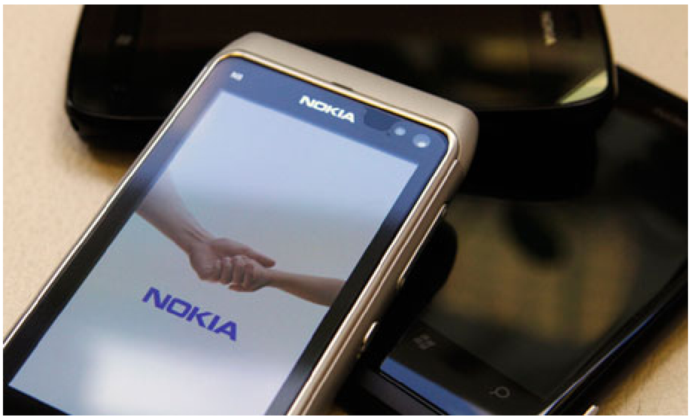
theguardian

Nokia woes mount with €220m write-off on unsold smartphones

Finnish firm announces second successive quarter of losses in mobile phone division, with revenues down 26% year-on-year

Charles Arthur, technology editor
guardian.co.uk, Thursday 19 July 2012 13.28 BST



Nokia's stock jumped as financial analysts said the losses were not as bad as expected. Photograph: Ints Kalnins/Reuters

The woes at the Finnish mobile phone company Nokia continue to mount, with further losses in its flagship division in the second quarter of 2012, and a €220m write-off on unsold stock of its smartphones.

But the ailing group's stock jumped by 10% to €1.50 as financial analysts said the losses were less grim than expected, and the firm had done better in the low-end "feature phone" market.

Nokia also admitted its high-profile attempt to break back into the US smartphone market with its new range of Lumia phones, running Microsoft's Windows Phone software, had led to only around 600,000 sales in the US – down on the 1.5m sold in the same period a year ago when the company was only offering its outdated Symbian software.

The mobile phone division recorded an operating loss of €474m, its second successive quarter of losses, on revenues down 26% year-on-year to €4.02bn. Overall, the company recorded a loss, including one-off restructuring costs, of €826m compared to a loss of €487m in the same period in 2011. Without the restructuring costs, losses would be €327m.

Stephen Elop, the chief executive appointed in September 2010 to try to pull Nokia out of its nosedive as rivals including Apple and Samsung began eating into the top-end smartphone market, said: "Nokia is taking action to manage through this transition period. While this was a difficult quarter, Nokia employees are demonstrating their determination to strengthen our competitiveness, improve our operating model and carefully manage our financial resources." He added that Nokia was "executing with urgency" on restructuring which has seen the company plan to fire 10,000 staff in the coming year.

Elop amazed Nokia and the mobile phone business in January 2011 when he announced that Nokia would abandon the Symbian software, which he described as a "burning platform", and adopt Microsoft's new Windows Phone software for its smartphones. The first Lumia phone running that software appeared in October 2011.

Elop said Nokia had shipped 4m Lumia smartphones in the second quarter, and that he expected Microsoft's launch of the new Windows Phone 8 software in the autumn would be "an important catalyst".

The write-off of €220m against stock of its Lumia, Symbian and Meego smartphones may indicate slow sales in some regions, though Nokia did not specify where. Earlier this week AT&T halved the headline cost of the Lumia 900 smartphone to $50, which could indicate slow sales – although Nokia said it was part of "a normal strategy".

The 4m figure for Lumia shipments is only a small proportion of the overall smartphone market, where the highest values and profit are now found. The old-fashioned "feature phone" market is moving to commodity status. About 150m smartphones were sold worldwide in the second quarter; Nokia's total of 10.2m smartphones, including its Symbian and Meego platforms, gives it less than 10%, compared to the 40% share it enjoyed a few years ago.

Elop warned that the third quarter would be "difficult" and that it was "a critical priority" to return the mobile phone division to positive operating cash flow "as quickly as possible", although the company has managed to retain its cash position.

On the financial markets, Nokia's stock has lost 95% of its value from its high point, and its bonds have been downgraded to junk.

Analysts says its key challenges are the growing competition at the high end from Apple's iPhone and phones running Google's Android software, especially Samsung, and at the low end from manufacturers in countries such as China, where cheap handsets using Android have made it the largest phone market in the world. Nokia's revenues in China, a key market, shrank by 41%; only the US saw a growth in net revenues for the mobile division.

Francisco Jeronimo, the mobile analyst at the research company IDC, said Nokia faced a tough third quarter in the US: "Operators are not stocking up Lumia devices as the new handsets running on Windows Phone 8 are expected soon for the Christmas season. As the current Nokia handsets will only get light updates of the new platform and will not be fully compatible, operators don't see any reason to push the current Lumia devices this summer. Nokia will continue to suffer until their Windows Phones 8 are launched."

Jeronimo added: "Overall, despite the gloomy outlook and the results, we believe Nokia continues on the right track. They took a long-term strategy, compromising short-term results – although the clock is ticking, and if their sales don't wake up from the fourth quarter this year, Nokia and Stephen Elop will have to come up with a magical plan."

The Ovum analyst Nick Dillon said: "After a seemingly endless run of bad news, these results offer a glimmer of hope for Nokia."