Nokia Corporation Financial Report for Q3 and January-September 2019

Nokia Corporation
Interim report
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Solid Q3 and expected strong Q4; Lowering full year 2019 and full year 2020 outlook due to margin pressure and additional investment needs

- Strong performance in Nokia Software, Nokia Enterprise and IP routing
- 5G momentum continues; 48 deals and 15 live networks launched
- Dividend payments paused to increase investments in 5G and strategic focus areas and to strengthen cash position

Long term target operating margin of 12-14% supported by our end-to-end portfolio, diversification and patent licensing

This is a summary of the Nokia Corporation financial report for Q3 and January-September 2019 published today. The complete financial report for Q3 and January-September 2019 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 financial reports with tables.

RAJEEV SURI, PRESIDENT AND CEO, ON Q3 2019 RESULTS

Nokia delivered a solid third quarter, with positive free cash flow; widespread sales growth; solid operating margin; strong performances in Nokia Enterprise, Nokia Software and IP Routing; and good progress towards meeting our 2019 cost reduction goals. We are proud to have launched 15 live 5G networks with customers, including Sprint, Verizon, AT&T and T-Mobile in the US; Vodafone Italy and Zain in Saudi Arabia; as well as SKT, KT and LGU+ in Korea.

Many of our businesses are performing well and we expect Q4 to be strong, with a robust operating margin and an increase in net cash of approximately EUR 1.2 billion. At the same time, some of the risks that we flagged previously related to the initial phase of 5G are now materializing. In particular, our Q3 gross margin was impacted by product mix; a high cost level associated with our first generation 5G products; profitability challenges in China; pricing pressure in early 5G deals; and uncertainty related to the announced operator merger in North America.

We expect that we will be able to progressively mitigate these issues over the course of next year. To do so, we will increase investment in 5G in order to accelerate product roadmaps and product cost reductions, and in the digitalization of internal processes to improve overall productivity. We will also continue to invest in our enterprise and software businesses, which are developing rapidly and performing well. Given these investments and the risks we see materializing, we are adjusting our targets for full-year 2019 and 2020; and we expect our recovery to drive improvement in our 2021 financial performance relative to 2020.

I am confident that our strategy remains the right one. We continue to focus on leadership in high-performance end-to-end networks with Communication Service Providers; strong growth in enterprise; strengthening our software business; and diversification of licensing into IoT and consumer electronics.

As I look to the future, it is clear to me that Nokia has some unique advantages. We have a powerful, end-to-end portfolio that allows us to benefit from 5G investments across all network domains. We have a demonstrated ability to drive value and cash flow through product leadership. We have successful diversification into enterprise and software well underway. We have a large patent licensing business that is sustainable and cash generative over time, with opportunities to enter new growth segments. We have meaningful opportunities to drive further cost reductions through digitalization and automation.

These advantages give me confidence in our ability to create value for our shareholders and achieve our longer-term operating margin target.

Q3 2019 and January-September 2019 reported and non-IFRS results. Refer to note 1, “Basis of Preparation”, note 2, "Non-IFRS to reported reconciliation" and note 13, "Performance measures", in the "Financial statement information" section for details.

EUR million (except for EPS in EUR)	Q3'19	Q3'18	YoY change	*Constant currency YoY change*	Q1-Q3'19	Q1-Q3'18	YoY change	*Constant currency YoY change*
Net sales	5 686	5 458	4%	*1%*	16 412	15 695	5%	*2%*
Operating profit/(loss)	264	(54)			(318)	(611)		
Operating margin %	4.6%	(1.0)%	560bps		(1.9)%	(3.9)%	200bps	

EPS, diluted	0.01	(0.02)			(0.10)	(0.13)	
Operating profit/(loss) (non-IFRS)	*478*	*487*	*(2)%*		*869*	*1 060*	*(18)%*
Operating margin % (non-IFRS)	*8.4%*	*8.9%*	*(50)bps*		*5.3%*	*6.7%*	*(140)bps*
EPS, diluted (non-IFRS)	*0.05*	*0.06*	*(17)%*		*0.07*	*0.10*	*(30)%*
Net cash and current financial investments[1]	344	1 879	(82)%		344	1 879	(82)%

[1]Net cash and current financial investments does not include lease liabilities.

Net sales in Q3 2019 were EUR 5.7 billion, compared to EUR 5.5 billion in Q3 2018. On a constant currency basis, net sales increased 1%. Our solid overall topline performance was driven by improved industry demand and the competitiveness of our end-to-end portfolio, with growth across four out of six regions and all customer types.

