Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Proximus Reported Mixed Q2 Results With Weak Revenue but Improved Margins

See Page 2 for the full Analyst Note from 29 Jul 2016

Allan C. Nichols, CFA
Senior Equity Analyst
allan.nichols@morningstar.com
+31 (0) 20 560 2931

Important Disclosure

The conduct of Morningstar's analysts is governed by Morningstar's Code of Ethics, Securities Trading and Disclosure Policy, and Investment Research Integrity Policy. For information regarding conflicts of interest, please click http://corporate1.morningstar.com/US/Equity-Disclosures/

The primary analyst covering this company does not own its stock.

Research as of 29 Jul 2016
Estimates as of 26 May 2016
Pricing data through 29 Jul 2016
Rating updated as of 29 Jul 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 26 May 2016

Proximus faces tough competition as cable providers aggressively encroach on its fixed-line business. Increased wireless competition is also occurring. The firm recognizes its limitations and avoids buying growth in areas where it has no competitive advantage. Instead, it returns most of its free cash flow to shareholders in the form of dividends and stock buybacks. We like this strategy and expect it to continue.

Bundles of services are very important in Belgium. Telenet has long been a fierce competitor in fixed-line telephone and broadband services and and has now acquired Base, the third-largest wireless operator, which enables it to control all aspects of its quad-play service, at least in the north of the country. Also, Voo, the cable TV operator in the south, has become more aggressive in the past couple of years. Telenet has marketed free fixed-line phone service for customers purchasing cable television and broadband. Proximus has responded by marketing free television service for customers who purchase fixed-line telephone and broadband services. Both strategies have been successful at stealing customers from the other.

Historically, Telenet's superior network allowed it to compete strongly. In 2011, Voo emerged as the more aggressive price competitor, but at the cost of profitability. Although Proximus has lowered pricing somewhat in response, it has been more successful in maintaining margins. However, starting in 2013 and continuing in 2014 and 2015, the firm increased spending to improve the quality of its network via implementing new technologies to increase the speed of its copper lines over the "last mile". The improved network allows Proximus to compete better in broadband against the cable operators, which have higher broadband speeds. While this strategy initially hurt margins, we think it will help avoid a price war and move competition more into quality of service. The firm has rebranded all of its major offerings under the Proximus brand and includes lower prices, more bundles, and increased data usage, along with greater marketing, which has helped subscriber growth.

Vital Statistics

Market Cap (EUR Mil)	8,967
52-Week High (EUR)	35.21
52-Week Low (EUR)	26.41
52-Week Total Return %	-14.2
YTD Total Return %	-3.6
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	1.4
5-Yr Forward EPS CAGR %	10.5
Price/Fair Value	1.03

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	14.8	20.0	*14.1*	*13.9*
EV/EBITDA	6.5	6.9	*6.1*	*5.9*
EV/EBIT	12.2	14.5	*11.8*	*11.2*
Free Cash Flow Yield %	4.4	4.0	*5.0*	*7.2*
Dividend Yield %	7.4	5.1	*5.4*	*5.4*

Financial Summary and Forecasts (EUR Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	5,961	5,944	*6,028*	*6,095*
Revenue YoY %	-4.5	-0.3	*1.4*	*1.1*
EBIT	934	777	*910*	*957*
EBIT YoY %	2.0	-16.8	*17.1*	*5.1*
Net Income, Adjusted	655	482	*637*	*648*
Net Income YoY %	4.3	-26.4	*32.1*	*1.7*
Diluted EPS	2.03	1.50	*1.98*	*2.01*
Diluted EPS YoY %	3.3	-26.4	*32.1*	*1.7*
Free Cash Flow	649	504	*542*	*722*
Free Cash Flow YoY %	-0.7	-22.5	*7.6*	*33.2*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Proximus, formerly known as Belgacom, is Belgium's incumbent telephone operator, offering fixed-line and wireless phone services, broadband Internet access, and television service. It also owns Tango, the second-largest wireless operator in Luxembourg, and Telindus, which provides information and communication technology services in Belgium and neighboring countries. Its international carrier services division is one of the four largest in the world, with particular success in mobile, serving more than 250 operators.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Morningstar Analysis

Proximus Reported Mixed Q2 Results With Weak Revenue but Improved Margins 29 Jul 2016

Proximus reported mixed second-quarter results with weak revenue but better margins. We expect these items to basically offset each other and don't anticipate any changes to our fair value estimate or narrow moat rating. The firm reported a 3.1% year-over-year decline in revenue, versus our full-year projection of a 1.4% gain. However, two of the largest factors in the revenue reduction, an 18.3% decline in handset sales and a 12.7% drop in its international carrier services division, both carry low margins. Thus, the loss of this revenue boosted the firm's EBITDA margin, which came in at 31.7% versus our full-year estimate of 29.4%. The other major item in the revenue decline was a 19% decline in the firm's consumer wireless prepaid business; this stemmed from a 10% reduction in the prepaid base to 1.4 million and a 9.8% drop in average revenue per user, which was partially due to a cut in international roaming rates at the end of April 2016. The decline in prepaid wireless revenue was more than the 2.3% growth in contract revenue could offset. While lower international roaming prices will continue to hurt Proximus' wireless revenue for the next two years, we believe other items are more important.

These include the continued move to converged services through selling packs of services. Forty-five percent of Proximus' total base now subscribe to either triple- or quad-play packs. This led to subscriber growth of 7.3% in pay television to 1.8 million, 4.8% in broadband to 1.75 million, and 3.4% in wireless contract customers to 2.95 million. We expect growth in these areas will allow the firm's revenue to return to growth. Proximus is continuing to improve the quality of its networks and now covers 99% of the population with 4G wireless coverage and 40% of the population with 100 Mb/second broadband as it rolls out vectoring to improve the broadband speeds across its copper network. We like this strategy, but believe the shares are fairly valued.

