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Research on demand

Bulgarian voice telephony market in 2012

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Telecommunication is a combination of technological means, such as optical signals and radio waves, used for transfer of audio, video or digital information over a distance or along a transmission line. Telecommunication services include voice telephony, data transfer and Internet access, transmission and broadcasting of radio and television programmes.

1. Methodology

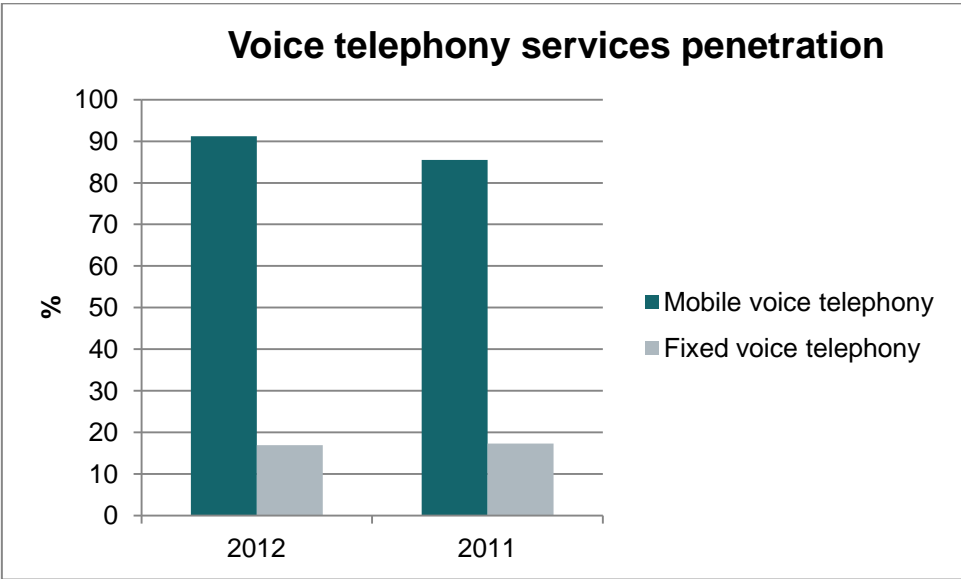
The market research followed a methodology based on desktop and primary industry research. We looked through official sources including World Bank, International Telecommunication Union (ITU), World Trade Organization, Communications Regulation Commission of Bulgaria, Bulgarian National Statistical Institute, Commission for Consumer Protection, trade register, the websites of leading telecoms, associations and official media publications.

We have gathered and analysed data from the companies' annual reports, monitoring latest news in the Telecommunication sector in Bulgaria.

2. Overview

The mobile voice services were leading in the world telecommunication market in 2012 according to International Telecommunication Union (ITU). The mobile voice services penetration reached 91.2% in 2012, an increase by 5.71% year-on-year. Reverse tendency was observed for usage of traditional telephony services through fixed network where the penetration stood at 16.9% in 2012, down by 0.4% year-on-year and the number of fixed telephony lines was 1,186 billion, a decline by 1.5% compared to 2011.

Chart 1 Voice Telephony Services Penetration in the World Telecommunication Market



Source: Communications Regulation Commission

Slowdown in economic activity and soaring unemployment rates put a mark on the year in Bulgaria and all over in Southeastern Europe (SEE). The recession in the Eurozone had unfavourable influence upon SEE countries' foreign direct investment and external demand.

Bulgaria achieved a slight economic growth in 2012. Its GDP went up by 0.8% in 2012 compared to 1.8% in 2011. The main reason for the weaker economic activity was the dwindling foreign demand for Bulgarian goods and services. Real GDP growth is expected to slow down in 2013 to 0.5% from 0.8% in 2012.

3. Legislation

The acts dealing with telecommunications in Bulgaria are:

- Electronic Communications Act - This act settles the public relations associated with the provision of electronic communications. Electronic communications represent the conveyance, emission, transmission or reception of all types of signs, signals, written text, images, sound or messages by wire, radio waves, optical or other electromagnetic medium.
- Telecommunications Act – repealed by the Electronic Communications Act.
- Protection of Competition Act- This act aims at ensuring protection and conditions for economic activity initiatives and competition expanding.
- Consumer Protection Act – The act regulates the protection of consumers, the powers of State bodies and the activity of consumers and associations in Bulgaria.

4. Stakeholders in telecommunication sector in Bulgaria

The state governance of telecommunications in Bulgaria is carried out by the Council of Ministers, the National Radio Frequency Spectrum Council and also by the Minister of Transport, Information Technology and Communications. Other stakeholders are the National Assembly of the Republic of Bulgaria, European Commission, the Universal Service Compensation Fund, the President of Republic of Bulgaria, Commission for Protection of Competition, the Council for Electronic Media and Commission for Consumer Protection.

In February 2002, under the new law for electronic communications, the Communications Regulation Commission (CRC) was established as a successor of the activity, ownership, archives, rights and obligations of the State Committee on Telecommunications (STC). The construction and usage of cellular mobile networks was subject to licensing from STC till February 2002.

CRC is responsible for the regulation and control in the provision of telecommunications. The Commission executes the primary and secondary legislative acts, general administrative acts in the field of telecommunications and also implements the state sector policy regarding telecommunications, radio spectrum planning and allocation, and postal services.

The Communications Regulation Commission cooperates with the Commission for Protection of Competition regarding consultancies, information exchange and joint working groups.

Bulgarian cluster Telecommunications (BCT) was established in the beginning of 2008 under the initiative of Foundation ICT Cluster and comprises Bulgarian manufacturers and developers of ICT products and services.

Telecommunications Association was established in Bulgaria in 2002. Some of the main objectives of the association are collaboration in developing the new legal framework, assistance in the process of regulating the telecommunication market, participation in EU programmes, further specialisation and professional qualification of its members.

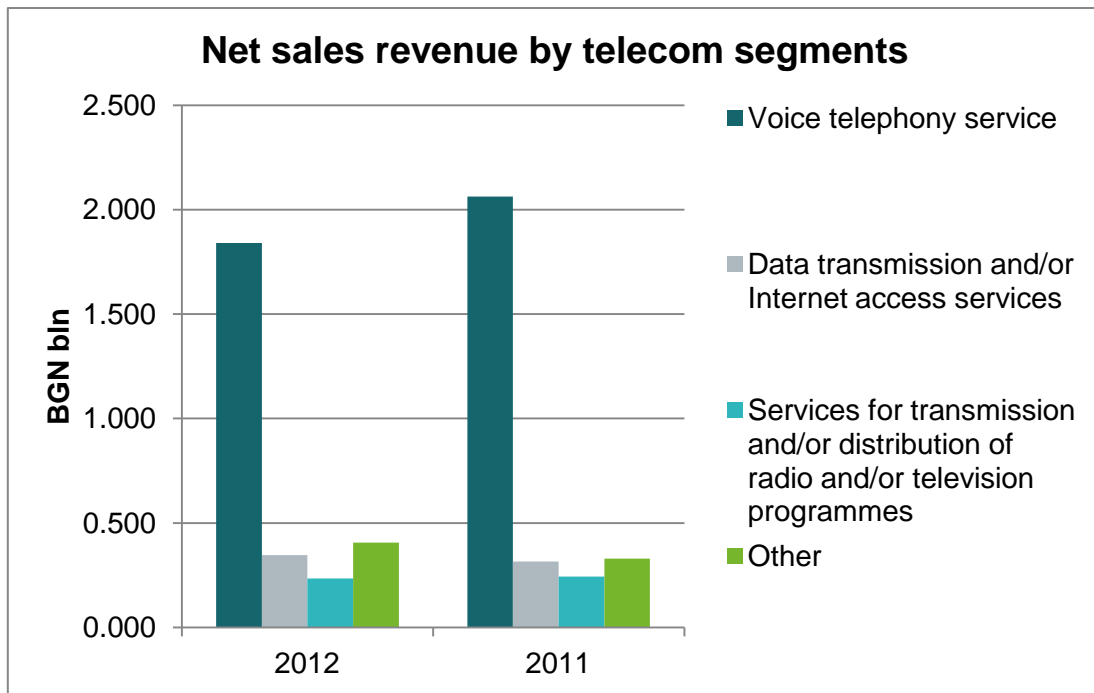
Another organisation in the sector is the Society for Electronic Communications, an organisation of the alternative telecommunication operators in Bulgaria which aims at establishment and development of fair competitive and non-discriminatory electronic communication market.

