

Ericsson's profit drops 30 percent

Written by AFP / The Swedish Wire

Thursday, 30 April 2009 12:11 - Last Updated Thursday, 28 May 2009 09:48

The world leader in mobile phone network equipment Ericsson on Thursday posted a 30-percent drop in profits, weighed down by its mobile phone unit, but said the impact of the global economic downturn was "limited."

Between January and March, the company registered a net profit of 1.8 billion kronor (171 million euros, 227 million dollars), compared to 2.6 billion in the first quarter of last year.

That was in line with analysts' forecasts.

But the company's operating profit came in well below expectations, falling 49 percent to 1.7 billion kronor, compared to 3.5 billion for the same period last year.

Meanwhile, turnover rose by 12.0 percent to 49.6 billion kronor from 44.2 billion kronor.

At 1100 GMT, the price of Ericsson shares was down by 8.03 percent to 71.00 kronor in a market down by 0.6 percent.

Despite the fall in profits, Ericsson chief executive Carl-Henric Svanberg said the industry had not felt a major impact from the deteriorating global economy.

"The effects of the global downturn on the market are so far limited, even if we see some," Svanberg told a press conference.

However, he said currency swings had led some companies to postpone some investments.

"Some operators are also more cautious with longer-term investments in fixed networks, such as rollout of fibre networks. Most operators, however, have healthy financial positions, there is a strong traffic growth and the networks are fairly loaded," he said in an earlier statement.

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Svanberg remained positive about the potential for growth in Ericsson's three biggest markets: the United States, China and India.

"Investments in wireless networks largely continues, and rollouts of new networks and new technologies accelerate in markets such as the US, China and India," he said.

Ericsson's upbeat outlook contrasts from some of their other European rivals who are struggling to cope with the worsening economic conditions.

Germany's Deutsche Telekom issued a profit warning on April 21, while France Telecom announced earlier this week it would cut capital spending due to the crisis.

Ericsson's joint venture with Sony, handset maker Sony Ericsson, weighed down heavily on the firm's profitability.

The handset maker produced a charge of 2.1 billion kronor on Ericsson's results, owing to huge first-quarter losses that were announced in the middle of April.

"Our joint ventures have affected us and they're making efforts to adjust their operations," Svanberg told reporters.

Thomas Langer, an analyst with German bank WestLB, expressed doubts over Ericsson's optimistic outlook.

"Clearly what they have written is pure prose, not substance," he said, calling on the company to offload Sony Ericsson.

But Michael Andersson, an analyst with Finnish bank Evli, disagreed.

"I don't think they are too optimistic, I think they can manage quite well," he said, pointing to

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Ericsson's increasing market share and the large losses suffered by its main competitor Nokia Siemens Networks (NSN) in the first quarter.

Sony Ericsson has already announced 2,000 job cuts, while ST-Ericsson, a joint venture created in February with ST MicroElectronics, on Wednesday announced 1,200 job losses.

Swedish media have speculated that Ericsson was considering selling the Japanese-Swedish phone venture that was created in 2001, though Svanberg has maintained that Ericsson is committed to a long-term involvement.

Ericsson wants to make annual savings of 10 billion kronor by the second half of 2010, a goal which Svanberg described as "running according to plan."

In January, the company announced 5,000 job cuts in a bid to cut costs.

Ericsson, which is the world leader in mobile phone network equipment ahead of Nokia Siemens, employed 76,900 people worldwide at the end of March, half of which are based in western Europe.