

**FINAL DECISION ON**

**Cost-of-capital rate of MEO – Serviços de
Comunicações e Multimédia, S.A.
(2021 financial period)**

ANACOM

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Contents

1. FRAMEWORK.....	1
2. COST-OF-CAPITAL RATE	5
2.1. METHODOLOGY	5
2.2. PARAMETER VALUES	6
2.2.1. <i>Calculation of the risk-free interest rate (RFR)</i>	6
2.2.2. <i>Peer group</i>	7
2.2.3. <i>Debt premium and cost of debt</i>	9
2.2.4. <i>Beta and gearing calculation</i>	10
2.2.5. <i>Calculation of the equity risk premium (ERP)</i>	11
2.2.6. <i>Tax rate</i>	14
2.3. DEFINITION OF THE COST-OF-CAPITAL RATE	17
3. DECISION	17

List of Tables

Table 1: BEREC Risk Free Rate EU Member States	6
Table 2: BEREC peer group 2021	8
Table 3: Debt premium and Cost of debt	10
Table 4: BEREC peer group 2021 – Equity beta, Gearing, Asset beta	11
Table 5: Equity risk premium - ERP	13
Table 6: MEO's taxable profit (2018-2020)	15
Table 7: State surtax rate.....	16
Table 8: Tax rate.....	16
Table 9: Cost-of-capital rate (2021)	17



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1. Framework

The cost-of-capital rate expresses the appropriate rate of return to compensate for the opportunity cost of the investment.

In the context of the regulation of the electronic communications market, the cost-of-capital rate is determined in order: (i) to ensure the right investment incentives; (ii) to ensure that there are no market distortions, through discriminatory and anti-competitive practices; (iii) to eliminate possible barriers to the entry of new competitors; and, (iv) to protect consumers from unfair prices, whereby it is considered fundamental to define a methodology that allows an adequate calculation of the cost-of-capital rate, without any accounting and/or analytical constraints, to remunerate the investments of regulated companies.

Autoridade Nacional de Comunicações (hereinafter referred to as “ANACOM”), taking into account EC Communication¹ 2019/C 375/01 of 6 November 2019, entitled “Commission Notice on the calculation of the cost-of-capital for legacy infrastructure in the context of the Commission’s review of national notifications in the EU electronic communications” (hereinafter the “Commission Notice”), has decided for the 2020 financial year² to follow the provisions of the aforementioned Commission Notice, sharing the European Commission’s (hereinafter referred to as “EC”) view that *“it will discourage the distortion of investments by inconsistencies in NRAs’ approaches over time and across the Union, which could harm the functioning of the Digital Single Market.”* Furthermore, ANACOM believes that the Commission’s Notice aims to promote the harmonisation of the calculation of the cost-of-capital rate for regulatory purposes in the EU and for the electronic communications sector.

In this context, the values of parameters considered in the calculation of the Weighted Average Cost of Capital³ will be calculated and published on an annual basis by ANACOM, based on the methodology set out in the abovementioned Commission Notice. It should be noted that EC will use these values as a reference for the analysis of draft measures notified under current article 32 of Directive 2018/1972, of 11 December 2018 (former article 7 of the Framework Directive).

¹ Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52019XC1106%2801%29>

²https://www.anacom.pt/streaming/DecisaoFinal11mar2021_WACC_MEO.pdf?contentId=1604180&field=ATTACHMENT_FILE

³ Hereinafter “WACC”.

It should also be emphasized that paragraph 71 of point 9 of the Commission Notice⁴ explicitly states that when reviewing notifications under the procedure described in (then) article 7, EC will, as a rule, use the methodology described in that Notice from 1 July 2020.

Additionally, where the work of international bodies (EC and/or the Body of European Regulators for Electronic Communications - hereinafter "BEREC") fails to detail how the approach to be pursued will be implemented or the WACC parameters calculated, ANACOM believes that the best course of action, in order to favour regulatory certainty, will be to maintain the approach⁵ used until the adoption of the Commission Notice in the calculation of the cost-of-capital rate of MEO - Serviços de Comunicações e Multimédia, S.A. (hereinafter "MEO").

