# Q2 2019

Conference call
July 25, 2019
15:00 / Helsinki
08:00 / New York

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Nokia presents financial information on reported, non-IFRS and constant currency basis. Non-IFRS measures presented in this document 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. In order to allow full visibility on determining non-IFRS results, information on non-IFRS exclusions is presented separately for each of the components of profit or loss. Constant currency reporting provides additional information on change in financial measures on a constant currency basis in order to better reflect the underlying business performance. Therefore, change in financial measures at constant currency excludes the impact of changes in exchange rates in comparison to euro, our reporting currency. Non-IFRS or constant currency financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS, and either of these financial measures as used by Nokia may not be comparable to similarly titled measures used by other companies or persons. Please see our complete financial report for more information on our results and financial performance for the indicated periods as well as our operating and reporting structure.



 

# Presented by

## Rajeev Suri

President and CEO

## Kristian Pullola

CFO




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# Strong Q2 driven by end-to-end 5G demand and improved operational execution; Full year 2019 guidance maintained

## Rajeev Suri, President and CEO, on Q2 2019 results

Nokia delivered a strong second quarter, driven by 5G demand, a competitive end-to-end portfolio and strengthened operational execution. Given these compelling results, we are confirming our full-year 2019 guidance.

In the quarter, we saw good year-on-year growth, meaningful improvements in profitability, robust progress in our strategic expansion areas of Software and Enterprise and excellent momentum in our IP Routing business. We also continued to enhance our position in 5G, and now have 45 commercial 5G deals and 9 live networks.

Risks remain in the year, including execution demands in the second half, trade-related uncertainty and challenges in the China market. Given these risks, we will continue to focus on tight operational discipline, delivering on our EUR 700 million cost-savings program, improving working capital management and advancing the implementation of our strategy.

Overall, I am pleased with Nokia's performance in the second quarter and our continued progress in executing our strategy.

 

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# Dividend

Beginning with the distribution for the financial year 2018, Nokia has 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. The dividend record date is on July 30, 2019 and the dividend is expected to be paid on or around August 8, 2019. The actual dividend payment date outside Finland will be determined by the practices of the intermediary banks transferring the dividend payments. Following this announced distribution, the Board's remaining distribution authorization for the financial year 2018 is a maximum of EUR 0.10 per share.

The payment of the second instalment of the dividend, as well as the payment of the withholding taxes related to the first instalment of the dividend, are expected to total approximately EUR 300 million in Q3 2019.

# Financial Summary

| Q2 2019 and January-June 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) | **Q2'19** | Q2'18 | YoY change | *Constant currency YoY change* | **Q1-Q2'19** | Q1-Q2'18 | YoY change | *Constant currency YoY change* |
| Net sales | **5 694** | 5 313 | 7% | *5%* | **10 726** | 10 237 | 5% | *2%* |
| Operating profit/(loss) | **(57)** | (221) | | | **(581)** | (557) | | |
| Operating margin % | **(1.0)%** | (4.2)% | 320bps | | **(5.4)%** | (5.4)% | 0bps | |
| EPS, diluted | **(0.03)** | (0.05) | | | **(0.11)** | (0.11) | | |
| *Operating profit/(loss) (non-IFRS)* | ***451*** | *334* | *35%* | | ***391*** | *573* | *(32)%* | |
| *Operating margin % (non-IFRS)* | ***7.9%*** | *6.3%* | *160bps* | | ***3.6%*** | *5.6%* | *(200)bps* | |
| *EPS, diluted (non-IFRS)* | ***0.05*** | *0.03* | *67%* | | ***0.02*** | *0.04* | *(50)%* | |
| Net cash and current financial investments[1] | **502** | 2 146 | (77)% | | **502** | 2 146 | (77)% | |

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

# Outlook



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# Outlook metrics

| Metric | Full Year 2019 | Full Year 2020 |
|---|---|---|
| Non-IFRS diluted earnings per share | EUR 0.25 - 0.29 | EUR 0.37 - 0.42 |
| Non-IFRS operating margin | 9 - 12% | 12 - 16% |
| Recurring free cash flow[1] | Slightly positive | Clearly positive |
| Annual distribution to shareholders: Over the long term, Nokia targets to deliver an earnings-based growing dividend by distributing 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.



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# 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 outperform our primary addressable market in full year 2019 and over the longer-term, driven by our strategy, which includes competing in 5G more effectively due to our strong end-to-end portfolio, focusing on targeted growth opportunities in attractive adjacent markets and building a strong network agnostic software business. 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. (This is an update to our earlier commentary for our primary addressable market to be flattish in full year 2019 and to grow in full year 2020.);
- The slow start to 2019 and weak overall first half puts significant pressure on execution in the second half;
- 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, an expected soft third quarter and an expected particularly strong fourth quarter (This is an update, providing additional quarterly details);
- Competitive intensity could increase in some accounts as some competitors seek to take share in the early phases of 5G;
- 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;
- Potential mergers or acquisitions by our customers;
- Our product and regional mix; 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 350 million in full year 2019 and 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 300 million.);
- 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 450 million in full year 2019 and over the longer term until our US or Finnish deferred tax assets are fully utilized; and
- Capital expenditures of approximately EUR 700 million in full year 2019 and approximately EUR 600 million over the longer-term.

 

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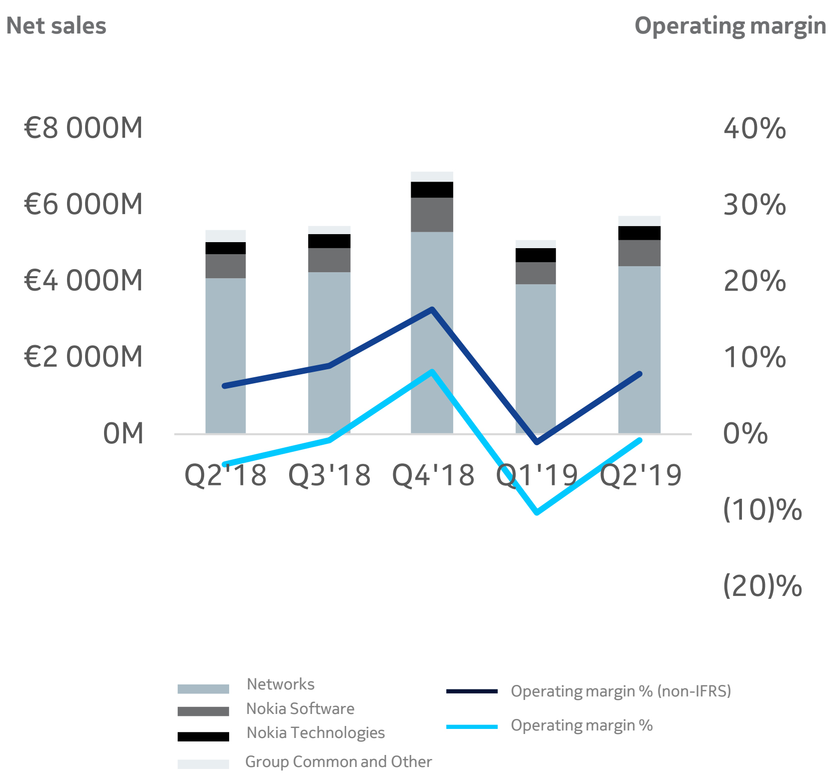
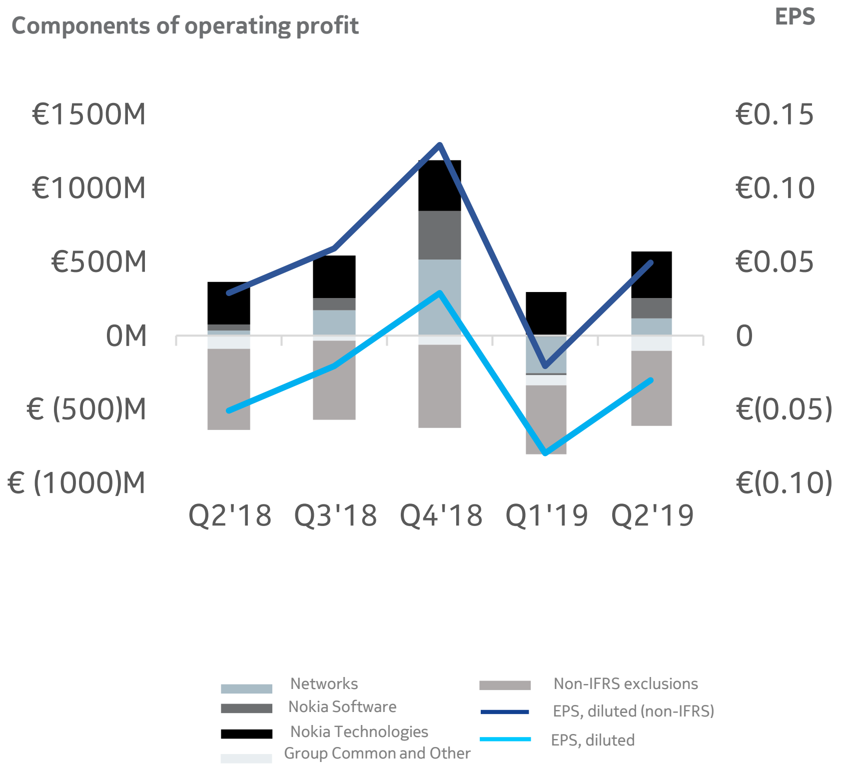
# Nokia in Q2 2019

