Telefónica España: Benchmark results

8th Annual European & Emerging Markets Telecoms Conference

Guillermo Ansaldo
Managing Director
London, March 17, 2008
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Index

- Benchmark set of results in 2007

- Setting the basis to sustain our leadership and superior performance
Telefónica España has maintained a strong momentum, both in Q4 and FY07

Strong commercial push
- Leading the growth in the mobile market
- Lowest fixed telephony lines loss since 2001
- Increasing market share in BB and Pay TV businesses

Outstanding top line growth and profitability
- Robust top-line growth driven by customer base expansion and ARPU
- Increasing operational efficiency: underlying OIBDA growth above top line growth
- Strong cash generation while transforming our network

Sound Q4 07 performance

46.4 MM accesses (+5.0%)
In the wireline business, we have strengthened our competitive position ...

Leading Broadband and Pay TV growth and containing line loss

**Retail Internet BB Accesses**
(in thousands)

- **FY 2006**: 3,743
- **FY 2007**: 4,572

- Market share >56%E
- 2007: >0.8 million net adds
- Net adds Q4 07/Q3 07: x1.6

**Fixed Telephony Accesses**
(in thousands)

- **FY 2006**: 15,950
- **FY 2007**: 15,898

- Stable market share: 81%
- Line losses in 2007 reduced by 72% (vs. 2006)
- **Positive net adds** in Q4 07, boosted by free connection campaigns

**Pay TV subscribers**
(in thousands)

- **FY 2006**: 383
- **FY 2007**: 511

- Market share ≈13% (vs. 10% in Dec-06)
- Net adds Q4 07/Q3 07: x2.3
... while increasing value from customers

Solid revenue growth in all business units

**Total ARPU (€)**

- **+2.0% PSTN** monthly fee increase in 2007 (+2.0% in 2008)
- **>80% of BB accesses with 2P/3P** (vs. >70% in Dec-06)
- **Sustained BB ARPU** at €45.3
- **Strong increase** in number of **Workstations** in SMEs and SoHo
- **>70% VPNs** already migrated from traditional to **advanced VPNs**
- **Positive results in IT areas** such as Data Centers and Digital Asset Management

<table>
<thead>
<tr>
<th></th>
<th>FY 2006</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ARPU</td>
<td>63.8</td>
<td>67.0</td>
</tr>
</tbody>
</table>

+5.1%
In the wireless business, strong focus on value customers ...

Growth driven by contract segment, containing churn levels

- **Customer (y-o-y growth)**
  - Total: 22.8 m
  - Prepay: +6.4%
  - Contract: +12.4%

- **Churn 2007 (%)**
  - Total: 1.8
  - Contract: 1.0

- **Key Points**
  - +12.0% contract gross adds vs. 2006
  - 238K portability net adds in contract in 2007
  - Best in class churn
  - Focus on customer loyalty
  - Attractive on-net tariffs
... while sustaining outgoing ARPU

Strong Data ARPU growth, fostering connectivity usage

FY 2007 / FY 2006 (y-o-y growth rates)

- **Outgoing**
  - Voice: +4.2%
  - Data: +5.2%
  - Total: -0.1%

- **Incoming voice**
  - Total: -0.2%

- **Total ARPU (1)**
  - Total: -1.8%

- **Cumulative 14.9% MTR cut** in Apr-07 & Oct-07
- **Strong increase in Data Revenues:**
  - >70% increase in connectivity revenues
  - Pushing up 3G customer base

(1) Excludes roaming-in
Robust top line growth while improving efficiency: Wireline business

<table>
<thead>
<tr>
<th></th>
<th>€ in Millions</th>
<th>FY 2007/06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Access services</td>
<td>2,772</td>
<td>+0.1%</td>
</tr>
<tr>
<td>Traditional voice services</td>
<td>4,792</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Internet and BB revenues</td>
<td>2,775</td>
<td>+15.5%</td>
</tr>
<tr>
<td>Data revenues</td>
<td>1,160</td>
<td>+7.8%</td>
</tr>
<tr>
<td>IT revenues</td>
<td>437</td>
<td>+11.6%</td>
</tr>
</tbody>
</table>

|                      |              |            |
| OIBDA                | 5,249        | +14.8%     |

|                      |              |            |
| OIBDA margin         | 42.3%        | +4.1 p.p.  |

