Nokia Corporation Financial Report for Q4 and Full Year 2019

Nokia Corporation
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Full year 2019 non-IFRS diluted EPS of EUR 0.22 driven by strong net sales and operating margin in Q4

- Net cash of EUR 1.7 billion, driven by Q4 free cash flow of EUR 1.4 billion
- 5G deal momentum continues, with 66 commercial deals and 19 live networks
- Strong momentum in strategic focus areas of software and enterprise
- Year-on-year operational improvement expected over the course of 2020

This is a summary of the Nokia Corporation financial report for Q4 and full year 2019 published today. The complete financial report for Q4 and full year 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 Q4 AND FULL YEAR 2019 RESULTS

Nokia’s fourth quarter 2019 results were a strong end to a challenging year. We saw strength in many parts of our business in the quarter, delivered a slightly better operating profit than the same period in 2018, generated solid free cash flow, and increased our net cash balance to EUR 1.7 billion.

When I look at Nokia’s full-year 2019 performance, we saw good progress in our strategic focus areas of enterprise and software. Nokia Enterprise delivered exceedingly well on its target of double-digit sales growth, considerably outpacing the market. Nokia Software showed its long-term promise, with exceptional profitability expansion compared to 2018. In addition, IP Routing continued its remarkable momentum, gaining significant share and increasing profitability in a difficult market; and Nokia Technologies continued to generate robust profitability.

We recognize, however, that we have faced challenges in Mobile Access and in cash generation. We will have a sharp focus on these two areas over the course of 2020, which we believe to be a year of progressive improvement as the actions we have underway start to deliver results. In Mobile Access, we expect improvements to be driven by increasing shipments of our “5G Powered by ReefShark” portfolio; product cost reductions; better commercial management; and strengthened operational performance in services.

In terms of cash generation, we have extensive operational actions underway to improve performance. As we noted in our third quarter announcement, our Board said it expects to resume dividend distributions after Nokia’s net cash position increases to approximately EUR 2 billion. Given typical cash seasonality, we would not expect to reach that level in the first three quarters of this year. Should we exceed the EUR 2 billion level after that point, the Board will assess the possibility of proposing a dividend distribution for financial year 2020.

While I believe that 2020 will present its share of challenges, I am confident that we are taking the right steps to deliver progressive improvement over the course of this year and to position us for a stronger 2021.

Q4 2019 and January-December 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	Q4'19	Q4'18	YoY	*Constant*	Q1-	Q1-	YoY	*Constant*

(except for EPS in EUR)			change	*currency YoY change*	Q4'19	Q4'18	change	*currency YoY change*
Net sales	6 903	6 869	0%	*(1)%*	23 315	22 563	3%	*1%*
Operating profit/(loss)	803	552	45%		485	(59)		
Operating margin %	11.6%	8.0%	360bps		2.1%	(0.3)%	240bps	
EPS, diluted	0.10	0.03	233%		0.00	(0.10)		
Operating profit/(loss) (non-IFRS)	*1 134*	*1 120*	*1%*		*2 003*	*2 180*	*(8)%*	
Operating margin % (non-IFRS)	*16.4%*	*16.3%*	*10bps*		*8.6%*	*9.7%*	*(110)bps*	
EPS, diluted (non-IFRS)	*0.15*	*0.13*	*15%*		*0.22*	*0.23*	*(4)%*	
Net cash	1 730	3 053	(43)%		1 730	3 053	(43)%	

and current financial investments[1]	

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

Full year 2019 results for non-IFRS diluted EPS, non-IFRS operating margin, and recurring free cash flow were in line with our guidance.

Net sales in Q4 2019 were EUR 6.9 billion, approximately flat compared to Q4 2018. On a constant currency basis, net sales decreased 1%. Excluding one-time licensing net sales in Q4 2019 and Q4 2018, net sales grew 1%, reflecting improved overall industry demand and particularly strong growth with enterprise customers, driven by increased demand for mission-critical networking solutions. In full year 2019, net sales were EUR 23.3 billion, compared to EUR 22.6 billion in full year 2018.

