Nokia Corporation Financial Report for Q2 and Half Year 2017

Nokia Corporation
Half Year Financial Report
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Strong results in Nokia Technologies and solid performance in Nokia's Networks business

This is a summary of the Nokia Corporation financial report for Q2 and half year 2017 published today. The complete financial report for Q2 and half year 2017 with tables is available at www.nokia.com/financials. Investors should not rely on summaries of our financial reports only, but should review the complete reports with tables.

FINANCIAL HIGHLIGHTS

- Non-IFRS net sales in Q2 2017 of EUR 5.6bn (EUR 5.7bn in Q2 2016). Reported net sales in Q2 2017 of EUR 5.6bn (EUR 5.6bn in Q2 2016).
- Non-IFRS diluted EPS in Q2 2017 of EUR 0.08 (EUR 0.03 in Q2 2016). Reported diluted EPS in Q2 2017 of negative EUR 0.07 (negative EUR 0.12 in Q2 2016).

Nokia's Networks business

- 5% year-on-year net sales decrease in Q2 2017, primarily due to Ultra Broadband Networks. Within Ultra Broadband Networks, Mobile Networks declined in Q2 following a strong Q1, while Fixed Networks declined at a lower rate in Q2 compared to Q1. Within IP Networks and Applications, IP/Optical Networks declined at a lower rate in Q2 compared to Q1, and Applications & Analytics grew. Global Services net sales were approximately flat.
- Strong Q2 2017 gross margin of 39.1% and operating margin of 8.2%, with solid performance across Ultra Broadband Networks, Global Services and IP Networks and Applications.

Nokia Technologies

- 90% year-on-year net sales increase in Q2 2017, primarily due to a new license agreement in Q2 2017 and a license agreement that was expanded in Q3 2016. Approximately 40% of the EUR 175 million year-on-year increase was non-recurring in nature and related to catch-up net sales for Q1 2017.
- 158% year-on-year operating profit increase in Q2 2017, primarily related to higher net sales, partially offset by increased licensing-related litigation costs and the ramp-up of our digital health business unit.

Second quarter and January-June 2017 non-IFRS results. Refer to note 1, "Basis of Preparation", in the Financial statement information section for further details [1]

EUR million (except for EPS in EUR)	Q2'17	Q2'16	YoY change	Q1'17	QoQ change	Q1-Q2'17	Q1-Q2'16	YoY change
Net sales - constant currency (non-IFRS)			*(2)%*		*7%*			*(4)%*
Net sales (non-IFRS)	5 629	5 670	(1)%	5 388	4%	11 017	11 285	*(2)%*
Nokia's Networks business	4 971	5 222	(5)%	4 902	1%	9 873	10 415	(5)%
Ultra Broadband Networks	2 165	2 356	(8)%	2 236	(3)%	4 401	4 653	(5)%
Global Services	1 448	1 444	0%	1 361	6%	2 809	2 888	(3)%
IP Networks and Applications	1 358	1 421	(4)%	1 304	4%	2 663	2 874	(7)%

Nokia Technologies	369	194	90%	247	49%	616	391	58%
Group Common and Other	307	270	14%	254	21%	562	506	11%
Gross profit (non-IFRS)	2 350	2 205	7%	2 196	7%	4 546	4 433	3%
Gross margin % (non-IFRS)	*41.7%*	*38.9%*	*280bps*	*40.8%*	*90bps*	*41.3%*	*39.3%*	*200bps*
Operating profit (non-IFRS)	574	332	73%	341	68%	915	677	35%
Nokia's Networks business	406	313	30%	324	25%	730	650	12%
Ultra Broadband Networks	191	184	4%	245	(22)%	437	311	41%
Global Services	123	34	262%	55	124%	179	137	31%
IP Networks and Applications	91	95	(4)%	23	296%	114	202	(44)%
Nokia Technologies	230	89	158%	116	98%	346	195	77%
Group Common and Other	(62)	(70)		(99)		(161)	(169)	
Operating margin % (non-IFRS)	*10.2%*	*5.9%*	*430bps*	*6.3%*	*390bps*	*8.3%*	*6.0%*	*230bps*
Financial income and expenses (non-IFRS)	(63)	(29)	117%	(81)	(22)%	(144)	(96)	50%
Taxes (non-IFRS)	(74)	(135)	(45)%	(48)	54%	(122)	(275)	(56)%
Profit (non-IFRS)	441	171	158%	203	117%	644	310	108%
Profit attributable to the equity holders of the parent (non-IFRS)	449	194	131%	196	129%	646	346	87%
Non-controlling interests (non-IFRS)	(9)	(24)	(63)%	6		(2)	(37)	(95)%
EPS, EUR diluted (non-IFRS)	0.08	0.03	167%	0.03	167%	0.11	0.06	83%

Second quarter and January-June 2017 reported results. Refer to note 1, "Basis of Preparation", in the Financial statement information section for further details [1]

