ANNUAL REPORT

of

THE COMMUNICATIONS REGULATION COMMISSION

for 2016

ANALYSIS OF THE POSTAL SERVICES

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I. State of the Bulgarian postal market

1. Market players

With development of e-commerce the interest of the entrepreneurs in the postal services market and particularly in courier service business becomes more and more enhanced, to which it largely contributes the change in customers' attitude and the possibility of ”one-click” free shopping.

According to the provisions of the Postal Services Act (PSA), postal services are provided based on licensing and notification regimes.

The provision of the universal postal service (UPS) on the entire territory of the Republic of Bulgaria and services included in the scope of UPS, as well as the provision of ”postal money orders” service, are carried out on the basis of individual licenses issued by the Communications Regulation Commission (CRC/the Commission).

At the end of 2016 the number of the participants in the postal market was 160[1], which represents an increase of 4 % as compared to the previous year.

The number of licensed postal operators including the incumbent operator ”Bulgarian Posts” Plc (BP/state operator/incumbent operator) was 19 as in the last year CRC issued a new license for the provision of the “postal money orders” service to Leo Express EOOD.). No new applications have been filed for issuance of licenses to provide services within the scope of UPS.

As at 31.12.2016 the number of operators that have registered their intention to provide non-UPS was 151, of which 7 were newly registered. Two operators were removed from the Register of operators, providing non-UPS at their request. All registered postal operators have their intention to provide the services with the highest commercial interest – courier services.

2. Volume and structure of the Bulgarian postal market

2.1. Volume of the postal market

For 2016 the volume of the postal market was about BGN 399 million and was formed by the revenues provided in UPS and non-UPS market segments. This volume was calculated on the basis of data received from 73 % of the licensed and registered operators in Bulgaria.

[1] Bulgarian Posts EAD – the incumbent operator obliged to provide the UPS, providing also: postal money orders service and non-UPS; 5 operators, providing services from the scope of the UPS, the postal money orders service and non UPS; one operator provided only one service from the scope of the UPS and non-UPS, 13 operators providing the postal money orders service and 144 operators providing only non-UPS.

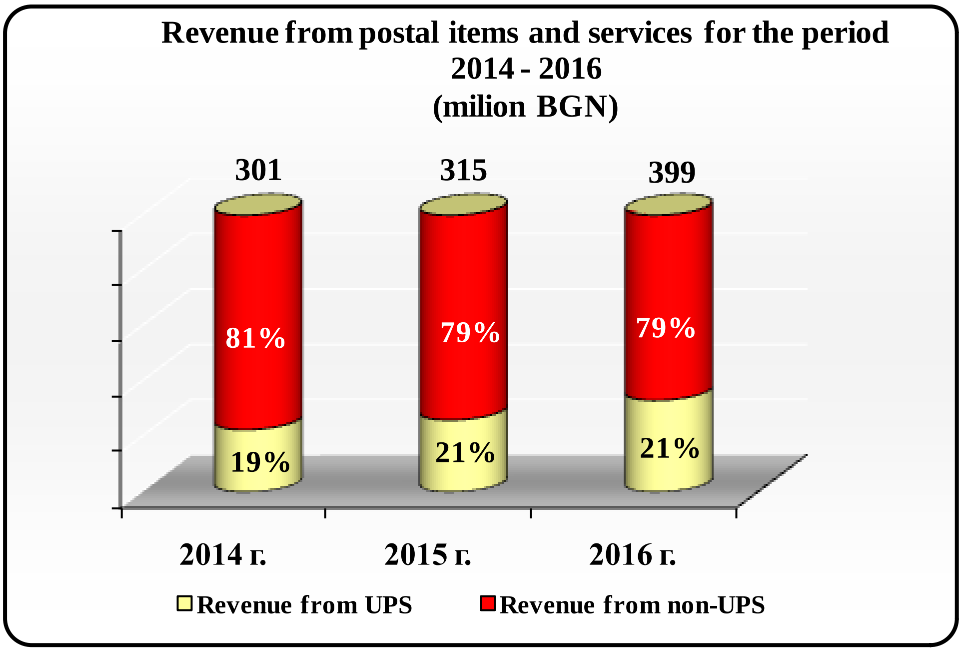

Fig. 1

Source: *Data, submitted to CRC*

As it is clearly shown in Fig. 1, in 2016 the volume of the postal services market represented an increase of 27 % as compared to 2015. The engine of postal service market development in recent years has been the services of the non-UPS segment, nevertheless, in 2016 the revenues from UPS services also marked a significant increase with growth of 27%, as compared to 2015. During the reviewed period it was reported the similar increase of the non-UPS revenue. For the period 2014 – 2016 the trend of a significant predominance of the share of non-UPS in the total market volume remains. The ratio between the shares of the UPS and non-UPS market segments is relatively constant and unchanged as compared to 2015.

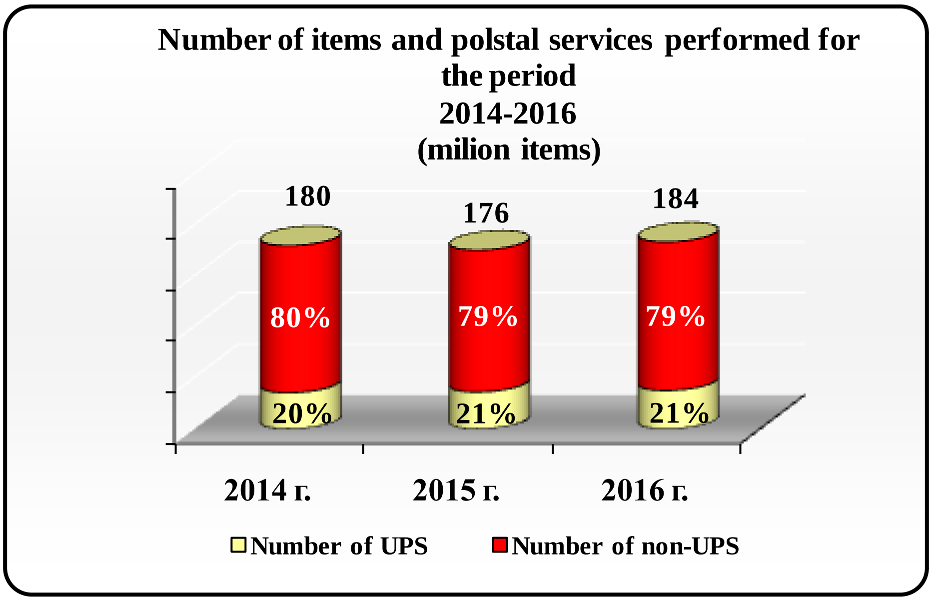

Fig. 2

Source: *Data, submitted to CRC*

The data from Fig. 2 indicates that the total number of items and services provided in 2016 amounted to 184 million pcs, which represents an increase of about 5 % as compared to 2015.

The reported increase in the number of the postal items and services in 2016 as compared to 2015 was due to the nearly 5 % increase of the items from the non-UPS segment and growth of 4% of the number of the generated items from the UPS scope. As compared to 2015 the relative share of the UPS segment items in total number of items generated in 2016 remains unchanged.

2.2. Structure of the Bulgarian postal market

In 2016 the structure of the postal market remains relatively constant.

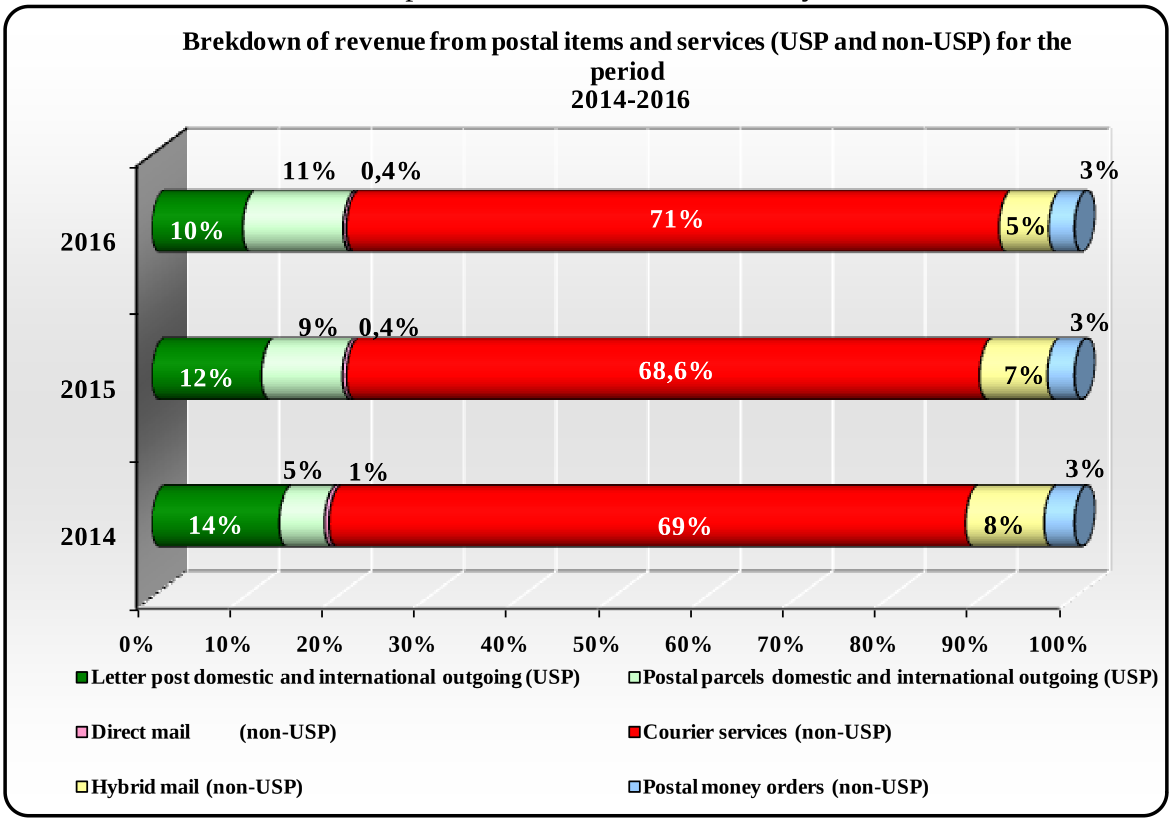

Fig. 3

Source: *Data, submitted to CRC*

As it is clearly shown in Fig. 3, the structure is mainly formed by the courier services which have the largest relative share (71%) of the market volume. The trend from the previous accounting periods to increase the share of domestic and international parcels in 2016 as compared to 2015, at the expense of decreasing domestic and international postal items and hybrid mail service has persisted.