Non-IFRS diluted EPS in Q4 2019 was EUR 0.15, compared to EUR 0.13 in Q4 2018, primarily driven by continued progress related to our cost savings program, which resulted in lower operating expenses across Networks, Nokia Software and Nokia Technologies. This was partially offset by lower gross profit, particularly in Mobile Access within Networks. In full year 2019, Nokia's non-IFRS diluted EPS was EUR 0.22, compared to EUR 0.23 in full year 2018.

Reported diluted EPS in Q4 2019 was EUR 0.10, compared to EUR 0.03 in Q4 2018, primarily driven by continued progress related to our cost savings program, lower transaction and integration costs, a net positive fluctuation in financial income and expenses, lower income taxes and a net positive fluctuation in other income and expenses. This was partially offset by lower gross profit, primarily due to our business performance. In full year 2019, on a reported basis, Nokia generated a profit of EUR 18 million and a diluted EPS of EUR 0.00, compared to a loss of EUR 549 million and a diluted EPS of negative EUR 0.10 in full year 2018.

In Q4 2019, net cash and current financial investments increased sequentially by approximately EUR 1.4 billion, resulting in a net cash balance of approximately EUR 1.7 billion.

DIVIDEND

Beginning with the distribution for the financial year 2018, Nokia started paying dividends in quarterly instalments. The Annual General Meeting held on May 21, 2019, authorized the Board of Directors to 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. Under this authorization, the Board resolved to distribute the first and second instalments of the dividend, totaling EUR 0.10. On October 24, 2019, the Board resolved to pause dividend distributions and 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 was done 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.

The Board expects to resume dividend distributions after Nokia's net cash position improves to approximately EUR 2 billion, taking into account Nokia's expected cash flow generation. The Board would make separate resolutions on each distribution and such resolutions would be separately disclosed in connection with our quarterly financial reports.

As we expect our 2020 cash flows to show similar seasonality as in 2019, we expect net cash to be below EUR 2 billion in the three first quarters of 2020. Since the earliest we would be paying dividends would be in Q1 2021, we believe it is pragmatic to include that potential dividend paying capacity to the dividend proposal for the financial year 2020. Therefore, the board does not propose a dividend or dividend authorization for the financial year 2019. After Q4 2020, the Board will assess the possibility of proposing a dividend distribution for the financial year 2020, taking into account the net cash position, as well as the outlook for 2021.

OPERATIONAL KEY PERFORMANCE INDICATORS FOR MOBILE ACCESS WITHIN NETWORKS

During 2020, Nokia intends to provide operational key performance indicators ("KPIs") for Mobile Access, which is within our Networks reportable segment. Mobile Access includes our product-focused Mobile Networks operating segment and our Global Services operating segment. While these operational KPIs are not measures of Nokia's financial performance, they provide greater transparency regarding our operational progress in Mobile Access.

Within Mobile Access, our focus is on addressing profitability through four key actions:

- First, driving consistent product cost reductions;
- Second, maintaining the necessary scale to be competitive;
- Third, improving commercial management and deal discipline; and,
- Fourth, further strengthening operational performance in services.

We intend to provide updates on the following two operational KPIs in each interim report of 2020:

- First, the proportion of our 5G shipments that are "5G Powered by ReefShark", in order to show our progress in driving 5G product cost reductions. These new products made up approximately 10% of our 5G product shipments in the fourth quarter 2019, and we expect that percentage to increase progressively over the course of 2020, ending the year at more than 35%. We expect to end 2021 at approximately 70%, and to essentially complete this transition in 2022.

Second, our weighted 5G win rate. This metric factors in customer size and measures how we are doing in converting our end of 2018 4G footprint, as well as adding new 5G footprint where we did not previously have a 4G installed base. At the end of the fourth quarter 2019, our 5G win rate was over 100% outside of China and in the mid 90% range including China, reflecting strong performance.

Also, we intend to provide a qualitative update on the following operational KPI in each interim report of 2020:

4G plus 5G mobile radio market share, excluding China, on a rolling four quarter basis, in order to show that we are maintaining the necessary scale to be competitive. In the fourth quarter 2019, our share was approximately 27%, and we expect to end 2020 at approximately 27%.

OUTLOOK

Full Year 2020	
Non-IFRS diluted earnings per share	EUR 0.25 plus or minus 5 cents

Non-IFRS operating margin	9.5% plus or minus 1.5 percentage points
Recurring free cash flow[1]	Positive
Long term (3 to 5 years)	
Non-IFRS operating margin	12 – 14%
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.