In light of the above and following the approach already taken in 2020, ANACOM decided to carry on with the determination of the cost-of-capital rate to be used by MEO in its cost accounting system (hereinafter "CAS") and applicable to financial year 2021.

In this context, on 21.10.2021, ANACOM approved a draft decision on MEO's cost-of-capital rate applicable to financial year 2021⁶, which was submitted to the general public consultation procedure under article 8 of Law No 5/2004, of 10 February, as amended, as well as to a prior hearing of stakeholders, under articles 121 and 122 of the Administrative Procedure Code, in both cases setting a deadline of 20 working days for stakeholders to comment.

Two contributions were received within the established deadline. ANACOM's analysis and position thereon is set out in the "Report on the general consultation procedure and the procedure for prior hearing of stakeholders regarding the draft decision on the cost-of-capital rate for MEO - Serviços de Comunicações e Multimédia, S.A. (financial year 2021)", approved by this Authority by determination⁷ of 11 January 2022.

The same determination also approved the draft decision to be notified to the European Commission, BEREC and National Regulatory Authorities (hereinafter "NRAs") of other EU

⁴ § 9: "Transitional period towards the adoption of the methodology in this Notice".

⁵ ANACOM established in 2010 the methodology for calculating the cost-of-capital rate of MEO - Serviços de Comunicações e Multimédia, S.A., which was used until 2019 to determine the cost-of-capital rate to be considered by this operator for regulatory purposes. Available on the website

<https://www.anacom.pt/render.jsp?contentId=1010799>

⁶ <https://www.anacom.pt/render.jsp?contentId=1709077>

⁷ <https://www.anacom.pt/render.jsp?contentId=1713949>

Member States, regarding MEO's cost-of-capital rate applicable to financial year 2021, notification which was sent on 12 January 2022.

On 24 January 2022, the EC made a request for information to ANACOM, addressing general questions related to the schedule for updating the prices of products affected by WACC update, as well as a request for clarification on which other factors, in addition to the WACC, affect the price of regulated products.

On the schedule for updating the prices of products affected by the WACC update, ANACOM clarified, on 27 January 2022, that:

- a) The Authority has started the necessary work to review the prices of the reference offer for access to ducts, RDAO, and poles, RPAO, and plans to put out for public consultation a draft decision on this matter during the 1st quarter of 2022, which implies that the notification to EC on the draft decision on this matter will take place during the 2nd quarter of the year;
- b) With regard to the Local loop unbundling (LLU) offer, this matter will be reassessed as part of market (re)analyses (markets 1 and 2, and market 3b of the 2014 EC Recommendation), taking into account, among other aspects, the residual or almost null relevance that the RUO, LLRO and ADSL PT Network offers have shown in recent years, evidenced by the lack of effective demand for these services and the sharp decrease in the number of regulated accesses;
- c) On the issue of the review of markets 1/2020, 3b/2014 and 2/2020, ANACOM has requested quantitative and qualitative information from the market in the 4th quarter of 2021 with a view to analysing/reviewing markets 1 and 2, and market 3b of the 2014 EC Recommendation, and is currently analysing the information, which has since been collected. ANACOM also informed that it plans to place for public consultation the draft decisions on the abovementioned market analyses during the second half of 2022.

Concerning the request for clarification on which factors other than the WACC affect the price of regulated products, ANACOM informed EC, also on 27 January 2022, that, notwithstanding the series of reductions of the WACC rate, [BCI]

[ECI], and that only following the audit of

MEO's cost accounting system to certify the results for 2017, the final decision of which occurred in March 2020, would there be grounds for an intervention in the prices of those wholesale offers, which is currently being prepared⁸.