Non-IFRS diluted EPS in Q3 2019 was EUR 0.05, compared to EUR 0.06 in Q3 2018, primarily driven by lower gross profit in Networks and a net negative fluctuation in financial income and expenses. This was partially offset by higher gross profit in Nokia Software and continued progress related to Nokia's cost savings program, which resulted in lower operating expenses across Networks, Nokia Software and Nokia Technologies.

Reported diluted EPS in Q3 2019 was EUR 0.01, compared to negative EUR 0.02 in Q3 2018, primarily driven by continued progress related to Nokia's cost savings program and a gain on defined benefit plan amendments, partially offset by higher income taxes.

In Q3 2019, net cash and current financial investments decreased sequentially by approximately EUR 160 million. Within this, we generated positive net cash from operating activities, which partially offset cash outflows from investing and financing activities, including the payment of the quarterly dividend.

Full year 2019 and full year 2020 outlook lowered primarily due to margin pressure, additional 5G investments and additional digitalization investments.

NOKIA'S LONGER TERM VALUE DRIVERS

1. Unique end-to-end portfolio	Nokia's unique end-to-end portfolio will drive stronger share of wallet with service provider and enterprise customers. Portfolio allows Nokia to benefit from virtuous 5G investment cycle in multiple capital expenditure domains (mobile access, fixed access, IP routing, optical networks and software).

2. Value through product leadership	Nokia has a demonstrated ability to create value and drive cash flow through product leadership. Examples include FP4-based routing and PSE-3 based optical products, best-performing 4G networks, automated services, leading small cell and fixed wireless access portfolio.
3. Successful diversification strategy	Nokia’s successful diversification into high growth enterprise business and medium growth software business is well underway. Both are meaningfully accretive opportunities for our margins, as well as our cash position.
4. Sustainable patent licensing	Nokia’s strong and constantly growing patent portfolio provides long-term, highly profitable and cash generative opportunities, including extension into new segments, including multiple IoT verticals and consumer electronics.
5. Structural cost reductions	Nokia has identified additional opportunities for meaningful cost reductions spanning both cost of sales and operating expenses, which will also help to drive improved cash performance. Opportunities include: reductions enabled by digitalization and automation of processes, product cost innovation (such as System on Chip in mobile, common software foundation in Nokia Software), ongoing R&D efficiencies and related site consolidation and improved product serviceability.

DIVIDEND

Beginning with the distribution for the financial year 2018, Nokia started paying dividends in quarterly instalments. Under the authorization by the Annual General Meeting held on May 21, 2019, the Board of Directors may resolve an aggregate maximum annual distribution of EUR 0.20 per share to be paid quarterly during the authorization period, unless the Board decides otherwise for a justified reason. On the same day, the Board resolved to distribute EUR 0.05 per share as the first instalment of the dividend. On July 25, 2019, the Board resolved to distribute EUR 0.05 per share as the second instalment of the dividend.

On October 24, 2019, the Board resolved to not distribute the third and fourth quarterly instalments of the dividend for the financial year 2018, in order to: a) guarantee Nokia’s ability to increase 5G investments, b) continue investing in growth in strategic focus areas of enterprise and software and c) strengthen Nokia’s cash position. This is in accordance with Nokia’s dividend policy, which states that dividend decisions are made taking into account Nokia’s cash position and expected cash flow generation. Over the long term, Nokia continues to target to deliver an earnings-based dividend. The Board will seek a dividend authorization from the next Annual General Meeting, and will continue to review dividend distributions on a quarterly basis. The Board expects to resume dividend distributions after Nokia’s net cash position improves to approximately EUR 2 billion.

OUTLOOK

Full Year 2019	Metric
Non-IFRS diluted earnings per share	EUR 0.21 plus or minus 3 cents (updated from EUR 0.25 - 0.29), which mathematically implies a Q4 2019 non-IFRS diluted EPS midpoint of approximately EUR 0.135
Non-IFRS operating margin	8.5% plus or minus 1 percentage point (updated from 9 - 12%), which mathematically implies a Q4 2019 non-IFRS operating margin midpoint of approximately 16.5%
Recurring free cash flow[1]	Somewhat negative (updated from slightly positive), which mathematically implies a sequential increase in net cash to approximately EUR 1.5 billion at the end of 2019
Full Year 2020	
Non-IFRS diluted earnings per share	EUR 0.25 plus or minus 5 cents (updated from EUR 0.37 - 0.42)
Non-IFRS operating margin	9.5% plus or minus 1.5 percentage points (updated from 12 - 16%)
Recurring free cash flow[1]	Positive (updated from clearly positive)
Long term (3 to 5 years)	
Non-IFRS operating margin	12 – 14% (new)
Annual distribution to shareholders	An earnings-based growing dividend of approximately 40% to 70% of non-IFRS diluted

EPS, taking into account Nokia's cash position and expected cash flow generation. The annual distribution would be paid as quarterly dividends.

