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

OF

THE COMMUNICATIONS REGULATION COMMISSION FOR 2014

ANALYSIS OF THE POSTAL SERVICES MARKET FOR 2014

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I. State of the Bulgarian postal market

Over the last few years, on the Bulgarian postal market a change within consumers' attitude towards postal services is observed. Two steady trends were formed – a decline in the demand for traditional postal services and an increase in the consumption of parcels. Along with the growth in the number of parcels, the consumer requirements for service quality also increased, for example in terms of transit times, the possibility for tracking items, flexibility of delivery, etc. This led to more intense competition in the parcels segment and shrinking of the market share of the incumbent Bulgarian Posts EAD (BP). The rapid development of digital technology and the rising consumption of e-shopping sites by Bulgarian users made e-commerce a key factor for the development of the postal services market.

1. Market players

The steady trend towards increase in the number of postal operators continued in 2014 as well. In 2014, the number of postal operators entered into public registers and regulated under the Law on Postal Services (LPS) was 146, reporting a growth of 8 % as compared to the year before.

Under the provisions of LPS, postal services are provided based on authorization (licensing) and notification regimes.

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

At the end of 2014, the number of licensed postal operators was 15, including the incumbent operator BP. In the past year, CRC issued one individual license for the provision of services included into the scope of the universal postal service (UPS) to Speedy AD and two licenses for the provision of the postal money orders service to Express Pay EOOD and Intercapital Group AD, bringing the total number of operators providing this service to 15.

In non-universal postal services (non-UPS) the greatest commercial interest continue to be in courier services, which are provided based on a significantly facilitated notification regime. Throughout the year, the number of operators who have declared their intention to provide courier services reached 138, of which 15 were newly registered. Five operators were removed from the Register of operators providing non-UPS at their request.

2. Volume and structure of the Bulgarian postal market

2.1. Volume of the postal market

The volume of the postal market in 2014 is formed by the provided UPS and non-UPS.

Under the provisions of LPS, the following services are included into the scope of non-UPS: direct mail, hybrid mail, courier service and postal money orders. Although postal money orders (PMOs) are within the scope of non-UPS, these services are subject to licensing. That said, postal money orders are presented separately from the provision of courier services, hybrid mail and direct mail in item III. Provision of non-UPS of this analysis.

For the past year, the volume of the postal market was calculated based on data received from 67% of the licensed and registered operators in Bulgaria.

As it is clear from Figure 1, the total revenue from the provision of postal services for 2014 amounted to approximately BGN 301 million, which is an increase by approximately 16%as compared to 2013.

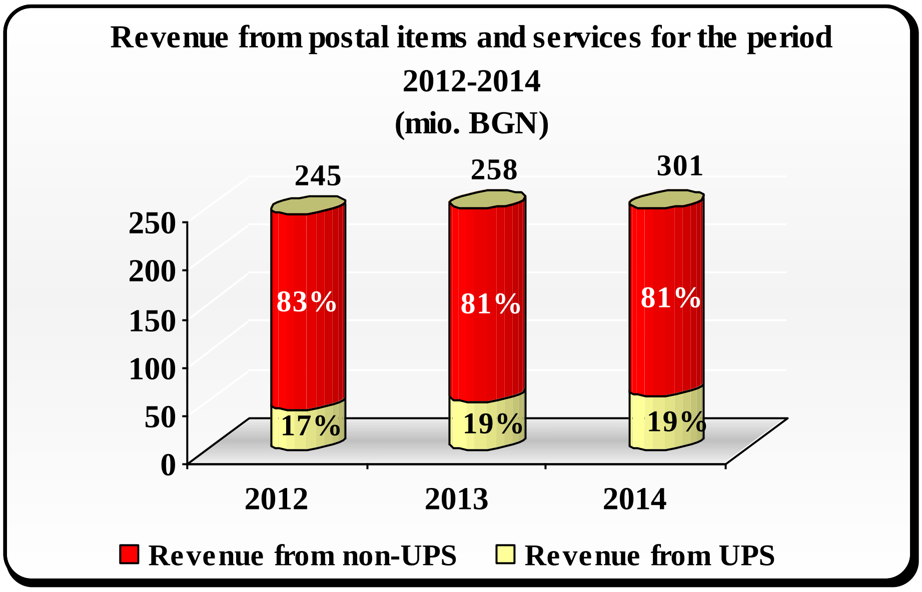


Fig. 1 Source: Data submitted to CRC

The increase was mainly due to the considerable growth of the revenue from non-UPS[1], and in particular, to the growth of courier services by nearly 22 % in 2014, as compared to 2013.The ratio of UPS and non-UPS shares, including PMOs in 2012 – 2014 was retained, as the revenue from non-UPS were considerably greater, respectively 80% to 20%.

In 2014, the total number of postal items and services reached 180 million, representing a growth by 3% as compared to 2013.

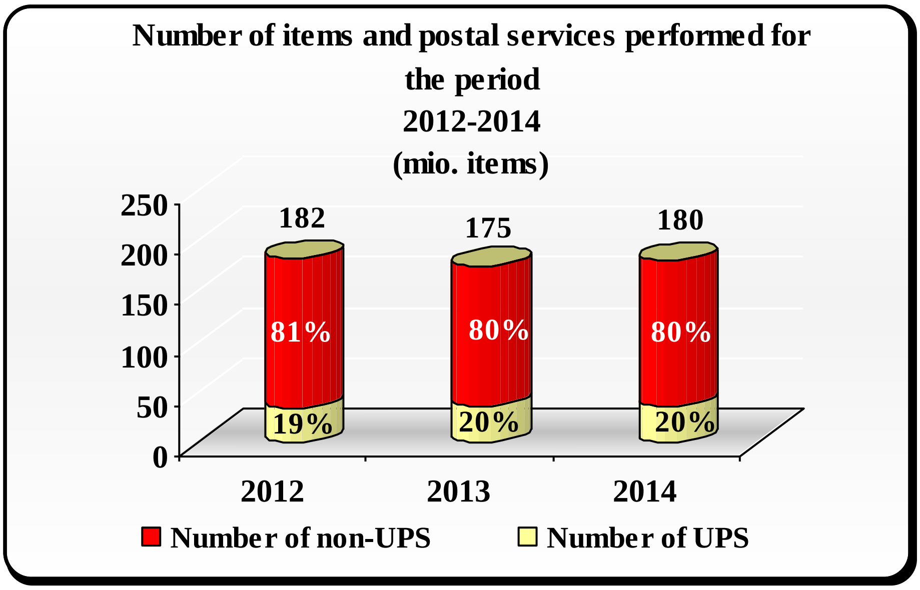


Fig. 2 Source: Data submitted to CRC

[1] Including postal money orders

As it is clear from Figure 2, last year there was no significant change in the ratio between the number of postal items from UPS and non-UPS as compared to the past two years.

In 2014, the steady trend from recent years towards a reduction in the number of postal items and services changed and for this indicator a growth by 3% was reported as compared to 2013. This is due to the increased number of non-UPS, in particular, of postal items received, processed and delivered by courier services abroad and postal items, subject to direct mail. Despite the growth reported, however, the number of postal items and services in 2014 was smaller than the one reported in 2012.

2.2. Structure of the Bulgarian postal market

The distribution of revenue between postal services in 2014 retains its structure from previous reporting periods and there is a trend towards reduction in revenue from hybrid mail on the account of the increased share of revenue from courier services, which formed over 65% of the entire market per annum.

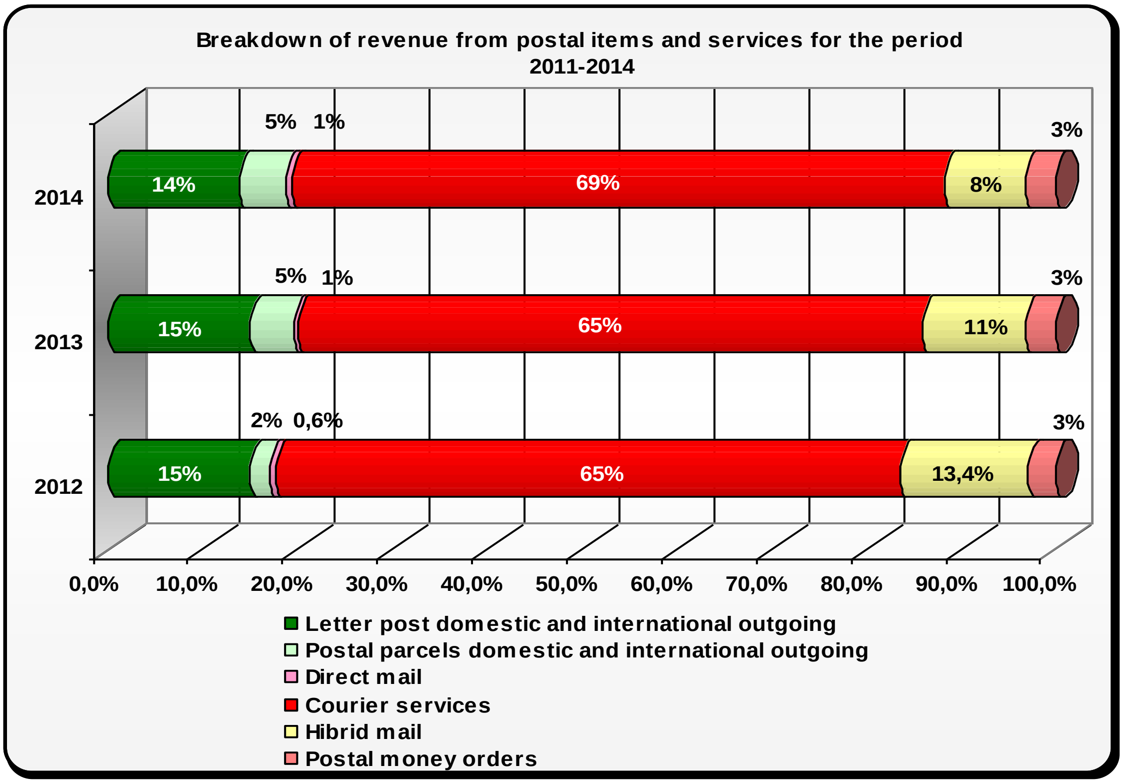


Fig. 3 Source: Data submitted to CRC

The entry of new postal operators and the development of competition in the postal services market in recent years have resulted in the reduced influence of the incumbent operator BP. The chart on Fig. 4 tracks down the change in the market share of the operator in the total revenue generated in the past three years.