EUR million (except for EPS in EUR)	Q2'17	Q2'16	YoY change	Q1'17	QoQ change	Q1-Q2'17	Q1-Q2'16	YoY change
Net Sales - constant currency			*0%*		*7%*			*(2)%*
Net sales	5 619	5 576	1%	5 378	4%	10 996	11 088	(1)%
Nokia's Networks business	4 971	5 222	(5)%	4 902	1%	9 873	10 415	(5)%
Ultra Broadband Networks	2 165	2 356	(8)%	2 236	(3)%	4 401	4 653	(5)%
Global Services	1 448	1 444	0%	1 361	6%	2 809	2 888	(3)%
IP Networks and Applications	1 358	1 421	(4)%	1 304	4%	2 663	2 874	(7)%
Nokia Technologies	369	194	90%	247	49%	616	391	58%
Group Common and Other	307	270	14%	254	21%	562	506	11%
Non-IFRS exclusions	(11)	(93)	(88)%	(11)	0%	(21)	(197)	(89)%
Gross profit	2 236	2 031	10%	2 125	5%	4 361	3 608	21%
Gross margin %	*39.8%*	*36.4%*	*340bps*	*39.5%*	*30bps*	*39.7%*	*32.5%*	*720bps*
Operating (loss)/profit	(45)	(760)	(94)%	(127)	(65)%	(173)	(1 472)	(88)%
Nokia's Networks business	406	313	30%	324	25%	730	650	12%
Ultra Broadband Networks	191	184	4%	245	(22)%	437	311	41%

Global Services	123	34	262%	55	124%	179	137	31%
IP Networks and Applications	91	95	(4)%	23	296%	114	202	(44)%
Nokia Technologies	230	89	158%	116	98%	346	195	77%
Group Common and Other	(62)	(70)		(99)		(161)	(169)	
Non-IFRS exclusions	(620)	(1 092)	(43)%	(468)	32%	(1 088)	(2 149)	(49)%
Operating margin %	*(0.8)%*	*(13.6)%*	*1 280bps*	*(2.4)%*	*160bps*	*(1.6)%*	*(13.3)%*	*1 170bps*
Financial income and expenses	(218)	(32)	581%	(146)	49%	(364)	(135)	170%
Taxes [2]	(172)	65		(154)	12%	(325)	166	
(Loss)/Profit [2]	(433)	(726)	(40)%	(435)	0%	(868)	(1 437)	(40)%
(Loss)/Profit attributable to the equity holders of the parent [2]	(423)	(667)	(37)%	(473)	(11)%	(896)	(1 291)	(31)%
Non-controlling interests [2]	(9)	(58)	(84)%	37	(124)%	28	(147)	
EPS, EUR diluted [2]	(0.07)	(0.12)	(42)%	(0.08)	(13)%	(0.16)	(0.23)	(30)%
Net cash and other liquid assets	3 964	7 077	(44)%	4 409	(10)%	3 964	7 077	(44)%

[1] Results are as reported unless otherwise specified. The financial information in this report is unaudited. Non-IFRS results exclude costs related to the acquisition of Alcatel-Lucent and related integration, goodwill impairment charges, intangible asset amortization and other purchase price fair value adjustments, restructuring and associated charges and certain other items that may not be indicative of Nokia's underlying business performance. For details, please refer to the non-IFRS exclusions section included in discussions of both the quarterly and year to date performance and note 2, "Non-IFRS to reported reconciliation", in the notes in the Financial statement information in this report. Change in net sales at constant currency excludes the impact of changes in exchange rates in comparison to euro, our reporting currency. For more information

on currency exposures, please refer to note 1, "Basis of Preparation", in the Financial statement information section in this report.

[2] Reported Q1-Q2'16 result is not comparable to the previously published Reported Q1-Q2'16 result due to an update to the Alcatel-Lucent purchase price allocation in Q3'16 which resulted in an adjustment to the reported Q1'16 income tax benefit.

Changes in reporting structure, effective from April 1, 2017

On March 17, 2017, Nokia announced changes in its organizational structure designed to accelerate the execution of its strategy, including strengthening Nokia's ability to deliver strong financial performance, drive growth in services, meet changing customer demands in mobile networks, achieve cost savings and ongoing transformation goals, and enable strategic innovation across Nokia's Networks business. These organizational changes included the separation of Nokia's former Mobile Networks business group into two distinct organizations: one focused on products and solutions, called Mobile Networks, and the other on services, called Global Services.

As a result of these changes, Nokia has changed its financial reporting structure for its Networks business. As of the second quarter 2017, Nokia's Networks business is comprised of three reportable segments and five business groups.