1Free 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

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, which is expected to be approximately flat on a constant currency basis in full year 2020, excluding China. We have decided to exclude China, given that pursuing market share in China presents significant profitability challenges and the region has some unique market dynamics (new commentary);

Our expectation for seasonality in 2020 to be similar to 2019, with the majority of operating profit and free cash flow to be generated in the fourth quarter (new commentary);

Competitive intensity, which is particularly impacting Mobile Access and is expected to continue at a high level in full year 2020, as some competitors seek to take share in the early stage of 5G;

Our expectation that we will accelerate our product roadmaps and cost competitiveness through additional 5G investments in 2020, thereby enabling us to drive product cost reductions and maintain the necessary scale to be competitive (new commentary);

Our expectation that we will drive improvements in automation and productivity through additional digitalization investments in 2020;

Temporary capital expenditure constraints in North America related to customer merger activity, as well as other potential mergers or acquisitions by our customers;

Customer demand could weaken and risk could increase further in India, after the country's Supreme Court upheld a ruling that telecoms companies must pay retroactive license and spectrum fees (new commentary);

- The potential for a temporary disruption, particularly in our supply chain, due to the coronavirus outbreak (new commentary);
- The timing of completions and acceptances of certain projects;
- 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, which is explained in more detail in the Cost savings program section of this report;
- Our product and regional mix, including the impact of the high cost level associated with our first generation 5G products; and
- Macroeconomic, industry and competitive dynamics.

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 outlook for positive recurring free cash flow is expected to be supported by an improvement in net working capital performance and improved operational results, partially offset by a more substantial difference in 2020 between profit and free cash flow in Nokia Technologies (new commentary);
- Non-IFRS financial income and expenses are expected to be an expense of approximately EUR 350 million in full year 2020 and per annum over the longer-term;
- Non-IFRS income taxes are expected at a rate of approximately 26% in full year 2020 (new commentary) 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 are expected to be approximately EUR 450 million in full year 2020 and per annum over the longer term until our US or Finnish deferred tax assets are fully utilized; and
- Capital expenditures are expected to be approximately EUR 600 million in full year 2020 and per annum over the longer-term.

NOKIA FINANCIAL RESULTS

EUR million (except for	Q4'19	Q4'18	YoY change	*Constant currency*	Q1-Q4'19	Q1-Q4'18	YoY change	*Constant currency*

EPS in EUR)				*YoY change*				*YoY change*
Net sales	6 903	6 869	0%	*(1)%*	23 315	22 563	3%	*1%*
Networks	5 439	5 276	3%	*1%*	18 209	17 404	5%	*2%*
Nokia Software	870	938	(7)%	*(9)%*	2 767	2 714	2%	*(1)%*
Nokia Technologies	376	423	(11)%	*(11)%*	1 487	1 501	(1)%	*(2)%*
Group Common and Other	231	257	(10)%	*(11)%*	952	1 024	(7)%	*(7)%*
Non-IFRS exclusions	1	(3)			(29)	(17)		
Gross profit	2 712	2 761	(2)%		8 326	8 446	(1)%	
Operating profit/(loss)	803	552	45%		485	(59)		

Networks	671	515	30%	665	773	(14)%
Nokia Software	304	333	(9)%	589	450	31%
Nokia Technologies	320	347	(8)%	1 239	1 203	3%
Group Common and Other	(161)	(74)		(490)	(246)	
Non-IFRS exclusions	(331)	(568)	(42)%	(1 518)	(2 239)	(32)%
Operating margin %	11.6%	8.0%	360bps	2.1%	(0.3)%	240bps
Gross profit (non-IFRS)	*2 759*	*2 915*	*(5)%*	*8 523*	*9 035*	*(6)%*
Operating profit/(loss) (non-IFRS)	*1 134*	*1 120*	*1%*	*2 003*	*2 180*	*(8)%*
Operating margin %	*16.4%*	*16.3%*	*10bps*	*8.6%*	*9.7%*	*(110)bps*

