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## COMMUNICATIONS ACT 2006

### DIRECTION ISSUED TO GIBTELECOM ON THE SETTING OF ITS WEIGHTED AVERAGE COST OF CAPITAL (WACC)

#### DIRECTION A03/2012

In exercise of the powers conferred on it by Section 10 of the Communications Act 2006, the Gibraltar Regulatory Authority (the "Authority") hereby issues this Direction.

#### 1. Legislation

Section 19(1)(a) of the Communications Act provides that, "The objectives of the Authority in exercising its functions under this Act shall be as follows–

(a) in relation to the provision of electronic communications networks, electronic communications services and associated facilities–

(i) to promote competition;

(ii) to contribute to the development of the European internal market; and

(iii) to promote the interests of users in Gibraltar.

Furthermore, under section 19(3)(d) and (e), "The Authority shall in, pursuit of the policy objectives set out in subsections (1) and (2), apply objective, transparent, non-discriminatory and proportionate regulatory principles by–

...

(d) promoting efficient investment and innovation in new and enhanced infrastructure...;

(e) taking due account of the variety of conditions relating to competition and consumers that exist in Gibraltar.

## **2. Purpose of this Direction**

The Weighted Average Cost of Capital (WACC) is the overall cost to an organisation of obtaining investment funds, including the cost of both debt sources and equity sources. It is an average representing the expected return on all of a company's securities. Each source of capital is weighted according to its prominence in the company's capital structure.

In March 2012, the Authority contracted Analysys Mason to review Gibtelecom's WACC and benchmark it against rates adopted by other European operators. The WACC was last reviewed in 2005 and, therefore, it was the Authority's view that it should be brought into line with today's market conditions.

A draft report outlining Analysys Mason's findings was sent to Gibtelecom in June 2012 in which the company was invited to provide comments on any section of the report while paying particular attention to the recommendations concerning the various parameters which make up the WACC. Gibtelecom provided its comments which showed a general agreement with the report's conclusions. However, there were some areas in which Gibtelecom disagreed and gave their reasons for doing so.

Taking into account Gibtelecom's comments, the Authority produced a final report in which it determined the parameters which were to be included in the WACC calculation and set the nominal pre-tax WACC at 12.45%.

## **3. Direction**

The Annual Pre-Tax Weighted Average Cost of Capital used for the determination of Gibtelecom's return on investment shall be set at 12.45%. This WACC shall be effective as from 1st September 2012.

## **4. Compliance**

This Direction comes into effect on the date of issue and Gibtelecom is required to comply with the provisions of this Direction by 1st September 2012.

**Dated this 18th day of July 2012**

**Paul J Canessa  
Chief Executive**