5. Voice telephony services

5.1 Market volume

According to CRC data, the total market volume of telecommunication sector in Bulgaria in 2012 decreased by 4.0% year-on-year. The most affected was net sales revenue from voice telephony services which dwindled to BGN 1.840 bln in 2012 from BGN 2.062 bln in 2011. In 2010 the market totalled BGN 2.323 bln.

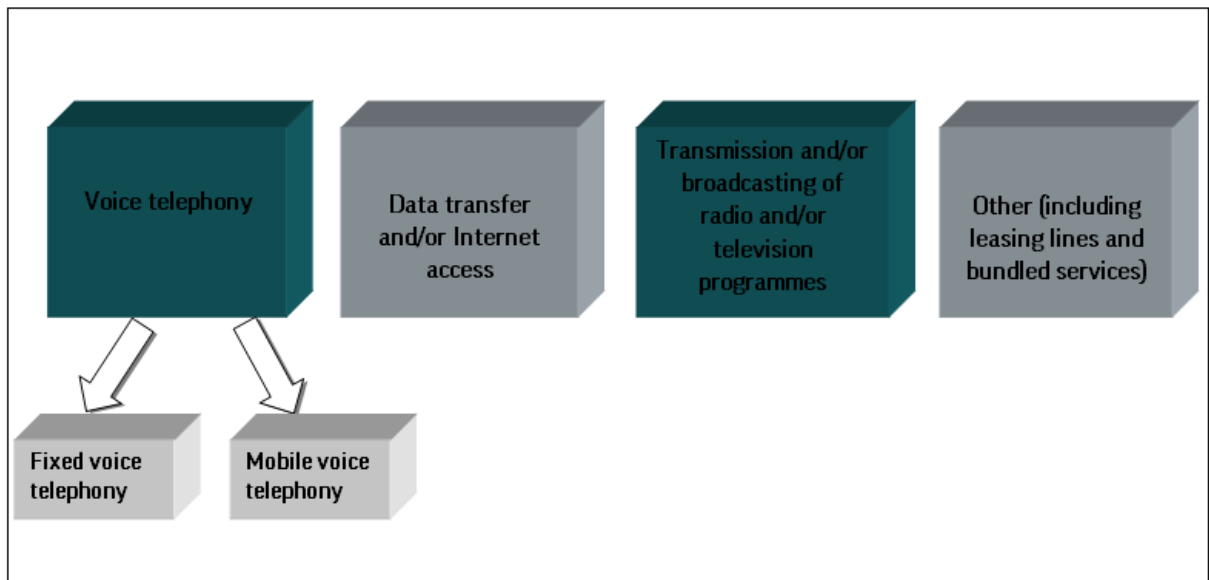
Chart 2 Net sales revenue by telecom segments



Source: Communications Regulation Commission

5.2 Market segmentation

Figure 1 Segments of the telecommunications services market



Telecommunication sector in Bulgaria is divided into three main segments. These are:

- Voice telephony

- Data transfer and/or Internet access
- Transmission and/or broadcasting of radio and/or television programmes.

There are other services such as leasing lines, bundled services, provision of duct access, satellite systems access services, co-location services other than the provided for interconnection and unbundled access.

The Voice telephony segment is split into two sub segments - Fixed voice telephony and Mobile voice telephony.

The number of companies that provided voice telephony services in 2012 was 25, two more than in 2011. The operating revenue of all companies amounted to BGN 2.6 bln in 2012, with a compound annual growth rate (CAGR) of -2.56%. Our estimations for the operating revenue value is to reach BGN 2.54 bln in 2013, 3.0% decrease year-on-year and BGN 2.37 bln in 2014, a 7.0% decline year-on-year.

Table 1 Bulgarian Voice Telephony Market

Bulgarian Voice Telephony Market							
Company name	Operating revenue 20 12 (BGN mln)	Market share 20 12	Market penetration 20 12	Operating revenue 20 11 (BGN mln)	Market share 20 11	Operating revenue 20 10 (BGN mln)	Market share 20 10
Mobitel EAD	894.4	34.29%	34.29%	1030.4	36.37%	1103.6	39.14%
Bulgarian Telecommunications Company AD	853.3	32.71%	67.00%	895.9	31.62%	896.4	31.79%
Cosmo Bulgaria Mobile EAD	625.2	23.97%	90.97%	696.9	24.60%	736.9	26.13%
Blizoo Media and Broadband EAD	104.1	3.99%	94.96%	111.7	3.94%	N/A	N/A
Voxbone SA.	35.2	1.35%	96.31%	29.7	1.05%	24.7	0.88%
BTC NET EOOD	28.2	1.08%	97.39%	0.215	0.01%	0.546	0.02%
Tera Communications AD	13.3	0.51%	97.90%	14.0	0.49%	13.0	0.46%
Orbitel EAD	11.2	0.43%	98.33%	12.9	0.46%	15.0	0.53%
Interoute Bulgaria EAD	9.6	0.37%	98.70%	11.7	0.41%	9.4	0.33%
Global Communication Net AD	8.3	0.32%	99.01%	6.9	0.24%	N/A	N/A
Kabel Sat-Zapad OOD	6.0	0.23%	99.24%	5.6	0.20%	5.2	0.18%
Voicecom AD	5.7	0.22%	99.46%	5.6	0.20%	6.0	0.21%
Vestitel BG AD	4.4	0.17%	99.63%	3.7	0.13%	1.1	0.04%
NET - CONNECT INTERNET EOOD	2.5	0.10%	98.70%	0.002	0.00%	N/A	N/A
Gold Telecom Bulgaria AD	1.8	0.07%	99.01%	1.3	0.05%	1.4	0.05%
Netfinity EOOD	1.2	0.05%	99.24%	0.752	0.03%	0.411	0.01%
Interbild OOD	1.1	0.04%	99.46%	1.6	0.05%	2.3	0.08%
Escom OOD	1.1	0.04%	99.63%	0.432	0.02%	N/A	N/A
Eastern Telecommunication Company AD	0.469	0.02%	99.73%	0.186	0.01%	0.517	0.02%
ITD Network AD*	0.450	0.02%	98.77%	0.520	0.02%	N/A	N/A
Varna Net OOD	0.427	0.02%	99.06%	0.385	0.01%	0.389	0.01%
Nexcom - Bulgaria EAD	0.318	0.01%	99.29%	0.916	0.03%	N/A	N/A
Telecom 1	0.185	0.01%	99.50%	0.2	0.01%	0.223	0.01%
VMobile AD	0.039	0.001%	99.65%	0.000	0.00%	N/A	N/A
NET IS SAT OOD	N/A	N/A	N/A	1.9	0.07%	2.6	0.09%
Total	2,608	100%		2,833	100%	2,820	100%

(*) Net sales revenue from fixed telephony service

Source: Ciela, SeeNews

5.3 Investments

Investments in construction and maintenance of public electronic networks and services in 2012 recorded a 24% decrease year-on-year, to BGN 548 mln, although nearly 60% of the telecommunication companies had made some investments. The companies that announced its plans for investments in 2013 are by 20% less compared to the previous year.