1. Ultra Broadband Networks, comprised of the Mobile Networks and Fixed Networks business groups.
    - The Mobile Networks business group is comprised of the products and solutions that resided within the previous Mobile Networks business group. As a result of the organization change, services no longer reside under Mobile Networks. The Mobile Networks business group provides radio networks, converged core networks and advanced mobile networks solutions (see note 3, "Segment information", in the Financial statement information sections in this report for additional details).
    - The Fixed Networks business group provides broadband access, digital home, access management solutions and Fixed Networks services (see note 3, "Segment information", in the Financial statement information sections in this report for additional details).
2. Global Services, comprised of the Global Services business group.
    - The Global Services business group is comprised of the services that resided within the previous Mobile Networks business group, including company-wide managed services. Global Services does not include the services of Fixed Networks, IP/Optical Networks and Applications & Analytics, which continue to reside within the respective business groups. The Global Services business group provides network planning and optimization, network implementation, system integration, company-wide managed services and care (see note 3, "Segment information", in the Financial statement information sections in this report for additional details).
3. IP Networks and Applications, comprised of the IP/Optical Networks and Applications & Analytics business groups.
    - The IP/Optical Networks business group provides IP routing, optics and IP/Optical Networks services (see note 3, "Segment information", in the Financial statement information sections in this report for additional details).
    - The Applications & Analytics business group provides intelligent software and services that help service providers build strong digital businesses including business support systems, operational support systems, service delivery platforms, network management, emerging businesses, as well as the software and services offerings from the Comptel acquisition (see note 3, "Segment information", in the Financial statement information sections in this report for additional details).

Non-IFRS results provide meaningful supplemental information regarding underlying business performance

In addition to information on our reported IFRS results, we provide certain information on a non-IFRS, or underlying business performance, basis. We believe that our non-IFRS results provide meaningful supplemental information to both management and investors regarding Nokia's underlying business performance by excluding the below-described items that may not be indicative of Nokia's business operating results. These non-IFRS financial measures should not be viewed in isolation or as substitutes to the equivalent IFRS measure(s), but should be used in conjunction with the most directly comparable IFRS measure(s) in the reported results.

Non-IFRS results exclude costs related to the acquisition of Alcatel-Lucent and related integration, goodwill impairment charges, intangible asset amortization and purchase price related items, restructuring and associated charges, and certain other items that may not be indicative of Nokia's underlying business performance. The non-IFRS exclusions are not allocated to the segments, and hence they are reported only at the Nokia consolidated level.

Financial discussion

The financial discussion included in this financial report of Nokia's results comprises the results of Nokia's businesses - Nokia's Networks business and Nokia Technologies, as well as Group Common and Other. For more information on our reportable segments, please refer to note 3, "Segment information", in the Financial statement information section in this report.

CEO STATEMENT

I am proud of the entire Nokia team for delivering strong profitability in the second quarter and group-level net sales that were close to flat year-on-year. Underpinning this result was the excellent performance of Nokia Technologies, as well as robust gross margins and continued topline improvement in Networks. With the good work in the quarter, I remain confident that we will deliver on our full-year guidance of an operating margin of 8-10% in our Networks business.

Additionally, we made further progress in executing on the four pillars of our strategy in the second quarter. In terms of the first pillar, leading in high-performance, end-to-end networks with communication service providers, we saw year-on-year growth in orders in the first half of the year; continued to win the majority of deals we pursued; and landed more large contracts in the first half than we did during the same time period in 2016. Cross-selling also continues to generate new opportunities for us, with several important wins in the quarter, such as our contract to build three Dense Wavelength Division Multiplexing networks for M1 in Singapore.

For the second pillar, expanding sales to new vertical markets, our work is gaining further traction in terms of orders, customers and technology. We saw double-digit growth in orders in most of the verticals we are targeting, and added new customers at a significantly faster rate than one year ago. And, we launched new IP routing products that will put us in a strong competitive position with both our traditional customer base and our new target markets when the products are available at scale next year. The early response from customers to these new products has been excellent, with companies like BT Group and Xiaomi already expressing their intent to purchase.

We are starting to see the results of the extensive work we have done in the third pillar of our strategy, building a strong, stand-alone software business at scale. Q2 sales in our Applications & Analytics business group were up comfortably year-on-year and order momentum was strong.

In the fourth pillar of our strategy, creating new business and licensing opportunities in the consumer ecosystem, the licensing and business partnership agreement that we reached with Apple in the quarter was a clear highlight. You could see the benefit of that agreement in Nokia Technologies' results, and we look forward to continuing to expand our overall business with Apple in the coming months. We also closed a licensing deal with Xiaomi, a milestone win with a Chinese smartphone vendor, setting the stage for us to engage further with other vendors in the country.

Finally, we expect our primary addressable market with communication service providers to be slightly more challenging in 2017 than earlier forecast. We now expect a decline in the market in the range of 3-5%, versus our earlier view of a low-single digit decline. In addition, we continue to expect our Networks sales to perform in line with the market.

Despite these headwinds, I believe Nokia's disciplined operating model puts us in a strong position to succeed in conditions of all kinds and continue to deliver solid shareholder value. In addition, we are seeing catalysts in the United States, China and Japan that point to an acceleration of 5G and the commencement of meaningful roll-outs in 2019.

