ANNUAL REPORT

OF

THE COMMUNICATIONS REGULATIONS COMMISION FOR 2009

ANALYSIS OF THE POSTAL SERVICES MARKET FOR 2009

Market Regulation Directorate

Department of Postal Services Regulation

CONTENTS

INTRODUCTION

Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services constitutes a model for the development of European postal services with a particular focus on the Universal Postal Service. This flexible and adaptable model is consumer-oriented, since the Directive provides a framework that leaves every state the option to define its exact shape in accordance with national characteristics and level of development. Directive 2008/6/EC focuses on the process of liberalization of the postal services, promotion of competition in provision of postal services, lowering the barriers to entry to the postal market and curbing overregulation.

According to Art. 2 of the Directive, Member States must enforce the provisions of the legislation and delegated legislation, as well as the administrative regulations, necessary to meet the Directive's stipulations. In this regard, an interdepartmental working group was formed by the Ministry of Transport, Information Technology and Communications and the Communications Regulation Commission (CRC), tasked with the preparation of a draft Legislative Act on Amendment and Completion of the Postal Services Act (LAAC of PSA). The more important of the amendments included in the law, which was adopted by the National Assembly on 21 October 2009 and came into force on 3 November 2009, are listed hereunder:

1. The scope of the Universal Postal Service (UPS) was amended by the removal of postal money orders, so that they could be included in the scope of the Non-Universal Postal Service (NPS), and the removal of the definition of "direct mail" service (in accordance to Directive 2008/6/EC);
2. In accordance with the change in the licensing system, separate licenses will be issued for performance of UPS, services included in the scope of UPS and postal money orders. UPS is to be performed by an incumbent operator obligated to perform UPS in the entire country, while the other licensed operators will perform the services without being under obligation to establish a nationwide network;
3. The performance of NPS is to be governed by a notification system rather than a registration one;
4. The operator, obligated to perform UPS, must ensure – at its expense – the performance of an annual evaluation of compliance to the Standards for Quality of UPS and the efficiency of the provided services by an independent organization;
5. If net expenses are incurred, only the operator obligated to perform UPS will be compensated;
6. Only prices of UPS, provided by the incumbent operator, including the prices for access to its postal network, must be coordinated;
7. The obligation for coordination of a system for distribution of expenses remains in place only for the operator obligated to perform UPS.

The amendments cited above mark the first stage of introduction of the directive's stipulations. The final harmonization of the legal framework with Directive 2008/6/EC will be implemented with the adoption of the second stage of amendments to PSA, which is to take place by the end of 2010.

The regulator's role is to find a balance between the necessity to create conditions for promotion of competition and provide UPS.

In 2009, CRC continued to perform its functions and duties in accordance with PSA by:

- Issuing one individual license for performance of services within the scope of UPS and amending the individual licenses of three operators;
- Refusing to issue an individual license for performance of a part of UPS;
- Registered 4 new operators for performance of NPS;
- Approved the prices of two licensed operators;
- Approved a list of positions of workers and employees who are subject to mandatory accident insurance of one operator;
- Approved the closure of two post offices of Bulgarian Posts EAD.

One of the main priorities of CRC is the protection of consumers' interests. The scope of its powers includes approval of the General Conditions of the contract with consumers of postal services and giving of expert recommendations on disputes between consumers and operators. Such opinions have been given on 21 complaints. In most of these cases, the actions taken led to satisfaction of the consumers, since, as a result of the conducted inspections and requested recommendations, the operators had taken measures to improve the quality of the postal services provided.

In this past year, CRC took part in a seminar titled Development of a Common Management Plan for the Transition to a Liberalized Postal Market, held by the State Agency for Information Technologies and Communications.

At the international level, CRC took part in the forum on postal regulation in Berne, Switzerland, continued its work in the European Committee for Postal Regulation (CERP), participated in the CERP Economic Issues Working Group, where CRC met with experts from the European Commission and attended a meeting of the Postal Directive Committee.

I. State of the Bulgarian postal market
1. Development of the Bulgarian postal market

Bulgaria is one of the Member States that, in accordance with Directive 2008/6/EC, must create a completely open postal market from the start of 2011.

The process of preparation for full liberalization of the market is related to the establishment of a new regulatory framework that, on the one hand, guarantees the performance of UPS, the provision of high-quality postal services to consumers, the availability of transparent and simple claims procedures, and the promotion of competition, and that, on the other hand, is as closely harmonized to the other European states as possible.

In this state of affairs, the development of the Bulgarian postal sector in 2009 was influenced by – in addition to the legislative changes and the preparation for elimination of the state monopoly over a reserved sector of UPS – the trends observed in regards to postal services on an international scale and the repercussions of the global financial and economic crisis.

One of the main patterns, which has characterized the postal markets of the leading European countries, is the reduction in the volume of letter-post items and the penetration of new IT-based services such as hybrid mail, virtual delivery network, digital mailbox, etc that are gradually replacing the well-known postal services. In the past year, the decrease in the consumption of traditional postal services was even sharper than in previous years due to the impact of the poor economic situation.

In 2009, a decline was observed in the consumption of all postal services on the national postal market, with the exception of the "hybrid mail" service.

The Bulgarian postal market comprises the performance of UPS and NPS. The CRC annually analyses the state of the Bulgarian postal market by taking into account the change in the number of the provided postal items and services, and the revenue collected from the performance of UPS and NPS.

In accordance with the last amendments of the Postal Services Act, in effect from 03.11.2009, the "postal money orders" service has been taken out from the scope of UPS and "direct mail" has been reclassified as a type of item of correspondence.

The scope of UPS includes:

- Clearance, transport and delivery of domestic and international: items of correspondence up to 2 kg; small packets up to 2 k; direct mail up to 2 kg; printed matters up to 5 kg; and secograms up to 7 kg;
- Clearance, transport and delivery of domestic and international parcels up to 20 kg;
- Additional services: Registered Mail and Insurance on Declared Value.

The scope of NPS includes:

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

Even though postal money orders have been included in the scope of NPS since 03.11.2009, in order to enable comparability of the data with those from 2008, the service for 2009 will still be analyzed as a part of UPS.

In 2009, the volume of the entire postal market in Bulgaria was nearly BGN 226 million. This estimate was based on the revenue collected from all postal services, and calculated as an expert evaluation based on the data provided by 94% of the licensed and registered postal operators for the period ending on 31.12.2009. In the reviewed period, the total number of licensed and registered postal operators was 85, 53 of whom had actually been performing NPS, 4 of whom, including the postal operator with an obligation for the provision of the UPS, had been providing the services within the scope of UPS and 6 operators had been performing the "postal money orders" service.

Since 2006, the volume of the postal market has been formed mainly from the NPS revenue, with the market as a whole following the patterns in the development of courier services. In 2009, compared to 2008, the revenue from NPS decreased by 7%, while those from UPS – by 14%. This led to shrinkage of the postal market in Bulgaria as compared with 2008.

In 2009, a change was observed in the trend for annual growth of 20% in the revenue, from the provision of postal services – the figure that was characteristic for the period from 2006 to 2008.

The chart below shows that between 2006 and 2008 the postal services market was growing, even if the growth rate of the revenue was slowing down, but in 2009 the market declined by 9% in comparison with 2008.

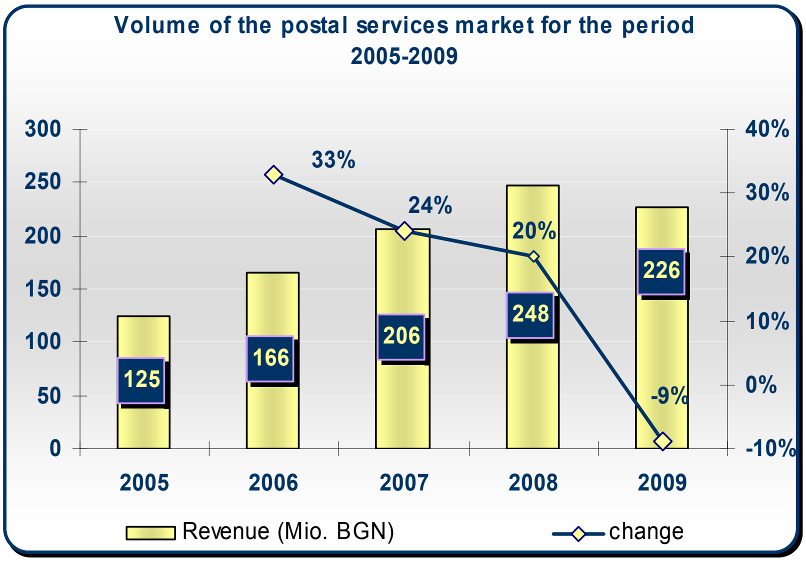

Fig. 1 Source: Data submitted to CRC

2. Structure of the Bulgarian postal market

2.1 Breakdown of the revenue from postal services

In the period from 2006 to 2009, the breakdown of the revenue from postal services remained almost the same.

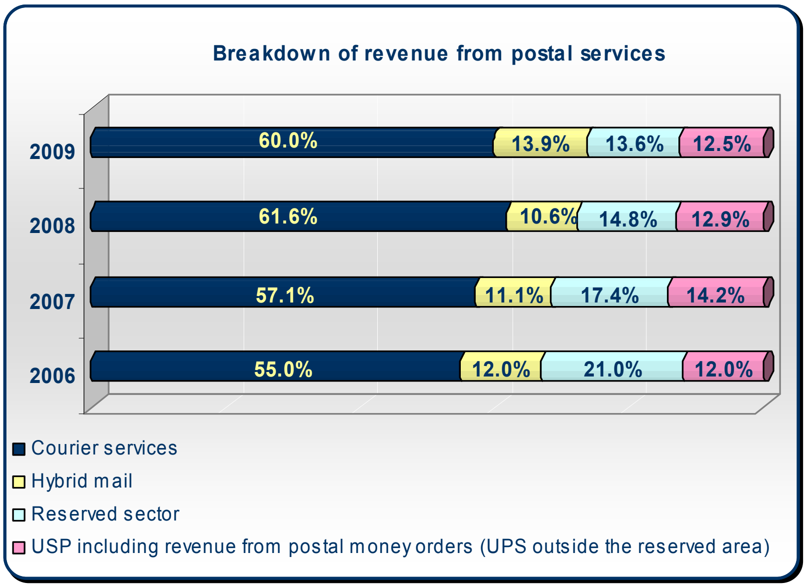

Fig. 2 Source: Data submitted to CRC

The revenue from provision of courier services (domestic and international outgoing) form the highest relative share of the postal market volume in 2009 as well but , in comparison with 2008, their share declined by almost two points. The decline is related to the drop observed in the consumption of these services in 2009, with the revenue gathered from the performance of courier services during the reviewed period being 11% less than the amount in 2008.

From 2006 to date, a trend has been observed for reduction of the relative share of the volume of Bulgaria's postal market, formed by the revenue from provision of domestic and international outgoing items of correspondence up to 50 g (services in the reserved sector). This trend also held true in 2009. Compared to 2008, in the past year, the relative share of the revenue from the reserved sector declined by approximately 1 point. In the reviewed period, the operator with an obligation for the provision of UPS – Bulgarian Posts EAD – earned 16% lower revenue from the performance of services in the reserved sector, while the number of provided items of correspondence up to 50 g dropped by 20%.

According to company data, one of the main factors that affect the financial results from performance of the services in the reserved sector is change such as termination of one of the contracts with big clients of the company, some of whom have switched to using the “hybrid mail” service instead of items of correspondence up to 50g.

In the last years, the “hybrid mail” service has been growing dynamically and, in 2009, the revenue gathered from its provision grew by 20% compared to 2008. The relative share of the revenue from “hybrid mail” of the volume of the market grew by 3 points compared to 2008. The reason that this trend of growth in hybrid mail is continuing in 2009, unlike the other postal services, is hidden in its nature. As a technology, hybrid mail combines the transformation of the data, submitted by electronic communication means, into postal items and their delivery to the addressees. Currently, the main users are companies in the "Utility" sector (including operators from the telecommunication sector, Electric power companies, Water Supply and Sewerage, Heating power companies, etc.) and in the financial sector that send notices of due bills to their customers. In practice, this is an opportunity for these companies to save time and money on the one hand and to reach a large number of their clients on the other.

The services within the scope of UPS, which are not in the reserved sector, include items of correspondence weighing from 51 g to 2 kg (including direct mail), small packages of up to 2 kg, printed matter of up to 5 kg, secograms of up to 7 kg, parcels of up to 20 kg and postal money orders. In 2009, just as in 2008, the revenue from these services forms 13% of the volume of the postal market in Bulgaria. With the highest relative share of the revenues from the provision of the services in the mentioned group for 2009 are items of correspondence up to 50 g.

