

Q2 2023 Investor Video Transcript

20 July 2023

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.

David Mulholland, Head of Investor Relations

Hi everyone, and welcome to this short introduction to Nokia’s second Quarter 2023 Results.

My name is David Mulholland, Head of Investor Relations and joining me here in Espoo is Pekka Lundmark, our President and CEO.

Please note that in this video we will focus on discussing our financial performance on a constant currency basis regarding growth and on a comparable basis regarding margins. Full reconciliation tables to our IFRS financials are published in our Q2 financial report published on our investor relations website.

With that – let’s get started.

Pekka – how did the second quarter play out relative to your expectations?

Pekka Lundmark, President and CEO

Thanks David and hello everyone

In Q2 we delivered stable net sales in constant currency compared to the previous year. During the quarter we saw deterioration in customer demand as the macro situation impacted our customers’ willingness to invest.

In terms of profitability, the regional mix in Mobile Networks was a headwind for us, but prudent management of our costs meant we were still able to deliver a solid comparable operating margin of 11%. That is a resilient performance, even adjusting for the 80 mn Euros of catch-up net sales in Nokia Technologies, and particularly considering net sales in North America declined 40%.

There are two highlights I want to mention from Q2. We signed a long term patent license agreement with Apple. Obviously, the terms of the deal are confidential, but it is one of our longest deals and we're delighted with the outcome.

Secondly we saw Enterprise sales increase by 27% in the quarter, illustrating how well we're executing against this strategic pillar.

David Mulholland, Head of Investor Relations

And if we dig into the detail, in Network infrastructure - after a very strong Q1, you saw a 6% sales decline in the business, can you talk a bit about what drove that and how you think about the business in 2023?

Pekka Lundmark, President and CEO

We have to remember that Network Infrastructure has been performing exceptionally well for a sustained period.

The business is now experiencing some short-term challenges, which will likely continue into the second half. These challenges are mainly due to a return to more typical pre-pandemic lead times, as well as the macroeconomic uncertainty. These factors are most notably impacting our IP and Fixed Networks businesses.

These factors are also limiting our visibility to some extent, however we do see opportunities to gain share across the portfolio.

We see good opportunities to grow in webscale, benefitting our IP business in 2024. Fixed Networks should benefit from government subsidy initiatives, and Optical will continue its strong product cycle.

It's pleasing that, despite the topline slow-down, we continued to improve profitability with an operating margin of 13.1% up 160bps year-on-year.

David Mulholland, Head of Investor Relations

And if we turn to Mobile Networks an area the markets has been quite concerned about, you actually delivered 5% growth- can you talk a bit about that?

Pekka Lundmark, President and CEO

The growth was driven by the rapid pace of 5G deployments in India, that more than compensated for the decline in North America, which was in line with our expectations.

Margin declined year on year, again this was in line with our expectations, given the different regional mix we are seeing this year. The 7.9% operating margin we achieved was an improvement on Q1.

David Mulholland, Head of Investor Relations

And if we turn to CNS, how did you see the performance in that business in Q2?

Pekka Lundmark, President and CEO

Heading in the right direction. CNS saw another quarter of growth in Q2 with sales increasing 2%, and this was driven mainly by growth in both Core Networks and Enterprise Solutions.

The operating margin of 2.2% was also a 290bps improvement on last year.

David Mulholland, Head of Investor Relations

And in Nokia Technologies you saw a 10% increase in net sales, can you give some color on what drove that?

Pekka Lundmark, President and CEO

In Q2, we saw 80m EUROS of catch-up net sales related to deals signed in the quarter. Excluding that, net sales would have been largely on the same level as in Q1.

Considering our current base of agreements we now see our net sales annual run-rate would be EUR 1.1 billion from January 2024, subject to any other material developments.

David Mulholland, Head of Investor Relations

Pekka – you announced last week that you were revising down your outlook for 2023. What were the drivers behind that announcement

Pekka Lundmark, President and CEO

We have always said that the economic uncertainty could impact the timing of our customers' investments. Considering our latest discussions with customers, we now expect a greater impact into the second half of 2023, which is related to

macroeconomic concerns, customers' inventory digestion, and also some projects slipping into 2024.

As a result, we lowered our net sales outlook by around 6% to a new range of EUR23.2bn to 24.6bn.

We have been taking proactive action on costs to mitigate the impact to our operating margin. So, despite the reduction in sales, we are only narrowing the comparable operating margin range to 11.5% to 13% from the prior 11.5% to 14%.

As I mentioned last quarter, given the ongoing need to invest in 5G and fiber, we see this more as a question of timing. Projected data growth sustaining at between 20-30% CAGR means networks will require continued investment.

Given the strength of our balance sheet and EUR 3.7 billion net cash position I'm confident we have a firm foundation from which to navigate this period of uncertainty.

David Mulholland, Head of Investor Relations

And final question Pekka what are your thoughts now on your longer-term guidance you have previously provided to the market?

Pekka Lundmark, President and CEO

When we introduced our longer-term targets in 2022, we, obviously had to make a number of assumptions around the market and our business, given the cyclical nature of the markets that we operate in.

We had set out a timeline of 3 to 5 years to achieve these targets. At that time, there was a view we were being pretty conservative on the timeframe. But the reason for that particular timeframe was because we recognized the potential for economic cycles to impact the business.

We have now clearly seen that happen this year. As we execute on our strategic pillars I remain confident that we can achieve our long-term target of at least a 14% comparable operating margin.

If anything, I am encouraged by how resilient our margin has been so far in this challenging year, and how we continue to deliver on our strategic pillars of growing in Enterprise and gaining market share with CSPs.

David Mulholland, Head of Investor Relations

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

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