Valuation, Growth and Profitability 26 May 2016

We are maintaining our fair value estimate for Proximus at EUR 27 per share. We have reduced our average annual revenue growth to about 1.4% from 2% previously. We now expect BICS revenue to decline this year. We have more confidence that Proximus' consumer division can sustain revenue growth as it increases its emphasis on selling converged plans of fixed-line telecom, broadband, pay television, and wireless services. Its quad-play offering has been particularly well received. We also expect some revenue growth from the enterprise business unit. The telecom market remains competitive in the country, but the worst of the price war after the change in the telecom law at the end of 2012 appears to be over, and we anticipate more reasonable behavior from the various operators. The firm has been doing a better job of cutting costs, and we anticipate this will continue. We have increased our EBITDA margin expectation to 30.7% by 2020.

Scenario Analysis

In our bull-case scenario, our fair value estimate is EUR 33 per share. In this case, we expect Proximus to return its businesses to growth faster than in our base case. Additionally, with cable TV operator Telenet having acquired Base, the third-largest wireless operator in the country, and focusing on improving its own operating margins, Proximus could benefit from less-intense pricing pressure in the market. In our bullish scenario, the loss of fixed-line subscribers would slow, and Proximus' growth in broadband and television customers would increase faster than in our base case. To hit this valuation, BICS would also need to grow faster. Under this scenario, the Belgian economy would probably need to improve, allowing the firm to also raise prices to boost average revenue per user.

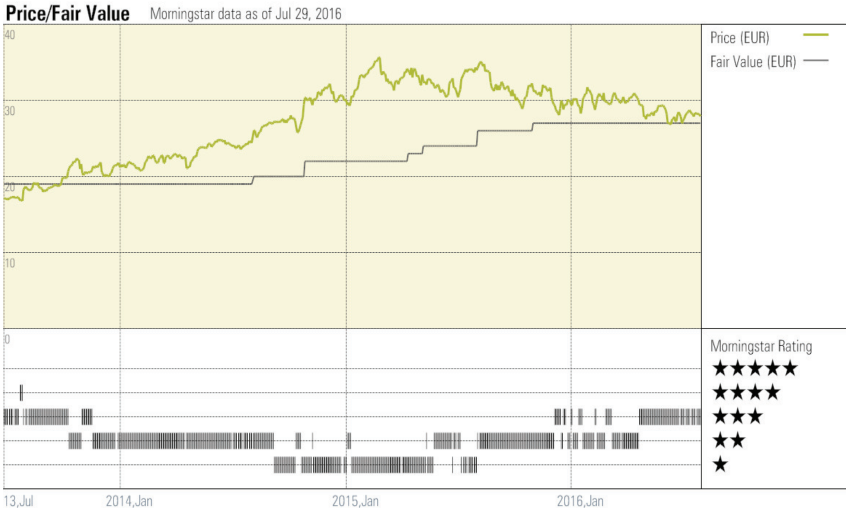
In our bear-case scenario, our fair value estimate falls to EUR 20 per share. In this case, Telenet becomes very aggressive after acquiring Base and either drives down

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Price/Fair Value Morningstar data as of Jul 29, 2016



pricing on all product segments, takes significant market share, or both. The higher defection rate not only causes Proximus' fixed-line subscriber base to decline faster, but also slows the growth in broadband additions. The increased competition also squeezes margins. In our bearish scenario, we assume that the BICS business struggles as mobile usage declines and other operators switch to either their own or other competing networks.

Economic Moat

The incumbent telecom operator in a relatively small country, Proximus dominates many areas of the industry. It has about 73% fixed-line voice penetration market share, 40.8% wireless market share, 44.4% broadband market share, and 32.6% television market share, which is one of the highest for a phone company in Europe. This significant market share means Proximus can spread the extensive fixed costs of its telephone networks over more people, providing it with a cost advantage versus competitors. In addition, its international carrier services business, BICS, ranks in the top four worldwide for carrying voice and data traffic around the world for other carriers. This provides the firm with significant scale, as it offers other carriers access to markets where they lack a proprietary network. Also, its wireless spectrum and licences are required to operate a network. The amount of spectrum is limited, and licences are controlled by the government, reducing the risk of new entrants with full networks. Collectively, we believe these conditions provide Proximus with a narrow economic moat. The changing nature of the telecom business and increasing competition reduce our confidence that the firm can continue to generate excess returns for 20 years, preventing a wide moat rating.

The three Belgian wireless operators don't separate their wireless businesses from their other operations, but Mobistar and Base derive the vast majority of their business from wireless. These two firms have seen the price war in the country squeeze their EBITDA margins to the low 20s. However, Proximus, which breaks its revenue down by consumer and enterprise units, still produced EBITDA contribution margins of around 45% and 53%, respectively. We think these much higher margins are another indication of Proximus' moat.

While a fourth wireless operator provides additional risk to Proximus, Telenet's acquisition of Base greatly reduces the chances of a fourth entrant entering the country. However, adding its mobile virtual network base of 894,500 wireless customers to Base's business should strengthen its position. While a Chinese company has also acquired a licence and may decide to join the fray, we think this is unlikely. On the broadband side, Telenet's network remains significantly faster than Proximus'. While Proximus has increased broadband speeds to 50-100 megabits per second through a combination of dynamic line management and vectoring, this still trails Telenet, which has increased speeds to 160-200 Mb/second. While the cable companies remain a threat to Proximus' margins, we think competition between the firm and these rivals will remain rational, and it will remain very profitable.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Moat Trend

We think Proximus' economic moat is stable. While the firm is losing some share in the fixed-line business, it is holding steady in wireless and broadband and taking significant share in pay television. Many of the fixed-line customers Proximus has shed have been a result of people cutting phone service or lost to cable television operators. The firm's success in pay television is now attracting some previous customers back and keeping existing ones from leaving. Additionally, the telecom regulator in Belgium is requiring cable networks to open their networks to third parties, just as telecom operators have been required to for years. We think this would help level the playing field. Finally, Telenet is controlled by Liberty Global, a company with a reputation for being very careful with its cash. With Telenet acquiring Base, the risk of it building out a fourth wireless network has been removed.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Bulls Say/Bears Say

Bulls Say

- Despite increased competition, Proximus continues to maintain the highest market share in fixed-line and wireless telephony and broadband services.
- Despite cutting its dividend, Proximus still pays a solid dividend, with the stock boasting a gross yield (before foreign and local tax withholding) of about 5.2%.
- Proximus sold its Telindus France unit to Vivendi for EUR 95 million. While this reduced revenue by EUR 242 million, the unit generated very little EBITDA.