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2.2 Breakdown of revenue generated from postal services

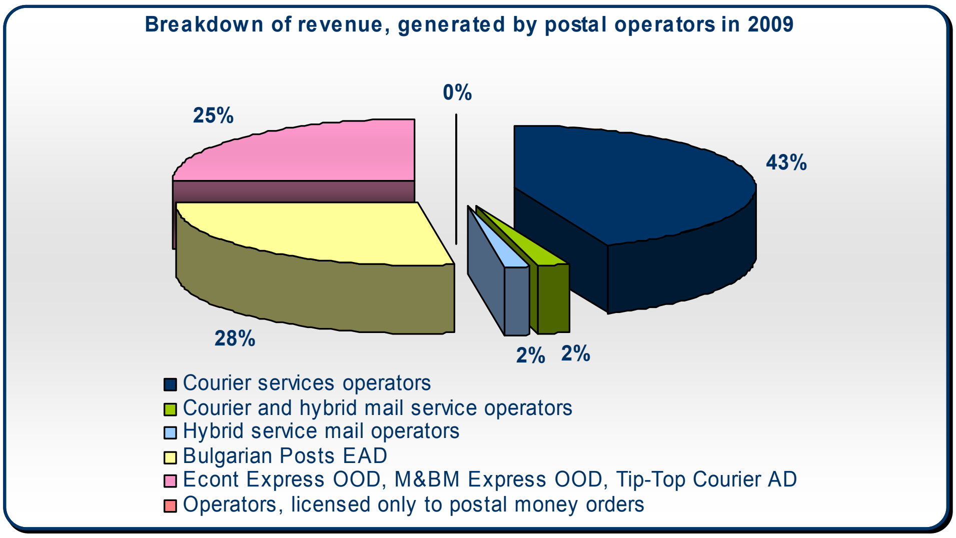


Fig. 3 Source: Data submitted to CRC

In 2009, the largest relative share of the volume of the postal market comprises the revenue earned by operators that perform only courier services. As a result of the registered drop in the consumption of these services in 2009, when compared to the figures from 2008, the courier service companies reported an 11% decrease in revenue, with their relative share of the market’s volume respectively dropping by 3 points.

In 2009, the operator with the obligation for the provision of UPS formed 28% of the total revenue from postal services and 95% of the revenue from UPS.

Until 2008, a trend had been observed for an annual decline in the share of Bulgarian Posts EAD of the entire market. However, in 2009, the company managed to retain its market share, i.e. it remained the same as in 2008. To a great extent, this was related to the reduced consumption of courier services, the revenue from which forms most of the market volume, as well as to the fact that, in 2009, users of the traditional postal money orders chose to receive the service mainly from the obliged postal operator at the expense of the alternative licensed operators. It must also be noted here that in

2009, when compared to 2008, Bulgarian Posts EAD increased its relative share by 1 point both of the UPS market and of the NPS one.

In 2009, the operators Econt Express OOD, MIBM Express OOD and Tip-Top Courier AD, who are licensed for the provision of the services within the scope of UPS and who also provide NPS, formed 25% of the postal market's volume. Their relative share of the total revenue from postal services grew by four points in 2009, compared to 2008. The three companies are still in the process of strengthening their positions in the UPS market. Nonetheless, in 2009, when compared to 2008, their relative share of the total revenue from UPS (without postal money orders) grew by 3 points.

In the past year, the operators performing courier services and hybrid mail or just the hybrid mail service formed 2% of the volume of the entire postal market each, with their relative shares remaining unchanged in comparison with 2008. The revenue gained in by the operators providing only the "postal money orders" service represented less than 1% of the total revenue from postal services in 2009.

For 2009 most of these operators reported a drop in the consumption of the standard postal money orders instead of the maintained interest of the consumers in the service for payment of due bills to utility companies.

2.3 Number of provided postal items and provided services in 2009

In 2009, the total number of provided postal items and services was 206 million. This was an increase of 5%, when compared to 2008. In a context of decline in the revenue gathered from postal items and services, this minimal growth in the total number in 2009, when compared to 2008, is due – to a great extent – to the fact that the number of provided postal items of the "hybrid mail" grew by 30%.

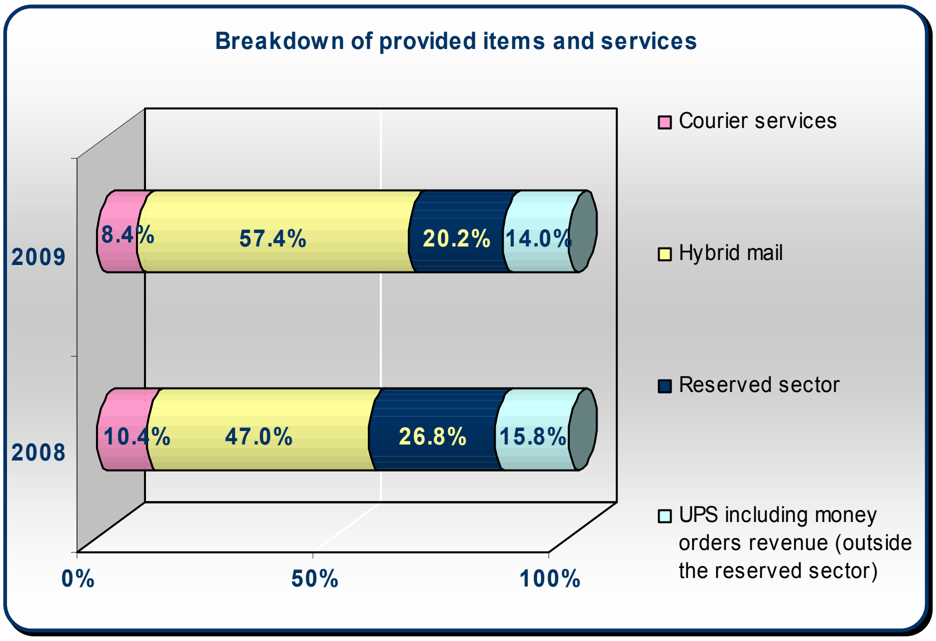


Fig. 4 Source: Data submitted to CRC

In 2009, the submitted hybrid mail items took the largest relative share of the total number of submitted items and requested services, with a reported growth by 10 points , compared to 2008. The hybrid mail service differs from the other postal service by its technology and its users are mainly businesses. For the performance of this service, there is no requirement for meeting deadlines or quick delivery, and, since most of the hybrid mail items are billing invoices for amounts due to different companies in the utilities and financial sector, it is characterized by regularity in its consumption.. The specifics of the service enable its provision at prices lower than those of items of correspondence and courier services. This fact explains why, even though a large number of items have been delivered, the revenue from hybrid mail in the last two years forms less than 15% of the volume of the postal market.

In 2009, the submitted domestic and international outgoing items of correspondence up to 50 g (services in the reserved sector) formed 20% of the total number of items and services, with their relative share declining by 7 points when compared to 2008. In 2009, the submitted items from the reserved sector formed around 60% of the total number of provided items under the UPS.

In 2009, when compared to 2008, the number of provided postal items and services under the UPS that were not in the reserved sector was roughly 6% less, while their relative share of the total number of items and services decreased by nearly 2 points.

In line with the observed trend for a decline in consumption in the past year, the number of provided courier items also declined by 14%, when compared to 2008.

In 2009, the structure of the consumption of postal services remained almost unchanged, when compared to 2008. The postal services and items submitted by business users formed most of the total number of postal items in the past year.

The ratio between the services used and items submitted by business users and individual users is different in NPS and UPS.

The requirement to always provide a quality UPS at affordable prices, during the specified working hours, and which meets certain regulations, defines UPS as a service aimed mostly at individual users, unlike NPS. According to data of the licensed operators, in 2009, the items submitted by individual users formed 47% of the total number of UPS items, with their relative share growing by 1 point, when compared to 2008. Accordingly, in 2009, 53% of the delivered items and provided services under the UPS were submitted by business users, with 76% of the items addressed to individual consumers. In 2009, the most items from the business users group were submitted by utility companies, with their interest focusing mainly on the "direct mail" service.

Traditionally, NPS is used mostly by business users. In 2009, according to data of the operators performing courier services and hybrid mail, 91% of the total number of items was submitted by business users. The growth in e-commerce in the last two years has lead to an increase in the number of courier items that were sent by a business to individual consumers. This growth has made a search for flexible solutions for delivery of the items a necessary step for the companies. In this respect, in 2009, some of the leading courier services operators offered new services such as: guaranteed time delivery of incoming international items, option for inspection of the item before payment, preparation of individual price plans, etc.

Out of the total number of NPS in the past year, the relative share of items submitted by individual users was just 9%, with this figure growing by 2 points in 2009, when compared to 2008.

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

Pursuant to Art. 17, Par. 1, Item 4 of PSA, CRC must annually analyze the state of competition in the performance of the various postal services.

The 2009 assessment of the level of competition in the national postal market took into account the following indicators (also used in 2008):

- Existing barriers to entry to the market;
- Change in revenue from UPS and NPS;
- Change in the number of players in the market;
- Size of the market share of the different players;
- Degree of market concentration.

The barriers to entry to the market represent factors that impede or complicate the entry of potential enterprises in the relevant market and their ability to successfully compete with the enterprises that already operate in it. On the whole, in accordance with the principles of competition law, the existing barriers, which potential players in the market face (in this specific case postal operators), may be provisionally separated into two large groups:

- Economic barriers – structural and strategic.
  - Structural barriers stem from the specific structure and state of the relevant market with respect to technology, costs, volume and nature of the product, supply and demand. These barriers include: initial costs, economy of scale, transit costs, etc;
  - Strategic barriers arise as a result of the actions and behaviour of the existing players in the industry. These barriers include various types of agreements on delivery of raw materials and intermediate goods, and on supply of the products on the market.
- Legal and administrative barriers such as licensing systems, price regulation, subsidies, grants and other provisions.

According to the principles of competition law, the degree of concentration is assessed using the Herfindahl-Hirschman Index (HHI) and the Concentration Ratio (CR). The HHI value is calculated based on the sum of the squared market share of the market players, while the CR value shows the shares of the largest players (CR3 and CR4). According to the values of both indicators, the market is determined as normal competitive market with low level of concentration, relatively competitive market with average level of concentration, and less competitive market with high level of concentration.

The differences in the specifics and dynamics of UPS and NPS, as well as the fact that their provision is performed under two different regimes (licensing and registration), necessitates for the state of competition in the two types of market to be analyzed separately.

In the past year, the UPS market was characterized as less competitive, while the NPS market was relatively competitive with average level of concentration.

Detailed assessment of the existing barriers that potential UPS operators face has been made respectively in Item 1.8. – Competition in providers of postal services, included in the scope of the Universal Postal Service of Section II – Universal Postal Service and Item 1.2. – State of the competition in NPS of Section III – Non-Universal Postal Services.

II. Universal Postal Service

1. Analysis of the performance of UPS in 2009

The Universal Postal Service includes the postal services: Clearance, transport and delivery of the following types of postal items: items of correspondence up to 2 kg, small packages up to 2 kg, printed matter of up to 5 kg, secograms of up to 7 kg, Clearance, transport and delivery of domestic and international parcels of up to 20 kg, and the additional services – Registered Mail and Insurance on declared Value. UPS is a service that must always be provided during the specified working hours at a quality that conforms to the regulations pursuant to Art. 15, Par. 1, Item 7 of PSA and at affordable prices. Additionally, all consumers in the country must have the opportunity to use it regardless of their geographical location, the exception being populated areas and non-residential purpose-built facilities located in difficult-to-access areas. UPS must be provided on all business days, the minimum being 5 days per week. There is a stipulation for at least one collection of postal items and one delivery to the addressees to be made on each business day.

The postal operator that – pursuant to PSA – is under obligation to perform UPS via its postal network on the territory of the entire country, even in economically unprofitable conditions, is the commercial enterprise called Bulgarian Posts EAD.

By virtue of Art. 18, Par. 4 of the Constitution of the Republic of Bulgaria, a state monopoly has been established on the reserved sector of UPS, which is provided via the postal network of Bulgarian Posts EAD, until 31 December 2010 (SG, issue 109 from 21.12.2008). The services in the reserved sector include Clearance, transport and delivery of domestic letter-post items and international incoming and outgoing letter-post items.

1.1 Volumes and revenue from the performance of UPS

In 2009, in addition to Bulgarian Posts EAD, services in the scope of UPS were provided by Tip-Top Courier AD, Econt Express OOD and M&BM Express OOD. EasyPay AD, Finance Engineering AD and Factor I.N. AD provide only the postal money orders service.

In the reported period, the number of postal items and services in the scope of UPS were 71 million in total, while the earned revenue was in the amount of BGN 59 million.