Subsequently, on 11 February 2022, EC expressed its opinion on the final draft decision notified on 12 January 2022. While not directly addressing the calculation of the cost-of-capital rate, EC:

- a) Notes, as in Case PT/2021/2294, that prices of several access products subject to regulation in Portugal have not been updated for a long period (LLU, copper-based bitstream and leased lines). In particular, prices for regulated access to ducts and poles date back to 2006 and 2010 respectively. The notification to EC of the 2/2020 market review is also overdue. The Commission further points out that the notification to EC of the review of markets 1/2020 and 3b/2014 is scheduled for March 2022;
- b) Takes good note of ANACOM's planned schedule for notifying EC of the draft reference offers for ducts and poles, including prices, in the 2nd quarter of 2022, as well as for publishing, for consultation, the draft decisions on the review of markets 1/2020, 2/2020 and 3b/2014, including an assessment of prices, during the 2nd half of 2022;
- c) Strongly urges ANACOM to respect the deadlines established in the code to regularly review and notify to EC the situation of markets and corresponding regulated access prices. In this regard, EC expects ANACOM to meet its schedule without further delay, as communicated in its response to the request for information.

The above-mentioned communications with EC, from which confidential elements have been removed, as well as EC's comments on the draft decision, are available at ANACOM's website together with this decision.

In the light of comments made by EC, ANACOM intends to turn the draft decision on the cost-of-capital rate to be applied to MEO in 2021 into a final decision, as set out in the following chapters, without any changes to the draft decision, apart from references to the consultation procedure with EC, BEREC and NRAs of other Member States, and informs that this Authority will take due account of EC's comments in the definition and implementation of its regulatory action.

⁸ It is stressed that, in the meantime, by determination of 15 February 2022, ANACOM approved the draft decision on the review of prices of the Reference Duct Access Offer (RDAO) and the Reference Pole Access Offer (RPAO) of MEO, which was submitted to a prior hearing of the stakeholders, under articles 121 and following of the Administrative Procedure Code, as well as to the general consultation procedure, pursuant to article 8 of the Electronic Communications Law.

2. Cost-of-capital rate

2.1. Methodology

As far as the calculation of WACC parameters is concerned, BEREC was invited by EC to estimate those parameters on an annual basis in accordance with the approach described in the Commission Notice, whereby this body published on 15 June 2021, on its website, the report “BEREC Report on WACC parameter calculations according to the European Commission’s WACC Notice of 6 November 2019 (WACC parameters Report 2021)”⁹. This document presents, for each of the WACC parameters, the results of BEREC’s calculations following as closely as possible the methodology set out in the Commission Notice.

According to EC, this will significantly facilitate NRAs’ work in preparing WACC periodic reviews and EC’s analysis of subsequent notifications. The methodology and values of the various parameters required to calculate the WACC can be found in the above-mentioned BEREC report.

It should also be emphasized that in the annual calculation exercise, BEREC, in close cooperation with EC, will estimate:

- a) Parameters reflecting general economic conditions;
- b) Company-specific parameters for the peer group.

As regards parameters reflecting general economic conditions, BEREC will estimate the Risk-Free Rate (RFR) for each EU Member State and a single Equity Risk Premium (ERP).

In terms of company-specific parameters, BEREC prepared a list of companies suitable for the peer group, and estimated the equity beta, gearing, debt premium and cost of debt for each company included in the list. In addition, BEREC describes factors that may justify the removal of one or more companies from the list provided by NRAs to take into account national specificities.

It is worth highlighting the fact that the 2021 BEREC report is based on the same methodology as in 2020, so any difference will not stem from any conceptual change, but rather from factual

⁹ Report available on 15/06/2021 on the website
https://berec.europa.eu/eng/document_register/subject_matter/berec/reports/9977-berec-report-on-wacc-parameter-calculations-according-to-the-european-commissions-wacc-notice-of-6-november-2019

developments. As an example, a major one-off effect with particular impact on the equity risk premium (*vide* 2.2.5) across the European Union (hereafter “EU”), which now excludes the UK, is Brexit, given the weight the UK had in the EU28 index last year. Brexit has also led to a change in the peer group (*vide* 2.2.2), with British Telecom no longer qualifying to incorporate this group. However, given that Telenor meets the eligibility criteria, it was eligible as a peer and was therefore included in the peer group.

