

## YUM! Brands, Inc. (YUM)

### Attractive Risk/Reward Rating

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- YUM has an Overall Risk/Reward Rating of Attractive because the stock offers more upside potential than downside risk.
- Figure 1 summarizes the five factors that drive our Overall Risk/Reward Rating for YUM. Each factor offers insights into the profitability and valuation of YUM.
- Rising EE means that economic EPS are positive, the company's ROIC is greater than WACC, and ROIC is rising.
- The biggest adjustment that lowers economic EPS and is not captured in Reported EPS is Reported Net Assets.
- The combination of positive and rising economic EPS with a cheap stock valuation drives a Risk/Reward Rating of Attractive for YUM.
- Our Risk/Reward Rating system identifies disconnects between the market's expectations for future cash flows and current cash flows.
- This report provides a detailed explanation of each diagnostic criterion and each rating for YUM. Appendices highlight Red Flags and explain our Risk/Reward Rating system.

Figure 1: New Constructs' Risk/Reward Rating

| Overall Risk/Reward Rating | Quality of Earnings      |                                   | Valuation |                    |                                  |
|----------------------------|--------------------------|-----------------------------------|-----------|--------------------|----------------------------------|
|                            | Economic vs Reported EPS | Return on Invested Capital (ROIC) | FCF Yield | Price-to-EBV Ratio | Growth Appreciation Period (yrs) |
| Very Dangerous             | Misleading Trend         | Bottom Quintile                   | <-5%      | > 3.5 or -1 < 0    | > 50                             |
| Dangerous                  | False Positive           | 4th Quintile                      | -5%<-1%   | 2.4 < 3.5 or < -1  | 20 < 50                          |
| Neutral                    | Neutral EE               | 3rd Quintile                      | -1%<3%    | 1.6 < 2.4          | 10 < 20                          |
| <b>Attractive</b>          | Positive EE              | 2nd Quintile                      | 3%<10%    | 1.1 < 1.6          | <b>3 &lt; 10</b>                 |
| Very Attractive            | <b>Rising EE</b>         | <b>Top Quintile</b>               | >10%      | 0 < 1.1            | 0 < 3                            |
| <b>Actual Values</b>       | \$2.32 vs. \$2.74        | 17.5%                             | 2.2%      | 1.60               | 6                                |
| <b>S&amp;P 500 (SPY)</b>   | Positive EE              | 22.6%                             | 1.7%      | 2.03               | 20                               |
| <b>Russell 2000 (IWM)</b>  | Neutral EE               | 9.3%                              | (2.0%)    | 3.78               | 53                               |

Source: New Constructs, LLC.

New Constructs rectifies accounting distortions in GAAP financial statements.

## Economic vs Reported Earnings

### Why Economic Earnings Matter

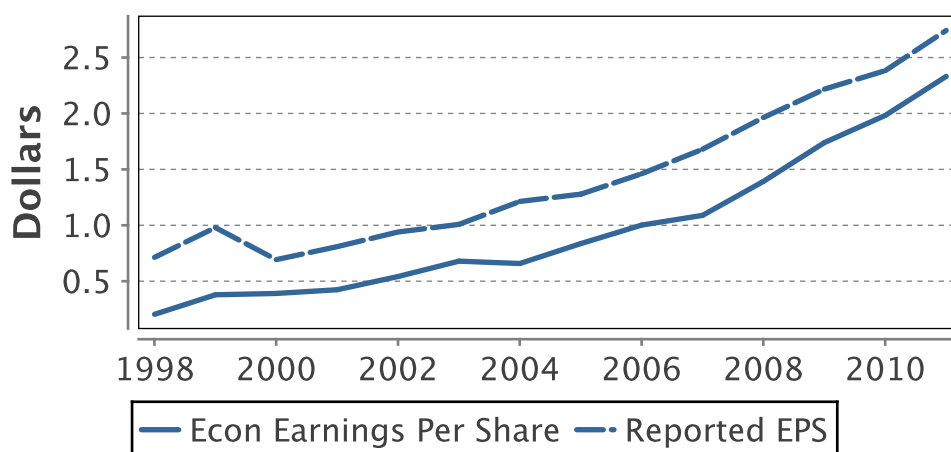
Economic earnings are almost always meaningfully different than GAAP earnings. We believe economic earnings provide a truer measure of profitability and shareholder value creation than offered by GAAP earnings. Investors should beware investing in companies that report profits meaningfully different than their economic earnings.

Figure 2 highlights the differences between the reported and economic earnings for YUM. Rising EP means the company earned a ROIC greater than its WACC during the last Fiscal Year.