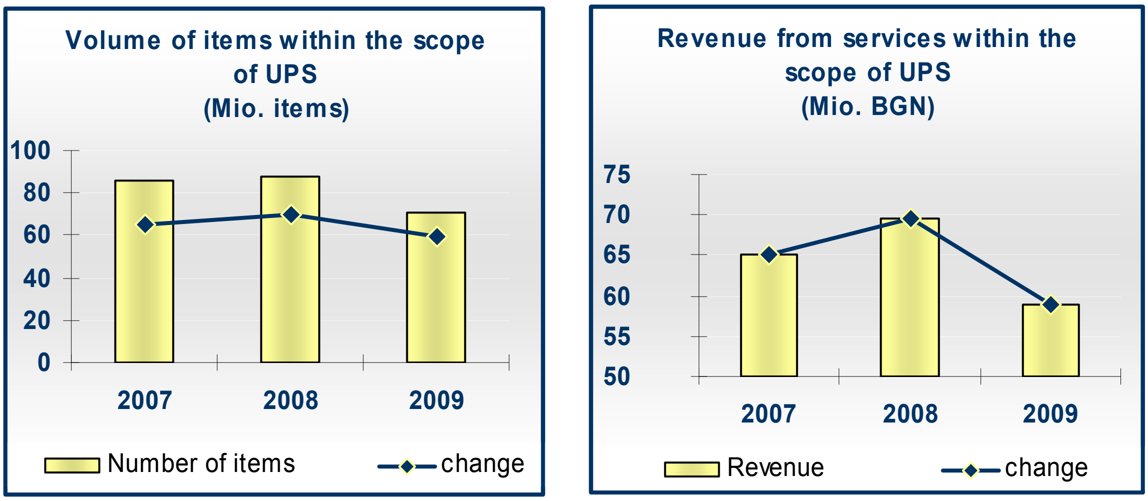


Fig. 5 Source: Data submitted to CRC

In 2009, when compared to 2008, a reduction was reported in the services provided under UPS domestically and for abroad, both in regards to the number of transported items (by 18%) and the revenue (by 14%). The economic crisis in the country and the reduced consumption of UPS by big users may be implicated as the main reason for the decline in numbers and revenue. The revenue from the services included in UPS formed 26% of total amount of the volume of the postal market.

The structure for distribution of the revenue gained from UPS in 2009 remained the same as the structure for distribution of the revenue in 2008. The greater portion of the revenue (roughly 56%) was formed by domestic letter-post items of up to 2 kg.

In 2009, Bulgarian Posts EAD continued to hold its leading position of 95% market share in the revenue from UPS.

1.2 Domestic services in the scope of UPS

In 2009, when compared to 2008, a decline was reported in the number of items processed and services provided within the scope of UPS in the country and, accordingly, a reduction in the revenue from services included in the scope of UPS.

In 2009, 64.7 million items and services from the scope of UPS were respectively processed and provided. This figure represents 95% of the services provided within the scope of UPS.

The revenue, earned from performance of domestic UPS was BGN 48.2 million, BGN 4.97 million of which was from the postal money orders service. As compared with 2008, the revenue from performance of domestic UPS fell by 16%.

In the reporting period, 94% of total amount of revenue gathered from provision of domestic UPS services was brought in by Bulgarian Posts EAD.

Tip-Top Courier AD, Econt Express OOD, M&BM Express OOD, EasyPay AD, Finance Engineering AD and Factor I.N. AD brought in the remaining 6% of revenue.

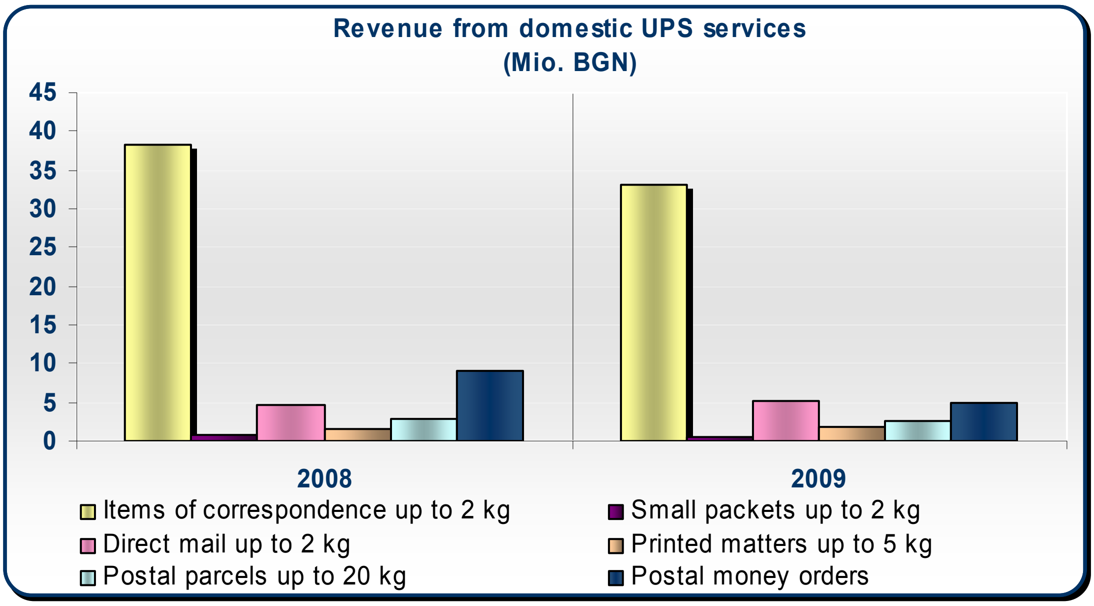


Fig. 6 Source: Data submitted to CRC

Out of the services included in the scope of UPS, the one for items of correspondence up to 2 kg was the most used service. The share of revenue earned from this service was 68% of all UPS for the country. The most used service was “2nd class items of correspondence”, while the “direct mail” and “printed matter” services came next in terms of demand.

A reduction of 13.6% was reported in the revenue from items of correspondence of up to 2 kg, while the revenue from small packaged fell by 23.3% as compared with the previous year.

The revenue generated from parcels was 1.8% lower than the one from 2008. The decline was caused by the reclassification of “parcels” (submitted by big clients of the incumbent postal operator – Bulgarian Posts EAD) to “registered small packages. Parcels brought in 5.4% of UPS revenue.

A growth of 2% was observed in the revenue from the Direct Mail service, as compared with 2008, with the share of this service in the total revenue being 11% of UPS in the country.

As for the Printed Matter service, a significant change in the reported revenue and volumes was not observed in 2009. The Printed Matter service cleared 3.6% of the total revenue from UPS.

1.2.1. Postal Money Orders

Out of the ten postal operators licensed to perform the Postal Money Orders service, six provided it during the reporting period, namely: Bulgarian Posts EAD, Tip-Top Courier AD, Econt Express OOD, EasyPay AD, Factor I.N. AD and Finance Engineering AD.

The share of revenue from performance of the Postal Money Orders service was 8.4% of the total revenue generated from performance of UPS.

In 2009, as compared with the previous year, the number of performed postal money orders fell by 25% and the revenue – by 45%.

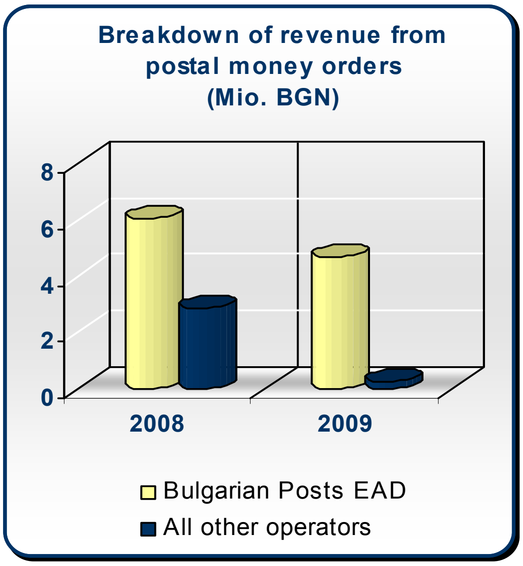


Fig. 7 Source: Data submitted to CRC

Bulgarian Posts EAD retained its leading positions by generating the largest share in the revenue – 94%. In comparison with 2008, in the current reporting period, the postal operator reported a decrease in the number of times the service was used and in the revenue cleared from it – respectively by 19% and 23%.

Since 24.08.2009, the postal operator has implemented a project titled Transmission Medium for Telegraph Money Orders, whereby the operator aims to reduce the time for technological processing of a Telegraph Money Order. With the project's implementation, the technology for transfer of data on money orders in over 500 post offices of Bulgarian Posts EAD was replaced by software solutions that work in real time. In the remaining 2,500 post offices, the transmission of money orders will be carried out in the newly built customer service centre.

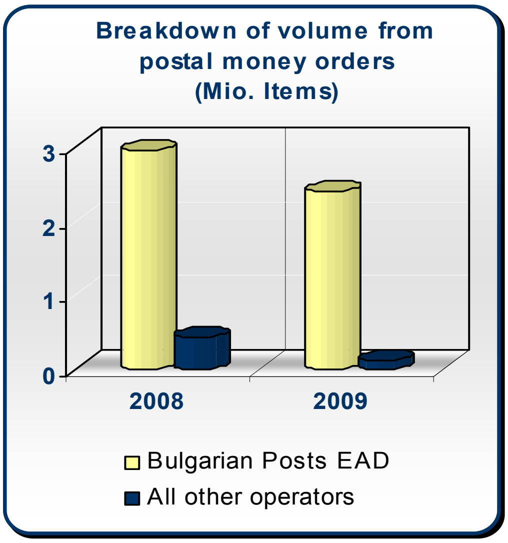


Fig. 8 Source: Data submitted to CRC

The other providers of the Postal Money Orders service reported a significant drop in the number of services performed and revenue generated as compared with 2008. The volumes fell by 72% and the revenue fell by 90%. On the one hand, this drastic decline may be explained by the poor economic conditions, while on the other – by the fact that a large portion of the performed money orders were not reported as postal money orders, but as payment of amounts for services rendered by the service sector.

1.3 International services in the scope of UPS

The revenue from international outgoing UPS was generated mostly by Bulgarian Posts EAD and came to BGN 10.754 million. These services constituted 4.5% of the total number of services performed within the scope of UPS.

Tip-Top Courier AD and M&BM Express OOD reported insignificant quantities and revenue generated from services in the scope of UPS.

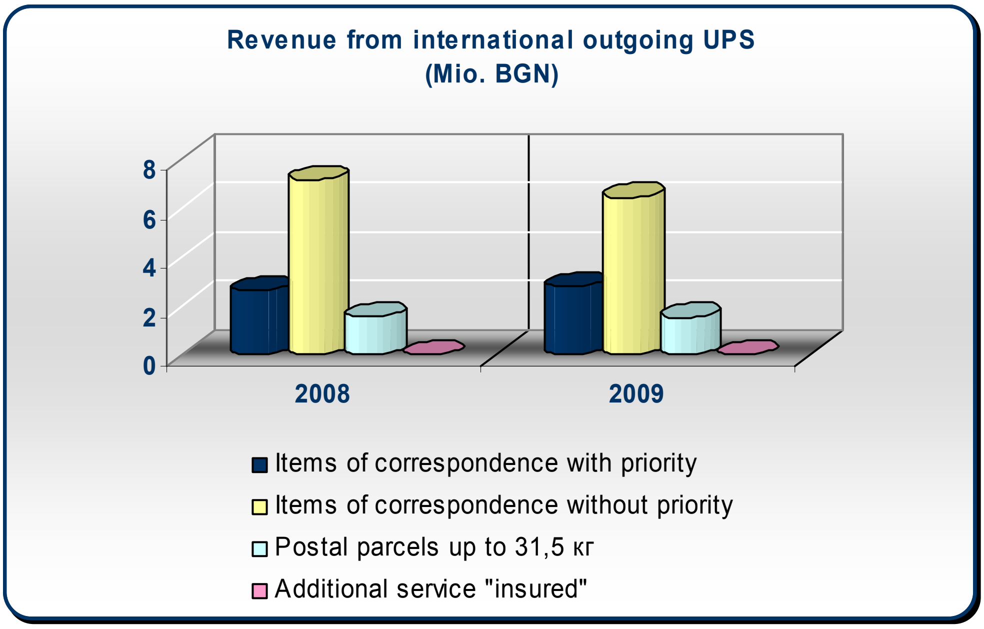


Fig. 9 Source: Data submitted to CRC

As compared to 2008, in 2009, the number of performed services, included in the scope of international UPS, fell by 14%, while the revenue fell by 5%. The main reason for the decline was the reduced consumption of the Unregistered Letter-Post Items service (first and second class).

In the reporting period, as compared with 2008, growth was observed only in the revenue from first and second class registered items – 2.8% in the number and 3% in the revenue from performing these services abroad.