(non-IFRS)						
Financial income and expenses	(15)	(89)	(83)%	(341)	(313)	9%
Income taxes	(246)	(278)	(12)%	(138)	(189)	(27)%
Profit/(loss) for the period	563	203		18	(549)	
EPS, diluted	0.10	0.03	233%	0.00	(0.10)	
Financial income and expenses (non-IFRS)	*(46)*	*(110)*	*(58)%*	*(337)*	*(358)*	*(6)%*
Income taxes (non-IFRS)	*(288)*	*(288)*	*0%*	*(448)*	*(563)*	*(20)%*
Profit/(loss) for the period (non-IFRS)	*821*	*741*	*11%*	*1 230*	*1 272*	*(3)%*

EPS, diluted (non-IFRS)	*0.15*	*0.13*	*15%*		*0.22*	*0.23*	*(4)%*	

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	Q4'19	Q4'18	YoY change	*Constant currency YoY change*	Q1-Q4'19	Q1-Q4'18	YoY change	*Constant currency YoY change*
Asia-Pacific	1 383	1 189	16%	*13%*	4 556	4 081	12%	*8%*
Europe	1 895	1 916	(1)%	*(2)%*	6 620	6 489	2%	*1%*

Greater China	469	622	(25)%	*(26)%*	1 843	2 165	(15)%	*(16)%*
Latin America	467	452	3%	*3%*	1 472	1 380	7%	*5%*
Middle East & Africa	619	564	10%	*8%*	1 876	1 874	0%	*(2)%*
North America	2 070	2 126	(3)%	*(5)%*	6 948	6 574	6%	*1%*
Total	6 903	6 869	0%	*(1)%*	23 315	22 563	3%	*1%*

Net sales by customer type

EUR million	Q4'19	Q4'18	YoY change	*Constant currency YoY change*	Q1-Q4'19	Q1-Q4'18	YoY change	*Constant currency YoY change*
Communication service providers	5 816	5 845	0%	*(3)%*	19 558	18 955	3%	*0%*

Enterprise	499	371	35%	*33%*	1 409	1 167	21%	*18%*
Licensees	376	423	(11)%	*(11)%*	1 487	1 476	1%	*0%*
Other[1]	213	230	(7)%	*(8)%*	861	965	(11)%	*(11)%*
Total	6 903	6 869	0%	*(1)%*	23 315	22 563	3%	1%

[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 communication 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 35% on a reported basis and 33% on a constant currency basis in Q4 2019, and grew 21% on a reported basis and 19% on a constant currency basis in full year 2019.

Nokia, Q4 2019 compared to Q4 2018, non-IFRS

Nokia non-IFRS net sales were approximately flat. On a constant currency basis, Nokia non-IFRS net sales decreased 1%. Excluding one-time licensing net sales of approximately EUR

20 million in the fourth quarter 2019 and EUR 70 million in the fourth quarter 2018, Nokia non-IFRS net sales grew 1%, reflecting improved overall industry demand.

Our overall topline performance in Q4 2019 was solid, with 3% growth excluding Greater China, where an increase in competitive intensity, combined with our prudent approach towards deal-making, had a particularly negative impact on Networks.

In Q4 2019, we continued to make progress with our strategy to diversify and grow, with a particularly strong performance with enterprise customers. 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 attributable to lower gross margin in Networks, particularly in Mobile Access. We experienced relatively high 5G product costs in Mobile Access, as well as elevated levels of deployment services, consistent with being in the initial phase of 5G.

In Q4 2019 and Q4 2018, Nokia non-IFRS gross profit benefitted from reductions in annual employee incentives, which are calculated based on Nokia’s business performance.

The growth in Nokia non-IFRS operating profit was driven by continued progress related to Nokia's cost savings program, partially offset by the lower non-IFRS gross profit.

In Q4 2019 and Q4 2018, Nokia non-IFRS operating profit benefitted significantly from reductions in annual employee incentives, which are calculated based on Nokia's business performance.

In Q4 2019, Nokia generated a non-IFRS profit of EUR 821 million, compared to EUR 741 million in Q4 2018. The higher profit was primarily due to a net positive fluctuation in financial income and expenses and the higher operating profit.

Cash and cash flow in Q4 2019

In Q4 2019, Nokia's free cash flow was positive EUR 1 357 million, driven by:

- Adjusted net profit of EUR 1 309 million;
- Cash inflows related to net working capital primarily due to a decrease in inventories, partially offset by an increase in receivables;
- Net interest including a one-time benefit as a result of settling certain interest rate derivatives;
- 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 and conditions, as well as supply chain and inventory optimization. Senior leaders of Nokia now have a significant part of their incentives tied to free cash flow improvement targets.