For a detailed and in-depth understanding of the methodology for calculating each of the parameters, ANACOM recommends a joint analysis of the two above-mentioned documents, the Commission Notice and the BEREC report, on which this document is based.

2.2. Parameter values

2.2.1. Calculation of the risk-free interest rate (RFR)

To determine the RFR per country, BEREC relied on data published by Eurostat (Eurostat Long term government bond yields 2016M04 to 2021M03), on the basis of a five-year (1 April 2016 to 31 March 2021) arithmetic average of yields on 10-year domestic government bonds for each EU Member State. For Portugal, the calculated reference value is 1.71%. Results for each Member States are presented in Table 1.

Table 1: BEREC Risk Free Rate EU Member States

Country Code	Country	Country Credit Rating	5-year arithmetic average
AT	Austria	AA1	0.26
BE	Belgium	A3	0.36
BG	Bulgaria	BAA1	0.97
HR	Croatia	BA1	1.95
CY	Cyprus	BA2	1.92
CZ	Czechia	AA3	1.27
DK	Denmark	AAA	0.10
EE	Estonia	A1	0.97
FI	Finland	AA1	0.24
FR	France	AA2	0.37
DE	Germany	AAA	-0.03
EL	Greece	BA3	4.04
HU	Hungary	BAA3	2.73
IE	Ireland	A2	0.50
IT	Italy	BAA3	1.82
LV	Latvia	A3	0.45
LT	Lithuania	A2	0.35

LU	Luxembourg	AA2	0.12
MT	Malta	A2	0.90
NL	Netherlands	AAA	0.15
PL	Poland	A2	2.62
PT	Portugal	BAA3	1.71
RO	Romania	BAA3	4.05
SK	Slovakia	A2	0.47
SI	Slovenia	A3	0.60
ES	Spain	BAA1	1.01
SE	Sweden	AAA	0.34

Source: BEREC Report on WACC parameter calculations according to the European Commission's WACC Notice of 6 November 2019 (WACC parameters Report 2021)

2.2.2. Peer group

BEREC states that it has closely followed the criteria in the Commission Notice when deciding on which companies to include in the peer group, taking into consideration the following criteria to prepare this group. As such, companies are required to:

- a) be listed on a stock exchange and have liquidly traded shares;
- b) own and invest in electronic communications infrastructure;
- c) have their main operations located in the EU;
- d) have an investment grade (credit rating BBB/Baa3 or above); and;
- e) not be, or have not been recently, involved in any substantial mergers and acquisitions.

According to BEREC, where a company meets four of the five criteria it is considered appropriate for inclusion in the peer group. However, it is stressed that a company must meet criterion 1 as a prerequisite for inclusion.

Based on both the referred criteria and national specificities, the peer group proposed by BEREC for 2021 is shown in Table 2.

Table 2: BEREC peer group 2021

Company	Country	S&P rating as of April 2021	Rating last reviewed by S&P	Stock Symbol
Deutsche Telekom AG	DE	BBB	01 April 2020	DTE GR
Elisa Oyj	FI	BBB+	01 March 2021	ELISA FH
Koninklijke KPN N.V.	NL	BBB	22 March 2021	KPN NA
NOS	PT	BBB-	29 March 2021	NOS PT
Orange S.A.	FR	BBB+	18 Sept. 2020	ORA FP
Proximus S.A.	BE	A	16 July 2020	PROX BB
Tele 2 AB	SE	BBB	23 Nov. 2020	TEL2B SS
Telecom Italia	IT	BB+	06 Oct. 2020	TIT_MI
Telefónica	ES	BBB-	24 March 2021	TEF SM
Telekom Austria AG	AT	BBB+	10 April 2020	TKA AV
Telenet Group Holding N.V.	BE	BB-	17 July 2020	TNET BB
Telenor	NO	A-	8 June 2020	TEQ
Telia Company AB	SE	BBB+	13 Jan. 2021	TELIA SS
Vodafone Group plc	UK	BBB	29 July 2020	VOD LN

