodies of the Ministry of Interior is made more precise. Repealed was also the effect of Chapter Nine of the Ordinance which imposed on the operators obligations related to rendering cooperation for protection of the postal services in crises and under the regimes of "Martial law", "State of war" and "State of emergency". These obligations, requirements and restrictions remain settled only in the licenses of operators (Art. 12, Para 3 of PSA). On its part, this means that they are not valid for operators of non-universal postal services (except for those performing "postal money orders" service).

In general, the Ordinance requires that the following instructions and rules shall be developed and introduced by operators:

- internal instructions for security and protection of money and valuables – coordinated with the competent bodies;
- internal rules for control and prevention of money laundering on the grounds of Art. 16, Para 1 of the Law on Measures against Money Laundering – approved by the head of State Agency "National Security";
- rules for the internal order and security of post offices - coordinated with the competent state authorities;
- internal rules for actions to be taken by the employees in case of any doubt that the postal items might contain weapons, ammunition, pyrotechnic articles, explosive, flammable or any other dangerous substances and objects – coordinated with the competent bodies of the Ministry of Interior and State Agency "National Security";
- internal rules for actions to be taken by the employees in case of any doubt that there are postal items for which the price of service has been prepaid by forged or out-of-use postage stamps, or by invalid postage prints, as well as for any forged postal products – coordinated with the competent state authorities;

In connection to its monitoring functions in terms of postal security, CRC performed 76 inspections in 2011. As a result, based on findings made, it has undertaken actions to seek responsibility for administrative offences from all postal operators, except for two, and 80 administrative offence acts (AOA) were drawn up.

With reference to the confidentiality of correspondence, three operators were held penally responsible for administrative violation of Art. 106, in relation to Art. 105 of PSA and item 4 of the Measures for keeping the confidentiality of correspondence, and sanctions were imposed to the amount between BGN 500 and 700.

5. Result from the inspection performed for applying the system for allocation of costs from UPS by the incumbent operator

In accordance with the requirements of Art. 29b of PSA, the incumbent operator organizes and carries out reporting of its activity in compliance with the applicable accounting standards and implementation of a system for cost allocation for both a commercial company in total, and analytically and separately for: UPS by types of services; postal money orders; non-universal postal services as per Art. 38, items 1 – 3, and other commercial activities. Revenue from UPS may not be used to cover expenses for non-universal postal services or other activities. CRC annually appoints inspections for applying the system for cost allocation by the postal operator obligated to perform UPS, which are carried out by an independent auditor. Results from these inspections are publicly available.

In 2011, a public procurement with subject: "Inspection for applying the system of cost allocation by the postal operator obligated to perform the universal postal service" was called for the first time.

With Decision No. 1097 of 1 December 2011, CRC awarded the public procurement for inspection of applying the system of cost allocation by the postal operator obligated to perform the universal postal service to Consortium "Verification of costs of the postal operator obligated to perform UPS" (Consortium) for the year ending on 31 December 2010.

The inspection was performed in two stages, and as a result, the Consortium prepared the following reports:

- Report on findings of 10 February 2012 regarding the agreed procedures performed in in terms of Stage I – preparing an assessment of the compliance of the cost allocation system of the postal operator obligated to perform UPS with the requirements of Art. 1, item 15 of Directive 2008/6/EC of the European Parliament and the Council, and Art. 29b of the Postal Services Act, for the year ending on 31 December 2010;
- Report on findings of 29 March 2012 regarding the performed agreed procedures in terms of Stage II – verification of the accurate reporting of the cost allocation system of the postal operator obligated to perform UPS in 2010.

5.1. Conclusion of the Consortium

➢ *With regard to the assessment of the cost allocation system implementation and results reported in 2010, based on findings, the Consortium did not succeed in making sure of the accurate cost allocation and prime cost formed for 2010 of the products from the universal postal service.*

➢ *Regarding the assessment of the thoroughness level of results obtained from the cost allocation system with a view to applying them in UPS pricing by types of services according to the Ordinance for determination of rules for pricing the UPS and the enforcement of its prices, and the Method for determination of the affordability of the price of UPS, based on findings made, the Consortium was unable to confirm that UPS pricing by types of services was performed in compliance with the sublegislative regulations.*

The services determined by the Company under Appendix 5 "Universal postal service by types of service, including reserved sector – number of items, amount of costs and revenue, costs and revenue per service unit" to the Report are not sufficiently detailed. In this respect, the Consortium was unable to confirm that prices by types of services within the scope of UPS were formed according to the requirements of the Ordinance for determination of rules for pricing the universal postal service and the enforcement of its prices.

- *With a view to the findings made, the Consortium finds that the risk of cross-subsidization between services is considerable. To reduce this risk, it recommends that the Company has to improve the organization and control over input data.*

Preparing recommendations and proposal for change in the cost allocation system in case the thoroughness level of results obtained from its application does not correspond to the sublegislative regulations settling the UPS pricing and calculation of net costs from its enforcement;

In relation to the findings on Stage I, the Consortium recommends that the Company has to carry out a comprehensive analysis and make the respective calculations in order to determine the influence on cost allocation and the possible deviation from the prime cost of the Universal postal service by respective products.

