



EUROPEAN COMMISSION

Brussels, 20.9.2019
C(2019) 6914 final

Autoridade Nacional de
Comunicações (ANACOM)
Avenida José Malhoa No. 12
1099-017 Lisboa
Portugal

For the attention of:
Mr João Cadete de Matos
Chairperson

Fax: + 351 21721 1002

**Subject: Commission Decision concerning Case PT/2019/2195: Weighted
Average Cost of Capital for MEO (2019) in Portugal**

Article 7(3) of Directive 2002/21/EC: No comments

Dear Mr Cadete de Matos,

1. PROCEDURE

On 22 August 2019, the Commission registered a short form notification from the Portuguese national regulatory authority, Autoridade Nacional de Comunicações (ANACOM)¹, concerning the weighted average cost of capital (WACC) for Serviços de Comunicações e Multimédia, S.A. (MEO) for 2019 in Portugal.

The national consultation² ran from 10 July 2019 to 7 August 2019.

¹ Under Article 7 of Directive 2002/21/EC of the European Parliament and of the Council of 7 March 2002 on a common regulatory framework for electronic communications networks and services (Framework Directive), OJ L 108, 24.4.2002, p. 33, as amended by Directive 2009/140/EC, OJ L 337, 18.12.2009, p. 37, and Regulation (EC) No 544/2009, OJ L 167, 29.6.2009, p. 12.

² In accordance with Article 6 of the Framework Directive.

On 28 August 2019, the Commission sent a request for information³ to ANACOM and received a reply on 2 September 2019. On 3 September 2019, the Commission sent a set of follow up questions to which ANACOM replied on 4 September 2019.

2. DESCRIPTION OF THE DRAFT MEASURE

2.1. Background

The WACC methodology currently used by ANACOM was notified to and assessed by the Commission under case PT/2016/1900⁴. The Commission had no comments to the notified method. However, under case PT/2018/2101, concerning wholesale voice call termination on individual public telephone networks provided at a fixed location in Portugal, the Commission noted that the WACC-value used in the cost model had not been previously notified to the Commission. The Commission commented on the need to notify all WACC updates regardless of whether the new WACC values resulted from a methodological change or simply an update of the data used in the calculation.⁵

Following this, Portugal notified a standalone notification for the estimation of WACC in Portugal for year 2018 under case PT/2019/2159⁶, following the methodology for WACC estimation notified under case PT/2016/1900. The Commission had no comments to this notification.

ANACOM estimated the pre-tax nominal WACC of MEO in 2018 at 8.07%. The parameter values of the calculation are shown below.

Table 1: WACC of MEO in 2018

Risk-Free Rate	3.11%
Debt premium	1.36%
Equity beta	0.804
Equity Risk Premium	6.22%
Gearing	40.05%
Tax rate	22.50%
Post-tax Cost of equity	8.11%
Nominal pre-tax WACC	8.07%

2.2. The notified draft measure

ANACOM updates the WACC for MEO for the full year 2019. ANACOM does not make any changes to the underlying methodology used to estimate the WACC but simply updates the calculation to take into account additional information since its previous WACC estimation for 2018.

³ In accordance with Article 5(2) of the Framework Directive.

⁴ C(2016) 5783

⁵ C(2018) 5876

⁶ C(2019) 3426

The WACC currently notified is applicable for the calendar year 2019. ANACOM explained in its reply to the RFI and the following series of questions that the WACC value feeds into the cost accounting system of MEO used to determine reference offers/prices. MEO calculates reference offers/prices based on the full year of operation, which is known several months after the end of the calendar year. The WACC currently notified forms the basis for MEO's reference offers/prices applicable from around mid-2020, when all required information for 2019 is available.

The methodology used by ANACOM to estimate the WACC parameters can be summarised as follows:

The risk-free rate is based on the average yields of Portuguese 10-year maturity Government bonds for the period of 2017 and 2018. The debt premium is based on the average yields of 10-year maturity corporate bonds of European communications companies with credit rating from BBB- to BBB+) in the previous two years. The tax rate is the corporate tax rate applicable to MEO in 2018. The equity risk premium is based on the average equity risk premium values for Portugal in 2019 from three historical series, namely, (i) Damodaran; (ii) Pablo Fernandez and (iii) DMS. Finally, the equity beta and gearing are based on the average of a peer group for the period 2014-2018.

ANACOM estimates the pre-tax nominal WACC of MEO in 2018 at 7.40%. The parameter values of the WACC calculation are shown below.

Table 2: WACC of MEO in 2019

Risk-Free Rate	2.45%
Debt premium	1.608%
Equity beta	0.762
Equity Risk Premium	6.54%
Gearing	39.53%
Tax rate	22.50%
Post-tax Cost of equity	7.432%
Nominal pre-tax WACC	7.40%

The WACC for 2019 is 0.67% percentage point lower than the one for 2018. Since ANACOM's 2018 decision the risk-free rate, the beta and the gearing decreased, while the debt premium and the equity risk premium increased.

3. NO COMMENTS

The Commission has examined the notification and has no comments.⁷

⁷ In accordance with Article 7(3) of the Framework Directive.

Pursuant to Article 7(7) of the Framework Directive, ANACOM may adopt the draft measure and, where it does so, shall communicate it to the Commission.

The Commission's position on this particular notification is without prejudice to any position it may take *vis-à-vis* other notified draft measures.

Pursuant to Point 15 of Recommendation 2008/850/EC⁸ the Commission will publish this document on its website. The Commission does not consider the information contained herein to be confidential. You are invited to inform the Commission⁹ within three working days following receipt whether you consider that, in accordance with EU and national rules on business confidentiality, this document contains confidential information which you wish to have deleted prior to such publication.¹⁰ You should give reasons for any such request.

Yours sincerely,

For the Commission
Roberto Viola
Director-General

⁸ Commission Recommendation 2008/850/EC of 15 October 2008 on notifications, time limits and consultations provided for in Article 7 of Directive 2002/21/EC of the European Parliament and of the Council on a common regulatory framework for electronic communications networks and services, OJ L 301, 12.11.2008, p. 23.

⁹ Your request should be sent either by email: CNECT-ARTICLE7@ec.europa.eu or by fax: +32 2 298 87 82.

¹⁰ The Commission may inform the public of the result of its assessment before the end of this three-day period.