Bears Say

- Cable television firms are strong in Belgium, with more than 72% penetration in many areas. Some of these systems have also been upgraded to offer broadband speeds of up to 200 Mb/second, significantly faster than the speeds that Proximus offers. Telenet's acquisition of Base strengthens its offerings further.
- Belgium has been undergoing a wireless price war that is hurting revenue and margins.
- Proximus is 53.5% owned by the Belgian government, whose objectives may not be in alignment with minority shareholders'.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

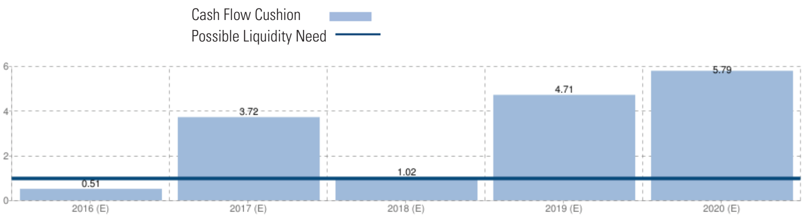
Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Five Year Adjusted Cash Flow Forecast (EUR Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	502	470	432	423	445
Adjusted Available Cash Flow	-50	87	122	156	197
Total Cash Available before Debt Service	452	557	554	579	642
Principal Payments	-674	—	-405	—	—
Interest Payments	-134	-123	-112	-101	-90
Other Cash Obligations and Commitments	-77	-27	-26	-22	-21
Total Cash Obligations and Commitments	-885	-150	-543	-123	-111

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	EUR Millions	% of Commitments
Beginning Cash Balance	502	27.7
Sum of 5-Year Adjusted Free Cash Flow	512	28.3
Sum of Cash and 5-Year Cash Generation	1,014	56.0
Revolver Availability	675	37.3
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,689	93.3
Sum of 5-Year Cash Commitments	-1,812	—

Financial Health

Proximus has one of the strongest balance sheets among European telephone companies. Its net debt/EBITDA is only 1.1 times, versus an average of about 2 times for the industry. The firm has historically used the majority of its free cash flow to pay a large dividend, buy back stock, and make small incremental acquisitions. In 2012's fourth quarter, it paid a special dividend of EUR 0.31 per share instead of buying back stock. With the stock trading near our fair value estimate, we think this was a better use of its cash. We expect Proximus' free cash flow to taper off. With its reduced free cash flow, we were not surprised to see the firm reduce its dividend for 2014 (paid in 2015) to EUR 1.50 per share from EUR 2.18. Management said this would be the dividend for the following two years as well. This brings the payout ratio down to about 76% of net income.

Enterprise Risk

Competition from cable operators represents the biggest risk to Proximus. Cable firms are rolling out faster broadband service and offering fixed-line telephone service. Currently, there are three wireless networks in Belgium: Proximus, Orange Belgium, formerly Mobistar, and Base. However, the government has sold a wireless licence to a Chinese company. We think it would be difficult for a Chinese company to enter from scratch and make money, but if it did enter, it might cause a deeper price war to try and gain market share. Moreover, Telenet, with the acquisition of Base, should be better positioned and could pressure pricing further.The Belgian telecom regulator is also a concern, as it has policies in place that benefit newcomers at the expense of the incumbent. In 2012, it capped charges allowed on data services. A law was also passed that restricted the length of wireless contracts, which brought increased competition and churn into the market.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Invesco Pan European Structured Equity	0.70	0.96	—	31 Mar 2016
iShares MSCI EAFE Minimum Volatility	0.51	0.67	—	26 Jul 2016
Uni-Global Equities Europe	0.47	1.90	—	31 May 2016
Vanguard Total Intl Stock Idx Fund	0.47	0.02	17	30 Jun 2016
JPM Europe Equity Plus Fund	0.39	0.82	-39	31 May 2016
Concentrated Holders				
KBC Multi Track Belgium	0.03	4.63	—	29 Feb 2016
DNB Telecom	0.02	4.51	—	31 May 2016
Fédéral PEA Sécurité	0.01	4.22	-14	30 Jun 2015
AXA PEA Régularité	0.02	4.14	-1	30 Jun 2015
THEAM Quant - Equity US Guru	0.17	4.13	—	31 Aug 2015

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Exane Asset Management	0.17	1.53	542	31 Dec 2015
Jackson National Asset Management LLC	0.15	0.61	414	31 Mar 2016
KLP Kapitalforvaltning AS	0.11	0.17	315	30 Jun 2016
Kempen Capital Management NV	0.07	0.60	235	30 Jun 2016
Deka International SA	0.22	0.92	177	30 Apr 2016
Top 5 Sellers				
BlackRock Advisors LLC	0.06	0.40	-693	30 Jun 2016
Eaton Vance	0.01	0.07	-386	31 May 2016
J P Morgan Asset Management (UK) Ltd	0.40	0.72	-357	30 Jun 2016
Columbia Mangmt Investment Advisers, LLC	0.07	0.21	-286	31 May 2016
Lincoln Investment Advisors Corporation	0.01	0.05	-177	31 Mar 2016

Management 26 May 2016

There are 14 directors overseeing Proximus. Half, including the chairman and CEO, are appointed by the Belgian government, a percentage that is aligned with its overall ownership stake. The other half are elected by the other shareholders and are independent. Chairman Stefaan De Clerck is a politician and former minister of justice of Belgium. Dominique Leroy was appointed CEO in January 2014. Leroy was previously executive vice president of Proximus' consumer business unit. Historically, the management team has run Proximus fairly conservatively. The firm has avoided the costly acquisitions of many of its European peers, which has enabled it to have one of the lowest debt/EBITDA ratios in the region. When the firm has made acquisitions, they have mostly been small or strategic, and management has been careful of the price paid.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Analyst Notes