EUR million, at end of period	Q4'19	Q3'19	QoQ change
Total cash and current financial investments	6 007	4 824	25%
Net cash and current financial investments[1]	1 730	344	403%

[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 fourth quarter 2019, Nokia’s total cash and current financial investments (“total cash”) increased by EUR 1 183 million and we ended the quarter with a solid total cash position of EUR 6 007 million. We target to maintain a total cash position of approximately 30% of net sales over time, and we were at approximately 26% at the end of the fourth quarter

2019. Nokia’s net cash and current financial investments (“net cash”) increased by EUR 1 386 million.

Foreign exchange rates had an approximately EUR 20 million positive impact on net cash.

In the fourth quarter 2019, net cash from operating activities was EUR 1 589 million:

- Nokia’s adjusted profit before changes in net working capital was EUR 1 309 million in the fourth quarter 2019.
- In the fourth quarter 2019, Nokia generated an increase in net cash related to net working capital of approximately EUR 190 million. Excluding approximately EUR 130 million of restructuring and associated cash outflows, Nokia generated an approximately EUR 320 million increase in net cash related to net working capital. This increase was due to a decrease in inventories, partially offset by an increase in receivables. Liabilities were approximately flat.
  - The increase in receivables was approximately EUR 360 million, primarily due to a seasonal increase in receivables, partially offset by improved collections including higher sale of receivables. Nokia sells trade receivables to various financial institutions without recourse in the normal course of business, in order to manage our credit risk and working capital cycle.

The decrease in inventories was approximately EUR 680 million, primarily due to a seasonal decrease in inventories, as well as improved inventory management.

Liabilities were approximately flat. In the fourth quarter 2019, we did not see a typical seasonal increase in accounts payable due to a combination of two items: a) already having high levels of inventory earlier in the year, and b) our successful efforts to improve our inventory management.

Cash taxes resulted in an outflow of approximately EUR 60 million.

Net interest resulted in an inflow of approximately EUR 150 million, primarily due to a one-time benefit as a result of settling certain interest rate derivatives, which accelerated cash inflows from hedging by approximately EUR 160 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 30 million.

In the fourth quarter 2019, net cash used in investing activities primarily related to capital expenditures of approximately EUR 190 million and a cash outflow related to a convertible loan to one of our partners of approximately EUR 60 million. This was partially offset by a cash inflow related to a sale of a property of approximately EUR 20 million.

In the fourth quarter 2019, net cash used in financing activities primarily related to lease payments of approximately EUR 30 million following the implementation of IFRS 16. In addition, net cash from financing activities included a one-time benefit as a result of settling certain interest rate derivatives, which accelerated cash inflows from hedging by approximately EUR 30 million.

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

Nokia net sales grew 3% in full year 2019. On a constant currency basis, Nokia net sales grew 1% in full year 2019. Excluding one-time licensing net sales of approximately EUR 90 million in full year 2019 and EUR 70 million in full year 2018, Nokia net sales grew 3%.

Our overall topline performance in full year 2019 was solid, with 5% growth excluding Greater China, where an increase in competitive intensity, combined with our prudent approach towards deal-making, had a particularly negative impact on Networks. Due to the impact of Greater China, in full year 2019, Networks and Nokia Software in total grew less than our primary addressable market. In full year 2019 we grew in five out of six regions and with all customer types. In full year 2019, we continued to make progress with our strategy to diversify and grow, with strong performances in Nokia Software and with enterprise customers.

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

The growth in Nokia Software net sales benefitted from improved product and go-to-market capabilities, with growth in both applications and core networks.

The overall decrease in Nokia gross profit was primarily attributable to lower gross margin in Networks, particularly in Mobile Access. We experienced relatively high 5G product costs in Mobile Access, 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 full year 2019 and full year 2018, Nokia gross profit benefitted from reductions in annual employee incentives, which are calculated based on Nokia's business performance.

In full year 2019, Nokia generated an operating profit, compared to an operating loss in full year 2018. The year-on-year improvement was primarily due to continued progress related to Nokia's cost savings program, a gain on defined benefit plan amendments and lower transaction and integration costs, partially offset by lower gross profit and higher restructuring and associated charges.