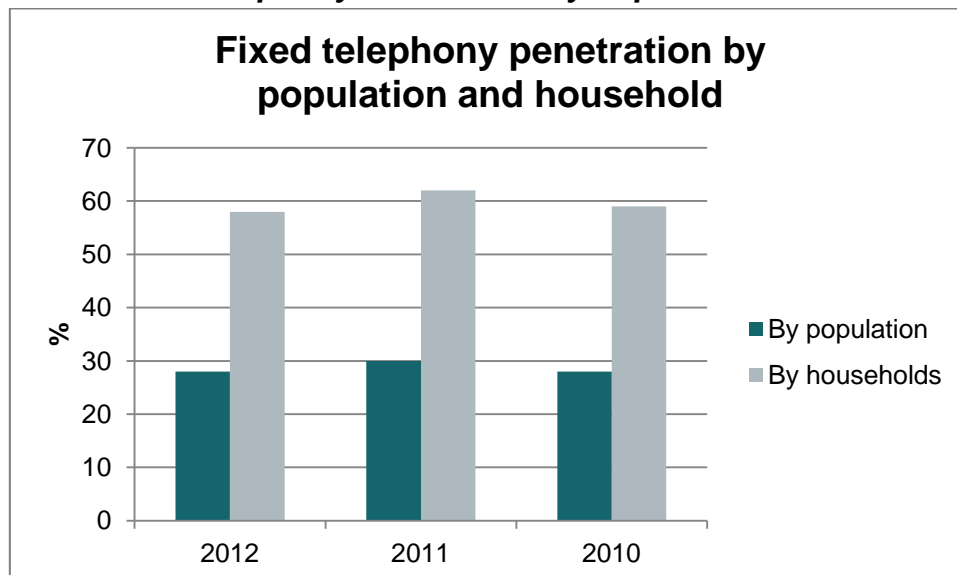
5.4 Fixed voice telephony services

The companies providing fixed voice telephony services can be classified into two main groups:

- Companies that provide public electronic communications under authorization regime through the usage of individually assigned scarce resource - numbers. This group includes companies that provide access to the public telephone service through geographic numbers and through the carrier selection service and also companies that provide services through non-geographic numbers, telephone inquiry services, transit service and others.
- Companies that provide access to public telephone services via public payphones under a notification regime.

The penetration of fixed telephony services by population and household went down in 2012 by 7.0% and 6.0% correspondingly compared to a year ago.

Chart 3 Fixed Telephony Penetration by Population and Household



Source: Communications Regulation Commission

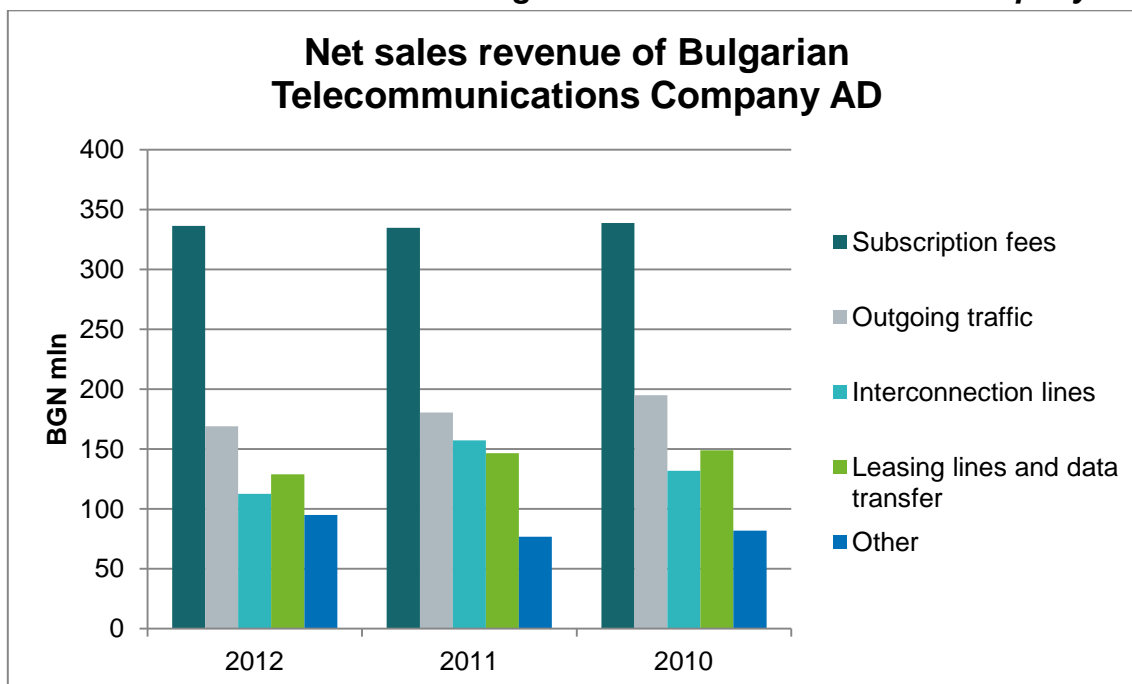
The dominant fixed-line telephony operator in Bulgaria is Bulgarian Telecommunication Company AD (BTC), under trademark Vivacom. The market

share of BTC, calculated on the basis of net sales revenue from the provision of public telephone service via fixed network and carrier selection service, was 87.3% in 2012, down by 3.9% year-on-year according to CRC.

Table 2 Bulgarian Telecommunication Company AD profile

Name	Bulgarian Telecommunications Company AD
Date of establishment	Dec 24, 1992
Headquarters	1784 Sofia, 115 I Tsarigradsko shose Blvd.
Website	www.vivacom.bg
E-mail	ir@vivacom.bg
Phones	+359 2 949 43 31
Owners	Viva Telecom Bulgaria EAD
Top management	Atanas Dobrev - CEO
Services	<ul style="list-style-type: none"> • Fixed-line telephony services • Mobile communications services • Internet and data services • Radio and television data transfer • Leased lines • VoIP • Public payphones • Digital TV
ISO certification	ISO 9001:2008 Quality management systems certificate ISO 14001:2004 Environmental management systems certificate ISO 27001:2005 Information and data security certificate

Chart 4 Net Sales Revenue of Bulgarian Telecommunications Company AD



Source: Bulgarian Telecommunication Company AD's non-consolidated annual reports

The prices for fixed networks changed to BGN 0.009 per minute from BGN 0.0105 per minute in the beginning of July 2012. Since January 2013 the price is BGN 0.0085 per minute.

The net sales revenue from fixed telephone services, access to public telephone services through the carrier selection service and access to public telephone services through public payphones and phone booths in 2012, declined by 3.8% year-on-year to BGN 309 mln. In 2011 the net sales revenue dropped by 15.8% compared to a year ago.