[1]Free cash flow = net cash from operating activities - capital expenditures + proceeds from sale of property, plant and equipment and intangible assets – purchase of non-current financial investments + proceeds from sale of non-current financial investments.

Key drivers of Nokia's outlook

Net sales and operating margin for Networks and Nokia Software are expected to be influenced by factors including:

Our expectation that we will perform approximately in-line with our primary addressable market in full year 2019 and full year 2020, as we further prioritize profitability and cash, while continuing to drive growth in our Nokia Software and Nokia Enterprise businesses. (This is an update to earlier commentary to outperform our primary addressable market in full year 2019 and over the longer-term.) On a constant currency basis, we expect our primary addressable market to grow slightly in full year 2019, and for growth to continue in full year 2020;

Competitive intensity has increased in some accounts as some competitors seek to take share in the early stage of 5G, which is particularly impacting Mobile Access. (This is an update to earlier commentary that competitive intensity could increase);

Additional 5G investments focused on accelerating our product roadmaps and cost competitiveness. Investment areas include System on Chip based 5G hardware, including diversifying and strengthening the related supplier base (new commentary);

Additional digitalization investments focused on driving automation and productivity, including further simplification of IT tools and operational processes (new commentary);

Temporary capital expenditure constraints in North America related to customer merger activity, as well as other potential mergers or acquisitions by our customers (This is an update to earlier commentary for potential mergers or acquisitions by our customers);

The timing of completions and acceptances of certain projects, particularly related to 5G. Based on the evolving readiness of the 5G ecosystem and the staggered nature of 5G rollouts in lead countries, we expect full year 2019 will have seasonality characterized by a particularly weak first quarter, a strong second quarter, a solid third quarter and an expected strong fourth quarter (This is an update to earlier commentary for an expected soft third quarter and an expected particularly strong fourth quarter);

Some customers are reassessing their vendors in light of security concerns, creating near-term pressure to invest in order to secure long-term benefits;

Our expectation that we will improve our R&D productivity and reduce support function costs through the successful execution of our cost savings program;

Our product and regional mix, including the impact of the high cost level associated with our first generation 5G products (This is an update to our earlier commentary, providing additional details); and

Macroeconomic, industry and competitive dynamics.

Net sales and operating margin for Nokia Technologies is expected to be influenced by factors including:

The timing and value of new and existing patent licensing agreements with smartphone vendors, automotive companies and consumer electronics companies;

Results in brand and technology licensing;

Costs to protect and enforce our intellectual property rights; and

The regulatory landscape.

Additionally, our outlook is based on the following assumptions:

Nokia's recurring free cash flow is expected to improve over the longer-term due to lower cash outflows related to restructuring and network equipment swaps and improved operational results over time;

Non-IFRS financial income and expenses to be an expense of approximately EUR 400 million in full year 2019 and approximately EUR 350 million over the longer-term (This is an update to earlier commentary for non-IFRS financial income and expenses to be an expense of approximately EUR 350 million in full year 2019);

Non-IFRS income taxes at a rate of approximately 28% in full year 2019 and approximately 25% over the longer-term, subject to the absolute level of profits, regional profit mix and changes to our operating model;

Cash outflows related to income taxes of approximately EUR 500 million in full year 2019 and approximately EUR 450 million over the longer term until our US or Finnish deferred tax assets are fully utilized. (This is an update to earlier commentary for cash outflows related to income taxes of approximately EUR 450 million in full year 2019); and

Capital expenditures of approximately EUR 700 million in full year 2019 and approximately EUR 600 million over the longer-term.

NOKIA FINANCIAL RESULTS

EUR million (except for EPS in EUR)	Q3'19	Q3'18	YoY change	*Constant currency YoY change*	Q1-Q3'19	Q1-Q3'18	YoY change	*Constant currency YoY change*
Net sales	5 686	5 458	4%	*1%*	16 412	15 695	5%	*2%*

Networks	4 434	4 265	4%	*1%*	12 770	12 129	5%	*2%*
Nokia Software	677	623	9%	*5%*	1 898	1 775	7%	*3%*
Nokia Technologies	358	351	2%	*2%*	1 112	1 077	3%	*2%*
Group Common and Other	236	236	0%	*0%*	720	768	(6)%	*(6)%*
Non-IFRS exclusions	(2)	(4)	(50)%		(29)	(13)	123%	
Gross profit	1 969	2 019	(2)%		5 614	5 684	(1)%	
Operating profit/(loss)	264	(54)			(318)	(611)	(48)%	
Networks	128	178	(28)%		(7)	258	(103)%	
Nokia Software	156	75	108%		286	117	144%	
Nokia	294	290	1%		919	856	7%	

