Nokia Corporation Financial Report for Q4 and full-year 2017

Nokia Corporation
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Strong results driven by growth and solid performance in Nokia's Networks business and record net sales in Nokia Technologies

- Nokia's Board of Directors will propose a dividend of EUR 0.19 per share for 2017 (EUR 0.17 for 2016).
- Nokia's Board of Directors is committed to proposing a growing dividend, including for 2018.

This is a summary of the Nokia Corporation financial report for Q4 and full-year 2017 published today. The complete financial report for Q4 and full-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 Q4 2017 of EUR 6.7bn (EUR 6.7bn in Q4 2016). Reported net sales in Q4 2017 of EUR 6.7bn (EUR 6.7bn in Q4 2016). On a constant currency basis, non-IFRS net sales increased 5% and reported net sales increased 6%, with 2% growth in Nokia's Networks business and 80% growth in Nokia Technologies.
- Solid non-IFRS gross margin of 41.4% (42.2% in Q4 2016) and strong non-IFRS operating margin of 15.1% in Q4 2017 (14.0% in Q4 2016), with resilience in Nokia's Networks business and strong performance in Nokia Technologies. Reported gross margin of 39.0% (40.3% in Q4 2016) and reported operating margin of 6.3% in Q4 2017 (4.8% in Q4 2016).
- Non-IFRS diluted EPS in Q4 2017 of EUR 0.13 (EUR 0.12 in Q4 2016) and EUR 0.33 in 2017 (EUR 0.22 in 2016). Reported diluted EPS in Q4 2017 of negative EUR 0.07 (EUR 0.11 in Q4 2016) and negative EUR 0.26 in 2017 (negative EUR 0.13 in 2016). In Q4 2017, reported diluted EPS was adversely affected by approximately EUR 0.13 due to re-measurement of deferred tax assets following the change in tax rates, primarily in the United States.

- Strong cash performance in Q4 2017, with a EUR 1.8 billion sequential increase in net cash to EUR 4.5 billion, resulting from strong net working capital management.

Nokia's Networks business

- 2% net sales growth at constant currency in Q4 2017 was driven by IP Networks and Applications and by Ultra Broadband Networks. The large year-on-year variations in foreign exchange rates had a negative impact on reported net sales, with net sales down 4% compared to the year-ago period.
- Strong operational discipline produced a solid Q4 2017 gross margin of 37.6%, and an operating margin of 11.1%.
- Results for full year 2017 (4% decrease in net sales on a constant currency basis and an operating margin of 8.3%) consistent with our guidance for full year 2017.

Nokia Technologies

- 79% year-on-year net sales increase and 146% year-on-year operating profit increase in Q4 2017, primarily related to new license agreements. Approximately EUR 210 million of the net sales in Q4 2017 (zero in Q4 2016) were non-recurring in nature and related to catch-up net sales, of which approximately EUR 80 million related to 2017 and EUR 130 million related to the prior years.

57% year-on-year net sales increase and 94% year-on-year operating profit increase in 2017, primarily related to new license agreements and settled arbitrations. Approximately EUR 300 million of the net sales in 2017 (zero in 2016) were non-recurring in nature and related to catch-up net sales for prior years.

Nokia Outlook for 2018 and 2020

Nokia targets a non-IFRS diluted EPS of EUR 0.23 to 0.27 in full year 2018 and EUR 0.37 to 0.42 in full year 2020.

Please refer to the full details and other targets in the Outlook section.

Fourth quarter and January-December 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)	Q4'17	Q4'16	YoY change	Q3'17	QoQ change	Q1-Q4'17	Q1-Q4'16	YoY change
Net sales (non-IFRS)	6 668	6 731	(1)%	5 537	20%	23 223	23 972	*(3)%*
change in constant currency			*5%*		*21%*			*(1)%*
Nokia's Networks business	5 827	6 086	(4)%	4 823	21%	20 523	21 830	(6)%
change in constant currency			*2%*		*22%*			*(4)%*