The total outgoing traffic, measured in minutes, coming from subscribers of national and international calls also sank – in 2012 by 10% year-on-year and in 2011 by 9.5% year-on-year.

Consumption of the carrier selection service continued to fall down in 2012. The volume of traffic coming from usage of the carrier selection service was 50% less than in 2011. Its share in the volume of telephone traffic from subscribers of fixed telephone service was 0.2% in 2012.

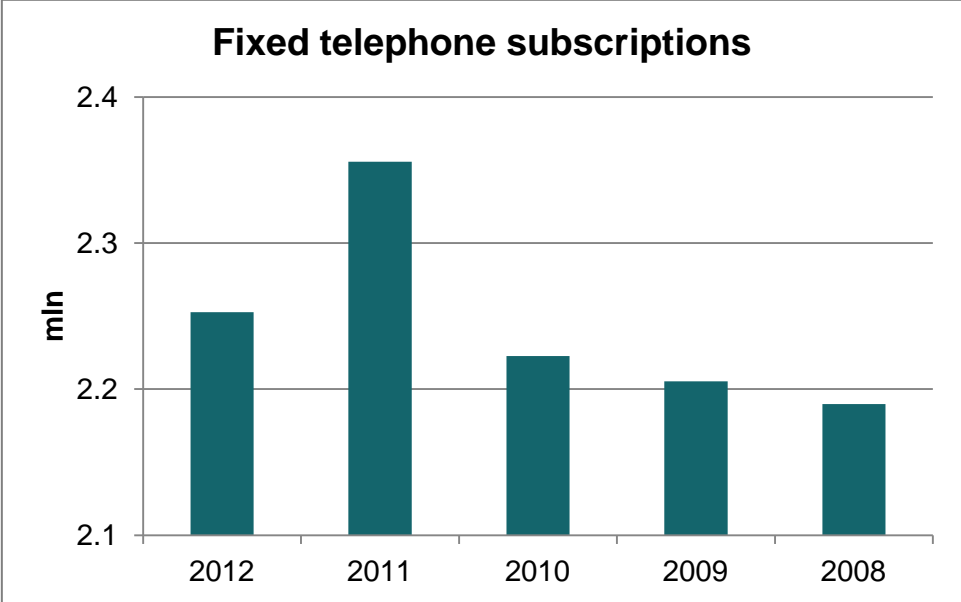
The number of companies that provided access to fixed telephone service through geographic numbers from the National Numbering Plan (NNP) was 20 at the end of 2012 but three of them offered access to public telephone service via the carrier selection service as well.

The number of fixed telephone lines declined by 6.1% in 2012 year-on-year. The number of subscribers that used fixed telephone services together with another

telecommunication service edged up by 1.8% during 2012, compared to a climb of more than 50% in 2011.

The number of public payphones and phone booths tottaled 11,080 in 2012, down by 2.4% compared to 2011.

Chart 5 Fixed Telephone Subscriptions



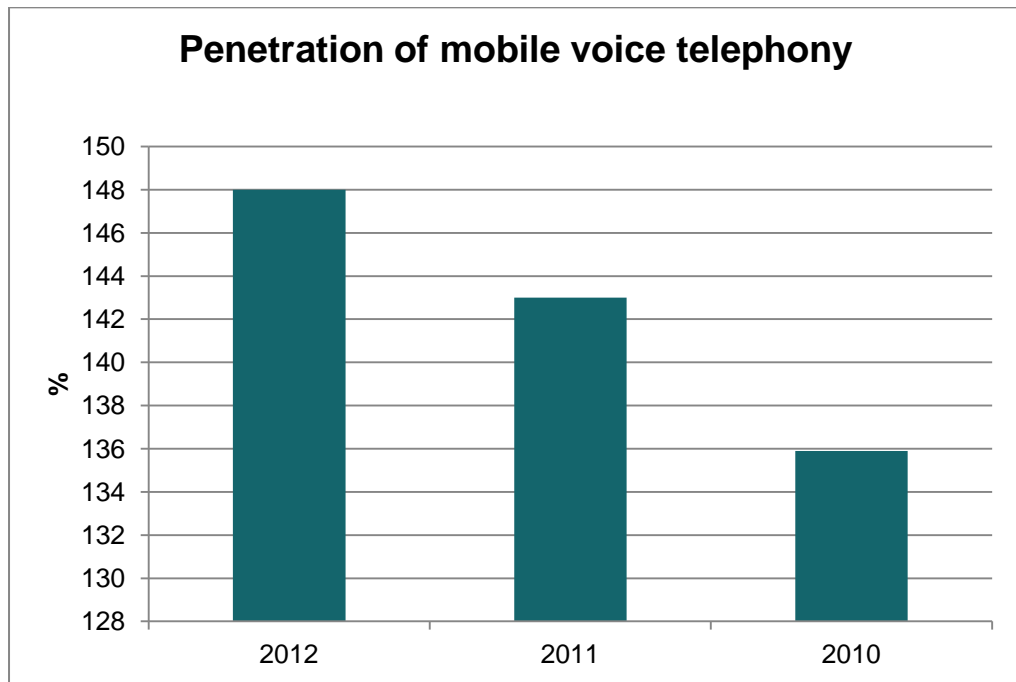
Source: International Telecommunication Union (ITU)

The fixed telephone subscriptions diminished to 2.25 million in 2012 from 2.36 million in 2011. The reduction of number of subscribers and usage of fixed telephony services is mainly a result of the deep penetration of mobile telephony services on the market.

5.5 Mobile Voice Telephony Services

According to CRC data, the penetration of mobile services in Bulgaria reached 148% in 2012, up by 3.0% year-on-year.

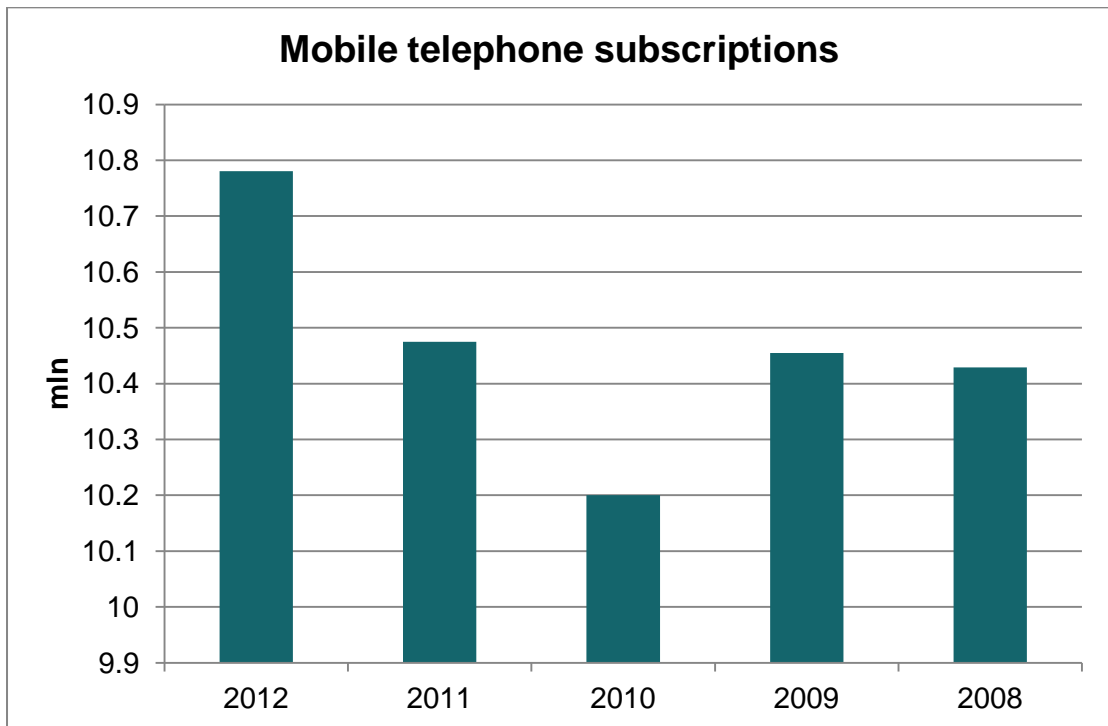
Chart 6 Penetration of Mobile Voice Telephony