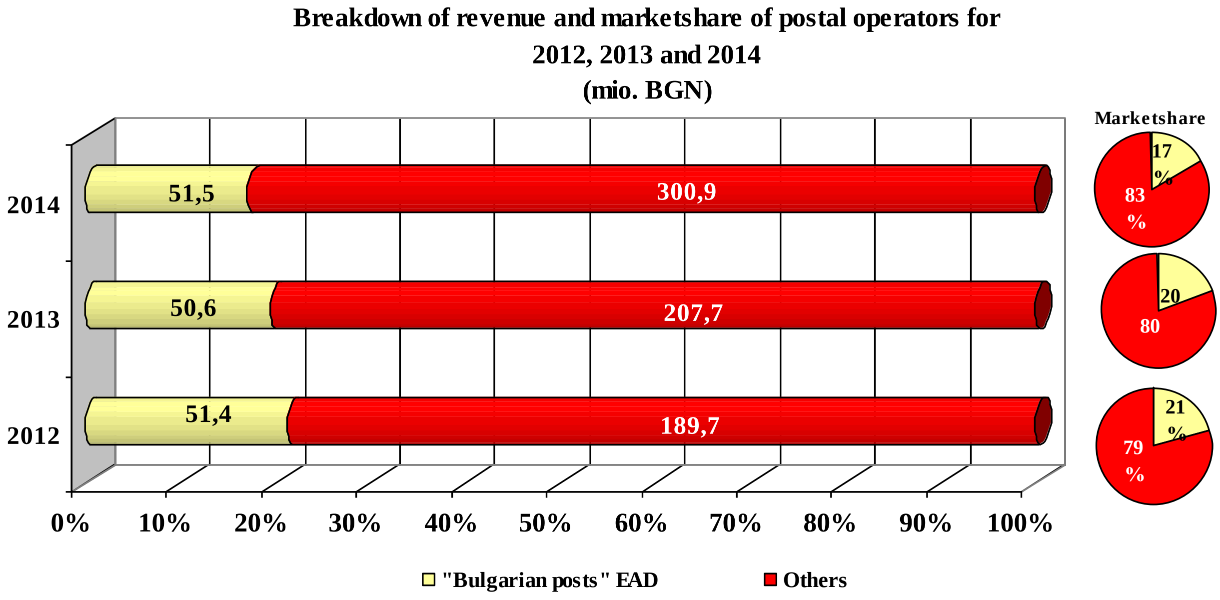


Fig. 4 Source: Data submitted to CRC

As it is clear from the data, the market share of BP calculated based on revenue from the provision of postal services, reported a drop by 3 percentage points in 2014, as compared to 2013. This is due to the reduction in a one-year period in the share of revenue of BP from the provision of postal items and PMO service, by 7% and 13%, respectively.

In environment of strong competition, in 2014, BP retained unchanged its share of 4% in revenue from non-UPS, as compared to 2013.

In 2014, there was no significant change in the structure of postal services consumption.

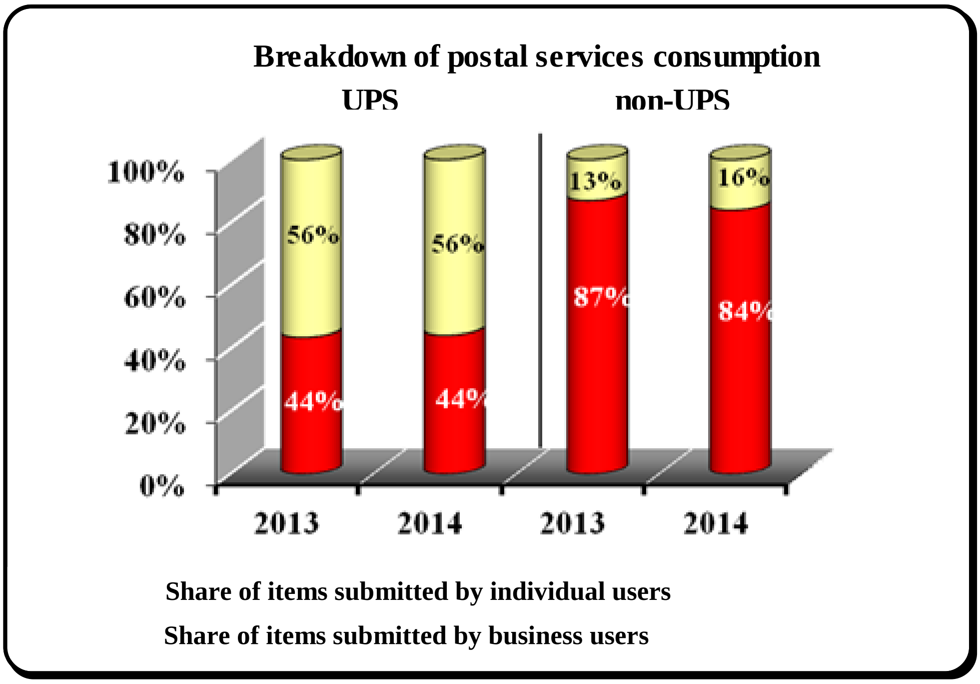


Fig. 5 Source: Data submitted to CRC

For the past 2014, a small change was reported in the share of non-UPS consumption by individual users. The prevalence of UPS consumption on the account of non-UPS by individual users was retained, given the nature and specifics of the universal service.

II. Provision of Universal Postal Service (UPS)

1. Scope and market players

In 2014, there were no amendments to the provisions of LPS, according to which an individual license for services within the scope of UPS is issued for:

- 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;
- acceptance, transport, and delivery of domestic and international postal parcels - up to 20 kg;
- additional services “registered” and “declared value”.

As of 31.12.2014, the number of licensed postal operators to perform services within the scope of UPS was 7, of whom the following companies[2] were actually operating on the basis of licenses issued:

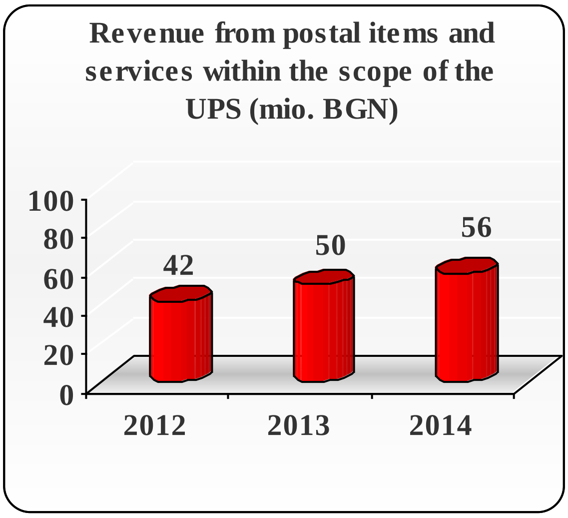
- BP – with the obligation to provide all services within the scope of UPS on the entire territory of the country;
- Econt Express OOD, Tip-Top Courier AD, M&BM Express OOD, Star Post OOD and Speedy AD–to provide services within the scope of UPS.

2. Volume and structure of UPS

In view of the obligation of BP to provide all services within the scope of UPS on the entire territory of the country, the volume and structure of the UPS market are formed mainly based on data reported by the operator.

According to data summarized by CRC, which was submitted by postal operators providing services within the scope of UPS, in 2014 the market volume calculated based on revenue from the provision of UPS grew by 12%. As a result, revenue from the provision of UPS for 2014 reached BGN 56 million. The total number of realized postal items and UPS services both domestic and international outgoing amounted to about 36 million items, and a slight increase was reported as compared to 2013. (Fig. 6 and Fig. 7).

[2] Last year, Terra Post Service EOOD has not submitted data to CRC in terms of provided services within the scope of UPS.



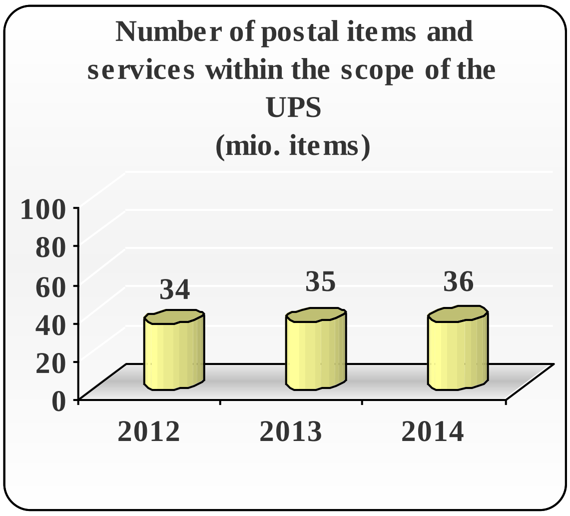


Fig. 6 u Fig.7 Source: Data submitted to CRC

The faster growth rate of revenue as compared to the number of postal items in 2014may be explained by the reported greater number of international outgoing UPS items and domestic parcels up to 20 kg, with a view to their higher prices as compared to those 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 of postal items[3] (domestic and international outgoing) and parcels up to 20 kg[4]. The services “registered” and “declared value” are offered as additional services to some postal items and parcels.

Last year, the reported revenue from domestic postal items and parcels amounted to approximately BGN 36 million, which represents an increase by about 6% as compared to 2013.

[3] Postal items include items of correspondence up to 2 kg, small packets up to 2 kg, printed material up to 5 kg, and priority/non-priority items.

[4] Parcels may be ordinary or with declared value.