Underlying OIBDA growth: 5.1%\(^{(3)}\)

- Strong Internet & BB, and IT revenues growth
- Good behaviour of access and traditional voice services
- Robust profitability
- Personnel reorganization provision of €513m\(^{(4)}\)

\(^{(1)}\) According to guidance criteria.
\(^{(2)}\) Excludes provisions related to personnel reorganization plans in 2006 & 2007, and EU fine accounted for in Q2 07.
\(^{(3)}\) Underlying OIBDA growth excludes specific effects such as personnel reorganization provisions, real estate program capital gains and subsidies in 2006 and 2007, as well as the EU fine in 2007.
\(^{(4)}\) €345m 2003-2007 Redundancy program and €168m for new program.

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**TELEFONICA ESPAÑA**
London, March 17, 2008
Robust top line growth while improving efficiency: Wireless business

<table>
<thead>
<tr>
<th></th>
<th>€ in Millions</th>
<th>FY 2007/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>9,693</td>
<td>+5.4%</td>
</tr>
<tr>
<td>Handset revenues</td>
<td>1,184</td>
<td>+11.9%</td>
</tr>
<tr>
<td>Service revenues</td>
<td>8,509</td>
<td>+4.5%</td>
</tr>
<tr>
<td>Customer revenues</td>
<td>6,861</td>
<td>+8.0%</td>
</tr>
<tr>
<td>IntX and roaming-in</td>
<td>1,591</td>
<td>-9.1%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>4,241</td>
<td>+2.8%</td>
</tr>
<tr>
<td>OIBDA margin</td>
<td>43.8%</td>
<td>-1.1 p.p.</td>
</tr>
</tbody>
</table>

- Outstanding customer revenues growth
- Interconnection and roaming-in revenues affected by price cuts
- Solid margin expansion
- Personnel reorganization provision of €154m

(1) According to guidance criteria.
(2) Excludes personnel reorganization provision impact in 2007
Telefónica España: solid results & strong cash generation, meeting our guidance ...

<table>
<thead>
<tr>
<th>€ in Millions</th>
<th>2007</th>
<th>FY 2007/06</th>
<th>2007 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>20,683</td>
<td>+4.7%</td>
<td>+3.5%/4.5%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>9,448</td>
<td>+9.3%</td>
<td>+9%/+11%</td>
</tr>
<tr>
<td>CapEx</td>
<td>2,346</td>
<td>+2.3%</td>
<td>&lt;2,400</td>
</tr>
<tr>
<td>Op. Cash Flow</td>
<td>7,067</td>
<td>+11.4%</td>
<td></td>
</tr>
</tbody>
</table>

Personnel reorganization provision 2007 (€m)

- 667
- New program:
  - €168m in wireline
  - €154m in wireless

FY 2007

2003-2007 ERE Program

Underlying OIBDA growth: 5.6% (3)

According to guidance criteria.

OIBDA – CapEx. CapEx includes PEI

Underlying OIBDA growth excludes specific effects such as personnel reorganization provisions, real estate program capital gains and subsidies in 2006 and 2007, as well as the EU fine in 2007.
... and maintaining a differential growth profile

**Wireline Operations**

<table>
<thead>
<tr>
<th>Var. 2007/06 (%)</th>
<th>Revenues</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Underlying OIBDA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N.D.</td>
<td></td>
</tr>
<tr>
<td><strong>-7.4</strong></td>
<td>2.4</td>
<td>14.8</td>
</tr>
<tr>
<td><strong>-8.0</strong></td>
<td>1.7</td>
<td>14.7</td>
</tr>
<tr>
<td><strong>3.7</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Companies press releases.

For France Telecom we include Home Communications France.

For BT we include consolidated results for (April – December) 2007 vs. (April – December) 2006.

Underlying OIBDA growth excludes specific effects such as personnel reorganization provisions, real estate program capital gains and subsidies in 2006 and 2007, as well as the EU fine in 2007.
... and maintaining a differential growth profile

### Wireless Operations

<table>
<thead>
<tr>
<th>Var. 2007/06 (%)</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Var. 2007/06 (%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Underlying OIBDA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain (Telefónica)</td>
<td>-2.7</td>
<td>-11.1</td>
</tr>
<tr>
<td>UK (Vodafone)</td>
<td>-2.8</td>
<td>-6.5</td>
</tr>
<tr>
<td>France (Orange)</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>Italy (TIM)</td>
<td>-2.7</td>
<td>N.D.</td>
</tr>
<tr>
<td>Germany (T-Mobile)</td>
<td>-2.7</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Companies press releases.

