

Q3 2021 Investor Video Transcript

October 28, 2021

During this presentation, we will be making forward-looking statements regarding our future business and financial performance and these statements are predictions that involve risks and uncertainties. Actual results may therefore differ materially from the results we currently expect. Factors that could cause such differences can be both external as well as internal operating factors. We have identified such risks in more detail in the section titled “Operating and financial review and prospects – Risk Factors” of our 2020 annual report on Form 20-F, as well as our other filings with the U.S. Securities and Exchange Commission.

Please note that our results release, the complete report with tables and the presentation on our website include comparable results information in addition to the reported results information. Our complete financial report with tables available on our website includes a detailed explanation of the content of the comparable information and a reconciliation between the comparable and the reported information. Today’s stock exchange release and presentation can be found on the investor relations section of the Nokia website.

David Mulholland, Head of Investor Relations

Hi everyone and welcome to this quick introduction to Nokia’s Q3 2021 financial results. My name is David Mulholland and I’m the Head of Investor Relations here at Nokia and today I have Pekka Lundmark our President and CEO.

A quick note before we get into the video which is just that in this video where we refer to growth rates it’s on a constant currency basis and where we refer to margins it’s on a comparable basis.

So with that out of the way, Pekka, can you please summarize what drove our revenue performance in Q3.

Pekka Lundmark, President and CEO

Thanks David and it’s great to be here. I would like to start by saying I’m very happy with both Q3 and our year-to-date results. We had 2% topline growth in Q3, it’s

actually 6% year-to-date, and the interesting thing is that we could have grown faster had there not been those supply chain challenges that actually our whole industry is facing at the moment. I was very pleased to see 9% topline growth in North America despite the earlier communicated headwinds that we had in our Mobile Networks business. The other businesses stepped in very well and compensated for that.

Then in Cloud and Network Services and in Nokia Technologies, in both, we had double-digit topline growth which was really really good. Then Network Infrastructure had 6% topline growth against pretty tough comparable a year ago.

David Mulholland, Head of Investor Relations

So Q3 was not quite as strong in terms of growth as we had earlier this year. How do you see the performance in terms of profitability and cash generation.

Pekka Lundmark, President and CEO

We actually made great progress in both. We had 340bps gross margin expansion to 40.8% and I was particularly pleased to see the 220bps expansion in Mobile Networks gross margin despite these headwinds in the North America market that we have been talking about. Also Cloud and Network Services had a great gross margin expansion. In last year's Q3 there were some project loss provisions that we booked at that time but even excluding them this was great progress.

Then on the operating margin side, we had also excellent 250bps expansion to 11.7%. Here it is very important to note that this was after we made quite a significant increase in our R&D investment.

On the cash flow side we had just over €700m free cash flow. Very good cash conversion. Now as a result we have €4.3bn net cash on our balance sheet.

David Mulholland, Head of Investor Relations

So if we look beyond the financials, could you give me an update of what you see as our strategy progress in the quarter?

Pekka Lundmark, President and CEO

I would like to highlight four things and the first one would be our launch of FP5 routing silicon which will further increase our technology leadership in service provider routing. The second would be our progress in Mobile Networks. As you may remember we had a major product launch of our next generation AirScale platform in the second quarter and the feedback and the traction we now have from customers is

really really good. We also booked some very important orders in the quarter. In Cloud and Network Services we had 12% topline growth and it's a significant achievement because we are in the middle of a pretty significant product portfolio realigning. Fourth point would be about Nokia Technologies just to demonstrate the continued portfolio strength we delivered 11% topline growth.

David Mulholland, Head of Investor Relations

So I wanted to focus on the FP5 launch that you mentioned. What does that really bring for our customers?

Pekka Lundmark, President and CEO

Well, FP5 is the industry's most advanced network processing silicon and it is designed to significantly increase the performance of the service provider IP networks. It has, first of all, three times more capacity compared to the previous generation. We have been able to do that, at the same time while we cut power consumption per bit by 75%. So, it is great for the carbon footprint as well. It also includes, for the first time in the industry, 800 Gigabit Ethernet interfaces and it also includes new very advanced features for security. This is, of course a platform, it is a chipset, and the products will be rolling out gradually, starting during the first half of 2022.

David Mulholland, Head of Investor Relations

So I wanted to talk a little bit about our Enterprise business, which declined 4% in Q3. Could you explain what happened there and how you see the outlook for the business?

Pekka Lundmark, President and CEO

Of course. This was a weak quarter from a top line point of view. Year-to-date is +3%, but our growth ambition in this business is clearly higher. There was some lumpiness in our deals with the large webscalers in Network Infrastructure, in general.

Actually our private wireless business, which now has more than 380 customers, grew double-digit. The underlying growth is there. We are building a pretty strong backlog now for this business for 2022. We are also so excited about the potential, especially in the new emerging campus wireless networks that we are doubling down our investment. We are increasing our R&D investment and also go to market investment. So, we are pretty bullish about the potential of this business. We actually recently

launched a new product platform that we call MX Industrial Edge, which is addressing exactly this campus wireless opportunity and moving, in a way, beyond pure connectivity towards applications and open platforms and open APIs for application developers.

David Mulholland, Head of Investor Relations

As a final question Pekka, can you possibly update us on how you see the outlook for the business?

Pekka Lundmark, President and CEO

We continue to expect the earnings seasonality to be less pronounced this year than what has been typical in our history. We are happy to reconfirm our outlook for 2021 and as a result of the strong performance during the first three quarters, we now expect to be towards the upper-end of the comparable operating margin range.

Now the key uncertainty continues to be the supply chain of semiconductors. We are working every single day, with both our customers and with our suppliers, with two goals: Number one, to ensure the availability of the product and, number two, to mitigate the effects of the cost inflation that our industry is currently facing.

We have announced a number of positive one-offs this year, about 100bps worth of margin effect. That, combined with the semiconductor situation, may limit our margin expansion potential in 2022.

While having said all this, I am very pleased with the improved competitiveness of our business and I am confident that the underlying progress that we have been able to deliver will continue.

David Mulholland, Head of Investor Relations

Thanks Pekka and thanks everyone for joining us.