During the last Fiscal Year, the biggest driver of the difference between reported and economic EPS is Reported Net Assets. See Appendix 2 for a line item by line item reconciliation of Net Income to Economic Earnings.

Figure 2: Economic Earnings Per Share vs Reported EPS

### YUM – Economic Earnings Per Share vs Reported EPS



Source: New Constructs, LLC.

Economic earnings and return on capital metrics are significantly more accurate when as-reported financial statements have been adjusted to reverse accounting distortions and Red Flags. The majority of the data required to reverse accounting distortions is available only in the Notes to the Financial Statements, which we analyze rigorously. Our core competency is gathering and analyzing all relevant financial data (from Financial Statements and the Notes) so that we can deliver earnings analyses that best represent the true profitability of businesses. See Figure 3 for a list of the Red Flag adjustments we make to a company's reported GAAP profits in order to reverse accounting distortions and arrive at a better measure of a firm's profits.

Figure 3: Accounting Issues and Red Flags that Distort GAAP

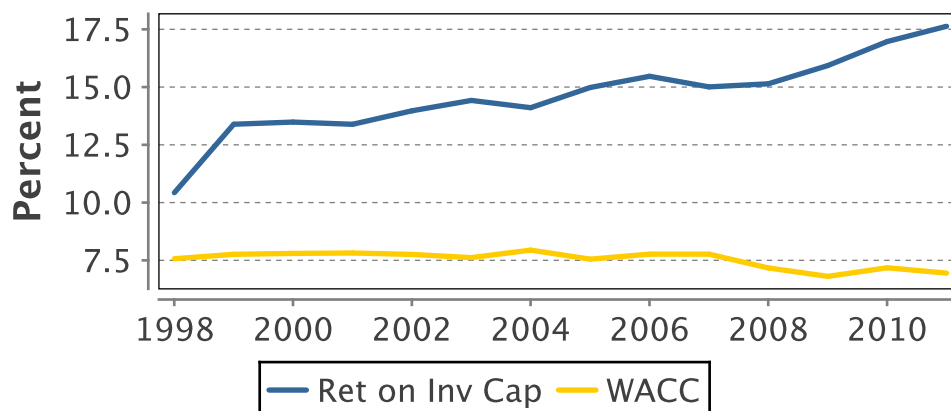
- Employee Stock Options
- Pension Over/Under Funding
- Excess Cash
- Restructuring charges
- Pooling Goodwill
- Minority Interests
- Off-Balance-Sheet Financing
- LIFO Reserve
- Unrealized Gains/Losses
- Goodwill Amortization
- Unconsolidated Subsidiaries
- Capitalized Expenses

Source: New Constructs, LLC.

Figure 4 compares YUM's Return on Invested Capital (ROIC) to its Weighted-Average Cost of Capital (WACC). This company's ROIC during its last fiscal year ranks in the Top Quintile.

Figure 4: Return on Invested Capital vs Weighted Average Cost of Capital

**YUM – Return on Invested Capital vs Weighted Average Cost of Capital**



Source: New Constructs, LLC. Note: If average invested capital is negative, ROIC is not calculated.

**How We Measure Economic Earnings**

The metrics we use to measure the economic performance of companies are Economic Earnings Margin and Economic Earnings. The Economic Earnings Margin for a company equals its Return on Invested Capital (ROIC) minus its Weighted-Average Cost of Capital (WACC). The Economic Earnings of a company equal its Economic Earnings Margin multiplied by its average Invested Capital. Economic Earnings per Share equal Economic Earnings divided by Basic Shares Outstanding. ROIC equals Net Operating Profit After Tax (NOPAT) divided by Invested Capital.

We believe our measures of economic performance are substantially more accurate than accounting metrics because we make adjustments for all the issues listed in Figure 3.