Source: BEREC Report on WACC parameter calculations according to the European Commission's WACC Notice of 6 November 2019 (WACC parameters Report 2021)

As regards each Member State, BEREC considers that NRAs should, where necessary, select from the above table the set of companies that most reflects national specificities. According to paragraph 67¹⁰ of the Commission Notice, this may involve removing companies from the listed group, but not adding any other companies. BEREC recommends that NRAs maintain where possible a peer group that is as wide as possible, using companies in Table 2 that are more representative of national specificities.

¹⁰ §67 “Regarding the company-specific parameters, BEREC will prepare a list of companies suitable for the peer group and estimate the equity beta, gearing, debt premium and cost of debt for each company included in the list. Further, BEREC will describe factors that may justify NRAs removing one or more companies from the list to take account of national specificities.”.

According to BEREC, in order to avoid “arbitrary” choices, the removal of companies from the list could be justified for the following reasons:

- a) certain companies in the peer group may not reflect the size of the operator holding significant market power (SMP) in the particular Member State;
- b) competition conditions within the electronic communications sector, and in particular infrastructure-based competition, may vary between Member States;
- c) the share of regulated vs non-regulated revenues of peer group members may vary;
- d) the scope of segments of activity of certain companies in the peer group may differ significantly from the types of business of the SMP operator to an extent of not being representative.

It is stressed that BEREC does not consider it appropriate to exclude companies from the peer group on the basis of the credit rating or risk-free rate of the Member State, as these may not be directly comparable to conditions experienced by the SMP operator in the Member State.

In light of the above, this Authority considers that, as the peer group is basically the same as last year, with only British Telecom leaving the group and Telenor being included, and also bearing in mind that no company is perfectly comparable to MEO, there are advantages in having a relatively large set of comparable companies in order to mitigate the influence of hypothetical characteristics that are distinctive of MEO. Thus, ANACOM believes that taking the full set of companies proposed by BEREC into account is the most advisable option.

2.2.3. Debt premium and cost of debt

BEREC estimated the debt premiums for the companies in the peer group listed above from which NRAs can select the appropriate value for their regulated operator. This value will be later added to the estimated domestic risk-free interest rate to derive the cost of debt for each company.

Table 3: Debt premium and Cost of debt

Company	Debt premium (basis point)	Domestic RFR	Cost of debt
Deutsche Telekom AG	124	-0.03	1.21
Elisa Oyj	73	0.24	0.97
Koninklijke KPN N.V.	116	0.15	1.31
NOS	54	1.71	2.25
Orange S.A.	80	0.37	1.17
Proximus S.A.	92	0.36	1.28
Tele 2 AB	152	0.34	1.86
Telecom Italia	101	1.82	2.83
Telefónica S.A.	44	1.01	1.45
Telekom Austria AG	78	0.25	1.03
Telenet Group Holding N.V.	312	0.36	3.48
Telenor	100	1.38	2.38
Telia Company AB	131	0.34	1.65
Vodafone Group plc	156	0.95	2.51

Source: BEREC Report on WACC parameter calculations according to the European Commission's WACC Notice of 6 November 2019 (WACC parameters Report 2021)

In view of the methodology described above, this Authority believes that the value of the debt premium to be considered for the purpose of calculating MEO's cost-of-capital rate is 1.1521% (arithmetic average of all companies considered based on the Debt premium column (basis point) of Table 3.

2.2.4. Beta and gearing calculation

Given the selected peer groups (*vide* point 2.2.2), BEREC's approach to estimate the equity beta was as follows:

- to estimate the equity beta for each company;
- to estimate the gearing level for each company;
- to derive the asset betas from each company in the peer group, including the SMP operator (using the equity beta and gearing level for each company);
- to relevel the asset beta to obtain the final equity beta.