We Believe Brexit Fears Have Unfairly Driven Down Shares of Most European Communication Stocks 24 Jun 2016

Fears of the impact of Britain's exit from the European Union have pushed down the prices of most European communication stocks. We think this is an overreaction as we view telecom as a sector somewhat immune to geopolitical changes. In our view, Brexit will have no effect on cross-border transfers of voice or data as mobile termination rates for voice have already been reduced to negligible levels and for data have been cut in half and will be down to local roaming rates by the end of 2017. While we expect the U.K. economy will slow as a result of Brexit, we don’t believe the event will have a material impact on the U.K. operators. We maintain moat ratings for our entire European telecom coverage universe. For now, we also maintain our fair value estimates in local currencies, but may be lowering them for the ADRs depending on currency moves versus the dollar. The exception is Vodafone; we plan to raise our valuation slightly, primarily from the time value of money and, to a lesser extent, slightly higher growth rates as the firm's move to the euro as its functional currency reduces currency volatility. However, we are increasing our uncertainty rating to high from medium as results could be more volatile.

Within the U.K., we think BT will likely be the most affected as the majority of its revenue is from the U.K. Its only non-U.K. revenue is from its global services division. However, we think what losses do accrue will be offset by stronger revenue from the global services division as revenue from other currencies is translated into a weaker pound.

The acquisitions of Sky Deutschland and Sky Italia looks more prescient as Sky now has a decent amount of euro-denominated revenue to bring back into the weaker pound to offset subscriber losses. Sky’s customer base held up better than we expected during the financial crisis, and while premium television services are more discretionary, we think its losses will be minimal and offset by currency gains.

Proximus Reported Mixed Q1 Results With Weak Revenue, but Good Margins; Shares Slightly Overvalued 04 May 2016

Proximus reported mixed first-quarter results with weaker revenue, but improved margins. While we will update our model, we anticipate these countervailing trends will likely offset each other, leading to no significant changes to our fair value estimate. There is no change to our narrow moat rating. The firm reported revenue fell 3.1% year over year in the quarter, versus our full-year projection of growth of 2%. The main differences were its wholesale business declined 4.9%, handset sales were weak, and BICS dropped 10.9%. However, these services tend to have lower margins, and the core Belgian telecom business performed well. Proximus' domestic fixed-line business increased revenue by 2.2% and wireless services revenue by 1.7%.

On the consumer fixed-line side, voice revenue continued to decline and the traditional subscriber base fell 2% to 2.1 million. However, this was more than offset by broadband subscriber growth of 5.6% to 1.74 million and pay-TV customer growth of 8.3% to 1.8 million, along with slight average revenue per user, or ARPU, growth in broadband and TV. On the wireless side, the firm lost more prepaid subscribers than it gained in contract customers, but the greater value of contract customers allowed a 1.4% increase in its blended ARPU. We expect these trends in the core business to continue as more customers move to bundled services and increase data usage. Additionally, BICS is notoriously volatile quarter to quarter, so we don't expect future results to be this bad.

The lower revenue from its low-margin business and

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Analyst Notes

continued cost control allowed Proximus' EBITDA margin to hit 29.2%. While this is in line with our full-year projection of 29.3%, the first quarter tends to be one of the lowest for the year, so we expect to increase our margin estimate as we decrease our revenue projection. We still think the shares are slightly overvalued.

Proximus Reports Weak 2015 Results; Shares Slightly Overvalued 26 Feb 2016

Proximus reported 2015 results that were a bit weak. However, we attended its analyst day Friday and believe the business is improving. Our long-term thesis is intact, and we don't expect any significant changes to our fair value estimate. That said, we still believe the shares are slightly overvalued. Our narrow-moat rating remains unchanged. On a reported basis, the firm's revenue declined 0.3% versus our projection of a gain of 0.6%. However, the core business increased 2.1%, which we believe is the important item for the future. The consumer business unit increased revenue 3% primarily due to an increased subscriber base with its broadband base up 7.5% to 1.7 million and pay TV gaining 13.5% to 1.8 million. It also had a slight improvement in its wireless base and a decline in its fixed-line base. In the enterprise business unit revenue increased 2.1% driven by a 25.8% jump in its wireless base, though the majority of these were low value machine-to-machine connections.

One of the things we were pleased with was management's focus on convergence, which has been a big theme of ours and in Proximus' case is particularly important in speeding up the buildout of fibre to the business. Belgium has been slow to take up 4G and large data bundles at the retail level, but businesses are demanding it and the firm is working to provide it. Proximus already offers vectoring to 43% of the population, and one third of the country can access broadband speeds of 100 Mb/second. We believe this focus will enable the company to grow its revenue going forward.

