



EUROPEAN COMMISSION

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

For the attention of
Mr João Cadete de Matos
Chairperson

Subject: Commission Decision concerning Case PT/2019/2159: Weighted Average Cost of Capital for MEO (2018) in Portugal

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

Dear Mr Cadete de Matos,

1. PROCEDURE

On 5 April 2019, the Commission registered a 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 2018 in Portugal.

The national consultation² ran from 6 February 2019 to 6 March 2019.

On 9 April 2019, a request for information³ was sent to ANACOM and a response was received on 12 April 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.

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

2. DESCRIPTION OF THE DRAFT MEASURE

2.1. Background

The WACC methodology currently used by ANACOM was notified to the Commission and assessed under notification reference PT/2016/1900, to which the Commission responded with no comments⁴.

Furthermore under notification 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 calculated in 2017, which was used in the updated cost model notified, had not been previously notified to the Commission. This prompted the Commission to comment⁵ on the need to notify all WACC updates to the Commission, regardless of whether the new WACC values resulted from a methodological change or simply from an update of the data used in the calculation.

Against this background, the present draft notified measure is the first time that ANACOM notifies to the Commission its estimation of the WACC for MEO as a standalone notification.

Previously, the pre-tax nominal WACC estimated by ANACOM for MEO in 2017 was 9.06%⁶, with the parameter values shown in Table 1 below.

Table 1: WACC for MEO in 2017

Risk-Free Rate	2.80%
Debt premium	1.58%
Tax rate	29.50%
Pre-tax Cost of Debt	4.38%
Equity Risk Premium	6.98%
Gearing	41.89%
Equity beta	0.856
Post-tax Cost of Equity	8.77%
Pre-tax Cost of Equity	12.44%
Nominal pre-tax WACC	9.06%

2.2. Regulatory remedies

In the present draft notified measure ANACOM updates the WACC for MEO for 2018. In their reply to the Commission's request for information, ANACOM indicated that it intends to apply this WACC in the price controls that it expects to notify to the Commission in 2019 (namely price controls for access to ducts and

⁴ C(2016) 5783

⁵ C(2018) 5876

⁶ For ANACOM's 2017 published decision, please see: <https://www.anacom.pt/render.jsp?contentId=1413470>

poles, the reference offer for digital terrestrial television and Ethernet circuits). 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 in 2017.

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

The risk-free rate is based on an average of the yields on Portuguese 10-year maturity Government bonds in the previous two years. The debt premium is based on an average of yields on 10-year maturity corporate bonds of European communications companies with credit rating (as obtained from Bloomberg) in the previous two years. The tax rate is estimated as the corporate tax rate applicable to MEO according to the relevant tax legislation in the previous year. The equity risk premium is based on an average of the equity risk premium values for Portugal in 2018 from three historical series, namely, (i) Damodaran; (ii) Pablo Fernandez and (iii) DMS. Finally, the equity beta and gearing is based on the average 2018 values obtained from the peer group of benchmark companies used by ANACOM.

ANACOM estimates a pre-tax nominal WACC for MEO in 2018 of 8.07%, with the parameter values shown in Table 2 below.

Table 2: WACC for MEO in 2018

Risk-Free Rate	3.11%
Debt premium	1.36%
Tax rate	22.50%
Pre-tax Cost of Debt	4.47%
Equity Risk Premium	6.22%
Gearing	40.05%
Equity beta	0.804
Post-tax Cost of Equity	8.11%
Pre-tax Cost of Equity	10.47%
Nominal pre-tax WACC	8.07%

The main changes observed in the WACC's parameters values since ANACOM's 2017 decision are as follows:

The risk-free rate has slightly increased, consistent with the increase observed in the two-year average of yields on Portuguese 10-year maturity bonds. The change in the debt premium follows the change since 2017 in the proxy used by ANACOM to estimate the debt premium, namely, the *Bloomberg Value Curve "EUR Europe Communications BBB+, BBB, BBB-, BVAL Yield Curve 10Y (BVSC0007)"*. The decrease in the tax rate considered follows ANACOM's estimation of the Portuguese State tax for 2018. Whereas in 2017 ANACOM considered a value of 7%, for 2018 it considers consistent with the Portuguese legislation to include a 0% value, given that MEO has not had taxable profits in the previous three years

(2015-2017). The change in the equity risk premium follows from the update since 2017 of the historical series used by ANACOM to determine its value. The values of the company-based parameters (equity beta and gearing) follows from the update since 2017 of the values of the peer companies used by ANACOM to determine their value.

3. NO COMMENTS

The Commission has examined the notifications and the additional information provided by the NRA and has no comments.⁷

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 faithfully,



For the Commission,
Roberto Viola
Director-General

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

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.