# Nokia financial results



# Nokia financial results, Q2 2019 compared to Q2 2018

| EUR million (except for EPS in EUR) | Q2'19 | Q2'18 | YoY change | *Constant currency YoY change* |
|---|---|---|---|---|
| Net sales | **5 694** | 5 313 | 7% | *5%* |
| Networks | **4 393** | 4 081 | 8% | *5%* |
| Nokia Software | **678** | 612 | 11% | *8%* |
| Nokia Technologies | **383** | 361 | 6% | *4%* |
| Group Common and Other | **263** | 280 | (6)% | *(6)%* |
| Non-IFRS exclusions | **(2)** | (5) | (60)% | |
| Gross profit | **2 065** | 1 860 | 11% | |
| Operating profit/(loss) | **(57)** | (221) | (74)% | |
| Networks | **119** | 34 | 250% | |
| Nokia Software | **137** | 40 | 243% | |
| Nokia Technologies | **324** | 292 | 11% | |
| Group Common and Other | **(129)** | (33) | | |
| Non-IFRS exclusions | **(508)** | (555) | | |
| Operating margin % | **(1.0)%** | (4.2)% | 320bps | |
| *Gross profit (non-IFRS)* | ***2 117*** | *2 038* | *4%* | |
| *Operating profit/(loss) (non-IFRS)* | ***451*** | *334* | *35%* | |
| *Operating margin % (non-IFRS)* | ***7.9%*** | *6.3%* | *160bps* | |
| Financial income and expenses | **(173)** | (56) | 209% | |
| Income taxes | **46** | 10 | 360% | |
| Profit/(loss) for the period | **(191)** | (271) | (30)% | |
| EPS, diluted | **(0.03)** | (0.05) | (40)% | |
| *Financial income and expenses (non-IFRS)* | ***(86)*** | *(84)* | *2%* | |
| *Income taxes (non-IFRS)* | ***(101)*** | *(106)* | *(5)%* | |
| *Profit/(loss) for the period (non-IFRS)* | ***258*** | *139* | *86%* | |
| *EPS, diluted (non-IFRS)* | ***0.05*** | *0.03* | *67%* | |

Nokia non-IFRS net sales grew 7%. On a constant currency basis, Nokia non-IFRS net sales grew 5%.

Nokia non-IFRS net sales, excluding approximately EUR 30 million of one-time licensing net sales in Q2 2019 and EUR 10 million in Q2 2018, grew 7%, as our customers added network capacity in preparation for the continued rise in broadband traffic driven by 5G. Our strong topline performance in Q2 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 Q2 2019, we continued to make progress with our strategy to diversify and grow, with strong results in Nokia Software and continued solid performance with enterprise customers.

The strong growth in Nokia Software net sales was due to both applications and core networks benefitting from its improved go-to-market capabilities, as well as the timing of completions and acceptances of certain projects.

The growth in net sales to enterprise customers was primarily due to strong demand for our market-leading IP routing and optical networks portfolio and, to a lesser extent, strong percentage growth in private wireless networks for industrial and public sector applications. We continue to see strong momentum in industries like utilities, transportation, mining, manufacturing, as well as the public sector.

The increase in Nokia non-IFRS gross profit was driven by strong net sales and operational execution that was solid and broad-based across Networks, Nokia Software and Nokia Technologies, partially offset by lower gross profit in Group Common and other.

The increase in Nokia non-IFRS operating profit was driven by the higher non-IFRS gross profit, as well as continued progress related to Nokia's cost savings program, partially offset by lower gains in Nokia's venture fund investments and a net negative impact related to foreign exchange hedging.

# Nokia financial results, January-June 2019 compared to January-June 2018

| EUR million (except for EPS in EUR) | Q1-Q2'19 | Q1-Q2'18 | YoY change | *currency YoY change* |
|---|---|---|---|---|
| Net sales | **10 726** | 10 237 | 5% | *2%* |
| Networks | **8 336** | 7 864 | 6% | *3%* |
| Nokia Software | **1 221** | 1 153 | 6% | *3%* |
| Nokia Technologies | **753** | 726 | 4% | *2%* |
| Group Common and Other | **484** | 532 | (9)% | *(9)%* |
| Non-IFRS exclusions | **(27)** | (9) | 200% | |
| Gross profit | **3 646** | 3 666 | (1)% | |
| Operating profit/(loss) | **(581)** | (557) | 4% | |
| Networks | **(135)** | 80 | (269)% | |
| Nokia Software | **130** | 42 | 210% | |
| Nokia Technologies | **626** | 566 | 11% | |
| Group Common and Other | **(230)** | (116) | | |
| Non-IFRS exclusions | **(972)** | (1 129) | | |
| Operating margin % | **(5.4)%** | (5.4)% | 0bps | |
| *Gross profit (non-IFRS)* | ***3 758*** | *3 979* | *(6)%* | |
| *Operating profit/(loss) (non-IFRS)* | ***391*** | *573* | *(32)%* | |
| *Operating margin % (non-IFRS)* | ***3.6%*** | *5.6%* | *(200)bps* | |
| Financial income and expenses | **(228)** | (164) | 39% | |
| Income taxes | **188** | 104 | 81% | |
| Profit/(loss) for the period | **(632)** | (625) | 1% | |
| EPS, diluted | **(0.11)** | (0.11) | 0% | |
| *Financial income and expenses (non-IFRS)* | ***(178)*** | *(200)* | *(11)%* | |
| *Income taxes (non-IFRS)* | ***(60)*** | *(143)* | *(58)%* | |
| *Profit/(loss) for the period (non-IFRS)* | ***142*** | *223* | *(36)%* | |
| *EPS, diluted (non-IFRS)* | ***0.02*** | *0.04* | *(50)%* | |

Nokia net sales grew 5% in the first six months of 2019 as our customers added network capacity in preparation for the continued rise in broadband traffic driven by 5G. On a constant currency basis, Nokia net sales grew 2% in the first six months of 2019.