The number of handled parcels of up to 31.5 kg and the revenue thereof maintained last year's levels. This revenue comprises a 14% share in the total revenue from international UPS. Declared Value postal items being sent abroad constituted a relatively small share – less than 1%.

1.4 Reserved sector of UPS

The services in the reserved sector include Clearance, transport and delivery of domestic, international incoming and international outgoing items of correspondence. Until 31 December 2010, Bulgarian Posts EAD has the exclusive right to provide the services for domestic and international items of correspondence (first and second class) weighing up to 50 g at a price no more than 2.5 times higher (but not equal to 2.5 times) than the price of a standard item of up to 20 g, respectively – domestic or international (first and second class).

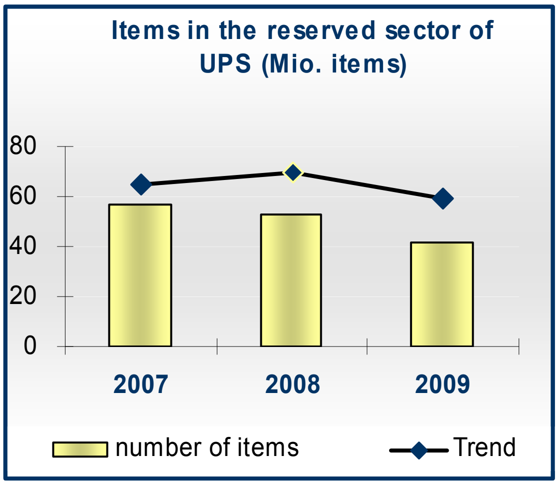
The revenue generated by the reserved sector in 2009 constituted 52% of the total UPS revenue. The domestic and international items from the reserved sector fell within

the biggest group of services – domestic and international items of correspondence, constituting 84% of the entire revenue from UPS. Postal items of up to 50 g generated 63% of the revenue in the items of correspondence group.

In 2009, as compared with 2008, the number of items of correspondence of up to 50 g fell by 20%, while the revenue from postal items in the reserved sector showed a 16% drop.

To a large extent, this was due to the trend for conversion of a large number of items of correspondence of up to 50 g into hybrid mail, and to a lesser extent – the decreased consumption of postal services.

Postal items within this weight range cover mostly second-class services. In 2009, the processed unregistered postal items sent by first class made up barely 0.7% of the volume. The revenue from these services constituted 1.3% of the revenue generated from unregistered letter items sent domestically. The relative share of first class registered letter items is only 0.9% of the volume and 1.3% of the revenue, generated by the group of registered items of correspondence.



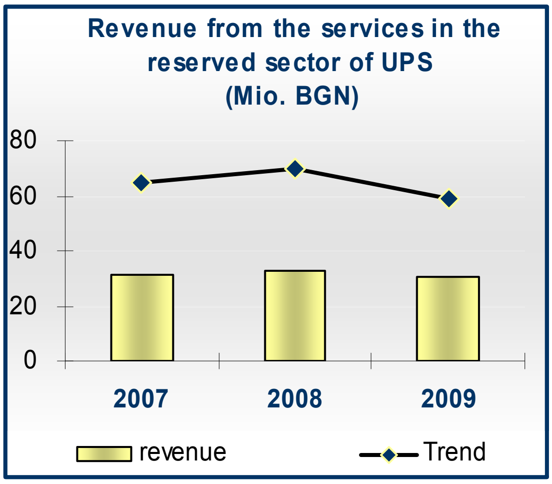


Fig. 10 Source: Data submitted to CRC

1.5. Prices of domestic UPS, provided by Bulgarian Posts EAD

Pursuant to Art. 65, Par. 2 of PSA, the pricing of UPS according to types of services is to be carried out by the postal operator obligated to perform UPS (Bulgarian Posts EAD) in compliance with the requirements of the Ordinance on the Determination of Rules for Pricing of the Universal Postal Service and the Enforcement of its Prices (Ordinance) and the Method for Determination of the Affordability of the Price of the Universal Postal Service (Method). In the pricing of international postal services, Bulgarian Posts EAD also conforms to the resolutions, enshrined in the acts of the Universal Postal Union, which the Republic of Bulgaria has ratified. Bulgarian Posts EAD must provide the price of UPS to CRC for approval at least 30 days before it comes into force.

The incumbent postal operator is to follow the following principles in the pricing of the services, included in UPS:

- identical prices of identical services at all points within the national territory;
- non-discriminatory treatment of all users;
- gearing to the costs of service provision;
- affordability of the prices;
- linkage to the quality of service;
- ensuring an economically justified profit in accordance with an adopted investment policy;
- creation of conditions to encourage consumption;
- reckoning with the level of prices on the international market, to the extent practicable under the national conditions;
- tranparancy of the prices.

The prices of the services included in UPS are the same throughout the country both for natural and legal persons. Users, who regularly send a large of number of their own postal items, may negotiate prices other than those determined using the Method.

The specific conditions and the sizes of the discounts are coordinated by CRC as per the stipulations of the Ordinance and are made public. Affordability is a fundamental principle, the conformance to which is enforced by the Method for Affordability of the Price of the Universal Postal Service.

The effective prices of the UPS services performed by Bulgarian Posts EAD in 2009 have been in force since 01.06.2008. Then, for the first time, the postal operator introduced prices of domestic letter items, based on the speed of processing and delivery, i.e. first class and second class rates. The prices of first class postal items are 50% higher than those of second class postal items.

In 2009, the operator made preparations for the liberalization of the postal services market. These preparations were manifested by the restructuring of the prices of domestic letter items.

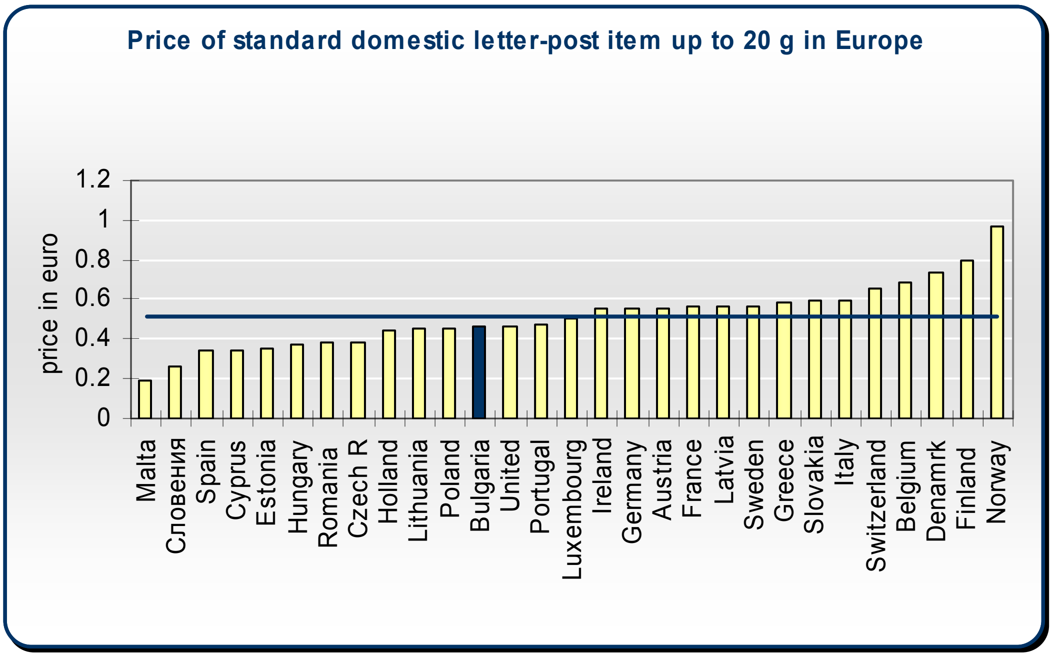


Fig. 11 Source: Data from research "Letter prices in Europe" conducted by Deutsche Post

The chart above presents a comparison of the price of a standard domestic letter-post item in the Member States of the European Union, Switzerland and Norway. The prices of a standard domestic letter-post item are highest in Norway, Finland, Denmark and Belgium, while they are lowest in Malta and Slovenia.

It is clear from the data that Bulgarian Posts EAD performs receipt, transit and delivery of a standard letter-post item within the country at a price equal to the price of such item in countries like the United Kingdom, Portugal and Poland.

1.6 Financial result from UPS provided under the economically unprofitable conditions of 2009

In order to ensure that UPS is being provided and consumers' needs are being satisfied by a service, which meets the requirement to provide a constant postal service of a certain quality, in all places and at prices affordable to all consumers, PSA designates a postal operator, who undertakes the obligation to perform UPS on the territory of the entire country, even in economically unprofitable conditions. According to the meaning of PSA, economically adverse are conditions, under which the performance of UPS on the territory of the entire country, including difficult-to-access areas, leads to financial losses for the postal operator.

By its last amendment (SG, issue 87 from 2009, in force from 03.11.2009), PSA placed a new meaning to the definition of operators, who provide Universal Postal Services, by separating them into an operator obliged to perform UPS and operators performing the services within the scope of UPS.

The obligation to perform UPS via its postal network on the territory of the entire country under an individual license has been assigned to Bulgarian Posts EAD.

According to the provisions of PSA, if it is proven that a deficit is being caused by the performance of UPS under economically unprofitable conditions, the obliged operator receives compensation from the national budget in order to guarantee the provision of the service. Due to the forecast and reported positive financial result from the provision of UPS, in 2009, as well as in the last few years, Bulgarian Posts EAD has not received a subsidy from the national budget.

1.6.1 Financial result from provision of UPS by the obliged operator

In 2009, the financial result from provision of UPS on the territory of the country reported by Bulgarian Posts EAD was negative, in the amount of BGN 1.360 million. The balance of financial estimates with foreign postal administrations was positive, in the amount of BGN 2.801 million. Adjusted with the positive balance of financial estimates with foreign postal administrations, the final result from performance of the service in 2009 was positive, in the amount of BGGN 1.440 million.

The revenue generated from performance of UPS in the past year was in the amount of BGN 56.210 million, which – when compared to the revenue reported in 2008 – was a decline of BGN 8.408 million. The expenses reported in 2009 were in the amount of BGN 57.770 million. As compared with the previous year, this was a decrease in absolute value of BGN 6.031 million.

The financial result from performance of UPS in the reserved sector was a loss in the amount of BGN 0.709 million after the adjustment to the positive balance of financial estimates with foreign postal administrations in the amount of BGN 1.296 million.

In 2009, as compared with 2008, the provision of UPS was less cost-effective, with the costs for each BGN of revenue, as a relative value, growing by 4.06% and the cost-effectiveness of each BGN of costs falling by 3.90%. This trend for worsening of the cost-effectiveness has continued since the previous reporting period, as shown by a comparison of UPS cost-effectiveness in 2008 with the one in 2007. The cost-effectiveness assessment has been made by comparing the relevant cost-effectiveness ratios of revenue and expenses for 2009 and 2008.

In 2009, the services within the scope of the reserved sector also performed less cost-effectively, as compared with the previous year. In 2009, the expenses on the provision of postal items of up to 50 g, as a relative value for each BGN of revenue, increased by 8.21%, while the cost-effectiveness of each BGN of costs decreased by 7.59%.

Main factors that have affected the financial result from the performance of UPS in 2009:

- In 2009, the number of items and provided services under UPS fell by 20%, when compared with 2008. The decrease was most significant in the group of unregistered items of correspondence, which made up 75% of the total volume of postal items. According to data of the operator, this was due to a change in the use of the services, mostly on the part of big clients, and terminations of contracts;
- The revenue from provision of UPS in 2009 fell by 13%, when compared with the previous reporting year, as a consequence of the reduced volume of postal items from big clients;
- In 2009, as compared with 2008, the costs on provision of UPS fell by 9%. The total reported costs of the company grew by 0.4%, when compared with 2008. The reasons for the insignificant increase in the costs are related to the development of business activity and inflationary processes in the country. Due to the worsened economic situation, in the second half of the reporting period, the operator took measures for optimal utilization of resources. As a result of anticrisis measures, the expenses on performance of UPS on the territory of the country in 2009 fell and the share of UPS expenses in the total expenses on distribution fell from 43.6% in 2008 to 39% in the reporting year of 2009. As a consequence of changes that have occurred in the operational technology (introduction of fiscal devices, labelling of parcels with barcode stickers, computerization of a significant part of the post offices), an update of the resources used on performance of activities was made in post offices with approved new expense quotas on work in postal operations;
- The result from performance of UPS on the territory of the country was negative, while the reported total profit from its performance in 2009 was due to the positive balance in the international financial statements;
- In 2009, the result from provision of services in the group of domestic letter-post items, small packages and direct mail of up to 2 kg, printed matter of up to 5 kg, secograms of up to 7 kg and international first-class and second-class postal items (registered and unregistered) was a profit. This group has the biggest share (95%) of all postal items;
- In 2009, the other services within the scope of UPS (uninsured domestic and international postal items, postal money orders and insured postal items) were provided at a loss.