Ultra Broadband Networks	2 471	2 586	(4)%	2 099	18%	8 970	9 758	(8)%
change in constant currency			*2%*		*19%*			*(6)%*
Global Services	1 642	1 759	(7)%	1 359	21%	5 810	6 036	(4)%
change in constant currency			*(1)%*		*22%*			*(2)%*
IP Networks and Applications	1 714	1 740	(1)%	1 365	26%	5 742	6 036	(5)%
change in constant currency			*5%*		*27%*			*(3)%*
Nokia Technologies	554	309	79%	483	15%	1 654	1 053	57%
change in constant currency			*80%*		*15%*			*57%*
Group Common and Other	302	340	(11)%	251	20%	1 115	1 142	(2)%
change in constant currency			*(12)%*		*19%*			*(5)%*
Gross profit (non-IFRS)	2 762	2 842	(3)%	2 365	17%	9 674	9 657	0%
Gross margin % (non-IFRS)	*41.4%*	*42.2%*	*(80)bps*	*42.7%*	*(130)bps*	*41.7%*	*40.3%*	*140bps*
Operating profit (non-IFRS)	1 004	940	7%	668	50%	2 587	2 172	19%

Nokia's Networks business	647	858	(25)%	334	94%	1 711	1 943	(12)%
Ultra Broadband Networks	267	333	(20)%	78	242%	781	922	(15)%
Global Services	121	230	(47)%	110	10%	411	406	1%
IP Networks and Applications	259	294	(12)%	146	77%	519	615	(16)%
Nokia Technologies	389	158	146%	390	0%	1 124	579	94%
Group Common and Other	(31)	(76)	(59)%	(56)	(45)%	(248)	(350)	(29)%
Operating margin % (non-IFRS)	*15.1%*	*14.0%*	*110bps*	*12.1%*	*300bps*	*11.1%*	*9.1%*	*200bps*
Financial income and expenses (non-IFRS) [2]	(73)	(72)	1%	(63)	16%	(280)	(246)	14%
Taxes (non-IFRS) [2]	(232)	(204)	14%	(90)	158%	(443)	(695)	(36)%
Profit (non-IFRS)	716	676	6%	516	39%	1 875	1 250	50%
Profit attributable to the equity holders of the parent (non-IFRS)	709	672	6%	514	38%	1 869	1 276	46%
Non-controlling interests (non-	6	4	50%	2		6	(26)	

IFRS)								
EPS, EUR diluted (non-IFRS)	0.13	0.12	8%	0.09	44%	0.33	0.22	50%

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

EUR million (except for EPS in EUR)	Q4'17	Q4'16	YoY change	Q3'17	QoQ change	Q1-Q4'17	Q1-Q4'16	YoY change
Net Sales - constant currency			*6%*		*22%*			*0%*
Net sales	6 651	6 657	0%	5 500	21%	23 147	23 641	(2)%
Nokia's Networks business	5 827	6 086	(4)%	4 823	21%	20 523	21 830	(6)%
Ultra Broadband Networks	2 471	2 586	(4)%	2 099	18%	8 970	9 758	(8)%
Global Services	1 642	1 759	(7)%	1 359	21%	5 810	6 036	(4)%
IP Networks and Applications	1 714	1 740	(1)%	1 365	26%	5 742	6 036	(5)%

Nokia Technologies	554	309	79%	483	15%	1 654	1 053	57%
Group Common and Other	302	340	(11)%	251	20%	1 115	1 142	(2)%
Non-IFRS exclusions	(17)	(74)	(77)%	(38)	(55)%	(75)	(331)	(77)%
Gross profit	2 593	2 683	(3)%	2 185	19%	9 139	8 524	7%
Gross margin %	*39.0%*	*40.3%*	*(130)bps*	*39.7%*	*(70)bps*	*39.5%*	*36.1%*	*340bps*
Operating profit/(loss)	419	317	32%	(230)	(282)%	16	(1 100)	(101)%
Nokia's Networks business	647	858	(25)%	334	94%	1 711	1 943	(12)%
Ultra Broadband Networks	267	333	(20)%	78	242%	781	922	(15)%
Global Services	121	230	(47)%	110	10%	411	406	1%
IP Networks and Applications	259	294	(12)%	146	77%	519	615	(16)%
Nokia Technologies	389	158	146%	390	0%	1 124	579	94%
Group Common and Other	(31)	(76)	(59)%	(56)	(45)%	(248)	(350)	(29)%
Non-IFRS exclusions	(585)	(622)	(6)%	(898)	(35)%	(2 571)	(3 272)	(21)%