Nokia net sales, excluding approximately EUR 70 million of one-time licensing net sales in the first six months of 2019 and EUR 20 million in the first six months of 2018, grew 4%.

Our strong topline performance in the first six 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 six months of 2019, we continued to make progress with our strategy to diversify and grow, with strong results in Nokia Software and continued solid performance with enterprise customers.

The decrease in Nokia gross profit in the first six months of 2019 was driven by a particularly weak Q1 2019, partially offset by improved operational execution in Q2 2019.

The slight increase in Nokia operating loss in the first six months of 2019 was driven by lower gross profit and higher restructuring and associated charges, partially offset by continued progress related to Nokia's cost savings program.

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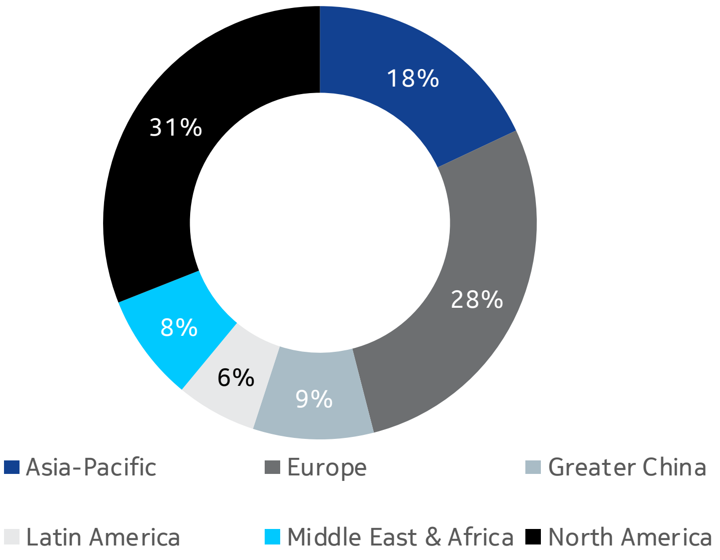
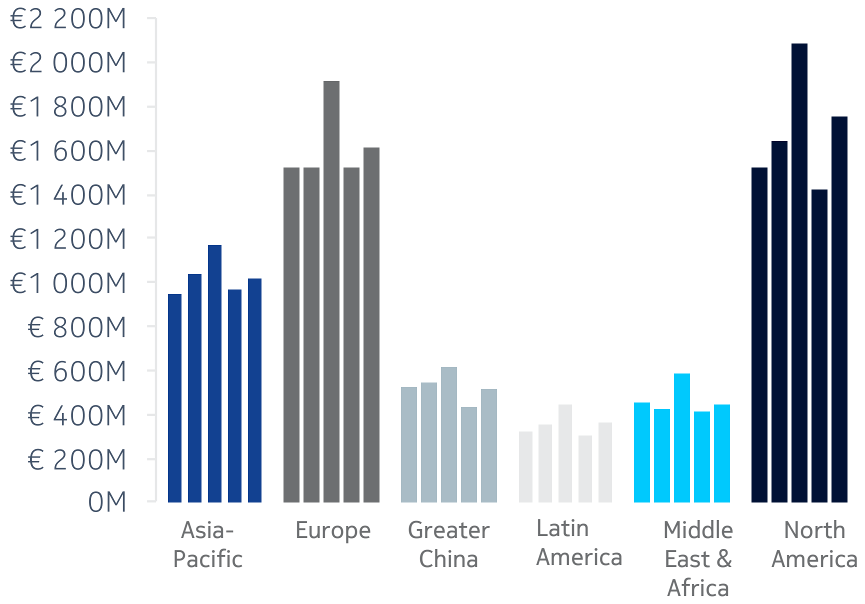
# Net sales by region

## Q2 2019




## Q2/2018-Q2/2019



# Net sales by customer type

| EUR million | Q2'19 | Q2'18 | YoY change | *Constant currency YoY change* | Q1-Q2'19 | Q1-Q2'18 | YoY change | *Constant currency YoY change* |
|---|---|---|---|---|---|---|---|---|
| Communication service providers | **4 755** | 4 398 | 8% | *6%* | 8 962 | 8 478 | 6% | *2%* |
| Enterprise | **318** | 295 | 8% | *6%* | 577 | 540 | 7% | *4%* |
| Licensees | **383** | 352 | 9% | *6%* | 753 | 701 | 7% | *5%* |
| Other[1] | **238** | 268 | (11)% | *(12)%* | 433 | 519 | (17)% | *(16)%* |
| **Total** | **5 694** | 5 313 | 7% | *5%* | 10 726 | 10 237 | 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 7% on a reported basis and 5% on a constant currency basis in Q2 2019, and grew 8% on a reported basis and 5% on a constant currency basis in the first six months of 2019.

# Amounts related to licensing and Nokia Bell Labs allocated 85% to Networks and 15% to Nokia Software

Nokia is providing additional adjusted financial disclosure for its Networks and Nokia Software reportable segments, with amounts related to licensing and Nokia Bell Labs allocated 85% to Networks and 15% to Nokia Software. In addition to Nokia's primary financial disclosures, this reflects Nokia's strategy, organizational structure and the way it evaluates operational performance and allocates resources, is in accordance with industry practice and improves comparability with peer companies.

If we would report amounts related to licensing and Nokia Bell Labs as part of Networks and Nokia Software, our Q2 2019 Networks operating margin would have been 7.4% instead of 2.7%, and our Q2 2019 Nokia Software operating margin would have been 24.2% instead of 20.2%.

| | Q2'19 | Allocations | | Q2'19 | Q2'18 |
|---|---|---|---|---|---|
| | Before allocations | Licensing | Nokia Bell Labs | After allocations | After allocations |
| **Net sales (EUR million)** | | | | | |
| Networks | 4 393 | 326 | 3 | **4 721** | 4 382 |
| Nokia Software | 678 | 57 | | **736** | 665 |
| Nokia Technologies | 383 | (383) | | **0** | 9 |
| Group Common and Other | 263 | | (3) | **260** | 278 |
| Eliminations | (21) | | | **(21)** | (15) |
| Non-IFRS total | 5 696 | 0 | 0 | **5 696** | 5 318 |
| **Operating Profit (EUR million)** | | | | | |
| Networks | 119 | 275 | (46) | **348** | 244 |
| Nokia Software | 137 | 49 | (8) | **178** | 77 |
| Nokia Technologies | 324 | (324) | | **0** | (5) |
| Group Common and Other | (129) | | 54 | **(75)** | 17 |
| Non-IFRS total | 451 | 0 | 0 | **451** | 334 |
| **Operating Margin %** | | | | | |
| Networks | 2.7% | | | **7.4%** | 5.6% |
| Nokia Software | 20.2% | | | **24.2%** | 11.6% |
| Nokia Technologies | 84.6% | | | | |
| Group Common and Other | (49.0)% | | | **(28.8)%** | 6.1% |
| Non-IFRS total | 7.9% | | | **7.9%** | 6.3% |