The prices of parcels and the price of the additional Registration service still did not cover the expenses on their provision. In 2009, the degree to which the expenses were covered in some of the weight categories of the services in the group of letter-post items, small packages, direct mail of up to 2 kg, printed matter of up to 5 kg and secograms of up to 7 kg was different. According to data of the operator, the expenses incurred per unit for all services in this group were BGN 0.60. This was calculated using the System for Distribution of the Operator's Expenses. This group had the highest share in the total volume of UPS postal items, generated 84% of the revenue and used up 82% of the expenses on UPS. The table below shows the services and the level to which the expenses in the group were covered by the prices in weight categories.

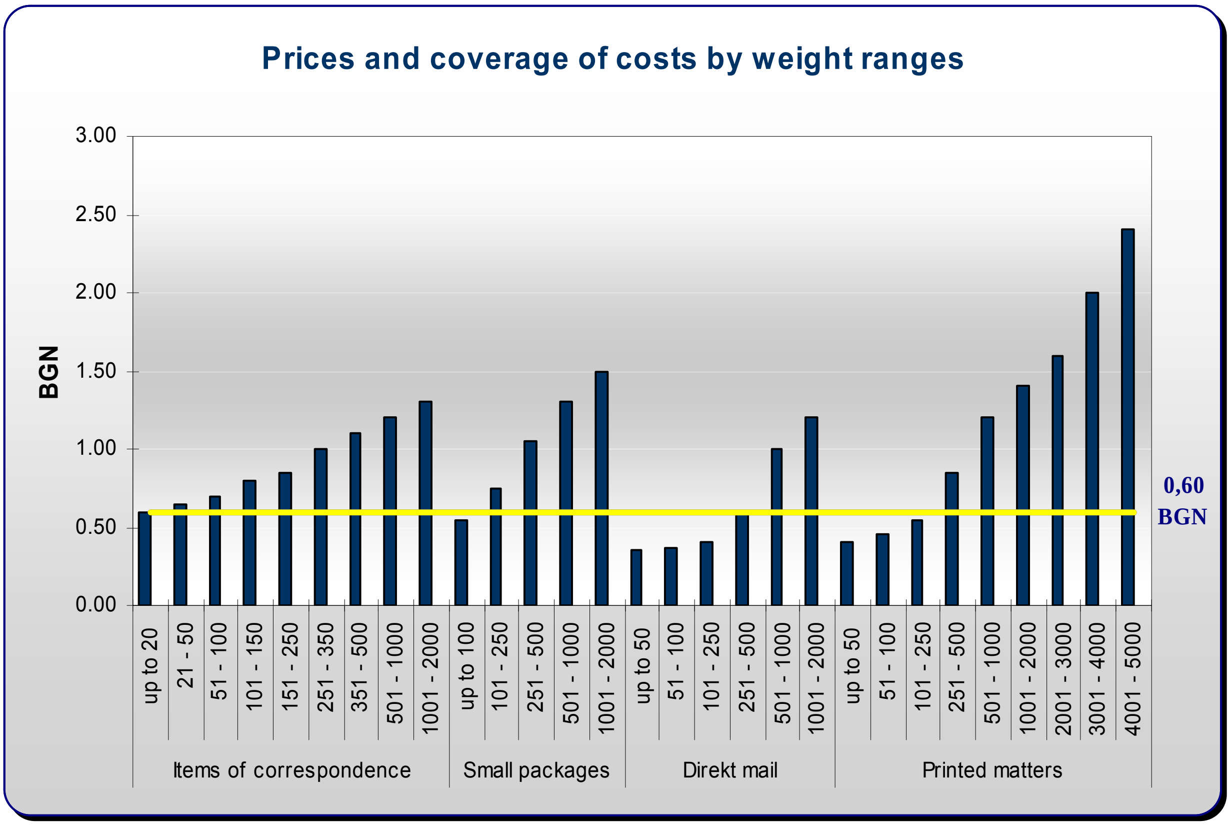


Fig. 12 Source: Data submitted to CRC

In 2010, the operations of Bulgarian Posts EAD will be focused on performance of the obligation to provide UPS and protection of consumers' interests through:

- Implementation of new technologies that will make the traditional postal services more effective and adapted to the consumers' demands;
- Improvement of the quality and increase of the competitiveness of UPS services;
- Construction and operation of a modern postal network and automation of the technological processes;
- Maintenance and replacement of transport vehicles;
- Strengthening of the role of the postal sector as a factor for the development of an information society.

1.6.2 Financial result from the provision of UPS services by the other operators

In 2009, the operator Tip-Top Courier AD achieved a positive financial result from the performance of UPS. In the reporting year, all services within the scope of UPS showed growth. According to the data of the operator, the reason for the positive result from the service was the company's change in policy in the following directions:

- strengthening of the position of the operator's post offices as centres that provide a wide range of postal services;
- increase in the quality of the services and the efficiency with which the company's partners are serviced;
- aggressive marketing, advertising and business activity for entering into contracts for performance of postal services;
- entering into contracts for mutual access to the network of Bulgarian Posts EAD.

In 2009, the operators Econt Express OOD and M&BM Express OOD reported a negative result from their activities. The relative weight of handled postal items and revenue generated thereof were insignificant and did not noticeably affect the comparative analysis of UPS. The network of the operator Star post OOD, which began its activities in 2009, is still under construction.

1.7 Users of services within the scope of UPS

According to the data provided by the postal operators, in 2009, business users formed the greater share in the total number of UPS postal items, as compared with individual users. For the incumbent postal operator Bulgarian Posts EAD, the proportion of business users to individual users was 53:47.

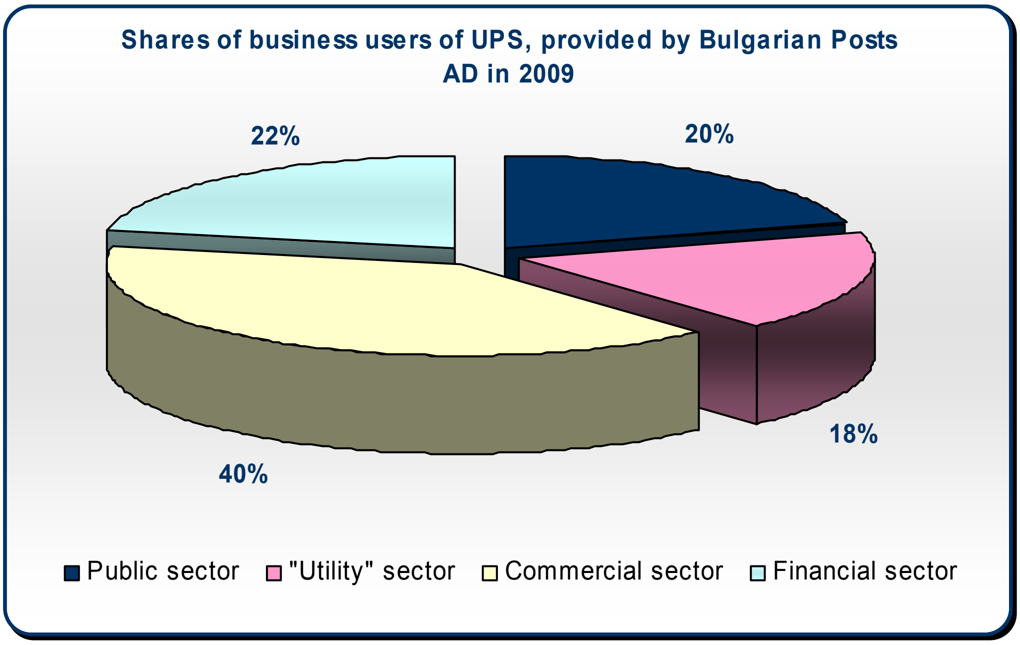


Fig. 13 Source: Data submitted to CRC

The consumption of UPS services domestically and for abroad by the users, profiled according to their line of business and provisionally split by sectors, was reported as a percentage of the total processed postal items and rendered services.

Clients from the commerce sector used the most UPS services – a share of roughly 40%. The services used most often by these clients were direct mail (96.36%) and unregistered items of correspondence sent by second class within the country or abroad.

Users from the financial sector came next with the second biggest share – 22%. The services used in this sector were registered items of correspondence sent by second class (58.23%), unregistered letter-post items sent by second class (36.54%) and postal money orders. Business users from the public sector took third position with a 20% share, with the services in highest demand being unregistered postal items sent by second class (57.68%) and registered items of correspondence sent by second class (29.85%).

The consumers included in the utilities sector are operators from the telecommunication sector, Electric power companies, Water Supply and Sewerage, Heating power companies, etc. The share of these consumers makes up 18% of the total number of UPS services in 2009. The most popular services in this sector were domestic unregistered postal items sent by second class.

1.8 Competition between the providers of postal services within the scope of UPS

The state monopoly established on the reserved sector of UPS in favour of Bulgarian Posts EAD is a factor for the state of the competition. From the start of 2011, this monopoly will be abolished and the postal market will be completely liberalized. In addition to the reserved sector, the historic postal operator Bulgarian Posts EAD benefits from other competitive advantages such as the availability of a well-known brand, well-developed network and an opportunity to realize economies of scale and scope.

By the adoption of LAAC of PSA, in force from 03.11.2009, a positive emphasis was placed on the priority target for liberalization of postal services, as well as creation of a free postal market and loyal competition. Some of the considerable barriers to entry to the UPS market were removed. The alternative postal operators of UPS no longer have an obligation to construct and maintain a postal network on the territory of the entire country, to provide the service on all business days and at least 5 days per week, as well as to perform at least one collection and one delivery of such postal items per day. In addition to that, the alternative UPS service providers no longer have an obligation to submit UPS prices for approval to CRC.

In 2009, as compared with 2008, the state of competition in UPS services remained almost unchanged. Out of the eleven licensed postal operators, seven actually provided UPS.

In the total amount of UPS revenue, Bulgarian Posts EAD had a share of 95%, while in 2008 it was 94%. The CR4 ratio remained at 99.86% – almost unchanged as compared with 2008. The HHI index was 9,093 and, thus, the concentration level of this sector as a whole can be assessed as high in a market with a low level of competition.

Even though the Postal Money Orders service is the only one that has been provided in competitive conditions since 2006, competition in postal money orders still cannot be described as effective. In 2009, Bulgarian Posts EAD again had the highest share (94%) in the total revenue generated from the Postal Money Orders service.

The remaining 6% were split between Tip-Top Courier AD, Econt Express OOD, EasyPay AD, Factor I.N. AD and Finance Engineering AD.

III. Non-Universal Postal Services

1. Analysis of the NPS market

In the last few years, CRC has established a practice of analysis and monitoring of the Bulgarian NPS market. The main aim of the practice is to determine the actual directions in which this sector is developing. With the amendment of PSA, as of 03.11.2009 the services below were included in the scope of NPS:

- courier services;
- acceptance of messages submitted by the sender in electronic or physical format, their transmission via telecommunications equipment and delivery of these messages to the addressee in the form of postal items (hybrid mail);
- postal money orders.

The licensing system governing NPS was switched to a registration system that is considerably simpler. This will help the entities who wish to perform this activity overcome the administrative and bureaucratic hurdles and so development of the market will be promoted.

Since postal money orders are classed as a financial service, the licensing system will remain in place for them as a security measure for the consumers.

In the last few years, the NPS market has been growing in a sustainable manner, but in 2009 its volume fell by 7%, as compared with the previous year of 2008. The contraction in the market that the operators expected has occurred. A reduction in the technology investments has also been observed. Most NPS operators will refrain from making investments in the next year of 2010. At the same time, some of the operators with a large market share have stated that they will continue investing in the introduction of new technology and the improvement of their software systems. It must be noted that regardless of the financial and economic situation the number of operators, when compared with 2008, has increased by four. The reason for this positive trend was that NPS was performed on competitive market based on supply and demand.

In 2009, the number of postal operators registered to provide NPS increased to eighty, 44 of which provided only courier services, 8 performed courier services and hybrid mail, 2 provided only the hybrid mail service and 26 declared that they have not been active during the past year.

The market volume for the same period was calculated based on the revenue generated from NPS and amounted to BGN 167 million – this is a 7% decline since 2008. The market volume was calculated as an expert assessment based on the data provided by 94% of the registered operators as of 31.12.2009.