In summary, a good second quarter, some challenges ahead this year, but also reasons to be optimistic about Nokia's ability to deliver.

Rajeev Suri
President and CEO

NOKIA IN Q2 2017 - NON-IFRS

Non-IFRS net sales and non-IFRS operating profit

Nokia non-IFRS net sales decreased 1% year-on-year and increased 4% sequentially. On a constant currency basis, Nokia non-IFRS net sales would have decreased 2% year-on-year and increased 7% sequentially.

Year-on-year changes

EUR million, non-IFRS	Net sales	% change	Gross profit	(R&D)	(SG&A)	Other income and (expenses)	Operating profit	Change in operating margin %
Networks business	(251)	(5)%	(21)	32	12	71	93	220bps
Nokia Technologies	175	90%	165	(3)	(11)	(10)	141	1 640bps
Group Common and Other	37	14%	2	4	10	(7)	8	570bps
Eliminations	(2)		0	0	0	0	0	
Nokia	(41)	(1)%	145	33	10	55	242	430bps

On a year-on-year basis, Nokia's non-IFRS gross profit, non-IFRS other income and expense and non-IFRS operating profit benefitted from the absence of an adverse effect related to a customer in Latin America undergoing judicial recovery in Q2 2016.

Sequential changes

EUR million, non-IFRS	Net Sales	% change	Gross profit	(R&D)	(SG&A)	Other income	Operating profit	Change in

						and (expenses)		operating margin %
Networks business	69	1%	10	28	15	30	82	160bps
Nokia Technologies	122	49%	118	1	8	(12)	114	1 530bps
Group Common and Other	53	21%	27	10	3	(3)	37	1 880bps
Eliminations	(3)		0	0	0	0	0	
Nokia	241	4%	154	39	26	15	233	390bps

Non-IFRS profit attributable to the equity holders of the parent

Year-on-year changes

EUR million, non-IFRS	Operating profit	Financial income and expenses	Taxes	Profit	Non-controlling interests	Profit attributable to the equity holders of the parent
Nokia	242	(34)	61	270	(15)	255

Nokia's regional profit mix in the second quarter 2017 resulted in an unusually low non-IFRS tax rate of 14%. The net negative fluctuation in financial income and expenses was primarily related to foreign exchange fluctuations and lower interest income.

Sequential changes

EUR million, non-IFRS	Operating profit	Financial income and expenses	Taxes	Profit	Non-controlling interests	Profit attributable to the equity holders of the parent
Nokia	233	18	(26)	238	15	253

On a sequential basis, Nokia's regional profit mix remained similar to the first quarter 2017 and resulted in an unusually low non-IFRS tax rate of 14%. The net positive fluctuation in financial income and expenses was primarily related to gains from venture fund distributions.

NOKIA IN Q2 2017 - REPORTED

FINANCIAL DISCUSSION

Net sales

Nokia net sales increased 1% year-on-year and 4% sequentially. On a constant currency basis, Nokia net sales would have been approximately flat year-on-year and would have increased 7% sequentially.

Year-on-year discussion

The year-on-year increase in net sales in the second quarter 2017 was primarily due to Nokia Technologies, lower non-IFRS exclusions related to deferred revenue and higher net sales in Group Common and Other, partially offset by Nokia's Networks business.

Sequential discussion

The sequential increase in Nokia net sales in the second quarter 2017 was primarily due to Nokia Technologies, Nokia's Networks business and Group Common and Other.

Operating profit

Year-on-year discussion

In the second quarter 2017, the decrease in operating loss was primarily due to a net positive fluctuation in other income and expenses, higher gross profit and, to a lesser extent, lower research and development ("R&D") and selling, general and administrative ("SG&A") expenses. On a year-on-year basis, second quarter 2017 results benefitted from the absence of an adverse effect related to a customer in Latin America undergoing judicial recovery in the second quarter 2016.

The increase in gross profit was primarily due to Nokia Technologies and lower non-IFRS exclusions related to deferred revenue. This was partially offset by lower gross profit in Nokia's Networks business.

The decrease in R&D expenses was primarily due to Nokia's Networks business, partially offset by higher non-IFRS exclusions related to intangible asset amortization and purchase price related items and product portfolio strategy costs.

The decrease in SG&A expenses was primarily due to Group Common and Other and Nokia's Networks business, partially offset by higher SG&A expenses in Nokia Technologies.

Nokia's other income and expenses was an expense of EUR 162 million in the second quarter 2017, compared to an expense of EUR 636 million in the year-ago period. The net positive fluctuation was primarily related to lower non-IFRS exclusions attributable to lower restructuring and associated charges and, to a lesser extent, Nokia's Networks business. On a year-on-year basis, second quarter 2017 results benefitted from the absence of an adverse effect related to a customer in Latin America undergoing judicial recovery in the second quarter 2016.

