# Nokia in 2006

NOKIA

# Review by the Board of Directors and Nokia Annual Accounts 2006


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# Key data

Based on financial statements according to International Financial Reporting Standards, IFRS

| Nokia, EURm | 2006 | 2005 | Change, % |
|---|---|---|---|
| Net sales | 41 121 | 34 191 | 20 |
| Operating profit | 5 488 | 4 639 | 18 |
| Profit before taxes | 5 723 | 4 971 | 15 |
| Net profit | 4 306 | 3 616 | 19 |
| Research and development | 3 897 | 3 825 | 2 |
| | | | |
| Return on capital employed | 45.8 | 36.3 | |
| Net debt to equity (gearing) | −68 | −76 | |
| | | | |
| **EUR** | | | |
| Earnings per share, basic | 1.06 | 0.83 | 28 |
| Dividend per share | 0.43 * | 0.37 | 16 |
| Average number of shares (1 000 shares) | 4 062 833 | 4 365 547 | |

* Board's proposal

| Business Groups, EURm | 2006 | 2005 | Change, % |
|---|---|---|---|
| Mobile Phones | | | |
| Net sales | 24 769 | 20 811 | 19 |
| Operating profit | 4 100 | 3 598 | 14 |
| Multimedia | | | |
| Net sales | 7 877 | 5 981 | 32 |
| Operating profit | 1 319 | 836 | 58 |
| Enterprise Solutions | | | |
| Net sales | 1 031 | 861 | 20 |
| Operating profit | −258 | −258 | |
| Networks | | | |
| Net sales | 7 453 | 6 557 | 14 |
| Operating profit | 808 | 855 | −5 |

| Personnel, December 31 | 2006 | 2005 | Change, % |
|---|---|---|---|
| Mobile Phones | 3 409 | 2 716 | 26 |
| Multimedia | 3 397 | 2 799 | 21 |
| Enterprise Solutions | 2 308 | 2 092 | 10 |
| Networks | 21 061 | 18 332 | 15 |
| Common Group Functions | 38 308 | 32 935 | 16 |
| Nokia Group | 68 483 | 58 874 | 16 |

| 10 major markets, net sales, EURm | 2006 | 2005 |
|---|---|---|
| China | 4 913 | 3 403 |
| USA | 2 815 | 2 743 |
| India | 2 713 | 2 022 |
| UK | 2 425 | 2 405 |
| Germany | 2 060 | 1 982 |
| Russia | 1 518 | 1 410 |
| Italy | 1 394 | 1 160 |
| Spain | 1 139 | 923 |
| Indonesia | 1 069 | 727 |
| Brazil | 1 044 | 614 |

| 10 major countries | 2006 | 2005 |
|---|---|---|
| **Personnel, December 31** | | |
| Finland | 23 894 | 23 485 |
| China | 7 191 | 5 860 |
| India | 6 494 | 1 609 |
| United States | 5 127 | 5 883 |
| Hungary | 4 947 | 4 186 |
| Germany | 3 887 | 3 610 |
| Mexico | 2 764 | 1 901 |
| UK | 2 317 | 1 956 |
| Brazil | 1 960 | 2 184 |
| Denmark | 1 377 | 1 362 |

**Main currencies, rates at the end of 2006**

| | | |
|---|---|---|
| 1 EUR | USD | 1.3123 |
| | GBP | 0.6703 |
| | SEK | 9.0504 |
| | JPY | 155.18 |

# Review by the Board of Directors 2006

Nokia's net sales increased 20% to EUR 41 121 million (EUR 34 191 million). Sales of Mobile Phones increased 19% to EUR 24 769 million (EUR 20 811 million). Sales of Multimedia increased 32% to EUR 7 877 million (EUR 5 981 million). Sales of Enterprise Solutions increased 20% to EUR 1 031 million (EUR 861 million). Sales of Networks increased 14% to EUR 7 453 million (EUR 6 557 million).

In 2006, Europe accounted for 38% of Nokia's net sales (42% in 2005), Asia-Pacific 20% (18%), China 13% (11%), North America 7% (8%), Latin America 9% (8%), and Middle East & Africa 13% (13%). The 10 markets in which Nokia generated the greatest net sales in 2006 were, in descending order of magnitude, China, the US, India, the UK, Germany, Russia, Italy, Spain, Indonesia and Brazil, together representing 51% of total net sales in 2006. In comparison, the 10 markets in which Nokia generated the greatest net sales in 2005 were China, the US, the UK, India, Germany, Russia, Italy, Spain, Saudi Arabia and France, together representing 52% of total net sales in 2005.

Nokia's operating profit for 2006 increased 18% to EUR 5 488 million, including net positive special items of EUR 87 million (operating profit of EUR 4 639 million in 2005, including net positive special items of EUR 80 million), representing a 2006 operating margin of 13.3% (13.6%). Operating profit in Mobile Phones increased 14% to EUR 4 100 million (operating profit of EUR 3 598 million in 2005), representing a 2006 operating margin of 16.6% (17.3%). Operating profit in Multimedia increased to EUR 1 319 million (operating profit of EUR 836 million in 2005), representing a 2006 operating margin of 16.7% (14.0%). Enterprise Solutions operating loss was EUR 258 million (operating loss of EUR 258 million in 2005). Operating profit in Networks decreased to EUR 808 million, including net positive special items of EUR 237 million (operating profit of EUR 855 million in 2005, including net positive special items of EUR 60 million) representing a 2006 operating margin of 10.8% (13.0%).

Common Group expenses totaled EUR 481 million in 2006. Common Group expenses in 2005 totaled 392 million, including EUR 45 million gain for real estate sales.

In 2006, our sales and marketing expenses were EUR 3.3 billion, up 12% from EUR 3.0 billion in 2005, reflecting increased sales and marketing spend in all business groups to support new product introductions. Sales and marketing expenses represented 8.1% of net sales in 2006, down from 8.7% in 2005.

Research and development expenses were EUR 3.9 billion in 2006, up 1.9% from EUR 3.8 billion in 2005 (EUR 3.8 billion in 2004). Research and development costs represented 9.5% of net sales in 2006, down from 11.2% in 2005 and 12.9% in 2004. The decrease in research and development as a percentage of net sales reflected our continued effort to improve the efficiency of our investments. As of December 31, 2006, we employed 21 453 people in research and development, representing approximately 31% of Nokia's total workforce, and had a strong research and development presence in 11 countries.

Administrative and general expenses were EUR 0.7 billion in 2006, compared to EUR 0.6 billion in 2005. Administrative and general expenses were equal to 1.6% of net sales in 2006 (1.8%).

In 2006, net financial income was EUR 207 million (EUR 322 million, including EUR 57 million gain for the sale of the France Telecom bond in 2005).