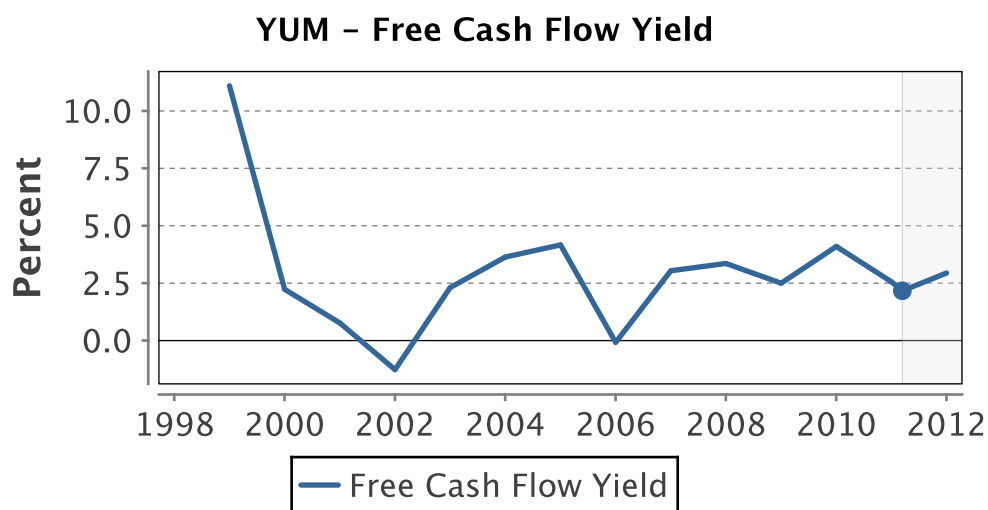
Appendix 3 provides a line item by line item reconciliation of Net Income to Economic Earnings.

### Free Cash Flow Yield

Rigorous back-testing shows that stocks with a Free Cash Flow Yield of at least 10% significantly out-performed both the S&P 500 and a survivor-bias-adjusted index. For more detail on Free Cash Flow Yield and our backtesting, see our report "Cash Is King," which was published November 30th, 2004.

Using Free-Cash-Flow Yields to pick stocks is not a new strategy. However, our strategy yields superior results because we use a better measure of Free Cash Flow (FCF), in our opinion. In the same way our economic EPS are better measures of profitability than reported EPS, our measure of FCF is better than traditional accounting-based FCF. We measure Free Cash Flow by subtracting the change in Invested Capital from NOPAT.

Figure 5: Free Cash Flow Yield



Source: New Constructs, LLC. Note: Dot on the line(s) in the chart marks the current value(s).

Figure 5 shows YUM's FCF Yield over the past several years. YUM's current FCF Yield is 2.2%.

Free Cash Flow Yield equals unlevered FCF divided by enterprise value. The level of FCF does not always reflect the health of a business or its prospects. For example, a large amount of FCF can be a sign that a company has limited investment opportunities and, hence, limited growth prospects. On the other hand, negative FCF can be an attractive indication that a company has more investment opportunities than it can fund with cash from operations. Zero FCF could mean that the company generates just enough cash to internally fund its growth opportunities.

### Price-to-EBV Per Share

Figure 6 shows the differences between the stock market price and Economic Book Value (EBV) per share of YUM. These differences reflect the portion of the stock price that is entirely dependent on future cash flow growth.

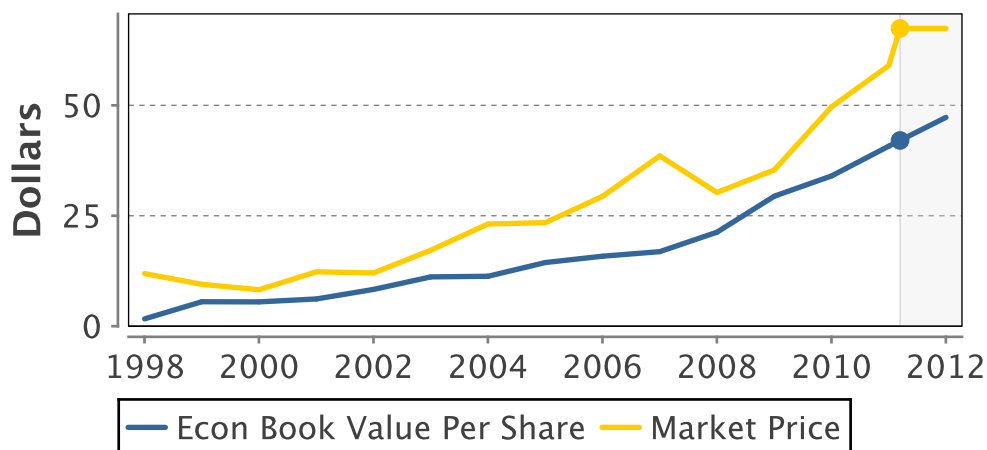
The lower the stock price is versus EBV, the lower the potential risk of investing in the stock.

The higher the stock price is versus EBV, the greater the potential risk of investing in the stock.

When stock prices are much higher than EBVs, the market predicts the economic profitability (as distinct from accounting profitability) of the company will meaningfully increase. When stock prices are much lower than EBVs, the market predicts the economic profitability of the company will meaningfully decrease. If the stock price equals the EBV, the market predicts the company's economic profitability will not change.