In 2016 the market share of the state postal operator was down by 4 percentage points as compared to 2015. Fig. 4 tracks down the change of the BP market share in the total revenues from all postal services generated in the past three years.

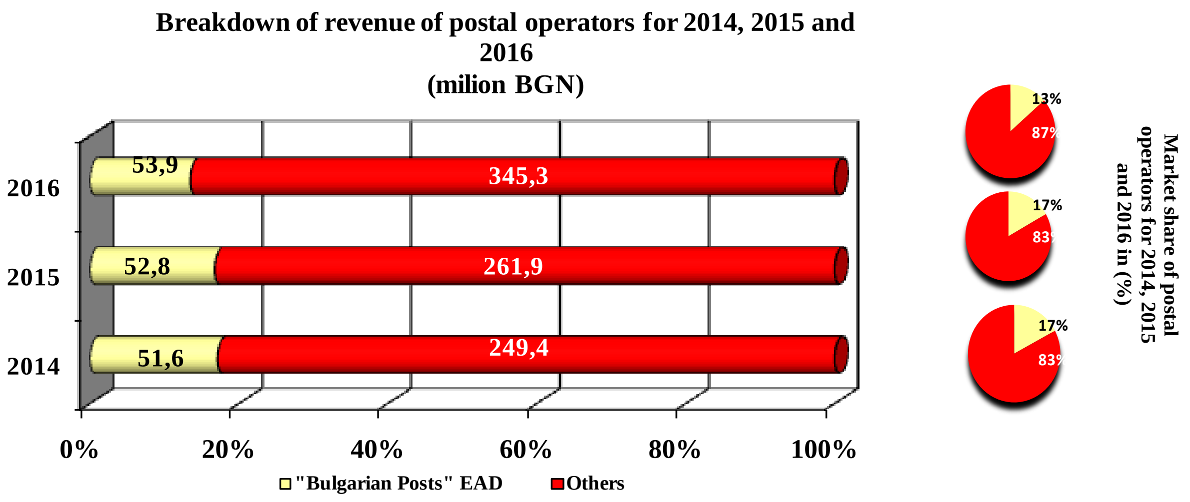

Fig. 4

Source: *Data, submitted to CRC*

The main reason for the loss of the market share of the incumbent operator are the reduced volume of the generated services from the UPS market segment while the volume of revenue from non-UPS market segment is relatively preserved on one hand, and the significant growth of the courier services generated by the competitive operators on other hand.

The figures below present the breakdown of revenue of postal operators by types of postal services in 2015 and 2016.

Breakdown of revenue earned by postal operators by types of postal services

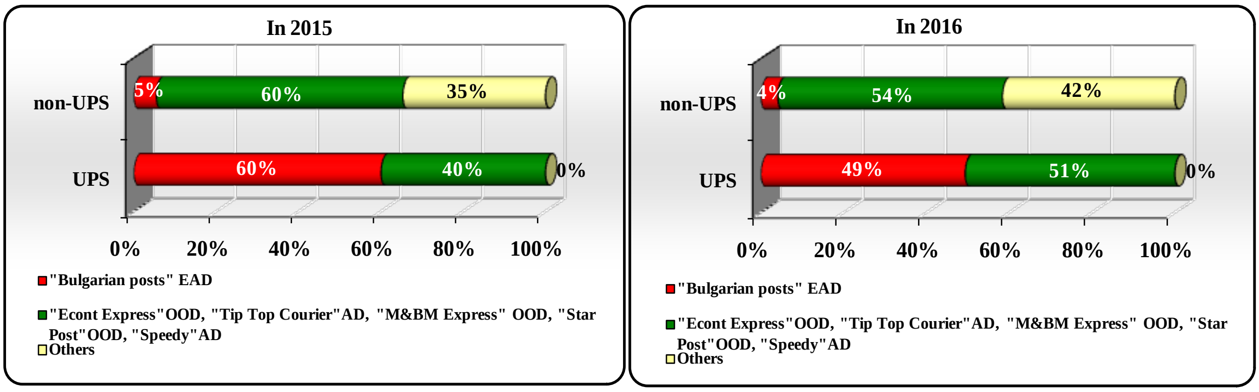

Fig. 5

Source: *Data, submitted to CRC*

Data, submitted to CRC shows significant decrease - by 11 % of the share of the incumbent operator from UPS market segment calculated on the basis of revenue in 2016 as compared to 2015. In non-UPS segment[2] the market share of the state incumbent operator in 2016 drops by 1 % as compared to 2015 and reaches only 4 percentage points of the total revenue generated by the non-UPS provided.

The chart below presents the structure of consumption of individual and business users of postal services from the UPS and non-UPS market segments.

[2] Includes services “postal money orders”, courier services, “hybrid mail” and “direct mail”.

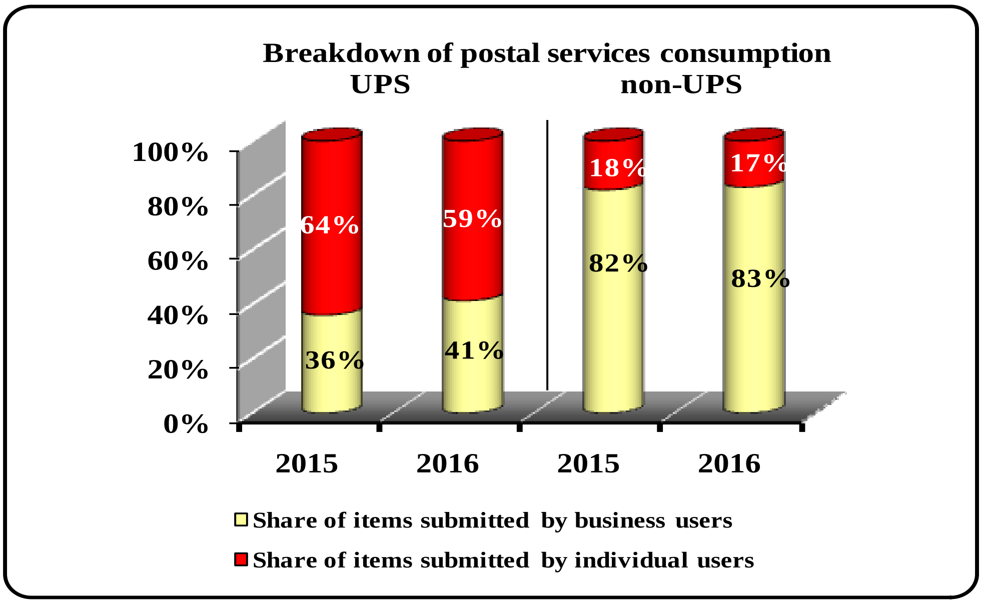

Fig. 6

Source: *Data, submitted to CRC*

As it is clearly shown, in 2016 there was no significant change in consumption of individual and business users of postal services. The main volume of the non-UPS segment items was submitted by the business users.

Traditionally, the consumption of UPS services is mainly formed by individual users, taking in mind the nature and specificity of the service. In spite of that, in 2016 as compared to 2015 in the UPS market segment there was increase in consumption of services by business users. The growth in parcel items generated by e-commerce results in an increase of items by business users to individual users (B2C - business-to-consumer). According to data of licensed postal operators there is a growth of 7.8% of the B2C type items in one-year period.

II. Provision of Universal Postal Service (UPS)

1. Scope and market players

Under the provision of PSA, the following services are included into the scope of UPS:

- acceptance, transport and delivery of domestic and international postal items, items of correspondence up to 2 kg; small packets up to 2 kg; printed matters up to 5 kg; secogrammes up to 7 kg;

- acceptance, transport and delivery of domestic and international postal parcels up to 20 kg;

- additional services “registered” and “declared value”.

In the register[3] of the licensed postal operators are registered companies providing UPS on the basis of the issued individual licenses. These operators are as follows:

• BP, whose license includes obligation to provide all services within the scope of UPS on the entire territory of the country;

• Econt Express OOD, Tip-Top Courier AD, M&BM Express OOD, Star Post OOD, Terra Post Services EOOD and Speedy AD, whose licenses have been issued to the provision of services within the scope of UPS on the part of the territory of the country.

[3] Public register of operators licensed to perform the services under Art. 39 of PSA, published on the CRC website.

In the past 2016 with the exception of Terra Post Services EOOD, that noted it did not carry out any activity, the licensed operators listed above have submitted data on their activity.

2. Volume and structure of UPS

According to data summarized by CRC, in 2016 the revenues from the market segment of UPS amounted to about BGN 83 million and reported a growth of about 27% as compared to 2015. The volume of realized postal items and services from the UPS scope for both country and abroad was about 38 million pcs. and a slight increase was reported as compared to the previous year.

