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Popularity of broadband hits France Télécom

By Tom Braithwaite in Paris, FT.com site
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Shares in France Télécom fell 8 per cent to $\text{\$}19.94$ on Thursday, their biggest fall in three years, after it issued its second profit warning in four months.

The French incumbent operator said 2006 earnings before interest, tax, depreciation and amortisation would be about $\text{\$}1.2\text{bn}$ less than the $\text{\$}2.2\text{bn}$ that the market had anticipated. France has witnessed a desertion of fixed-line telephones in favour of broadband-based alternatives, which have lower revenues as a result of fierce competition and tough regulation. Last year France Télécom predicted that the proportion of VoIP (voice over internet protocol) telephony would rise to about 15 per cent of residential traffic by the end of 2005. But it said yesterday that take-up was accelerating and would reach 40 per cent by the end of this year. France already boasts the highest level of VoIP penetration in Europe. Iliad and Neuf Cegetel have attracted many of the new VoIP users with attractively priced services. Free, Iliad's consumer brand, has not changed its prices in more than three years. Subscribers continue to pay $\text{\$}29.99$ a month, but where they once received only broadband internet access they now also receive television and VoIP, including free international calls to some destinations.

Lex: France Telecoms



The sight of France Telecom's shares dropping 9 per cent to below $\text{\$}20$ will

have struck terror into the sclerotic hearts of Europe's telecommunications incumbents. Europe's worst-performing sector in 2005 has kicked off 2006 doing what it does best.

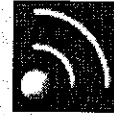
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The watchdog subsequently fined Orange France, France Télécom's mobile division, $\text{\$}256\text{m}$ last month for its part in collusion over market share. Its continued regulatory scrutiny of the mobile phone business is threatening margins at Orange, which remains highly cash-generative.

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