Technologies						
Group Common and Other	(100)	(56)		(329)	(171)	
Non-IFRS exclusions	(214)	(541)	(60)%	(1 187)	(1 671)	(29)%
Operating margin %	4.6%	(1.0)%	560bps	(1.9)%	(3.9)%	200bps
Gross profit (non-IFRS)	*2 006*	*2 141*	*(6)%*	*5 765*	*6 120*	*(6)%*
Operating profit/(loss) (non-IFRS)	*478*	*487*	*(2)%*	*869*	*1 060*	*(18)%*
Operating margin % (non-IFRS)	*8.4%*	*8.9%*	*(50)bps*	*5.3%*	*6.7%*	*(140)bps*
Financial income and expenses	(98)	(60)	63%	(326)	(224)	46%

Income taxes	(80)	(15)	433%	108	89	21%
Profit/(loss) for the period	87	(127)		(545)	(752)	(28)%
EPS, diluted	0.01	(0.02)	(150)%	(0.10)	(0.13)	(23)%
Financial income and expenses (non-IFRS)	*(113)*	*(48)*	*135%*	*(291)*	*(247)*	*18%*
Income taxes (non-IFRS)	*(101)*	*(133)*	*(24)%*	*(161)*	*(275)*	*(41)%*
Profit/(loss) for the period (non-IFRS)	*267*	*309*	*(14)%*	*409*	*532*	*(23)%*
EPS, diluted (non-IFRS)	*0.05*	*0.06*	*(17)%*	*0.07*	*0.10*	*(30)%*

Results are as reported and relate to continuing operations 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 note 2, "Non-IFRS to reported reconciliation", in the notes to the Financial statement information in this report. Change in net sales at constant currency excludes the effect 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.

Net sales by region

EUR million	Q3'19	Q3'18	YoY change	*Constant currency YoY change*	Q1-Q3'19	Q1-Q3'18	YoY change	*Constant currency YoY change*
Asia-Pacific	1 198	1 050	14%	*9%*	3 173	2 892	10%	*6%*
Europe	1 614	1 520	6%	*6%*	4 725	4 573	3%	*3%*
Greater China	425	540	(21)%	*(23)%*	1 374	1 543	(11)%	*(12)%*
Latin America	341	323	6%	*2%*	1 005	927	8%	*6%*

Middle East & Africa	402	432	(7)%	*(9)%*	1 257	1 310	(4)%	*(6)%*
North America	1 705	1 594	7%	*2%*	4 877	4 449	10%	*4%*
Total	5 686	5 458	4%	*1%*	16 412	15 695	5%	*2%*

Net sales by customer type

EUR million	Q3'19	Q3'18	YoY change	*Constant currency YoY change*	Q1-Q3'19	Q1-Q3'18	YoY change	*Constant currency YoY change*
Communication service providers	4 780	4 632	3%	*0%*	13 742	13 111	5%	*1%*
Enterprise	333	256	30%	*27%*	910	796	14%	*12%*
Licensees	358	351	2%	*2%*	1 112	1 052	6%	*4%*
Other[1]	215	219	(2)%	*(1)%*	648	736	(12)%	*(12)%*

Total	5 686	5 458	4%	*1%*	16 412	15 695	5%	2%

[1] Includes net sales of Alcatel Submarine Networks (ASN) and Radio Frequency Systems (RFS), both of which are being managed as separate entities, and certain other items, such as eliminations of inter-segment revenues and certain items related to purchase price allocation. ASN and RFS net sales include also revenue from communications service providers and enterprise customers.

Our Nokia Enterprise business is performing well. Net sales to enterprise customers, excluding the third party integration business that we are exiting, grew 29% on a reported basis and 26% on a constant currency basis in Q3 2019, and grew 14% on a reported basis and 12% on a constant currency basis in the first nine months of 2019.

Nokia, Q3 2019 compared to Q3 2018, non-IFRS

Nokia non-IFRS net sales grew 4% as our customers continued to invest in their networks in preparation for the rise in broadband traffic driven by 5G. On a constant currency basis, Nokia non-IFRS net sales grew 1%.

Our solid overall topline performance in Q3 2019 reflected improved industry demand and the competitiveness of our end-to-end portfolio, with growth across four out of six regions and all customer types. In Q3 2019, we continued to make progress with our strategy to diversify and grow, with strong performance in Nokia Software and with enterprise customers.