Figure 6: Economic Book Value Per Share vs Market Price

#### YUM – Economic Book Value Per Share vs Market Price



Source: New Constructs, LLC. Note: Dot on the line(s) in the chart marks the current value(s).

EBV measures the no-growth value of the company based on the current economic cash flows generated by the business. It is also known as the "pre-strategy value" of the company because it ignores the value attributable to future cash flows, which are, in theory, what business strategies should aim to improve.

The Formula for EBV is:  $(NOPAT / WACC) + \text{Excess Cash} + \text{Unconsolidated Subsidiary Assets} + \text{Net Assets from Discontinued Operations} - \text{Debt (incl. Operating Leases)} - \text{Value of Outstanding Stock Options} - \text{Under (Over) funded Pensions} - \text{Preferred Capital} - \text{Minority Interests}$ . EBV per share equals EBV divided by shares outstanding.

Stock prices reflect the market's expectations for the present value of future cash promised to the owner.

### Quantifying Market Expectations

We believe this stock has an Attractive Risk/Reward Rating because there is a relatively small difference between the expected financial performance implied by its market price and the company's historical performance.

Figure 7 compares the future performance required to justify the company's stock market price to its historical performance. Specifically, Figure 7 shows: to justify the current stock price of \$67.41, YUM must grow revenues at 7.7% and maintain a 10.5% Economic Earnings Margin for 6 years.

Figure 7: Future Performance Required to Justify Valuation

| Performance Hurdles          | Historical Performance |         |         | Market Expectations                              |
|------------------------------|------------------------|---------|---------|--|
|                              | 5 Yr                   | 3Yr     | Last FY | Default<br><small>based on current price</small> |
| Stock Price                  | \$38.54                | \$35.38 | \$59.01 | <b>\$67.41</b>                                   |
| Revenue CAGR                 | 4.9%                   | 7.9%    | 11.3%   | <b>7.7%</b>                                      |
| Avg Economic Earnings Margin | 9.0%                   | 9.9%    | 10.7%   | <b>10.5%</b>                                     |
| Growth Appreciation Period   | -                      | -       | -       | <b>6 years</b>                                   |

Comparing the required future performance to historical performance positions investors to assess the feasibility of market expectations and valuations.

Source: New Constructs, LLC

Note: The Default Scenario is Based on the forecast set by the New Constructs analytical team, this scenario represents a likely financial performance path the company may follow to justify the current market price. Subscribers to our services may create alternate forecast scenarios based on their own estimates.

Historically, YUM has generated a Revenue CAGR of 4.9%, 7.9%, and 11.3% and Economic Earnings Margins of 9.0%, 9.9%, and 10.7% over the past 5, 3 and 1 year(s).

The market expects YUM to achieve a Revenue CAGR of 7.7% and Economic Earnings Margins of 10.5% for 6 years.

GAP measures the number of years implied by the stock price over which the company must maintain an edge over its current and future competitors. Specifically, GAP measures the number of years a company will earn returns on invested capital greater than its cost of capital on new investments. The law of competition dictates that a company can only grow its economic earnings for the finite period over which it can maintain a competitive advantage.

See Appendix 4 for the specific estimates used in this company's valuation model.

**The Market-implied GAP of the S&P 500 is 20 years. For the Russell 1000, it is 23 years. YUM has a GAP of 6 years, which is much less than the indices. Based on this criterion, YUM has a much greater chance of seeing price appreciation versus the indices.**

Appendix 2 details each Adjustment made to this company's reported financial results.

**Our Overall Rating is Attractive. Other criteria (per pages above) in our rating system also indicate YUM is an Attractive investment.**

GAP analysis comes from our dynamic discounted cash flow model, a multi-stage DCF model that values companies across multiple forecast horizons. Each forecast horizon (i.e., Growth AppreciationPeriod - GAP), assumes the company cannot grow profits beyond the GAP period. Our model exclusively uses no-growth terminal value assumptions for calculating the value of the stock for each GAP.

The forecast drivers for our DCF model are: (1) Revenue Growth; (2) NOPBT Margin, (i.e. EBIT Margin with Adjustments\*), (3) Cash Tax Rate, (4) Incremental Net Working and Fixed Capital needs. See Appendix 4 for the forecasts that drive our DCF model for this company.

Our Company Models value stocks based on the present value of expected free cash flows, with that free cash flow measured according to our economic (as distinct from conventional accounting) methodology. Website subscribers forecast economic free cash flow by assigning estimates to three value drivers:

**1. Revenue Growth**

Compounded over the indicated time frame.

