Higher returns through focused growth

Capital Markets Day 2016

Timo Ihamuotila
Chief Financial Officer
Agenda

Nokia Business System

Capital Structure

Guidance
Nokia Business System, built to drive value across Nokia

- Investment optimization
- Performance management
- Continuous improvement
- Talent management
Capital allocation is built in the core of Nokia Business System

Strategy and financial planning process
- Capital allocations
- Business strategies
- Long-term and annual financial plans

End-to-end M&A process
- M&A target funnel management
- M&A execution
- Structured businesses case follow-up
How we assess value creation potential

1. Market attractiveness
   - Market growth
   - Industry profitability

2. Strategic fit
   - Strategic relevance
   - Right insertion point

3. Return on investment
   - ROI
   - Risk

- ROI
- Risk

Investment optimization
Disciplined group level portfolio management with capital allocation based on value creation potential

Group steers decisions based on structured evaluation of existing businesses and new business opportunities...

... Resulting in target setting and investment levels to drive optimal resource allocation...

... Followed by rigorous monthly follow-up

Strategy and financial planning process

Business Performance Management
## Monthly business performance reviews enable fast corrective actions

<table>
<thead>
<tr>
<th>Execution planning and plan deployment</th>
<th>KPI framework and scorecards</th>
<th>Nokia Business Reviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Translating strategic priorities into concrete targets and action plans</td>
<td>• Enforcing the alignment of efforts towards shareholder value creation throughout the organization</td>
<td>• Rigorous monthly process</td>
</tr>
<tr>
<td>• Cascading actions down into the organization</td>
<td></td>
<td>• Follow-up Annual Plan realization and overall business development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Prompt contingency plans</td>
</tr>
</tbody>
</table>
Capital structure
Our key priorities for cash

Business

Investments for future

Increasing R&D spend in attractive growth areas

Bolt on M&A in attractive growth areas, while consolidation M&A in more mature areas

Integration and transformation

~EUR 2.15 billion of total expected restructuring and associated cash outflows, of which ~EUR 1.87 billion remains after Q3 2016

In addition, ~EUR 900 million of swap-out related cash outflows expected in total

Shareholder returns

Dividend

Annual dividend is our main tool for shareholder distributions

Targeting to deliver earnings-based, growing dividend:

2016: Nokia targets to propose a dividend of EUR 0.17 per share

Future: targeting to grow dividends by distributing approximately 40%-70% of non-IFRS EPS, taking into account cash position and cash flow generation

Share repurchase

~EUR 560 million used in 2016 to acquire the equity based securities of Alcatel-Lucent before launching the buy-out offer

Further EUR 1.0 billion of share repurchases to be completed by yearend 2017
## 2017 cash estimates

### Sources

<table>
<thead>
<tr>
<th>Cash flow from operations excl. restructuring and swaps:</th>
<th>Divestments:</th>
<th>Net cash at end-2016:</th>
<th>Debt at end-2016:</th>
<th>Financing transactions:</th>
</tr>
</thead>
<tbody>
<tr>
<td>~€2.5-3bn</td>
<td>~€5bn</td>
<td>~€4bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assuming conversion of over 90% of non-IFRS EBITDA into cash over time</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Uses

<table>
<thead>
<tr>
<th>Restructuring and swaps</th>
<th>CAPEX</th>
<th>M&amp;A</th>
<th>FIE</th>
<th>Taxes</th>
<th>Dividend</th>
<th>Share repurchases</th>
<th>Estimated total cash at end-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>~€1.0bn</td>
<td>~€0.5bn</td>
<td>#</td>
<td>~€0.2bn</td>
<td>~€0.4bn</td>
<td>~€1bn</td>
<td>~€0.7-1bn</td>
<td>~€7-8bn</td>
</tr>
</tbody>
</table>

Total cash available ~€11-12bn
EUR 7 billion Capital Structure Optimization Program

- **Total program as announced on October 29, 2015**
  - De-leveraging: 3.0
  - Special dividend: 0.9
  - 2015 dividend: 0.6
  - Share buyback: 1.5
  - Share Buyback – Cash acquisition of Alcatel-Lucent equity securities prior the buyout offer: 0.6

- **Updated total program as announced on November 15, 2016**
  - De-leveraging: 3.0
  - Special dividend: 0.9
  - 2015 dividend: 0.6
  - Share buyback: 1.0
  - Share Buyback – Cash acquisition of Alcatel-Lucent equity securities prior the buyout offer: 0.6

- **Completed through Q3 2016**
  - De-leveraging: 3.0
  - Special dividend: 0.9
  - 2015 dividend: 0.6
  - Share buyback: 1.0
  - Share Buyback – Cash acquisition of Alcatel-Lucent equity securities prior the buyout offer: 0.6
Target investment grade credit rating and to maintain total cash of approximately 30% of net sales over time.