Operating margin %	*6.3%*	*4.8%*	*150bps*	*(4.2)%*	*1 050bps*	*0.1%*	*(4.7)%*	*480bps*
Financial income and expenses[2]	(41)	(72)	(43)%	(63)	(35)%	(537)	(287)	87%
Taxes[2]	(772)	401		102		(927)	457	
(Loss)/Profit	(378)	658		(190)	99%	(1 437)	(912)	58%
(Loss)/Profit attributable to the equity holders of the parent	(384)	659		(192)	100%	(1 473)	(751)	96%
Non-controlling interests	6	0		2		36	(161)	
EPS, EUR diluted	(0.07)	0.11		(0.03)	133%	(0.26)	(0.13)	100%
Net cash and other liquid assets	4 514	5 299	(15)%	2 731	65%	4 514	5 299	(15)%

[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-Q4'17 result is not comparable to the reported results published previously due to reclassification of interest related to income taxes from income taxes to financial expenses. Refer to note 1, "Basis of preparation", for further details.

CEO STATEMENT

I am pleased that Nokia ended 2017 with a strong fourth quarter. We saw constant currency growth in three of our five Networks business groups as well as very strong growth in Nokia Technologies. Group profitability increased in both the quarter and the full year, and gross margin remained resilient in Networks despite the dilutive impact of robust competition in China.

This performance reflects the progress we have made since Q3 with our mobile product portfolio, and positions us well for the upcoming transition to 5G. Our recent 4G/LTE software release was the highest quality in our history; our AirScale 5G-ready base stations are shipping in volume and delivering excellent results in the field; and we are making good progress in the execution of product migrations for key customers. Shortly after the quarter ended, we launched ReefShark, our revolutionary new chipset family for mobile products, as well as our end-to-end 5G Future X architecture. Both of these provide a strong competitive advantage for Nokia.

Continued momentum in executing our strategy was also evident in the quarter. Our position with our core communication service provider market remains strong; we are seeing excellent progress in our targeted verticals; our software business is growing and now has a strong foundation; and our licensing business continues to deliver on our strategic roadmap, with expansion to another Chinese company in the quarter. We are confident that licensing will remain a powerful value driver for Nokia, with an expected recurring revenue CAGR of 10% between now and the end of 2020.

Looking forward on the Networks side, we expect our market to decline again in 2018, although at a slightly lower rate than our previous forecast, given early signs of improved conditions in North America. For 2019 and 2020, we expect market conditions to improve markedly, driven by full-scale rollouts of 5G networks. As those rollouts occur, Nokia is remarkably well-positioned. Unlike previous generations of technology, 5G requires a coordinated, holistic approach across all network elements, far beyond radio. That requirement plays to the strength of our end-to-end portfolio and our 5G Future X architecture.

As a result of the acceleration of investment in 5G due to the opportunity provided by the accelerated timeframe of 5G deployments, Nokia's operating margin will come under some pressure in 2018. That investment, combined with continued strong execution of our strategy to expand to new vertical segments, build a standalone software business, and maximize the value of our licensing business, will allow us to target improved results in 2020. Therefore, the Board is committed to propose a growing dividend, including for 2018.

For the full-year 2020, we expect earnings per share of EUR 0.37 to EUR 0.42, strongly positive free cash flow, and a group-level, non-IFRS operating margin in the range of 12-16%. If we execute our strategy well, the high-end of that operating margin range is certainly possible.

As we work to deliver that sharply improved performance, we will do so in a very Nokia way: disciplined execution, relentless focus on costs and a commitment to innovation and technological leadership for our customers.

