**Eurozone crisis hits UK companies**

British firms are reeling from Europe's debt crisis, with sales, profits, credit and investment eroded – and worse to come



Astra cars on the assembly line at the General Motors's owned Vauxhall plant in Ellesmere Port, Cheshire, which exports 90% of its cars to the mainland Europe. Photograph: Andrew Yates/AFP/Getty Images

British companies are reeling from the [crisis in the eurozone](http://www.guardian.co.uk/business/2011/nov/10/eurozone-turmoil-channel), with big names such as the drinks company [Diageo](http://www.guardian.co.uk/business/diageo) and [Vodafone](http://www.guardian.co.uk/business/vodafonegroup) slashing costs at their operations in troubled southern European markets.

Diageo, whose brands include Guinness and Smirnoff, has axed about 400 European jobs as part of a drive to save £80m over two years. [Greece](http://www.guardian.co.uk/world/greece), Ireland, Portugal and Spain have borne the brunt of the cuts.

The drinks group has also taken out a layer of management in western [Europe](http://www.guardian.co.uk/world/europe-news), including Britain, in a bid to refocus on emerging markets in Latin America, Africa and Asia.

[General Motors](http://www.guardian.co.uk/business/generalmotors), the US car company, shocked British unions on Wednesday when it said it would be unable to return its European business to profit this year, sparking fears of cutbacks at its [Vauxhall](http://www.guardian.co.uk/business/vauxhall) plants in Ellesmere Port and Luton.

GM Europe, which also trades as Opel and Chevrolet, has run up losses of $580m (£360m) in the first nine months of the year. Sales at Vauxhall, which exports about 90% of its cars to Europe, are down nearly 5% year-on-year.

Among other British-based companies listed on the London stock market to have seen sales and profits hit hard in countries most affected by the debt crisis are:

• Vodafone. The mobile telecoms group has written off £450m against its business in Greece. In the first half, income from Spain fell 9%, while revenue from its Italian arm dropped 2.3%. The group has set out to cut costs in troubled regions with an unknown number of jobs under threat.

In the financial year 2010-11, Vodafone took a £6bn impairment charge linked to the declining value of southern European operations. In Spain, it is being forced to review prices to win back customers.

• Dixons. The retailer slumped more than £220m into the red after a Europe-wide deterioration in consumer spending forced it to write down the value of overseas businesses. Sales at Dixons' Greek electricals chain are thought to have fallen by as much as 50%.

• [Unilever](http://www.guardian.co.uk/business/unilever). The food and household goods group, whose brands include Lipton, Dove and Domestos, has warned of flat to lower profit margins in 2011, partly due to tough trading on the continent.

• [Imperial Tobacco](http://www.guardian.co.uk/business/imperialtobaccogroup). It reported the Spanish cigarette market was down 15%, although the slump has been accentuated by a ban on smoking in public spaces and an increase in taxes.

• UK financial groups. Several have taken action to limit the fallout from the eurozone with [Barclays](http://www.guardian.co.uk/business/barclay) slashing its exposure to Portugal, Italy, Ireland, Greece and Spain by 31%, from £11.6bn at the end of June to £8bn by the end of September. As well as allowing some government debts to mature, Barclays sold bonds to willing buyers such as hedge funds.

The insurance group [Prudential](http://www.guardian.co.uk/business/prudential) said this week it had taken "avoiding action" to dodge the European financial crisis with only £49m tied up in the debt of the worst-affected countries.Tidjane Thiam, Prudential's boss, said: "'We started moving out of the eurozone countries after looking at their financial balance, the sovereign debt levels and their promises to pay."Many UK firms are living in fear of an export crunch after the European Union slashed its eurozone growth forecast in 2012: from 1.8% down to just 0.5%.The credit insurer Euler Hermes said its advice to corporate clients was to be "extremely prudent when granting payment terms to [Greek] customers; and to be extremely vigilant about the financial strength of their counterparties."

Hugh Bailey, of the British Exporters Association, said: "Anything that upsets trade is worrying and what's happening in the eurozone could have grave repercussions."

The CBI's Richard Woolhouse said members were already reporting that "export demand from parts of Europe is falling". He said: "That is serious when you consider the eurozone accounts for 40% of Britain's exports."For the first time in this crisis, companies are "cutting investment" in Europe and the UK to conserve cash, he said.

Another lurking danger is that risk-averse banks are refusing to provide trade finance to small and medium-sized businesses, further choking off Britain's ability to export. Woolhouse said there were worries that, as in 2008: "We will face systemic liquidity problems."Marie Diron, senior economic adviser to Ernst & Young, is predicting the eurozone will fall into recession during the last quarter of 2011 and first three months of 2012.She said: "It can't be a good thing for British exporters if GDP in key markets goes into reverse. Companies may find it difficult to secure trade finance from banks as the [euro] crisis forces financial institutions to protect their own balance sheets."

A report from JP Morgan said a sharp increase in bank funding costs was "a key channel by which the UK will be affected by the intensification of European sovereign and banking stress".