Profit before tax and minority interests was EUR 5 723 million (EUR 4 971 million). Net profit totaled EUR 4 306 million (EUR 3 616 million). Earnings per share increased to EUR 1.06 (basic) and EUR 1.05 (diluted), compared to EUR 0.83 (basic) and EUR 0.83 (diluted) in 2005.

Operating cash flow for the year ended December 31, 2006 was EUR 4.5 billion (EUR 4.1 billion in 2005) and total combined cash and other liquid assets were EUR 8.5 billion (EUR 9.9 billion in 2005). As of December 31, 2006, our net debt-to-equity ratio (gearing) was –68% (–76% as of December 31, 2005). In 2006, capital expenditure amounted to EUR 650 million (EUR 607 million).

## Operating highlights in 2006

### Mobile Phones

During 2006, Mobile Phones introduced 39 new mobile device models, including 11 CDMA models. Of the total devices introduced, 23 were in the mid range or high end, while 7 were at the entry level.

Highlights from 2006 include:

» Announcement of Nokia's first Universal Mobile Access, or UMA, products, the Nokia 6136 and Nokia 6086. The Nokia 6136 started shipping during the year.

» The strengthening of Mobile Phones mid-range offering with the announcement and first shipments of several GSM quadband (850/900/1800/1900) models, such as the Nokia 6125, Nokia 6131 and Nokia 6133.

» The strengthening of Mobile Phones WCDMA offering with the announcement and first shipments of the Nokia 6151 and Nokia 6288; the first shipments of the Nokia 6233 and Nokia 6234; and the announcement of the Nokia 6290.

» Announcement of Nokia's thinnest mobile device to date, the Nokia 6300.

» The refreshment of the look and feel of the popular Nokia 8800 with the announcement and first shipments of the Nokia 8800 Sirocco Edition, featuring a sliding stainless steel case.

» Announcement and first shipments of the "L'Amour II" collection of fashion-inspired mobile phones, in three different form factors and two color schemes, including Nokia's first fashion 3G phone.

» The expansion of Nokia's range of music-optimized devices with the announcement and first shipments of the Nokia 5300 XpressMusic, Nokia 5200 and Nokia 3250 XpressMusic.

» A new edition to Nokia's 'active' product offering with the announcement and first shipments of the Nokia 5500 Sport, a smartphone with a sleek, sporty design and athletic lifestyle appeal.

» The refreshment of the popular Nokia 1100 series with the announcement and first shipments of the Nokia 1110i and Nokia 1112 black and white display models.

» Announcement and first shipments of the Nokia 2310, Nokia 2610 and Nokia 2626 color display models, widening Nokia's color screen product offering for entry users.

### Multimedia

In 2006, Multimedia continued to build the Nokia Nseries sub-brand and multimedia computer category by bringing new products and applications to the market. Multimedia also continued sales of pre-Nokia Nseries multipurpose mobile devices, such as the Nokia 7610 and Nokia 6600.

Highlights from 2006 include:

» In the third quarter, we announced the acquisitions of Loudeye, a global leader in digital music platforms, and gate5, a leading supplier of mapping and navigation software. The acquisitions, both of which were completed during the fourth quarter 2006, are intended to accelerate the development of Nokia's music and location-based experiences for consumers.

» Strong consumer demand for Nokia Nseries multimedia computers, including the Nokia N70, Nokia N72 and Nokia N73.

» Shipments from the third quarter of the Nokia N93, the first Nokia device featuring optical zoom and DVD-like quality video recording.

» The announcement of the Nokia N95, featuring support for high-speed mobile connectivity over HSDPA and WLAN, as well and a Global Positioning System with the Maps application.

» Shipments from the second quarter of the Nokia N91, featuring a 4GB hard disk and WLAN connectivity.

» Shipments from the fourth quarter of the Nokia N92, featuring an integrated DVB-H receiver that enables broadcast TV services on a mobile device.

» In the third quarter, we launched the Nokia podcasting application, which enables people to discover and download Internet-based podcasts directly to their Nokia Nseries multimedia computer. We also launched Music Recommenders, an online music community, in the fourth quarter 2006.

### Enterprise Solutions

Highlights from 2006 include:

» Nokia Eseries first shipments – Nokia E60, Nokia E61, Nokia E70, Nokia E50 and Nokia E62 – a range of devices designed for business users and the IT organizations that support them. The devices differ in terms of physical design and features, and use a single software platform that can be integrated with different applications and corporate solutions.

» In February, Nokia acquired Intellisync Corporation, which has become an integral part of the Mobility Solutions unit within Enterprise Solutions. During the year we further developed the Intellisync device management software offering, which enables operators to provide mobile device management services to enterprise customers, and allows companies to self-manage their mobile devices.

» Announcement of collaboration on business telephony with Alcatel. The Intellisync Call Connect solution from Nokia integrates the Nokia Eseries devices with the Alcatel OmniPCX telephone switch.

» Announcement of plans to offer Sourcefire's Intrusion Prevention System in Nokia's portfolio of high-performance IP Security Platforms.

» The launch of a global Nokia for Business channel program to enable sales of Nokia products and solutions through complementary Value Added Reseller, or VAR, systems integrator, and distributor channels.

» First shipments of new security appliances for the firewall market, the Nokia IP390 and Nokia IP560.

### Networks

At the end of 2006, Networks had more than 150 customers in more than 60 countries, with our systems serving in excess of 400 million subscribers.

Highlights from 2006 include:

» A EUR 580 million GSM/GPRS network expansion frame agreement with China Mobile.

» A contract to deploy 3G/WCDMA for T-Mobile in the United States.

» Major managed services contracts:
  - A USD 400 million network expansion and managed services contract with Bharti Airtel in India.
  - A USD 230 million managed services deal with Vodafone Australia.
  - A 5-year managed services deal with Hutchison Essar Limited in India.

» The first public references for Nokia's innovative Flexi WCDMA Base Station were announced with TIM Hellas Greece, Telkomsel Indonesia, Vivatel Bulgaria, Taiwan Mobile, Ukrtelecom in Ukraine, Wind Italy, Indosat Indonesia and T-Mobile USA.

» The unveiling of the Nokia Flexi WiMAX Base Station and the Flexi EDGE Base Station.

» Expansion of Nokia's global footprint for HSDPA, with a cumulative total of more than 40 customers by the end of 2006.

» Vodafone Group' selection of Nokia as a preferred supplier of IP Multimedia Subsystem, or IMS, to Vodafone affiliates worldwide.

» A USD 150 million contract with Canada's TELUS to deploy a next-generation IP broadband access network.

» Nokia reached the 100th mobile softswitch customer milestone following a deal with SFR France.

## Research and development, and technology

Highlights from 2006 include:

» Nokia announced a new low-power radio technology called Wibree.

