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Nokia Profit Off in Quarter; Handset Price Cuts Cited

By Alan Cowell

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LONDON, Oct. 14 - Nokia, the world's biggest maker of mobile phones, said on Thursday that its third-quarter profit was higher than many analysts had forecast, but still a fifth lower than a year ago.

The results indicated that Nokia, based in Finland, had yet to reverse its fortunes -- particularly in the United States. After being caught off-balance earlier this year by trend-savvy rivals, the company cut handset prices deeply to lure back customers. Its mobile phone sales fell 13 percent in the third quarter from a year earlier.

Jorma Ollila, the chairman and chief executive, said market share had increased to an estimated 33 percent -- two percentage points higher than in the second quarter -- largely because of gains in Western Europe and steady sales in China. "However, in the United States we lost market share during the quarter, and despite strong sales growth, our market share in Latin America was down slightly from the second quarter 2004," he said.

While its share of the booming, global cellphone market is still twice that of Motorola, its nearest rival, Nokia's status took a big knock in the first six months of the year as competitors including Samsung, the third-largest cellphone maker, made rapid gains with new cellphone models featuring clamshell designs, color screens and cameras.

As if to highlight that pattern, the London-based Sony Ericsson -- the fifth-largest cellphone maker, with an estimated 6.6 percent of the market -- said on Thursday that its third-quarter net profit rose by 45 percent, to \$111 million, driven largely by stylish phones with cameras.

The demand enabled Sony Ericsson to raise the price of its handsets, while Nokia had to cut prices.

"Nokia lost focus," said Jack Gold, an analyst with the META Group, a private research and consultancy firm with headquarters in Stamford, Conn. "They were trying to be all things to everyone, and I'm not sure they can do that."

Nokia said third-quarter net income was 660 million euros (\$815 million), or 0.14 euro a share, down from 0.17 euro a year earlier when net income was 823 million euros. Analysts had been forecasting third-quarter earnings equivalent to 0.13 euro a share. Nokia said sales increased slightly, to 6.94 billion euros from 6.87 billion euros a year ago.

Investors took little heart from the results, pushing Nokia shares down as much as 4.6 percent before they recovered to finish up 1 percent, at 11.53 euros. Nokia's shares have fallen 16 percent this year.

Nokia said its fourth-quarter earnings would be 0.16 euro to 0.18 euro a share, compared with 0.25 euro a year ago. "I have a feeling that the company may be being a bit cautious since the first half of the year brought extreme difficulties," said Jussi Hyoty, an analyst with FIM Securities in Helsinki.

Nokia said it expected global cellphone sales by all manufacturers this year to total about 630 million. Mr. Ollila, the chief executive, said his company planned to unveil several midrange and high-end phones for the year-end season, traditionally the busiest time. "We expect continued strong growth in global mobile-device market volumes in the fourth quarter," he said.

Some analysts said, however, that it would take Nokia longer to recover from this year's missteps. "There have been price cuts," said Mr. Hyoty in Helsinki. "Market share is going up again, so I don't expect any further price cuts."

"If you look at the new models they are bringing to market, quite a few of them in the fourth quarter," he continued, "I would say they have some way to go, even though it's getting slightly better."

"The product portfolio will be better next year," he said.

Mr. Gold at the META Group said Nokia had fallen behind rivals, particularly in expensive phones, in a market that had "changed drastically."

"It has moved to two poles," he said. "One is a very low-end where you get the handset for free. The other is the high-end, feature-rich handsets. Nokia has been lagging behind there."

"Nokia has never been aggressive in that space or offered great products in that space," he said. "It's going to take them another quarter or two to sort this out."