

Letter from our President and CEO



2016 was a year of remarkable change for Nokia.

We started the year primarily as a mobile networks and patent licensing company. Today we are a fundamentally different company, with a complete portfolio that spans mobile, fixed, cable, routing, optical, standalone software, services, digital health, and VR, as well as licensing activities covering patents, brand, technology, and more.

During this transformation, we delivered solid financial performance, made significant progress integrating Alcatel Lucent, launched compelling innovations for our customers, moved forward with the execution of our strategy, and are on track to meet our commitment to reduce costs by EUR 1.2 billion in full year 2018.

Financial highlights

In the context of a challenging market and a major integration effort, we performed well in 2016. Our Networks business delivered an operating margin of 8.9% in 2016, and Nokia Technologies' net sales increased by 3% to EUR 1.1 billion in 2016. While overall sales were down compared to sales of both Nokia and Alcatel Lucent in 2015, profitability held up well. Because of this strong performance, our Board of Directors will propose an increased dividend compared to 2015 and compared to our original capital structure optimization plans.

Integration progress

Despite having only closed the Acquisition of Alcatel Lucent in early January 2016 and gained 100% ownership on November 2, 2016, we have completed the majority of our integration projects. While we have agreed product transition plans with all major customers, execution of those programs will take further time. That said, the speed of progress and quality of work have been considerably higher than I have witnessed in past integrations.

Net sales in 2016

EUR 23.6bn

Proposed dividend per share

EUR 0.17

Proposed dividends

EUR 972m

Customers

Customers have responded extremely well to the scope of our new end-to-end portfolio. It has increased our credibility with major communication services providers ("CSPs"), who understand that network performance is based not just on the parts of the networks but on how those parts work together. It has also opened doors for us to new customers in select enterprise segments, who increasingly need the kind of mission-critical networking capability that we provide. In addition, we have successfully agreed product transition plans with all major customers, and implementation is underway in many. This is a remarkable achievement, completed in well under one year.

“The operational foundation we now have in place, together with our financial strength and our disciplined, results-focused culture, have put us in a much stronger position to capitalize on our bigger portfolio and customer set, to tap the greater number of paths available to us for growth and expansion, and to be the innovation leader that enables our connected lives.”

People

Overall employee engagement scores at Nokia remained high, based on our periodic Cultural Cohesion Tracker. The tracker also pointed to the fact that the Acquisition of Alcatel Lucent created less cultural conflict than might have been expected given the history of acquisitions in our sector. During the year, we also launched a revitalized effort to improve our gender balance within the company. I am confident that we are gaining momentum and within the next two years we will start to see some positive change.

Innovation

We made significant progress in our aspiration to lead in 5G as we began bringing to market innovation from nearly 10 years of research at Nokia Bell Labs. We are preparing the world for 5G with the industry's best evolutionary path from 4G to 4.5G to 4.5G Pro to 4.9G and finally 5G.

We set records for fiber-like speeds over copper with XG-Fast, delivering 8 gigabits per second in a test with Australia's National Broadband Network. Our new optical chip sets enabled us to deliver a transmission speed of 1.2 terabits per second over optical fiber in Africa's first field trial of optical communications technology. In New Zealand, we delivered 200 gigabits per second on a single wavelength over a single fiber.

We introduced our intelligent management platform for all connected things (“IMPACT”) to help our customers deploy new services for IoT applications. Our Nuage SDN platform gained traction helping businesses move to the Cloud, and we continued our development of Cloud service orchestration and network security.

Nokia Bell Labs moved forward with its Future X projects, shaping the network of the future—massively distributed, cognitive, continuously adaptive, learning and optimizing.

Sustainability and corporate responsibility

Reducing our carbon footprint and helping our customers do the same is at the center of our sustainability objectives, as is doing business with integrity. The high standards of our Code of Conduct allow us to build and maintain personal integrity across the company and protect our reputation. We work hard to ensure the technology we provide is not used to infringe human rights and conduct robust on-site assessments of our suppliers, as well as using the EcoVadis scorecards, to ensure they meet our high ethical standards. Our customers also use these very same scorecards to assess our sustainability performance.