**2. Economic Earnings Margin**

The Return On Invested Capital minus the weighted-average cost of capital.

**3. Growth Appreciation Period**

Number of years the company can earn a positive Economic Earnings Margin on incremental investments, i.e. the number of years it can create economic value.

An alternative way to conceptualize the three value drivers is:

1. "How fast will the company grow?"
2. "How profitable will the company be?"
3. "For how many years will the company grow economic earnings or create incremental value?"

## Appendix 1: Explanation of New Constructs' Stock Ratings Scale

Our Risk/Reward Rating (Figure 1) system grades every stock under our coverage according to what we believe are the 5 most important criteria for assessing the risk versus reward of a stock. Each grade reflects the balance of potential risk and reward of buying that stock. Our Risk/Reward analysis results in the 5 ratings described below. Most Attractive corresponds to a "Buy" rating, Most Dangerous corresponds to a "Sell" rating, and everything in-between corresponds to a "Hold" rating.

### Overall Risk/Reward Rating

The Overall Risk/Reward Rating provides a final rating based on the equal-weighted average rating of each criterion.

|                 |  |
|-----------------|--|
| Very Dangerous  | All criteria are equal-weighted in the average calculation except 2yr FCF Yield is excluded. |
| Dangerous       | All criteria are equal-weighted in the average calculation except 2yr FCF Yield is excluded. |
| Neutral         | All criteria are equal-weighted in the average calculation.                                  |
| Attractive      | All criteria are equal-weighted in the average calculation.                                  |
| Very Attractive | All criteria are equal-weighted in the average calculation.                                  |

### Economic vs Reported EPS

Ranks stocks based on how their Economic Earnings compare their Reported Earnings. Values based on Latest Fiscal Year.

|                  |   |
|------------------|---|
| Misleading Trend | Very Dangerous = negative and declining Economic Earnings despite positive and rising Reported Earnings |
| False Positive   | Dangerous = same as above except Reported EPS are not positive or are not rising                        |
| Neutral EE       | Neutral = Negative Economic and Reported Earnings   |
| Positive EE      | Attractive = Economic Earnings are positive   |
| Rising EE        | Very Attractive = Economic Earnings are positive and rising   |

### Return on Invested Capital (ROIC)

Ranks stocks based on their ROIC. Values based on Latest Fiscal Year.

|                 |   |
|-----------------|---|
| Bottom Quintile | Very Dangerous = in the bottom 20% of all companies |
| 4th Quintile    | Dangerous = in the bottom 40% of all companies      |
| 3rd Quintile    | Neutral = in the middle 20% of all companies        |
| 2nd Quintile    | Attractive = in the top 40% of all companies        |
| Top Quintile    | Very Attractive = in the top 20% of all companies   |

### FCF Yield

Ranks stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.

|           |   |
|-----------|---|
| < -5%     | Very Dangerous = less than or equal to -5%                |
| -5% < -1% | Dangerous = more than -5% but less than or equal to -1%   |
| -1% < 3%  | Neutral = more than -1% but less than or equal to +3%     |
| 3% < 10%  | Attractive = more than +3% but less than or equal to +10% |
| > 10%     | Very Attractive = more than +10%                          |

### Price-to-EBV Ratio

Ranks stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.

|                   |   |
|-------------------|---|
| > 3.5 or -1 < 0   | Very Dangerous = greater than or equal to 3.5 or less than 0 but greater than -1        |
| 2.4 < 3.5 or < -1 | Dangerous = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1 |
| 1.6 < 2.4         | Neutral = greater than or equal to 1.6 but less than 2.4                                |
| 1.1 < 1.6         | Attractive = greater than or equal to 1.1 but less than 1.6                             |
| 0 < 1.1           | Very Attractive = greater than or equal to 0 but less than 1.1                          |

### Growth Appreciation Period (yrs)

Ranks stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.

|         |  |
|---------|--|
| > 50    | Very Dangerous = greater than or equal to 50 years                 |
| 20 < 50 | Dangerous = greater than or equal to 20 years but less than 50     |
| 10 < 20 | Neutral = greater than or equal to 10 years but less than 20       |
| 3 < 10  | Attractive = greater than or equal to 3 years but less than 10     |
| 0 < 3   | Very Attractive = greater than or equal to 0 years but less than 3 |