Source: Communications Regulation Commission

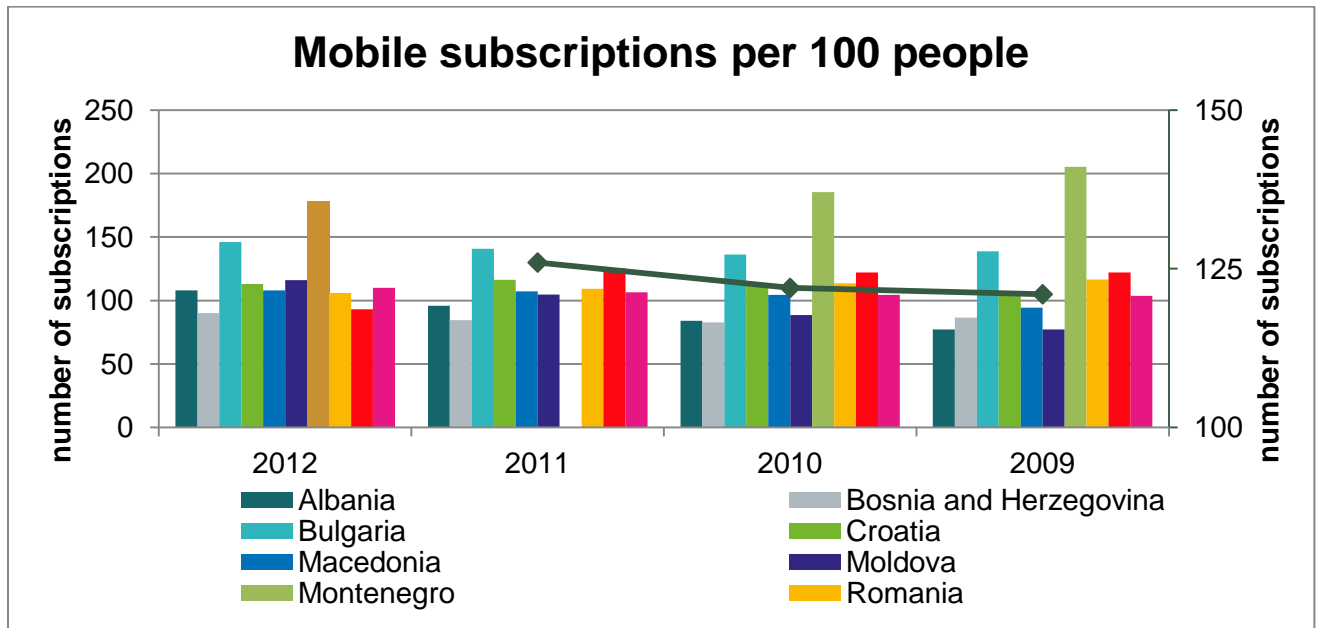
Three companies offered mobile voice telephony services in Bulgaria in 2012 via networks operating in bands of 900 MHz, 1800 MHz and 2GHz: Mobiltel EAD, Cosmo Bulgaria Mobile EAD and BTC AD. Although the number of subscribers of this service grew in 2012 by 3.0% year-on-year, the net sales revenue from the segment went down.

Chart 7 Mobile Telephone Subscriptions



Source: International Telecommunication Union (ITU)

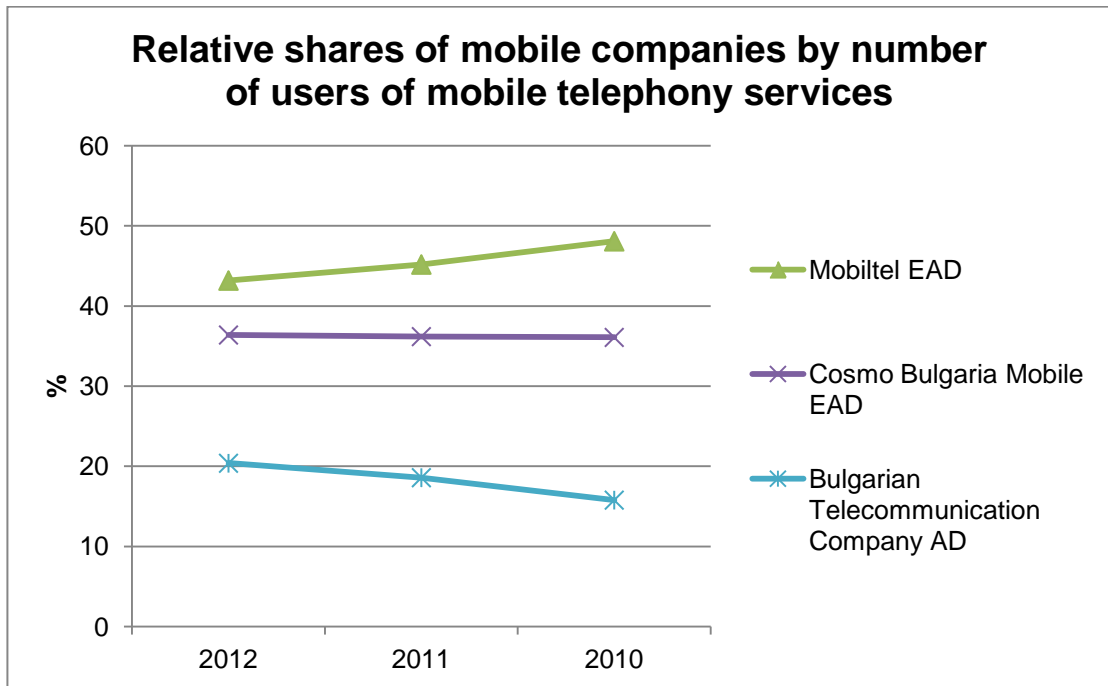
Chart 8 Mobile Subscriptions per 100 People