Vodafone financial data for (April – September) 2007 vs. (April – September) 2006

Underlying OIBDA growth excludes personnel reorganization provisions.
Index

- Benchmark set of results in 2007

- Setting the basis to sustain our leadership and superior performance
We are transforming our organization to better serve our customers …

Since 2006 and during 2007 …

- Excellent results from business units
- Capturing integration value:
  - Capturing, retaining and winning back clients
  - Enhancing operational efficiency and increasing synergies

... and early in 2008

- “Joint customer vision”
- “New customer approach”
- “A new business to exploit jointly”
- “Further benefit from integration”
- “Further synergies”
... exploiting our commercial strength ...

Sales Force
- Integrated sales force in Corporate
- Joint objectives in SMEs and SoHo sales force

Points of sale
- Indirect channel sells complete fixed and mobile offer

Call centres
- Organizational and operative integration of call centres in Corporate Segment
- Signalling and transferring between fixed and mobile call centres

On line channels
- Joint front end, redirectioning and bundle sales
... and maximizing our potential in “cross selling”

<table>
<thead>
<tr>
<th>Residential</th>
<th>Thousands of households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Spain</td>
<td>100%  ≈15,800</td>
</tr>
<tr>
<td>“100%” Telefonica households</td>
<td>36%  ≈5,700</td>
</tr>
<tr>
<td>Shared with competitors households</td>
<td>42%  ≈6,600</td>
</tr>
<tr>
<td>No customers</td>
<td>22%  ≈3,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SMEs and SoHo</th>
<th>Thousands of SMEs and SoHo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses in Spain</td>
<td>100%  ≈3,200</td>
</tr>
<tr>
<td>“100%” Telefonica businesses</td>
<td>50%  ≈1,600</td>
</tr>
<tr>
<td>Shared with competitors businesses</td>
<td>33%  ≈1,000</td>
</tr>
<tr>
<td>No customers</td>
<td>17%  ≈600</td>
</tr>
</tbody>
</table>

Targeting more “100%” Telefonica customers

“100% Telefonica households” have all the services with Telefonica (Fixed + Mobile + BB + Pay TV) and “100% Telefonica SMEs and SoHo” have Fixed + Mobile + BB services with Telefonica. “100%” customers of competitors are included in “no customers”

Source: Telefónica Market Research (2H 2007)
The Spanish market continues to grow

Some hard data ...

- Although the Spanish economy is slowing down, it is **expected to continue outgrowing the EU**
- **Population will keep growing**
- **Telecom expenditure** in our market only represents **3% of the total family expenses**
- **The Telecom sector performance** is more dependent on the **evolution of households** than on new houses:
  - number of households continues to grow
  - <40% of new fixed lines in 2007 were linked to new buildings

Family Budget Survey
(INE 2006)

- **Communications** 3%
- Furniture 6%
- Clothes & shoes 7%
- Leisure time Culture, shows 7%
- Hotels, restaurants, coffees 10%
- Transports 14%
- Food & beverages 14%
- Other 13%
- Housing, electricity, water, gas... 26%

Sources: INE, Telefonica Estimates
There are opportunities to capture in 2008, and we have a very strong starting position

**Fixed business**
- **Fixed BB penetration** is 35% of total households
  - BB penetration in households with fixed access is 52% as of Dec-07. 2010E target of 75%
- **Pay TV penetration** among the lowest in W.European markets
- Strong potential growth in **VoD and PPV usage**
- **HDTV** and other services ...

**Telefonica España Position**
- ≈60% of our revenues are “fixed”
- >80% of our **BB customers** have bundles (lower churn)
- **Workstations strategy**, increasing loyalty in BB
- **Long term contracts with corporate clients**

**Mobile business**
- **Lower mobile penetration** than in main Western European markets.
  - 111% as of Dec-07. 2010E target of 135%
- **Mobile BB penetration** of total households is below 3% as of Dec. 2007.
- **Outgoing voice MoU and Data ARPU** are low compared to other Western European markets
- Strong potential growth in **mobile e-mail, TV, music, content, m-commerce, advertising** ...