In full year 2019 and full year 2018, Nokia operating profit benefitted significantly from reductions in annual employee incentives, which are calculated based on Nokia’s business performance.

In full year 2019, Nokia generated a profit of EUR 18 million, compared to a loss of EUR 549 million in full year 2018. The year-on-year improvement was primarily due to higher operating profit and, to a lesser extent, lower income taxes, partially offset by a net negative fluctuation in financial income and expenses.

Note that Nokia sells trade receivables to various financial institutions without recourse in the normal course of business, in order to manage our credit risk and working capital cycle. The costs related to the sale of receivables are included in financial income and expenses. In full year 2019 the costs related to the sale of receivables were approximately EUR 94 million, compared to approximately EUR 66 million in full year 2018.

Cash and cash flow in January-December 2019

In full year 2019, Nokia’s free cash flow was negative EUR 297 million, driven by:

- Adjusted net profit of EUR 2 638 million;
- Cash outflows related to net working capital primarily due to a decrease in liabilities, partially offset by a decrease in receivables and inventories;
- Continued cash outflows related to restructuring; and

Capital expenditures and income taxes.

EUR million, at end of period	Q4'19	Q4'18	YoY change
Total cash and current financial investments	6 007	6 873	(13)%
Net cash and current financial investments[1]	1 730	3 053	(43)%

[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 full year 2019, Nokia’s total cash decreased by EUR 866 million and we ended the year with a solid total cash position of EUR 6 007 million. We target to maintain a total cash position of approximately 30% of net sales over time, and we were at approximately 26% at year-end 2019. During full year 2019, Nokia’s net cash decreased by EUR 1 323 million.

Foreign exchange rates had an approximately EUR 120 million negative impact on net cash.

In full year 2019, net cash from operating activities was EUR 390 million:

Nokia’s adjusted profit before changes in net working capital was EUR 2 638 million in full year 2019.

In full year 2019, Nokia generated a decrease in net cash related to net working capital of approximately EUR 1 790 million. Excluding approximately EUR 460 million of restructuring and associated cash outflows, Nokia generated an approximately EUR 1 320 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 both receivables and inventories.

The decrease in receivables was approximately EUR 160 million, primarily due to improved collections including higher sale of receivables. Nokia sells trade receivables to various financial institutions without recourse in the normal course of business, in order to manage our credit risk and working capital cycle.

The decrease in inventories was approximately EUR 290 million, primarily due to improved inventory management.

The decrease in liabilities was approximately EUR 1 770 million, primarily due to a decrease in accounts payable, where we did not see a typical seasonal increase in accounts payable at the end of the year, due to a combination of two items: a) already having high levels of inventory earlier in the year, and b) our successful efforts to improve our inventory management. In addition, we saw a decrease in liabilities related to employee benefits and a decrease in deferred revenue related to licensing agreements.

Cash taxes resulted in an outflow of approximately EUR 520 million.

Net interest resulted in an inflow of approximately EUR 60 million, primarily due to a one-time benefit as a result of settling certain interest rate derivatives, which accelerated cash inflows from hedging by approximately EUR 160 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 220 million.

In full year 2019, net cash used in investing activities primarily related to capital expenditures of approximately EUR 690 million.

In full year 2019, net cash used in financing activities primarily related to the dividend for 2018, which totaled approximately EUR 570 million and lease payments of approximately EUR 220 million following the implementation of IFRS 16. Net cash from financing activities included a one-time benefit as a result of settling certain interest rate derivatives, which accelerated cash inflows from hedging by approximately EUR 30 million.

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.

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 110 million, creating an additional headwind to achieve the earlier net reduction. The year-on-year net foreign exchange fluctuations resulted in an increase in full year 2019 fixed costs of approximately EUR 125 million.

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

In EUR million, approximately[1]	Q4'19
Balance of restructuring and associated liabilities for prior programs	720
+ Charges in the quarter	30
- Cash outflows in the quarter	130
= Ending balance of restructuring and associated liabilities	620

of which restructuring provisions	*380*
of which other associated liabilities	*240*
Total expected restructuring and associated charges, related to our most recent cost savings program	900
- Cumulative recorded	470
= Charges remaining to be recorded	430
Total expected restructuring and associated cash outflows	1 550
- Cumulative recorded	460
= Cash outflows remaining to be recorded	1 090

[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 full year 2019, excluding the impact of the lower incentive accruals, we achieved approximately EUR 200 million of recurring annual costs savings, compared to full year 2018.

