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Nokia Shows a Profit, but Shares Drop

By **KEVIN J. O'BRIEN**

BERLIN — The Finnish phone maker [Nokia](#) on Thursday reported its first quarterly profit in almost two years since entering its smartphone alliance with Microsoft, but the company's shares fell as doubts persisted about the company's ability to accomplish a turnaround.

The company, based in Espoo, Finland, said it had a profit of €202 million, or \$269 million, in the three months through December, up from a loss of €1.1 billion a year earlier. Sales fell 20 percent to €8 billion from €10 billion as it phased out an older line of smartphones that used the Symbian operating system.

The company's shares fell as much as 8.4 percent in afternoon trading in Helsinki, to 3.194, as Nokia announced that it would not pay a dividend for 2012, which would save the company about €750 million. It was the first time Nokia had not paid a dividend in recent memory, according to the company.

Mats Nystrom, an analyst at SEB Enskilda Bank in Stockholm, said that Nokia had raised investor hopes earlier this month when it said it would report a quarterly profit, but that the company had not met those expectations with results that showed less-than-expected growth in the average selling prices of its flagship Lumia smartphone line and falling cellphone prices. "I still think it is far from a certainty that this turnaround will be a success," Mr. Nystrom said.

In a conference call with journalists, the Nokia chief executive, Stephen Elop, said the company had successfully eliminated investor concerns about its future and ability to pull off a turnaround. Nokia's net cash on hand at the end of December, bolstered by the decision to forgo a dividend payment, rose to €4.4 billion from €3.6 billion in September.

"For investors, it was a solid quarter in which we removed concerns about our cash situation," Mr. Elop said. The former Microsoft senior executive has closed factories across Europe and eliminated 16,500 workers from Nokia's phone business over the past year.

The quarterly net profit was the first since Nokia announced its alliance with Microsoft in February 2011, which set off a turbulent transition that led to about €5 billion in losses, the laying off of a third of the company's work force and a steep decline in smartphone sales, the industry's defining segment.

While sales of Nokia's new Lumia line, which uses Microsoft's Windows Phone operating system, are accelerating, to 4.4 million units in the fourth quarter from 2.9 million in the third quarter, analysts say the company's ability to turn around its smartphone business remains uncertain.



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third, the company is now a distant challenger to the industry leaders Apple and Google. The Android operating system from Google is now running nearly two-thirds of all new smartphones sold around the world.

Apple sold more than 10 times the number of iPhones during the fourth quarter, 47.8 million, and sales of Android smartphones, according to International Data Corp., reached 136 million in the third quarter. But as the largest maker of smartphones running Microsoft's new Windows Phone 8, Nokia can build on its gains.

"This is really the time now for Nokia to put up results," said Francisco Jeronimo, an I.D.C. analyst in London. "They are almost exclusively out there with Windows 8, and Microsoft is strongly promoting the operating system. There can be no more excuses now."

In North America, Nokia increased its sale of phone handset sales by 40 percent in the fourth quarter to 700,000 units, up from 500,000 in the third quarter. Mr. Jeronimo said those results were weak considering the sizable marketing investment in the United States and Canada by Nokia and Microsoft on Windows 8.

Nokia's share price has fallen by more than half during its software alliance with Microsoft. The shares have risen about 13 percent this year.

In the fourth quarter, Nokia's profit was fueled by continued cost-cutting and the introduction of the Lumia 820 and 920 smartphones running Windows Phone 8.

The new handsets helped Nokia raise the average selling price of Lumia phones in the quarter to €186, up 33 percent from €140 in the same quarter a year earlier. But the average price of Nokia's basic cellphones, which still make up almost two-thirds of its total phone sales, fell by 3 percent to €31 from €32.