Proximus is also working on reducing its cost base, and while it is behind our projection with an adjusted EBITDA margin of 28.9% versus our estimate of 29.3%, the company announced an agreement with the unions that should allow early retirement of many of its civil servant employees that should help get it back on track with our expected slow margin improvement.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*Forecast* 2016	2017	5-Year Proj. CAGR
Revenue	*-2.8*	-3.5	-4.5	-0.3	*1.4*	*1.1*	*1.4*
EBIT	*-9.2*	-11.8	2.0	-16.8	*17.1*	*5.1*	*8.4*
EBITDA	*-2.7*	-4.9	3.4	-6.2	*7.7*	*2.1*	*3.5*
Net Income	*-12.2*	-11.8	4.3	-26.4	*32.1*	*1.7*	*10.5*
Diluted EPS	*-12.5*	-11.9	3.3	-26.4	*32.1*	*1.7*	*10.5*
Earnings Before Interest, after Tax	*-10.5*	-7.6	-13.0	-10.7	*24.8*	*-0.3*	*7.7*
Free Cash Flow	*-14.3*	-18.3	-0.7	-22.5	*7.6*	*33.2*	*10.8*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	5-Year Proj. Avg
Operating Margin %	*14.5*	14.7	15.7	13.1	*15.1*	*15.7*	*16.6*
EBITDA Margin %	*28.1*	27.2	29.4	27.7	*29.4*	*29.7*	*30.0*
Net Margin %	*9.7*	10.1	11.0	8.1	*10.6*	*10.6*	*11.4*
Free Cash Flow Margin %	*10.0*	10.5	10.9	8.5	*9.0*	*11.8*	*11.8*
ROIC %	*10.8*	11.1	11.4	9.8	*11.1*	*11.7*	*12.8*
Adjusted ROIC %	*17.1*	17.4	18.1	15.7	*17.7*	*18.7*	*20.7*
Return on Assets %	*7.0*	7.5	7.7	5.7	*7.7*	*7.8*	*8.4*
Return on Equity %	*20.8*	21.9	23.3	17.3	*22.1*	*21.3*	*21.7*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	5-Year Proj. Avg
Debt/Capital	*0.46*	0.44	0.48	0.47	*0.45*	*0.42*	*0.38*
Total Debt/EBITDA	*1.42*	1.33	1.45	1.48	*1.37*	*1.23*	*1.10*
EBITDA/Interest Expense	*13.46*	15.03	13.60	11.76	*13.23*	*14.73*	*17.04*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	1.37	1.11	—	—
Price/Earnings	14.8	20.0	*14.1*	*13.9*
EV/EBITDA	6.5	6.9	*6.1*	*5.9*
EV/EBIT	12.2	14.5	*11.8*	*11.2*
Free Cash Flow Yield %	4.4	4.0	*5.0*	*7.2*
Dividend Yield %	7.4	5.1	*5.4*	*5.4*

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	8.2
Long-Run Tax Rate %	28.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	20.0
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	EUR Mil	Firm Value (%)	Per Share Value
Present Value Stage I	2,864	26.7	8.89
Present Value Stage II	3,507	32.6	10.88
Present Value Stage III	4,376	40.7	13.58
Total Firm Value	**10,747**	**100.0**	**33.35**
Cash and Equivalents	510	—	1.58
Debt	-2,435	—	-7.56
Preferred Stock	—	—	—
Other Adjustments	-326	—	-1.01
Equity Value	**8,496**	**—**	**26.36**
Projected Diluted Shares	322		
Fair Value per Share (EUR)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Income Statement (EUR Mil)
Fiscal Year Ends in December

				Forecast	
	2013	2014	2015	*2016*	*2017*
Revenue	**6,239**	**5,961**	**5,944**	***6,028***	***6,095***
Cost of Goods Sold	2,561	2,420	2,377	*2,224*	*2,243*
Gross Profit	**3,678**	**3,541**	**3,567**	***3,803***	***3,852***
Selling, General & Administrative Expenses	1,142	1,041	1,011	*1,193*	*1,201*
Other Operating Expense (Income)	903	869	980	*880*	*884*
Other Operating Expense (Income)	-65	-124	-70	*-42*	*-43*
Depreciation & Amortization (if reported separately)	782	821	869	*862*	*853*
Operating Income (ex charges)	**916**	**934**	**777**	***910***	***957***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**916**	**934**	**777**	***910***	***957***
Interest Expense	113	129	140	*134*	*123*
Interest Income	17	31	18	*30*	*30*
Pre-Tax Income	**820**	**836**	**655**	***806***	***864***
Income Tax Expense	170	154	156	*169*	*216*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-22	-27	-17	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**628**	**655**	**482**	***637***	***648***
Weighted Average Diluted Shares Outstanding	319	322	322	*322*	*322*
Diluted Earnings Per Share	**1.97**	**2.03**	**1.50**	***1.98***	***2.01***
Adjusted Net Income	628	655	482	*637*	*648*
Diluted Earnings Per Share (Adjusted)	**1.97**	**2.03**	**1.50**	***1.98***	***2.01***
Dividends Per Common Share	2.20	2.23	1.52	*1.50*	*1.50*
EBITDA	**1,698**	**1,755**	**1,646**	***1,772***	***1,810***
Adjusted EBITDA	**1,698**	**1,755**	**1,646**	***1,772***	***1,810***

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Balance Sheet (EUR Mil)

Fiscal Year Ends in December				Forecast	
	2013	2014	2015	*2016*	*2017*
Cash and Equivalents	355	702	502	*470*	*432*
Investments	—	8	8	*8*	*8*
Accounts Receivable	1,289	1,182	1,140	*1,156*	*1,169*
Inventory	163	117	108	*101*	*102*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	356	174	138	*138*	*138*
Current Assets	**2,163**	**2,183**	**1,896**	***1,874***	***1,849***
Net Property Plant, and Equipment	2,558	2,680	2,809	*2,899*	*2,899*
Goodwill	2,320	2,272	2,272	*2,272*	*2,272*
Other Intangibles	1,185	1,180	1,162	*1,162*	*1,162*
Deferred Tax Assets (Long-Term)	105	102	89	*89*	*89*
Other Long-Term Operating Assets	86	106	55	*55*	*55*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**8,417**	**8,523**	**8,283**	***8,351***	***8,326***
Accounts Payable	1,320	1,358	1,330	*1,244*	*1,255*
Short-Term Debt	316	162	674	*674*	*674*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	876	702	652	*652*	*652*
Current Liabilities	**2,512**	**2,222**	**2,656**	***2,570***	***2,581***
Long-Term Debt	1,950	2,386	1,761	*1,761*	*1,561*
Deferred Tax Liabilities (Long-Term)	128	110	96	*96*	*96*
Other Long-Term Operating Liabilities	315	332	342	*342*	*342*
Long-Term Non-Operating Liabilities	470	504	464	*464*	*464*
Total Liabilities	**5,375**	**5,554**	**5,319**	***5,233***	***5,044***
Preferred Stock	—	—	—	—	—
Common Stock	1,000	1,000	1,000	*1,000*	*1,000*
Additional Paid-in Capital	100	100	100	*100*	*100*
Retained Earnings (Deficit)	2,310	2,270	2,255	*2,409*	*2,573*
(Treasury Stock)	-527	-470	-448	*-448*	*-448*
Other Equity	-37	-120	-107	*-107*	*-107*
Shareholder's Equity	**2,846**	**2,780**	**2,800**	***2,954***	***3,118***
Minority Interest	196	189	164	*164*	*164*
Total Equity	**3,042**	**2,969**	**2,964**	***3,118***	***3,282***