## Appendix 2: Red Flag and Economic Adjustments Summary

Values in millions except per share amounts

|  | 2007              | 2008              | 2009              | 2010              | 2011               |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b><i>NOPAT Adjustments - Impact Analysis</i></b>            |                   |                   |                   |                   |                    |
| GAAP Net Income  | \$909.00          | \$964.00          | \$1,071.00        | \$1,158.00        | \$1,319.00         |
| Net Non-Operating Items Pre-Tax                              | \$170.00          | \$148.00          | \$245.00          | \$319.00          | \$406.00           |
| Change in Total Reserves                                     | \$0.00            | \$0.00            | \$0.00            | \$0.00            | \$0.00             |
| Goodwill Amortization  | \$0.00            | \$0.00            | \$0.00            | \$0.00            | \$0.00             |
| ESO Expense (Employee Stock Options)                         | (\$0.00)          | (\$0.00)          | (\$0.00)          | (\$0.00)          | (\$0.00)           |
| Implied Interest for PV of Operating Leases                  | \$202.97          | \$223.19          | \$224.60          | \$246.69          | \$261.00           |
| Non-Operating Tax Adjustment                                 | (\$103.85)        | (\$89.63)         | (\$121.98)        | (\$115.33)        | (\$197.86)         |
| Net After-Tax Non-Operating Items                            | \$0.00            | \$11.00           | \$12.00           | \$20.00           | \$16.00            |
| <b>NOPAT (Net Operating Profit After Tax)</b>                | <b>\$1,178.12</b> | <b>\$1,256.57</b> | <b>\$1,430.62</b> | <b>\$1,628.36</b> | <b>\$1,804.13</b>  |
| <b><i>Invested Capital Adjustments - Impact Analysis</i></b> |                   |                   |                   |                   |                    |
| Reported Net Assets  | \$5,468.00        | \$4,830.00        | \$5,554.00        | \$6,541.00        | \$6,704.00         |
| Excess Cash  | (\$268.20)        | (\$0.00)          | (\$0.00)          | (\$858.85)        | (\$566.70)         |
| Total Reserves   | \$0.00            | \$0.00            | \$0.00            | \$0.00            | \$0.00             |
| Deferred Tax Liability                                       | \$0.00            | \$0.00            | \$0.00            | \$0.00            | \$0.00             |
| Unconsolidated Subsidiary Assets (non-operating)             | (\$0.00)          | (\$0.00)          | (\$0.00)          | (\$0.00)          | (\$0.00)           |
| Net Assets from Discontinued Operations                      | (\$0.00)          | (\$0.00)          | (\$0.00)          | (\$0.00)          | (\$24.00)          |
| Off-Balance-Sheet Operating Leases                           | \$2,553.07        | \$2,967.96        | \$3,194.86        | \$3,360.88        | \$3,723.21         |
| Accumulated Unrecorded Goodwill                              | \$0.00            | \$0.00            | \$0.00            | \$0.00            | \$0.00             |
| Accumulated Goodwill Amortization                            | \$11.04           | \$11.04           | \$11.04           | \$11.04           | \$11.04            |
| Accumulated Asset Write-Downs After-Tax                      | \$293.33          | \$334.91          | \$413.89          | \$514.17          | \$625.09           |
| Accumulated OCI (Other Comprehensive Income)                 | (\$20.00)         | \$418.00          | \$224.00          | \$227.00          | \$247.00           |
| <b>Invested Capital</b>                                      | <b>\$8,037.24</b> | <b>\$8,561.91</b> | <b>\$9,397.79</b> | <b>\$9,795.25</b> | <b>\$10,719.64</b> |
| <b><i>Net Non-Operating Items Pre-tax - Detail</i></b>       |                   |                   |                   |                   |                    |
| Non-Operating Items Hidden in Operating Items                | \$0.00            | \$0.00            | \$16.00           | \$7.00            | \$26.00            |
| Asset Write-Downs Hidden in Operating Items                  | \$0.00            | \$0.00            | \$0.00            | \$91.00           | \$95.00            |
| Income from Recurring Net Periodic Benefit Costs             | \$0.00            | \$0.00            | \$0.00            | \$0.00            | \$0.00             |
| Non-Recurring Net Periodic Benefit Costs in Operating Items  | \$0.00            | \$0.00            | \$0.00            | \$0.00            | \$0.00             |
| Other Net Non-Operating Items                                | \$170.00          | \$148.00          | \$229.00          | \$221.00          | \$285.00           |
| Net Non-Operating Items Pre-Tax                              | \$170.00          | \$148.00          | \$245.00          | \$319.00          | \$406.00           |

More information and detail on our adjustments is provided in our Company Valuation Models.