BEREC provided the asset beta and gearing data for each company of the peer group, from which the corresponding ranges of values for each parameter could be used for estimating the final equity beta in the WACC formula by each NRA. Values determined by BEREC for the equity beta, gearing and asset beta are shown in Table 4 below.

Table 4: BEREC peer group 2021 – Equity beta, Gearing, Asset beta

Company	Equity Beta	Gearing	Asset beta
Deutsche Telekom AG	0.84	48.85%	0.48
Elisa Oyj	0.46	13.61%	0.41
Koninklijke KPN N.V.	0.75	39.12%	0.49
NOS	0.78	31.90%	0.57
Orange S.A.	0.79	50.19%	0.44
Proximus S.A.	0.62	23.02%	0.50
Tele2 AB	0.64	21.32%	0.52
Telecom Italia	1.08	68.24%	0.42
Telefónica S.A.	1.12	55.29%	0.56
Telecom Austria AG	0.69	37.66%	0.47
Telenet Group Holding N.V.	0.70	48.71%	0.41
Telenor	0.42	27.04%	0.33
Telia Company AB	0.68	35.81%	0.48
Vodafone Group plc	0.90	48.26%	0.52

Source: BEREC Report on WACC parameter calculations according to the European Commission's WACC Notice of 6 November 2019 (WACC parameters Report 2021)

On the basis of the methodology described above, this Authority believes that the value¹¹ of beta and gearing to be considered for the purpose of calculating MEO's cost-of-capital rate should be calculated for the entire peer group, resulting in a value of 0.7479 and 39.2157%, respectively.

2.2.5. Calculation of the equity risk premium (ERP)

The Commission Notice states that an EU-wide equity risk premium is considered to be the most appropriate approach for determining the cost-of-capital rate for regulatory purposes as this is consistent with the evidence suggesting that European financial markets are increasingly converging, coupled with the fact that a significant portion of electronic communications companies' capital is held by non-domestic investors.

¹¹ Obtained through the arithmetic average of values of Table 4.

To determine the value of this parameter, BEREC carried out an analysis of constraints, limitations and compatibility of the information that could be processed, as described in the report produced by that body.

As a result of the work carried out, BEREC set the ERP value at a range between 4.18% and 5.50% (*vide* Table 5), depending on whether the calculation based on the historical elements of the equity return and the bond return was carried out by reference to a geometric mean (lower limit) or to an arithmetic mean (upper limit).

Table 5: Equity risk premium - ERP

Country	Geometric Mean in (%)	Arithmetic Mean (%)	Available years weight
Austria	2.5	21.1	100% (121/121)
Belgium	2.0	4.1	100% (121/121)
Bulgaria	7.94	8.59	12.40% (15/121)
Croatia	3.6	4.29	12.40% (15/121)
Cyprus	27.45	29.26	4.96% (6/120)
Czechia	2.68	3.12	12.40% (15/120)
Denmark	3.3	5.0	100% (121/121)
Estonia	<i>not available</i>		
Finland	5.2	8.8	100% (121/121)
France	2.9	5.2	100% (121/121)
Germany	4.8	8.1	98.34% (119/121)
Greece	6.42	7.82	16.53% (20/121)
Hungary	2.96	3.76	16.53% (20/121)
Ireland	2.6	4.5	100% (121/121)
Italy	2.7	6.1	100% (121/121)
Latvia	8.83	9.64	13.22% (16/121)
Lithuania	3.74	4.47	13.22% (16/121)
Luxembourg	2.58	2.83	4.13% (5/121)
Malta	<i>not available</i>		
Netherlands	3.2	5.4	100% (121/121)
Poland	1.1	1.73	16.53% (20/120)
Portugal	5.1	9.1	100% (121/121)
Romania	10.67	13.34	12.40% (15/121)
Slovakia	2.36	2.65	13.22% (16/121)
Slovenia	3.88	4.34	13.22% (16/121)
Spain	1.3	3.3	100% (121/121)
Sweden	3.2	5.4	100% (121/121)
EU-ERP	4.18%	5.50%	

Source: BEREC Report on WACC parameter calculations according to the European Commission's WACC Notice of 6 November 2019 (WACC parameters Report 2021)

Notwithstanding BEREC's determination of a range of values within which it expects the ERP parameter to lie, it recognizes that the EC Notice note favours the use of the value determined on an arithmetic average basis¹², NRAs being required to justify any deviations.