**Spanish market**
- **Largest on-net community**: ≈23 million accesses
- 60% of our customers are **contract customers**
- **Benchmark loyalty programs and churn rate in the industry**
- Only 16% of our customers have **3G devices**: strong potential growth
In Broadband, we sustain a quality premium...

Internal Customer Satisfaction Index

Telefonica customer satisfaction index
Dec. 2007. Residential

External study (by ADSLZone.net)

Real/Nominal download speed for 3Mb ADSL connections (1) (Telefónica base 100)

(1) According to a study published by ADSLzone.net (over 1.2 Mill. Speed tests performed on December, 19th, 2007).
(2) According to a study published by UCE (Unión de Consumidores de España) in Dec. 2007.
... and a full range Broadband offer to tap all market segments

RESIDENTIAL MARKET
Duo Prices (€/month)

1Mb
39.9€

10Mb
44.9€

Upgrade to
3Mb
39.9€

Reference offer

1Mb
29.9€

Entry offer

1Mb
19.9€

Limited Download Capacity up to 2Gb
Additional 2Gb for €5

Entry offer

BB ARPU
(€/month)

FY 2006
FY 2007

-1.2%
+10%

45.8
45.3

Connectivity
VAS
We are further developing our local approach
Example: “Plan Valencia”

Objectives:

- Increase Market Share in BB and TV during next 3 years
- Identify key drivers in local strategy and actions to develop local approach plan

Specific Commercial Actions in Valencia
Our fixed lines evolution is a benchmark in Europe

Lowest fixed telephony loss since 2001 ...

Access trend
Million users

Total market
Dec-06 15.9
Dec-07 15.9
Telefónica

+1.9%

-0.3%

Expected Access trend
Million users

Total market
Dec-06 19.3
Dec-07 19.7
Telefónica

+0.5%/+1.5%

-<2%

... on track to meet our long term guidance

Increased competition in the market with the unbundled access regulation
We are pushing “Respuesta Empresarios” strategy in SMEs ...

A complete value proposition ...

... obtaining very good results

Number of Workstations (in thousands)

Lower churn in Customers with Workstations

‘All your ITC needs under a monthly fee: advice, sale, installation, maintenance, management and renewal’
... and we are driving the Pay TV market growth

Increasing market share ...

Pay TV Market growth 2007
(Dec-07/Dec-06)

- Total market
- Imagenio

33%
>5.5%

"Most Competitive Pay TV offer"(1)
“Most advanced personal TV”(1)

... and developing our offer

Enhanced features in Q4 07 and Q1 08

- **PAST TV**
  - Access to content of 4 TV channels **broadcasted last week**

- **SHIFT TV**
  - Capability to **pause** live TV channels

- **PVR**
  - Rewind TV
  - Instant recorder
  - Personal recorder

- **Enriched content**
  - From 120 to 160 channels
  - New thematic packages
  - Prescreening of series ...

(1) According to study published by Asociación de Usuarios de la Comunicación on Dec 2007.
In the mobile business, a tougher competitive environment has arisen in 2007 ...

From 3 players in 2006...

... to over 15 players in early 2008

Data based on companies press releases and internal estimates

(1) Source: Vodafone and Orange Q4 07 results releases

... we were prepared, and had a limited impact

New entrants market share

1.8%

Dec-07

TEF Market Share

Revenue share > market share

>45%

-0.4 p.p.

FY 2006

FY 2007

Contract churn

1.0

1.7

+0.1

Competitors

FY 2007

FY 2007
... with new players claiming to be offering aggressive tariff schemes...

... that we were already offering to our clients

- **3 €cents/min.**
  - ON NET TRAFFIC
- **ON NET TRAFFIC PROMOTIONS
  - LEVERAGING THE COMMUNITY EFFECT
    - Biggest on-net community >45% M. share
    - Customers with on-net modules have lower churn
Our focus on value customers drives revenue growth...