Rajeev Suri
President and CEO

OUTLOOK

	Metric	Guidance	Commentary
Nokia	Non-IFRS operating margin	9-11% for full year 2018 and 12-16% for full	Nokia expects non-IFRS operating margin and non-IFRS diluted earnings per share to expand between full

	year 2020	year 2018 and full year 2020 primarily due to: 1. Improved results in Nokia's Networks business, which are expected from: Improved scale, as commercial 5G network deployments are expected to begin in 2019 and increase in 2020; Targeted growth
Non-IFRS diluted earnings per share	EUR 0.23 - 0.27 in full year 2018 and EUR 0.37 - 0.42 in full year 2020	

opportunities in attractive adjacent markets;

Building a strong standalone software business;

Improved R&D productivity resulting from new ways of working and the reduction of legacy platforms over time; and

The lack of a negative impact to our results related to approximately EUR 100 million of temporary incremental expenses to support 5G customer trials, which we expect to incur in 2018;

2. Improved results in Nokia Technologies,

which are expected from:

- New patent licensing agreements with smartphone vendors, automotive companies and consumer electronics companies; and
- Results in brand and technology licensing; and

		3. Lower Nokia support function costs, including IT and site costs within Nokia's Networks business and Group Common and Other.
Dividend	Approximately 40% to 70% of non-IFRS EPS on a long-term basis	Nokia's Board of Directors is committed to proposing a growing dividend, including for 2018. On a long-term basis, Nokia targets to grow the dividend by distributing approximately 40% to 70% of non-IFRS EPS, taking into account Nokia's cash position and expected cash flow generation.
Recurring free cash flow	Slightly positive in full year 2018	Recurring free cash flow is expected to improve over the

	and clearly positive in full year 2020	longer-term, due to lower cash outflows related to restructuring and network equipment swaps[1] and improved operational results over time.
Recurring annual cost savings for Nokia, excluding Nokia Technologies	Approximately EUR 1.2 billion of recurring annual cost savings in full year 2018, of which approximately EUR 800 million are expected from operating[1] expenses	Relative to the combined non-IFRS cost of sales and operating expenses of Nokia and Alcatel-Lucent for full year 2015, excluding Nokia Technologies. The combined operating expenses of Nokia and Alcatel-Lucent for full year 2015, excluding Nokia Technologies, were approximately EUR 7.3 billion. As a result of the acceleration of 5G and in the interest of our long-term strategy, in 2018 we expect to incur approximately EUR 100 million of temporary incremental expenses related to 5G customer trials that will partially reduce the positive impact from the recurring

		annual cost savings. (new commentary)
Network equipment swaps	Approximately EUR 1.4 billion of charges and cash[1] outflows in total	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. As of the end of the fourth quarter 2017, approximately EUR 600 million of charges and cash outflows have been incurred in total.
Non-IFRS financial income and expenses	Expense of approximately EUR 300 million in full year 2018 and over the longer-term	Nokia's outlook for non-IFRS financial income and expenses in full year 2018 and over the longer-term is expected to be influenced by factors including: Net interest expenses related to interest-bearing liabilities and defined

		benefit pension and other post-employment benefit plans; Foreign exchange fluctuations and hedging costs; and Expenses related to the sale of receivables.
Non-IFRS tax rate	Approximately 30% for full year 2018 and 25% over the longer-term	Nokia's outlook for non-IFRS tax rate for full year 2018 and over the longer-term is expected to be influenced by factors including the absolute level of profits, regional profit mix and any further changes to our operating model. Nokia expects cash outflows

			related to taxes to be approximately EUR 450 million in full year 2018 and over the longer-term until Nokia's US or Finnish deferred tax assets are fully utilized.
	Capital expenditures	Approximately EUR 700 million in full year 2018 and approximately EUR 600 million over the longer-term	Primarily attributable to Nokia's Networks business, and consistent with the depreciation of property, plant and equipment over the longer-term.
Nokia's Networks business	Net sales	Decline approximately in-line with its primary addressable market in 2018 and grow faster than its primary addressable market over the longer-term	For Nokia's Networks business, Nokia expects net sales to grow faster than its primary addressable market over the longer-term and operating margin to expand between full year 2018 and full year 2020 primarily due to:

Operating margin	6-9% for full year 2018 and 9-12% for full year 2020	Improved scale, as commercial 5G network deployments are expected to begin in 2019 and increase in 2020; Focus on targeted growth opportunities in attractive adjacent markets; Building a strong standalone software business;

Improved R&D productivity resulting from new ways of working and the reduction of legacy platforms over time;

The lack of a negative impact to our results related to approximately EUR 100 million of temporary incremental expenses to support 5G customer trials, which we expect to incur in 2018; and

Lower support function costs, including IT and site costs.