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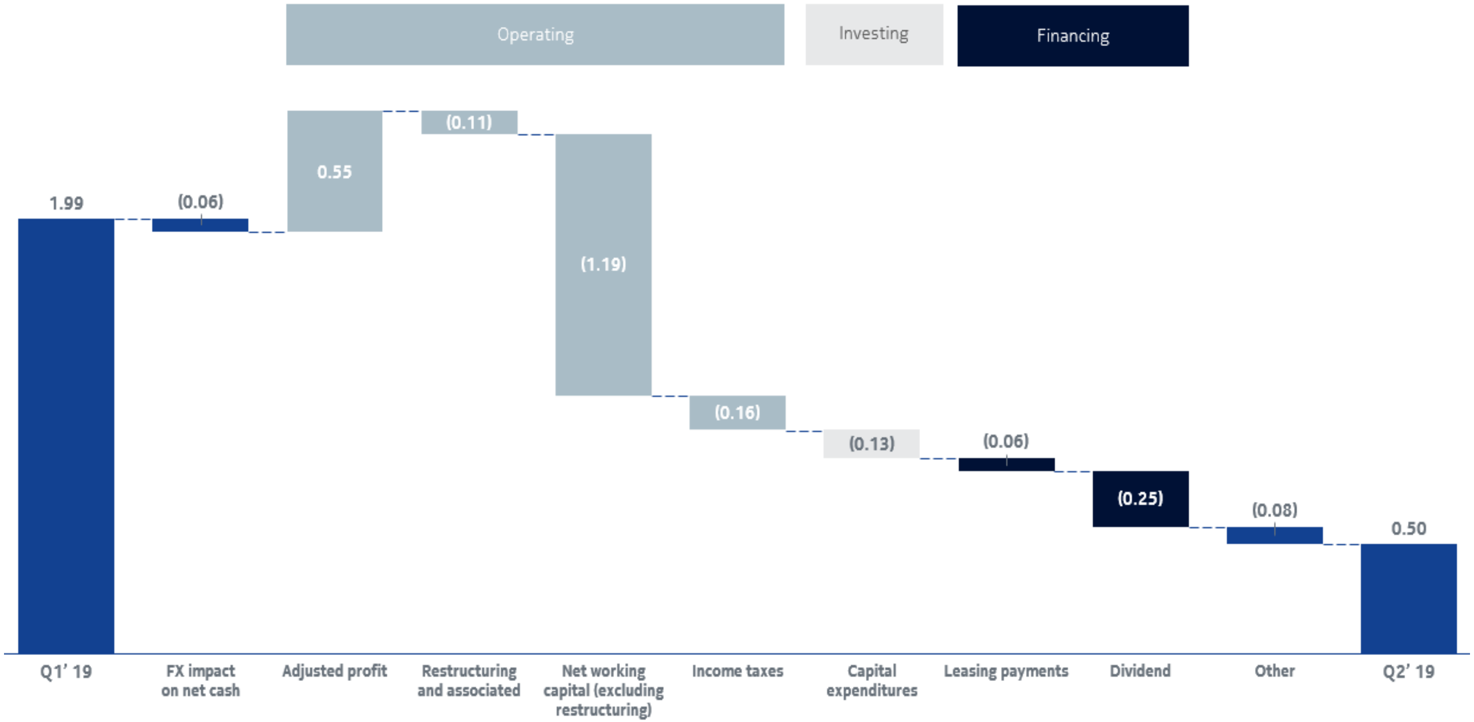
# Change in net cash and current financial investments

(EUR billion)



# Cost savings program

We expect our most recent cost savings program to result in a net EUR 700 million reduction of non-IFRS operating expenses and production overheads in full year 2020 compared to full year 2018, of which EUR 500 million is expected to come from operating expenses and EUR 200 million is expected to come from cost of sales. The related restructuring charges are expected to total EUR 900 million.

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

| In EUR million, approximately[1] | Q2'19 |
|---|---|
| Balance of restructuring and associated liabilities for prior programs | 660 |
| + Charges in the quarter | 200 |
| - Cash outflows in the quarter | 110 |
| = Ending balance of restructuring and associated liabilities | 750 |
| *of which restructuring provisions* | *570* |
| *of which other associated liabilities* | *180* |
| | |
| Total expected restructuring and associated charges, related to our most recent cost savings program *(rounded to the nearest EUR 50 million)* | 900 |
| - Cumulative recorded | 360 |
| = Charges remaining to be recorded | 540 |
| | |
| Total expected restructuring and associated cash outflows *(rounded to the nearest EUR 50 million)* | 1 550 |
| - Cumulative recorded | 240 |
| = Cash outflows remaining to be recorded | 1 310 |

[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.

# Cost savings program

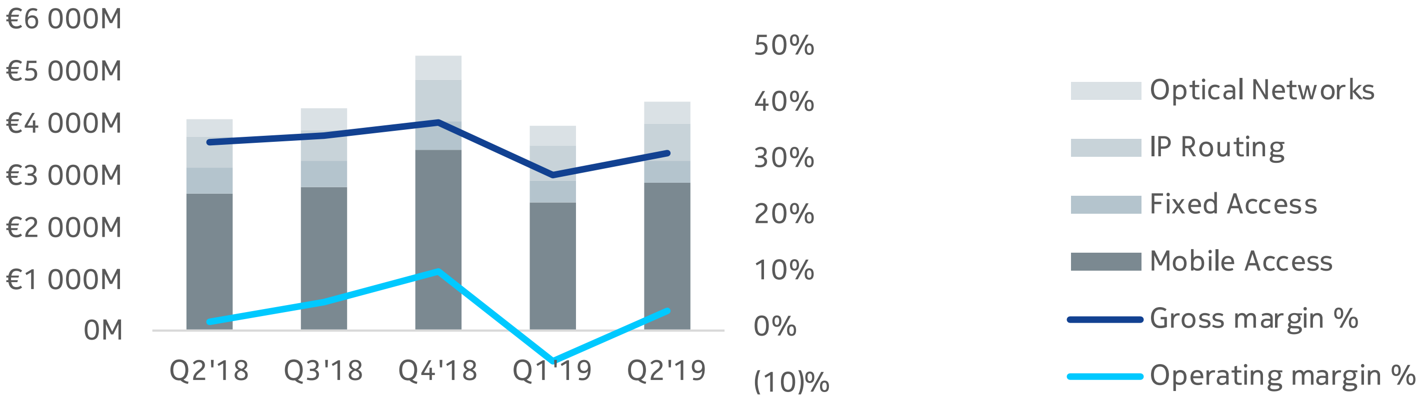
The below table includes future expectations related to our most recent cost savings program, as well as the remaining cash outflows related to our previous programs and network equipment swaps.

| In EUR million, approximately rounded to the nearest EUR 50 million | Expected amounts for | | | |
|---|---|---|---|---|
| | FY 2019 | FY 2020 | Beyond FY 2020 | Total |
| Recurring annual cost savings | 200 | 500 | - | 700 |
| *- operating expenses* | *150* | *350* | - | *500* |
| *- cost of sales* | *50* | *150* | - | *200* |
| Restructuring and associated charges | 550 | 350 | - | 900 |
| Restructuring and associated cash outflows | 700 | 350 | 500 | 1 550 |
| Charges related to network equipment swaps | 150 | - | - | 150 |
| Cash outflows related to network equipment swaps | 150 | - | - | 150 |