» Nokia Research Center, celebrating its 20th anniversary, opened two new research centers with strategic university collaborations in the US. Nokia Research Center in Cambridge, Massachusetts, is a joint research facility with the Massachusetts Institute of Technology (MIT). The Nokia Research Center site in Palo Alto, California, works in close collaboration with Stanford University.

» S60 on Symbian OS, the market-leading smartphone software, was chosen as a preferred software platform by operators Vodafone and Orange.

## Acquisitions and divestments

In February 2006, Nokia acquired 100% of the outstanding common shares of Intellisync Corporation for cash consideration of approximately EUR 368 million. Intellisync delivers wireless email and other applications over an array of devices and application platforms across carrier networks. Intellisync has been integrated into the Enterprise Solutions business group, and its results of operations are included in our consolidated financial statements as from the acquisition date.

In early 2006, Nokia and SANYO conducted negotiations to form a new jointly-owned CDMA mobile device company, but in June 2006 the parties announced that they had concluded it was more beneficial to pursue other options individually for their CDMA handset businesses. Working together with co-development partners, Nokia intends to selectively participate in key CDMA markets, with a special focus on North America, China and India. Accordingly, Nokia is ramping down its CDMA research, development and production, which will cease by April 2007.

In June 2006, Nokia announced the completion of its acquisition of LCC International Inc.'s U.S. deployment business. The addition of deployment operations to Nokia's delivery services in North America is designed to enhance a growing portfolio of network and professional services for communications providers.

In June 2006, Nokia and Siemens announced that they intend to merge the Networks business group of Nokia and the carrier-related operations of Siemens into a new company to be called Nokia Siemens Networks. Based on the 2005 calendar year, the combined company had EUR 15.8 billion in pro forma annual revenues. In December 2006, Nokia and Siemens announced that the planned merger to create Nokia Siemens Networks is expected to close in the first quarter 2007 subject to an agreement between Nokia and Siemens on the results and consequences of a Siemens compliance review. Closing will also be subject to customary regulatory approvals, the completion of standard closing conditions, and the agreement of a number of detailed implementation steps.

In October 2006, Nokia announced the completion of its acquisition of gate5 AG, a leading supplier of mapping, routing and navigation software and services. By acquiring gate5, Nokia seeks to offer consumers world-leading mobile location applications, such as maps, routing and navigation at an accelerated speed.

In October 2006, Nokia announced the completion of its acquisition of Loudeye Corp., a global leader in digital music platforms and digital media distribution services. By acquiring Loudeye, Nokia seeks to offer consumers a comprehensive mobile music experience, including devices, applications and the ability to purchase digital music.

## Personnel

The average number of personnel for 2006 was 65 324 (56 896 for 2005 and 53 511 for 2004). At the end of 2006, Nokia employed 68 483 people worldwide (58 874 at year end 2005). In 2006, Nokia's personnel increased by a total of 9 609 employees (increase of

3 369 in 2005). The total amount of wages and salaries paid in 2006 was EUR 3 457 million (EUR 3 127 million in 2005 and EUR 2 805 million in 2004).

## Management and Board of Directors

### Board of Directors and President

Pursuant to the articles of association, Nokia has a Board of Directors composed of a minimum of seven and a maximum of ten members. The members of the Board are elected at each Annual General Meeting for a term of one year expiring at the close of the following Annual General Meeting. The Annual General Meeting convenes each year by May 15. On January 25, 2007, the Board announced that it would propose to the Annual General Meeting convening on May 3, 2007 that the articles of association be amended to allow a minimum of seven and a maximum of twelve members of the Board of Directors, and that the Annual General Meeting would convene each year by June 30. A general meeting may also dismiss a member of the Board of Directors. The Board of Directors shall elect and dismiss the President of the company.

The current members of the Board of Directors were elected at the Annual General Meeting on March 30, 2006. On December 31, 2006, the Board consisted of the following members: Jorma Ollila (Chairman), Paul J. Collins (Vice Chairman), Georg Ehrnrooth, Daniel R. Hesse, Bengt Holmström, Per Karlsson, Marjorie Scardino, Keijo Suila and Vesa Vainio. Also Edouard Michelin was re-elected to the Board in the Annual General Meeting on March 30, 2006. Due to his accidental death, Nokia announced on May 29, 2006 that the Board thereafter consisted of the above-mentioned nine members.

### Changes in the Group Executive Board

The Group Executive Board was chaired by Jorma Ollila, Chairman and CEO, until June 1, 2006, when he was released from his duties as the CEO and Chairman of the Group Executive Board. As from June 1, 2006, the Group Executive Board has been chaired by Olli-Pekka Kallasvuo, President and CEO. Niklas Savander, Executive Vice President, Technology Platforms was appointed a member of the Group Executive Board effective April 1, 2006 and Pertti Korhonen, Chief Technology Officer and Executive Vice President, Technology Platforms, resigned from the Group Executive Board as of the same date.

### Service contracts

Jorma Ollila's service contract, which covered his position as CEO, ended as of June 1, 2006 without any severance or other payments from Nokia. Following the termination of his service contract, he is no longer eligible for incentives, bonuses, stock options or other equity grants or retirement benefits from Nokia. Jorma Ollila was entitled to retain all vested and unvested stock options and other equity compensation granted to him prior to June 1, 2006.

Olli-Pekka Kallasvuo's service contract covers his current position as President and CEO and Chairman of the Group Executive Board. The contract also covered his prior position as President and COO. Kallasvuo's annual total gross base salary, which is subject to an annual review by the Board of Directors, was EUR 750 000 from January 1, 2006 until May 31, 2006, and is EUR 1 000 000 from June 1, 2006. His incentive targets under the Nokia short-term incentive plan were 125% of annual gross base salary, starting from January 1, 2006 and are 150% of annual gross base salary, starting June 1, 2006. In case of termination by Nokia for reasons other than cause, including a change of control, Kallasvuo is entitled to a severance payment of up to 18 months of compensation (both annual total gross base salary and target incentive). In case of termination by Kallasvuo, the notice period is 6 months and he is entitled to a payment for such notice period (both annual total gross base salary and target incentive for 6 months). Kallasvuo is subject to a 12-month non-competition obligation after termination of the contract. Unless the contract is terminated for cause, Kallasvuo may be entitled to compensation during the non-competition period or a part of it. Such compensation amounts to the annual total gross base salary and target incentive for the respective period during which no severance payment is paid.

## Provisions on the amendment of articles of association

Amendment of the articles of association requires a decision of the general meeting, supported by two-thirds of the votes cast and two-thirds of the shares represented at the meeting. Amendment of the provisions of Article 13 of the articles of association requires a resolution supported by three-quarters of the votes cast and three-quarters of the shares represented at the meeting.

## Shares and share capital

Nokia has one class of shares. Each Nokia share entitles the holder to one (1) vote at general meetings of Nokia.