Nokia's outlook for net sales and operating margin for Nokia's Networks business is expected to be influenced by factors including:

An approximately 2 to 4 percent decline in the primary addressable market for Nokia's Networks business in full year 2018, compared to 2017, on a constant currency basis (This is an update to earlier commentary for a 2 to 5 percent decline.);

A negative impact to reported net sales, particularly in first half 2018, due to foreign exchange headwinds;

Uncertainty related to the timing of completions and acceptances of certain projects particularly in the first half of 2018;

Uncertainty related to potential mergers or acquisitions by our customers;

Competitive industry dynamics;

			Product and regional mix; The timing of major network deployments; and The level of R&D investment needed to maintain product competitiveness.
Nokia Licensing within Nokia Technologies	Recurring net sales	Grow at a compound annual growth rate (CAGR) of approximately 10% over the 3-year period ending 2020	Due to risks and uncertainties in determining the timing and value of significant patent, brand and technology licensing agreements, Nokia believes it is not appropriate to provide annual outlook ranges for Nokia Licensing within Nokia Technologies. Although annual results are difficult to forecast, Nokia

Operating margin	Expand to approximately 85% for full year 2020	expects net sales growth and operating margin expansion over the 3-year period ending 2020. In full year 2017, licensing net sales were approximately EUR 1.6 billion, of which approximately EUR 300 million were non-recurring in nature and related to catch-up net sales for prior years. Nokia's outlook for net sales and operating margin for Nokia Licensing within Nokia Technologies is expected to be influenced by factors including: The timing and value of new patent licensing agreements with smartphone vendors, automotive companies and

consumer electronics companies;

Renegotiation of expiring patent licensing agreements;

Increases or decreases in net sales related to existing patent licensees;

Results in brand and technology licensing;

Costs to protect and enforce our intellectual

property rights;
and
The regulatory landscape.

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. Non-IFRS operating profit is also used in determining management remuneration. 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. In order to allow full visibility on determining non-IFRS results, information on non-IFRS exclusions is presented separately for each of the components of profit or loss. 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.

NOKIA IN Q4 2017 - NON-IFRS

Non-IFRS net sales and non-IFRS operating profit

Nokia non-IFRS net sales decreased 1% year-on-year and increased 20% sequentially. On a constant currency basis, Nokia non-IFRS net sales would have increased 5% year-on-year and increased 21% sequentially.

A discussion of our results within Nokia's Networks business, Nokia Technologies and Group Common and Other is included in the sections "Nokia's Networks business", "Nokia Technologies" and "Group Common and Other" below.

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	(259)	(4)%	(297)	(2)	52	36	(211)	(300)bps
Nokia Technologies	245	79%	237	14	(22)	2	231	1 910bps
Group Common and Other	(38)	(11)%	(20)	14	(1)	50	45	1 210bps
Eliminations	(13)		0	0	0	0	0	
Nokia	(63)	(1)%	(80)	26	29	88	64	110bps

On a year-on-year basis, foreign exchange fluctuations had a significantly negative impact on non-IFRS gross profit, a positive impact on non-IFRS operating expenses and a slightly negative net impact on non-IFRS operating profit in the fourth quarter 2017.

Sequential 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	1 004	21%	333	(35)	24	(10)	313	420bps
Nokia Technologies	71	15%	51	2	(60)	6	(1)	(1 050)bps
Group Common and Other	51	20%	13	(1)	(11)	24	25	1 200bps
Eliminations	4		0	0	0	0	0	
Nokia	1 131	20%	397	(35)	(47)	20	336	300bps

On a sequential basis, foreign exchange fluctuations had a slightly negative impact on non-IFRS gross profit, a slightly positive impact on non-IFRS operating expenses and a slightly positive net impact on non-IFRS operating profit in the fourth quarter 2017.