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Morningstar Analyst Forecasts

Cash Flow (EUR Mil)

Fiscal Year Ends in December				*Forecast*	
	2013	2014	2015	*2016*	*2017*
Net Income	630	655	482	*637*	*648*
Depreciation	782	821	869	*862*	*853*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	24	5	—	—	—
Deferred Taxes	23	5	-3	—	—
Other Non-Cash Adjustments	-2	-104	3	—	—
(Increase) Decrease in Accounts Receivable	44	43	54	*-16*	*-13*
(Increase) Decrease in Inventory	-30	31	9	*7*	*-1*
Change in Other Short-Term Assets	-7	48	33	—	—
Increase (Decrease) in Accounts Payable	30	-59	-29	*-86*	*10*
Change in Other Short-Term Liabilities	-79	-68	-36	—	—
Cash From Operations	**1,415**	**1,377**	**1,382**	***1,404***	***1,498***
(Capital Expenditures)	-852	-951	-1,000	*-952*	*-853*
Net (Acquisitions), Asset Sales, and Disposals	11	130	21	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	5	2	—	—	—
Cash From Investing	**-836**	**-819**	**-979**	***-952***	***-853***
Common Stock Issuance (or Repurchase)	25	54	19	—	—
Common Stock (Dividends)	-701	-718	-489	*-483*	*-483*
Short-Term Debt Issuance (or Retirement)	230	-314	—	—	—
Long-Term Debt Issuance (or Retirement)	121	597	-102	—	*-200*
Other Financing Cash Flows	-28	17	-36	—	—
Cash From Financing	**-353**	**-364**	**-608**	***-483***	***-683***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	**226**	**194**	**-205**	***-32***	***-39***

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Liberty Global PLC LBTYA USA	0.82	NM	36.7	15.7	9.8	8.4	8.1	10.6	19.2	13.8	3.4	3.4	3.8	2.0	1.4	1.4
Koninklijke KPN NV KKPNY USA	1.07	23.9	47.3	36.8	10.1	8.5	8.5	13.0	27.5	19.5	3.0	3.6	3.7	2.1	1.9	1.9
Average		23.9	42.0	26.3	10.0	8.5	8.3	11.8	23.4	16.7	3.2	3.5	3.8	2.1	1.7	1.7
Proximus SA PROX BE	**1.03**	**20.0**	**14.1**	**13.9**	**6.9**	**6.1**	**5.9**	**25.2**	**19.8**	**13.9**	**3.4**	**3.0**	**2.9**	**1.6**	**1.5**	**1.5**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Liberty Global PLC LBTYA USA	67,867 USD	3.5	5.5	6.3	6.9	10.8	12.8	-9.1	1.2	7.7	-1.6	0.2	0.9	—	—	—
Koninklijke KPN NV KKPNY USA	17,797 EUR	6.5	9.2	9.9	7.8	10.7	11.0	17.3	9.0	15.1	3.5	1.7	2.4	3.3	13.5	3.5
Average		5.0	7.4	8.1	7.4	10.8	11.9	4.1	5.1	11.4	1.0	1.0	1.7	3.3	13.5	3.5
Proximus SA PROX BE	**8,283 EUR**	**9.8**	**11.1**	**11.7**	**15.7**	**17.7**	**18.7**	**17.3**	**22.1**	**21.3**	**5.7**	**7.7**	**7.8**	**5.1**	**5.4**	**5.4**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Liberty Global PLC LBTYA USA	18,280 USD	0.2	11.7	5.0	-8.7	46.4	14.8	—	-127.8	133.6	3.2	-41.8	16.9	—	—	—
Koninklijke KPN NV KKPNY USA	7,006 EUR	-4.4	-3.4	-1.2	-41.6	24.3	4.9	-206.7	-55.3	27.6	-56.5	27.3	-53.4	444.1	237.5	-74.1
Average		-2.1	4.2	1.9	-25.2	35.4	9.9	-206.7	-91.6	80.6	-26.7	-7.3	-18.3	444.1	237.5	-74.1
Proximus SA PROX BE	**5,944 EUR**	**-0.3**	**1.4**	**1.1**	**-16.8**	**17.1**	**5.1**	**-26.4**	**32.1**	**1.7**	**-22.5**	**7.6**	**33.2**	**-31.9**	**-1.1**	**—**

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

		Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Last Historical Year Net Income (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Liberty Global PLC LBTYA USA	-886 USD	63.0	62.4	62.1	45.7	45.1	44.8	13.8	18.1	19.8	-4.8	0.6	2.9	18.5	7.5	10.0
Koninklijke KPN NV KKPNY USA	638 EUR	52.3	51.8	51.9	33.2	35.3	35.7	10.1	13.0	13.8	9.1	4.2	5.4	16.6	6.9	9.8
Average		57.7	57.1	57.0	39.5	40.2	40.3	12.0	15.6	16.8	2.2	2.4	4.2	17.6	7.2	9.9
Proximus SA PROX BE	**482** EUR	**60.0**	**63.1**	**63.2**	**27.7**	**29.4**	**29.7**	**13.1**	**15.1**	**15.7**	**8.1**	**10.6**	**10.6**	**6.4**	**7.5**	**10.6**

Leverage Analysis

		Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Last Historical Year Total Debt (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Liberty Global PLC LBTYA USA	47,057 USD	441.8	553.8	630.7	81.5	84.7	86.3	3.4	2.9	3.0	5.6	5.3	5.1	6.4	7.8	8.7
Koninklijke KPN NV KKPNY USA	9,700 EUR	194.7	245.7	251.7	66.1	71.1	71.6	4.6	4.5	5.0	4.2	3.6	3.6	3.6	4.3	4.4
Average		318.3	399.8	441.2	73.8	77.9	79.0	4.0	3.7	4.0	4.9	4.5	4.4	5.0	6.1	6.6
Proximus SA PROX BE	**2,435** EUR	**87.0**	**82.4**	**71.7**	**46.5**	**45.2**	**41.8**	**11.8**	**13.2**	**14.7**	**1.5**	**1.4**	**1.2**	**3.0**	**2.8**	**2.7**