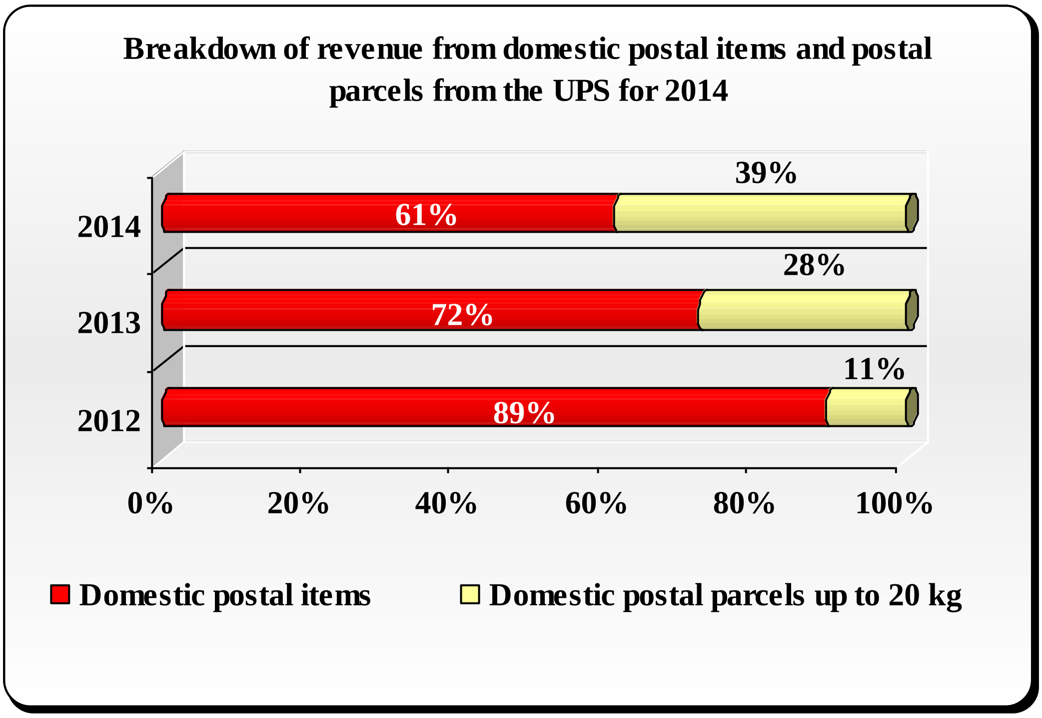


Fig. 8 Source: Data submitted to CRC

As displayed on the chart (Fig. 8), for the specified three-year period there was a change in the breakdown of revenue, as domestic postal items decreased on the account of the increased share of domestic parcels up to 20 kg. In 2014, as compared to 2013, the revenue from domestic postal items dropped by 11 percentage points. The share of revenue from parcels in the total revenue from domestic UPS reported a steady growth, reaching 39%. The trend towards increase in revenue from parcels up to 20 kg from the past few years was retained due to the development of e-commerce.

Data on the figure below show that in 2012-2014, the breakdown of revenue from domestic postal items by types remained stable.

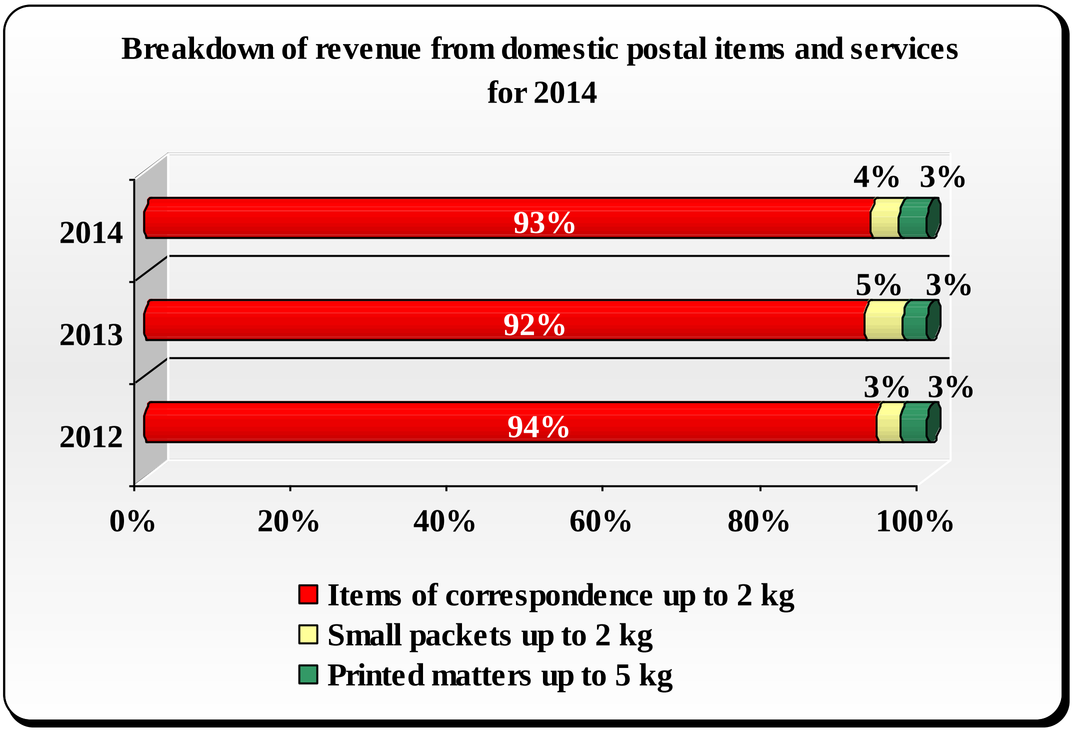


Fig. 9 Source: Data submitted to CRC

For another year in succession, the major share of revenue from domestic postal items was formed by the revenue from items of correspondence up to 2 kg, as their share in the revenue from domestic postal items in 2012-2014 exceeds 90%. In 2014, the revenue from this service reported a drop by 23 %, as compared to 2013.

In 2014, the relative share of revenue from small packets in the total amount of revenue from domestic postal UPS items reported an insignificant decrease, as compared to 2013, while the revenue from printed matters up to 5 kg remained the same as in 2013.

As of 31.12.2014, the revenue from outgoing international postal items amounted to about BGN 17 million, while their total number –to approximately 4,1 million. In 2014, outgoing international postal items hold about 13% of the total number of postal items and 38% of the total revenue from UPS. In comparison to 2013, there was an increase by 9% in the number of international postal items and growth of 28% in the revenue from them. The growth of these indicators is due to the provision of these types of services by BP. The total revenue reported by M&BM Express OOD and Tip-Top Courier AD was less than 2% of all reported revenue and number of outgoing international postal items, but it should be noted that the outgoing international postal items service provided by these companies in2014 was realized based on agreements for access to the postal network of BP.

For 2014, the revenue generated from the provision of domestic and international outgoing parcels amounted to BGN 14.7 million (26 % of the total revenue from UPS), while their number was 4.6 million (13% of the total number of UPS postal items and services).

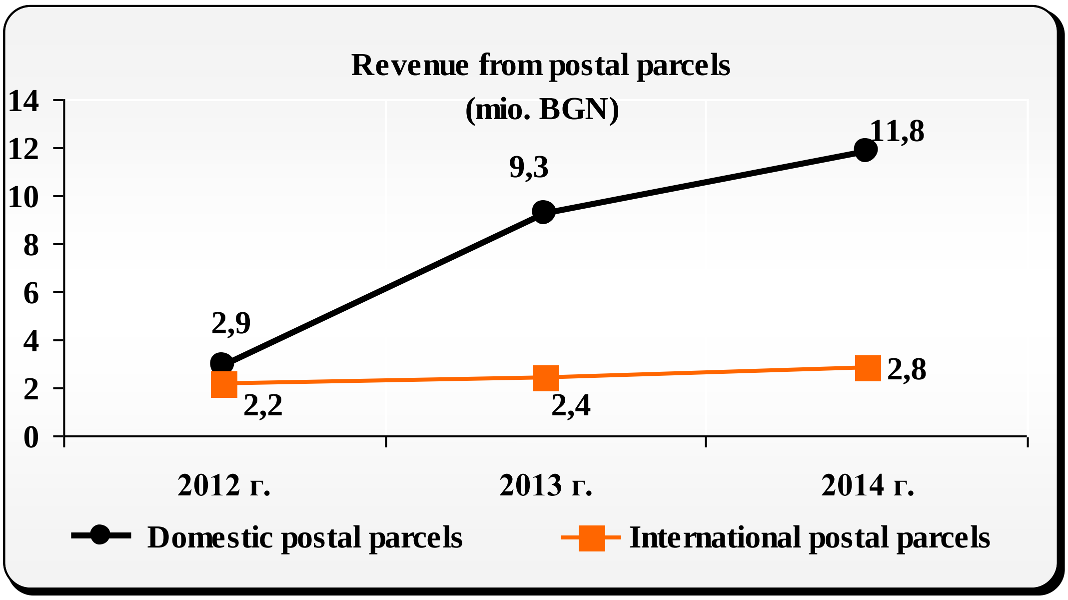


Fig. 10 Source: Data submitted to CRC

As it is clear from the figure above, in 2014 the upwards trend of revenue from domestic parcels continued. In comparison to the year before, the reported revenue from domestic parcels up to 20 kg showed a growth of 28%. This growth was mainly to the increased revenue from parcels (by about 35%) generated by Econt Express OOD. The share of revenue from domestic postal parcels of BP was about 10%.

In the past 2014, revenue from international outgoing parcels also increased - by 16%, as compared to2013.These revenues were mainly generated by BP. (Fig. 10).

3. Users of UPS

In general, the users of UPS may be divided into business and individual users.
According to data submitted by BP, in 2014, the ratio between the quantities of postal items and services within the scope of UPS provided to business users and individual users was 34% to 66%, respectively. Compared to the preceding 2013, this ratio remained almost unchanged. According to BP, most often individual users use UPS in the part for unregistered items of correspondence, small packets, parcels with/without declared value, while business users of UPS use non-priority, unregistered and registered domestic and international outgoing items of correspondence up to 50 g and registered postal items with an advice of delivery.

M&BM Express OOD reported nearly 100% consumption by business users, while Econt Express OOD provided services within the scope of UPS that have been used by business and individual users in ratio 44% to 56%.

The chart below displays the consumption for the country and abroad by groups of sectors by business users who used the services within the scope of UPS offered by all licensed operators in 2014.