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	64	(1)	(28)	40	(2)	37

Non-IFRS financial income and expenses

The approximately flat financial income and expenses was primarily due to net negative foreign exchange fluctuations, offset by the absence of impairment charges related the performance of certain private funds investing in intellectual property rights ("IPR"), which negatively affected the fourth quarter 2016.

Non-IFRS taxes

The increase in non-IFRS taxes, compared to the fourth quarter 2016, was primarily due to a higher absolute level of profit and a higher non-IFRS tax rate. In the fourth quarter 2017, non-IFRS tax rate increased to 24%, compared to 23% in the fourth quarter 2016, primarily due to Nokia's regional profit mix.

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	336	(10)	(142)	200	(4)	195

Non-IFRS financial income and expenses

The net negative fluctuation in financial income and expenses was primarily due to lower income related to gains from venture fund investments, which positively affected the third quarter 2017 and foreign exchange fluctuations, partially offset by the absence of an impairment charge related to the performance of certain private funds investing in IPR, which negatively affected the third quarter 2017.

Non-IFRS taxes

The increase in non-IFRS taxes, compared to the third quarter 2017, was primarily due to a higher non-IFRS tax rate and a higher absolute level of profit. In the fourth quarter 2017, non-IFRS tax rate increased to 24%, compared to 15% in the third quarter 2017, primarily due to Nokia's regional profit mix and absolute level of profit.

NOKIA IN Q4 2017 - REPORTED

FINANCIAL DISCUSSION

Net sales

Nokia net sales were approximately flat year-on-year and increased 21% sequentially. On a constant currency basis, Nokia net sales would have increased 6% year-on-year and increased 22% sequentially.

Year-on-year discussion

The approximately flat year-on-year net sales in the fourth quarter 2017 were primarily due to a decrease in Nokia's Networks business and Group Common and Other, partially offset by growth Nokia Technologies and lower non-IFRS exclusions 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.

Sequential discussion

The sequential increase in Nokia net sales in the fourth quarter 2017 was primarily due to Nokia's Networks business and, to a lesser extent, Nokia Technologies, Group Common and Other and lower non-IFRS exclusions related to product portfolio strategy costs.

Operating profit

Year-on-year discussion

The increase in operating profit was primarily due to a net positive fluctuation in other income and expenses, lower research and development ("R&D") expenses and lower selling, general and administrative ("SG&A") expenses, partially offset by lower gross profit.

The decrease in gross profit was primarily due to Nokia's Networks business and, to a lesser extent, Group Common and Other, partially offset by Nokia Technologies.

The decrease in R&D expenses was primarily due to lower non-IFRS exclusions, Group Common and Other and Nokia Technologies.

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

The net positive fluctuation in Nokia's other income and expenses was primarily related to Group Common and Other, Nokia's Networks business and lower non-IFRS exclusions.

In the fourth quarter 2017, Nokia recorded a non-cash impairment charge to other income and expenses of EUR 32 million related to acquired intangible assets.

Sequential discussion

In the fourth quarter 2017, Nokia recorded an operating profit, compared to an operating loss in the third quarter 2017. The change was primarily due to higher gross profit and a net positive fluctuation in other income and expenses, partially offset by higher SG&A expenses and, to a lesser extent, higher R&D expenses.

The increase in gross profit was primarily due to Nokia's Networks business and, to a lesser extent, Nokia Technologies.

The increase in R&D expenses was primarily due to Nokia's Networks business, partially offset by lower non-IFRS exclusions.

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

The net positive fluctuation in Nokia's other income and expenses was primarily due to lower non-IFRS exclusions attributable to lower restructuring and associated charges and impairment charges and, to a lesser extent, Group Common and Other.