The strong growth in Nokia Software net sales was primarily due to the timing of completions and acceptances of certain projects. To a lesser extent, net sales also benefitted from Nokia Software's improved product and go-to-market capabilities, with growth in both core networks and applications.

The strong growth in net sales to enterprise customers was primarily driven by increased demand for mission-critical networking solutions in industries including utilities and the public sector, with continued momentum in private wireless solutions. Net sales also benefitted from the timing of completions and acceptances of certain projects.

The overall decrease in Nokia non-IFRS gross profit was primarily due to lower gross margin in Networks. We experienced relatively high 5G product costs in Networks, as well as elevated levels of deployment services, consistent with being in the initial phase of 5G. This was partially offset by net sales growth in both Networks and Nokia Software, as well as higher gross margin in Nokia Software. In Q3 2019, Nokia non-IFRS gross profit benefitted from lower incentive accruals.

The decrease in Nokia non-IFRS operating profit was driven by the lower non-IFRS gross profit, partially offset by continued progress related to Nokia's cost savings program. In Q3 2019, Nokia non-IFRS operating profit benefitted from lower incentive accruals.

Nokia, January-September 2019 compared to January-September 2018, reported

Nokia net sales grew 5% in the first nine months of 2019 as our customers continued to invest in their networks in preparation for the rise in broadband traffic driven by 5G. On a constant currency basis, Nokia net sales grew 2% in the first nine months of 2019. Excluding approximately EUR 80 million of one-time licensing net sales in the first nine months of 2019 and EUR 20 million in the first nine months of 2018, Nokia net sales grew 4%.

Our solid overall topline performance in the first nine months 2019 reflected improved industry demand and the competitiveness of our end-to-end portfolio, with growth across four out of six regions and all customer types. In the first nine months of 2019, we continued to make progress with our strategy to diversify and grow, with strong performance in Nokia Software and with enterprise customers.

The overall decrease in Nokia gross profit in the first nine months of 2019 was primarily due to lower gross margin in Networks. We experienced relatively high 5G product costs in Networks, as well as elevated levels of deployment services, consistent with being in the initial phase of 5G. This was partially offset by lower costs related to network equipment swaps, net sales growth in both Networks and Nokia Software, as well as higher gross margin in Nokia Software. In the first nine months of 2019, Nokia gross profit benefitted from lower incentive accruals.

The decrease in Nokia operating loss in the first nine months of 2019 was driven by continued progress related to Nokia's cost savings program, a gain on defined benefit plan amendments and lower restructuring and associated charges, partially offset by the lower gross profit. In the first nine months of 2019, Nokia operating loss benefitted from lower incentive accruals.

CASH AND CASH FLOW IN Q3 2019

In Q3 2019, Nokia's free cash flow was positive EUR 299 million, driven by:

- Adjusted net profit of EUR 769 million;
- Cash outflows related to net working capital primarily due to a decrease in liabilities, partially offset by a decrease in receivables;
- Continued cash outflows related to restructuring; and
- Capital expenditures and income taxes.

Nokia has established a free cash flow program to ensure company-wide focus on free cash flow and release of working capital, including project asset optimization, review of contract terms & conditions, as well as supply chain and inventory optimization. Senior leaders of Nokia have a significant part of their incentives tied to free cash flow improvement targets in 2019 and beyond.

EUR million, at end of period	Q3'19	Q2'19	QoQ change	Q4'18	YTD change
Total cash and current financial investments	4 824	4 788	1%	6 873	(30)%
Net cash and current financial investments[1]	344	502	(31)%	3 053	(89)%

[1] Net cash and current financial investments does not include lease liabilities. For details, please refer to note 7, "Net cash and current financial investments", and note 13, "Performance measures", in the "Financial statement information" section in this report.

During the third quarter 2019, Nokia’s total cash and current financial investments (“total cash”) increased by EUR 36 million and Nokia’s net cash and current financial investments (“net cash”) decreased by EUR 158 million.
Foreign exchange rates had an approximately EUR 30 million negative impact on net cash.

In the third quarter 2019, net cash from operating activities was EUR 464 million:

- Nokia’s adjusted profit before changes in net working capital was EUR 769 million in the third quarter 2019.
- In the third quarter 2019, Nokia generated a decrease in net cash related to net working capital of approximately EUR 150 million. Excluding approximately EUR 100 million of

restructuring and associated cash outflows, Nokia generated an approximately EUR 50 million decrease in net cash related to net working capital. This decrease was due to a decrease in liabilities, partially offset by a decrease in receivables. Inventories were approximately flat in the quarter.