In 2006, Nokia's share capital increased by EUR 182 764.74 as a result of the issue of 3 046 079 new shares upon exercise of stock options issued to personnel in 2003 and 2005. As a result of the new share issues, Nokia received a total of EUR 43 344 431.88 in additional shareholders' equity in 2006. Effective April 6, 2006, a total of 341 890 000 shares held by the company were cancelled pursuant to the shareholders' resolution taken at the Annual General Meeting on March 30, 2006. As a result of the cancellation, the share capital was reduced by the aggregate par value of the shares cancelled, EUR 20 513 400, which corresponded to less than 8.4% of the share capital of the company and the total voting rights at that time. The cancellation did not reduce the shareholders' equity. Neither the aforementioned issuances nor the cancellation of shares had any significant effect on the relative holdings of the other shareholders of the company nor on their voting power.

Nokia repurchased through its share repurchase plan a total of 211 840 000 shares on the Helsinki Stock Exchange at an aggregate price of approximately EUR 3 403 million during the period from February 15, 2006 to December 19, 2006. The price paid was based on the market price at the time of repurchase. The shares were repurchased to be used for the purposes specified in the authorizations given by the Annual General Meetings of 2005 and 2006 to the Board. The aggregate par value of the shares purchased was EUR 12 710 400, representing approximately 5.2% of the share capital of the company and the total voting rights. These new holdings did not have any significant effect on the relative holdings of the other shareholders of the company nor on their voting power.

As announced on April 21, 2006, Nokia transferred a total of 2 014 437 Nokia shares held by it as settlement under the Performance Share Plan 2004 to the Plan participants, personnel of Nokia Group. The aggregate par value of the shares transferred was EUR 120 866.22, representing approximately 0.05% of the share capital of the company and the total voting rights. Nokia also transferred a total of 222 042 Nokia shares held by it as settlement under the Nokia Restricted Share Plan 2003 to the Plan participants, personnel of Nokia Group, as announced on October 20, 2006. The aggregate par value of the shares transferred was EUR 13 322.52, representing approximately 0.005% of the share capital of the company and the total voting rights. These transfers did not have a significant effect on the relative holdings of the other shareholders of the company nor on their voting power.

Information on the authorizations held by the Board in 2006 to increase the share capital, transfer shares and repurchase own shares may be found in the Annual Accounts.

On December 31, 2006, Nokia and its subsidiary companies owned 129 312 226 Nokia shares. The shares had an aggregate par value of EUR 7 758 733.56, representing approximately 3.2% of the share capital of the company and the total voting rights. The total number of shares at December 31, 2006 was 4 095 042 619. On December 31, 2006, Nokia's share capital was EUR 245 702 557.14.

## Industry and Nokia outlook for the first quarter and full year 2007

» Nokia expects industry mobile device volumes in the first quarter 2007 to reflect normal industry seasonality following a strong fourth quarter 2006 selling period.

» We expect Nokia's device market share in the first quarter 2007 to be at approximately the same level sequentially.

» We expect net sales in Nokia's Networks business group to experience a sequential seasonal decline in the first quarter 2007.

» Nokia expects industry mobile device volumes in 2007 to grow by up to 10% from the approximately 978 million units Nokia estimates for 2006.

» Nokia continues to expect the device industry to experience value growth in 2007, but expects some decline in industry ASPs, primarily reflecting the increasing impact of the emerging markets and competitive factors in general.

» Nokia continues to expect slight growth in the mobile and fixed infrastructure and related services market in euro terms in 2007.

» Nokia continues to target an increase in its market share in mobile devices in 2007.

## Risk factors

Set forth below is a description of factors that may affect our business, results of operations and share price from time to time.

» We need to have a competitive product portfolio with products that are preferred by our current and potential customers to those of our competitors. In order to have this, we need to understand the different markets in which we operate, and meet the needs of our customers, which include mobile network operators, distributors, independent retailers, corporate customers and consumers. Our failure to identify key market trends and to respond timely and successfully to the needs of our customers may have a material adverse impact on our market share, business and results of operations.

» Our sales and profitability depend on the continued growth of the mobile communications industry, as well as the growth and profitability of the new market segments within that industry which we target. If the mobile communications industry does not grow as we expect, or if the new market segments which we target grow less or are less profitable than expected, or if new faster growing market segments emerge in which we have not invested, our sales and profitability may be materially adversely affected.

» Our business and results of operations, particularly our profitability, may be materially adversely affected if we are not able to successfully manage costs related to our products and operations.

» Competition in our industry is intense. Our failure to maintain or improve our market position and respond successfully to changes in the competitive landscape may have a material adverse impact on our business and results of operations.

» We must develop or otherwise acquire complex, evolving technologies to use in our business. If we fail to develop or otherwise acquire these complex technologies as required by the market, with full rights needed to use in our business, or to protect them, or to successfully commercialize such technologies as new advanced products and solutions that meet customer demand, or fail to do so on a timely basis, this may have a material adverse effect on our business, our ability to meet our targets and our results of operations.

» Currently expected benefits and synergies from forming Nokia Siemens Networks may not be achieved to the extent or within the time period that is currently anticipated. We may also encounter costs and difficulties in integrating our networks operations, personnel and supporting activities and those of Siemens, which could reduce or delay the realization of anticipated net sales, cost savings and operational benefits.

» The Siemens carrier-related operations to be transferred to Nokia Siemens Networks are the subject of various ongoing prosecutorial investigations related to whether certain transactions and payments arranged by some current or former employees of those operations violated applicable laws. As a result of those investigations, government authorities and others could take actions against Siemens and/or its employees that may involve and affect the carrier-related assets and employees transferred by Siemens to Nokia Siemens Networks, or there may be undetected additional violations that may have occurred prior to the transfer, or ongoing violations that may occur after the transfer, of such assets and employees that could have a material adverse effect on Nokia Siemens Networks and our business, results of operations, financial condition and reputation.

» Our products and solutions include increasingly complex technologies some of which have been developed or licensed to us by certain third parties. As a consequence, evaluating the rights related to the technologies we use or intend to use is more and more challenging, and we expect increasingly to face claims that we have infringed third parties' intellectual property rights. The use of these technologies may also result in increased licensing costs for us, restrictions on our ability to use certain technologies in our products and solution offerings, and/or costly and time-consuming litigation, which could have a material adverse effect on our business and results of operations.

» Our products and solutions include numerous new Nokia patented, standardized, or proprietary technologies on which we depend. Third parties may use without a license or unlawfully infringe our intellectual property or commence actions seeking to establish the invalidity of the intellectual property rights of these technologies. This may have a material adverse effect on our results of operations.

» Our sales and results of operations could be materially adversely affected if we fail to efficiently manage our manufacturing and logistics without interruption, or fail to ensure that our products and solutions meet our and our customers' quality, safety, security and other requirements and are delivered on time.