Sequential discussion

In the second quarter 2017, the decrease in operating loss was primarily due to higher gross profit and lower R&D and SG&A expenses, partially offset by a net negative fluctuation in other income and expenses.

The increase in gross profit was primarily due to Nokia Technologies and, to a lesser extent, Group Common and Other and Nokia's Networks business. This was partially offset by higher non-IFRS exclusions related to product portfolio strategy costs.

The decrease in R&D expenses was primarily due to Nokia's Networks business and, to a lesser extent, lower non-IFRS exclusions related to lower product portfolio strategy costs and lower R&D expenses in Group Common and Other.

The decrease in SG&A expenses was primarily due to Nokia's Networks business and Nokia Technologies, partially offset by higher non-IFRS exclusions related to transaction and integration costs.

Nokia's other income and expenses was an expense of EUR 162 million in the second quarter 2017, compared to an expense of EUR 69 million in the first quarter 2017. The net negative fluctuation was primarily due to higher restructuring and associated charges, higher product portfolio strategy costs and Nokia Technologies. This was partially offset by Nokia's Networks business.

Profit/(Loss) attributable to the equity holders of the parent

Year-on-year discussion

In the second quarter 2017, the decrease in loss attributable to the equity holders of the parent was primarily due to lower operating loss, partially offset by higher taxes and a net negative fluctuation in financial income and expenses.

The net negative fluctuation in financial income and expenses was primarily due to non-IFRS exclusions related to Nokia's tender offer to purchase 6.50% notes due January 15, 2028, the 6.45% notes due March 15, 2029 and the 5.375% notes due May 15, 2019. The purpose of these transactions was to optimize Nokia's debt maturity profile, to lower average interest expense run rate and to eliminate subsidiary level external debt. In addition, the second quarter 2017 was negatively affected by foreign exchange fluctuations and lower interest income.

The change in taxes from a benefit in the second quarter 2016 to an expense in the second quarter 2017 was primarily due to a non-recurring change to uncertain tax positions and a non-recurring tax expense related to deferred tax valuation allowance. In the second quarter 2017, Nokia recorded a EUR 206 million tax expense related to an uncertain tax position in Germany. The matter relates to the disposal of the former Alcatel Lucent railway signaling business in 2006 to Thales (see note 12, "Income Taxes" of our Annual Report for 2016). Based on new facts and circumstances, management has reassessed the probability of having to pay the taxes and concluded that recognition of an uncertain tax position was warranted at the end of the second quarter 2017.

Sequential discussion

In the second quarter 2017, the decrease in loss attributable to the equity holders of the parent was primarily due to lower operating loss and a net positive fluctuation in non-controlling interests, partially offset by a net negative fluctuation in financial income and expenses and higher taxes.

The net negative fluctuation in financial income and expenses was primarily due to higher non-IFRS exclusions related to Nokia's tender offer to purchase the 6.50% notes due January 15, 2028, the 6.45% notes due March 15, 2029 and the 5.375% notes due May 15, 2019. The purpose of these transactions was to optimize Nokia's debt maturity profile, to lower average interest expense run rate and to eliminate subsidiary level external debt. This was partially offset by gains related to venture fund investments.

The higher taxes were primarily due to a non-recurring change to uncertain tax positions and a non-recurring tax expense related to deferred tax valuation allowance, partially offset by the absence of a non-recurring tax expense related to the integration of the former Alcatel-Lucent and Nokia operating models. In the second quarter 2017, Nokia recorded a EUR 206 million tax expense related to an uncertain tax position in Germany. The matter relates to the disposal of the former Alcatel Lucent railway signaling business in 2006 to Thales (see note 12, "Income Taxes" of our Annual Report for 2016). Based on new facts and circumstances, management has reassessed the probability of having to pay the taxes and concluded that recognition of an uncertain tax position was warranted at the end of the second quarter 2017.

The net positive fluctuation in non-controlling interests was primarily related to the absence of a non-recurring income in a partly-owned subsidiary in the first quarter 2017.

Description of non-IFRS exclusions in Q2 2017

Non-IFRS exclusions consist of costs related to the acquisition of Alcatel-Lucent and related integration, goodwill impairment charges, intangible asset amortization and purchase price related items, restructuring and associated charges, and certain other items that may not be indicative of Nokia's underlying business performance. For additional details, please refer to note 2, "Non-IFRS to reported reconciliation", in the Financial statement information section in this report.