It should be noted that ANACOM agrees with the calculation of this parameter using the arithmetic average, which has in fact been used and substantiated in previous actions of this Authority regarding the cost-of-capital, at least since 2010¹³, reason for which this Authority considered it appropriate to use the value of 5.50% as reference for the ERP parameter in the scope of the calculation of MEO's cost-of-capital rate for 2021.

2.2.6. Tax rate

According to paragraph 60¹⁴ of the Commission Notice, the use of the relevant domestic corporate tax rate to estimate the pre-tax WACC, which is the common approach adopted by NRAs, is considered to be appropriate. ANACOM therefore considers that the methodology¹⁵ used so far to determine the tax rate in previous years should continue to be applied, which corresponds to the sum of values of each of its constituent components (currently, the corporate income tax rate, the State surtax rate and the municipal surtax rate), obtained by applying the methodology described below:

- i) The corporate income tax (IRC) rate should correspond to the IRC rate in force in the financial year for which the cost-of-capital is being determined. In this sense, and taking into account the methodology described above, which establishes the use of the nominal IRC rate in force for 2021, ANACOM believes that the tax rate (IRC) to be considered should be 21%.
- ii) The State surtax rate, due to the legislative alterations that have occurred in recent years, is now determined on a progressive basis according to the company's taxable profit, which corresponds to the rate resulting from applying the legislation in force for the applicable

¹² According to §29 of the Commission Notice: "The Commission considers the arithmetic average method the most appropriate for estimating WACC parameters. Firstly, using a single averaging method is likely to be more transparent for stakeholders than combinations of several methods."

¹³https://www.anacom.pt/streaming/Decisao_final_taxasconsulta20112009.pdf?contentId=1010823&field=ATTACHED_FILE

¹⁴ §60 "The Commission considers it appropriate to use the relevant domestic corporate tax rate, which is the common approach adopted by NRAs, to estimate the pre-tax WACC."

¹⁵ For more detail on the methodology, *vide* the document "Final decision on the cost-of-capital rate of MEO – Serviços de Comunicações e Multimédia, S.A. (financial year 2018)", available at https://www.anacom.pt/streaming/DecisaoFinal_09052019_WACC_MEO2018.pdf?contentId=1471758&field=ATTACHED_FILE

year of the capital cost to the average of positive taxable profits in the three years preceding the year of application.

In this regard, it should be noted that the analysis of the MEO Reports and Accounts for the financial years of 2018, 2019 and 2020 showed that a taxable profit and consequent payment of a state surcharge for the financial year concerned only occurred in the 2018 financial year.

As mentioned earlier, the State surtax rate is determined on a progressive basis according to the company's taxable profit, being levied, in 2021, a 3% rate on profit exceeding EUR 1 500 000 and up to EUR 7 500 000, a 5% rate on taxable profit between EUR 7 500 000 and EUR 35 000 000, and a 9% rate on taxable profit in excess of EUR 35 000 000¹⁶.

Therefore, as the State surtax is determined by applying the rate resulting from the legislation in force to the average of positive taxable profits in the three years prior to the year of application, and given that in the above-mentioned three-year period taxable profits were recorded only for the 2018 financial year, the state surtax will result from applying rates in force to the taxable profit established for the 2018 financial year.

Table 6: MEO's taxable profit (2018-2020)

Year	Taxable profit (EUR thousand)	Effective State surtax rate (EUR thousand)
2018	445 108	38 465
2019		
2020		
Average	445 108	38 465

Source: State surcharge value according to MEO's model 22.