# Reportable Segments in Q2 2019

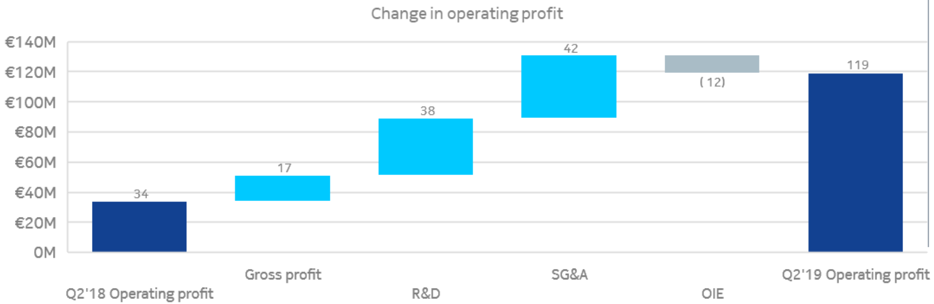
# Networks

## Net sales and margins



# Networks

| EUR million | Q2'19 | Q2'18 | YoY change | *Constant currency YoY change* |
|---|---|---|---|---|
| **Net sales** | **4 393** | 4 081 | 8% | *5%* |
| Mobile Access | **2 824** | 2 634 | 7% | *5%* |
| Fixed Access | **447** | 490 | (9)% | *(11)%* |
| IP Routing | **715** | 592 | 21% | *18%* |
| Optical Networks | **407** | 365 | 12% | *9%* |
| Gross profit | **1 367** | 1 350 | 1% | |
| *Gross margin %* | ***31.1%*** | *33.1%* | *(200)bps* | |
| R&D | **(746)** | (784) | (5)% | |
| SG&A | **(474)** | (516) | (8)% | |
| Other income and expenses | **(28)** | (16) | | |
| **Operating profit/(loss)** | **119** | 34 | 250% | |
| *Operating margin %* | ***2.7%*** | *0.8%* | *190bps* | |




Networks net sales grew 8%. On a constant currency basis, Networks net sales grew 5%.

The growth in Networks net sales was primarily due to Mobile Access, IP Routing and, to a lesser extent, Optical Networks, partially offset by a decrease in Fixed Access.

The growth in Mobile Access was primarily due to network deployment services and 5G radio technologies, partially offset by decreases in legacy radio technologies. The growth in IP Routing and Optical Networks was primarily due to our market-leading portfolio. In IP routing, growth was also driven by significantly improved supply chain execution. The decrease in Fixed Access was primarily due to broadband access and digital home.

The increase in Networks gross profit was primarily due to IP Routing and Optical Networks, partially offset by Fixed Access and Mobile Access. The increase in IP Routing gross profit was due to higher net sales and higher gross margin. The increase in Optical Networks gross profit was due to higher gross margin and higher net sales. The decrease in Fixed Access gross profit was due to lower gross margin and lower net sales. The decrease in Mobile Access gross profit was primarily due to lower gross margin, partially offset by higher net sales.

The decrease in Networks R&D expenses was primarily due to continued progress related to Nokia's cost savings program, partially offset by higher 5G investments in Mobile Access.

The decrease in Networks SG&A expenses was primarily due to Mobile Access, reflecting continued progress related to Nokia's cost savings program.

The net negative fluctuation in other income and expenses was primarily due to foreign exchange hedging, partially offset by lower loss allowances on trade receivables.



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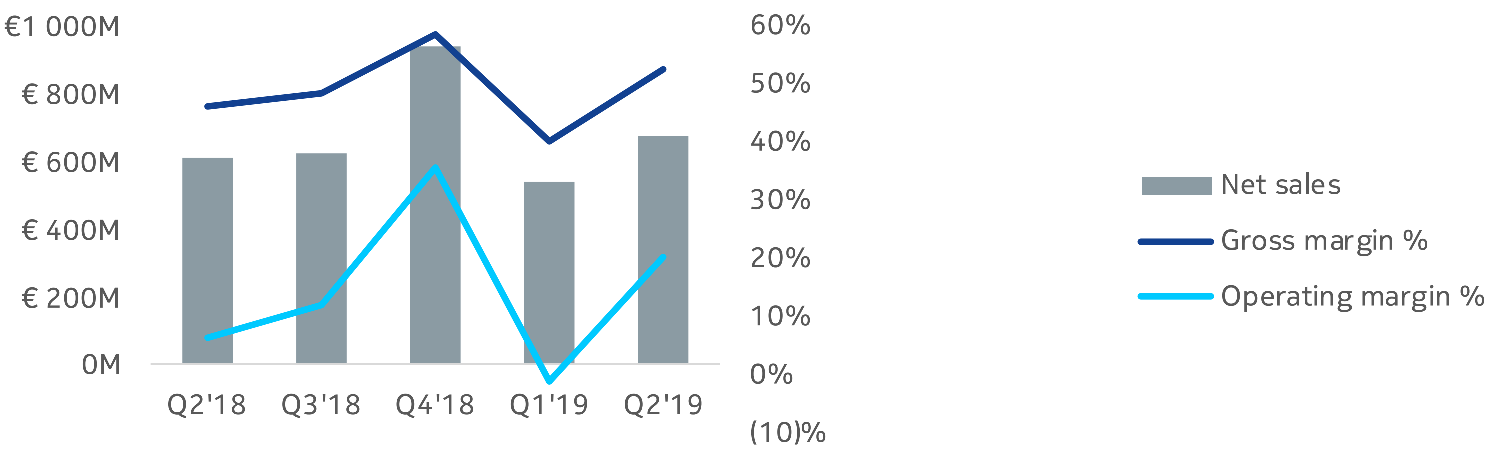
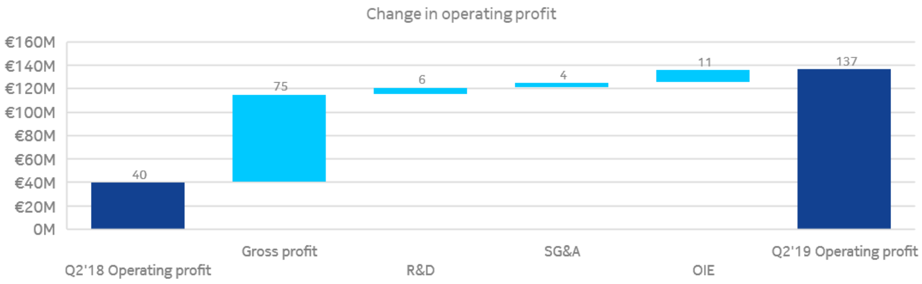
# Nokia Software

## Net sales and margins



# Nokia Software

| EUR million | Q2'19 | Q2'18 | YoY change | *Constant currency YoY change* |
|---|---|---|---|---|
| **Net sales** | **678** | 612 | 11% | *8%* |
| Gross profit | **357** | 282 | 27% | |
| *Gross margin %* | ***52.7%*** | *46.1%* | *660bps* | |
| R&D | **(117)** | (123) | (5)% | |
| SG&A | **(100)** | (104) | (4)% | |
| Other income and expenses | **(3)** | (14) | (79)% | |
| **Operating profit/(loss)** | **137** | 40 | 243% | |
| *Operating margin %* | ***20.2%*** | *6.5%* | *1 370bps* | |




Nokia Software net sales grew 11%. On a constant currency basis, Nokia Software net sales grew 8%.

The strong growth in Nokia Software net sales was due to both applications and core networks benefitting from improved go-to-market capabilities, as well as the timing of completions and acceptances of certain projects. In applications, growth was driven by broad-based strength across our market-leading cloud-native digital experience, digital operations and digital intelligence portfolios. In core networks, growth was primarily driven by several projects going live. From a regional perspective, growth was particularly driven by strong execution in North America, Asia-Pacific and Europe.

The increase in Nokia Software gross profit was primarily due to higher gross margin in both core networks and applications, as well as higher net sales.

The decrease in Nokia Software R&D expenses was primarily due to an increase in R&D productivity, achieved through our investments in a Common Software Foundation.

The decrease in Nokia Software SG&A expenses was primarily due to the integration and streamlining of core networks into our existing specialized software salesforce.

