



Determination No (2) 2012

Etisalat's Regulated Weighted Average Cost of Capital

Version 1.0

Issue Date: 1st of July 2012

Telecommunications Regulatory Authority (TRA)
P O Box 26662, Abu Dhabi, United Arab Emirates (UAE)
www.tra.gov.ae

tra.gov.ae

ص.ب. 26662، أبوظبي، الإمارات العربية المتحدة هاتف +971 2 626 9999
فاكس +971 2 611 8229 PO Box 26662, Abu Dhabi, United Arab Emirates



Determination No (2) of 2012 – Etisalat’s Regulatory Weighted Average Cost of Capital – Issued 1st of July 2012

TABLE OF CONTENTS

1.	Legal background.....	3
2.	History	4
3.	Analysis.....	4
4.	The Determination	5
5.	Effective Date.....	5
6.	Acknowledgement.....	6



Determination No (2) of 2012 – Etisalat’s Regulatory Weighted Average Cost of Capital – Issued 1st of July 2012

1. Legal background

- 1.1 Article 12 of Federal Law by Decree No. (3) of 2003 regarding the organization of the Telecommunications Sector, as amended (the “**Telecommunications Law**”) established the TRA as the:

“...competent body to oversee the telecommunications sector in the State and all Licensees...”.

- 1.2 Article 41 of the Law stipulates that Etisalat shall, at the direction of the TRA, provide interconnection services to another Licensee in a:

“...least cost manner...”

- 1.3 To address the matter of “*least cost manner*”, on 1st March 2005 the TRA issued its Interconnect Pricing Policy, Version 1.1 which required that Etisalat:

“...shall create a Long Run Incremental Cost model for its interconnection prices.”

Etisalat’s obligation in this regard remained unchanged in the subsequent Versions 1.2, 1.3 and 1.4 of this same Policy.

- 1.4 Article 2.1.24 of the TRA’s Cost Accounting, Accounting Separation and LRIC Modelling Instructions, Version 3.1, dated 29 December 2011 (the “Instructions”) specifies that a Reporting Licensee’s Weighted Average Cost of Capital (“WACC”) shall be determined by the TRA.

- 1.5 Finally, the TRA considers that since the 4 December 2005 issuance of the TRA’s Cost Accounting and Accounting Separation Guidelines, Version 1.0, through to the 29 December 2011 issuance of the TRA’s Cost Accounting, Accounting Separation and LRIC Modelling Instructions, Version 3.1, and up until the present, Etisalat has had the obligation to submit its Regulatory Financial Statements to the TRA.



Determination No (2) of 2012 – Etisalat’s Regulatory Weighted Average Cost of Capital – Issued 1st of July 2012

2. History

- 2.1 On 9th November 2009 the TRA sent to both Licensees its Determination No. (2) of 2009, *Weighted Average Cost of Capital (WACC)*, which pursuant to Article 4.1(e) of the TRA’s Cost Accounting, Accounting Separation and LRIC Modelling Instructions, Version 2.0, dated 30 April 2008, determined that the value of Etisalat’s pre-Royalty WACC shall be set at 15.61%.
- 2.2 On 3rd November 2011 the TRA sent to both Licensees its (closed) Consultation Document *Etisalat’s Regulated Weighted Average Cost of Capital*. Both Licensees were invited to provide their comments on the TRA’s findings by 8th December 2011.
- 2.3 Following the closure of this consultation, the TRA received comments from the following parties on 20th December 2011
- Emirates Telecommunications Corporation (“**Etisalat**”); and
 - Emirates Integrated Telecommunications Company (“**du**”).
- 2.4 All comments were exchanged between parties and on 12th January 2012 the TRA received each Licensee’s comments on exchanged comments.

3. Analysis

- 3.1 The TRA has undertaken a comprehensive review with respect to the calculation of Etisalat’s regulatory Weighted Average Cost of Capital (WACC) based on the following key input parameters:
- 3.1.1 Risk free rate;
 - 3.1.2 Cost of debt (including debt risk premium);
 - 3.1.3 Market (equity) risk premium;
 - 3.1.4 Beta (Etisalat fixed and mobile network specific);
 - 3.1.5 Financial gearing; and
 - 3.1.6 Corporate income tax rate (applying royalty fee as proxy).



Determination No (2) of 2012 – Etisalat’s Regulatory Weighted Average Cost of Capital – Issued 1st of July 2012

- 3.2 The methodological approaches applied are based on the international expertise and experience of the Independent Regulators Group (IRG), the European Regulators Group (ERG), and National Regulatory Authorities (NRAs), as well as reference cases and finance community best practice principles (all subject to the availability of input data).
- 3.3 The main data sources include Reuters, Bloomberg, several other financial databases and analyst reports, as well as international benchmarking studies, operator specific information and investment banks. To provide a solid theoretical backing, the latest corporate finance literature and studies have been reviewed. Sampling of peers for benchmarking purposes has been performed with the aim to involve as many relevant peers as possible.
- 3.4 A detailed explanation of the methodology involved in the calculation of Etisalat’s regulatory Weighted Average Cost of Capital can be found in the Annexure to this Determination.

4. The Determination

- 4.1 Pursuant to the TRA’s Cost Accounting, Accounting Separation and LRIC Modeling Instructions, Version 3.1, dated 29 December 2011, the TRA hereby determines that the value of Etisalat’s pre-royalty (pre-tax) regulatory WACC shall be set at:
- For Etisalat’s fixed network, a pre-royalty (pre-tax) WACC of 12.57%; and
 - For Etisalat’s mobile network, a pre-royalty (pre-tax) WACC of 13.04%.
- 4.2 Unless otherwise specified by the TRA, this pre-royalty (pre-tax) regulatory WACC shall be put in effect for a period of two (2) years starting from the date of issuance of this Determination.

5. Effective Date

- 5.1 This Determination shall become effective upon issuance.



Determination No (2) of 2012 – Etisalat's Regulatory Weighted Average Cost of Capital – Issued 1st of July 2012

6. Acknowledgement

- 6.1 Each Licensee shall notify the TRA in writing of receipt of this Determination within one (1) business day of the date it is received.