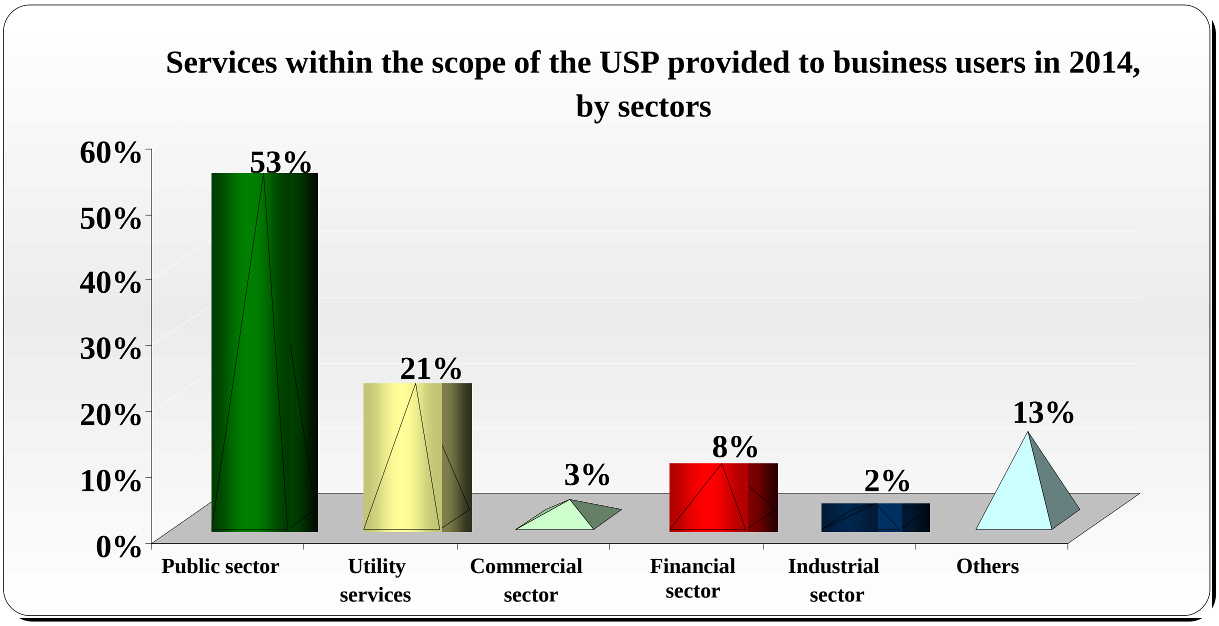


Fig. 11 Source: Data submitted to CRC

Data show that in 2014 as well the highest consumption of postal items and parcels was in the public sector - 53%. In comparison to the previous 2013, the consumption in the public sector reported a drop by 14 percentage points. This sector includes ministries, municipalities, insurance companies, agencies.

Second in terms of share with 21% come clients providing utility services - utility sector, such as water supply and sewerage, power supply and telecommunication companies, etc. In 2014, the consumption in this sector increased by two percentage points, as compared to 2013. The users in the commercial sector include services generated by various dealers.

The consumption in the financial sector remained almost unchanged. This sector includes business users (banks and other financial institutions) and holds a share of 8% of the postal items and parcels.

The share of revenue from the commercial sector was insignificant, while the consumption in the industrial sector was only 2%. The consumption of other users not included above amounted to 13%.

4. State of competition in UPS

The past 2014was the fourth year when UPS was provided in the environment of a liberalized postal market. As a result of the created conditions for competition development, the process of redistribution of market shares of the operators providing UPS continued.

In the reviewed period from 2012 to 2014, the market share of the state postal operator BP decreased and a steady downward trend was formed for this indicator.

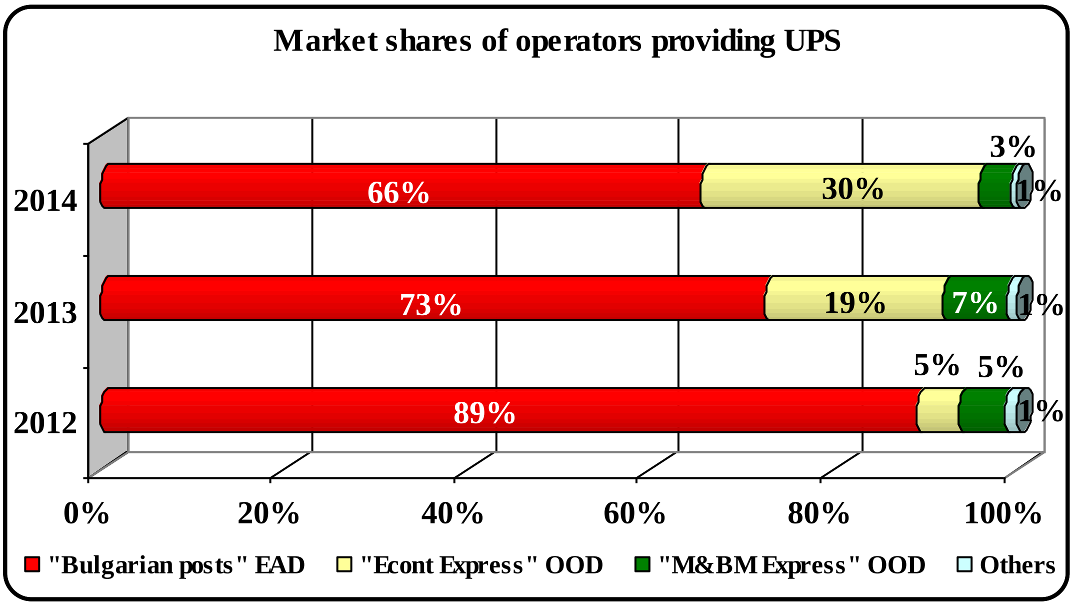


Fig. 12 Source: Data submitted to CRC

As it is clear from the chart (Fig. 12), BP continued to lose its market positions in terms of UPS and its share decreased by 7 percentage points compared to the year before (from a share of 73% in 2013 to 66% in 2014).

For a second year, the next largest player in this market segment was Econt Express OOD. With a growth of 11 percentage points, the postal operator gained a market share of 30 percentage points in 2014.

Market share loss amounting to 4 percentage points (from 7% to 3%) was observed for M&BM Express OOD.

For yet another year, the state of competition measured using the HHI[5]index and the CR4 ratio characterized the UPS market segment as poorly competitive and highly concentrated.

Despite the loss of positions on the UPS market, for some types of UPS postal items and services BP still holds the largest share calculated based on revenue. The postal operator generated 89% 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 generated about 89% of the revenue from domestic parcels up to 20 kg and 46% of the revenue from providing the small packets up to 2 kg service.

III. Provision of Non-universal Postal Service (non-UPS)

1. Scope and market players

[5]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 major players.

For the purpose of this analysis, the scope of non-UPS covers the provision of courier services, hybrid mail and direct mail.

1.1.Players on the non-UPS market

As of 31.12.2014,the number of newly registered postal operators grew by 10, as compared to 2013, reaching 138. From these:

- 15 operators were newly registered to provide non-UPS;
- 4operatorswere removed from the Register of operators providing non-UPS at their request.

The postal operators actually providing non-UPS were 61[6], while 32 declared they had no activity during the reporting period.

1.2. Volume and structure of the non-UPS market

Revenue from non-UPS in 2014 (courier services, hybrid mail и direct mail) amounted to BGN235million, as it has increased by around 17% compared with 2013 (Figure 13). For the same period, the total number of processed postal items was 138 million, which represents an increase by 2% since 2013.

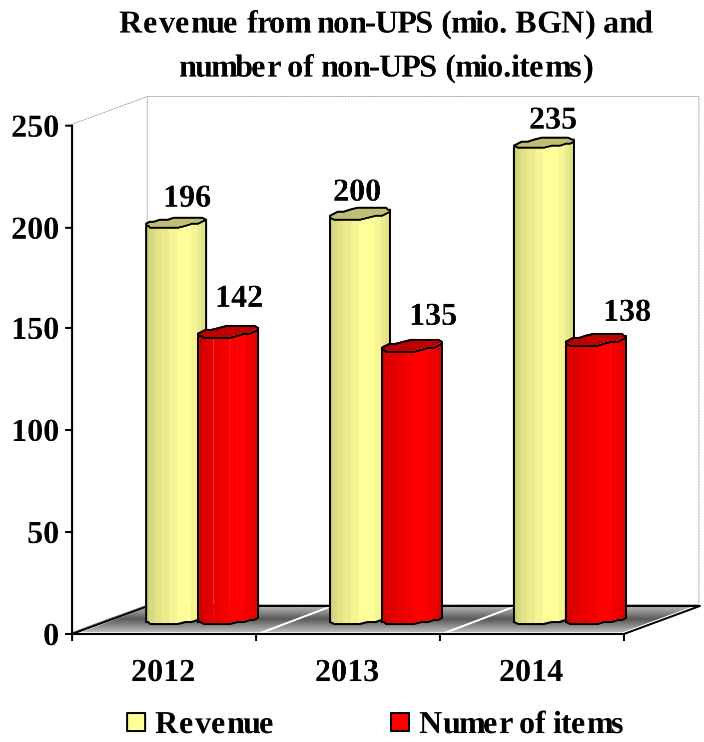


Fig. 13 Source: Data submitted to CRC

In 2012-2014, there was a significant increase in the revenue from the provision of non-UPS. In 2014, the number of processed postal items reported a growth in contrast to the previous

[6] 45 registered postal operators have not submitted activity report.

2013.Despite the reported growth, however, the number of processed postal items in 2014 was smaller than the one reported in2012.

The growth in the number of processed postal items in 2014 was due to both the development of the services related to e-commerce, and the increased number of courier postal items and direct mail. For a period of one year, the number of courier postal items grew by 15%, while the number of direct mail items - by 23%.

The faster growth of revenue in terms of the number of postal items in 2014 may be explained by the growth of the international courier postal items (nearly 4 times), which have much higher prices than domestic courier services. Also important was the trend towards annual decrease in the number of postal items from hybrid mail, which formed more than 80% of the total number of non-UPS postal items.