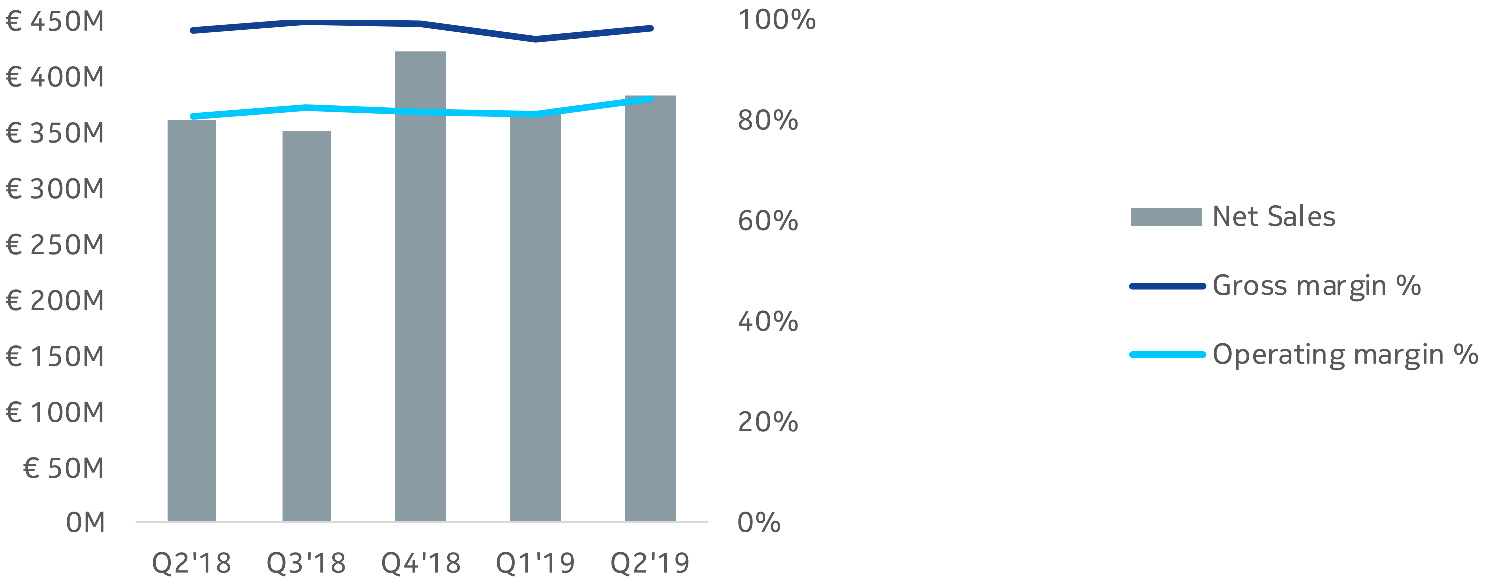
Having completed the integration of core networks into Nokia Software, we are in the process of transforming the core networks business to support growth and higher returns.  As we drive this, we expect overall operating expenses for Nokia Software to continue at similar or slightly higher levels as in Q2 2019.

The net positive fluctuation in other income and expenses was primarily due to foreign exchange.

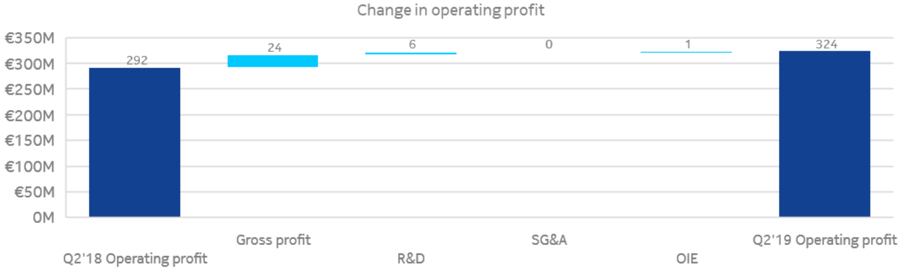
# Nokia Technologies

## Net sales and margins



# Nokia Technologies

| EUR million | Q2'19 | Q2'18 | YoY change | *Constant currency YoY change* |
|---|---|---|---|---|
| **Net sales** | **383** | 361 | 6% | *4%* |
| Gross profit | **378** | 354 | 7% | |
| *Gross margin %* | ***98.7%*** | *98.1%* | *60bps* | |
| R&D | **(30)** | (36) | (17)% | |
| SG&A | **(25)** | (25) | 0% | |
| Other income and expenses | **0** | (1) | | |
| **Operating profit/(loss)** | **324** | 292 | 11% | |
| *Operating margin %* | ***84.6%*** | *80.9%* | *370bps* | |




Nokia Technologies net sales grew 6%. On a constant currency basis, Nokia Technologies net sales grew 4%.

The EUR 383 million of net sales in the second quarter 2019 related entirely to licensing. Of the EUR 361 million of net sales in the second quarter 2018, EUR 352 million related to licensing and EUR 9 million related to digital health products. We sold our digital health business in May 2018.

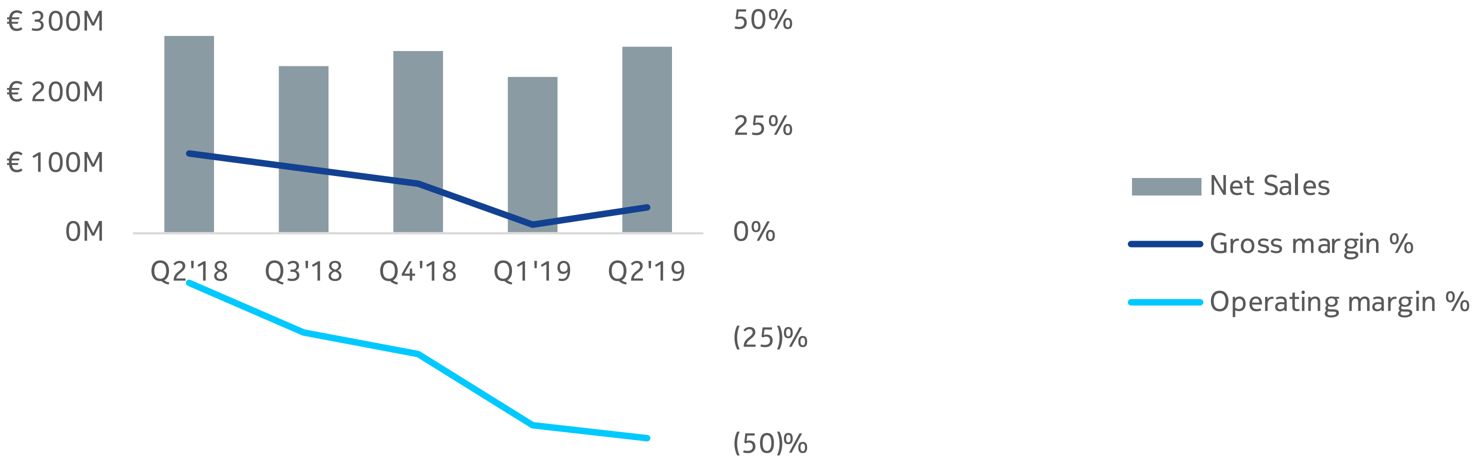
The growth in Nokia Technologies net sales was primarily due to higher one-time and recurring licensing net sales, partially offset by the sale of our digital health business in May 2018. One-time net sales amounted to approximately EUR 30 million in the second quarter 2019 and approximately EUR 10 million in the second quarter 2018.