**Appendix 3: Red Flag Impact: Reconciling Net Income to Economic Earnings**

Values in millions except per share amounts

|   | 2007              | 2008              | 2009              | 2010              | 2011              |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>NOPAT = Net Income with Adjustments as per below</b> |                   |                   |                   |                   |                   |
| GAAP Net Income   | \$909.00          | \$964.00          | \$1,071.00        | \$1,158.00        | \$1,319.00        |
| Net Non-Operating Items Pre-Tax                         | 170.0             | 148.0             | 245.0             | 319.0             | 406.0             |
| <i>As a % of Revenue</i>                                | 1.6%              | 1.3%              | 2.3%              | 2.8%              | 3.2%              |
| Change in Total Reserves                                | 0.0               | 0.0               | 0.0               | 0.0               | 0.0               |
| <i>As a % of Revenue</i>                                | 0.0%              | 0.0%              | 0.0%              | 0.0%              | 0.0%              |
| Goodwill Amortization                                   | 0.0               | 0.0               | 0.0               | 0.0               | 0.0               |
| <i>As a % of Revenue</i>                                | 0.0%              | 0.0%              | 0.0%              | 0.0%              | 0.0%              |
| ESO Expense (Employee Stock Options)                    | (0.0)             | (0.0)             | (0.0)             | (0.0)             | (0.0)             |
| <i>As a % of Revenue</i>                                | (0.0%)            | (0.0%)            | (0.0%)            | (0.0%)            | (0.0%)            |
| Implied Interest for PV of Operating Leases             | 203.0             | 223.2             | 224.6             | 246.7             | 261.0             |
| <i>As a % of Revenue</i>                                | 1.9%              | 2.0%              | 2.1%              | 2.2%              | 2.1%              |
| Non-Operating Tax Adjustment                            | (103.9)           | (89.6)            | (122.0)           | (115.3)           | (197.9)           |
| <i>As a % of Revenue</i>                                | (1.0%)            | (0.8%)            | (1.1%)            | (1.0%)            | (1.6%)            |
| Net After-Tax Non-Operating Items                       | \$0.00            | \$11.00           | \$12.00           | \$20.00           | \$16.00           |
| <i>As a % of Revenue</i>                                | 0.0%              | 0.1%              | 0.1%              | 0.2%              | 0.1%              |
| <b>NOPAT (Net Operating Profit After Tax)</b>           | <b>\$1,178.12</b> | <b>\$1,256.57</b> | <b>\$1,430.62</b> | <b>\$1,628.36</b> | <b>\$1,804.13</b> |

**Capital Charge = WACC \* Average Invested Capital as detailed below**

|  |                 |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Capital Charge for Average Reported Net Assets                     | 401.0           | 369.2           | 353.4           | 434.1           | 460.0           |
| <i>As a % of Revenue</i>   | 3.8%            | 3.3%            | 3.3%            | 3.8%            | 3.6%            |
| Capital Charge for Average Excess Cash                             | (10.4)          | (9.6)           | (0.0)           | (30.8)          | (49.5)          |
| <i>As a % of Revenue</i>   | (0.1%)          | (0.1%)          | (0.0%)          | (0.3%)          | (0.4%)          |
| Capital Charge for Average Total Reserves                          | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <i>As a % of Revenue</i>   | 0.0%            | 0.0%            | 0.0%            | 0.0%            | 0.0%            |
| Capital Charge for Average Deferred Tax Liability                  | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <i>As a % of Revenue</i>   | 0.0%            | 0.0%            | 0.0%            | 0.0%            | 0.0%            |
| Capital Charge for Average Unconsol Sub Assets (non-operating)     | (0.0)           | (0.0)           | (0.0)           | (0.0)           | (0.0)           |
| <i>As a % of Revenue</i>   | (0.0%)          | (0.0%)          | (0.0%)          | (0.0%)          | (0.0%)          |
| Capital Charge for Average Net Assets from Discontinued Operations | (0.0)           | (0.0)           | (0.0)           | (0.0)           | (0.0)           |
| <i>As a % of Revenue</i>   | (0.0%)          | (0.0%)          | (0.0%)          | (0.0%)          | (0.0%)          |
| Capital Charge for Average Off-Balance-Sheet Operating Leases      | 191.6           | 197.9           | 209.7           | 235.3           | 246.0           |
| <i>As a % of Revenue</i>   | 1.8%            | 1.8%            | 1.9%            | 2.1%            | 1.9%            |
| Capital Charge for Average Unrecorded Goodwill                     | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <i>As a % of Revenue</i>   | 0.0%            | 0.0%            | 0.0%            | 0.0%            | 0.0%            |
| Capital Charge for Average Accumulated Goodwill Amortization       | 0.9             | 0.8             | 0.8             | 0.8             | 0.8             |
| <i>As a % of Revenue</i>   | 0.0%            | 0.0%            | 0.0%            | 0.0%            | 0.0%            |
| Capital Charge for Average Cumulative Asset Write-Offs After Tax   | 21.5            | 22.5            | 25.5            | 33.3            | 39.6            |
| <i>As a % of Revenue</i>   | 0.2%            | 0.2%            | 0.2%            | 0.3%            | 0.3%            |
| Capital Charge for Average Accumulated OCI                         | 5.3             | 14.3            | 21.8            | 16.2            | 16.5            |
| <i>As a % of Revenue</i>   | 0.1%            | 0.1%            | 0.2%            | 0.1%            | 0.1%            |
| Mid-Year Acquisition Capital Charge Adjustment                     | 0.0             | 0.0             | 0.0             | (0.1)           | (1.7)           |
| <i>As a % of Revenue</i>   | 0.0%            | 0.0%            | 0.0%            | (0.0%)          | (0.0%)          |
| <b>Capital Charge for Average Invested Capital</b>                 | <b>\$609.83</b> | <b>\$595.13</b> | <b>\$611.22</b> | <b>\$688.74</b> | <b>\$710.87</b> |