- We depend on a limited number of suppliers for the timely delivery of components and sub-assemblies and for their compliance with our supplier requirements, such as our and our customers' product quality, safety, security and other standards. Their failure to do so could materially adversely affect our ability to deliver our products and solutions successfully and on time.

- The global networks business relies on a limited number of customers and large multi-year contracts. Unfavorable developments under such a contract or in relation to a major customer may adversely and materially affect our sales, our results of operations and cash flow.

- Our sales derived from, and assets located in, emerging market countries may be materially adversely affected by economic, regulatory and political developments in those countries or by other countries imposing regulations against imports to such countries. As sales from these countries represent a significant portion of our total sales, economic or political turmoil in these countries could materially adversely affect our sales and results of operations. Our investments in emerging market countries may also be subject to other risks and uncertainties.

- We are developing a number of our new products and solutions together with other companies. If any of these companies were to fail to perform, we may not be able to bring our products and solutions to market successfully or in a timely way and this could have a material adverse effect on our sales and profitability.

- Our operations rely on complex and highly centralized information technology systems and networks. If any system or network disruption occurs, this reliance could have a material adverse impact on our business and results of operations.

- Our sales, costs and results are affected by exchange rate fluctuations, particularly between the euro, which is our reporting currency, and the US dollar, the Chinese yuan, the UK pound sterling and the Japanese yen, as well as certain other currencies.

- Providing customer financing or extending payment terms to customers can be a competitive requirement and could adversely and materially affect our results of operations, financial condition and cash flow.

- Allegations of possible health risks from the electromagnetic fields generated by base stations and mobile devices, and the lawsuits and publicity relating to them, regardless of merit, could negatively affect our operations by leading consumers to reduce their use of mobile devices, or by leading regulatory bodies to set arbitrary use restrictions and exposure limits, or by causing us to allocate additional monetary and personnel resources to these issues.

- An unfavorable outcome of litigation could materially impact our business, financial condition or results of operations.

- If we are unable to recruit, retain and develop appropriately skilled employees, our ability to implement our strategies may be hampered and, consequently, our results of operations may be materially harmed.

- Changes in various types of regulation in countries around the world could have a material adverse effect on our business.

## Dividend

Nokia's Board of Directors will propose a dividend of EUR 0.43 per share for 2006.

# Consolidated profit and loss accounts, IFRS

| Financial year ended December 31 | Notes | 2006 EURm | 2005 EURm | 2004 EURm |
|---|---|---|---|---|
| **Net sales** | | **41 121** | 34 191 | 29 371 |
| Cost of sales | | **–27 742** | –22 209 | –18 179 |
| **Gross profit** | | **13 379** | 11 982 | 11 192 |
| Research and development expenses | | **–3 897** | –3 825 | –3 776 |
| Selling and marketing expenses | 6 | **–3 314** | –2 961 | –2 564 |
| Administrative and general expenses | | **–666** | –609 | –611 |
| Other income | 7 | **522** | 285 | 343 |
| Other expenses | 7, 8 | **–536** | –233 | –162 |
| Amortization of goodwill | 10 | **–** | – | – 96 |
| **Operating profit** | 2–10 | **5 488** | 4 639 | 4 326 |
| Share of results of associated companies | 15, 33 | **28** | 10 | –26 |
| Financial income and expenses | 11 | **207** | 322 | 405 |
| **Profit before tax** | | **5 723** | 4 971 | 4 705 |
| Tax | 12 | **–1 357** | –1 281 | –1 446 |
| **Profit before minority interests** | | **4 366** | 3 690 | 3 259 |
| Minority interests | | **–60** | –74 | –67 |
| **Profit attributable to equity holders of the parent** | | **4 306** | 3 616 | 3 192 |

| **Earnings per share** (for profit attributable to the equity holders of the parent) | 30 | **2006 EUR** | 2005 EUR | 2004 EUR |
|---|---|---|---|---|
| Basic | | **1.06** | 0.83 | 0.69 |
| Diluted | | **1.05** | 0.83 | 0.69 |

| **Average number of shares (1 000 shares)** | 30 | **2006** | 2005 | 2004 |
|---|---|---|---|---|
| Basic | | **4 062 833** | 4 365 547 | 4 593 196 |
| Diluted | | **4 086 529** | 4 371 239 | 4 600 337 |

See Notes to consolidated financial statements.

# Consolidated balance sheets, IFRS

| December 31 | Notes | 2006 EURm | 2005 EURm |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Capitalized development costs | 13 | 251 | 260 |
| Goodwill | 13 | 532 | 90 |
| Other intangible assets | 13 | 298 | 211 |
| Property, plant and equipment | 14 | 1 602 | 1 585 |
| Investments in associated companies | 15 | 224 | 193 |
| Available-for-sale investments | 16 | 288 | 246 |
| Deferred tax assets | 26 | 809 | 846 |
| Long-term loans receivable | 17 | 19 | 63 |
| Other non-current assets | | 8 | 7 |
| | | 4 031 | 3 501 |
| **Current assets** | | | |
| Inventories | 18, 20 | 1 554 | 1 668 |
| Accounts receivable, net of allowances for doubtful accounts (2006: EUR 212 million, 2005: EUR 281 million) | 19, 20 | 5 888 | 5 346 |
| Prepaid expenses and accrued income | 19 | 2 496 | 1 938 |
| Other financial assets | | 111 | 89 |
| Available-for-sale investments, liquid assets | 16 | 5 012 | 6 852 |
| Available-for-sale investments, cash equivalents | 16, 34 | 2 046 | 1 493 |
| Bank and cash | 34 | 1 479 | 1 565 |
| | | 18 586 | 18 951 |
| **Total assets** | | 22 617 | 22 452 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| **Capital and reserves attributable to equity holders of the parent** | | | |
| Share capital | 22 | 246 | 266 |
| Share issue premium | | 2 707 | 2 458 |
| Treasury shares, at cost | | −2 060 | −3 616 |
| Translation differences | | −34 | 69 |
| Fair value and other reserves | 21 | −14 | −176 |
| Retained earnings | 24 | 11 123 | 13 308 |
| | | 11 968 | 12 309 |
| **Minority interests** | | 92 | 205 |
| **Total equity** | | 12 060 | 12 514 |
| **Non-current liabilities** | 25 | | |
| Long-term interest-bearing liabilities | | 69 | 21 |
| Deferred tax liabilities | 26 | 205 | 151 |
| Other long-term liabilities | | 122 | 96 |
| | | 396 | 268 |
| **Current liabilities** | | | |
| Short-term borrowings | 27 | 247 | 377 |
| Accounts payable | | 3 732 | 3 494 |
| Accrued expenses | 28 | 3 796 | 3 320 |
| Provisions | 29 | 2 386 | 2 479 |
| | | 10 161 | 9 670 |
| **Total shareholders' equity and liabilities** | | 22 617 | 22 452 |

See Notes to consolidated financial statements.