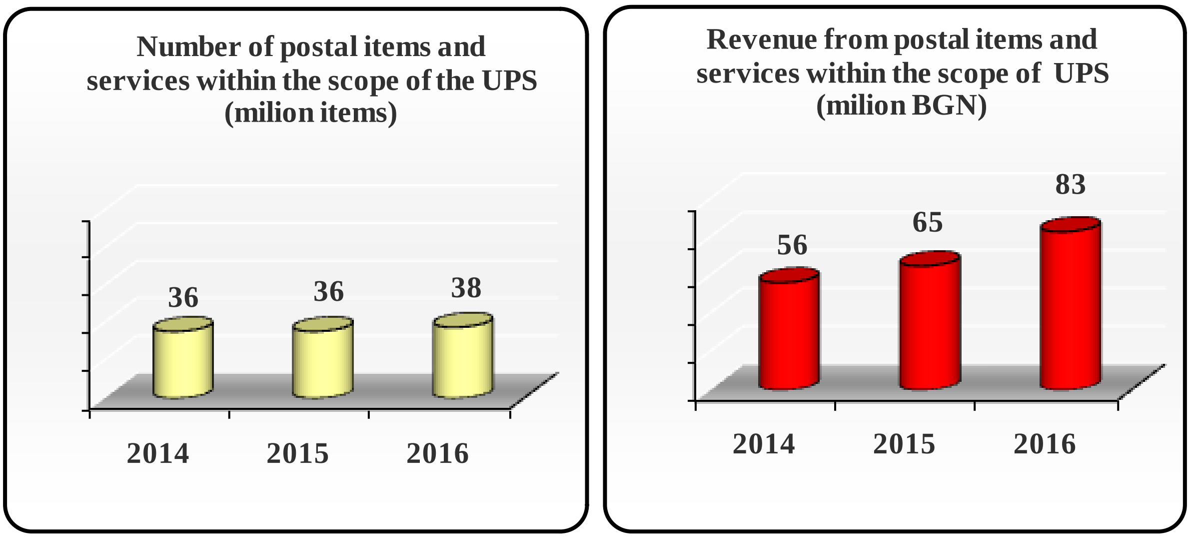

Fig. 7

Source: *Data, submitted to CRC*

As it is clearly shown from Fig.6 and Fig.7, in 2015 as well as in 2016, an upward trend in revenue growth as compared to the number of postal items from the UPS scope was observed. The faster growth rate of revenues is due to upgrowth of parcel items as well as the increase in the outgoing postal items from the UPS scope, which have relatively higher prices than these of items of correspondence.

For the purpose of this analysis, the services included in the scope of UPS services are conditionally divided into two groups – postal items[4] (domestic and international outgoing) and postal parcels up to 20 kg[5] (domestic and international outgoing)[6].

On the following Fig. 8 it is presented the structure of generated revenues from postal items and postal parcels up to 20 kg for domestic and international outgoing.

[4] Postal items include items of correspondence up to 2 kg, small packets up to 2 kg, printed matters up to 5 kg, secogrammes up to 7 kg and priority/non-priority items.
[5] Postal parcels are “ordinary“ and “with declared value“.
[6] To some types of items and parcels as additional optional services users can add the services “registered” and “declared value”.

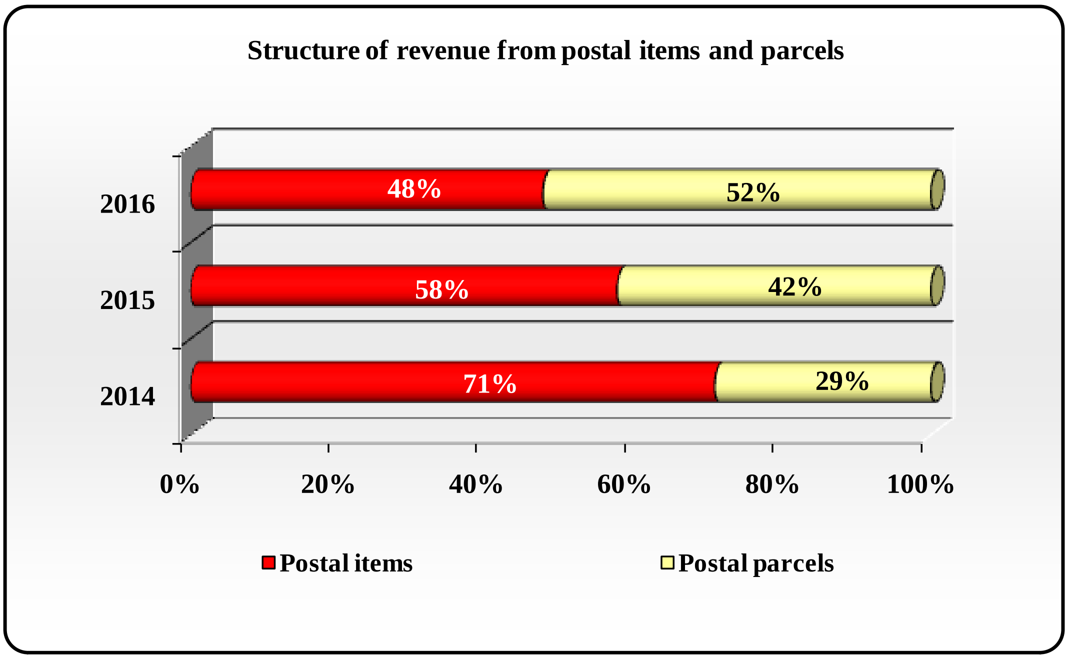

Fig.8

Source: *Data, submitted to CRC*

From the Fig.8 it is evident that in the three-year period 2014 – 2016 and in the market segment of the services of the UPS scope, a trend in increasing the share of revenue from parcels at the expense of decreasing the share of revenue from postal items is valid. The revenues from parcel items increased by 10 percentage points as compared to 2015.

The revenues from the domestic postal items amounted to BGN 16.1 million, as 86 % of them were reported by BP. The revenues from items of correspondence up to 2 kg occupied the most significant share of the revenue from postal items. The total number of the items of correspondence was about 22.9 million pcs.

The changes in the development of revenue from domestic and international outgoing postal items for the period 2014 – 2016 are presented in the Fig. 9.

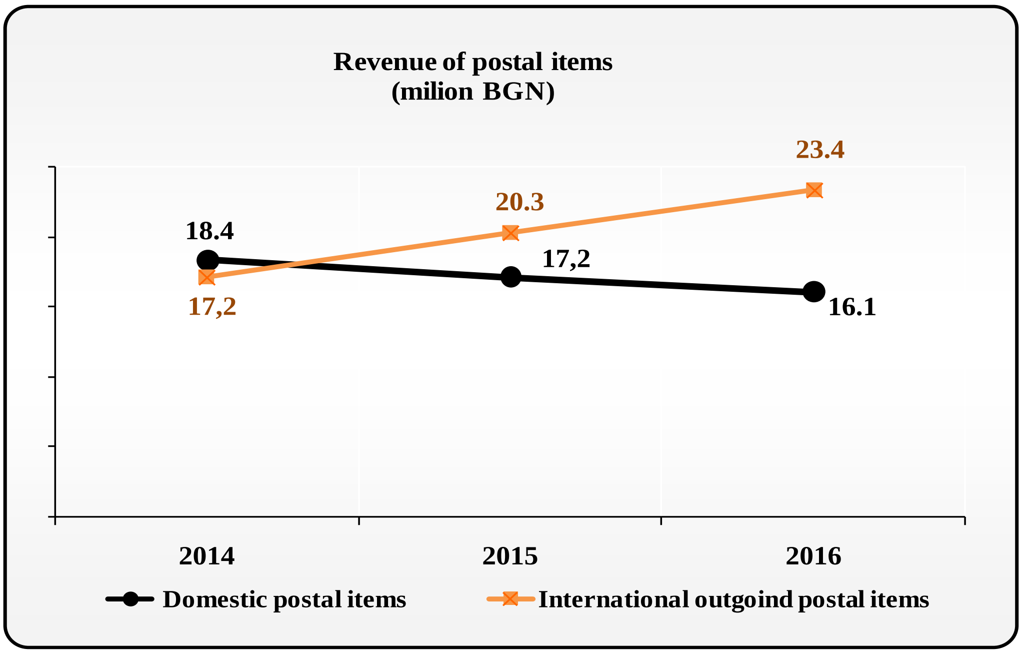

Fig. 9

Source: *Data, submitted to CRC*

The data shows that the revenues from domestic postal items continued to decrease, as the decreasing observed in 2016 was in amount of 6 % as compared to 2015. Compared to the previous 2015 there was e decrease of about 6 % in the reported number of items in this group too. This downward trend is due to replaced consumption of traditional postal services with electronic ones.

BP formed 86% from revenues from the domestic postal items, M&BM Express OOD - about 11 %, and the rest 3 % from the revenues were generated by Econt Express OOD, Tip-Top Courier AD and Star Post OOD. .

In 2016 the revenues from outgoing international postal items amounted to about BGN 23.4 million and their total number was approximately 5 million pcs. In comparison to 2015, in 2016 the revenues from outgoing international postal items increased by 15% and their number - by 7 %.

The revenues generated from the provision of domestic and international outgoing parcels amounted in total BGN 43.4 million while their number was 9 million pcs.

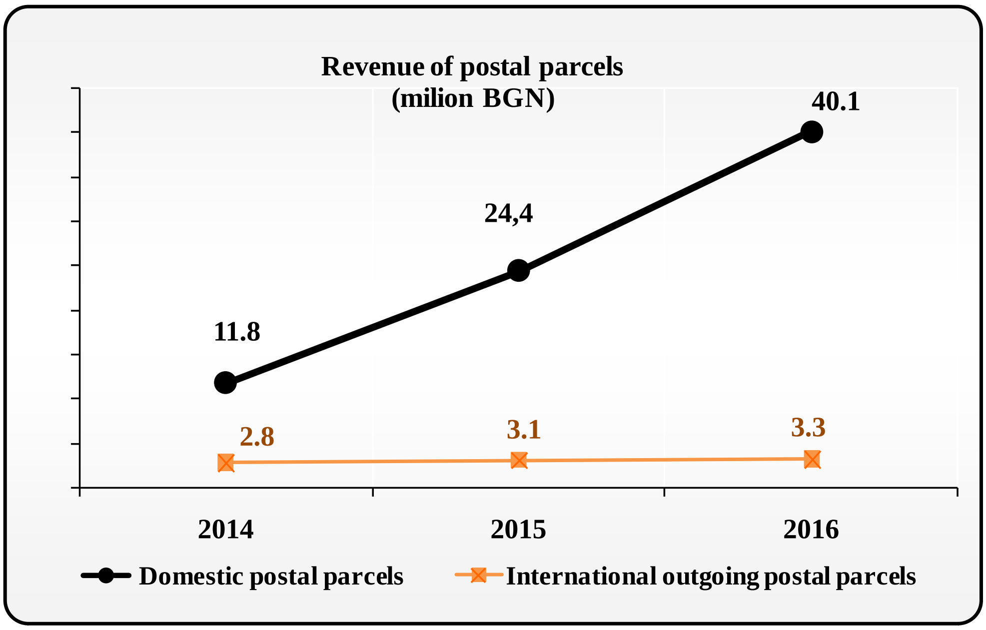

Fig. 10

Source: *Data, submitted to CRC*

From the figure above it is evident that reported revenues from parcels up to 20 kg for the country in 2016 increased by 64 % as compared to 2015. According to summarized data, about 40 % of all revenues from parcel items for the country up to 20 kg are formed from parcel items generated by e-commerce.