In full year 2019, consistent with Nokia’s business performance, annual employee incentives for 2019 were reduced by approximately EUR 300 million, of which approximately EUR 200 million benefitted operating expenses. Therefore, assuming business performance in full year 2020 that would support on-target annual employee incentives and the achievement of our expected full year 2020 operating expense savings, non-IFRS operating expenses in full year 2020 would be approximately EUR 50 million higher compared to full year 2019.

	Actual	Expected amounts for		
In EUR million, approximately	FY	FY	Beyond	Total

rounded to the nearest EUR 50 million	2019	2020	FY 2020	
Recurring annual cost savings	200	300	-	500
- operating expenses	*200*	*150*	-	*350*
- cost of sales	*0*	*150*	-	*150*
Restructuring and associated charges	450	450	-	900
Restructuring and associated cash outflows	450	550	550	1 550
Charges related to network equipment swaps	100	-	-	100
Cash outflows related to network equipment swaps	100	-	-	100

We have updated our expected timeline for the recurring annual cost savings. The materialized recurring annual cost savings in full year 2019 amounted to EUR 200 million, which was in line with our expectation. However, the EUR 200 million of recurring annual cost savings came for operating expenses, compared to our earlier expectation of EUR 150 million from operating expenses and EUR 50 million from cost of sales. Consequently, in full year 2020, we now expect EUR 150 million of recurring annual cost savings to come from operating expenses, compared to our earlier expectation of EUR 200 million, and EUR 150 million to come from cost of sales, compared to our earlier expectation of EUR 100 million.

We have updated our expected timeline for the related cash outflows. The materialized cash outflows in full year 2019 amounted to EUR 450 million, compared to our earlier expectation of EUR 550 million. The difference of EUR 100 million moved into full year 2020. Consequently, in full year 2020, we now expect EUR 550 million of cash outflows related to our cost savings program. We continue to expect the related restructuring charges to total EUR 900 million.

In full year 2019, we completed our program related to network equipment swaps and recorded all remaining charges and cash outflows. The total charges and cash outflows related to network equipment swaps were EUR 100 million in full year 2019, compared to our earlier expectation of EUR 150 million. Cumulatively, the charges and restructuring outflows related to network equipment swaps as a result of the Alcatel-Lucent acquisition were EUR 1.25 billion.

OPERATIONAL HIGHLIGHTS

The strong 5G deal momentum continued into Q4, aligning with Nokia’s commitment to execute in Mobile Access.

In the first pillar of our strategy, leading in high-performance, end-to-end networks with Communication Service Providers:

Nokia signed 15 5G commercial contracts in the last quarter of the year, highlighting momentum across markets.

Nokia's 5G technology also powered the launch of several live 5G networks. Nokia launched live networks for example with O2 in the UK, Zain in Saudi Arabia, Sprint in the US in cities such as New York City, Los Angeles, Washington D.C. and Phoenix, as well as a nationwide 5G network with T-Mobile. In the Asia-Pacific region, Vodafone New Zealand launched its 5G network, which went live in just six months.

In total, Nokia now has 66 commercial 5G deals and 19 live networks, and over 100 5G agreements.

Highlighting its market-leading technology within IP and Optical, Nokia launched new packet-optical switches for 5G Cloud RAN which reduce the cost and complexity of Cloud RAN deployments by enabling packet-based transport for mobile fronthaul.

In Fixed Access, Nokia enhanced its portfolio with more options for 4G and 5G Fixed Wireless Access deployments as well as unveiled the Quillion chipset family to power next-generation fiber-based access networks. We also expanded our WiFi portfolio with the introduction of the Beacon 1; an entry level, whole-home mesh solution.

In the second pillar of our strategy, growing the Enterprise and Webscale business and leading the digitization of industries with private networks and industrial automation:

Nokia continued to strengthen its position with enterprises with significant collaborations and partnerships. Nokia and Microsoft announced a strategic collaboration to accelerate transformation and innovation across industries with cloud, Artificial Intelligence and Internet of Things.