In the fourth quarter 2017, Nokia recorded a non-cash impairment charge to other income and expenses of EUR 32 million related to acquired intangible assets. In the third quarter 2017, Nokia recorded a non-cash charge to other income and expenses of EUR 141 million, due to the impairment of goodwill related to its digital health business, which is part of Nokia Technologies.

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

Year-on-year discussion

In the fourth quarter 2017, Nokia recorded a loss attributable to the equity holders of the parent, compared to a profit in the fourth quarter 2016. The change was primarily due to an increase in taxes, partially offset by an increase in operating profit.

The change in taxes from a benefit in the fourth quarter 2016 to an expense in the fourth quarter 2017 was primarily due to deferred tax expenses of EUR 738 million from re-measurement of deferred tax assets primarily resulting from the tax rate change in the United States and the absence of a non-recurring tax benefit of EUR 439 million related to the operating model integration, which benefitted the fourth quarter 2016.

Sequential discussion

The increase in loss attributable to the equity holders of the parent was primarily due to a tax expense in the fourth quarter 2017, compared to a tax benefit in the third quarter 2017. This was partially offset by an operating profit in the fourth quarter 2017, compared to an operating loss in the third quarter 2017.

The change in taxes from a benefit in the third quarter 2017, to an expense in the fourth quarter 2017, was primarily due to deferred tax expenses of EUR 738 million from re-measurement of deferred tax assets primarily resulting from the tax rate change in the United States.

Description of non-IFRS exclusions in Q4 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	Q4'17	Q4'16	YoY change	Q3'17	QoQ change
Net sales	(17)	(74)	(77)%	(38)	(55)%
Gross profit	(169)	(159)	6%	(181)	(7)%
R&D	(157)	(185)	(15)%	(177)	(11)%
SG&A	(163)	(162)	1%	(139)	17%
Other income and expenses	(96)	(116)	(17)%	(401)	(76)%
Operating profit/(loss)	(585)	(622)	(6)%	(898)	(35)%

Financial income and expenses	32	0		0	
Taxes	(540)	605		192	
(Loss)/Profit	(1 094)	(17)	6 335%	(706)	55%
(Loss)/Profit attributable to the shareholders of the parent	(1 094)	(13)	8 315%	(706)	55%
Non-controlling interests	0	(5)	(100)%	0	0%

Non-IFRS exclusions in net sales

In the fourth quarter 2017, non-IFRS exclusions in net sales amounted to EUR 17 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 fourth quarter 2017, non-IFRS exclusions in operating profit amounted to EUR 585 million and were due to non-IFRS exclusions that adversely affected gross profit, R&D expenses, SG&A expenses and other income and expenses as follows:

In the fourth quarter 2017, non-IFRS exclusions in gross profit amounted to EUR 169 million and were primarily due to product portfolio strategy costs related to the acquisition of Alcatel-

Lucent.

In the fourth quarter 2017, non-IFRS exclusions in R&D expenses amounted to EUR 157 million and were primarily due to the amortization of intangible assets resulting from the acquisition of Alcatel-Lucent.

In the fourth quarter 2017, non-IFRS exclusions in SG&A expenses amounted to EUR 163 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 fourth quarter 2017, non-IFRS exclusions in other income and expenses amounted to EUR 96 million and were primarily due to restructuring and associated charges for Nokia's cost reduction and efficiency improvement initiatives and a EUR 32 million impairment charge.

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

In the fourth quarter 2017, non-IFRS exclusions in profit/(loss) attributable to the equity holders of the parent amounted to EUR 1 094 million and were primarily due to the non-IFRS exclusions affecting operating profit, in addition to non-IFRS exclusions that adversely affected financial income and expenses and taxes as follows:

In the fourth quarter 2017, non-IFRS exclusions in financial income and expenses amounted to EUR 32 million and were due to a change in the fair value of the financial liability to acquire

Nokia Shanghai Bell ("NSB") non-controlling interest and the loss on sale of financial assets.

In the fourth quarter 2017, non-IFRS exclusions in taxes amounted to EUR 540 million and were primarily due to deferred tax expenses of EUR 738 million from re-measurement of deferred tax assets primarily resulting from the tax rate change in the United States, partially offset by a tax benefit related to non-IFRS exclusions in operating profit.

