

# Nokia revenues slide 24% but Lumia sales rise offers hope

Finnish company's smartphones outsell BlackBerry in second quarter, but it is still struggling in key markets such as the US

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Nokia: sales of its Lumia smartphone overtook those of BlackBerry in the second quarter. Photograph: Dado Ruvic/Reuters

Nokia made an operating loss of €115m (£98.8m) in the second quarter, with revenues falling 24% to €5.7bn, as it struggled to turn its handset business around.

However, the Finnish mobile company's Lumia smartphones finally outsold rival BlackBerry, a key milestone in its attempt to establish itself as the "third ecosystem" in market dominated by Apple and Google's Android.

Nokia's shares fell by 3% on the Helsinki stock exchange in early trading.

The company also saw an outflow of nearly 10% of its net cash over the quarter to just

€4.07bn, which has led some analysts to express concerns about its future viability if the handset business does not improve. The company has made operating losses totalling €4.1bn in the past nine quarters.

Only Nokia Siemens Networks, its joint venture for the mobile infrastructure business, generated an operating profit, of €8m on revenues of €2.78bn. Nokia took full control of the business after the quarter ended, buying the other 50% for €1.7bn.

The handset business lost €33m on revenues of €2.72bn, down 32% from a year ago and down 6% sequentially. A key problem was China, where the volume of sales fell by 48% as buyers there shift to smartphones – often running versions of the Android software – made by indigenous companies. Nokia's handset revenues are now smaller than at any time since 2002.

Chief executive Stephen Elop pointed to non-IFRS figures – which exclude asset depreciation, special items, amortisation and inventory adjustments – suggesting that the group made an underlying operating profit of €303m after excluding writedowns of €97m at its Here maps division and €320m at NSN.

Elop said: "Our mobile phones business unit started to demonstrate signs of recovery in the latter part of the second quarter following a difficult start to the year." But he said it would "take actions to focus its product offering and improve product competitiveness."

Nokia's attempts to break back into the US smartphone market have so far failed. It sold just 0.5m Lumias in North America in the latest quarter than a year ago, when it managed 0.6m. "Zero traction," said Benedict Evans, technology and media analyst at Enders Analysis. But he said that with 7.4m Lumias sold, "Nokia is now selling comparable volumes to the second-tier Android OEMs" – such as Sony, LG and HTC.

"Nokia continues to show no signs of recovery in the US market," observed Francisco Jeronimo, smartphones analyst for the research company IDC. "High investments, high expectations, low results."

For years the largest maker of mobile phones in the world, Nokia has fallen on hard times following the launch of the iPhone and the rise of Android phones, which have eaten away at its base in developing markets such as Africa, India and especially China.

Smartphones made up only 40% of Nokia's phone revenues, compared with far higher proportions at almost every other handset manufacturer. Apple, BlackBerry and HTC only sell smartphones, which can presently command higher prices and margins than "feature phones".

Nokia's high-end feature phone, the Asha, intended to compete with cheap Android phones in China, Asia and Africa, saw falling sales too – down from 5m the previous

quarter to 4.3m. The figure was the lowest in the four quarters that the Asha range has been on sale.

Elop decided not to go with Android when he took over in September 2010, worried that it would be dominated by a single manufacturer – as has happened with Samsung.

Instead he opted for Microsoft's new Windows Phone software, which powers the Lumia range. He said in January 2011 that the smartphone business was "not a battle of devices, it's now a war of ecosystems".

However iPhone and Android have since become entrenched, controlling about 90% of handset sales worldwide, with Android dominating in Europe and Asia.

BlackBerry, however, has fallen behind: its 6.8m handset sales in the quarter to the end of May mean that the Lumia range has outsold it for the first time.

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