Nokia will deliver and test the world's first 5G-based network for automated rail operations with Deutsche Bahn in Germany, an essential milestone in the development of the 5G-based Future Railway Mobile Communication System standard.

In November, Nokia joined Sendai City in Japan for the world's first test of private wireless connected drones for tsunami evacuation alerts.

In total, nearly 40 new customers were added in the quarter, bringing the total number of new customers in 2019 to 122.

In the third pillar of our strategy, strengthening the Software business with one common software foundation:

Nokia Software closed a number of agreements, including one with Amazon, allowing Nokia's Common Software Foundation platform to support Amazon

Web Services, as well as deal-wins with Telecom South Africa and DT Germany.

Nokia also expanded its partnership with VMware to include the development of integrated solutions to support communications service providers' drive for operational improvements and cost efficiency through large-scale, multi-cloud operations.

Nokia also secured a deal with Ooredoo Tunisia to provide AirGile cloud-native core and services to power the company's 2G/3G/4G network in order to prepare for the crucial transition to 5G.

In the fourth pillar of our strategy, diversifying the licensing business with new opportunities in patent, IoT and brand:

Various patent and technology licensing deals were signed during the quarter with companies in the consumer electronics market, whilst Volvo became a significant licensee to Nokia patents for connected cars.

Strengthening our Environmental, Social, and Governance (ESG) profile and advancing Nokia as a trustworthy partner with clear sustainability priorities:

Nokia launched the renewal of its climate program, aligned with limiting global temperature rise to 1.5°C above pre-industrial levels.

Nokia renewed its human rights policy and related human rights due diligence process to further mitigate risks related to potential technology misuse cases.

Nokia completed its first external human rights assessment for the Global Network Initiative, the alliance of internet and telecommunications companies and civil society supporting the freedom of expression and privacy rights.

Showcasing commitment to sustainability, Nokia was acknowledged by receiving the AT&T Sustainability Award for launching the first commercial liquid-cooled base station with the potential to reduce carbon emissions by up to 80%.

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, growth management and operational key performance indicators; B) expectations, plans or benefits related to future performance of our businesses and any expected future dividends including timing and qualitative and quantitative thresholds associated therewith; C) expectations and targets regarding financial performance, cash generation, results, the timing of receivables, operating expenses, taxes, currency exchange rates, hedging, cost savings, product cost reductions and competitiveness, as well as results of operations including targeted synergies, better commercial management and those results 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 and legal 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, reduction of support function costs, temporary incremental expenditures or other R&D expenditures to develop or rollout software and other new products, including 5G and increased digitalization; M) expectation regarding our customers' future capital expenditure constraints and our ability to satisfy customer concerns; and N) statements preceded by or including “believe”, “expect”, “expectations”, “consistent”, “deliver”, “maintain”, “strengthen”, “target”, “estimate”, “plan”, “intend”, “assumption”, “focus”, “continue”, “should", "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, general public health conditions (including its impact on our supply chains) 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, establishing new sources of revenue and protecting 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.

The financial report was authorized for issue by management on February 6, 2020.

- Nokia plans to publish its "Nokia in 2019" annual report, which includes the review by the Board of Directors and the audited annual accounts, in week 10 of 2020. The annual report will be available at www.nokia.com/financials.
- Nokia's Annual General Meeting 2020 is planned to be held on April 8, 2020.
- Nokia plans to publish its first quarter 2020 results on April 30, 2020.
- Nokia plans to publish its second quarter and half year 2020 results on July 31, 2020.
- Nokia plans to publish its third quarter and January-September 2020 results on October 29, 2020

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About Nokia

We create the technology to connect the world. Only Nokia offers a comprehensive portfolio of network equipment, software, services and licensing opportunities across the globe. With our commitment to innovation, driven by the award-winning Nokia Bell Labs, we are a leader in the development and deployment of 5G networks.

Our communications service provider customers support more than 6.1 billion subscriptions with our radio networks, and our enterprise customers have deployed over 1,000 industrial networks worldwide. Adhering to the highest ethical standards, we transform how people live, work and communicate. For our latest updates, please visit us online www.nokia.com and follow us on Twitter @nokia.

Attachment

- Nokia_financial statement 2019_Q4