Nokia buys network operations from Siemens (Update)

July 1 2013, by Matti Huuhtanen

Nokia is turning to the stronger-performing parts of its business to help bolster its struggling smartphone arm, as it offered Siemens 1.7 billion euros ($2.22 billion) for its half of the networks joint venture.

Finland's Nokia Corp. said Monday that the transaction will be completed during the third quarter this year, meaning that the company formed in 2007—Nokia Siemens Networks—will become Nokia's wholly owned subsidiary.

After an initial surge of nearly 8 percent, Nokia's share price closed up 3.5 percent at 2.95 euros on the Helsinki Stock Exchange, while Siemens AG' share price was up 2.4 percent at 79.60 euros in Frankfurt.

Nokia Siemens Networks had been lossmaking for several years amid speculation and rumors that it was an acquisition target. Meanwhile, Nokia also began to struggle with its core production of cellphones, losing its dominant market position.

Recently, however, Nokia Siemens Networks has shown signs of improvement after restructuring and substantial job cuts, with a small first-quarter operating profit this year compared to a 1 billion euros loss in the same period in 2012.

Neil Mawston from Strategy Analytics near London said the planned acquisition was not "a huge surprise" and that Nokia was trying to offset some "volatility" in its cellphone unit with the purchase.

"Nokia is trying to get stability in the networks division so they can repair the handset division. It seems to be part of the overall strategy," Mawston said. "The networks takeover is good in the short term because it brings some extra profits and counterbalances some of the challenges in the handset division."

But, he cautioned that the long-term profitability of networks operations was "questionable because of the crowded nature" of the global networks industry.

Since Nokia lost its dominant position in cellphones, which peaked in 2008 with a with a global market share of 40 percent, rumors about takeover bids and splitting the company have been rife, accompanied by plunges in its market share and share price.

Mawston downplays rumors about splitting the company.

"There has been some talk about Nokia's split into two and become a dedicated network supplier and hive off its handset division," Mawston said. "But given that handsets have such a good potential for growth, better than the networks unit, I think it would be unwise to sell off the handset division at this stage."

Nokia is struggling, especially in the lucrative smartphone market, against Samsung, Apple's iPhone and handsets that use Google's Android software. But it is also being squeezed at the lower end against Asian manufacturers making cheaper handsets.

The sale of Siemen's networks operation also suits Nokia's German giant partner. With 370,000 employees worldwide the company has been looking to cut costs.

In November it launched a program aimed at saving 6 billion euros by

2014. It has announced plans to restructure its water business and sell its solar energy business.

In May, the Munich-based industrial conglomerate warned that earnings for its 2013 financial year, which ends in September, would come in at the "low end" of forecasts due to numerous one-time charges and restructuring costs.

Nokia chief executive Stephen Elop was upbeat about the networks division's operational and financial performance and said the company had also made strides in developing LTE, or long-term evolution, high-speed data.

"Nokia Siemens Networks has established a clear leadership position in LTE, which provides an attractive growth opportunity," Elop said. "Nokia is pleased with these developments and looks forward to continue supporting these efforts to create more shareholder value for the Nokia group."

Nokia said that the operational headquarters of the networks sector will remain in Espoo, near the Finnish capital of Helsinki. But Nokia said, it "will continue to have a strong regional presence in Germany."

The Siemens name will be phased out from Nokia Siemens Networks' company name and branding, with the company's new name to be announced at the closing of the transaction.