During the previous 2015, as well as in 2016 the revenue growth from services included in the UPS scope, is mainly due to the increase in revenues from accepted and delivered postal parcels up to 20 kg for the country by Econt Express OOD. For 2016 the postal operator reported an increase by about 40 % of the number of the parcel items for the country and revenue growth of 66 % of that service as compared to the previous reporting period (01.01.-31.12.2015). For 2016 Speedy AD reported number and revenues only from delivery of parcel items up to 20 kg for the country which in one-year period have grown nearly 3 times. With very small shares in the market segment of parcel items for the country up to 20 kg were the number and revenues generated by M&BM Express OOD, Tip-Top Courier AD and Star Post OOD.

In 2016 the service “postal parcels up to 20 kg for abroad” was provided mainly by BP. In comparison to 2015 a revenue growth in amount of 5% from this service was observed.

3. Users of UPS

For the purpose of this analysis, the UPS users are divided into two groups: business and individual users.

The ratio between the quantities of postal items and services within the scope of UPS, provided by BP to business and individual users in 2016 was 34.5% to 65.5% respectively. According to BP data the individual users had most often used unregistered items of correspondence, small packets, parcels with/without declared value, while the business users of UPS – services ”unregistered and registered domestic and international outgoing items of correspondence up to 50 g without priority” and „registered items with advice of delivery” .

M&BM Express OOD provided services to approximately 99.97% business users and only 0.3% to individual users.

In 2016 the services from The UPS scope carried out by Econt Express OOD were used by business and individual users in ratio 24.4% to 75.6%.

The chart below, by groups of sectors, shows the consumption for the country and abroad by business users who used in 2016 the services within the scope of UPS offered by all licensed operators.

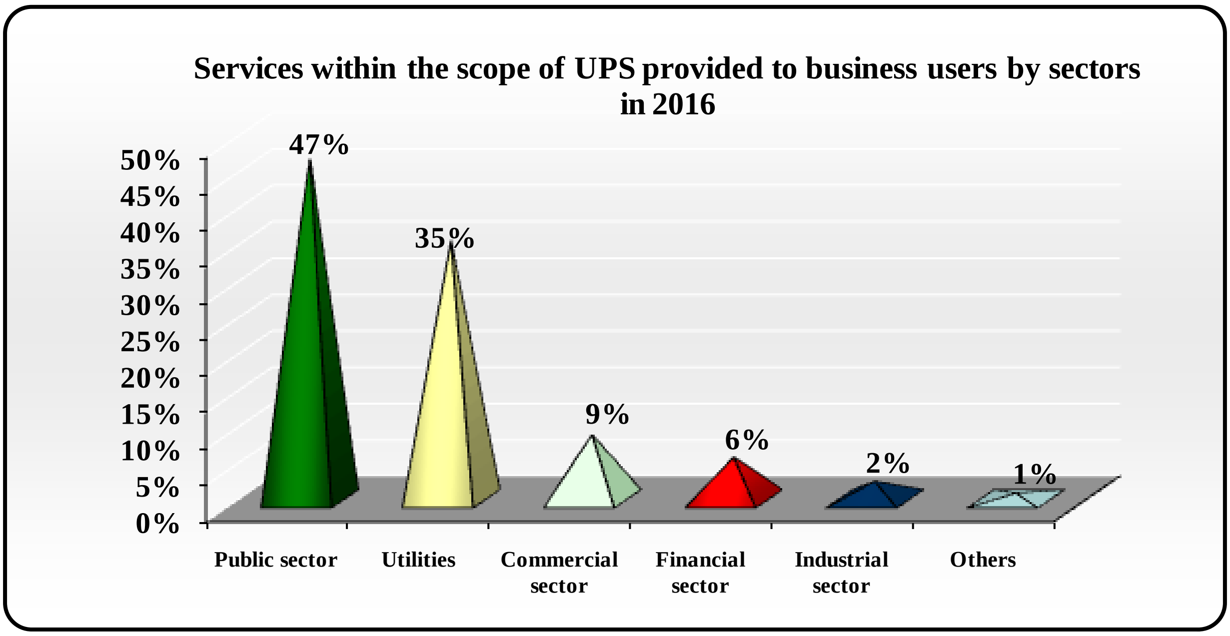

Fig. 11

Source: *Data, submitted to CRC*

According to the chart, the highest consumption of postal items and parcels in 2016 was registered in the public sector – 47 %. In comparison to the previous 2015 the consumption in the public sector was unchanged. This sector includes ministries, municipalities, insurance companies, agencies, etc. The business users, providing utility services – utility sector, such as water supply and sewerage, power supply and telecommunication companies, etc. come second in terms of share with 35% . The share of these users increased by 11 percentage points in comparison to the previous reporting period. Growth of 7 percentage points was observed in the consumption of business users in the commercial sector, while in financial sector users (banks and other financial institutions) a decrease of 3 percentage points in comparison to the previous reporting year was reported.

4. State of competition in UPS

In 2016 in the UPS market segment there was a strong competition between two players – BP and Econt Express OOD. This is evidenced by the almost equal market shares of these players.

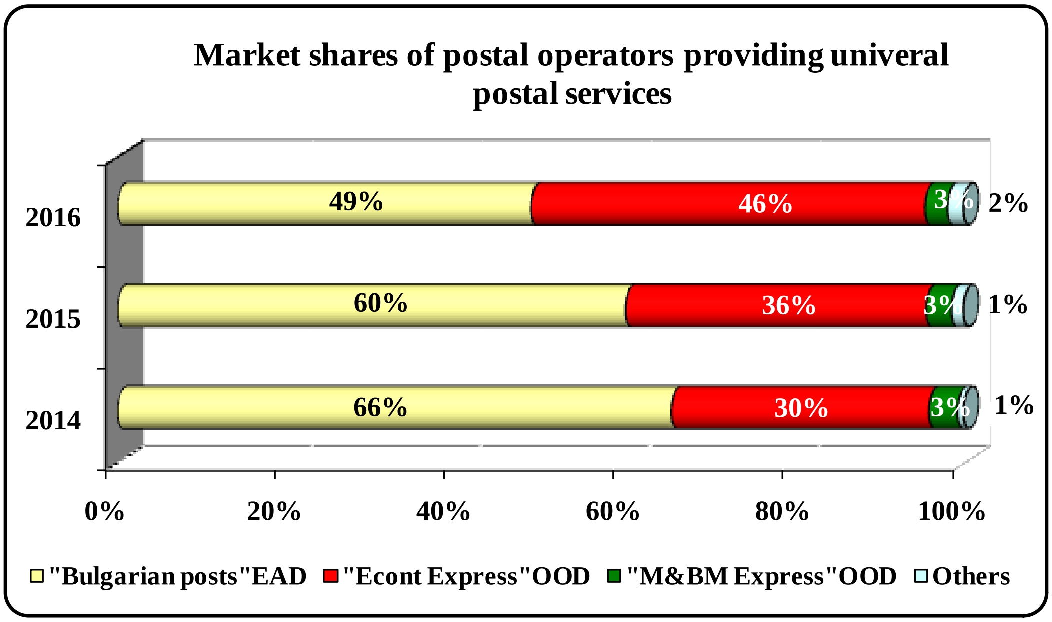

Fig. 12

Source: *Data, submitted to CRC*

According to the data shown in Fig. 12, the BP market share is 49 %, which in comparison to the previous 2015 decreased by 11 percentage points. The lost by BP market share had been conquered by Econt Express OOD whose market share is 46%.

Compared to the previous reporting period, M&BM Express OOD maintained unchanged its market share of 3 %. Speedy AD also reported activity and revenue from services provided within the scope of UPS, but together with Star Post OOD and Tip-Top Courier AD, they constitute a market share of 2 % (shown on the chart as ”others“ in Fig. 13).

Despite increased market power of Econt Express OOD at the expense of BP one, in 2016 for yet another year, the state of competition in this market segment measured by HHI[7] index and CR4[8] factor was characterized as poorly competitive and highly concentrated.

BP had generated 86 % of all revenue reported in the country from items of correspondence up to 2 kg; 92 % of all revenue from printed matters; 98 % of all revenue from international services within the scope of UPS. Econt Express OOD is a leader in providing the service postal parcels for the country up to 20 kg – with a share of about 95 % of all revenues reported in the country from this service.

[7] HHI - Herfindahl-Hirschman Index – to measurement of the market concentration degree.
[8] CR4 - (CR - Concentration Ratio) - indicator for concentration that characterizes not the whole market but only the position of the biggest players.

III. Provision of non-Universal Postal Service (non-UPS)

1. Scope and market players

For the purposes of this analysis, within the scope of non-UPS are included the provision of courier services to 35 kg, hybrid mail, direct mail and additional services (”cash on delivery – COD service” and ”advice of delivery”)[9].

1.1. Players on the non-UPS market

69 from 151 registered postal operators announced their intention to provide services within non-UPS scope actually provided non-UPS, while 40 have declared that they did not carry out any activity during the reported period.

1.2. Volume and structure of non-UPS market

Revenue from non-UPS in 2016 (courier services up to 35 kg, hybrid mail, direct mail, COD and advices of delivery) amounted to BGN 305 million, as compared to 2015 they increased by around 27% (Fig. 13). For the same period, the total number of processed items was 136 million pcs., which represents an increase by 3% since 2015.