The five operators holding the largest relative share[7]in the volume of revenue from this market segment, according to data submitted to CRC, were:

- DHL Bulgaria EOOD;
- Econt Express OOD;
- In Time OOD;
- M&BM Express OOD;
- Speedy AD.

In 2014,the group of operators holding the largest market share from the provision of courier services, hybrid mail, and direct mail remained unchanged as compared to the past two years. In 2014,the revenue generated by this group of operators formed 69% of the non-UPS market, which is an increase by 4 percentage points since 2013.

No significant changes are observed in the breakdown of revenue from the provision of non-UPS during the reporting period. Courier services made up 88%, hybrid mail - 11%, and direct mail - 1% of the total amount of revenue generated from non-UPS.

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

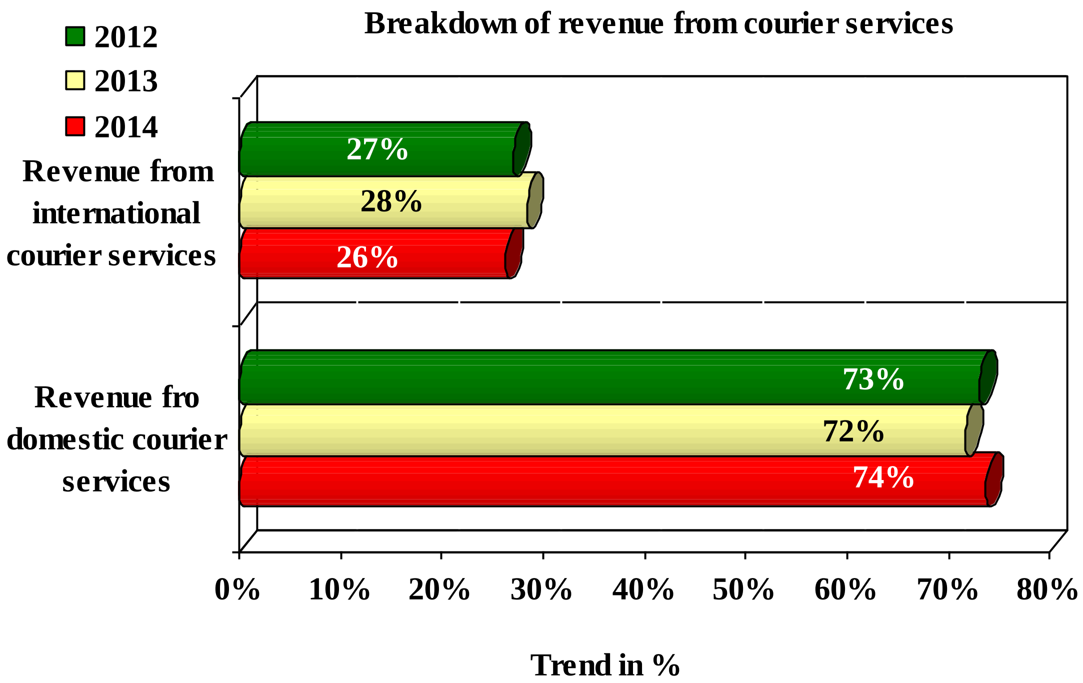


Fig. 14 Source: Data submitted to CRC

In 2014, the revenue from courier services amounted to BGN 208 million; for one year, they have increased by 22%, and the total number of accepted, transmitted and delivered courier items amounted to BGN 29 million, which also represents an increase by about 22% as compared to 2013.

In 2014, revenue from domestic courier services made up 74% of the total amount of revenue from courier services. Their relative share in the total amount of revenue for courier services was up by 2 percentage point since 2013, while the revenue from the provision of international courier services decreased by 7% since 2013.

Seven operators provided the hybrid mail service in 2014: M&BM Express OOD, BP, Star Post OOD, Evropat 2000 AD, Tip-Top Courier AD, E-Post EOOD, and Unimedia OOD.

As it is clear from the data presented on Figure 15, the downward trend for the revenue and the number of postal items from the provision of the hybrid mail service persisted in 2014 as well. The revenue from the provision of the service amounted to BGN 26 million and it has dropped by 8% since 2013. In 2014, the number of processed items also reported a drop by3% compared to the previous two years.

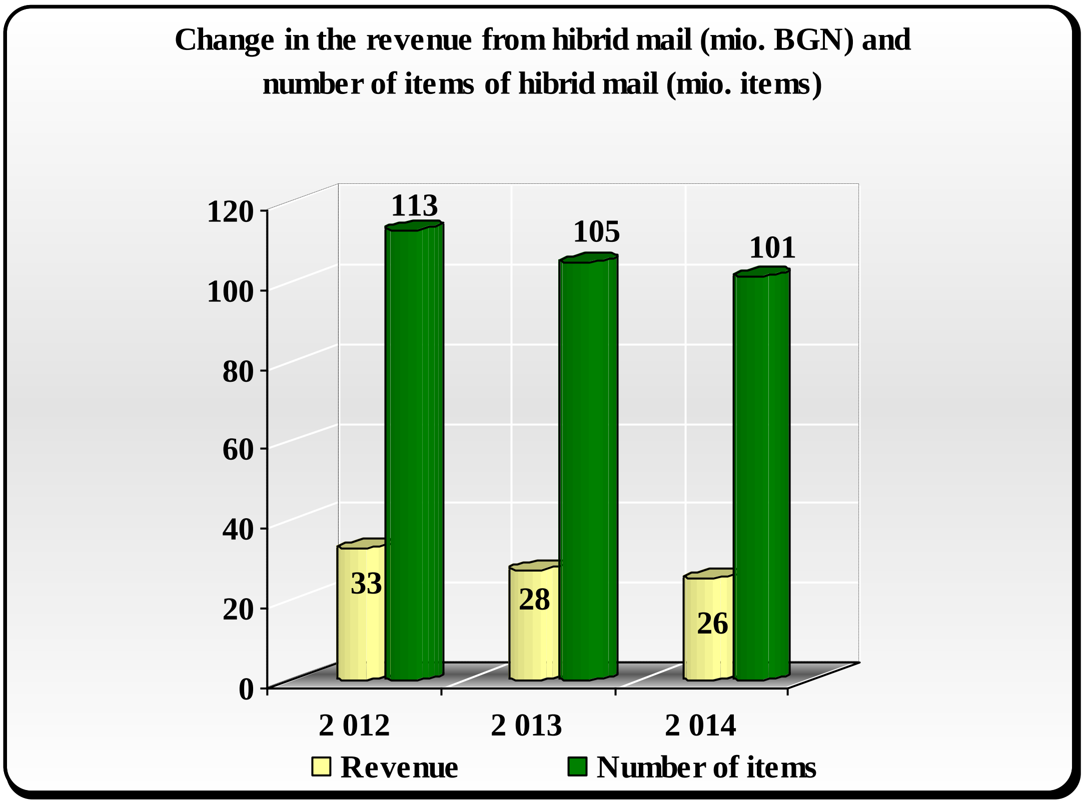


Fig.15 Source: Data submitted to CRC

In the three-year period presented on Figure 15 this service reported a drop, both in terms of postal items and revenue, which may be explained with the campaign run by the major operators of utility services for reduction of the number of paper invoices and their replacement with electronic ones for financial and ecological measures.

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. In 2014, the operators providing the direct mail service 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 about 23% since 2013, while the revenue - by 7.6%.

2. Provision of Postal Money Orders (PMO) service

2.1. Market players

In 2014, the number of postal operators licensed to provide the Postal Money Orders (PMO) service was 15[8], as last year two new individual licences for the provision of the service were issued to Intercapital Group AD and Express Pay EOOD.

[8] BP, Econt Express OOD, Cash Office AD, Tip-Top Courier AD, Factor IN AD, Post Finance EAD, Cash Express Service EOOD, Terra Post Services EOOD, Toyota Tixim EOOD, EasyPay AD, M&BM Express OOD, Speedy AD, Telepaid Bulgaria OOD, Intercapital Group AD, and Express Pay EOOD.

During the reviewed period, eight postal operators provided PMO: BP, Econt Express OOD, Speedy AD, Tip-Top Courier AD, Factor IN AD, Post Finance EAD, EasyPay AD, and Express Pay EOOD.

2.2. Market volume and shares

The above-mentioned postal operators performed 6.3 million postal money orders and the revenue generated were about BGN 9.9million. In comparison to the previous reporting period, there was a growth of 37% in the number of money orders and 16% in the revenue from the provision of this service.

According to the Annual Report provided by BP on the performance of individual license Nr. 3/001-01/09.06.2011, the PMO service is provided in a highly competitive environment. In the reporting period BP performed 1.9 million PMO, which generated BGN 5.2 million. As compared to 2013, the number of PMO provided by operators decreased by 14%, while the revenue – by 7%.

In 2014,the number of PMO realized by Econt Express OOD was 3.7 million, which is almost double than the previous reporting period. The company has 11 own offices, where it provides the service and 462 offices under agreements signed according to Art. 22 of the Law on Postal Services.

The main scope of business of the operator EasyPay AD is to provide payment services via various payment means. In 2014, the PMO performed by the company were only 303. Despite the small number of PMO realized, the company envisages to introduce some improvements related to the service, such as longer working hours for acceptance and payment of PMO, and provision of the service on holidays and weekends[9].

One of the newly licensed operators to provide PMO has a similar scope of business–Express Pay EOOD, which operates as an intermediary upon payments of utility bills by users.

The postal operator Speedy AD reported a growth in realized PMO, which reached 0.6 million in 2014, representing an increase by 65% since 2013.In 2015, the operator envisages to expand its postal network by 36 new access points where the service will be provided.

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

[9]Annual Report of EasyPay AD in relation to the performance of individual licence Nr. 3-003-01/09.06.2011.

