

Q3 2022 Investor Video Transcript

October 20, 2022

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 2021 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
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Hi everyone, and welcome to this short introduction to Nokia’s third quarter 2022 financial results.

My name is David Mulholland, I’m Head of Investor Relations and with me today is Pekka Lundmark, our President and CEO.

In the discussion today we will be discussing our financial results and where we refer to growth rates it’s on a constant currency basis and where we refer to operating margins it’s on a comparable basis. You can find full reconciliation between these terms and our reported IFRS results in our Q3 financial report on the Nokia investor relations website.

With that – let’s get started.

Pekka - can you share a few thoughts on how you felt Nokia performed in the third quarter?

Pekka Lundmark, President and CEO

Thanks David. First of all, I'm pleased to say that we made good progress on the Accelerate phase of our strategy in the third quarter. Just as a reminder, this is the second phase of our three-step strategy and focuses on accelerating growth and expanding margins.

There were visible signs of progress in that respect. Net sales grew by 6%...up from 3% in Q2. Both Mobile Networks and Network Infrastructure made strong contributions to our Q3 growth, and in addition, while we're still facing some supply chain constraints, overall, these have eased.

We also maintained good profitability in the quarter with operating margin coming in at 10.5%. The decline compared to a year ago was driven by ongoing litigations and renewal discussions in Nokia Technologies.

So, overall, it was another strong quarter, and I would like to thank the entire Nokia team for their hard work in driving our acceleration.

David Mulholland, Head of Investor Relations

And one point you mentioned there Pekka was the acceleration that we saw in net sales growth – what were the key factors behind that?

Pekka Lundmark, President and CEO

I'm delighted that one of the biggest contributors to our net sales performance this quarter was Mobile Networks, which delivered 12% growth.

This did include some catch up sales as supply chain constraints eased. However, we are seeing good traction in the market for our products and in North America in particular we continued our strong performance, and we also grew in Latin America and Europe.

One of the highlights of the quarter was seeing the 5G journey taking off in India. Nokia has secured important deals with the big players in India such as Bharti Airtel and Reliance Jio. These deals strengthen our confidence that we are firmly on a path to grow faster than the market.

Network Infrastructure also had a good quarter with 5% growth. We are seeing strong demand in both Fixed Networks supported by fiber roll-outs and in Submarine Networks as we continue to execute against our strong backlog. IP Networks grew 3% and is progressing well on its FP5 ramp up and its expansion into webscale. In Optical

Networks sales were flat year-on-year, as we saw robust demand but still face supply chain challenges.

However, I think the team has been doing a good job overall managing the supply chain situation.

Cloud and Network Services showed a slight decline in net sales with the portfolio rebalancing ongoing.

And in Nokia Technologies there was good progress in their new growth areas including consumer electronics and automotive. These growth areas have achieved more than 100m Euro in net sales over the last 12 months even though they were negligible in 2018. The ongoing timing of contract renewals, we have referred to previously, continued to adversely impact the quarter.

David Mulholland, Head of Investor Relations

One area Pekka that we as a company have highlighted many times as being very important to our long term strategy is Enterprise and we saw very strong acceleration in the quarter to 22% growth. Can you talk a little bit about how you see the momentum in that part of the business as well?

Pekka Lundmark, President and CEO

Well as you remember, we have been saying for a while how strong our order growth has been in Enterprise. Now that the supply chain is improving, I'm delighted that we can demonstrate just how much stronger the sales growth is in this customer segment.

We have great momentum in Enterprise, with our private wireless business adding another 30 new customers in the quarter, and we are making good progress on building our partner network. I should also mention that we signed a new webscale customer for our IP routing products in the quarter.

I'm delighted with this momentum as this is a really important area for us. And I'm confident this will remain our fastest growing customer segment over time.

David Mulholland, Head of Investor Relations

If we move on to look at Nokia's margin performance in the quarter. Obviously we are seeing a lot of news headlines around inflation and the impact that could have. How are you managing to still manage the margins in the business?

Pekka Lundmark, President and CEO

Well, as I mentioned earlier, we maintained good profitability with operating margin at 10.5%. Yes, there was a decline of 120 basis points compared to the prior year, but this was primarily due to the timing effects of contract renewals impacting Nokia Technologies.

In Mobile Networks, we saw a 250 basis point expansion in operating margin as we continued to have a favorable regional mix in the quarter. We are seeing the impacts of inflation in many areas of our cost base, but we continue to focus on driving down our product costs and working with our customers to make sure we can offset these inflationary impacts.

In Network Infrastructure, we benefitted from top-line growth and delivered a 50 basis point improvement in operating margin.

And in Cloud and Network Services, gross margin continued to show improvements, while our increased investments in private wireless meant that operating margin showed a decline of 210 basis points.

David Mulholland, Head of Investor Relations

If we start to look forward now, how do you see the environment for the business through the rest of 2022?

Pekka Lundmark, President and CEO

We do remain on course to deliver towards the high-end of our net sales guidance for 2022 and towards the mid-point of our operating margin guidance. Delivering the margin mid-point does assume some outstanding deals in Nokia Technologies close by year-end. However we are confident in the value of our patents and will continue to prioritize the right outcomes over timing.

We have adjusted our net sales guidance for the currency to reflect foreign exchange movements and the top-line range is now 23.9 – 25.1 billion Euros. In constant currency, the guidance remains unchanged.

Comparable operating margin guidance remains at 11% to 13.5%.

David Mulholland, Head of Investor Relations

One of the other questions we get a lot from investors is how we are managing the macro situation given all of the uncertainties out there and potentially how we would see the outlook for the business into 2023. Maybe it's a little early, but could you give us a few of your thoughts on how you see the business performing on that timescale?

Pekka Lundmark, President and CEO

Well you are right it is still a little bit early. As we start to look beyond 2022, we recognize the increasing macro and geopolitical uncertainty in which we of course operate. While this could start to impact the capex spending of some of our customers, we continue to expect growth, on a constant currency basis, in our addressable markets in 2023.

Considering our recent success with new 5G deals in regions like India, which are expected to ramp up strongly in 2023, we believe we are firmly on a path to outperform the market and to make progress towards achieving our long-term margin targets.

David Mulholland, Head of Investor Relations

Just as we end Pekka, do you have any final thoughts you want to leave people with?

Pekka Lundmark, President and CEO

We said at the end of 2021 that we had completed the reset phase of our strategy and as we now see a clear acceleration in our sales growth, I'm happy to say we are on track with the second phase of our strategy. Our improved competitiveness and focus on technology leadership are paying off, and we remain committed to delivering on our long-term targets. So, once again thanks to the whole team at Nokia.

David Mulholland, Head of Investor Relations

Thank you Pekka and thank you everyone for joining us today.

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