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Liberty Global PLC LBTYA USA	29,497 USD	1.05	1.51	1.46	0.37	0.42	0.41	0.37	0.42	0.41	0.39	0.54	0.50	—	—	—
Koninklijke KPN NV KKPNY USA	14,135 USD	0.34	0.12	0.17	0.99	0.68	0.75	0.97	0.66	0.73	1.71	0.59	0.83	53.5	149.5	123.0
Average		0.70	0.82	0.82	0.68	0.55	0.58	0.67	0.54	0.57	1.05	0.57	0.67	53.5	149.5	123.0
Proximus SA PROX BE	**8,967** EUR	**1.56**	**1.46**	**1.34**	**0.71**	**0.73**	**0.72**	**0.67**	**0.69**	**0.68**	**0.74**	**0.70**	**0.64**	**101.5**	**75.9**	**74.6**

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

Economic Moat
Financial Health
Stewardship
Uncertainty
Moat Trend

Morningstar Fair Value

Margin of Safety
Market Pricing

Morningstar Rating™ For Stocks
★★★★★

@Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- **Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- **Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- **High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- **Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- **Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

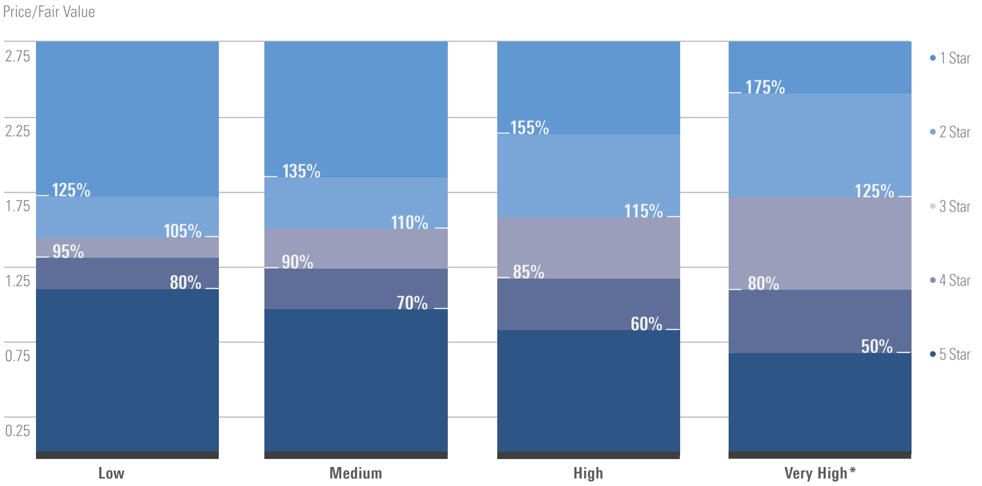
The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★
We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Four Stars ★★★★
We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★
Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

©Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Research Methodology for Valuing Companies

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

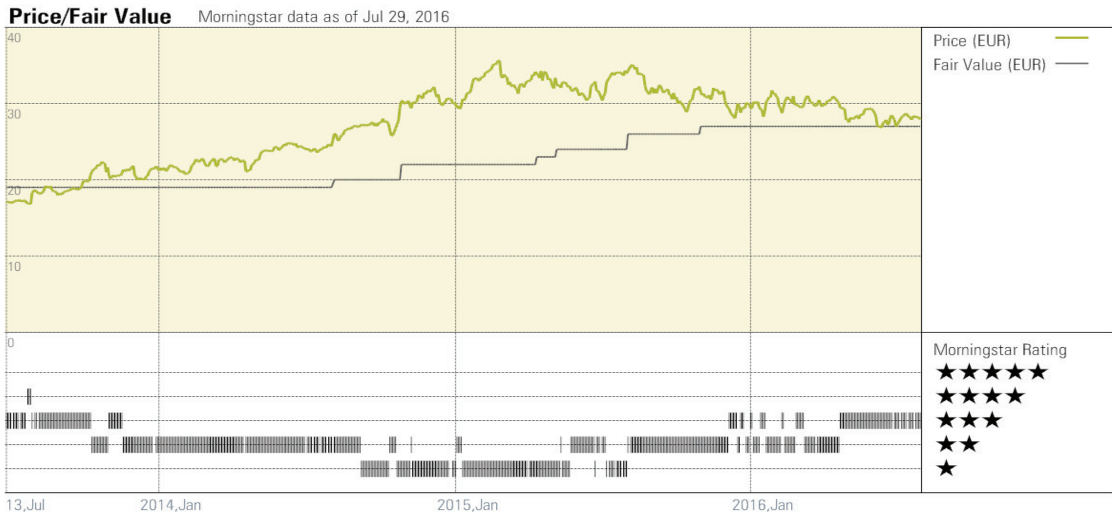
- **Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

©Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869. Please see important disclosures at the end of this report.

Proximus SA PROX (XBRU) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.91 EUR	27.00 EUR	Medium	Narrow	Stable	Standard	Communication Services



General Disclosure

The analysis within this report is prepared by the person(s) noted in their capacity as an analyst for Morningstar. The opinions expressed within the report are given in good faith, are as of the date of the report and are subject to change without notice. Neither the analyst nor Morningstar commits themselves in advance to whether and in which intervals updates to the report are expected to be made. The written analysis and Morningstar Star Rating for stocks are statements of opinions; they are not statements of fact.

Morningstar believes its analysts make a reasonable effort to carefully research information contained in the analysis. The information on which the analysis is based has been obtained from sources which we believe to be reliable such as, for example, the company’s financial statements filed with a regulator, company website, Bloomberg and any other the relevant press sources. Only the information obtained from such sources is made available to the issuer who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this sharing of information result in considerable changes, a statement of that fact will be noted within the report. While Morningstar has obtained data, statistics and information from sources it believes to be reliable, Morningstar does not perform an audit or seek independent verification of any of the data, statistics, and information it receives.