The decrease in receivables was approximately EUR 390 million, and was primarily due to improved collections achieved through higher sale of receivables. In the normal course of business, to manage our credit risk and working capital cycle, Nokia sells trade receivables to various financial institutions without recourse.

The decrease in liabilities was approximately EUR 440 million, and was primarily due to a decrease in deferred revenues and advance payments, a decrease in liabilities related to employee benefits and a decrease in accounts payable.

In addition, cash taxes amounted to an outflow of approximately EUR 110 million.

The implementation of IFRS 16 positively impacted our net cash used in operating activities and negatively impacted our net cash from financing activities, both by approximately EUR 60 million.

In the third quarter 2019, net cash used in investing activities primarily related to capital expenditures of approximately EUR 190 million.

In the third quarter 2019, net cash used in financing activities primarily related to paying the second quarterly instalment of the dividend and the withholding taxes related to the first instalment, totaling approximately EUR 320 million and lease payments of approximately EUR 60 million following the implementation of IFRS 16.

COST SAVINGS PROGRAM

We expect our most recent cost savings program to result in a net EUR 500 million reduction of non-IFRS operating expenses and production overheads (“fixed costs”) in full year 2020 compared to full year 2018, of which EUR 350 million is expected to come from operating expenses and EUR 150 million is expected to come from cost of sales. This reflects a EUR 150 million reduction in our expected operating expense savings and a EUR 50 million reduction in our expected cost of sales savings. The change from a net EUR 700 million reduction to a net EUR 500 million reduction is primarily due to our expectation to make additional 5G investments and additional digitalization investments.

Note that, since the announcement of our most recent cost savings program on October 25, 2018, net foreign exchange fluctuations have resulted in an increase in estimated full year 2020 fixed costs of approximately EUR 180 million, creating an additional headwind to achieve the earlier net reduction.

The following table summarizes the financial information related to our cost savings program as of the end of the third quarter 2019.

In EUR million, approximately[1]	Q3'19
Balance of restructuring and associated liabilities for prior programs	750
+ Charges in the quarter	70
- Cash outflows in the quarter	100
= Ending balance of restructuring and associated liabilities	720
of which restructuring provisions	*520*
of which other associated liabilities	*200*
Total expected restructuring and associated charges, related to our most recent cost savings program *(rounded to the nearest EUR 50 million)*	900
- Cumulative recorded	440

= Charges remaining to be recorded	460
Total expected restructuring and associated cash outflows *(rounded to the nearest EUR 50 million)*	1 550
- Cumulative recorded	340
= Cash outflows remaining to be recorded	1 210

[1] Balances related to previous restructuring and cost savings programs have been included as part of this cost savings program. At the beginning of Q1 2019, the balance of restructuring and associated liabilities related to prior cost savings programs was approximately EUR 630 million. This amount is included in the total expected restructuring and associated cash outflows of EUR 1 550 million, rounded to the nearest EUR 50 million, in addition to the approximately EUR 900 million of expected cash outflows related to our most recent cost savings program.

The table below includes future expectations related to our most recent cost savings program, as well as the remaining cash outflows related to our previous programs and network equipment swaps. Please note that we exclude the impact of lower incentive accruals from our definition of “Recurring annual cost savings”.

In the first nine months of 2019, excluding the impact of the incentive accruals, we achieved approximately EUR 180 million of structural fixed costs savings, compared to the first nine months of 2018. Despite net foreign exchange fluctuations resulting in an increase in estimated full year 2019 fixed costs of approximately EUR 130 million, we are well on our way to meet the cost reduction targets for 2019.

	Expected amounts for			
In EUR million, approximately rounded to the nearest EUR 50 million	FY 2019	FY 2020	Beyond FY 2020	Total
Recurring annual cost savings	200	300	-	500
- operating expenses	*150*	*200*	-	*350*
- cost of sales	*50*	*100*	-	*150*
Restructuring and associated charges	500	400	-	900

Restructuring and associated cash outflows	550	450	550	1 550
Charges related to network equipment swaps	150	-	-	150
Cash outflows related to network equipment swaps	150	-	-	150

The expected timeline for the related cash outflows has been adjusted, with expected cash outflows in full year 2019 moving from EUR 700 million to EUR 550 million, expected cash outflows in full year 2020 moving from EUR 350 million to EUR 450 million and expected cash outflows beyond 2020 moving from EUR 500 million to EUR 550 million. The related restructuring charges are expected to total EUR 900 million.

OPERATIONAL HIGHLIGHTS

Nokia showed robust momentum in Q3 2019 across its key markets and around the globe, particularly in 5G, where Nokia's technology is now present in all regions in the world.