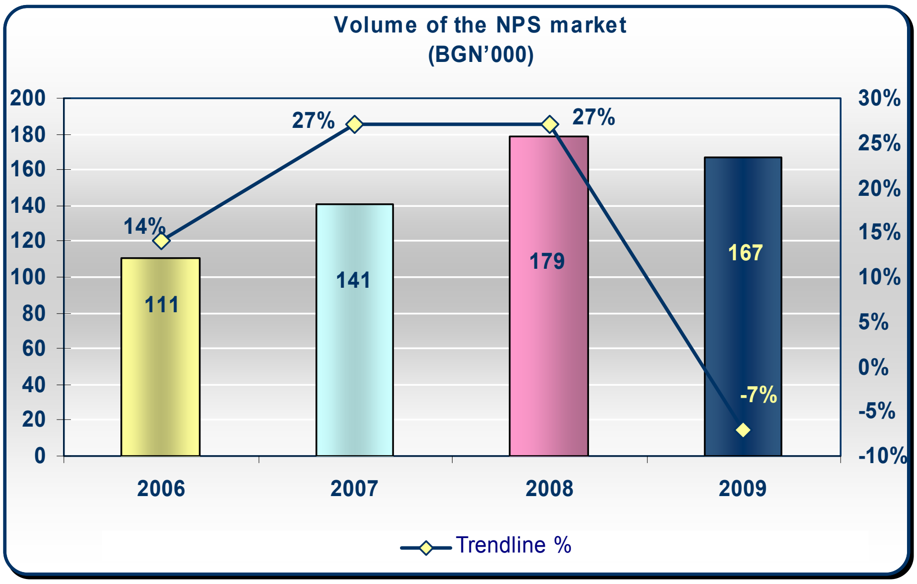


Fig. 14 Source: Data submitted to CRC

The total number of postal items processed during the reviewed period was 136 million, which is a 22% increase since 2008. In the reviewed period, items of the courier services made up 13% of the total number of postal items and hybrid mail made up 87%.

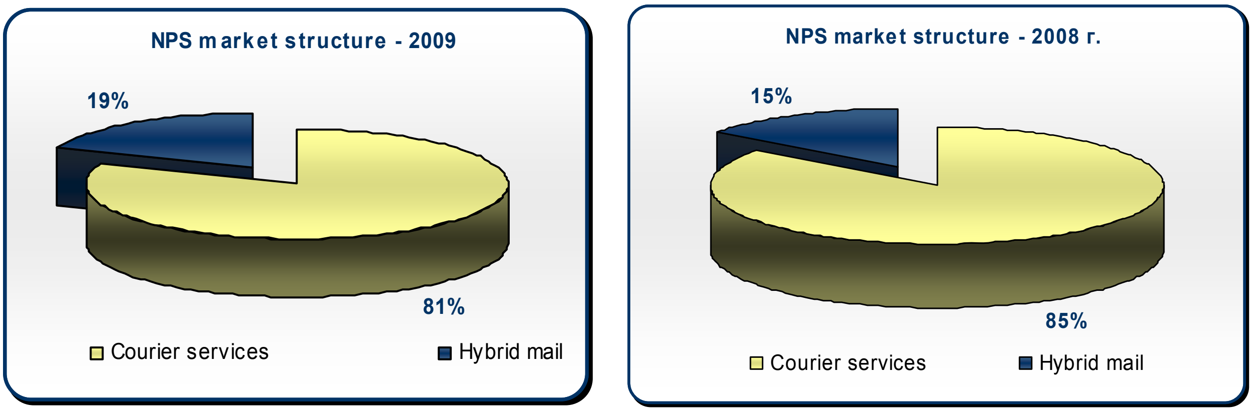


Fig. 15 Source: Data submitted to CRC

In the past year, the structure of the NPS market remained unchanged, when compared to 2008. NPS revenue was mostly generated through domestic courier services. What is striking is the fact that in 2009, as compared with the previous year, the number of operators, which provide international courier services, increased by 10. The reason for this positive trend is the continuing integration of our country into the common European market.

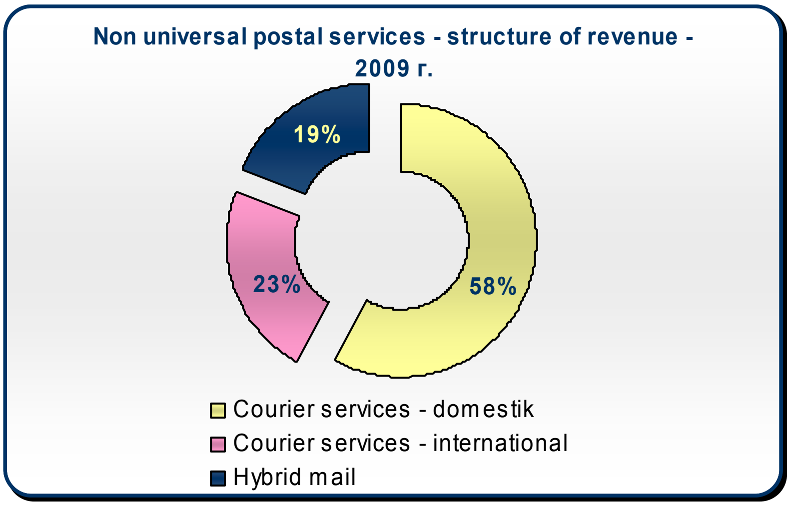


Fig. 16 Source: Data submitted to CRC

According to data submitted to CRC, the following companies had the biggest shares in the NPS market in 2009:[1]

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

The operators listed in the table have established their positions in the NPS market and in 2009, just as in the previous year of 2008, they generated most of the revenue from NPS. In 2009, they made up over 93% of the market volume.

[1] The operators are listed alphabetically, not by market share.

2. Development of the services in the scope of NPS

2.1 Development of courier services

In 2009, the courier services revenue constituted 81% of the volume of the NPS market, which was an 11% decrease since 2008. The revenue from domestic courier services, which constituted 72% of the total courier services revenue, declined by 15%, as compared with 2008. The relative share of the revenue from international outgoing courier services out of the total courier services revenue dropped by just 2 points in 2009, as compared with 2008, and made up 28% of courier services revenue.

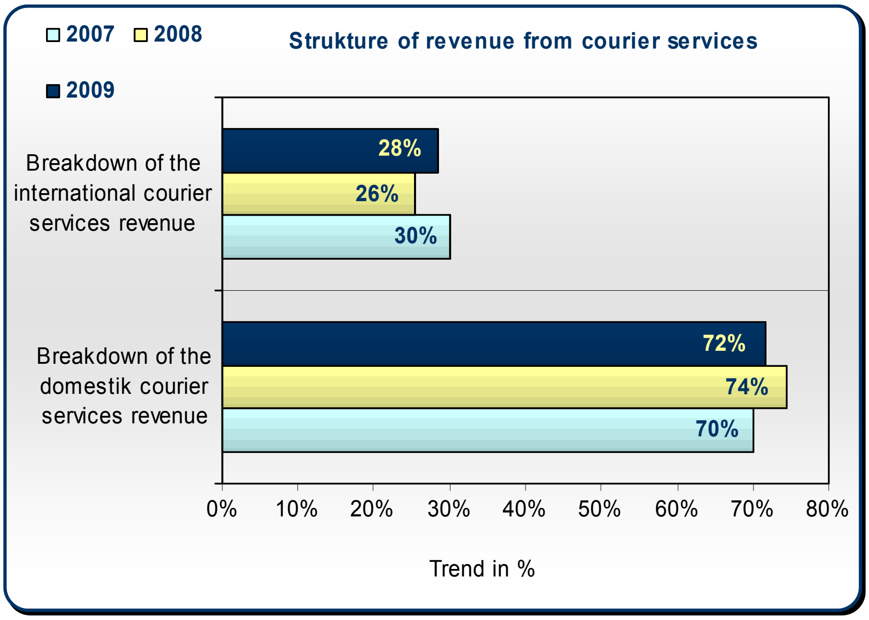


Fig. 17 Source: Data submitted to CRC

A trend for reduction in the provided courier services has been observed in the past three years. In 2008, as compared with 2007, the total number of processed postal items fell by 5%, while in 2009, the reduction, as compared with 2008, is now 14%. In the past year, most courier companies relied on the introduction of the services listed below to encourage consumption:

- Guaranteed time delivery of international postal items destined for Bulgaria;
- Sharing of the service cost between sender and recipient;
- Option to inspect the postal item before payment;
- Preparation of personal price plans;
- Low-carbon emission delivery in accordance with the global efforts for environmental protection;
- Increase in the number of access points;
- Introduction of 1-hour and 2-hour deliveries by the operators;
- Creation of an Electronic Office for individual preparation of the postal items by the users. The following features have been provided for this: financial discount, inspection of the contents before payment of cash-on-delivery and payment of cash-on-delivery by bank transfer;
- Increase in the discounts for loyal clients;
- Reduction in the delivery deadlines, while the current prices remain the same;
- Online courier order;
- Introduction of specialized training programs for the employees (couriers).

The main trends observed in the development of the courier market are:

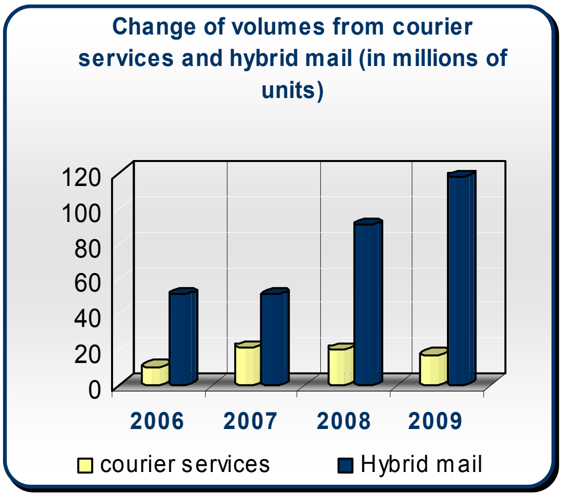
- Influence of the market leaders on the provision of courier services;
- Holding of the acquired market segment and strengthening of the market positions;
- Keeping of the price policy;
- Constant increase in the number of operators in the courier services market.

2.2 Development of the hybrid mail

In the past year of 2009, the revenue from the use of the hybrid mail service made up 18% of the NPS market volume, which was a 20% increase since 2008. In the reviewed period, the revenue from this service was generated by 8 operators, six of whom provided courier services as well.

The difference in the specifics of courier services and hybrid mail determines the different rate of change of the postal items and the revenue generated from both services.

In the last four years (or since its actual introduction to date), the provision of the hybrid mail service was marked by the stable trend for annual growth in the revenue and volume of postal items from this service. This relatively new service is currently developing and is yet to expand to its full potential.



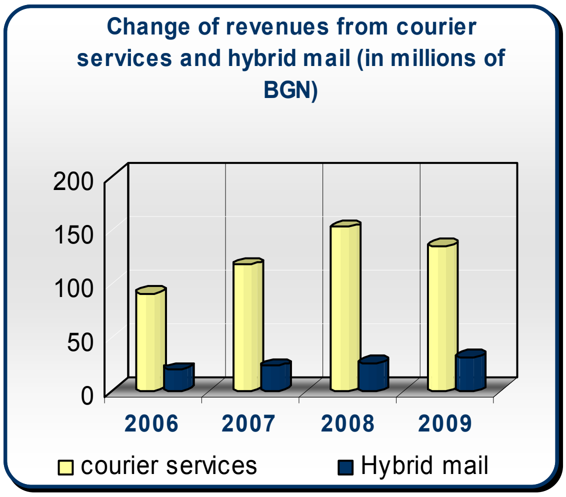


Fig. 18 Source: Data submitted to CRC

The main benefits of the service are targeted at businesses, but they may be taken advantage of by individual consumers just as successfully:

- Timesaving;
- Lower transit expenses than traditional mail;
- Service of a high quality.

Essentially, hybrid mail represents electronic data transmission, transformation of the data into postal items and delivery of the items to the recipients. The combination of the fast methods of communication in the 21st century with the stability of traditional mail has paved the way for a perfect symbiosis between the established postal technologies and the modern ones.

The most modern version of the hybrid mail application enables individual users to send messages from their computers to the nearest printing centre and accordingly the messages are sent to the recipient as postal items, neutralizing the environmental impact from transport of physical mail at long distances.

2.3 Trends in the development of NPS

The consumers demand an increase in quality or at least retention of the quality in return for lower prices. The change in the prices of a given service becomes the main competitive factor. Business clients are the main users of NPS, the portion of individual users is small. The business as a whole demands innovative solutions and technological advances in the provision of courier services.

These services are provided in conditions of completely free competition and are, accordingly, the most varied and consumer-oriented services from the full spectrum of the postal market.