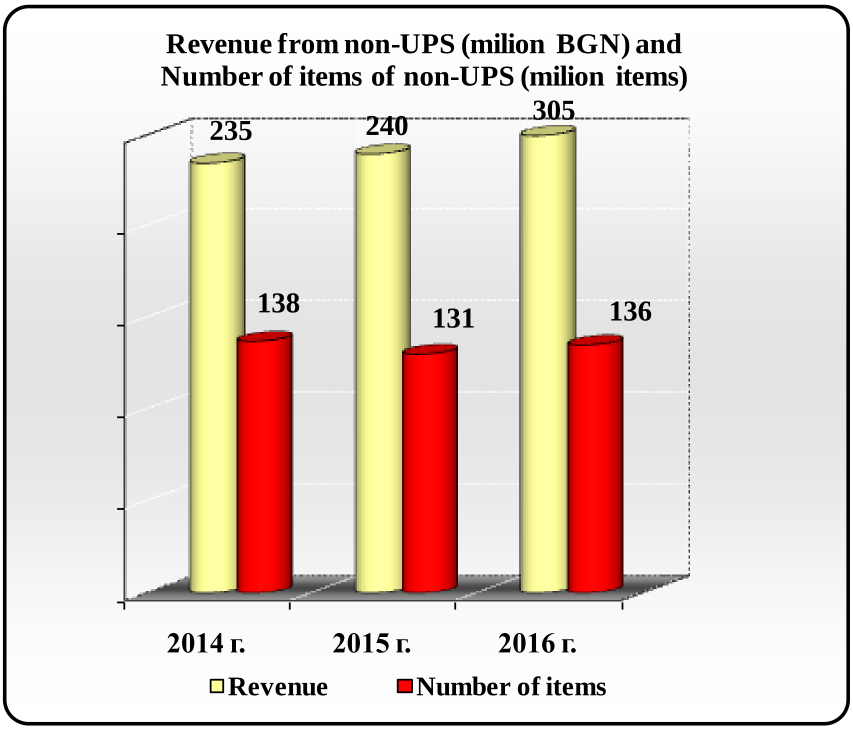

Fig. 13

Source: *Data, submitted to CRC*

The growth in revenue from non-UPS for the period was due to increase in revenue from courier items for the country by 29% in comparison to the previous reporting period. This increase is largely related to the growth in revenue from the service ”cash on delivery“ – nearly twice as compared to 2015.

The number of processed postal items increased in comparison to the previous reporting period and reached the levels from 2014, which is an optimistic prognosis for the segment development.

[9] Those services are ancillary to UPS and non-UPS and could not be provided independently

The ten operators holding the largest relative share[10] in the volume of revenue from this market segment, according to data submitted to CRS, were:

- BP EAD;
- D&D Express EOOD;
- DHL Bulgaria EOOD;
- Econt Express OOD;
- In Time OOD
- Leo Express OOD;
- M&BM Express OOD;
- Rapido Express & Logistics OOD;
- Speedy AD;
- TNT Bulgaria EOOD.

In 2016 the ten operators holding the largest market shares of the provision of courier services, hybrid mail and direct mail formed 88% of the revenue in the non-UPS segment.

No significant changes were observed regarding the structure of revenue from provision of non-UPS for the period 2014 – 2016.

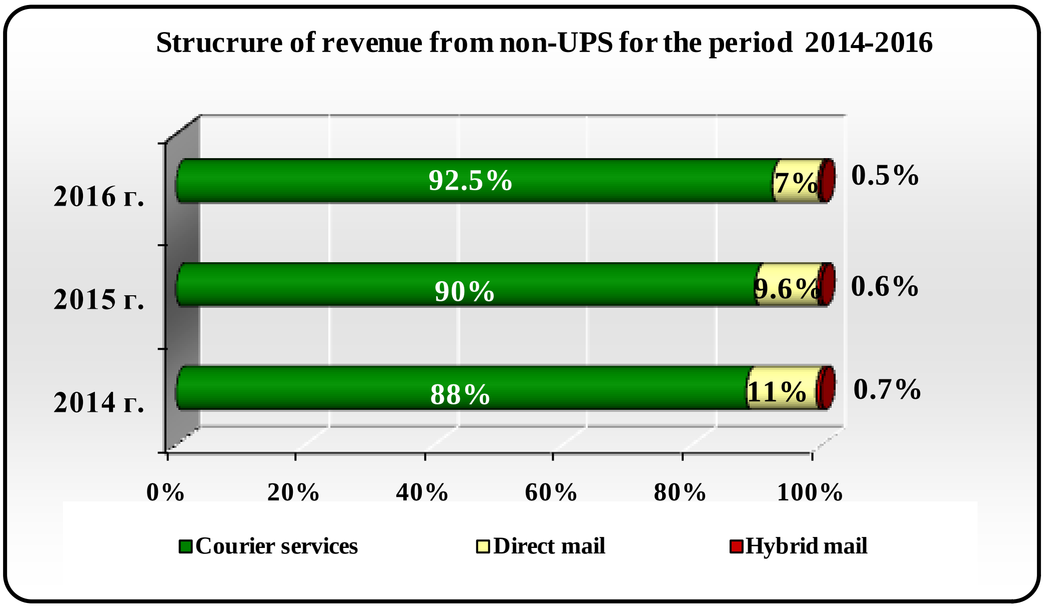

Fig.14

Source: *Data, submitted to CRC*

During the reviewed period, the courier services formed nearly 90% of the non-UPS market annually. In a one-year period their share increased by almost 3 percentage points, while the share of direct mail decreased by about 3 percentage points. The revenue from hybrid mail formed less than 1% of total amount of revenue from non-UPS.

In 2016 the revenue from courier services amounted to BGN 282 million as for one-year they increased by 31%. The total number of accepted, carried and delivered courier items amounted to 48 million pcs. which is an increase by 27% as compared to 2015.

The increase in both revenue and postal items during the reporting period shows progress in the courier service market, as the main engine of the business is e-commerce.

The revenue from outgoing courier services were BGN 73 million, which was 36% more than 2015, while the number of items decreased by 9%. The big increase in revenues, compared

[10] Operators are listed in alphabetical order, and not by the size of their market share

to decrease in the number of postal items, was due to more expensive international services, provided by the postal operators.

36 operators provided outgoing courier services in 2016, which were with five operators more than in 2015. Eleven operators of them provided only international courier services.

Six operators provided the hybrid mail service in 2016: M&BM Express OOD, BP, Star Post OOD, Evropat 2000 AD, Tip-Top Courier AD and E-Post EOOD and their number remained unchanged compared to the previous reporting period.

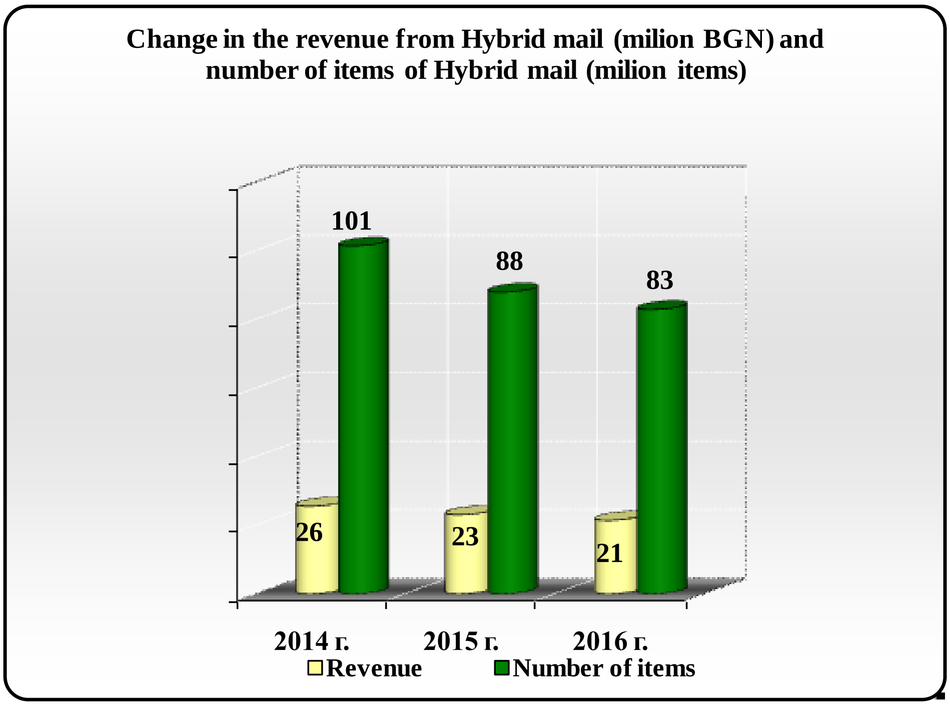

Fig. 15

Source: *Data, submitted to CRC*

As it is clearly shown from the data on Fig. 15, the downward trend for the revenue and the number of postal items from the provision of the hybrid mail service persisted in 2016 as well. The revenue from the provision of the service amounted to BGN 21 million and it dropped by 7% as compared to 2015. In 2016 the number of processed items decreased by 6% compared to the previous reporting period.

The drop, both in the number of the postal items and revenue may be explained by the refusal of more and more users to receive their bills for utility on paper. The large utility operators, banking sector and mobile operators conducted more active campaigns for reduction of paper invoices and their replacement with electronic ones as a financial and environmental measure.

In 2016, the operators providing the direct mail service which was included in the non-UPS scope were: BP, E-Post EOOD, M&BM Express OOD and Pro Logistic EOOD.

In the past year the number of postal items from the acceptance, transmission and delivery of direct mail service increased by 11% compared to 2015, while the revenue increased by almost 3%, which may be related to a change in terms of contracts with large users.

The decrease in the volume of these services may be due to the preference of the large retail chains to carry out its advertising campaign by unaddressed identical leaflets or so called ”unaddressed delivery“ by using private individuals on an employment contract for delivering them to users’ mailboxes.