# Consolidated cash flow statements, IFRS

| Financial year ended December 31 | Notes | 2006 EURm | 2005 EURm | 2004 EURm |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit attributable to equity holders of the parent | | **4 306** | 3 616 | 3 192 |
| Adjustments, total | 34 | **1 857** | 1 774 | 2 059 |
| Profit attributable to equity holders of the parent before change in net working capital | | **6 163** | 5 390 | 5 251 |
| Change in net working capital | 34 | **−793** | −366 | 241 |
| Cash generated from operations | | **5 370** | 5 024 | 5 492 |
| Interest received | | **235** | 353 | 204 |
| Interest paid | | **−18** | −26 | −26 |
| Other financial income and expenses, net received | | **54** | 47 | 41 |
| Income taxes paid | | **−1 163** | −1 254 | −1 368 |
| **Net cash from operating activities** | | **4 478** | 4 144 | 4 343 |
| **Cash flow from investing activities** | | | | |
| Acquisition of Group companies, net of acquired cash | | **−517** | −92 | – |
| Purchase of current available-for-sale investments, liquid assets | | **−3 219** | −7 277 | −10 318 |
| Purchase of non-current available-for-sale investments | | **−88** | −89 | −388 |
| Purchase of shares in associated companies | | **−15** | −16 | −109 |
| Additions to capitalized development costs | | **−127** | −153 | −101 |
| Long-term loans made to customers | | **−11** | −56 | – |
| Proceeds from repayment and sale of long-term loans receivable | | **56** | – | 368 |
| Recovery of impaired long-term loans made to customers | | **276** | – | – |
| Proceeds from (+) / payment of (–) other long-term receivables | | **−3** | 14 | 2 |
| Proceeds from short-term loans receivable | | **199** | 182 | 66 |
| Capital expenditures | | **−650** | −607 | −548 |
| Proceeds from disposal of shares in Group companies, net of disposed cash | | **–** | 5 | 1 |
| Proceeds from disposal of shares in associated companies | | **1** | 18 | – |
| Proceeds from disposal of businesses | | **–** | 95 | – |
| Proceeds from maturities and sale of current available-for-sale investments, liquid assets | | **5 058** | 9 402 | 9 737 |
| Proceeds from sale of current available-for-sale investments | | **–** | 247 | 587 |
| Proceeds from sale of non-current available-for-sale investments | | **17** | 3 | 346 |
| Proceeds from sale of fixed assets | | **29** | 167 | 6 |
| Dividends received | | **–** | 1 | 22 |
| **Net cash from (used in) investing activities** | | **1 006** | 1 844 | −329 |
| **Cash flow from financing activities** | | | | |
| Proceeds from stock option exercises | | **46** | 2 | – |
| Purchase of treasury shares | | **−3 371** | −4 258 | −2 648 |
| Proceeds from long-term borrowings | | **56** | 5 | 1 |
| Repayment of long-term borrowings | | **−7** | – | −3 |
| Proceeds from (+) / repayment of (-) short-term borrowings | | **−137** | 212 | −255 |
| Dividends paid | | **−1 553** | −1 531 | −1 413 |
| **Net cash used in financing activities** | | **−4 966** | −5 570 | −4 318 |
| **Foreign exchange adjustment** | | **−51** | 183 | −23 |
| **Net increase (+) / decrease (–) in cash and cash equivalents** | | **467** | 601 | −327 |
| **Cash and cash equivalents at beginning of period** | | **3 058** | 2 457 | 2 784 |
| **Cash and cash equivalents at end of period** | | **3 525** | 3 058 | 2 457 |

# Consolidated cash flow statements, IFRS (continued)

| Financial year ended December 31 | Notes | **2006 EURm** | 2005 EURm | 2004 EURm |
|---|---|---|---|---|
| Cash and cash equivalents comprise of: | | | | |
| Bank and cash | | **1 479** | 1 565 | 1 090 |
| Current available-for-sale investments, cash equivalents | 16, 37 | **2 046** | 1 493 | 1 367 |
| | | **3 525** | 3 058 | 2 457 |

See Notes to consolidated financial statements.

The figures in the consolidated cash flow statement cannot be directly traced from the balance sheet without additional information as a result of acquisitions and disposals of subsidiaries and net foreign exchange differences arising on consolidation.