Full year free cash flow to bottom in 2016


FY 2016 FCF: Clearly negative
FY 2017 FCF: Slightly positive
FY 2018 FCF: Clearly positive
EUR 1.2bn of annual net cost savings to be achieved in full year 2018
EUR 1.2 billion annual net cost savings expected in full year 2018

<table>
<thead>
<tr>
<th></th>
<th>Cost of sales</th>
<th>Operating expenses</th>
<th>Total</th>
<th>Cost of sales %</th>
<th>Operating expenses %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.15</td>
<td>0.25</td>
<td>0.4</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>2017</td>
<td>0.35</td>
<td>0.45</td>
<td>0.8</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>2018</td>
<td>0.4</td>
<td>0.8</td>
<td>1.2</td>
<td>33%</td>
<td>67%</td>
</tr>
</tbody>
</table>
P&L charges related to the EUR 1.2 billion cost savings program and total restructuring and associated cash outflows

<table>
<thead>
<tr>
<th>EUR bn</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;L charges</td>
<td>0.7</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Cash outflows*</td>
<td>0.5</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Beyond 2018</td>
<td>0.45</td>
<td></td>
<td></td>
</tr>
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</table>

*Including cash outflows related to the previous Nokia and Alcatel-Lucent restructuring and cost savings programs
Cash outflows and P&L charges related to equipment swap-outs targeted to total ~EUR 0.9 billion

<table>
<thead>
<tr>
<th>Year</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.3</td>
</tr>
<tr>
<td>2017</td>
<td>0.3</td>
</tr>
<tr>
<td>2018</td>
<td>0.3</td>
</tr>
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</table>
Long-term effective non-IFRS P&L tax rate
~30%

Non-IFRS P&L tax rate in 2017 and 2018
30%–35%

Cash taxes in 2017
~EUR 400 million

~EUR 5.1 billion of recognized deferred tax assets on our balance sheet as of end-Q3 2016
## Guidance

**FIE in 2017**

$\sim$EUR 300 million

$\sim$1/3 being non-cash accounting charges

<table>
<thead>
<tr>
<th>Financial income &amp; expenses</th>
<th>EURm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net FX and interest expenses</td>
<td>$\sim$200</td>
</tr>
<tr>
<td>Non-cash accounting charges: Interest costs on DB pensions and other</td>
<td>$\sim$100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$\sim$300</td>
</tr>
</tbody>
</table>
Further opportunities to achieve lower interest expenses over time

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Instrument (Senior Notes)</th>
<th>Currency</th>
<th>Nominal (million)</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nokia</td>
<td>6.75%</td>
<td>EUR</td>
<td>500</td>
<td>2019</td>
</tr>
<tr>
<td>Nokia</td>
<td>5.375%</td>
<td>USD</td>
<td>1 000</td>
<td>2019</td>
</tr>
<tr>
<td>Alcatel-Lucent</td>
<td>6.5%</td>
<td>USD</td>
<td>300</td>
<td>2028</td>
</tr>
<tr>
<td>Alcatel-Lucent</td>
<td>6.45%</td>
<td>USD</td>
<td>1 360</td>
<td>2029</td>
</tr>
<tr>
<td>Nokia</td>
<td>6.625%</td>
<td>USD</td>
<td>500</td>
<td>2039</td>
</tr>
</tbody>
</table>
Guidance

Capex in 2017

~EUR 500 million
Guidance

Networks net sales for 2017

Decline year on year in line with its primary addressable market
Guidance

Networks operating margin

Long-term operating margin in the range of 10%-15%

Full year 2017 operating margin in the range of 8%-10%
Summary

- End-to-end diversified Networks portfolio
- Cost savings
- Patent licensing in Nokia Technologies

Creating an independent software business at scale
- Licensing and products in Nokia Technologies

Strong governance
- Operational excellence
- Higher returns through focused growth
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In addition to information on our reported IFRS results, we provide certain information on a non-IFRS, or underlying business performance, basis. Non-IFRS results exclude costs related to the Alcatel-Lucent transaction and related integration, goodwill impairment charges, intangible asset amortization and purchase price related items, restructuring related costs, and certain other items that may not be indicative of Nokia's underlying business performance. We believe that our non-IFRS financial measures provide meaningful supplemental information to both management and investors regarding Nokia’s underlying business performance by excluding the aforementioned items that may not be indicative of Nokia’s business operating results. These non-IFRS financial measures should not be viewed in isolation or as substitutes to the equivalent IFRS measure(s), but should be used in conjunction with the most directly comparable IFRS measure(s) in the reported results. A detailed explanation of the content of the non-IFRS information and a reconciliation between the non-IFRS and the reported information for historical periods can be found in Nokia’s respective results reports. Please see our issued interim reports for more information on our results and financial performance for the indicated periods as well as our operating and reporting structure.

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