EUR million	Q2'17	Q2'16	YoY change	Q1'17	QoQ change
Net sales	(11)	(93)	(88)%	(11)	0%
Gross profit	(114)	(174)	(34)%	(71)	61%
R&D	(173)	(162)	7%	(184)	(6)%
SG&A	(151)	(154)	(2)%	(138)	9%
Other income and expenses	(182)	(602)	(70)%	(74)	146%
Operating (loss)/profit	(620)	(1 092)	(43)%	(468)	32%
Financial income and expenses	(156)	(3)	5 100%	(64)	144%
Taxes	(98)	200		(106)	(8)%
(Loss)/Profit	(873)	(896)	(3)%	(638)	37%
(Loss)/Profit attributable to the shareholders of the parent	(873)	(862)	1%	(669)	30%
Non-controlling interests	(1)	(34)	(97)%	31	

Non-IFRS exclusions in net sales

In the second quarter 2017, non-IFRS exclusions in net sales amounted to EUR 11 million, and related to a purchase price allocation adjustment related to a reduced valuation of deferred revenue that existed on Alcatel-Lucent's balance sheet at the time of the acquisition.

Non-IFRS exclusions in operating profit

In the second quarter 2017, non-IFRS exclusions in operating profit amounted to EUR 620 million, and were primarily due to non-IFRS exclusions that negatively affected gross profit, R&D, SG&A and other income and expenses as follows:

In the second quarter 2017, non-IFRS exclusions in gross profit amounted to EUR 114 million, and were primarily due to product portfolio strategy costs related to the acquisition of Alcatel-Lucent, and the deferred revenue.

In the second quarter 2017, non-IFRS exclusions in R&D expenses amounted to EUR 173 million, and were primarily due to the amortization of intangible assets resulting from the acquisition of Alcatel-Lucent and, to a lesser extent, product portfolio strategy costs related to the acquisition of Alcatel-Lucent.

In the second quarter 2017, non-IFRS exclusions in SG&A expenses amounted to EUR 151 million, and were primarily due to the amortization of intangible assets resulting from the acquisition of Alcatel-Lucent and integration and transaction related costs.

In the second quarter 2017, non-IFRS exclusions in other income and expenses amounted to EUR 182 million, and were primarily due to restructuring and associated charges for Nokia's cost reduction and efficiency improvement initiatives and, to a lesser extent, product portfolio strategy costs.

Non-IFRS exclusions in profit/(loss) attributable to the equity holders of the parent

In the second quarter 2017, non-IFRS exclusions in profit/(loss) attributable to the equity holders of the parent amounted to EUR 873 million, and were primarily due to the non-IFRS exclusions affecting operating profit, in addition to non-IFRS exclusions that negatively affected financial income and expenses and taxes as follows:

In the second quarter 2017, non-IFRS exclusions in financial income and expenses amounted to EUR 156 million, and related to Nokia's tender offer to purchase the 6.50% notes due January 15, 2028, the 6.45% notes due March 15, 2029 and the 5.375% notes due May 15, 2019.

In the second quarter 2017, non-IFRS exclusions in taxes amounted to EUR 98 million, and were primarily due to a non-recurring change to uncertain tax positions and a non-recurring tax expense related to deferred tax valuation allowance. This was partially offset by a tax benefit of EUR 184 million related to non-IFRS exclusions in operating profit and financial income and expenses.

Cost savings program

The following table summarizes the financial information related to our cost savings program, as of the end of the second quarter 2017. Balances related to previous Nokia and Alcatel-Lucent restructuring and cost savings programs have been included as part of this overall cost savings program as of the second quarter 2016.

In EUR million, approximately	Q2'17
Opening balance of restructuring and associated liabilities	720
+ Charges in the quarter	170
- Cash outflows in the quarter	140
= Ending balance of restructuring and associated liabilities	750
of which restructuring provisions	670
of which other associated liabilities	80
Total expected restructuring and associated charges	1 700
- Cumulative recorded	1 000
= Charges remaining to be recorded	700
Total expected restructuring and associated cash outflows	2 150
- Cumulative recorded	700
= Cash outflows remaining to be recorded	1 450

The following table summarizes our full year 2016 results and future expectations related to our cost savings program and network equipment swaps.

	Actual	Expected amounts for			
In EUR million, approximately rounded to the nearest EUR 50 million	2016	FY 2017 as of the end of	FY 2018 as of the end of	FY 2019 and beyond as of the end of	Total as of the end of

		Q1'17	Q2'17	Q1'17	Q2'17	Q1'17	Q2'17	Q1'17	Q2'17
Total cost savings	550	250	250	400	400	0	0	1 200	1 200
- operating expenses	*350*	*100*	*100*	*350*	*350*	*0*	*0*	*800*	*800*
- cost of sales	*200*	*150*	*150*	*50*	*50*	*0*	*0*	*400*	*400*
Restructuring and associated charges	750	750	750	200	200	0	0	1 700	1 700
Restructuring and associated cash outflows	400	750	750	550	550	450	450	2 150	2 150
Charges and cash outflows related to network equipment swaps	150	450	450	300	300	0	0	900	900

In full year 2016, the actual total cost savings benefitted from lower incentive accruals, related to the financial performance in full year 2016. Lower incentive accruals drove more than half of the higher than previously expected decrease in total costs in 2016, and this is expected to reverse in 2017, assuming full year 2017 financial performance in-line with our expectations. On a cumulative basis, Nokia continues to be on track to achieve the targeted EUR 1.2 billion of total cost savings in full year 2018.