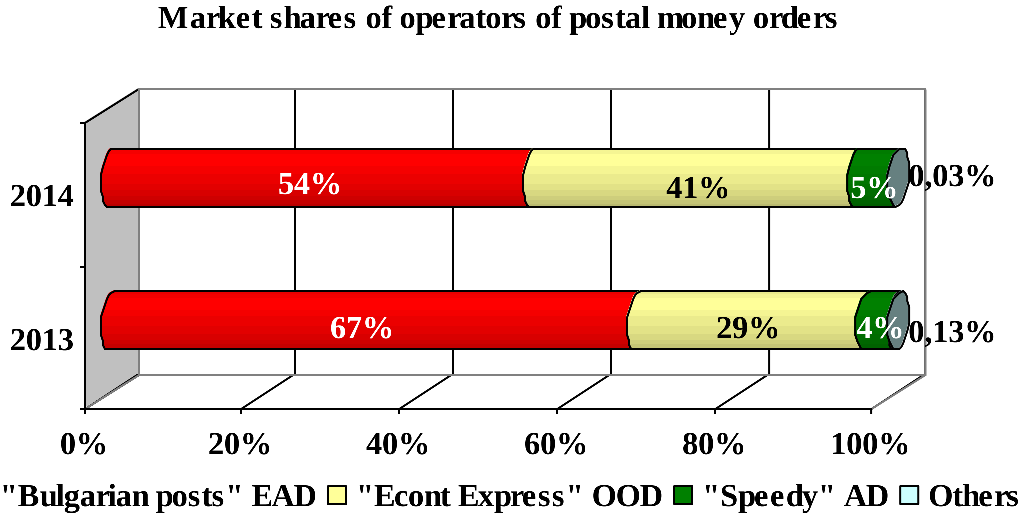


Fig. 16 Source: Data submitted to CRC

In 2012-2014, BP formed 54% of the total amount of revenue from the provision of the PMO service, and the share of the incumbent operator decreased by 13 percentage points, as compared to 2013.Despite the well-known trademark of the operator and the density of its postal network, since 2011 there has been a constant drop in the market share of the operator and inability to deal with the intensifying competition.

Second by market share in PMO provision comes Econt Express OOD with 41%, as its market share increased by 12 percentage points for a one-year period.

In 2014, Speedy AD reported growth of nearly 55% in its revenue from the provision of the service with a share of 5% of the PMO provision market.

3. Impact of electronic commerce on the development of non-UPS

Over the last few years, electronic commerce (e-commerce) was presented as a perspective for the development of the postal market. Today, this perspective is a fact and a growing number of postal operators define it as fundamental for the development and progress of the postal industry. E-commerce has become not only a key factor for the prosperity of good suppliers, but also for the development of the European economy.

Forecast of analysts from Forrester Research shows that by 2018 the European online sales market will reach a volume of EUR 233.9 billion. For comparison, in 2013,the reached volume did not exceed EUR 134.9 billion.

Over the next five years, the average annual growth of this indicator is expected to be 12%[10].

According to a survey carried out by 24 Hours Newspaper, over 925,000 Bulgarians shopped online last year, as the turnover of e-commerce in the country reached BGN 5 billion, and for the past two years their number has almost doubled[11].

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[10] http://www.idg.bg/internet/1212/e-targoviyata-v-evropa-pazar-na-stojnost-234-mlrd-evro

[11] http://www.24chasa.bg/Article.asp?ArticleId=4581264 Mariana Boykova and Debora Nedyalkova

The same survey indicated that at the end of last year Bulgarian Posts company reported the largest number of deliveries, as the growth of postal items generated by e-commerce was 40% of incoming postal items and 25% of the outgoing ones. For the same period, the share of Econt Express OOD in online shopping deliveries was 36.13% of the total number of the postal items of the operators, while Tip-Top Courier reported that the share of postal items from online shopping is increasing with 7% per month.

According to data of the National Statistical Institute, online trade in Bulgaria has an average annual growth of about 20%, as this percentage is expected to grow over the next years[11].

According to information from annual questionnaires of CRC, for 2014, of 79 postal operators, which submitted data related to electronic commerce, 22 have indicated that they intend to introduce services related to e-commerce in their product range, and 20 postal operators are already providing such services.

Due to technological problems, however, mostly related to the separation of these services from other postal services, only 12 operators have submitted specific data. According to these data, the share of postal items generated by e-commerce for 2014 was about 25% of the total number of postal items.

Some of the postal operators, who already have positions on the Bulgarian market of postal items generated by e-commerce, have made investments to improve the quality of these services and to attract new clients, namely[12]:

The postal operator Speedy AD focuses on working with a number of partners and online vendors, with different platforms offering innovative online technologies and software solutions, processing both outgoing and incoming postal items generated by e-commerce.

In Time OOD offers a special service for Bulgarian e-shops - Ups Cash on Delivery - payment on delivery (the so-called COD service) in cash, by check, etc. The company has developed a special platform via which online shops based on the Summer Card platform can connect with the logistical network of the operator, to check the status of orders and deliveries.

The operator DHL International Bulgaria EOOD (DHL) plans to simplify the processing of postal items generated by e-commerce and to introduce flexible deliveries to individual consumers. Electronically generated bills of lading were introduced that automatically follow the customer’s request from the e-shop.

One of the fastest growing postal operators in terms of the delivery of postal items generated by e-commerce - Econt Express OOD- has indicated that it performs deliveries from 4,900 active e-shops and is a logistics partner of popular domestic advertising sites. In addition, the operator is developing modules for integration into some of the leading e-commerce platforms.

To cover a greater part of online shops, the postal operators Europat - 2000 AD and Leo Express EOOD introduced a completely new web-based software and provide their couriers with high-tech mobile devices that will give consumers the option for postal items traceability throughout the delivery process.

Aramex International Bulgaria OOD offers online shopping through its Shop & Ship service from different countries with delivery in Bulgaria by express network with the option for real-time traceability of orders and reach end users within 4-6 working days.

In 2015, the operator Transpress OOD also plans to invest in the development of delivery of postal items generated by e-commerce through the development of additional contract logistics

[12] Logistics Magazine, issue 8/2014

as part of the delivery network to provide a closed cycle for storage, processing and distribution of postal items.

Flying Cargo Bulgaria OOD (FedEx) indicated that e-commerce is the most recent segment on the Bulgarian market, which is also developing in the most dynamical manner[13]. The users of services provided by the company are not only individuals, but also Bulgarian entrepreneurs who export their products abroad through their online shops.

Courier business is one of the few businesses in Europe, where despite the economic crisis, growth is observed, including in Bulgaria[14]. Despite the backdrop of leaving foreign investors in various sectors in the country, a second major foreign company enters the courier sector –the French company GeoPost (after Austrian Posts). This is mainly due to the growth of the courier market driven by e-commerce.

4. State of competition in non-UPS

The state of competition on the non-UPS market and the provision of the postal money orders service are calculated based on the HHI index and the CR ratio. The values of both indices (of HHI – 1,566, and of CR5 - 69%) in 2014 define the non-UPS market segment as relatively competitive with an average to moderate concentration. To calculate the CR5 ratio, the market shares of DHL Bulgaria EOOD, Econt Express OOD, In Time OOD, M&BM Express OOD, and Speedy AD were used. In 2014, the above five operators formed market shares on the non-UPS market between 5% and 27%, as the upper limit of the market share has increased by 2 percentage points since 2013.

The segment of postal money orders is defined as poorly competitive with a high level of concentration (the HHI value is 4.567, and CR4 is 99.99%). To calculate the CR4 value, the market shares of BP, Econt Express OOD, Speedy AD, and Tip-Top Courier AD were used.

IV. Regulation of the postal services market

In 2014, the main activities of the Communications Regulation Commission (CRC) concerning the regulation of the postal services market were focused on:

1. 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 compliance with its statutory obligations under Art.29b, Para 5, and Art. 29a, Para 3 of LPS, CRC held a public procurement procedure, as follows: “Audit of the submitted documents related to the calculation of net costs from the provision of the universal postal service for 2012”. Based on the factual findings from the performed audit, CRC adopted the following decisions:

- Decision No. 669 of 07.10.2014 on coordination of the results obtained from the cost allocation system by types of services of BP;
- Decision No. 749 of 02.12.2014 on the presence of unfair financial burden from the provision of the universal postal service and determination of the amount of compensation due to BP for the provision of the universal postal service in 2013;

[13] Logistics Magazine, issue 6/2014
[14] http://www.capital.bg/bizines/kompanii/2014/10/10/2399288

The report of factual findings from the performed audit was published in compliance with the requirements for trade secret preservation on the Internet page of CRC, section Areas of Regulation - posts.

Based on the assessment for the presence of unfair financial burden from the provision of UPS and in compliance with Article 15, Para 1, item 16, CRC 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 for the next calendar year.

2. Measurement and report on meeting the UPS quality targets and the efficiency of service

Pursuant to Art. 15, Para 1, item 7 of LPS, CRC held a public procurement procedure, as follows: "Measurement of the "end-to-end" transit time for single-piece domestic priority and non-priority mail in the network of the operator obliged to perform the universal postal service, according to the requirements of Standards BDS EN 13850:2002+A1:2007 and BDS EN 14508:2003+A1:2007" in 2014.

Based on the conclusions drawn from the work on the public procurement procedure held throughout the year, the following statements were made on the compliance with quality targets[15]on transit times for postal items with the results from their measurement, namely:

2.1. Transit time for single-piece domestic unregistered priority mail

With quality target for the transit time for single-piece domestic unregistered priority mail for **D+1**[16] - not less than **80%** of the postal items and for **D+2** – not less than **95%** of the postal items, on an annual basis (2014) the result from the measurement was **67.2%** and **90.3%**, respectively.

End-to-end transit time	Service quality targets	Results 2012	Results 2013	Results 2014
D+1	Not less than **80%** of the items of correspondence	**47.9%**	**50.7%**	**67.2%**
D+2	Not less than **95%** of the items of correspondence	**72.8%**	**75.6%**	**90.3%**

As it is clear from the table above, the quality targets in terms of transit times for single-piece domestic unregistered priority mail in 2014 were still not met, but the results follow un upward trend and the most significant improvement was observed in 2014 as compared to 2013: for **D+1** by 17 percentage points, and for **D+2 –** by 15 percentage points.

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

[15]Quality targets for the universal postal service and service efficiency, prom. SG, issue 64 of 19 August 2011.
[16] D+ designates the date of delivery of postal items.