Source: World Bank

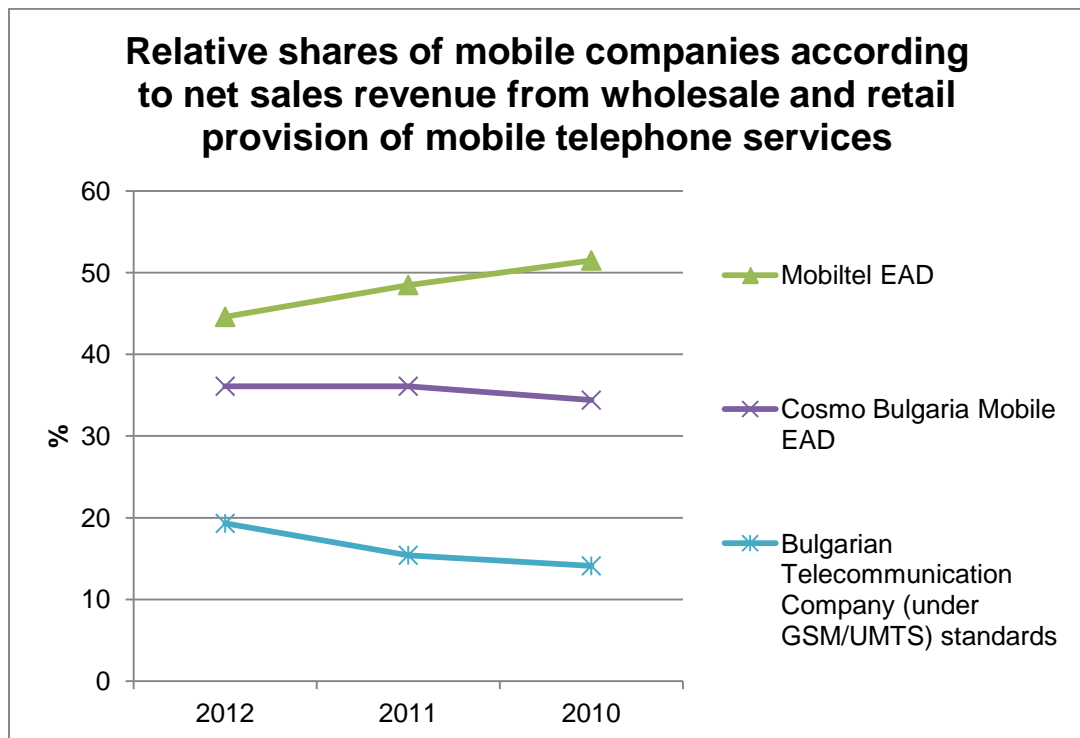
The leader among telecom operators in terms of net sales revenue in 2012 was Mobiltel EAD, a unit of Telecom Austria. However, according to CRC its market share in terms of subscribers and in terms of net sales revenue continued to shrink in 2012 due to the mature mobile market and increased competitiveness on behalf of Bulgarian Telecommunications Company AD and Cosmo Bulgaria Mobile EAD, operating under trademark Globul. The subscribers of Mobiltel in 2012 stood at 43.2% compared to 45.2% a year ago. BTC reported a rise to 20.4% from 18.6% in terms of number of users. Globul kept its position as in 2011. Its market share in terms of subscribers in 2012 was 36%.

Chart 9 Relative Shares of Mobile Companies by Number of Users of Mobile Telephony Services



Source: Communications Regulation Commission

Chart 10 Relative Shares of Mobile Companies by Net Sales Revenue



Source: Communications Regulation Commission

The total revenue from mobile voice telephony services was BGN 1.524 bln in 2012, a drop by 12.1% compared to 2011. According to CRC, the reasons for this downturn were the unfavourable economic conditions during the last years, the long-term effects such as saturation of the traditional markets of voice services and their entering into maturity stage. Another significant factor is the CRC stronger regulations.

Market analyses carried out by CRC resulted in gradual slump of wholesale prices of mobile and fixed telephony services. The last amendment from July 2013 reduced the wholesale prices in the mobile networks to BGN 0.023 as a result of implementation of Bottom-Up Long-Run Incremental Costs (BU LRIC) models. Since January 2013 the price is BGN 0.046 per minute for the mobile networks. The first decrease was imposed by the Commission on July 1, 2012. Since then, the prices that mobile operators pay to each other for calls from one network to the other were cut by 50% to BGN 0.055 per minute from BGN 0.13 per minute. The fees for subscribers of foreign mobile operators entering the Bulgarian networks were equaled to the same prices – BGN 0.055 per minute. These two factors, and especially the latter, are the main reasons for the revenue plunge of the Bulgarian telecommunication companies. The wholesale prices decreased with an average of 57.6% in 2012 regarding the leading three telecom operators.

Another factor for the revenue decline of mobile voice telephony services is the increased usage of mobile telephony services offered as bundled services together with other telecommunication services. The decrease of 12.1% year-on-year is concerning the net sales revenue from subscriptions to mobile voice telephony services only.

The leading telecoms also changed their business models, adapting them to the dynamic situation. The direct billing of telephone calls was leading revenue source but it was replaced by payment of subscription plans.

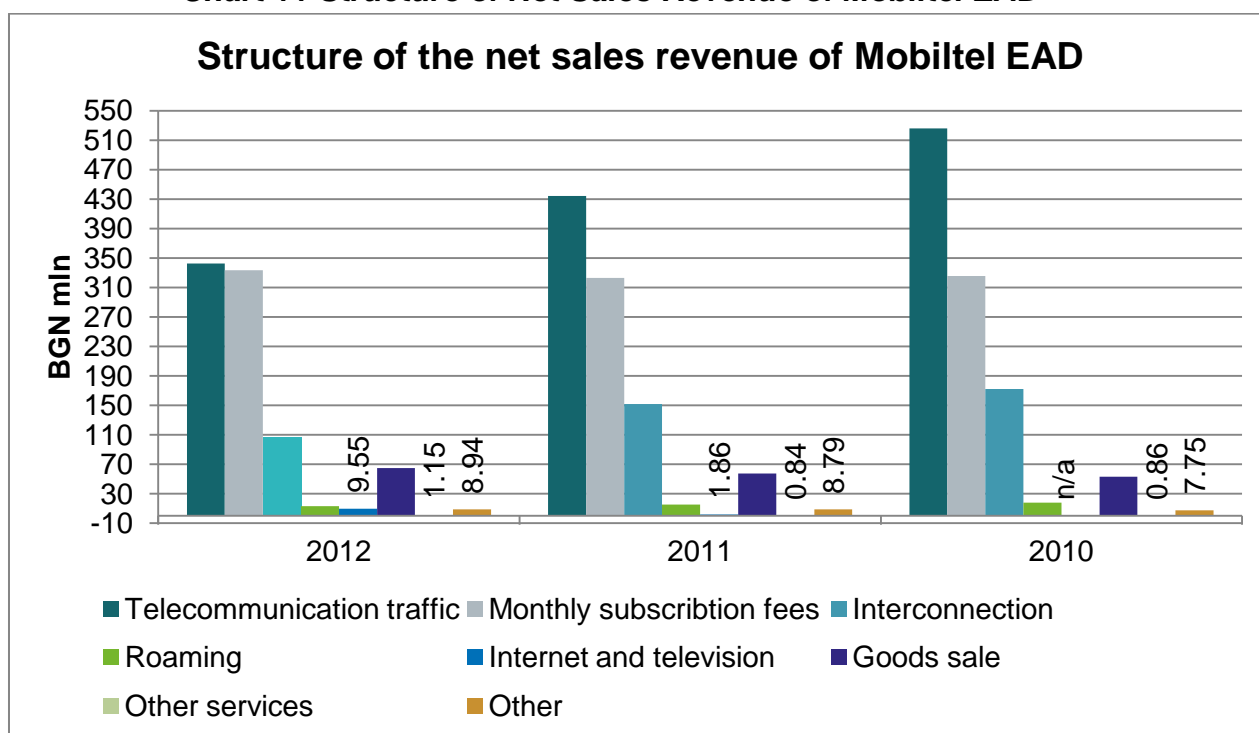
As a result of the new regulations in 2012, the telecoms decided to add many free call minutes to their own and also external networks.