<table>
<thead>
<tr>
<th>#1 Net adds in 2007</th>
<th>Increasing the contract customer base weight</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007 Net adds (in thousands)</strong></td>
<td><strong>Contract over total customer base (%)</strong></td>
</tr>
<tr>
<td>Total</td>
<td>Contract</td>
</tr>
<tr>
<td>1,381</td>
<td>1,502</td>
</tr>
<tr>
<td>1,346</td>
<td>1,233</td>
</tr>
</tbody>
</table>

- **European benchmark contract churn at 1.0%**
  Slightly reduced in 2007 (-0.03p.p.)
- **Higher market share in contract clients than global market share**: >47% m. share in contract vs. >45% global market share

Data based on companies press releases and internal estimates
...to be complemented by capturing the Data opportunity

Data ARPU Growth

<table>
<thead>
<tr>
<th></th>
<th>FY 06/05</th>
<th>FY 07/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.9%</td>
<td>4.8%</td>
<td></td>
</tr>
</tbody>
</table>

Data weight in total ARPU

<table>
<thead>
<tr>
<th></th>
<th>FY 2006</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.8%</td>
<td>14.8%</td>
<td></td>
</tr>
</tbody>
</table>

... Data ARPU sustained on...

3G over Customer Base ex-M2M

<table>
<thead>
<tr>
<th></th>
<th>Dec-06</th>
<th>Dec-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2%</td>
<td>15.9%</td>
<td></td>
</tr>
</tbody>
</table>

~3.5M 3G devices at Dec-07
Leading the push in Q4 07: +687K devices

Data revenues growth (FY 2007 vs. FY 2006)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>P2P Commun.</th>
<th>Content</th>
<th>Connectivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>+12.4%</td>
<td>+5%</td>
<td>+12%</td>
<td>+72%</td>
<td></td>
</tr>
</tbody>
</table>

~500K flat & daily rates

Data revenues split

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2P Communications</td>
<td>58%</td>
<td>54%</td>
</tr>
<tr>
<td>P2P SMS</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td>Content</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Connectivity</td>
<td>9%</td>
<td>14%</td>
</tr>
</tbody>
</table>
Our Mobile Indirect Channel is selling our complete fixed & mobile offer with positive results

Number of PoS selling F&M offer

<table>
<thead>
<tr>
<th>Jan-07</th>
<th>Jun-07</th>
<th>Dec-07</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>x 3</td>
</tr>
</tbody>
</table>

ADSL & Imagenio sales through Indirect PoS

FY2006 FY2007

|        | +71%   |

Flag Ship Stores

London, March 17, 2008
We are transforming our networks …

In Wireless …
- UMTS network densification & HSDPA expansion
- Advance in network and sites sharing

5 year contract with Yoigo including both 2G&3G networks

... and in Wireline
- Access network transformation:
  - ADSL 10-25Mbps
  - VDSL2 25-50Mbps
  - FTTH >50Mbps
- Next launch of NGN services notified to CMT

Telefónica España CapEx

- Recurring:
  - FY2006: 44%
  - FY2007: 42%
  - FY2008E: 39%

- Transformational:
  - FY2006: 56%
  - FY2007: 58%
  - FY2008E: 61%
... and continue to be a reference in efficiency

Wireline business – TdE workforce evolution (thousands)

Redundancy plan (ERE) 2003-2007 ended

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-03</td>
<td>40.7</td>
</tr>
<tr>
<td>Dec-07</td>
<td>28.5</td>
</tr>
</tbody>
</table>

Total ERE Redundancies: 13,870

Employees (wireline) Dec-07

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-07</td>
<td>86,300</td>
</tr>
<tr>
<td></td>
<td>85,000</td>
</tr>
<tr>
<td></td>
<td>82,000</td>
</tr>
<tr>
<td></td>
<td>52,655</td>
</tr>
<tr>
<td>Dec-97</td>
<td>29,950</td>
</tr>
<tr>
<td></td>
<td>64,109</td>
</tr>
</tbody>
</table>

On track to meet 2010 targets

TELÉFONICA ESPAÑA
London, March 17, 2008

(1) Calculated applying low end of 2008 & low end of 2006-2010 CAGR guidance
(2) Calculated applying high end of 2008 & high end of 2006-2010 CAGR guidance
On track to meet 2010 targets

2007 CapEx

- Access network transformation
  - ~ €1.0bn in FTTx
  - €1.3bn in UMTS/HSXPA
- Transformation of aggregation, transport & IP networks
- Etc.

Total CapEx 2007-2010E

~50%

~30%

~10%-15%

~5%-10%

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Conclusions

- **Solid results in 2007**, exceeding 2007 guidance

- Transforming our company to **extract more value from integration**

- **Best starting position** to keep a benchmark profile and a superior performance

- **On track to** continue growing in 2008 and to **meet** long term guidance