Unless otherwise provided in a separate agreement, recipients accessing this report may only use it in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of the report is Morningstar Inc., a U.S.A. domiciled financial institution.

This report is for informational purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. This publication is intended to provide information to assist institutional investors in making their own investment decisions, not to provide investment advice to any specific investor. Therefore, investments discussed and recommendations made herein may not be suitable for all investors: recipients must exercise their own independent judgment as to the suitability of such investments and recommendations in the light of their own investment objectives, experience, taxation status and financial position.

The information, data, analyses and opinions presented herein are not warranted to be accurate, correct, complete or timely. Unless otherwise provided in a separate agreement, Morningstar makes no representation that the report contents meet all of the presentation and/or

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869.

disclosure standards applicable in the jurisdiction the recipient is located.

Except as otherwise required by law or provided for in a separate agreement, the analyst, Morningstar and its officers, directors and employees shall not be responsible or liable for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions within the report. Morningstar encourages recipients of this report to read all relevant issue documents (e.g., prospectus) pertaining to the security concerned, including without limitation, information relevant to its investment objectives, risks, and costs before making an investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

The Report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Morningstar or its affiliates to any registration or licensing requirements in such jurisdiction.

Where this report is made available in a language other than English and in the case of inconsistencies between the English and translated versions of the report, the English version will control and supersede any ambiguities associated with any part or section of a report that has been issued in a foreign language. Neither the analyst, Morningstar, or Morningstar affiliates guarantee the accuracy of the translations.

This report may be distributed in certain localities, countries and/or jurisdictions ("Territories") by independent third parties or independent intermediaries and/or distributors ("Distributors"). Such Distributors are not acting as agents or representatives of the analyst or Morningstar. In Territories where a Distributor distributes our report, the Distributor, and not the analyst or Morningstar, is solely responsible for complying with all applicable regulations, laws, rules, circulars, codes and guidelines established by local and/or regional regulatory bodies, including laws in connection with the distribution third-party research reports.

Conflicts of Interest:

• No interests are held by the analyst with respect to the security subject of this investment research report.
– Morningstar, Inc. may hold a long position in the security subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, please click http://msi.morningstar.com and http://mdi.morningstar.com.

• Analysts' compensation is derived from Morningstar's overall earnings and consists of salary, bonus and in some cases restricted stock.

• Morningstar does not receive commissions for providing research and does not charge companies to be rated.

• Morningstar is not a market maker or a liquidity provider of the security noted within this report.

• Morningstar has not been a lead manager or co-lead manager over the previous 12-months of any publicly disclosed offer of financial instruments of the issuer.

• Morningstar affiliates (i.e., its investment management group) have arrangements with financial institutions to provide portfolio management/investment advice some of which an analyst may issue investment research reports on. However, analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869.

prepared by them.

• Morningstar, Inc. is a publically traded company (Ticker Symbol: MORN) and thus a financial institution the security of which is the subject of this report may own more than 5% of Morningstar, Inc.'s total outstanding shares. Please access Morningstar, Inc.'s proxy statement, "Security Ownership of Certain Beneficial Owners and Management" section http://investorrelations.morningstar.com/sec.cfm-?doctype=Proxy&year=&x=12

• Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms' length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

Further information on Morningstar's conflict of interest policies is available from http://global.morningstar.com/e-quitydisclosures. Also, please note analysts are subject to the CFA Institute's Code of Ethics and Standards of Professional Conduct.

For a list of securities which Morningstar currently covers and provides written analysis on please contact your local Morningstar office. In addition, for historical analysis of securities we have covered, including their fair value estimate, please contact your local office.

For Recipients in Australia: This Report has been issued and distributed in Australia by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544; ASFL: 240892). Morningstar Australasia Pty Ltd is the provider of the general advice ('the Service') and takes responsibility for the production of this report. The Service is provided through the research of investment products. To the extent the Report contains general advice it has been prepared without reference to an investor's objectives, financial situation or needs. Investors should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide (FSG) for more information at http://www.morningstar.com.au/fsg.pdf .

For Recipients in Hong Kong: The Report is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this research, please contact a Morningstar Investment Management Asia Limited Licensed Representative at http://global.morningstar.com/equitydisclosures .

For Recipients in India: This Investment Research is issued by Morningstar Investment Adviser India Private Limited. Morningstar Investment Adviser India Private Limited is registered with the Securities and Exchange Board of India (Registration number INA000001357) and provides investment advice and research. Morningstar Investment Adviser India Private Limited has not been the subject of any disciplinary action by SEBI or any other legal/regulatory body. Morningstar Investment Adviser India Private Limited is a wholly owned subsidiary of Morningstar Investment Management LLC. In India, Morningstar Investment Adviser India Private Limited has one associate, Morningstar India Private Limited, which provides data related services, financial data analysis and software development.

The Research Analyst has not served as an officer, director or employee of the fund company within the last 12 months, nor has it or its associates engaged in market making activity for the fund company.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869.

*The Conflicts of Interest disclosure above also applies to relatives and associates of Manager Research Analysts in India # The Conflicts of Interest disclosure above also applies to associates of Manager Research Analysts in India. The terms and conditions on which Morningstar Investment Adviser India Private Limited offers Investment Research to clients, varies from client to client, and are detailed in the respective client agreement.

For recipients in Japan: The Report is distributed by Ibbotson Associates Japan, Inc., which is regulated by Financial Services Agency. Neither Ibbotson Associates Japan, Inc., nor its representatives, are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Singapore: For Institutional Investor audiences only. Recipients of this report should contact their financial adviser in Singapore in relation to this report. Morningstar, Inc., and its affiliates, relies on certain exemptions (Financial Advisers Regulations, Section 32B and 32C) to provide its investment research to recipients in Singapore.

© Morningstar 2016. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869.