In the first pillar of our strategy, leading in high-performance, end-to-end networks with communication service providers:

Nokia signed multiple 5G commercial agreements during the period and the total number of 5G commercial agreements is now 48. Over half include more than radio from our end-to-end

5G portfolio. Fifteen of those networks are now live, including Sprint and Verizon in the US.

Nokia continued to strengthen its 5G foothold in Japan, where it was selected by KDDI as a primary partner to upgrade its network for 5G. Nokia also entered into a strategic agreement with Iliad for the deployment of its 5G network in France and Italy. In New Zealand, Nokia secured a deal with Vodafone New Zealand to deploy a 5G network in the country. The network, which will be launched in Auckland, Wellington, Christchurch and Queenstown in late 2019, will include Nokia's AirScale radio access network, cloud-native core as well as design services, providing further proof of the strength of Nokia's end-to-end portfolio. Nokia also deployed its 5G portfolio in Vietnam, where Viettel and Nokia broadcasted the country's first end-to-end 5G trial network in Ho Chi Minh City.

Nokia further showcased its end-to-end 5G leadership with a new Future X Lab in Finland. The Lab will enable customers to experience Nokia's full end-to-end portfolio of 5G equipment, software and services, allowing communications service providers, enterprises and infrastructure providers to learn and understand the techno-economic power of a 5G end-to-end network to better serve their customers and unleash new value.

Several 5G deals and trials, including Smart in the Philippines, Vodafone New Zealand and Viettel, involved IP Routing and Optical Networks products.

Further showcasing its market-leading technology within IP and Optical, Nokia completed the world’s first single-carrier terabit-per-second field trial, setting an optical transmission capacity record over Etisalat’s fibre network in the United Arab Emirates.

In Fixed Access, Nokia secured several Fiber To The Home (FTTH) deals with top-tier customers. After the end of the quarter, Nokia also announced it was teaming up with Telia Company to bring its 5G Fixed Wireless Access solution to customers across Finland.

In Q3 2019, Nokia was also recognized as a ”Leader” in Managed Services by industry analyst firm GlobalData.

In the second pillar of our strategy, expanding network sales to select vertical markets needing high-performing, secure networks:

Nokia continued to strengthen its position with enterprises. Nokia worked with Telefónica Peru to enable automated, digital mining operations for Minera Las Bambas, one of the world’s largest copper mines. The five-year contract will see Nokia build, deploy and support a private LTE network 4 600 meters above sea level.

Nokia, NTT DOCOMO, INC. and OMRON Corporation agreed to conduct joint field trials using 5G at their plants and other production sites. As part of the trial, the partners will leverage 5G connectivity to prove the feasibility of a layout-free production line with Autonomous Mobile Robots (AMRs) as well as real-time coaching using AI/IoT.

Nokia was selected by RigNet to upgrade its microwave communications network which supports the mission-critical communication needs of its multiple oil and gas customers located in the Gulf of Mexico, covering more than 55,000 square miles. The network upgrade will see RigNet customers offered 4G LTE services with support for 5G services in the future.

In the third pillar of our strategy, developing a strong software business at scale:

Three UK and Nokia launched the world’s first 5G-ready fully integrated cloud core network. The new 5G-ready core network, which sits in a virtual environment, offers increased security, flexibility and cost savings, allowing Three to scale more quickly and efficiently and is a critical building block for Three to deliver the UK’s fastest 5G network.

Nokia also secured deals with major operators in North America as well as MTN of South Africa, Orangeof France and Telefonica Brazil.

Just after the quarter ended, Analysys Mason ranked Nokia as the top telecom software provider by market share. According to Analysys Mason’s findings, Nokia is significantly improving its 5G-ready mobile network management offering by evolving it to be cloud-native and including value features that communication service providers find valuable, while also expanding the capabilities and commercial customers for its leading platforms.

In the fourth pillar of our strategy, now focused primarily on licensing:

Shortly after the quarter ended, Nokia announced it has declared more than 2 000 patent families to the European Telecommunications Standards Institute (ETSI) as essential for the 5G standard, reflecting its continuing leadership in cellular technology R&D and standardization.