2. Development and problems related to the delivery of postal items generated by e-commerce

E-commerce in recent years has become a significant factor in entrepreneurial business activity worldwide. This is largely due to the specific organization and scope of digital commerce. On one hand, it satisfies the needs of users of different products and on the other hand, it overcomes the limitations of place and time.

According to a survey carried out by Economy.bg, in 2016, on-line commerce in Bulgaria increased by about 14%, while the growth for the whole Europe was 12%. The same survey indicated that in the last year 1.3 million Bulgarians shopped online, as the turnover of e-commerce in the country amounted to $ 340 million[11].

Regarding the delivery methods, the survey stated that the most preferred way of delivery was home delivery. Worldwide, innovative delivery ways such as drone, robot or hybrid autonomous vehicles would be expected very soon.

The ”Click&Collect“ delivery way has become more and more popular in Western Europe, where the customer selects goods and products online and chooses the preferred time and delivery location. This type of delivery is preferred mainly for fast moving consumer goods (FMCG) , and the delivery locations continuously increase. The customers can pick up their order in specific points in the stores, post offices and underground stations as well.

According to data from 71% of postal operators performing non-UPS in 2016, the revenue from delivery of items generated by e-commerce formed 35% of total amount courier services revenue.

On the basis of the data, the items generated by e-commerce trend to increase and provide optimistic prognosis for development of this market segment.

The speed of both customer’s online order and the delivery is the fundamental factor for the successful realization of e-commerce. While user’s contact with the online platform is an advantage regarding the speed, the delivery may spoil that advantage.The most often risks associated with the delivery are failure of delivery, partial delivery delay or goods damage.

According to data of the National Statistical Institute (NSI) the most common problems which Bulgarian users meet arising from ordering or purchasing of goods via Internet were as follows[12]:

Types of problems	2015	2016
Technical failure of the website during ordering or payment	4.8%	4.1%
Difficulties in finding information concerning the provision of guarantees and other legal rights	9.9%	4.9%
The delivery time is longer than the specified on the website	11.7%	7.1%
The final costs are higher than specified on the website (e.g. a higher price for delivery)	3,0%	1.3%
Wrong or damaged goods were delivered	3.8%	3.7%
Problems related to fraud (e.g. the goods/services are not received at all, financial losses do to abuse of credit card data, etc.)	1.8%	0.4%
Difficulties in filing a complaint and request for compensation or receiving an unsatisfactor	2.6%	1.3%

[11] http://www.economy.bg/topnews/view/27615/14%25-ryst-na-onlajn-tyrgoviyata-u-nas-prez-2016

[12] www.nsi.bg/bg/content/2830/електронна-търговия

response following a justified complaint		
The foreign traders do not operate with Bulgaria (e.g. do not take orders or payment cards from other countries)	1.8%	1.7%
Other	3.9%	2.6%

Source: *NSI*

In the past year as in 2015, the highest percentage of customers indicated as a problem the delivery time of online ordered goods, followed by problems related to difficulties in finding information concerning guarantees provided and other legal rights. Although, the main problems indicated by the customers remained the same for both years, in 2016 there was a significant reduction in the number of customers who had encountered some of the problems listed above related to online shopping. In 2015, 11.7% of the customers ordered their goods online had difficulties with delivery, whereas in 2016 they were 7.1%, which indicated a significant improvement in postal operators' performance in relation to delivery of online ordered goods. Concerning problems in finding information about guarantees provided and other legal rights,the ccustomers experienced such difficulties in 2016 decreased by 5% as compared to 2015.

3. Provision of Postal Money Orders (PMO) service

3.1. Market players

With issued in 2016 an individual license of Leo Express EOOD for the provision of PMO service, the number of postal operators licensed for performing the PMO service became 18. Only 11 of them reported activity of providing the PMO service for the period: BP, Econt Express OOD, Speedy AD, Tip-Top Courier AD, Evropat 2000 AD, Factor I.N. AD, EasyPay AD, Toyota Tixim EOOD, Express Pay EOOD, Intercapital Group AD and Rapido Express and Logistics OOD.

3.2. Market volume and shares

According to data submitted to CRC as at 31.12.2016 all active participants had provided about 10 million pcs. of postal money orders in total, and the reported revenues from these are approximately BGN 11 million.

BP reported 1.4 million pcs. PMO, which generated BGN 4.3 million. Compared to 2015 the operator reported a decrease in the amount of 12 % in the reported volumes of PMO, while revenues had dropped by 11%. In view of the most well-developed delivery network, the state postal operator has provided this financial service in 2980 access points, of which 639 in the towns and 2341 in the villages.

Econt Express OOD has reported 7.7 million pcs. PMO for 2016 and BGN 6.1 million revenue from them. In comparison to 2015 the registered increase was in amount of 40% in the volumes and about 60 % in generated revenues from the service. The company has 1 own office where it provides the service and 587 other offices under agreements signed according to Art. 22 of PSA.

With reported by EasyPay AD approximately BGN 6800 revenue from PMO it was registered a growth of about 25 %, compared to the reported revenue by the operator for 2015.

For one-year period, the generated revenue from PMO, reported by Express Pay EOOD amounted to only BGN 0.1 million and are equal to those reported for the previous 2015.

The PMOs volumes and revenues in 2016 reported by Speedy AD are almost equal to these from 2015. All reported PMOs by this postal operator have been express transfers.

Intercapital Group AD registered growth in PMOs volumes and revenues, 46 % to 55 % respectively.

Fig.16 presents the breakdown of revenue generated from the provision of the PMO service by the three major players in this segment.

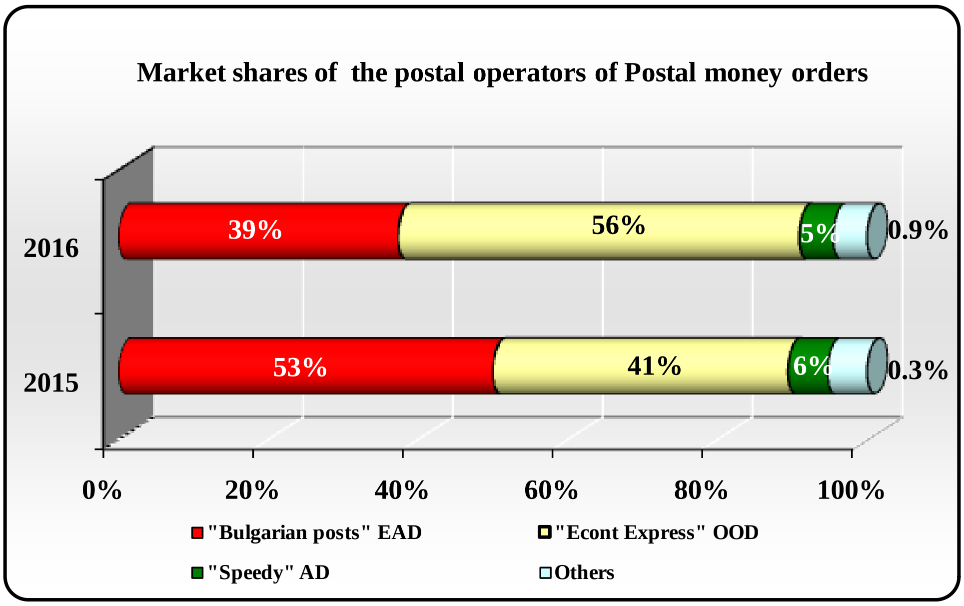

Fig. 16

Source: *Data, submitted to CRC*

In 2016 for the first year Econt Express OOD had the biggest share in revenues of 56%. In comparison to 2015 the share of Econt Express OOD increased by 15 percentage points. BP - the incumbent postal operator held the second place by market share in the revenues from the provision of PMOs of 39 %. A decline in market share of the operator has been observed since 2011 despite its well-developed postal network and well-known brand. During the monitored period the market shares of Speedy Ad increased by one percentage point.

4. State of competition in non-UPS

The state of competition on the non-UPS market and the provision of postal money orders service are calculated based on the HHI index and the CR ratio. The values of both indices (of HHI - 1324 and of CR5 – 71.5%) in 2016 define the non-UPS market segment as relatively competitive with an average to moderate concentration. To calculate the CR5 ratio, the market shares of the following five operators: DHL EOOD, Econt Express OOD, M&BM Express OOD, Speedy AD and TNT Bulgaria EOOD were used. In 2016 the above five operators formed market shares on the non-UPS market between 6 % and 23 %, as the upper limit of the market share was unchanged as compared to 2015.

The segment of postal money orders is defined as poorly competitive with a high level of concentration (the HHI value is 4620, and CR4 - 99.7%). To calculate the CR4 value, the market shares of the following four operators: BP, Econt Express OOD, Rapido Express and Logistics EOOD and Speedy AD were used.

IV. Regulation of the postal services market

In 2016 the priority activities of the Communications Regulation Commission concerning the regulation of the postal services were focused on:

1. Assessment for the presence of unfair financial burden incurred by the provision of the universal postal service and preparation of proposal for the amount of compensation

In accordance with the provisions of Art.29a, Para. 1 of the PSA, the incumbent operator obliged to carry out UPS, BP EAD has submitted an application to CRC for compensation of the net costs and the unfair financial burden from the provision of the service in 2015.

In compliance with its statutory obligations under Art. 29б, Para. 5, Art. 29a, Para. 3 of the PSA, CRC held a public procurement procedure[13] with the following subject: "Implementation verification of the system of allocation of costs of Bulgarian posts EAD and audit of the submitted documents related to the calculation of the net costs of carrying out the universal postal service for 2015". Based on the factual findings from the performed audit, CRC adopted the following decisions:

- Decision No 437 of 29.08.2016 on coordination of the results obtained from the cost allocation system by types of services of Bulgarian Posts EAD;
- Decision No 513 of 06.10.2016 concerning the presence of unfair financial burden from the provision of the universal postal service and determination of the amount of compensation due to Bulgarian Posts EAD for the provision of the universal postal service in 2015.