In conclusion, the Consortium recommends to "Bulgarian Posts" EAD to develop detailed policies, rules and procedures for the purposes of collecting, storing, processing of information related to cost allocation. These rules must also contain particular instructions for completing the respective forms and preserving a documentary trace. In addition, the relevant control amounts, sums, analysis and verifications must also be performed and documented.

The Consortium recommends to the Company to perform a comprehensive analysis of the established procedures for collecting input information from the Territorial divisions, as well as set parameters. As a result of this analysis, the Company will be able to determine the basic steps of the processes related to collecting and summarizing the information which could be improved. Moreover, in order to establish appropriately detailed policies, rules and procedures, the Company has to carry out regular inspections of whether they are observed. These inspections should be focused on both verification of sample basis of the primary and secondary documents providing input data, and the set parameters.

The Consortium has proposed a form and content of regulatory reports to the operator obligated to perform UPS which would support CRC in regulating prices of UPS, including approving prices of services for granting access to the operator's network, as well as in assessing competition issues, such as equality, cross-subsidization, price squeeze, etc.

As a result of the inspection, CRC adopted compulsory instructions for change in the system which were sent to "Bulgarian Posts" EAD so as to be taken into account in the reporting year 2011.

6. CRC's monitoring activity

In 2011, in performance of the legal obligation to monitor the compliance with regulations related to postal services, the requirements for performance of UPS, the conditions for implementation of the issued individual licenses and obligations of operators performing NPS, authorized CRC officials carried out scheduled inspections and inspections based on received letters and signals.

The postal operator obligated to perform the universal postal service “Bulgarian Posts” EAD was subject to 12 inspections, mainly related to the CRC’s refusal to coordinate the closing down of post offices because of the need to ensure alternative forms of population servicing guaranteeing the performance of UPS.

Operators licensed to perform the “postal money orders” service were subject to 3 inspections. No significant violations of the PSA requirements were detected.

Operators of non-universal postal services were subject to 6 inspections due to non-provision of information on their activity in 2010, required by CRC.

As for protection of the consumers’ interests, CRC uses two instruments – coordination of the General Conditions of the contract with users of postal services (General Conditions) and the right of users to file complaints and signals with the Commission. In the past 2011, the Commission coordinated the General Conditions of 6 postal operators. 96 complaints/signals were considered regarding violations of PSA. The conducted 42 inspections found that complaints were justified. The greater part of all complaints filed were those regarding delay or non-delivery of international and domestic postal items. In most cases, considering the nature of complaints, there was no legal ground for intervention by CRC. However, one postal operator was held penally responsible for administrative offences by issuing a Penal Ordinance.

VI. Conclusion

1. Prospects for development of the UPS market

In the last 5 years, a trend towards reduction in the consumers’ interest in services within the scope of UPS was observed at an international level. Many postal operators from all over the world reported losses, mainly with regard to postal parcels.

Today, the situation is quite different - this unattractive postal market segment enjoys an exceptional interest which is fully due to the Internet and the opportunities provided by the electronic commerce, although Internet itself is the reason for the considerable decline in the consumption of ordinary items of correspondence.

In a study conducted by Universal Postal Union (UPU) of 93 postal operators from all over the world, there are 55 different types of electronic post services. The study covers the different countries and regions, and the specific factors having influence on the development of these services. It categorizes the electronic services in the following global areas: electronic post (e-post), electronic commerce (e-commerce), electronic finance (e-finance) and electronic government (e-government). In general, electronic post services include public Internet access points in post offices, postal electronic mailboxes, online direct mail, and these services are the most common ones in the developed countries. The next place in terms of popularity is occupied by electronic banking, including e-invoices, e-money orders, online bill payment, payments to public institutions and the utility sector. Electronic commerce services rank third and include online shopping of postal philatelic products, online subscription to periodicals, etc. Figure 23 illustrates the development of different e-services provided in post offices, distributed by geographic regions.