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. These forward-looking statements reflect Nokia's current expectations and views of future developments and include statements regarding: A) expectations, plans or benefits related to our strategies and growth management; B) expectations, plans or benefits related to future performance of our businesses and any expected future dividends; C) expectations and targets, and any mathematical analysis derived from such expectations and targets, regarding financial performance, results, the timing of receivables, 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; D) expectations, plans or benefits related to changes in organizational and operational structure; E) expectations regarding competition within our market; market developments, general economic conditions and structural change globally and in national and regional markets, such as China; F) 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; 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, including our short term and longer term expectations around the rollout of 5G, investment requirements with such rollout, and our ability to capitalize on such rollout; as well as the overall readiness of the 5G ecosystem; 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, including our current cost savings program; L) expectations, plans or benefits related to future capital expenditures, temporary incremental expenditures or other R&D expenditures to develop or rollout of software and other new products, including 5G; M) expectation regarding our customers' future capital expenditure constraints; and N) statements preceded by or including “believe”, “expect”, “expectations”, “commit”, “anticipate”, “foresee”,

“see”, “target”, “estimate”, “designed”, “aim”, “plan”, “intend”, “influence”, “assumption”, “focus”, “continue”, “project”, “should", "is to", "will” or similar expressions. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such statements. These statements are based on management’s best assumptions and beliefs in light of the information currently available to it. These forward-looking statements are only predictions based upon our current expectations and views of future events and developments and are subject to risks and uncertainties that are difficult to predict because they relate to events and depend on circumstances that will occur in the future. Factors, including risks and uncertainties that could cause these differences include, but are not limited to: 1) our strategy is subject to various risks and uncertainties and we may be unable to successfully implement our strategic plans, sustain or improve the operational and financial performance of our business groups, correctly identify or successfully pursue business opportunities or otherwise grow our business; 2) general economic and market conditions and other developments in the economies where we operate, including the timeline for the deployment of 5G and our ability to successfully capitalize on that deployment; 3) competition and our ability to effectively and profitably invest in existing and new 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 and our own R&D capabilities and investments; 5) our dependence on a limited number of customers and large multi-year agreements, as well as external events impacting our customers including mergers and acquisitions; 6) our ability to maintain our existing sources of intellectual property-related revenue through our intellectual property, including through licensing, establish new sources of revenue and protect our intellectual property from infringement; 7) our ability to manage and improve our financial and operating performance, cost savings, competitiveness and synergies generally, expectations and timing around our ability to recognize any net sales and our ability to implement changes to our organizational and operational structure efficiently; 8) 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; 9) our ability to achieve the anticipated benefits, synergies, cost savings and efficiencies of acquisitions; 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) Nokia Technologies' ability to protect its IPR and to maintain and establish new sources of patent, brand and technology licensing income and IPR-related revenues, particularly in the smartphone market, which may not materialize as planned, 13) 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; 14) 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; 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, or our customers' security concerns; 17) our exposure to various legal frameworks regulating corruption, fraud, trade policies, and other risk areas, and the possibility of proceedings or investigations that result in fines, penalties or sanctions; 18) adverse developments with respect to customer financing or extended payment terms we provide to customers; 19) 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; 20) our actual or anticipated performance, among other factors, which could reduce our ability to utilize deferred tax assets; 21) our ability to retain, motivate, develop and recruit appropriately skilled employees; 22) disruptions to our manufacturing, service creation, delivery, logistics and supply chain processes, and the risks related to our geographically-concentrated production sites; 23) the impact of litigation, arbitration, agreement-related disputes or product liability allegations associated with our business; 24) our ability to re-establish investment grade rating or maintain our credit ratings; 25) our ability to achieve targeted benefits from, or successfully implement planned transactions, as well as the liabilities related thereto; 26) our involvement in joint ventures and jointly-managed companies; 27) the carrying amount of our goodwill may not be recoverable; 28) uncertainty related to the amount of dividends and equity return we are able to distribute to shareholders for each financial period; 29) pension costs, employee fund-related costs, and healthcare costs; 30) our ability to successfully complete and capitalize on our order backlogs and continue converting our sales pipeline into net sales; and 31) risks related to undersea infrastructure, as well as the risk factors specified on pages 60 to 75 of our 2018 annual report on Form 20-F published on March 21, 2019 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.

This financial report was authorized for issue by management on October 24, 2019.

- Nokia plans to publish its fourth quarter and full year 2019 results on February 6, 2020.

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About Nokia

We create the technology to connect the world. We develop and deliver the industry's only end-to-end portfolio of network equipment, software, services and licensing that is available globally. Our customers include communications service providers whose combined networks support 6.1 billion subscriptions, as well as enterprises in the private and public sector that use our network portfolio to increase productivity and enrich lives.

Through our research teams, including the world-renowned Nokia Bell Labs, we are leading the world to adopt end-to-end 5G networks that are faster, more secure and capable of revolutionizing lives, economies and societies. Nokia adheres to the highest ethical business standards as we create technology with social purpose, quality and integrity. www.nokia.com

Attachment

Nokia Corporation Financial Report for Q3 and January-September 2019