According to CRC, there is still a significant closing of the traffic of mobile operators in their own networks. Some 85.5% of the voice transmission in the telecom companies takes place in their own network. The calls to external operators are approximately eight times less – 10.8% of the traffic.

Table 3 Mobiltel EAD Profile

Name	Mobiltel EAD
Date of establishment	Jan 7,2005
Headquarters	1309 Sofia, 1 Kukush Str.
Website	www.mtel.bg
E-mail	pr@mobiltel.bg
Phones	+359 88 8088088
Owners	Mobilkom Bulgarien Beteiligungsverwaltungs GmbH, Austria
Top management	Andreas Maierhofer - CEO Milan Zaletel - CFO Martin Lippautz - CMO Horst Pertl - CTO
Services	<ul style="list-style-type: none"> • Mobile and fixed telephony services • Mobile internet • Digital television
ISO certification	ISO 9001:2008 Quality management systems certificate ISO 27001:2005 Information and data security certificate ISO 20000-1:2011 Service management system certificate

Chart 11 Structure of Net Sales Revenue of Mobiltel EAD

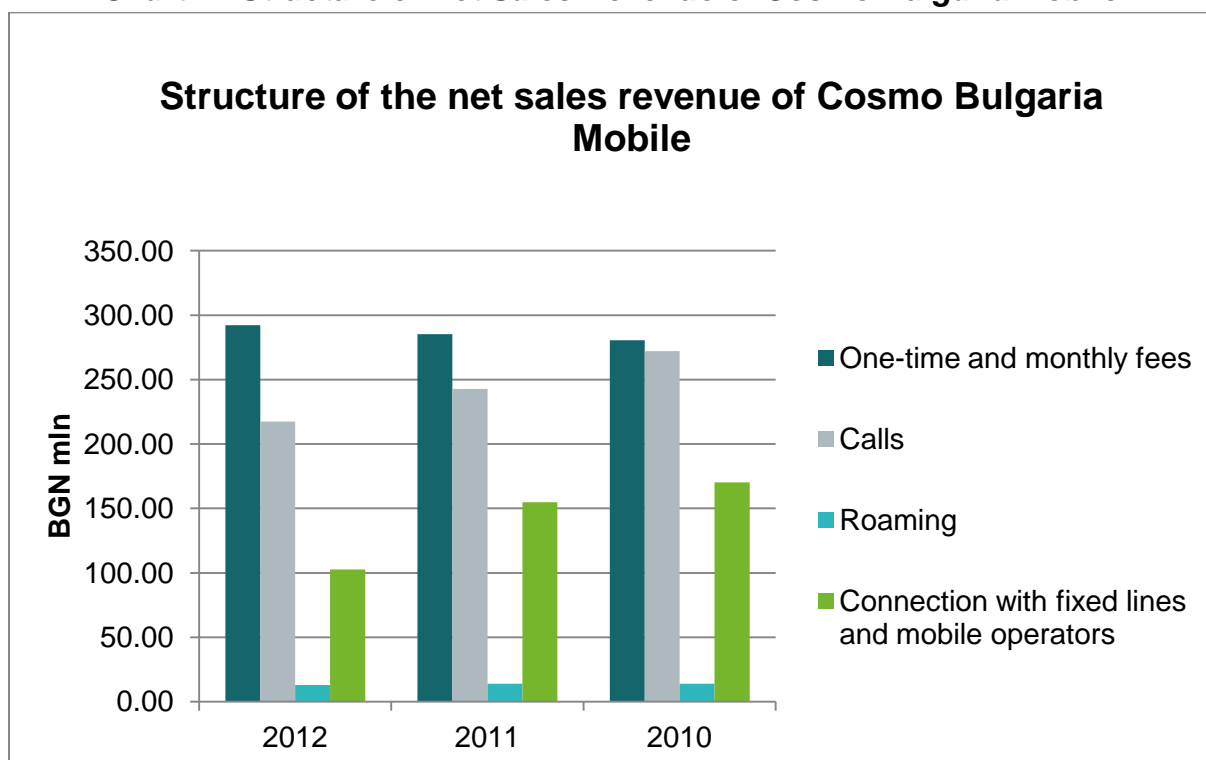


Source: Mobiltel EAD's non-consolidated annual reports

Table 4 Cosmo Bulgaria Mobile EAD Profile

Name	Cosmo Bulgaria Mobile EAD
Date of establishment	2001
Headquarters	1715 Sofia, Business Park Sofia, Building 6
Website	www.globul.bg
E-mail	PR@globul.bg
Phones	+359 89123; +359 898 400193, 195, 196
Owners	Telenor Mobile Communications AS, Norway
Top management	Stein Erik Vellan – CEO Nikos Paraskevopoulos - CFO
Services	<ul style="list-style-type: none"> • Fixed-line telephony services • Mobile communications services • Mobile Internet and data transfer • Retail of mobile communication devices and accessories
ISO certification	ISO 9001:2008 Quality management systems certificate

Chart 12 Structure of Net Sales Revenue of Cosmo Bulgaria Mobile



Source: Cosmo Bulgaria Mobile EAD's non-consolidated annual reports

5.6 Networks coverage

Table 5 Coverage of Terrestrial Mobile Networks

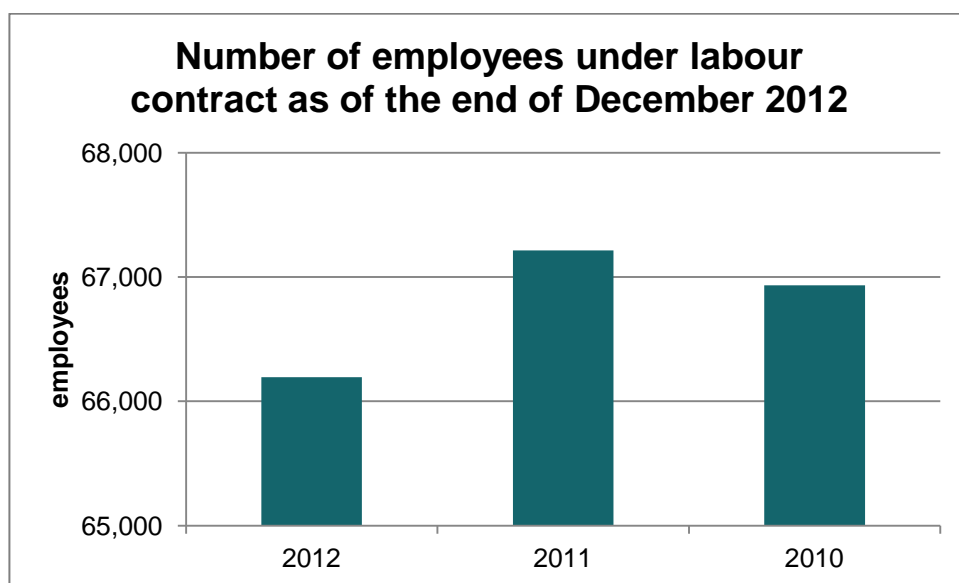
Coverage of terrestrial mobile networks operating in bands 900 MHz, 1800 MHz and 2 GHz						
Company	Mobitel EAD		Cosmo Bulgaria Mobile EAD		Bulgarian telecommunication company AD	
Indicator	GSM	UMTS	GSM	UMTS	GSM	UMTS
Territorial coverage	99.38%	96.60%	99.48%	76.51%	99.37%	95.95%
Population coverage	99.99%	99.46%	99.98%	94.81%	99.99%	99.41%

Source: Communications Regulation Commission

5.7 Number of Employees

The number of employees under labour contract working in the Information and communication sector decreased to 66,195 in 2012 from 67,215 in 2011 according to National Statistical Institute of Bulgaria (NSI).