The dramatic development of electronic communications paved the way for the appearance of innovative services in the NPS market such as:

- **E-commerce services** – with the ever wider penetration of the Internet in all spheres of society, e-commerce represents a serious opportunity for development of the postal market. It allows the introduction of new, flexible services that satisfy the consumers' requirements. Online shopping has huge potential, which is yet to be realized. The security of payments and the quality of goods offered on the global network are becoming ever more reliable. The improvement in internet security combined with the liberalization of the postal market will affect the development of the entire postal sector in a favourable manner;
- **Hybrid mail** [2] – this service was introduced by the German postal services company Deutsche Post. Users of the service send letters via the Internet to a post office branch, where they are printed, placed in envelopes and delivered to offices or private addresses by traditional postmen. The service is convenient for big companies looking for a cheaper way to deliver large quantities of mail. A **fully electronic** version of this service will also be offered whereby the letters will be delivered as emails. Since it cannot be proven that the free electronic messages have reached the address, this will be a paid service in order to protect the delivery in the event of a legal dispute.

[2] Source: Poshta za vas magazine, issued by Bulgarian Posts EAD.

3. State of competition in NPS

In the last four years (2006-2009), the number of registered NPS operators has grown from 59 to 80. In 2009, the NPS market held its position of an effective, relatively competitive field, characterized by medium to moderate concentration. The Herfindahl-Hirschman Index was used to measure the market concentration, the value of which was 1,063 for 2009. It was calculated based on data supplied by 94% of the registered postal operators at the end of 2009. The CR4 ratio of 59% also proves the relatively low level of concentration. For the last three years, the five operators with the largest revenue from performance of NPS constituted between 6% and 20% of the market shares.

In 2009, as compared with 2008, an increase in concentration was observed in the performance of NPS. In comparison with courier services, the hybrid mail service was characterized by a much higher degree of concentration.

3.1 Expectations of NPS operators in regards to the market and the competition

In conditions of competition, the main barriers that potential players on the NPS market face are related to the actions of the established postal operators. Already prominent courier firms and providers of the hybrid mail service are operating on the NPS market. They are well-known to the consumers (recognizable brand), have constructed a postal network on the territory of the entire country, offer a wide range of additional services and annually make up 90% of the market volume. These companies offer high quality domestic and international courier services at attractive prices. This has led the companies to enter into contracts with each other in order to realize economies of scale and range. However, these serious advantages of the active operators should not be seen as insurmountable barriers to penetration of the NPS market.

In any case, combined with the poor economic situation, this may cause the smaller operators to leave the market. The same could happen to operators whose main revenue comes from contracts with big clients who are also experiencing difficulties as a result of the crisis. This is a prerequisite for the unification of smaller operators or the bigger NPS operators to take over some of them. The time is ripe for the financially stable companies to cheaply acquire their competitors and thus expand their market shares.

What is interesting is the fact that almost all leading NPS operators are Bulgarian. This shows that Bulgarian operators successfully compete with globally performing brands.

Legally speaking, potential NPS operators do not face significant hurdles, since UPS is performed based on a registration system, and does not entail requirements for construction of a postal network on the territory of the entire country, coordination of prices, etc.

In conclusion, regardless of the economic downturn, most leading operators are optimistic in regards to the development of the NPS market.

Those who hold large markets shares still remain stable and are in condition to adequately react to negative changes in the market. They will extend their range of products and the quality thereof, which can affect the economy as a whole only in a positive way.

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

1. Report on CRC's monitoring activities

In 2009, authorized CRC officials carried out a total of 98 inspections in performance of the commission's legal obligation to monitor compliance to the requirements for performance of UPS, the state monopoly established on a reserved sector of UPS, the conditions for implementation of the issued individual licenses and the obligations of the operators performing NUPS.

The main postal operator Bulgarian Posts EAD and operators licensed to provide UPS or a part thereof were subjected to 85 inspections. According to the licensing conditions, operators must maintain and develop postal networks from organizationally and technologically interlinked units and facilities, taking into account the stages and the arrangement of locations of access points to the postal network. This is a lengthy process that requires significant resources. In the inspections, it was found that some operators have fallen behind in the implementation of the stages of postal network development, while one operator has not started the activity at all. As a result of the inspection, two operators were held penally responsible for administrative offences.

With the last amendment of PSA, in force from 03.11.2009, the requirement for mandatory territorial coverage of the entire country by all licensed operators was lifted. It remains in place only for the operator obligated to perform UPS – Bulgarian Posts EAD.

Thirteen inspections of operators registered to provide NPS were carried out. Two operators were held penally responsible for discovered administrative offences. Three of the inspected operators were not active in regards to business as per the registrations with which they have been issued.

As regards protection of the consumers' interests, CRC uses two instruments – approval of the General Provisions of the contract with the users of postal services and the right of consumers to file complaints and tips with the Commission. In the past year of 2009, 22 complaints/tips were considered, 16 of which were found to be groundless. The greatest number of complaints was in regards to delay in the delivery or non-delivery of international postal items, but they were all found to be groundless. One of the valid complaints was in regards to a lost courier item for which the complainant received compensation. The other 5 valid claims pertained to incorrectly paid out amounts of postal money orders, violations of PSA and collection of BGN 4 duty by Bulgarian Posts EAD for presentation before the customs for EU postal items, even though the duty was abolished on 25 January 2010.

2. Information related to compliance with the individual licenses

2.1 Postal networks of the operators providing UPS or a part thereof

Pursuant to Art. 5 of PSA, postal services are provided via postal networks. A postal network is an entity of organizationally and technologically interlinked units and facilities, including post offices, exchange and sorting centres, vehicles and technical equipment, constructed and used to accept, transport and deliver postal items, and provide postal money orders service.

In 2009, two post offices of the operator obligated to perform UPS were closed under observance of the requirements of the individual license for coordination with CRC and in accordance with the Standards for determining the density of the access points. Thus, at the end of 2009, the number of post offices was 2979, with 634 located in cities and 2345 – in villages. Out of the post offices in villages, 220 are located in villages with populations of less than 200 residents and 1171 – in villages with populations between 200 and 800 residents. In addition to post offices, postal services are provided via 142 postal agencies and 2611 country mailmen.

There are 5158 mailboxes for collection of unregistered letter-post items in use. For the country, the average population serviced by one post-box is 1467 residents.

The comparative table shows other average data for the country that characterized the changes in the postal network for a 3-year period:

	2007	2008	2009
1. Number of post offices	2986	2981	2979
In cities	636	631	634
In villages, including	2350	2350	2345
villages that have over 800 residents		973	954
villages that have between 200 and 800 residents		1171	1171
villages that have less than 800 residents		206	220
2. Population served by one post office	2570	2865	2552
In cities	8517	9889	8502
In villages	959	974	938
3. Territory served by one post office in km^2	36.95	37	37
4. Number of postal agencies	141	141	142
5. Number of mailboxes for collection of letter-post items	5332	5286	5185
In cities	2015	1947	1876
In villages	3317	3339	3309
6. Number of PO boxes		44154	43972

Source: Report on the performance of UPS in 2009 by BP EAD

The operator Tip-Top Courier AD, licensed to perform all UPS services, has had 54 postal services centres constructed (4 of which in Sofia). The offices in Sofia have 32 PO boxes. For convenience of the consumers, 10 mailboxes for collection of letter-post items have been placed near the postal service centres.

The other operator, licensed to perform all UPS services, is Econt Express OOD, which has 262 offices, 32 of which in Sofia. 932 mailboxes have been placed around the country.

M&BM Express OOD, also an operator licensed to perform all UPS services, provides services to consumers via 38 post offices, 2 of which are in Sofia.

Star Post EOOD, the last operator licensed to perform all UPS services in 2009, will begin its operations with 31 post offices.

Out of the operators licensed to execute postal money orders, the network of EasyPay AD is developing in the most dynamic manner, with 943 access points, the greater part of which are owned by partner organizations under contracts pursuant to Art. 22 of PSA. Leading factors in their selection were a wide and accessible business network and availability of suitable premises in small populated areas, where the operator does not have its own premises for performance of money order services, qualified staff and maintenance of cash on hand.

Factor I.N. AD increased the number of access points by 21, which brought their total to 85. Finance Engineering AD has 31 offices, 20 of which are under contracts, entered into pursuant to Art. 22 of PSA.

FK Cash Express Service EOOD and Cash Office AD were not active in 2009 either.

3. Quality of UPS in 2009

In accordance with the provisions of Directive 97/67/EC, incorporated into PSA, the requirement for measurement of the compliance to the Standard quality levels for the universal postal service and service efficiency concerned only the operator obligated to perform UPS – Bulgarian Posts EAD.

The measurement of the end-to-end transit time for priority items of correspondence within the country was performed using the DIAMON system, developed in accordance with the requirements of Standard BDS EN 13580:2004.

3.1 Transit time for domestic non-registered priority postal items

End-to-end transit time	Quality target	Results 2008	Results 2009
D+1	Not less than **80%** of the postal items	68,78%	84,2%
D+2	Not less than **95%** of the postal items	91,43%	97,4%

The measures taken to improve the organization of the processes of all participants in the postal chain have resulted in significant improvement in the quality of the service in the past year, with the quotas not only reached, but also exceeded. However, the percentage of postal items reported as lost was high – 4.7%. Just to compare, in 2006, when measurement of the quality was performed by an independent organization, the postal items not received at the addresses were 1.55%.

It must be noted that the relative share of domestic letter-post priority items, as compared with non-priority items, is extremely small – 0.95%, i.e. for each first class items there were 106 second class items.

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

End-to-end transit time	Quality target	Results 2008	Results 2009
D+2	Not less than **80%** of the items of correspondence	84,96%	90,48%
D+3	Not less than **95%** of the items of correspondence	96,09%	98,01%

3.3 Transit time for domestic postal parcels

End-to-end transit time	Quality target	Results 2007	Results 2008	Results 2009
D+1	Not less than **70%** of the postal parcels	86,34%	85,46%	85,39%
D+2	Not less than **80%** of the postal parcels	97,55%	97,84%	97,03%
D+3	Not less than **95%** of the postal parcels	99,60%	99,71%	99,76%

3.4 Transit time for domestic postal money orders

End-to-end transit time	Quality target	Results 2007	Results 2008	Results 2009
D+1	Not less than **85%** of the postal money orders	85,96%	81,75%	85,73%
D+2	Not less than **92%** of the postal money orders	97,55%	96,82%	97,36%
D+3	Not less than **98%** of the postal money orders	99,73%	99,61%	99,85%

It is clear that the results from the 3-year period presented in the table meet the specified targets.

3.5 Transit time for international postal items

The time for conveyance from end to end of international priority postal items is measured using the UNEX system, introduced in Bulgarian Posts EAD since the start of 2008. The system covers public postal operators within the EU and is organized according to the requirement for independent measurement of the time for conveyance from end to end of Directive 97/67/EC on common rules for the development of the internal market of Community postal services and the improvement of quality of service and in line with the requirements of Standard EN 13580.

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

End-to-end transit time	Quality target	Results 2007	Results 2008	Results 2009
D+3	Not less than **85%** of the postal items	50,89%	49%	71,4%
D+5	Not less than **97%** of the postal items	84,03%	85,1%	95,5%

Regardless of the fact that results have significantly improved since 2008, the targets were still not reached, D+3 in particular. The analysis of the operator’s results shows that the failure to meet the internal monitoring deadlines for processing in the Bulgarian Exchange and Sorting Centre led to a poorer total result.

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

End-to-end transit time	Quality target	Results 2007	Results 2008	Results 2009
D+4	Not less than **55%** of the postal items	51,85%	57,83%	61,42%
D+6	Not less than **80%** of the postal items	81,44%	84,13%	87,15%

The targets for priority and non-priority unregistered postal items from geographic areas outside Europe were met.

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

Settlement	Days of the week	Number of collections per day	Quality target	Results 2007	Results 2008	Results 2009
Sofia	From Monday to Friday Saturday and Sunday	2 1	**95%**	99,06%	99,48%	99,62%
With RSC	From Monday to Saturday	1				
Without RSC	From Monday to Friday	1				

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

Settlement	Days of the week	Number of deliveries per day	Quality target	Results 2007	Results 2008	Results 2009
Sofia	From Monday to Saturday	2	**95%**	98,81%	99,57%	98,99%
With RSC	From Monday to Saturday	1				
Without RSC	From Monday to Friday	1				

3.8 Time limits for handling of complaints

Standard term for handling of complaints	Quality target	Results 2007	Results 2008	Results 2009
30 days for domestic postal services	Not less than **90%** of the complaints	86,81%	94,44%	91,39%
90 days for international postal services	Not less than **90%** of the complaints	91,31%	95,75%	94,67%

In 2009, CRC did not organize measurement of UPS quality by an independent external organization. By the amendment of PSA, in force from 03.11.2009, Bulgarian Posts EAD must ensure that compliance to the Standards is measured annually at its expense by an independent organization under conditions, which are in conformity with the effective standards for quality of postal services.

