Q1 2023 Investor Video Transcript

20 April 2023

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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 2022 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.

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David Mulholland, Head of Investor Relations

Hi everyone, and welcome to this short introduction to Nokia's First Quarter 2023 financial results.

I'm David Mulholland, Head of Investor Relations and with me here in Espoo is Pekka Lundmark, our President and CEO.

In today's video we will be discussing Nokia's financial performance and where we refer to our growth rates it's on a constant currency basis and where we refer to margins it's on a comparable basis. You can find full reconciliation between these figures under our IFRS reporting in the financial report that's on Nokia's Investor Relations website.

With that – let's get started.

Pekka – you had a very busy first quarter and there was a lot of key announcements coming out – I wonder if you could highlight what stood out for you?

Pekka Lundmark, President and CEO

Thanks David and hello everyone. You're right. We've had a busy Q1. I don't want to cover ground we've already spoken about extensively but we renewed our corporate strategy and refreshed our brand which was extremely well received at MWC and beyond.

We also advanced our technology leadership with the launch of new Optical and Radio products giving our customers improved performance and lower energy consumption.

Worth noting also is our new capital management policy, which will help ensure we maintain both flexibility and efficiency when it comes to managing our cash position. With this, we now target to maintain a net cash position in the range of 10-15% of net sales. Assuming we see the expected significant improvement in cash flow in 2024, we would then look to take action which could lead to greater shareholder distributions, along with potentially some smaller bolt-on acquisitions.

David Mulholland, Head of Investor Relations

One pillar of Nokia's strategy is to actively manage the portfolio and there were a few steps on that in Q1 – could you talk about those?

Pekka Lundmark, President and CEO

That's correct and we should mention some divestments we have made recently. We have signed agreements to divest part of our RFS business and our VitalQIP business. Also, we recently agreed to sell our stake in the joint venture TD Tech, subject to closing conditions. These actions support our strategic goal of constantly evaluating and actively managing our portfolio.

So, yes, we have been active on that front.

David Mulholland, Head of Investor Relations

If we turn to the financials, could you talk a little bit about the Q1 performance?

Pekka Lundmark, President and CEO

I'm pleased to say that we had a strong start to 2023 with net sales growth of 9%. Network Infrastructure had another great quarter driven by excellent performance in both Optical Networks and IP Networks. As expected, the ramp up of 5G in India helped to deliver a 13% increase in net sales in Mobile Networks. CNS was largely stable while Nokia Technologies declined.

We also saw continued positive momentum in the Enterprise space where growth in the quarter was 62% with a strong contribution from webscale.

Our operating margin was 8.2%. Strong margin expansion in Network Infrastructure was offset by the greater seasonality this year in Mobile Networks profitability, the lower contribution from Nokia Technologies and a negative impact from our venture funds.

David Mulholland, Head of Investor Relations

Network infrastructure saw another strong quarter in terms of growth and margins – can you talk a little bit about that?

Pekka Lundmark, President and CEO

Yes, Network Infrastructure indeed delivered a strong Q1 with 13% growth. And it's been good to see the acceleration in Optical and IP Networks in recent quarters. The strength of our technology leadership is clearly showing through in our performance. And that has become more visible as we've benefitted from some supply chain catch up – particularly in Optical. This means that going forward we do expect growth rates to slow in NI as comparisons become more challenging, although the demand environment remains solid.

The margin was also strong in NI at 15.3% in the quarter. Going forward we do expect to see an impact from some temporary increased R&D spending which is why we're maintaining our assumption for NI operating margin of 11 to 14% for the full year.

David Mulholland, Head of Investor Relations

Considering the market concerns you saw very strong top-line growth in Mobile Networks – can you talk a bit about what drove that and what the mix meant for margins?

Pekka Lundmark, President and CEO

Yes the growth in Mobile Networks was related to the rapid ramp up of 5G deployments in India. We also saw growth in Europe as we continue to gain market share. The combination of these two factors more than offset the anticipated softening in North America where we saw some customer inventory depletion.

However, this mix did impact our gross margin, which declined 600bps year-on-year to 33.8%. Our operating margin was 5.3% as operating leverage combined with disciplined cost control, offset some of the gross margin decline.

We expect these trends to largely remain the same for Q2 before some recovery into H2, along with greater scale benefits, to deliver on our full year assumption of a 7 to 10% operating margin in Mobile Networks.

David Mulholland, Head of Investor Relations

What is your view on the performance of Cloud and Network Services?

Pekka Lundmark, President and CEO

First of all, I was happy to see the 3% growth in CNS mainly coming from Core Networks and Enterprise Solutions.

Operating margin, where we saw a small loss, was impacted by product mix shifts and continued investments in growth areas. We expect similar seasonality in 2023 with a heavy weighting towards Q4.

David Mulholland, Head of Investor Relations

In Nokia Technologies net sales were 22% lower than the year before. Can you talk a little bit about what drove this and how you see the full year?

Pekka Lundmark, President and CEO

In January in our Q4 presentation, we mentioned that a licensee had exercised an option which means that we would not recognize any further revenue going forward. This has clearly impacted Q1, along with lower net sales from a smartphone vendor whose market share meaningfully declined and lower brand licensing. Importantly, beyond these three factors, licensing net sales were essentially stable also accounting for the renewed agreement with Samsung.

We continue to assume stable operating profit in 2023 and remain confident the business will return to an annual run-rate of EUR 1.4-1.5 billion of net sales as we work through the smartphone license renewal cycle and continue to grow in new focus areas such as automotive, consumer electronics, IoT and multimedia.

David Mulholland, Head of Investor Relations

One final question, Pekka – you are one quarter in now, how has your outlook for 2023 changed?

Pekka Lundmark, President and CEO

We have had a solid start to the year and so it should not be a surprise that our guidance remains unchanged in constant currency. We are starting to see some signs of the economic environment impacting customer spending. Given the ongoing need to invest in 5G and fiber, we see this primarily as a question of timing. Nevertheless we will maintain our cost discipline to ensure we can successfully navigate this uncertainty. We remain on track to deliver another year of growth in 2023 although we do expect this to be a year with stronger profitability in the second half than the first.

David Mulholland, Head of Investor Relations

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

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