End-to-end transit time	Service quality targets	Results 2013	Results[17] 2014
D+2	Not less than **80%** of the items of correspondence	**81%**	**87.3%**
D+3	Not less than **95%** of the items of correspondence	**90.4%**	**94.8%**

As for the results measured in terms of transit time for single-piece domestic unregistered non-priority mail, it can be easily noted that measurement results are much better than those for priority postal items. Quality targets have been met. As compared to 2013, in 2014, there was an improvement by 6.3 percentage points for **D+2**, while for **D+3** – by 4.4 percentage points.

The results for the transit time for domestic postal parcels 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 contributes to the quality provision of postal services and is aimed at preventing and limiting any material and financial damages incurred by postal operators and users and last, but not least, it is an important anti-terrorist factor. The interconnection between the Bulgarian and the international postal systems defines how important it is to ensure postal security at the national level, which explains the compulsory nature of postal security requirements irrespective of the territory where they are applied, and the status of the postal operators.

LPS 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. According to data from annual questionnaires, 39 operators have declared the existence of such

[17] The results for non-priority items are only for 2013 and 2014, because the measurements for this type of postal items have been carried out for 2 years.

rules. The rules under Art. 13, Para. 4are agreed with the competent authorities of the Ministry of Interior and the State Agency National Security (SANS). As reported by SANS, as of 20.04.2015, 16 companies have adopted and approved internal rules under Art. 13, Para. 4 of Ordinance No.6, namely: BP, Tip-Top Courier AD, Leo Express EOOD, M&BM Express OOD, Flying Cargo Bulgaria OOD, Speedy AD, Europat - 2000 AD, Aramex International Courier OOD, In Time OOD, World Courier Bulgaria EOOD, TNT Bulgaria EOOD, DHL Bulgaria EOOD, Orbit EOOD, Der Courier OOD, Rapido Express & Logistics OOD, and Kolbis - International Transfer AD. Two operators –Courier Today OOD and Velit EOOD have launched a procedure to coordinate the rules.

The preventive measures that are most often adopted by postal operators to avoid prohibited items and substances in the postal network are: physical control and packaging of postal items in the presence of an employee of the operator; declaration by the customer; periodic briefings for employees; preparation and distribution of information materials indicating signs of contained prohibited items and substances. Surveillance is increasingly used, especially by larger operators. The practice of preparing or updating instructions for security and protection of postal items continues, and BP have developed codes of conduct and behaviour of employees upon an anonymous threat for an explosive device.

From the objects and substances prohibited in postal items under Art. 90 and Art. 91 of LPS, most often the operators find: arms and ammunition, pyrotechnic products; aerosols and pressure vessels containing liquids and/or fuel mixtures; excise goods - tobacco, alcohol without excise labels; money.

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. Operators who have indicated that they have their own hardware and software are Bulgarian Posts EAD, Speedy AD,DHL Express Bulgaria EOOD, and TNT Bulgaria EOOD. Tip-Top Courier AD, M&BM Express OOD, and Star Post OOD have indicated that they have contracts with Bulgarian Posts EAD for the paid use of hardware and software owned by the incumbent operator.

The postal operators licensed to provide the postal money orders service must, under the terms of the issued individual licenses, prepare internal rules for the control and prevention of money laundering, which are approved by the Chairman of SANS. As reported by SANS, as of 20.04.2015, almost all postal operators licensed to provide the postal money orders service have fulfilled the above license obligation.

4. Control activity and user protection

In 2014, 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 implementation under the issued individual licenses and obligations of operators providing non-UPS, authorized CRC officials carried out a total of 60 inspections, of which:

- 19 inspections of BP as a postal operator obliged to provide UPS;
- 8 inspections of four operators licensed to provide services within the scope of UPS concerning the performance of activity;
- 4 inspections of operators licensed to provide the postal money orders service concerning the performance of activity;
- 29 inspections of operators of non-UPS concerning the performance of activity and non-provision of information on their activity in 2013, required by CRC.

Furthermore, 21 inspections were carried out in relation to 12 complaints. Based on analysis of the results of these inspections it was concluded that 3 of the complaints were unjustified, while

9 – justified, as the violations committed were mainly related to undelivered or incorrectly delivered postal items.

In 2014, 15 administrative offence acts were drawn up for offences in the field of postal services, and 9 punitive decrees (PDs) were issued as follows: 8 PDs for violation of Art. 105a of LPS and 1PD for violation of Art. 105b. In addition, two resolutions were issued on termination of the administrative proceedings.

As for protection of the consumers' 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 2014, the Commission coordinated the Terms & Conditions of 12 postal operators. 117 complaints/signals filed by postal services users against postal operators were considered. Of all complaints submitted, 20 were justified and the requests of the applicants were complied with. The other 97 complaints were unjustified.

In 2014, according to data from the annual questionnaires for the operator obliged to provide UPS and for operators providing services within the scope of UPS, a total number of 9594 complaints were filed, of which 1991 were justified. The table below presents data on the number and breakdown of complaints regarding domestic and international postal items by reasons for a 3-year period.

Breakdown of justified complaints, by reason	**Number**					
	2012		**2013**		**2014**	
	domestic	**international**	**domestic**	**international**	**domestic**	**international**
Filed complaints (total), including:	**403**	**458**	**210**	**990**	**1314**	**677**
for lost item	103	439	59	977	84	629
for delayed item	145	5	89	0	248	0
for damaged item or item with missing content (fully or partially)	27	4	32	10	316	15
for misdelivered item	13	0	4	2	3	3
for returned postal parcel without reason for non-delivery	0	0	1	1	0	7
general complaints (complaint based on a general dissatisfaction with the operator's services)	75	10	3	0	615	23
concerning the behaviour and competence of postal employees	40	0	0	0	47	0
concerning complaint handling	0	0	0	0	1	0
Complaints resulted in payment of	**number**	**BGN**	**number**	**BGN**	**number**	**BGN**

Breakdown of justified complaints, by reason	Number					
	2012		2013		2014	
	domestic	international	domestic	international	domestic	international
compensation	502	40 323	1 047	75 676	1 043	82 100

The total number of complaints filed in 2014, as compared to 2013, has increased by 11.5% and the number of complaints considered justified - by 66%. After 2013, when the number of complaints settled with the payment of compensation and the amount of compensations paid since 2012 has almost doubled, in 2014 the number of complaints settled with the payment of compensation was almost the same as the one in 2013. The amount of compensations paid has slightly increased - 8.5%

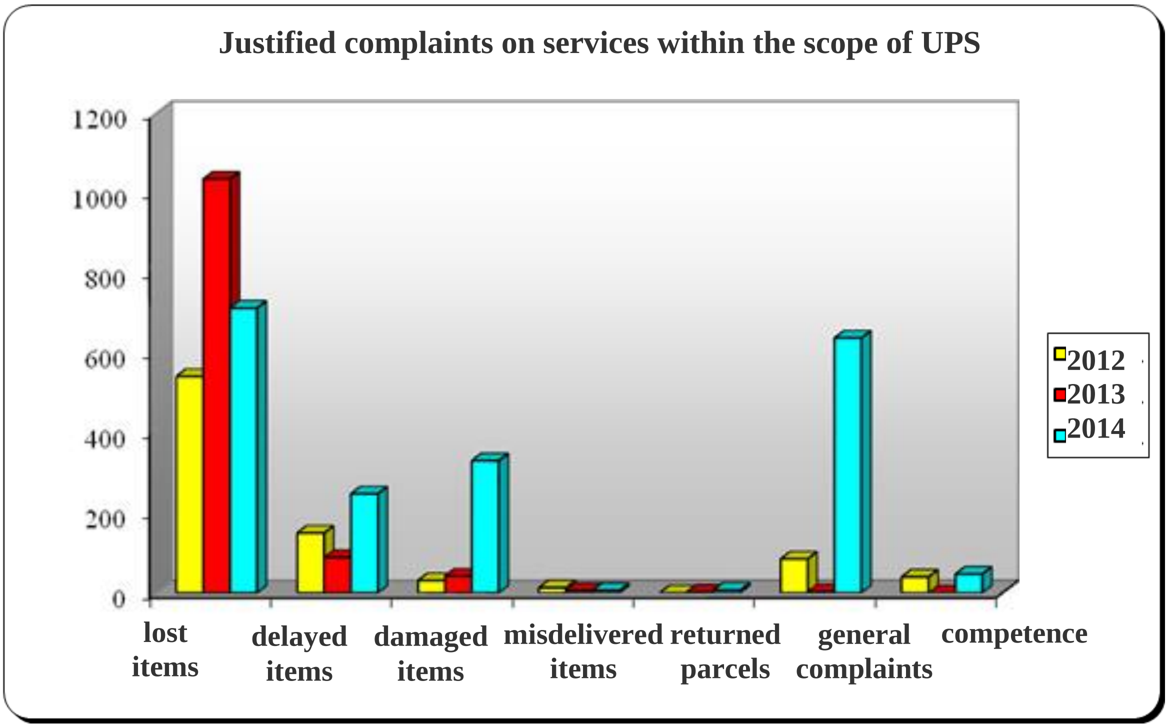

Fig. 17 Source: Data submitted to CRC

The chart above illustrates the dynamics of changes in the complaints by reason for a 3-year period.

The data in the table and the chart above show that in the three-year period under review, the largest share of justified complaints invariably concerns lost postal items. The peak of complaints concerning lost postal items was in 2013 when they formed 86% of the number of justified complaints filed. In 2014, their share of the total number of justified complaints significantly decreased - 36% - and the overall breakdown of complaints changed.

Last year the number of damaged or with missing content postal items significantly increased - almost 8 times as compared to 2013, while their share of the total number of justified complaints reached 17%.

After a drop in the total number of complaints (based on general dissatisfaction with the services of the operators) in 2013 as compared to 2012, in 2014, their number sharply and dramatically increased - from 3 to 638. In the past year, with a share of 32 %, almost equal to the share of lost postal items, the complaints of general nature hold the second place among justified complaints.

After a drop by 40% in 2013 since 2012, in 2014, the number of complaints for late delivered postal items increased by nearly 3 times as compared to 2013.

The presence of only one complaint by users regarding the procedures for handling complaints shows that licensed operators have given users the ability to file complaints arising from dissatisfaction with the provided services.