As such, in the light of the methodology described above, ANACOM considers that the State tax rate to be considered in the calculation of the cost-of-capital, for 2021, should incorporate a state surtax of 8.64% (*vide* Table 7).

¹⁶ Article 87-A of the IRC Code, as amended by Law No 114/2017, of 29 December.

Table 7: State surtax rate

Taxable Profit Range	State Surtax Rate	Taxable profit (EUR thousand)	State Surtax (EUR thousand)	Average State surtax rate
Up to € 1 500 000	0%	1500	0	
Between € 1 500 000 and €7 500 000	3%	6000	180	
Between € 7 500 000 and € 35 000 000	5%	27 500	1375	
Over € 35 000 000	9%	410 108	36 910	
		(1) 445 108	(2) 38 465	(2)/(1) 8.64%

Source: Calculations performed by ANACOM on the basis of information provided by MEO.

- iii) As regards the municipal surtax, as this is a parameter exogenous to the company in the sense that it does not result from taxable profits in each year, the established methodology determined that, on account of the widespread location of municipalities with different municipal surtax rates, and in order to simplify the process of calculation and determination of its value, the municipal surtax¹⁷ corresponds to the maximum value established in the law (1.5%) for municipal surtax rates levied on taxable profit for the 2021 financial period.

Accordingly, in the light of the above and under the established methodology, ANACOM takes the view that the tax rate, to be considered in the calculation of the cost-of-capital rate applicable in 2021, should be 31.14% (*vide Table 8*).

Table 8: Tax rate

Tax rate	
Article 87 of the IRC Code - IRC Tax Rate	21.00% ¹⁸
Article 87-A of the IRC Code - State Surtax Rate	8.64%
Municipal surtax	1.50%
	31.14%

¹⁷ Letter No 20218 of 2020-02-19 from the Tax and Customs Authority on corporate income tax - municipal surcharge rates levied on taxable income for the 2019 tax period, available on the website https://info.portaldasfinancas.gov.pt/pt/informacao_fiscal/legisacao/instrucoes_administrativas/Documents/Oficio_circulado_20218_2020.pdf

¹⁸ According to the information available on 13.07.2020 on the website of the Tax and Customs Authority https://info.portaldasfinancas.gov.pt/pt/informacao_fiscal/codigos_tributarios/CIRC_2R/Pages/circ-codigo-do-irc-indice.aspx

2.3. Definition of the cost-of-capital rate

The prior adoption of a clear methodology and the resulting a priori specification of the cost-of-capital rate promotes regulatory predictability and transparency in markets.

Therefore, and taking into consideration the parameter values obtained, detailed in the aforementioned BEREC report and presented in the previous points, ANACOM takes the view that the **cost-of-capital rate** applicable to the 2021 financial year should be **6.2627%** (*vide* Table 9).

Table 9: Cost-of-capital rate (2021)

Parameters	
Risk-free interest rate	1.71%
Debt premium	1.1521%
Equity beta	0.7479
Risk premium	5.5%
Gearing	39.2157%
Tax rate	31.14%
Cost of equity	5.8232%
Cost-of-capital rate (2021)¹⁹	6.2627%

3. Decision

In the light of the above, the Board of Directors of ANACOM, in the exercise of powers set out in points a), h) and i) of paragraph 1 of article 8 of ANACOM's Statutes, as approved by Decree-Law No 39/2015, of 16 March, as well as of duties set out in point a) of paragraph 1 and in point b) of paragraph 2 of article 9 of the same Statutes, taking into account the regulatory objectives set out in points a) and c) of paragraph 1 of article 5 and under paragraph 2 of article 74 and article 75, all of Law No 5/2004, of 10 February 2004, as amended, and in the exercise of powers conferred upon it by point b) of paragraph 1 of article 26 of ANACOM's Statutes, hereby determines that, in the context of the results for 2021 of MEO's cost accounting system, the **cost-of-capital rate of 6.2627%** shall be used.

¹⁹ Value rounded to the 4th decimal place.