The table below contains information on Quality Standard D+1 for domestic priority (1st class) postal items and results from the measurements in some European countries in 2009.[3]

3 The data is from CRC research

Country	Target (D+1)	Result 2009
Belgium	90%	93.2%
Bulgaria	80%	84.2%
Czech Republic	91%	92.1%
Denmark	93%	95.7%
Estonia	90%	93.8%
Finland	85%	93.5%
France	84%	84.7%
Germany	80%	94.4%
Greece	87%	81.5%
Hungary	85%	93%
Ireland	94%	84%
Latvia	97%	96.3%
Lithuania	85%	74.6%
Malta	93%	95.1%
Norway	85%	88.3%
Poland	82%	52%
Portugal	94.5%	95.2%
Slovenia	95%	93.9%
Sweden	85%	95.7%
Switzerland	97%	97.7%
United Kingdom	93%	87.7%

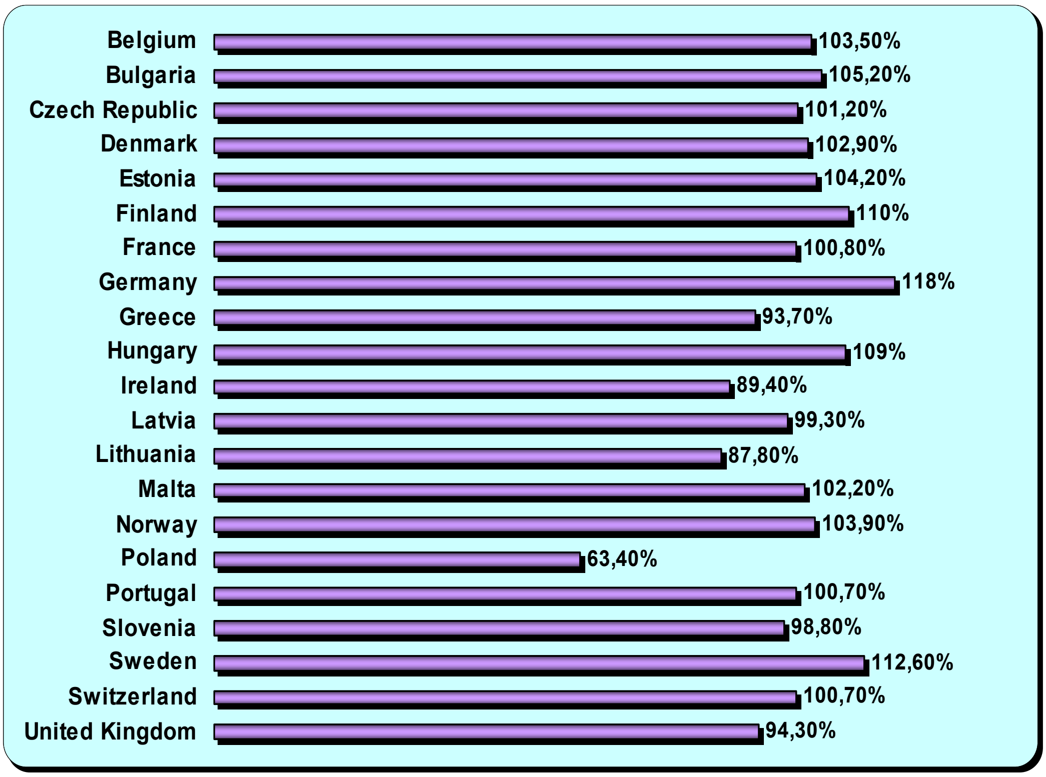


Fig. 19

Chart 19 was prepared based on the data from the above table and presents the compliance (as a percentage) to the service quality standards in the respective countries.

3.9 Complaints regarding services within the scope of the UPS

According to data from the annual questionnaires for operators that provide UPS or a part thereof, in 2009, 5649 complaints were submitted, which were classified as follows:

Written complaints submitted in 2009	Number	
	domestic	international
Complaints (in total)	**1139**	**4510**
justified complaints	489	386
Breakdown of complaints according to cause:		
1. lost item	43	223
2. delayed item	294	46
3. damaged or with missing content (totally or partially) item	42	24
4. mis-delivery	27	26
5. returned postal parcel without reason for non-delivery	20	25
6. unpaid or wrongly paid amounts of postal money orders	11	7
7. general complaint (claim based on a general dissatisfaction with the service the postal operator provides)	8	7
8. concerning the behavior and competence of postal employees	39	26
9. concerning treatment of complaint	5	
Complaints with payment of compensation	**number**	**BGN**
	208	**5736**

The number of complaints made in 2009 was significantly higher than 2008. The justified complaints for domestic postal items increased 3.5 times while the ones for international postal items increased twice. The justified complaints comprised 15% of the total number of submitted complaints, as opposed to 9.33% in 2008. The number of complaints that were settled by payment of compensation, as well as the total amount of compensation paid out, also grew.

One of the postal operators found a novel approach – instead of money, it compensated consumers with postal materials (stamped envelopes), which is a way to attract them to use its services again.

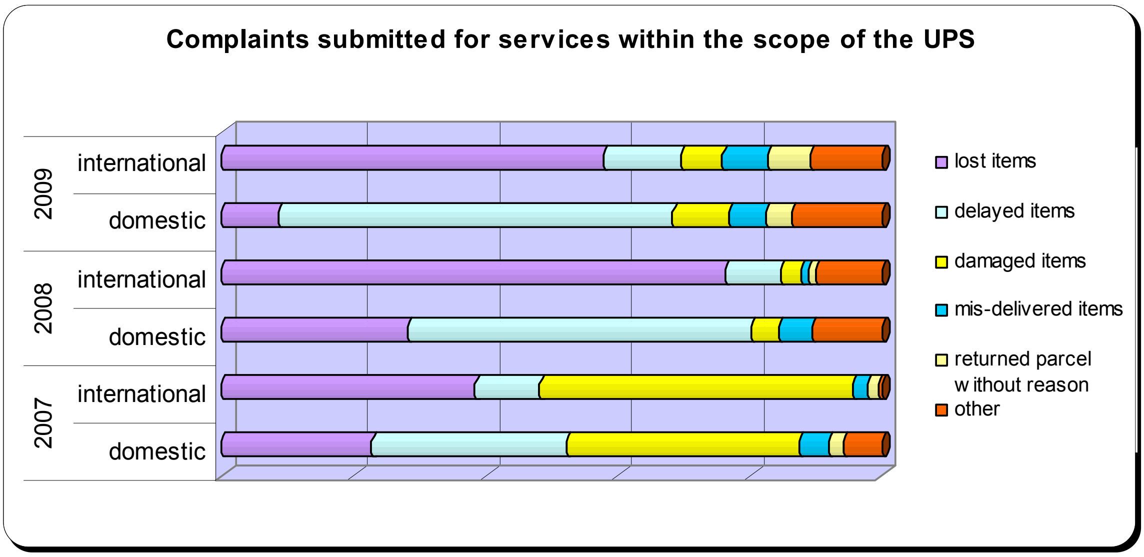


Fig. 20

The chart above presents the dynamics of the changes in the reasons for making complaints for a 3-year period. While in 2007 the claims were predominantly for damaged, lost and delayed postal items, in 2008 most complaints were for late delivery of domestic postal items and lost international postal items, with the number of other types of complaints also growing. In 2009, the share of complaints for lost items fell among domestic postal items at the expense of a drastic increase in complaints for late delivery of postal items – 4 times; this type of complaints increased 3 times for international postal items. The number of complaints regarding the behaviour and competence of postal employees (column "other") grew considerably, which is a clear warning of the growing choosiness of consumers.

3.10 Complaints for non-universal postal services

The complaints for NPS for 2009 are distributed by number and reasons as follows[4]:

Complaints (in total)	**7684**	
including justified complaints	2783	
Breakdown of complaints according to cause		
1. damaged item (the integrity of the item is violated)	380	
2. lost item (the item is not delivered to the customer)	632	
3. rifled item (postal item with wholly or partially missing content)	161	
4. destroyed item (postal item so damaged that it cannot be used as intended)	96	
5. item delivered with a delay of the deadline for delivery	1032	
6. others	482	
Complaints with payment of compensation	**number**	**BGN**
	2199	**248581**

In comparison with 2008, the number of complaints grew more by the total number of submitted complaints than by the number of valid ones. The number of complaints settled by payment of compensation grew by 6%, while the amount of compensation paid out was marked by a growth of 44%.

[4] The data are from the annual questionnaire for operators performing NPS

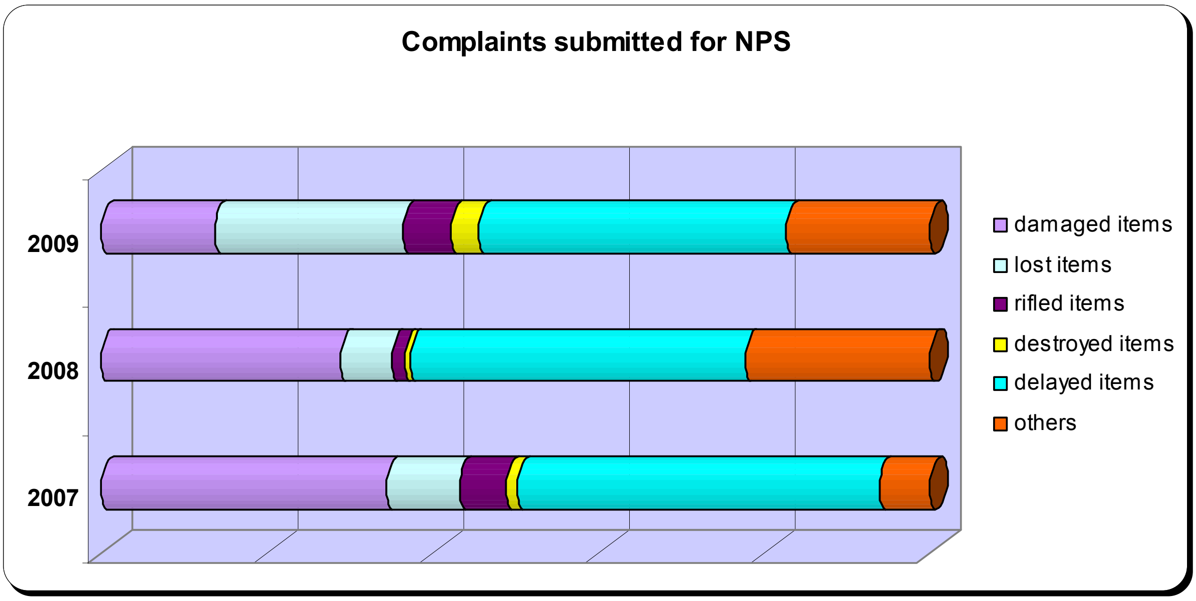


Fig. 21

Chart 21, presenting the change in the number of complaints according to the reasons for making them for a 3-year period, shows a consistently large number of complaints for late delivery, declining number of complaints for damaged items, particularly in 2009 (2 times decrease), at the expense of the growing number of complaints for lost items, which increased nearly 4 times.

V. Conclusion. Outlook for development of the postal market

In the past year, the trend of sustainable growth of the volume of the entire postal market by 20% annually was interrupted as a result of the worsening of the domestic economic situation. The following changes in the provision of postal services are expected to occur in 2010 as a result of the shrinkage in consumption and in investments as a whole in conditions of crisis:

- The volume of the Bulgarian postal market will decline, as compared with 2009;
- It is expected that the number of postal operators who wish to provide NPS will grow;
- The number of handled UPS items will fall from the 2009 figure. On the whole consumers' interest will be focused on non-priority items of correspondence up to 50 g (services in the reserved sector);
- The number of postal items consumed by business users will fall as compared with 2009, but the share of UPS items sent by business users to individual ones will grow;
- The amount of revenue generated from NPS will continue to fall;
- As compared with 2009, the number of provided courier services will fall, while the number of hybrid mail items will grow;
- The market share of alternative licensed operators of the entire postal market will grow;
- New contracts for access to the network will be entered into between the postal operator with the obligation for the provision of the UPS and the other licensed operators;
- Competition in services outside the reserved sector will intensify;
- NPS will continue to be provided in conditions of strong competition, but with increase in the level of concentration, especially in regards to courier services.

In 2010, the main priority in the activity of CRC will be the preparation for enforcement of the requirements of Directive 2008/6/EC on amendment of Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services. Regulation of the provision of access to the network of the operator with the obligation for the provision of UPS will also intensify, since, in practice, the obliged operator owns the only network that covers the territory of the entire country.

The implementation of Directive 2008/6/EC in the national legislation will be related to the creation of a new regulatory framework, which will aim to create conditions for a gradual opening up of the postal services market and promotion of competition, while simultaneously ensuring the performance of UPS on the territory of the entire country.

Protection of consumers' interests will also remain an important aspect of CRC's activities. In this respect, the regulator's activities relate to consideration and coordination of the general conditions of the contracts between users of postal services and all postal operators on the one hand, and creation of an optimal organization and rules on receipt, consideration and response to the submitted complaints on the other.