OUTLOOK

	Metric	Guidance	Commentary
Nokia	Annual cost savings for Nokia, excluding Nokia Technologies	Approximately EUR 1.2 billion of total annual cost savings to be achieved in full year 2018[1]	Compared to the combined non-IFRS operating costs of Nokia and Alcatel-Lucent for full year 2015, excluding Nokia Technologies. Nokia expects approximately EUR 800 million of the cost savings to come from operating expenses and approximately EUR 400 million from cost of sales. Restructuring and associated charges are expected to total approximately EUR 1.7 billion. Restructuring and associated cash outflows are expected to total approximately EUR 2.15 billion.
	Network equipment swaps	Approximately EUR 900 million in total[1]	The charges related to network equipment swaps are being recorded as non-IFRS exclusions, and therefore do not affect Nokia's non-IFRS operating profit.
	Non-IFRS financial income and expenses	Expense of approximately EUR 250 million in full	Primarily includes net interest expenses related to interest-bearing liabilities and defined benefit pension and other post-employment benefit plans, as well as the impact of foreign exchange rate fluctuations on

		year 2017	certain balance sheet items. Nokia expects cash outflows related to non-IFRS financial income and expenses to be approximately EUR 200 million in full year 2017.
	Non-IFRS tax rate	Between 25% and 30% for full year 2017 (update)	Nokia's non-IFRS tax rate in full year 2017 is expected to be influenced by factors including regional profit mix (new commentary). (This is an update to earlier guidance and commentary for non-IFRS tax rate for full year 2017 to be around the midpoint of a 30% to 35% range.) Nokia expects cash outflows related to taxes to be approximately EUR 800 million for full year 2017. (This is an update to the earlier commentary for cash outflows related to taxes to be approximately EUR 600 million for full year 2017. The update is due to a non-recurring tax item.[2])
	Capital expenditures	Approximately EUR 500 million in full year 2017	Primarily attributable to Nokia's Networks business.
Nokia's Networks business	Net sales	Decline in line with the primary addressable market in full year 2017	We currently expect market conditions for 2017 to be slightly more challenging than earlier anticipated (new commentary). Nokia's outlook for net sales and operating margin for Nokia's Networks business in full year 2017 are expected to be influenced by factors including: • A 3 to 5 percent decline in the primary addressable market for Nokia's Networks business (This is an update to earlier commentary for a low single digit percentage decline.); • Uncertainty related to the timing of completions and acceptances of certain projects, particularly in the second half of 2017 (new commentary); • Competitive industry dynamics; • Product and regional mix; • The timing of major network deployments; • Execution of cost savings and reinvestment plans, with operating expenses down on a year-on-year basis; and • The level of R&D investment needed to maintain product competitiveness and accelerate 5G (new commentary); The outlook for Nokia's Networks business is provided assuming constant foreign exchange rates.
	Operating margin	8-10% in full year 2017	

Nokia Technologies	Net sales	Not provided	Due to risks and uncertainties in determining the timing and value of significant licensing agreements, Nokia believes it is not appropriate to provide an annual outlook for full year 2017. For patent and brand licensing, Nokia is now disclosing net sales on a quarterly basis, rather than providing an annualized net sales run rate. Nokia expects total net sales from digital health and digital media to grow year-on-year in full year 2017, primarily influenced by increased consumer adoption of our digital health and digital media products.

[1]For further details related to the cost savings and network equipment swaps guidance, please refer to the "Cost savings program" section above.

[2]For further details related to the non-recurring tax item, please refer to the "Nokia in Q2 2017 - Reported" section above.

