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TIMESONLINE

The Note - Friday business

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NEWS AND COMMENT

European telecoms gloom spreads to Italy

Telecom Italia, Italy's largest phone company, today warned on profits, cutting its forecast for the second time in two years, amid increased competition and regulatory pressure to cut mobile tariffs. Sales from fixed-line voice services fell nearly 8 per cent.

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Comment: Followers of BT might believe the painful days of the telecoms downturn are over, but Telecom Italia's figures show European incumbents continue to suffer. TI's decision to cut its sales growth target and warn of declining margins followed a gloomy set of figures from Deutsche Telekom, its German peer. Both have set their sights on expansion abroad with TI promising to develop its international footprint and leverage "converged services". But this latest strategy is unlikely to imbue much confidence. Just months ago, Marco Tronchetti Provera, former chairman and the effective controller through Pirelli and Olimpia, was seeking to move away from convergence, break up the group and sell off its mobile business, TIM. Such confusion, coupled with huge political hurdles, means investors could face a long wait yet for any turnaround.

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Elizabeth Judge

Airbus turbulence to blight year ahead

Airbus has recorded its first annual loss after plunging more than €1.7 billion into the red over the last three months of 2006. Parent group EADS added to the bleak outlook by cautioning that it faced another "substantial loss" this year.

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Comment: Another day and yet more grim news from Airbus. Losses of more than £1.1 billion in the last three months of 2006, and parent group EADS delaying a decision on the shareholder dividend. But while today's annual results make bleak reading, of more concern to the dwindling band of supporters will be the gloomy outlook. The results, however bad, were actually ahead of market expectations, but EADS' shares came under fresh pressure on warnings of a deterioration in the sales mix and the prospect of "substantial losses" this year. The French and German politicians increasingly drawn into the Airbus saga have to stop the cheap point scoring and help find a solution. Louis Gallois and Thomas Enders, the two EADS co-chief executives, need all the support they can get to pull the business out of its alarming nosedive.

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Steve Hawkes

Catlin sets example for insurance rivals

Shares in Catlin, the biggest syndicate on the Lloyd's of London insurance market, surged more than 4 per cent after annual pre-tax profits increased fivefold to $521 million following the successful integration of rival Wellington.

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Comment: The suddenly enlarged Catlin group has become the perfect example of how to make consolidation work on the Lloyd's of London insurance market. When the agreed takeover of Wellington was first unveiled in October, the £591 million deal was expected to prompt a mini-rash of copycat acquisitions, with fierce pressure on pricing and the underwriting cycle at a peak. So far only a few syndicate tiddlers have followed suit. But in the three months since the offer went unconditional, Catlin has already relocated, refinanced and integrated its former rival. Catlin boasted today that it will start to make money from the deal this year, and savings will top $70 million over the next 12 months. Profits came in at a record and the outlook was bullish. Size will shortly count for much on the increasingly interesting Lloyd's landscape.

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Miles Costello

Marshalls scores own goal on outlook

Shares in Marshalls fell after the building materials group said poor weather had hit trading in early 2007 and predicted the domestic market would be subdued for the rest of the year.

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Comment: Marshalls, Britain's largest maker of paving slabs, shot itself in the foot today. The company scared investors when it forecast a lacklustre domestic market this year. But a deeper reading of the annual results speaks of a rebound in consumer confidence. This time last year, the Construction Products Association was predicting a 4 per cent fall in spending, born out by Marshalls DIY business which declined by 12 per cent during 2006. Now, the CPA expects 1 per cent growth. Marshall's domestic business has stabilised and demand has increased for garden installations. Expect more growth to come as a better domestic business adds to a booming commercial division.

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James Rossiter

LONDON MARKETS
BRYCE ELDER

Supermarkets beat fading FTSE

Analysts turn cautious on Xstrata
Prudential rises on break-up hope
Safestore float sinks Big Yellow

Supermarkets outperformed a cautious market ahead of key US data, while investors anticipated next week's strategy review from **Wm Morrison** and speculated about the future of **J Sainsbury**.

Much of the excitement around Morrisons came after its house broker, ABN Amro, said the grocer's property portfolio was worth about £7.8 billion, or 94 per cent of its current market value. While this has no bearing on an in-store recovery, the possibility of a bid or property deal puts a floor under the shares, the broker said.

Meanwhile, Sainsbury's climbed amid another bout of gossip that a firm bid could come soon, with the **Qatari Investment Authority** rumoured to be considering its options.

Mining stocks suffered end-of-week profit taking ahead of US jobs figures this afternoon, which should provide a key gauge on economic growth and the future direction of interest rates. **Xstrata** was the sector's sharpest faller as Exane BNP Paribas moved to a "neutral" rating on valuation grounds, and as its chief executive sold stock.

Prudential rose amid rumours that activist hedge funds including Martin Hughes' **Toscafund** had been lobbying for a break-up of the insurer, which is due to post annual results next Thursday.

Big Yellow was the sharpest faller as investors prepared to pay for their allocations of competitor **Safestore**, which will join the market next week. Europe's second-largest self-storage firm raised £209 million through an initial public offering.

FTSE 100 latest
6,202.0 - 25.7

£/$ 1.9316 - 1.9320

OIL Brent 21-day
$62.50 - $0.17