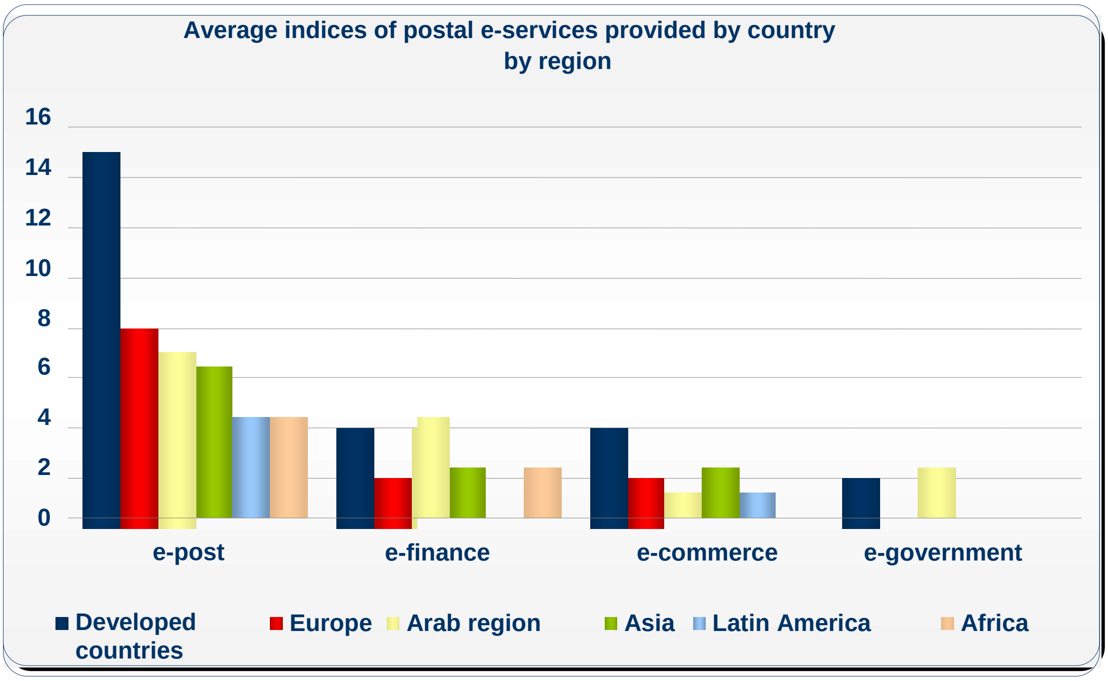


Figure 23 Source: Union Postale

Logically, here we should raise the question regarding the future of the traditional postal service, such as items of correspondence, for instance. According to a survey carried out by UPU, items of correspondence remain the number-one choice for communication between companies and their clients in Europe. On their part, users also prefer to receive their invoices, account statements, even advertising materials by post.[12] One of the reasons for this is because the physical mail is more trustworthy.

In the developed countries, postal operators obligated to perform the universal postal service who took advantage of electronic services, demonstrated flexibility and introduced the necessary structural changes in their work organization, generated approximately 30% of their revenue from electronic services. Such are also the prospects facing the Bulgarian operators of the universal postal service, including "Bulgarian Posts" EAD. If postal operators build a competitive electronic development strategy, they will manage to survive, even in the present digital century.

2. Prospects for development of the NPS market

A survey carried out among 15 leading courier companies in our country outlines some of the main problems, as well as the prospects for development of the courier business.[13] This market is influenced by a series of factors, such as the financial difficulties of Greece, which reflect on the economics of our country, the affected sectors of construction and services, bad infrastructure and growing fuel prices which means greater costs for couriers.

According to data submitted to CRC by the courier companies regarding the development of their activity in 2012, a trend is observed according to which operators with larger market shares and occupied market niches intend to develop their activity and optimize their expenditure through introducing changes to their investment policy. On the other hand,

[12] "Union Postale", issue 4, 2011 by Chantal Britt
[13] "Logistics" Magazine, issue 4/2011

smaller operators plan to downsize their activity in 2012, and their plans for expenditure optimization include cut-down of staff, reduction of remuneration or access points.

Courier companies use different methods to optimize their expenditure, such as franchising, electronic applications for tracking of items, entering into contracts with companies of similar business for outsourcing of transport and logistics to courier operators.

The slow growth rate of the export from the country in the past year is a good sign for courier companies, as the market, according to operators from the sector, will continue to develop towards more flexible logistic solutions that meet the clients' needs of services on the local and international market. In the past year, the greatest growth was registered by speedy same-day or next-day deliveries, as well as by those requiring a special mode of transportation.

The development opportunities on the courier market are mainly in two directions – offering individual solutions to clients (B2B, business to business) and development of the electronic commerce which requires from postal operators to be more flexible when providing the service (B2C, business to client). Following a continuous standstill of the electronic commerce in our country, today it is quickly gathering speed through electronic commerce websites, and their users are potential clients of courier companies. Some courier companies in our country generate over 75% of their revenue from e-commerce only. As a whole, courier companies are more flexible and innovative, they are faster in defining the needs of the clients and the market, yet this is the specifics of their business and this determines their further prosperity.

Taking into account the forecasts of postal operators and the trends towards a global development of postal services, the following changes are expected to occur in 2012:

- ✓ The development of the postal market will depend to a great extent on the change in revenue earned from courier services;
- ✓ The number of postal operators registered to perform NPS will increase;
- ✓ Revenue from performance of NPS will gradually grow;
- ✓ The consumption of services within the scope of UPS, including the most often used service "items of correspondence up to 2 kg", will decrease, compared with 2011;
- ✓ The market share of operators performing services within the scope of UPS of the entire postal market will grow;
- ✓ New contracts for access to the network will be entered into between the postal operator obligated to perform UPS and the other licensed operators;
- ✓ Competition in services within the scope of UPS will gradually grow;
- ✓ In the long run, electronic commerce will influence the postal market development even more significantly.