RISKS AND FORWARD-LOOKING STATEMENTS

It should be noted that Nokia and its businesses are exposed to various risks and uncertainties and certain statements herein that are not historical facts are forward-looking statements, including, without limitation, those regarding: A) our ability to integrate Alcatel-Lucent into our operations and achieve the targeted business plans and benefits, including targeted synergies in relation to the acquisition of Alcatel-Lucent; B) expectations, plans or benefits related to our strategies and growth management; C) expectations, plans or benefits related to future performance of our businesses; D) expectations, plans or benefits related to changes in organizational and operational structure; E) expectations regarding market developments, general economic conditions and structural changes; F) expectations and targets regarding financial performance, results, operating expenses, taxes, currency exchange rates, hedging, cost savings and competitiveness, as well as results of operations including targeted synergies and those related to market share, prices, net sales, income and margins; G) expectations, plans or benefits related to any future collaboration or to the business collaboration agreement and the patent license agreement between Nokia and Apple announced on May 23, 2017, including income to be received under any collaboration or partnership or agreement; H) timing of the deliveries of our products and services; I) expectations and targets regarding collaboration and partnering arrangements, joint ventures or the creation of joint ventures, and the related administrative, legal, regulatory and other conditions, as well as our expected customer reach; J) outcome of pending and threatened litigation, arbitration, disputes, regulatory proceedings or investigations by authorities; K) expectations regarding restructurings, investments, capital structure optimization efforts, uses of proceeds from transactions, acquisitions and divestments and our ability to achieve the financial and operational targets set in connection with any such restructurings, investments, capital structure optimization efforts, divestments and acquisitions; and L) statements preceded by or including "believe," "expect," "anticipate," "foresee," "sees," "target," "estimate," "designed," "aim," "plans," "intends," "focus," "continue," "project," "should," "is to," "will" or similar expressions. These statements are based on management's best assumptions and beliefs in light of the information currently available to it. Because they involve risks and uncertainties, actual results may differ materially from the results that we currently expect. Factors, including risks and uncertainties that could cause these differences include, but are not limited to: 1) our ability to execute our strategy, sustain or improve the operational and financial performance of our business and correctly identify and successfully pursue business opportunities or growth; 2) our ability to achieve the anticipated benefits, synergies, cost savings and efficiencies of the acquisition of Alcatel-Lucent, and our ability to implement our organizational and operational structure efficiently; 3) general economic and market conditions and other developments in the economies where we operate; 4) competition and our ability to effectively and profitably compete and invest in new competitive high-quality products, services, upgrades and technologies and bring them to market in a timely manner; 5) our dependence on the development of the industries in which we operate, including the cyclicality and variability of the information technology and telecommunications industries; 6) our global business and exposure to regulatory, political or other developments in various countries or regions, including emerging markets and the associated risks in relation to tax matters and exchange controls, among others; 7) our ability to manage and improve our financial and operating performance, cost savings, competitiveness and synergies generally or after the acquisition of Alcatel-Lucent; 8) our dependence on a limited number of customers and large multi-year agreements; 9) exchange rate fluctuations, as well as hedging activities; 10) Nokia Technologies' ability to protect its IPR and to maintain and establish new sources of patent licensing income and IPR-related revenues, particularly in the smartphone market; 11) our ability to successfully realize the expectations, plans or benefits related to any future collaboration or to the business collaboration agreement and the patent license agreement between Nokia and Apple announced on May 23, 2017, including income to be received under any collaboration or partnership or agreement; 12) our dependence on IPR technologies, including those that we have developed and those that are licensed to us, and the risk of associated IPR-related legal claims, licensing costs and restrictions on use; 13) our exposure to direct and indirect regulation, including economic or trade policies, and the reliability of our governance, internal controls and compliance processes to prevent regulatory penalties in our business or in our joint ventures; 14) our ability to identify and remediate material weaknesses in our internal control over financial reporting; 15) our reliance on third-party solutions for data storage and service distribution, which expose us to risks relating to security, regulation and cybersecurity breaches; 16) inefficiencies, breaches, malfunctions or disruptions of information technology systems; 17) Nokia Technologies' ability to generate net sales and profitability through licensing of the Nokia brand, particularly in digital media and digital health, and the development and sales of products and services, as well as other business ventures which may not materialize as planned; 18) our exposure to various legislative frameworks and jurisdictions that regulate fraud and enforce economic trade sanctions and policies, and the possibility of proceedings or investigations that result in fines, penalties or sanctions; 19) adverse developments with respect to customer financing or extended payment terms we provide to customers; 20) the potential complex tax issues, tax disputes and tax obligations we may face in various jurisdictions, including the risk of obligations to pay additional taxes; 21) our actual or anticipated performance, among other factors, which could reduce our ability to utilize deferred tax assets; 22) our ability to retain, motivate, develop and recruit appropriately skilled employees; 23) disruptions to our manufacturing, service creation, delivery, logistics and supply chain processes, and the risks related to our geographically-concentrated production sites; 24) the impact of litigation, arbitration, agreement-related disputes or product liability allegations associated with our business; 25) our ability to optimize our capital structure as planned and re-establish our investment grade credit rating or otherwise improve our credit ratings; 26) our ability to achieve targeted benefits from or successfully achieve the required administrative, legal, regulatory and other conditions and implement planned transactions, as well as the liabilities related thereto; 27) our involvement in joint ventures and jointly-managed companies; 28) the carrying amount of our goodwill may not be recoverable; 29) uncertainty related to the amount of dividends and equity return we are able to distribute to shareholders for each financial period; 30) pension costs, employee fund-related costs, and healthcare costs; and 31) risks related to undersea infrastructure, as well as the risk factors specified on pages 67 to 85 of our 2016 annual report on Form 20-F under "Operating and financial review and prospects-Risk factors" and in our other filings with the U.S. Securities and Exchange Commission. Other unknown or unpredictable factors or underlying assumptions subsequently proven to be incorrect could cause actual results to differ materially from those in the forward-looking statements. We do not undertake any obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

The financial report was authorized for issue by management on July 26, 2017.

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- Nokia plans to publish its third quarter 2017 results on October 26, 2017.