Dear Sir and madams,

we like to response to ERG (06) 46 - PIBS on WACC on the due date (referring to the elongation of Mr. Hattermann, VATM):

Computing the cost of capital applying WACC while the cost of equity being calculated by using the CAPM is a respected and used method.

Arcor would like to stress the importance of transparency in both the methods and data used for calculating the cost of capital for the concerning company. The method should haven proven reliable, comprehensible and widely accepted by both the finance community and the industry, as the WACC / CAPM are, and the data used should stem from publicly accessible sources like the year end financial statements.

Further, Arcor suggests the use of a historical premium with adjustments to include the volatility for estimating the equity risk premium. A possible approach is shown in Dimson, March and Staunton (2002) "Triumph Of The Opimists". The beta-factor should be observed on a monthly base for five years. The statuatory (headline) tax rate should be used as it is not influenced by past results. Even though the calculation of a divisional cost of equity and therefore WACC is somewhat difficult in certain cases, Arcor appreciates the use whenever possible. Regulated products as the unbundled local loop are not as volatile as not regulated products like mobile communication and should thus have a lower risk and lower equity risk premium.

kind regards
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PRO

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