The decrease in Nokia Technologies R&D expenses was primarily due to the absence of costs related to digital health, following the sale of our digital health business in May 2018.

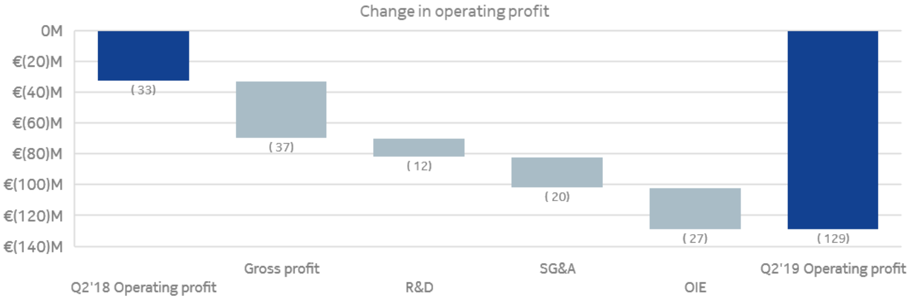
# Group Common and Other

## Net sales and margins



# Group Common and Other

| EUR million | Q2'19 | Q2'18 | YoY change | *Constant currency YoY change* |
|---|---|---|---|---|
| **Net sales** | **263** | 280 | (6)% | *(6)%* |
| Gross profit | **15** | 52 | (71)% | |
| *Gross margin %* | ***5.7%*** | *18.6%* | *(1 290)bps* | |
| R&D | **(85)** | (73) | 16% | |
| SG&A | **(70)** | (50) | 40% | |
| Other income and expenses | **11** | 38 | | |
| **Operating profit/(loss)** | **(129)** | (33) | | |
| *Operating margin %* | ***(49.0)%*** | *(11.8)%* | *(3 720)bps* | |




Group Common and Other net sales decreased 6% on both a reported and constant currency basis.

The decrease in Group Common and Other net sales was primarily due to Radio Frequency Systems, partially offset by growth in Alcatel Submarine Networks. The decrease in Radio Frequency Systems was primarily due to the absence of a large customer roll-out which benefitted the year-ago quarter. The increase in Alcatel Submarine Networks was primarily due to the ramp-up of new projects.

The decrease in Group Common and Other gross profit was primarily due to lower gross margin in Radio Frequency Systems and Alcatel Submarine Networks and, to a lesser extent, lower net sales in Radio Frequency Systems.

The increase in Group Common and Other R&D and SG&A expenses was primarily due to longer-term investments to drive digitalization for the future.

The net negative fluctuation in other income and expenses was primarily due to lower gains in Nokia's venture fund investments.

# Financial Statements

# Consolidated income statement (condensed, unaudited)

| EUR million | Reported Q2'19 | Reported Q2'18 | Reported Q1-Q2'19 | Reported Q1-Q2'18 | Non-IFRS Q2'19 | Non-IFRS Q2'18 | Non-IFRS Q1-Q2'19 | Non-IFRS Q1-Q2'18 |
|---|---|---|---|---|---|---|---|---|
| **Net sales (notes 2, 3, 4)** | 5 694 | 5 313 | 10 726 | 10 237 | 5 696 | 5 318 | 10 753 | 10 246 |
| Cost of sales | (3 629) | (3 453) | (7 080) | (6 571) | (3 579) | (3 279) | (6 995) | (6 268) |
| **Gross profit (notes 2, 3)** | 2 065 | 1 860 | 3 646 | 3 666 | 2 117 | 2 038 | 3 758 | 3 979 |
| Research and development expenses | (1 126) | (1 165) | (2 282) | (2 332) | (978) | (1 016) | (1 987) | (2 027) |
| Selling, general and administrative expenses | (763) | (813) | (1 587) | (1 660) | (669) | (695) | (1 377) | (1 427) |
| Other income and expenses | (234) | (103) | (358) | (231) | (20) | 7 | (3) | 48 |
| **Operating (loss)/profit (notes 2, 3)** | (57) | (221) | (581) | (557) | 451 | 334 | 391 | 573 |
| Share of results of associated companies and joint ventures | (6) | (4) | (11) | (8) | (6) | (4) | (11) | (8) |
| Financial income and expenses | (173) | (56) | (228) | (164) | (86) | (84) | (178) | (200) |
| **(Loss)/profit before tax (note 2)** | (237) | (281) | (820) | (729) | 359 | 246 | 202 | 365 |
| Income tax benefit/(expense) | 46 | 10 | 188 | 104 | (101) | (106) | (60) | (143) |
| **(Loss)/profit from continuing operations (note 2)** | (191) | (271) | (632) | (625) | 258 | 139 | 142 | 223 |
| (Loss)/profit attributable to equity holders of the parent | (190) | (267) | (634) | (618) | 258 | 144 | 140 | 230 |
| Non-controlling interests | (1) | (4) | 1 | (7) | (1) | (4) | 1 | (7) |
| **(Loss)/profit from discontinued operations** | (3) | 1 | (6) | 163 | 0 | 0 | 0 | 0 |
| (Loss)/profit attributable to equity holders of the parent | (3) | 1 | (6) | 163 | 0 | 0 | 0 | 0 |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **(Loss)/profit for the period** | (194) | (271) | (638) | (462) | 258 | 139 | 142 | 223 |
| (Loss)/profit attributable to equity holders of the parent | (193) | (266) | (639) | (454) | 258 | 144 | 140 | 230 |
| Non-controlling interests | (1) | (4) | 1 | (7) | (1) | (4) | 1 | (7) |
| | | | | | | | | |
| **Earnings per share, EUR (for profit/(loss) attributable to equity holders of the parent)** | | | | | | | | |
| **Basic earnings per share** | | | | | | | | |
| Continuing operations | (0.03) | (0.05) | (0.11) | (0.11) | 0.05 | 0.03 | 0.03 | 0.04 |
| Discontinued operations | 0.00 | 0.00 | 0.00 | 0.03 | 0.00 | 0.00 | 0.00 | 0.00 |
| (Loss)/profit for the period | (0.03) | (0.05) | (0.11) | (0.08) | 0.05 | 0.03 | 0.03 | 0.04 |
| **Diluted earnings per share** | | | | | | | | |
| Continuing operations | (0.03) | (0.05) | (0.11) | (0.11) | 0.05 | 0.03 | 0.02 | 0.04 |
| Discontinued operations | 0.00 | 0.00 | 0.00 | 0.03 | 0.00 | 0.00 | 0.00 | 0.00 |
| (Loss)/profit for the period | (0.03) | (0.05) | (0.11) | (0.08) | 0.05 | 0.03 | 0.02 | 0.04 |
| **Average number of shares ('000 shares)** | | | | | | | | |
| **Basic** | | | | | | | | |
| Continuing operations | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 |
| Discontinued operations | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 |
| (Loss)/profit for the period | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 |
| **Diluted** | | | | | | | | |
| Continuing operations | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 | 5 620 597 | 5 603 494 | 5 623 864 | 5 605 036 |
| Discontinued operations | 5 598 710 | 5 603 494 | 5 597 426 | 5 605 036 | 5 620 597 | 5 603 494 | 5 623 864 | 5 605 036 |
| (Loss)/profit for the period | 5 598 710 | 5 587 556 | 5 597 426 | 5 585 599 | 5 620 597 | 5 603 494 | 5 623 864 | 5 605 036 |