According to the auditor's assessment, the net costs of carrying out the universal postal service for 2015 before reporting the intangible benefits and the incentives for cost effectiveness amounted to BGN 15 142 087. After correction by the cash equivalent of the benefits (in amount of BGN 1 171 845) and by the cash equivalent of the incentives for cost effectiveness (in amount of BGN 623 064) the total amount of the net costs was BGN 13 347 thousand.

The report on factual findings from the performed audit was published in compliance with the requirements for trade secret preservation on the CRC website - section "Areas of regulation - Posts".

Based on the assessment for the presence and amount of unfair financial burden from the universal postal service provision for 2015, CRC set due compensation to BP in amount of BGN 13 347 thousand. In compliance with Art. 15, Para.1 item 16, the Commission extended a proposal to the Minister of Finance to include the amount of compensation in the draft Law on the State Budget of the Republic of Bulgaria 2017.

2. Measurement and reporting on compliance with UPS quality standards and service efficiency

In fulfilment of its obligation pursuant to Art.15, Para. 1, item 7 of the PSA, CRC held a public procurement procedure and determined the contractor awarded[14] to carry out with the following subject: "Measurement of the "end-to-end" transit time for single piece domestic priority postal items and postal parcels in the network of the operator obliged to perform the universal postal service in 2016". Based on the work under the public procurement procedure carried out throughout the year, the following statements were made on the results of the implementation of the quality targets/norms[15] for transit time for the postal items:

2.1. Transit time for single piece domestic unregistered priority mail

With quality target concerning the transit time for single piece domestic unregistered priority mail for **D+1 –** not less than **80%** of the postal items and for **D+2 –** not less than **95%** of

[13] The implementation of the order was assigned by CRC to KPMG Bulgaria OOD – by contract No 03-08-27/16.05.2016

[14] PricewaterhouseCoopers Bulgaria EOOD

[15] Quality targets for the universal postal service and service efficiency, prom. SG, issue.64 of 19 August 2011

the postal items, on an annual basis (2016) the results from the measurement were **59.7%** and **86.1%** respectively.

End-to-end transit time	Service quality targets	Results 2014	Results 2015	Results 2016
D+1	Not less than **80%** of the items of correspondence	**67.2%**	**71.4%**	**59.7%**
D+2	Not less than **95% of** the items of correspondence	**90.3%**	**92.2%**	**86.1%**

As it is evident from the table above, in 2016 the trend for gradual improvement of the results was interrupted. The measured results registered a considerable drop, especially for **D+1,** which significantly deviate them from the norms.

2.2. Transit time for domestic postal parcels

For the first time in 2016 it was measured the "end-to-end" transit time for postal parcels by an independent external organization. The results are presented in the following table:

End-to-end transit time	Service quality targets	Results 2016
D+1	Not less than **80%** of the postal parcels	**53.2%**
D+2	Not less than **95%** of the postal parcels	**92%**

The result **D+1** is far way from the norms, but the result for **D+2** was almost reached.

In order to improve the quality of the provided UPS, during the annual measurements for implementation of the quality norms, CRC has periodically notified the incumbent operator for the quarterly interim results. On an annual basis, recommendations to improve the service quality had also been given. In compliance with its power under Art. 105b of the PSA, CRC has taken the appropriate administrative punitive sanctions.

The results for the transit time for single piece domestic unregistered non-priority mail and international postal items, as well as the results for the time for complaint processing, are displayed in a table containing comments and clarifications in Appendix 1 "Other results from Measurement of the UPS Quality" to the report.

3. Ensuring postal security

Postal security is an important factor for the quality provision of postal services because it contributes to prevent and limit any material and financial damages incurred by users and postal operators. Having in mind the international situation, the role of postal security as an anti-terrorist factor more and more increases. As far as the Bulgarian postal system is in close interconnection with the international one, ensuring the postal security at a national level is a part of ensuring the postal security on a global level. The requirements for postal security are compulsory irrespective of the territory where they are applied, and the status of the postal operators.

PSA regulates the general requirements related to ensuring the postal security, as well as the sanctions for their violation. A regulation – Ordinance No 6 on the postal security requirements (prom. SG, issue 90 of 15.11.2011) specifies the requirements, the creation of organization, and the measures related to prevention of:

- violation of postal items by outside persons and by employees of the postal operators;
- violation of the safety of the staff, buildings and property of the postal operators;
- conveyance as postal items of forbidden and dangerous goods, objects and substances;
- use of forged or out-of-date postage stamps, postal products with a printed impression for prepaid universal postal service, postage seals and date-stamps, postage forms and documents, etc.;
- money laundering through the national postal infrastructure.

In connection with the provision of Art.13, Para. 4 of Ordinance No 6, the postal operators develop internal codes of conduct for staff at suspected weapons, ammunition, pyrotechnics, explosives, flammable or other dangerous substances and objects contained in postal items. The rules under Art.13, Para. 4 are agreed with the competent authorities of the Ministry of Interior and the State Agency National Security (SANS/the Agency). As reported by SANS, in 2016 the Agency adopted and approved the internal rules of 2 companies/postal operators.

The licensed postal operators for providing the postal money orders service must under the terms of the issued individual license to prepare internal rules for control and prevention of money laundering, which are approved by the SANS Chairperson. As reported by SANS at the end of 2016 almost all licensed postal operators for providing the postal money orders service have fulfilled the above license obligation.

On the basis of the questionnaires completed by the postal operators, the preventive measures which they most often take to avoid prohibited objects and substances in the postal network, are: physical control and packaging of postal items in the presence of an employee of the operator, in case of refusal, the item is not accepted by some operators; declaration by the customer; periodic briefings and/or specialized trainings on employee security; preparation and distribution of information materials, indicating signs of contained prohibited items and substances. Video surveillance is not a new measure, especially by larger operators, either through their own video cameras or Security System guarding. In some of the major courier companies daily analysis and risk assessment by officials from the security department are prepared. Two of the biggest international courier companies have TAPA Class A security certificate.

From the objects and substances prohibited in postal items under Art.90 and Art. 91 of PSA, the most often the operators find: arms and ammunitions; aerosols; tobacco; money; narcotic drugs, precursors and their analogues. In all cases the Ministry of Interior and/or the customs authorities must be notified.

Under Art.14 of Ordinance No 6 in relation to non-admission of prohibited objects and substances in the postal items, the postal operators are required to deliver, install, commission and maintain at their own expense the necessary technical devices and software, and to ensure their use against payment by other postal operators, if necessary or to use against payment such resources from other postal operators, if necessary. Few operators can afford the purchase of hardware and software to protect mail traffic and most of them sign contracts for the use of rental equipment. Five of the operators have their own hardware and software, six operators have concluded contracts for use against payment resources from other postal operators who have their own technical devices and software, and four operators have concluded contracts with external companies.

4. Control activity and user protection

In 2016, in performance of the legal obligation to monitor the compliance with regulations related to postal services, the requirements for the provision of UPS, the conditions for implementations under the issued individual licenses and obligations of operators, providing non-UPS, authorized CRC officials carried out a total of 137 inspections, of which:

- 39 inspections in relation to 30 complaints, the most predominated part of the complaints were related to undelivered postal items;
- 35 inspections of BP post offices (as postal operator obliged to provide UPS), on compliance with the obligation to carry out UPS on every working day at least five days a week, at least one postal items collection and one delivery in every working day;
- 22 inspections of 5 operators licensed to provide services within the scope of UPS, concerning the keeping the conditions of the issued individual licenses;
- 12 inspections of 6 operators licensed to provide postal money orders service, concerning the keeping the conditions of the issued individual licenses;
- 1 inspection of an operator concerning the keeping of requirements under Art.48, Para.2 of the PSA;
- 28 inspections regarding servicing of Acts for the establishment of an administrative offense (AEAOs), and punitive decrees (PDs).

In 2016 10 AEAOs) in the field of postal services were composed, 9 of which were for non-providing information to CRC and 1 for violation of Art.105b of the PSA. In relation to complaints/signals filed or as a result of inspections carried out by General Directorate ”Communication Control” there were 7 cases of administrative penalties, as in all cases PDs were established.

As for protection of the customers’ interests, CRC uses two instruments – coordination of the Terms & Conditions of the contract with users of postal services (Terms & Conditions) and the right of users to file complaints and signals with the Commission. In the past 2016 CRC coordinated the Terms & Conditions of two operators. Apart from this, the Commission accepted that the General Terms & Conditions of 4 postal operators are in accordance with the PSA, they were however not coordinated but sent for approval to the Commission on Consumer Protection (CCP)[16]. CRC also took actions to optimize the internal procedures for coordination of the General Terms & Conditions and to improve its transparency regarding this activity by adopting new Rules for the Terms & Conditions for the approval (coordination) of the General Terms & Conditions. 227 complaints/signals filed by postal services users against postal operators were considered. Of all complaints submitted, 146, were considered justified and the requests of the applicants were complied with by specific actions and/or payment of benefits due under the applicable Terms & Conditions The most number of complaints were for delayed delivery, followed by these for damaged and non-delivered items. The number of unjustified complaints

[16] Under Art. 148, para. 2 of the Consumer Protection Act (CPA), when in a normative act is provided government authority to approve the general terms of contracts with customers and subsequent amendments thereto, they should be sent to the CCP for an opinion on the existence of unfair terms. The Government authority must approve the general terms of contracts with customers only if the CCP approves its terms and after assessing that they do not contain unfair terms within the meaning of Consumer Protection Act. Apart from this, in this hypothesis of the Consumer Protection Act is not provided deadline for pronouncement of CPC concerning the provided terms and conditions. At the time of preparing this report, the CPC has not approved 11 pieces general Terms and Conditions (sent in 2016 and 2015) and therefore they were not agreed by CRC.

was 81, as almost half of them were for unregistered items for which under Art. 87, para. 1 of the PSA the postal operator are not responsible.

In 2016 according to data from the annual questionnaires of the incumbent operator and operators providing services within the scope of UPS, the total number of complaints filed was 20441 of which 7869 were justified. The table below shows the number and breakdown of justified complaints for domestic and international items, by reasons for a 2-year period.