# Consolidated statements of changes in shareholders' equity, IFRS

| Group, EURm | Number of shares (1 000) | Share capital | Share issue premium | Treasury shares | Translation differences | Fair value and other reserves | Retained earnings [1] | Before minority interests | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2004** | 4 700 268 | 288 | 2 313 | −1 373 | −85 | 80 | 14 079 | 15 302 | 164 | 15 466 |
| Translation differences | | | | | −119 | | | −119 | −16 | −135 |
| Net investment hedge gains | | | | | 78 | | | 78 | | 78 |
| Cash flow hedges, net of tax | | | | | | −1 | | −1 | | −1 |
| Available-for-sale investments, net of tax | | | | | | −66 | | −66 | | −66 |
| Other decrease, net | | | | | | | −1 | −1 | −5 | −6 |
| Profit | | | | | | | 3 192 | 3 192 | 67 | 3 259 |
| **Total recognized income and expense** | | **–** | **–** | **–** | **−41** | **−67** | **3 191** | **3 083** | **46** | **3 129** |
| Stock options exercised | 5 | – | – | | | | | – | | – |
| Stock options exercised related to acquisitions | | | −8 | | | | | −8 | | −8 |
| Share-based compensation [2] | | | 53 | | | | | 53 | | 53 |
| Acquisition of treasury shares | −214 120 | | | −2 661 | | | | −2 661 | | −2 661 |
| Reissuance of treasury shares | 788 | | | 14 | | | | 14 | | 14 |
| Cancellation of treasury shares | | −8 | 8 | 1 998 | | | −1 998 | – | | – |
| Dividend | | | | | | | −1 398 | −1 398 | −42 | −1 440 |
| **Total of other equity movements** | | **−8** | **53** | **−649** | **–** | **–** | **−3 396** | **−4 000** | **−42** | **−4 042** |
| **Balance at December 31, 2004** | 4 486 941 | 280 | 2 366 | −2 022 | −126 | 13 | 13 874 | 14 385 | 168 | 14 553 |
| Tax benefit on stock options exercised | | | −2 | | | | | −2 | | −2 |
| Translation differences | | | | | 406 | | | 406 | 31 | 437 |
| Net investment hedge losses | | | | | −211 | | | −211 | | −211 |
| Cash flow hedge gains, net of tax | | | | | | −132 | | −132 | | −132 |
| Available-for-sale investments, net of tax | | | | | | −57 | | −57 | | −57 |
| Other decrease, net | | | | | | | −55 | −55 | 1 | −54 |
| Profit | | | | | | | 3 616 | 3 616 | 74 | 3 690 |
| **Total recognized income and expense** | | **–** | **−2** | **–** | **195** | **−189** | **3 561** | **3 565** | **106** | **3 671** |
| Stock options exercised | 125 | | 2 | | | | | 2 | | 2 |
| Stock options exercised related to acquisitions | | | −1 | | | | | −1 | | −1 |
| Share-based compensation [2] | | | 79 | | | | | 79 | | 79 |
| Acquisition of treasury shares | −315 174 | | | −4 268 | | | | −4 268 | | −4 268 |
| Reissurance of treasury shares | 484 | | | 10 | | | | 10 | | 10 |
| Cancellation of treasury shares | | −14 | 14 | 2 664 | | | −2 664 | – | | – |
| Dividend | | | | | | | −1 463 | −1 463 | −69 | −1 532 |
| **Total of other equity movements** | | **−14** | **94** | **−1 594** | **–** | **–** | **−4 127** | **−5 641** | **−69** | **−5 710** |
| **Balance at December 31, 2005** | 4 172 376 | 266 | 2 458 | −3 616 | 69 | −176 | 13 308 | 12 309 | 205 | 12 514 |
| Tax benefit on stock options exercised | | | 23 | | | | | 23 | | 23 |
| Excess tax benefit on share-based compsensation | | | 14 | | | | | 14 | | 14 |
| Translation differences | | | | | −141 | | | −141 | −13 | −154 |
| Net investment hedge gains, net of tax | | | | | 38 | | | 38 | | 38 |
| Cash flow hedges, net of tax | | | | | | 171 | | 171 | | 171 |
| Available-for-sale investments, net of tax | | | | | | −9 | | −9 | | −9 |
| Other decrease, net | | | | | | | −52 | −52 | −1 | −53 |
| Profit | | | | | | | 4 306 | 4 306 | 60 | 4 366 |
| **Total recognized income and expense** | | **–** | **37** | **–** | **−103** | **162** | **4 254** | **4 350** | **46** | **4 396** |
| Stock options exercised | 3 046 | 0 | 43 | | | | | 43 | | 43 |
| Stock options exercised related to acquisitions | | | −1 | | | | | −1 | | −1 |
| Share-based compensation [2] | 2 236 | | 219 | | | | | 219 | | 219 |
| Settlement of performance shares | | | −69 | 38 | | | | −31 | | −31 |
| Acquisition of treasury shares | −212 340 | | | −3 413 | | | | −3 413 | | −3 413 |
| Reissuance of treasury shares | 412 | | | 4 | | | | 4 | | 4 |
| Cancellation of treasury shares | | −20 | 20 | 4 927 | | | −4 927 | – | | – |
| Dividend | | | | | | | −1 512 | −1 512 | −40 | −1 552 |
| Acquisition of minority interests | | | | | | | | – | −119 | −119 |
| **Total of other equity movements** | | **−20** | **212** | **1 556** | **–** | **–** | **−6 439** | **−4 691** | **−159** | **−4 850** |
| **Balance at December 31, 2006** | 3 965 730 | 246 | 2 707 | −2 060 | −34 | −14 | 11 123 | 11 968 | 92 | 12 060 |

1 Opening retained earnings has been increased by EUR 154 million for recognition of certain additional items relating to periods prior to 2002. See Note 1 and Note 26.

2 Share-based compensation is shown net of deferred compensation recorded related to social security costs on share-based payments.

Dividends declared per share were EUR 0.43 for 2006 (EUR 0.37 for 2005 and EUR 0.33 for 2004), subject to shareholders' approval.

# Notes to the consolidated financial statements

## 1. Accounting principles

### Basis of presentation

The consolidated financial statements of Nokia Corporation ("Nokia" or "the Group"), a Finnish public limited liability company with domicile in Helsinki, in the Republic of Finland, are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are presented in millions of euros ("EURm"), except as noted, and are prepared under the historical cost convention, except as disclosed in the accounting policies below. The notes to the consolidated financial statements also conform with Finnish Accounting legislation.

**Adoption of pronouncements under IFRS**
In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations to existing standards issued by the International Accounting Standards Board (the IASB) that are relevant to its operations and effective for accounting periods prospectively from January 1, 2006.

- The Group adopted Amendment to IAS 19, Actuarial Gains and Losses, Group Plans and Disclosures, which introduced the option of an alternative recognition approach for actuarial gains and losses. The Group did not adopt this alternative option.
- The Group adopted Amendment to IAS 39, Cash Flow Hedge Accounting of Forecast Intragroup Transactions, where an entity may designate intragroup transactions as hedged items if certain criteria are fulfilled.
- The Group adopted Amendment to IAS 39, The Fair Value Option, which restricts use of the fair value option for financial instruments to certain circumstances.
- The Group adopted Amendments to IAS 39 and IFRS 4, Financial Guarantee Contracts, in which all financial guarantee contracts are initially recognized at fair value and subsequently measured at the higher of either the amount determined in accordance with IAS 37 or the amount initially recognized less any cumulative amortization.
- The Group adopted IFRIC 4, Determining whether an Arrangement contains a Lease, where if fulfillment of an arrangement is dependent on the use of a specific asset and conveys a right to use, the arrangement contains a lease.

The adoption of each standard did not have any impact to the Group's balance sheet, profit and loss or cash flows.

### Change in method of quantifying misstatements

During the year, the Group changed its method of quantifying misstatements. The Group previously quantified misstatements based on the amount of the error originating in the current year profit and loss account statement. The Group has now decided to consider the effect of any misstatements based on both (1) the amount of the misstatement originating in the current year profit and loss account statement and (2) the effects of correcting the misstatement existing in the balance sheet at the end of the current year irrespective of the year in which the misstatement originated.

As a result of this change, management has adjusted its financial statements and previously reported deferred tax assets and retained earnings have been increased by EUR 154 million for each period presented. Under the previous method of quantifying misstatements these adjustments were considered to be immaterial. These deferred tax assets relate to certain of the Group's warranty and other provisions recorded in periods prior to 2002, for which no corresponding tax amounts were deferred.

### Principles of consolidation

The consolidated financial statements include the accounts of Nokia's parent company ("Parent Company"), and each of those companies over which the Group exercises control. Control over an entity is presumed to exist when the Group owns, directly or indirectly through subsidiaries, over 50% of the voting rights of the entity, the Group has the power to govern the operating and financial policies of the entity through agreement or the Group has the power to appoint or remove the majority of the members of the board of the entity. The Group's share of profits and losses of associated companies is included in the consolidated profit and loss account in accordance with the equity method of accounting. An associated company is an entity over which the Group exercises significant influence. Significant influence is generally presumed to exist when the Group owns, directly or indirectly through subsidiaries, over 20% of the voting rights of the company.