# Consolidated statement of financial position (condensed, unaudited)

| EUR million | June 30, 2019 | June 30, 2018 | December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Goodwill | 5 477 | 5 384 | 5 452 |
| Other intangible assets | 2 889 | 3 646 | 3 353 |
| Property, plant and equipment | 1 782 | 1 782 | 1 790 |
| Right-of-use assets (note 12) | 864 | 0 | 0 |
| Investments in associated companies and joint ventures | 142 | 122 | 145 |
| Non-current financial investments (note 8) | 748 | 673 | 690 |
| Deferred tax assets (note 6) | 5 266 | 4 875 | 4 911 |
| Other non-current financial assets (note 8) | 409 | 345 | 373 |
| Defined benefit pension assets (note 5) | 4 400 | 4 248 | 4 224 |
| Other non-current assets | 265 | 307 | 308 |
| **Non-current assets** | 22 242 | 21 383 | 21 246 |
| Inventories | 3 606 | 2 937 | 3 168 |
| Trade receivables (note 8) | 4 777 | 4 847 | 4 856 |
| Contract assets | 1 712 | 1 727 | 1 875 |
| Prepaid expenses and accrued income | 1 138 | 1 109 | 1 024 |
| Social security, VAT and other indirect taxes | 652 | 575 | 514 |
| Divestment related receivables | 47 | 75 | 67 |
| Other | 439 | 460 | 443 |
| Current income tax assets | 364 | 492 | 227 |
| Other current financial assets (note 8) | 287 | 245 | 243 |
| Current financial investments (note 8) | 95 | 867 | 612 |
| Cash and cash equivalents (note 8) | 4 693 | 4 993 | 6 261 |
| **Current assets** | 16 673 | 17 218 | 18 266 |
| Assets held for sale | 8 | 40 | 5 |
| **Total assets** | 38 923 | 38 642 | 39 517 |

| | June 30, 2019 | June 30, 2018 | December 31, 2018 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| Share capital | 246 | 246 | 246 |
| Share issue premium | 428 | 417 | 436 |
| Treasury shares | (368) | (417) | (408) |
| Translation differences | (506) | (704) | (592) |
| Fair value and other reserves | 891 | 1 062 | 1 063 |
| Reserve for invested unrestricted equity | 15 596 | 15 589 | 15 606 |
| Accumulated deficit | (1 988) | (1 174) | (1 062) |
| **Total capital and reserves attributable to equity holders of the** | 14 298 | 15 020 | 15 289 |
| Non-controlling interests | 79 | 70 | 82 |
| **Total equity** | 14 377 | 15 089 | 15 371 |
| Long-term interest-bearing liabilities (notes 8, 10) | 3 949 | 2 768 | 2 826 |
| Long-term lease liabilities (note 12) | 748 | 3 | 2 |
| Deferred tax liabilities (note 6) | 294 | 399 | 350 |
| Defined benefit pension and post-retirement liabilities (note 5) | 4 755 | 4 275 | 4 327 |
| Contract liabilities | 1 007 | 1 168 | 1 113 |
| Deferred revenue and other long-term liabilities | 787 | 1 667 | 852 |
| Deferred revenue | 692 | 847 | 770 |
| Other (note 8) | 95 | 820 | 82 |
| Provisions (note 9) | 592 | 688 | 572 |
| **Non-current liabilities** | 12 133 | 10 967 | 10 042 |
| Short-term interest-bearing liabilities (notes 8, 10) | 337 | 946 | 994 |
| Short-term lease liabilities (note 12) | 223 | 0 | 0 |
| Other financial liabilities (note 8) | 819 | 249 | 891 |
| Current income tax liabilities | 207 | 288 | 268 |
| Trade payables (note 8) | 3 894 | 3 900 | 4 773 |
| Contract liabilities | 2 606 | 2 454 | 2 383 |
| Accrued expenses, deferred revenue and other liabilities | 3 488 | 3 764 | 3 940 |
| Deferred revenue | 155 | 155 | 155 |
| Salaries, wages and social charges | 1 213 | 1 215 | 1 426 |
| Other | 2 120 | 2 394 | 2 359 |
| Provisions (note 9) | 838 | 985 | 855 |
| **Current liabilities** | 12 412 | 12 585 | 14 104 |
| **Total shareholders' equity and liabilities** | 38 923 | 38 642 | 39 517 |
| | | | |
| Interest-bearing liabilities, EUR million | 4 286 | 3 714 | 3 820 |
| Shareholders' equity per share, EUR | 2.55 | 2.69 | 2.73 |
| Number of shares (1 000 shares, excluding treasury shares) | 5 598 710 | 5 587 554 | 5 593 162 |

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# Consolidated statement of cash flows (condensed, unaudited)

| EUR million | Q2'19 | Q2'18 | Q1-Q2'19 | Q1-Q2'18 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Loss for the period | (194) | (271) | (638) | (462) |
| Adjustments | 747 | 525 | 1 198 | 886 |
| Depreciation and amortization | 413 | 360 | 820 | 732 |
| Restructuring charges | 193 | 24 | 319 | 155 |
| Financial income and expenses | 174 | 70 | 228 | 84 |
| Income tax benefit | (46) | (12) | (187) | (177) |
| Other | 13 | 83 | 18 | 92 |
| Change in net working capital | | | | |
| (Increase)/decrease in receivables[1] | (255) | (179) | 126 | 372 |
| Increase in inventories | (113) | (135) | (392) | (303) |
| Decrease in non-interest-bearing liabilities[1] | (932) | (665) | (1 567) | (1 075) |
| Cash used in operations | (747) | (725) | (1 273) | (582) |
| Interest received | 10 | 18 | 26 | 42 |
| Interest paid | (15) | (27) | (75) | (116) |
| Income taxes paid, net | (164) | (100) | (341) | (288) |
| Net cash used in operating activities | (916) | (834) | (1 663) | (944) |
| **Cash flow from investing activities** | | | | |
| Purchase of property, plant and equipment and intangible assets | (131) | (104) | (306) | (364) |
| Proceeds from sale of property, plant and equipment and intangible assets | 11 | 8 | 11 | 20 |
| Acquisition of businesses, net of cash acquired | 0 | (19) | 0 | (31) |
| Proceeds from disposal of businesses, net of disposed cash | 10 | 0 | 19 | 0 |
| Purchase of current financial investments | (44) | (343) | (349) | (1 179) |
| Proceeds from maturities and sale of current financial investments | 477 | 799 | 869 | 1 219 |
| Purchase of non-current financial investments | (57) | (29) | (77) | (48) |
| Proceeds from sale of non-current financial investments | 52 | 32 | 81 | 61 |
| Payment of other long-term loans receivable | (22) | 0 | (22) | 0 |
| Other | 3 | (2) | 3 | 0 |
| Net cash from/(used in) investing activities | 299 | 342 | 229 | (322) |
| **Cash flow from financing activities** | | | | |
| Purchase of equity instruments of subsidiaries | 0 | 0 | (1) | 0 |
| Proceeds from long-term borrowings | 250 | 45 | 999 | 75 |
| Repayment of long-term borrowings | (534) | (5) | (765) | (17) |
| Proceeds/(repayment of) short-term borrowings | 104 | (99) | 85 | (100) |
| Payment of lease liabilities | (63) | 0 | (127) | 0 |
| Dividends paid | (248) | (935) | (249) | (950) |
| Net cash used in financing activities | (491) | (994) | (58) | (992) |
| Translation differences | (61) | (76) | (76) | (118) |
| **Net decrease in cash and cash equivalents** | (1 169) | (1 562) | (1 568) | (2 376) |
| Cash and cash equivalents at beginning of period | 5 862 | 6 555 | 6 261 | 7 369 |
| Cash and cash equivalents at end of period | 4 693 | 4 993 | 4 693 | 4 993 |


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