Breakdown of justified complaints according to their cause	**Number**					
	2015		**2016**		**Change**	
	domestic	**international**	**domestic**	**international**	**domestic**	**international**
Filed complaints (total), including:	**1474**	**2431**	**873**	**6996**	▼	▲
for lost item	63	2420	99	6359	▲	▲
for delayed item	300	0	170	385	▼	▲
for damaged item or with missing content (fully or partially)	521	9	240	110	▼	▲
for misdelivered item	2	0	14	35	▲	▲
for returned postal parcel without reason for non-delivery	1	2	3	43	▲	▲
general complaints (complaints based on a general dissatisfaction with the operator’s services)	548	0	329	58	▼	▲
concerning the behaviour and competence of postal employees	39	0	13	0	▼	=

Breakdown of justified complaints according to their cause	**Number**					
	2015		**2016**		**Change**	
	domestic	**international**	**domestic**	**international**	**domestic**	**international**
concerning complaint handling	0	0	5	6	▲	▲
complaints settled with payment of compensation	**2015**		**2016**		**Change**	
	pcs.	**BGN**	**pcs.**	**BGN**	**pcs.**	**BGN**
	2993	**219 152**	**5712**	**431 311**	▲	▲

In 2016 as compared to 2015, the total number of complaints submitted increased by 40%, and the number of complaints considered justified has increased nearly twice. In one-year period the number of complaints settled with payment of compensation increased and the amount of compensations paid increased by 97% compared to 2015.

In comparison to 2015, in 2016 there was a significant growth (almost three times) in the number of justified complaints for international items. In 2016 the complaints for lost international items formed 80% of the number of justified complaints filed. These complaints were mainly concerned to lost international items in BP network. As reported by the operator, these were items mailed by BP which could not be localized by foreign postal administrations.

In one-year period the number of the justified complaints filed for domestic items decreased by 41%. The decrease is highest – by 54% for complaints for damaged postal items and items with missing content. In 2016 the trend from the previous year to decrease the number of complaints concerning the behaviour and competence of the postal employees continued. This positive trend shows that the licensed operators take measures to improve professional qualities of their employees which are entirely of customers' interest.

According to data from the annual questionnaires, submitted by operators licensed to provide the postal money orders service and registered for the provision of non-UPS, in 2016 the total number of filed complaints was 11419 and it has increased by 2% since 2015. The number of complaints considered justified in the past year was 7688 and it has increased by 5% as compared to the previous year. The number of complaints settled with payment of compensation remained almost unchanged as compared to 2015, and the total amount of compensations paid increased by 21%.

The table below shows the breakdown of justified complaints by reasons for a 2-year period.

Breakdown of justified complaints, by reasons	**Number**		
	2015	**2016**	**Change**
Filed complaints (total), including:	**7338**	**7688**	▲
for damaged item	3081	3129	▲
for lost item	728	644	▼

<table>
<tr><th rowspan="2">Breakdown of justified complaints, by reasons</th><th colspan="6">Number</th></tr>
<tr><th colspan="2">2015</th><th colspan="2">2016</th><th colspan="2">Change</th></tr>
<tr><td>for rifled item</td><td colspan="2">243</td><td colspan="2">417</td><td colspan="2">▲</td></tr>
<tr><td>for destroyed item</td><td colspan="2">236</td><td colspan="2">210</td><td colspan="2">▼</td></tr>
<tr><td>for item delivered with delay from the deadline for delivery</td><td colspan="2">2068</td><td colspan="2">2219</td><td colspan="2">▲</td></tr>
<tr><td>others</td><td colspan="2">923</td><td colspan="2">1041</td><td colspan="2">▲</td></tr>
<tr><td>for postal money orders</td><td colspan="2">59</td><td colspan="2">28</td><td colspan="2">▼</td></tr>
<tr><th rowspan="2">Complaints resulting in payment of compensation</th><th>pcs.</th><th>BGN</th><th>pcs.</th><th>BGN</th><th>pcs.</th><th>BGN</th></tr>
<tr><th>5532</th><th>781 900</th><th>5534</th><th>945 760</th><th>=</th><th>▲</th></tr>
</table>

The data in the table above shows that in all two years of the period, the largest share of complaints considered justified is held by complaints filed for damaged items, followed by those for delayed items. Taken together, the two types formed up to 70% of the number of complaints considered justified.

In one-year period the number of complaints considered justified for postal money orders decreased by 53%. In 2016 among the main reasons caused the complaints filed were orders with delayed payment and general dissatisfaction with the service.

CRC carefully monitors and analyses the reasons for complaints filed with the Commission. After summarizing the complaints filed with CRC by postal users in the past year, several significant problems related to the notification of postal items presence and/or delivery (registered items, small packages) and insufficiently packed postal items, has outlined. In this connection, CRC maintains an active dialogue with the postal operators in order to improve the delivery regime of postal items (notification, making inquiries). CRC also prepared proposals for texts concerning non-acceptance of items in inappropriate package, which should be included in the postal operators General Terms & Conditions. The proposed texts were submitted to the operators. Some of them have already included the proposed texts in their General Terms & Conditions.

V. Conclusion – prospects for the development of postal services

Postal services continue to play an important role in our daily lives, although their nature is changing with the new technologies that lead to substitute the traditional paper mail by e-mail and increase the volume of online shopping. Opportunity to sent letters and parcels delivered within a certain time and at fixed price to all parts of the country remains one of the main factors for the social and economic development of the market. The rapid development in the new technologies contributes to development of the postal market in Bulgaria and poses challenges related to:

- implementation of innovative products and services by postal operators;

- improving the interaction between the online traders and postal operators, ensuring transparency and customer awareness concerning the supply of goods generated by e-commerce;
- optimizing the delivery process of postal items to end users with better quality and lower prices;
- developing and introducing rules of return for the purchased online goods and clear mechanisms for dispute resolution, complaints handling procedure and payment of compensations.

E-commerce as a main engine for development of the postal service market forms prospects for further growth in both revenues from postal parcels within the UPS segment and revenues from courier services within the non-UPS segment.

Taking into account the analysis and the established trends in the analysis, the following prospects for the development of the postal market in one-year period may be outlined:

1. Increasing the number of postal operators in both the segment of postal services and provision of postal money orders service;
2. Growth of the revenues generated by e-commerce;
3. Decrease in consumption of traditional postal services, such as acceptance, transit and delivery of items of correspondence up to 2 kg and printed matters up to 5 kg;
4. Increasing the consumption of domestic and international postal parcels;
5. Further decrease in the share of the incumbent postal operator;
6. Steady growth in the number of items, realized by the business users.

Appendix 1

Other results from Measurement of the UPS Quality

1. Transit time for single piece domestic unregistered non-priority mail

End-to-end transit time	Service quality targets	Results 2014	Results 2015	Results 2016
D+2	Not less than **80% of** the items of correspondence	**87.3%**	**90.4%**	**95.8%***
D+3	Not less than **95% of** the items of correspondence	**94.8%**	**97.1%**	**99.6%***

The results for the transit time of single piece domestic unregistered non-priority mail for 2016 are from measurements of the incumbent operator, while the results from the previous two years are from measurements of an independent organization. The measurement and calculating the quality parameters for the transit time in the domestic postal chain are performed using the methods, described in the Instructions on the application of UPS quality targets – Instruction (Form 3A) in Bulgarian Posts EAD, and not using standards developed by CEN[17]. As it is clear from the table above, regardless of whom and how the measurements are performed, the results are comparable, the set targets are fulfilled and exceeded. It is reasonable to conclude that the service provided is of the required quality.

2. Transit time for international priority postal items

The end-to-end time for single piece international priority postal items is measured using the UNEX system, introduced to BP since the beginning of 2008. In 2016 the system covered in its measurements postal operators obliged to provide UPS from the 28 EU Member States, as well as Iceland, Norway, Switzerland and Serbia. It is organized according to the requirement for independent measurement of end-to-end transit times of Directive 97/67EC and measurements are carried out in line with the requirements of the EN 13850:2012 standard. The results obtained are official for all operators and serve as an accounting basis between them.

2.1 International unregistered priority postal items from geographical zones within Europe

End-to-end transit time	Service quality targets	Results 2014	Results 2015	Results 2016
D+3	Not less than **85%** of the postal items	**32.7%**	**39.8%**	**44%**
D+5	Not less than **97%** of the postal items	**76%**	**81.9%**	**81%**

Comparison of the results for a three-year period shows that the trend towards incompliance with both target indicators continued, but the trend to slightly improvement of results, especially D+3 also continued.

It is interesting to note that at the European level, the opposite trend is observed – subsequent decrease of result since 2013[18]. The above trend may be explained by the fact that the postal operators have to reduce their operating costs, related to less and less volumes of

[17] European Committee for Standartization.
[18] https://www.ipc.be/en/reports-library/publications/ipcreports_brochures/unex_2016

international letter mail, while the postal products - result from e-commerce as untracked postal items are on steady and significant upward, posing challenges in existing infrastructure.

2.2 International unregistered postal items without priority from geographical zones within Europe

End-to-end transit time	Service quality targets	Results 2014	Results 2015	Results 2016
D+5	Not less than **80% of** the postal items	**71.8%**	**82%**	**79.4%**
D+7	Not less than **95% of** the postal items	**93.3%**	**96.4%**	**96.2%**

Compared to the previous year, there has been a slight drop in the results for D+5 for this target, but both indexes were met. Here it should be noted that measurements of these normative are carried out by Bulgarian Posts EAD according to the Instruction, mentioned above in p.1.

3. Time limits for handling complaints

Standard time limit for handling complaints	Service quality targets	Results 2014	Results 2015	Results 2016
30 days for domestic postal services	Not less than **90%** of complaints	**99%**	**99%**	**99%**
90 days for international postal services	Not less than **90%** of complaints	**98.2%**	**98.6%**	**98.6%**

As it is clear from the table above, targets were not only met, but the results were much higher than the targets set (as reported by Bulgarian Posts EAD).