In 2016, we made progress in the EcoVadis framework in areas of environment, labor practices, and supply chain management. We were judged “Outstanding”, the highest gold recognition level, with a score of 85/100 putting us in the top 1% of all suppliers assessed. Our total energy consumption across our facilities decreased by approximately 9% compared to 2015, which reflected a decrease of approximately 16% in our greenhouse gas emissions, including our renewable energy usage. The 2016 figures are compared to the combined figures of Nokia and Alcatel Lucent in 2015.

Letter from our President and CEO continued

In 2016, we retained our listing in the Dow Jones Sustainability Index with a score of 83/100, and were ranked the leader of the CMT Communications Equipment sector.

Cost reductions

With the Acquisition of Alcatel Lucent, we committed to reduce costs by EUR 1.2 billion in full year 2018. We are progressing well towards this goal and, in 2016, we were ahead of plan. I would note that delivering against this commitment has required and will require us to reduce the number of employees as we eliminate overlaps and use best practices from both Nokia and Alcatel Lucent to find new areas of efficiencies. These reductions are never easy and do not reflect the quality of the people who had to leave the company. Throughout the process, which will continue until the end of 2018, we have sought to provide support for those people and to treat them with dignity and respect.

Strategy

Finally, we announced our new strategy and made good progress on execution against four strategic priorities.

Our first strategic priority is to lead in high-performance end-to-end networks with our communication service provider customers. We ended the year with a leading position in LTE, service provider IP edge routing, copper access and services.

To maintain these leadership positions, we launched compelling 4.5G Pro and 4.9G solutions, giving operators the ability to continue to meet capacity demands now while transitioning to 5G in the future. We acquired Gainspeed, giving us a compelling entry into the DOCSIS (Data Over Cable Service Interface Specification) world of cable operators. We also made several other acquisitions designed to expand our capabilities in areas such as big data analytics for network and service automation and network security.

Our second priority is to expand network sales to select vertical markets, specifically energy, transportation, public sector, technical extra-large enterprises (“TXLEs”), and webscale players (“Webscales”) such as Google and Amazon. We saw good momentum in the year in several of these

areas, such as building an LTE public safety network in Dubai with our partner Nedaa, IP backbone and network modernization for rail operators such as the S-Bahn in Berlin, and private LTE networks for utilities and mining with major players like Rio Tinto. We see strong future opportunities in all targeted segments.

To tap this opportunity, we are investing where it is needed, including focusing our sales force, and making strategic acquisitions such as Deepfield, a United States-based leader in big data analytics to extend our reach into webscale and large enterprise customers.

Building a strong standalone software business is our third strategic priority, and in 2016 we made good progress, expanding our current business with communication service providers and expanding to enterprises and IoT platforms. We enhanced our IMPACT platform to help our customers deploy new services and lines of business, such as smart parking, smart lighting, and transportation and automotive. Our planned acquisition of Comptel accelerates our plans for a standalone software business. Comptel's service orchestration portfolio, when combined with Nokia's Service Assurance and our Cloudband and Nuage portfolios, enables us to provide our customers with complete end-to-end orchestration of complex Network Function Virtualization (“NFV”) and SDN deployments.



Finally, our fourth strategic pillar—to create new business and licensing opportunities in the consumer ecosystem—gained strong momentum. Our patent licensing business has also progressed, adding more licensees as well as concluding our arbitration and agreeing an expanded licensing deal with Samsung. We also entered into a brand licensing agreement with HMD Global, which has already launched its first Nokia-branded smartphones. We accelerated our Digital Health business with the acquisition of Withings, and continued to gain momentum in OZO camera sales and in taking steps to see our VR video and audio become embedded in the VR ecosystem. Our primary interest in this area continues to be in developing technology that we can license to other parties and in refreshing our patent portfolio.

These are truly exciting times at Nokia. We came a long way in 2016 and have plenty of opportunities in our future.

Even if our business has changed massively, our culture remains uniquely Nokia. We are driven to win, focused on shareholder value, but always guided by our strong core values and deep commitment to ethics and integrity. We remain true to our vision to expand the human possibilities of the connected world, creating new and extraordinary experiences in people's lives through technology that is grounded in real human needs. To that purpose we are dedicated, ready, and ideally placed to succeed.

Rajeev Suri
President and CEO