Chart 13 Number of Employees under Labour Contract in the Information and Communication Sector



Source: National Statistical Institute

Table 6 Number of Employees of the Voice Telephony Service Providing Companies in 2012

Number of employees of the 25 companies that provided voice telephony services in Bulgaria in 2012	
Mobiltel EAD	3,012
Bulgarian Telecommunications Company AD	1,401
Cosmo Bulgaria Mobile EAD	1,353
Blizoo Media and Broadband EAD	1,306
Interoute Bulgaria EAD	205
Kabel Sat-Zapad OOD	123
ITD Network AD	69
Global Communication Net AD	67
Tera Communications AD	62
BTC NET EOOD	45
Vestitel BG AD	36
Voicecom AD	34
NET IS SAT OOD	30
Nexcom - Bulgaria EAD	21
Orbitel EAD	18
Escom OOD	17
Varna Net OOD	12
Interbild OOD	11

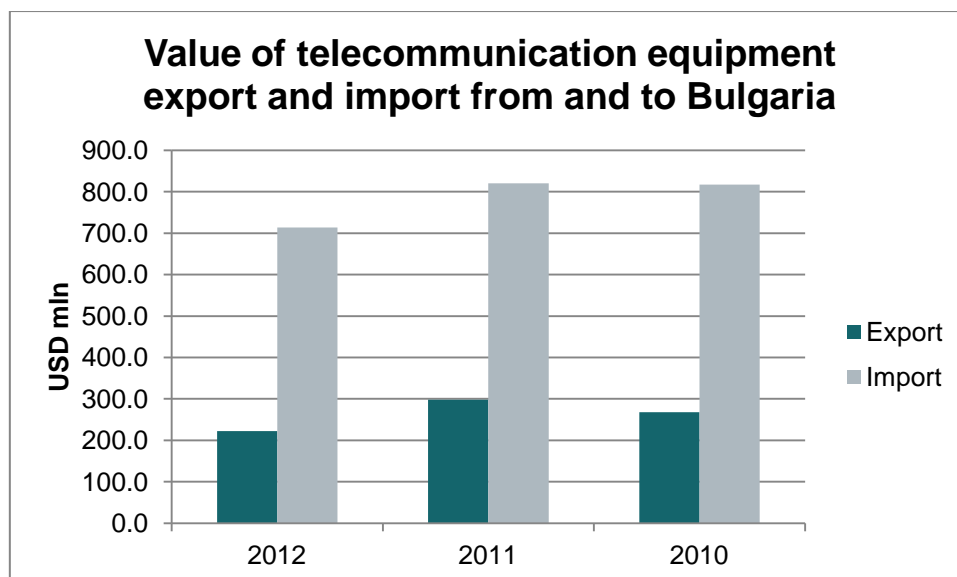
Gold Telecom Bulgaria AD	10
Eastern Telecommunication Company AD	9
VMobile AD	7
Telecom 1 OOD	6
Netfinity EOOD	4
NET - CONNECT INTERNET EOOD	1
Voxbone S.A.	n/a
Total	7,859

Source: Trade register

6. Related Markets

The value of telecommunication equipment export from Bulgaria in 2012 decreased by 26% year-on-year, in the same time, imports to Bulgaria dropped by 13% year-on-year.

Chart 14 Telecommunication Equipment Exports and Imports From and To Bulgaria



Source: World Trade Organization

7. Mergers and Acquisitions

According to the report of international law organisation CMS Cameron McKenna and analytical company DealWatch, telecommunications has been one of the sectors with the most M&A deals in Bulgaria in 2012.

One of the major M&A deals in 2012 was between Norway's telecommunication company Telenor Group and Cosmo Bulgaria Mobile. In July 2012 Telenor wholly acquired Bulgaria's second largest mobile operator for EUR 717 mln from Greek OTE on a debt and cash free basis.

Four companies owned by Mobiltel EAD were transformed through mergers into Mobiltel EAD in 2012. These are the local cable operators Spectrum Net and Megalan Network and the companies Teleport Bulgaria EAD and M-Network EAD. Teleport Bulgaria was specialised in construction, maintenance and operation of satellite telecommunications and computer equipment, systems and networks. M-Network was specialised in construction, operation and maintenance of electronic communications networks and provision of electronic communications services.

In November 2012 the newly incorporated Sofia-based company Viva Telecom Bulgaria EAD, a subsidiary of Luxembourg-registered InterV Investment, acquired 93.99% of the shares of BTC from its previous owner NEF Telecom Bulgaria.

8. Trends and Forecasts

- The tendency of more subscribers choosing mobile voice telephony instead of fixed voice telephony is expected to be reinforced and continue in future as well. The current trend of decline in the number of subscribers of the incumbent operator BTC regarding fixed voice telephony will continue offset the subscribers of alternative companies. The decrease in the relative share of net sales revenue from fixed voice services in the total volume of telecommunication market will continue.
- Redistribution of the current number of subscribers of mobile voice telephony between the market players and to a lesser extent attracting new subscribers. This will be a result of the saturation of the mobile voice telephony market.
- Reduction in the subscribers' average monthly costs for mobile voice telephony services.
- Rise in the number of promotions such as discounts on monthly subscription fees and inclusion of additional minutes for outgoing calls.
- Rise in the usage of mobile voice services offered as bundled services together with mobile Internet, television and other services due to the entering

of mobile companies into new segments of the telecommunication market. Also boost in the number of subscribers of fixed voice services offered as bundled services together with services such as mobile telephony services, television and Internet access.

- Enhanced competition between companies and decline in the price levels of mobile voice telephony services in case more companies enter the market.
- Sales increase of user devices such as smartphones and tablets.

9. Conclusion

Declining population, falling income, tight regulations and strong competition are some of the factors in Bulgaria which influence the local telecommunication market. This, together with the fact that the market is saturated, suggests that if a new company enters the market, it should have considerable financial resources in order to be competitive. According to CRC, entering of a new mobile operator in the telecommunication market will influence the market positively.

The appearance of a new market player will encourage the three main players to offer new individual and bundled services at different prices. This will bring benefits for the subscribers who will face wider choice.

In September 2013 CRC announced its decision that if any of the new candidates wants to enter the telecom market and use the network of the already working operators, the candidate should negotiate the deal by itself. The State will not interfere through its regulator. However if the negotiations break down and the new operator complains in CRC, the Commission will conduct a research and might impose duty on the already established in the market company to allow the smaller one to its network.

In March 2013 CRC revealed that Bulgarian broadband mobile communications provider operator Max Telecom OOD has stated its willingness to enter the market and has already paid 50% of the one-off fee.

In January 2013, Bulgarian media reported that CRC has issued a GSM licence to local satellite television provider Bulsatcom AD, which makes it the fourth mobile operator in Bulgaria. The licence value is BGN 19 mln. Bulsatcom has announced its plans to start providing services to their clients before the end of 2013. The company's aim is not a large market share in mobile voice segment but to provide bundled services together with Internet and television.

**Annex 1_25 leading telecommunication companies References and
Annex 2_Telecommunication market in Bulgaria**

10. References and information sources:

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