According to data from annual questionnaires submitted by operators licensed to provide the postal money orders service and registered for the provision of non-UPS, in 2014, the total number of filed complaints was 9776 and since 2013 it has increased by 9%, while in 2013 the total number of filed complaints was 8991, having decreased by 11% since 2012. In 2014, the number of complaints considered justified was 6647 and it has increased by 15% as compared to the year before, while in 2013 it has decreased by 3% since 2012. In the period under review, there was an annual increase in the number of complaints settled with the payment of compensation - 27% in 2013 as compared to 2012 and by 17% in 2014, as compared to 2013, respectively of compensations paid - 47% in 2013 as compared to 2012 and by the insignificant 2% in 2014, as compared to 2013.

The table below shows the breakdown of justified complaints by reasons for a 3-year period.

Breakdown of justified complaints, by reason	**Number**					
	2012		**2013**		**2014**	
Filed complaints (total), including:	**5967**		**5762**		**6647**	
for damaged item	2,101		2,448		2,312	
for lost item	897		457		857	
for rifled item	273		105		90	
for destroyed item	258		54		331	
for item delivered with delay of the deadline for delivery	1,894		1,383		2,187	
other	534		1,293		849	
for postal money orders	10		22		21	
Complaints resulted in payment of compensation	**number**	**BGN**	**number**	**BGN**	**number**	**BGN**
	3047	**407 840**	**3866**	**601 518**	**4511**	**611 785**

The data in the table above, illustrated in the graph below, show that in all three years of the period under review the largest share of complaints considered justified is held by complaints filed for damaged postal items, as well as those for delayed items. The number of complaints on damaged postal items remained relatively constant - an increase of 16.5% in 2013 as compared to the year before and a decrease of 5.5% in 2014, as compared to 2013. However, the number of complaints for delayed postal items dramatically varies - from a drop by 27% in 2013 since 2012 to an increase by 58% in 2014 since 2013.

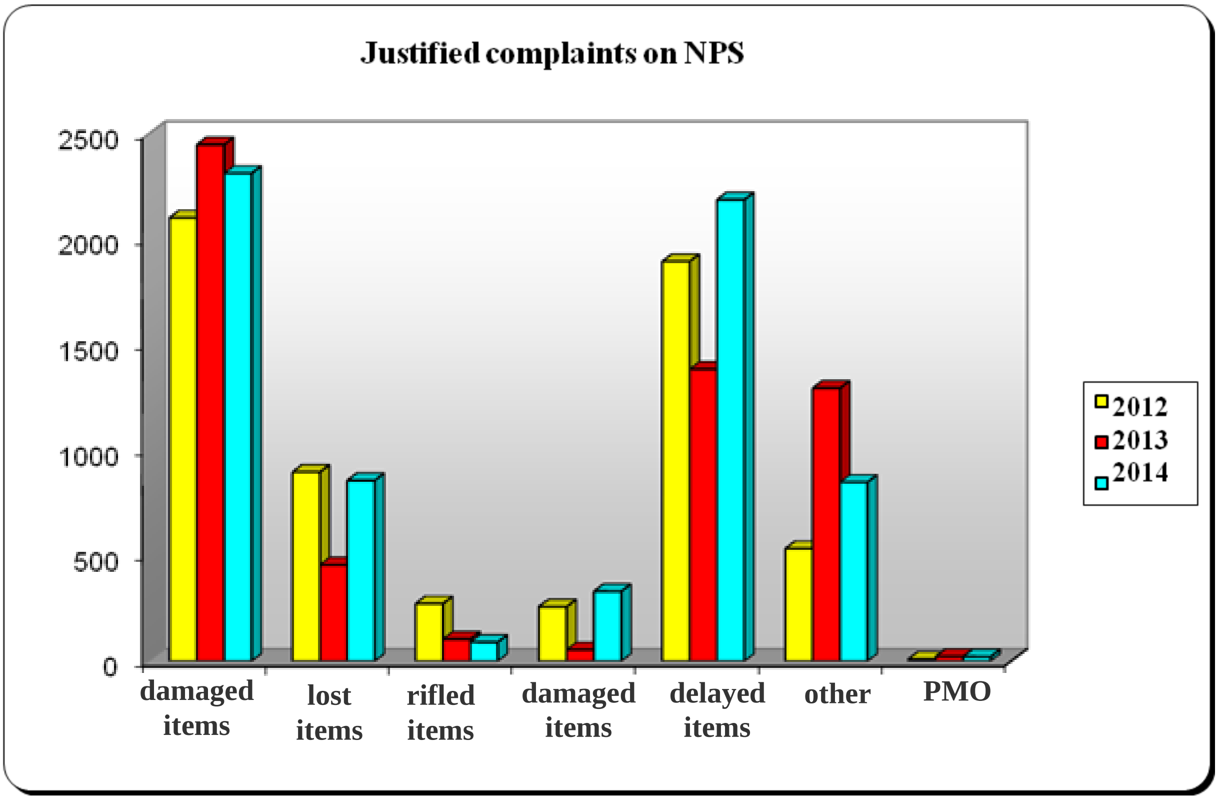

Fig. 18 Source: Data submitted to CRC

During the period significant changes were also observed in the number of complaints on lost and destroyed postal items, as well as in those filed for "other" reasons.

CRC carefully monitors and analyses the reasons for complaints filed with the Commission. At the discretion of CRC, operators are encouraged to adopt measures in certain directions. Contacting and knowing the increasing requirements of consumers who are more and more demanding in terms of their rights are at the heart of exclusive attention and increased requirements for coordination of the Terms & Conditions of the contract with the users of postal services.

V. Conclusion – prospects for the development of postal services in 2015

Over the last few years, there is a clear trend not only in Bulgaria, but also at European and global level, towards reduction of the volumes of letter postal items, which are the core of postal services. This requires reconsideration of the current postal model and raises questions: How postal operators could remain competitive, satisfying customers throughout the country and providing a quality universal service? How should we respond to the growing substitution of traditional paper mail by e-mails?

The guarantee of success is to maintain the balance between the sustainable development of a postal market fully open to competition and the preservation of the universal postal service, offering quality and affordable services, meeting the needs of users.

The economic environment that is still uncertain and the decreasing number of letter postal items not only pose threats, but also create opportunities. Postal operators should reconsider their activities, what some of them have already done, to remain competitive. Ways of modernization are different, whether relying on the postal chain optimization, diversification of activities, or improving the interaction through the means of electronic communication. Nowadays, electronic and postal communications and services compete, but also complement each other: electronic and physical mail perform complementary functions, while the Internet becomes a means of increasing the volumes of parcels and courier services, due to the development of e-commerce.

The analysis of the postal market in Bulgaria and the created conditions for competition are taken into consideration in the prospects of the postal operators for the development of postal services in 2015. Based on prospects, the following trends are outlined:

- Reducing the share of the incumbent postal operator of the UPS market;
- Increasing the share of domestic and international parcel postal items up to 20 kg of the total amount of revenue from postal services;
- Increasing the number of operators licensed to provide services within the scope of UPS and postal money orders;
- Increasing the number of postal items and revenue of the postal operators generated by e-commerce;
- Increasing the number of postal operators, which will provide services, related to e-commerce sites;
- Revenue generated from courier services considerably determines the development of the postal market.

Appendix 1

Other Results from Measurement of the UPS Quality

1. Transit time for domestic parcels

End-to-end transit time	Service quality targets	Results 2012	Results 2013	Results 2014
D+1	Not less than **80%** of the postal parcels	**90.7%**	**89.7%**	**92.6%**
D+2	Not less than **95%** of the postal parcels	**99.6%**	**99.5%**	**99.8%**

The results for the transit time of domestic parcels are from measurements of the incumbent operator. As it is clear from the table above, the targets were not only met, but the results exceed the targets set. It is necessary, however, to emphasize that measuring and calculating the quality parameters for transit times in the domestic postal chain are performed using the methods described in the Instructions on the application of UPS quality targets in Bulgarian Posts EAD, and not using standards developed by CEN[18].

2. Transit time for international postal items

The end-to-end transit time for single-piece international priority mail is measured using the UNEX system, introduced to BP since the beginning of 2008. Since 2014, the system covers postal operators obliged to provide UPS from the 28 EU Member States, together with Iceland, Norway, and Switzerland. It is organized according to the requirement for independent measurement of the end-to-end transit times of Directive 97/67EC and measurements are carried out in line with the requirements of the EN 13850:2012standard. The results so 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 2012	Results 2013	Results 2014
D+3	Not less than **85%** of postal items	**56.3%**	**44%**	**32.7%**
D+5	Not less than **97%** of postal items	**89.3%**	**81.9%**	**76%**

[18] European Committee for Standardization

Comparison of the results for a three-year period shows that the trend towards incompliance with both target indicators not only continued, but also deepens. In order to improve the opportunities for the diagnosis of critical points in transferring international mail, RFID equipment was installed and commissioned at the Exchange Post Office - Airport at Sofia Airport, as well as at the cargo terminal of Aviation Services Bulgaria OOD. The equipment was delivered under a project financed by the Quality of Service Fund (QSF) of the Universal Postal Union (UPU). Furthermore, since October 2014, BP has joined the Global Monitoring System (GMS) of UPU, enabling measurement of quality with countries outside the European Union. The system is part of the preparation and strategy of UPU towards payments between the postal operators bound by the quality achieved.

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

End-to-end transit time	Service quality targets	Results 2012	Results 2013	Results 2014
D+5	Not less than **80%** of postal items	**75.8%**	**80.4%**	**71.8%**
D+7	Not less than **95%** of postal items	**94%**	**97%**	**93.3%**

Compared to the previous year, this target also reported lower results, mainly for the D+5 index.

3. Time limits for handling complaints

Standard time limit for handling complaints	Service quality target	Results 2012	Results 2013	Results 2014
30 days for domestic postal services	Not less than **90%** of complaints	**95.2%**	**99%**	**99%**
90 days for international postal services	Not less than **90%** of complaints	**94.5%**	**97.2%**	**98.2%**

As it is clear from the table above, targets were not only met, but the results were much higher than the targets set.