**Economic Earnings = NOPAT minus Capital Charge**

|                             |                 |                 |                 |                 |                   |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| <b>Economic Earnings</b>    | <b>\$568.29</b> | <b>\$661.44</b> | <b>\$819.39</b> | <b>\$939.62</b> | <b>\$1,093.26</b> |
| Economic Earnings per Share | \$1.09          | \$1.39          | \$1.74          | \$1.98          | \$2.33            |
| Basic EPS                   | \$1.74          | \$2.03          | \$2.27          | \$2.44          | \$2.81            |

**Appendix 4: DCF Forecast Drivers Summary**

Values in millions except per share amounts

| 2007   | Historical |          |       |        |       | DCF Forecast Drivers |       |       |       |       |       |       |       |       |  |
|--|------------|----------|-------|--------|-------|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|--|
|  | 2008       | 2009     | 2010  | 2011   | EY 1  | EY 2                 | EY 3  | EY 4  | EY 6  | EY 11 | EY 16 | EY 21 | EY 26 | EY 51 |  |
| <b>Total Operating Revenue Growth</b>                    |            |          |       |        |       |                      |       |       |       |       |       |       |       |       |  |
| 8.9%   | 8.3%       | (3.9%)   | 4.7%  | 11.3%  | 8.8%  | 9.1%                 | 8.0%  | 7.0%  | 6.5%  | 6.5%  | 6.5%  | 6.5%  | 6.5%  | 6.0%  |  |
| <b>NOPBT Margin</b>                                      |            |          |       |        |       |                      |       |       |       |       |       |       |       |       |  |
| 15.0%  | 14.7%      | 17.2%    | 19.0% | 18.4%  | 18.4% | 18.4%                | 18.4% | 18.4% | 18.4% | 18.4% | 18.4% | 18.4% | 18.4% | 18.4% |  |
| <b>Cash Tax Rate</b>                                     |            |          |       |        |       |                      |       |       |       |       |       |       |       |       |  |
| 24.7%  | 24.4%      | 23.3%    | 24.6% | 22.4%  | 22.4% | 22.4%                | 22.4% | 22.4% | 22.4% | 22.4% | 22.4% | 22.4% | 22.4% | 22.4% |  |
| <b>Net Working Capital Delta as % of Revenue Delta</b>   |            |          |       |        |       |                      |       |       |       |       |       |       |       |       |  |
| 4.1%   | (21.4%)    | (81.3%)  | 12.9% | (6.1%) | 5.0%  | 5.0%                 | 5.0%  | 5.0%  | 5.0%  | 5.0%  | 5.0%  | 5.0%  | 5.0%  | 5.0%  |  |
| <b>Fixed Adjusted Assets Delta as % of Revenue Delta</b> |            |          |       |        |       |                      |       |       |       |       |       |       |       |       |  |
| 39.6%  | 82.2%      | (107.4%) | 65.5% | 78.2%  | 70.0% | 70.0%                | 70.0% | 70.0% | 70.0% | 70.0% | 70.0% | 70.0% | 70.0% | 70.0% |  |

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2. Standard for all companies.
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