Cost savings program

The following table summarizes the financial information related to our cost savings program, as of the end of the fourth 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	Q4'17
Opening balance of restructuring and associated liabilities	880
+ Charges in the quarter	60
- Cash outflows in the quarter	130
= Ending balance of restructuring and associated liabilities	810

of which restructuring provisions	720
of which other associated liabilities	90
Total expected restructuring and associated charges	1 900
- Cumulative recorded	1 320
= Charges remaining to be recorded	580
Total expected restructuring and associated cash outflows	2 250
- Cumulative recorded	960
= Cash outflows remaining to be recorded	1 290

The following table summarizes our full year 2016 and 2017 results and future expectations related to our cost savings program and network equipment swaps.

	Actual	Actual	Actual	Expected amounts for		

In EUR million, approximately rounded to the nearest EUR 50 million	2016	2017	Cumulative	FY 2018 as of the end of		FY 2019 and beyond as of the end of		Total as of the end of	
				Q3'17	Q4'17	Q3'17	Q4'17	Q3'17	Q4'17
Recurring annual cost savings	550	250	800	400	400	0	0	1 200	1 200
- operating expenses	*350*	*150*	*500*	*300*	*300*	*0*	*0*	*800*	*800*
- cost of sales	*200*	*100*	*300*	*100*	*100*	*0*	*0*	*400*	*400*
Restructuring and associated charges	750	550	1 300	500	600	0	0	1 900	1 900
Restructuring and associated cash outflows	400	550	950	650	650	600	650	2 250	2 250
Charges related to network equipment swaps	150	450	600	550	650	150	150	1 400	1 400
Cash outflows related to network equipment swaps	150	450	600	500	650	150	150	1 400	1 400

On a cumulative basis, Nokia continues to be on track to achieve the targeted EUR 1.2 billion of recurring annual cost savings in full year 2018.

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 acquired businesses into our operations and achieve the targeted business plans and benefits, including targeted benefits, synergies, cost savings and efficiencies; 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 business collaboration agreements or patent license agreements or arbitration awards, including income to be received under any collaboration or partnership, agreement or award; 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) general economic and market conditions and other developments in the economies where we operate; 3) 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; 4) our dependence on the development of the industries in which we operate, including the cyclicality and variability of the information technology and telecommunications industries; 5) our dependence on a limited number of customers and large multi-year agreements; 6) 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; 7) 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; 8) our ability to achieve the anticipated benefits, synergies, cost savings and efficiencies of acquisitions, including the acquisition of Alcatel Lucent, and our ability to implement changes to our organizational and operational structure efficiently; 9) our ability to manage and improve our financial and operating performance, cost savings, competitiveness and synergies generally and after the acquisition of Alcatel Lucent; 10) exchange rate fluctuations, as well as hedging activities; 11) our ability to successfully realize the expectations, plans or benefits related to any future collaboration or business collaboration agreements and patent license agreements or arbitration awards, including income to be received under any collaboration, partnership, agreement or arbitration award; 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, technology licensing and the development and sales of products and services for instance in digital health, 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 or documents furnished 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 January 31, 2018.

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Nokia plans to publish its "Nokia in 2017" annual report, which includes the review by the Board of Directors and the audited annual accounts, in week 12 of 2018. The annual report will be available at www.nokia.com/financials.

Nokia plans to publish its first quarter 2018 results on April 26, 2018.

Nokia's Annual General Meeting 2018 is planned to be held on May 30, 2018.

Nokia plans to publish its second quarter and half year 2018 results on July 26, 2018.

Nokia plans to publish its third quarter and January-September 2018 results on October 25, 2018.

About Nokia

We create the technology to connect the world. Powered by the research and innovation of Nokia Bell Labs, we serve communications service providers, governments, large enterprises and consumers, with the industry's most complete, end-to-end portfolio of products, services and licensing.

From the enabling infrastructure for 5G and the Internet of Things, to emerging applications in digital health, we are shaping the future of technology to transform the human experience. www.nokia.com