All inter-company transactions are eliminated as part of the consolidation process. Minority interests are presented separately in arriving at the net profit and they are shown as a component of shareholders' equity in the consolidated balance sheet.

Profits realized in connection with the sale of fixed assets between the Group and associated companies are eliminated in proportion to share ownership. Such profits are deducted from the Group's equity and fixed assets and released in the Group accounts over the same period as depreciation is charged.

The companies acquired during the financial periods presented have been consolidated from the date on which control of the net assets and operations was transferred to the Group. Similarly the result of a Group company divested during an accounting period is included in the Group accounts only to the date of disposal.

### Goodwill

The purchase method of accounting is used to account for acquisitions of separate entities or businesses by the Group. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities assumed or incurred, equity instruments issued and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed by the Group are measured separately at their fair value as of the acquisition date. The excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable net assets acquired is recorded as goodwill.

For the purposes of impairment testing, goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition in which the goodwill arose. The Group assesses the carrying value of goodwill annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. If such indication exists the recoverable amount is determined for the cash-generating unit, to which goodwill belongs. This amount is then compared to the carrying amount of the cash-generating unit and an impairment loss is recognized if the recoverable amount is less than the carrying amount. Impairment losses are recognized immediately in the profit and loss account.

### Foreign currency translation

**Functional and presentation currency**
The financial statements of all Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Euro, which is the functional and presentation currency of the Parent Company.

**Transactions in foreign currencies**
Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transactions. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used. At the end of the accounting period, the unsettled balances on foreign currency receivables and liabilities are valued at the rates of exchange prevailing at the year-end. Foreign exchange gains and losses arising from balance sheet items, as well as fair value changes in the related hedging instruments, are reported in Financial Income and Expenses.

**Foreign Group companies**
In the consolidated accounts all income and expenses of foreign subsidiaries are translated into euro at the average foreign exchange rates for the accounting period. All assets and liabilities of foreign Group

companies are translated into euro at the year-end foreign exchange rates with the exception of goodwill arising on the acquisition of foreign companies prior to the adoption of IAS 21 (revised 2004) on January 1, 2005, which is translated to euro at historical rates. Differences resulting from the translation of income and expenses at the average rate and assets and liabilities at the closing rate are treated as an adjustment affecting consolidated shareholders' equity. On the disposal of all or part of a foreign Group company by sale, liquidation, repayment of share capital or abandonment, the cumulative amount or proportionate share of the translation difference is recognized as income or as expense in the same period in which the gain or loss on disposal is recognized.

## Fair valuing principles

**Financial assets and liabilities**

Under IAS 39(R), Financial Instruments: Recognition and Measurement, the Group classifies its investments in marketable debt and equity securities and investments in unlisted equity securities into the following categories: held-to-maturity, held for trading, or available-for-sale depending on the purpose for acquiring the investments as well as ongoing intentions. All investments of the Group are currently classified as available-for-sale. Available-for-sale investments are fair valued by using quoted market rates, discounted cash flow analyses or other appropriate valuation models at each balance sheet date. Certain unlisted equities for which fair values cannot be measured reliably are reported at cost less impairment. All purchases and sales of investments are recorded on the trade date, which is the date that the Group commits to purchase or sell the asset.

The fair value changes of available-for-sale investments are recognized in shareholders' equity. When the investment is disposed of, the related accumulated fair value changes are released from shareholders' equity and recognized in profit or loss. The weighted average method is used when determining the cost-basis of publicly listed equities being disposed of. The First-in First-out (FIFO) method is used to determine the cost basis of fixed income securities being disposed of. An impairment is recorded when the carrying amount of an available-for-sale investment is greater than the estimated fair value and there is objective evidence that the asset is impaired. The cumulative net loss relating to that investment is removed from equity and recognized in the profit and loss account for the period. If, in a subsequent period, the fair value of the investment increases and the increase can be objectively related to an event occurring after the loss was recognized, the loss is reversed, with the amount of the reversal recognized in the profit and loss account.

The fair values of other financial assets and financial liabilities are assumed to approximate their carrying values, due either to their short maturities or that their fair values cannot be measured reliably.

**Derivatives**

Fair values of forward rate agreements, interest rate options, futures contracts and exchange traded options are calculated based on quoted market rates at each balance sheet date. Discounted cash flow analyses are used to value interest rate and currency swaps. Changes in the fair value of these contracts are recognized in the profit and loss account.

Fair values of cash settled equity derivatives are calculated by revaluing the contract at year-end quoted market rates. Changes in fair value are recognized in the profit and loss account.

Forward foreign exchange contracts are valued at the market forward exchange rates. Changes in fair value are measured by comparing these rates with the original contract forward rate. Currency options are valued at each balance sheet date by using the Garman & Kohlhagen option valuation model. Changes in the fair value on these instruments are recognized in the profit and loss account except to the extent they qualify for hedge accounting.

Embedded derivatives are identified and monitored by the Group and fair valued as at each balance sheet date. In assessing the fair value of embedded derivatives, the Group employs a variety of methods including option pricing models and discounted cash flow analysis using assumptions that are based on market conditions existing at each balance sheet date. The fair value changes are recognized in the profit and loss account.

## Hedge accounting

**Hedging of anticipated foreign currency denominated sales and purchases**

The Group applies hedge accounting for "Qualifying hedges". Qualifying hedges are those properly documented cash flow hedges of the foreign exchange rate risk of future anticipated foreign currency denominated sales and purchases that meet the requirements set out in IAS 39(R). The cash flow being hedged must be "highly probable" and must present an exposure to variations in cash flows that could ultimately affect profit or loss. The hedge must be highly effective both prospectively and retrospectively.

The Group claims hedge accounting in respect of certain forward foreign exchange contracts and options, or option strategies, which have zero net premium or a net premium paid, and where the critical terms of the bought and sold options within a collar or zero premium structure are the same and where the nominal amount of the sold option component is no greater than that of the bought option.

For qualifying foreign exchange forwards the change in fair value that reflects the change in spot exchange rates is deferred in shareholders' equity to the extent that the hedge is effective. For qualifying foreign exchange options, or option strategies, the change in intrinsic value is deferred in shareholders' equity to the extent that the hedge is effective. In all cases the ineffective portion is recognized immediately in the profit and loss account. Hedging costs, either expressed as the change in fair value that reflects the change in forward exchange rates less the change in spot exchange rates for forward foreign exchange contracts, or changes in the time value for options, or options strategies, are recognized within other operating income or expenses.

Accumulated fair value changes from qualifying hedges are released from shareholders' equity into the profit and loss account as adjustments to sales and cost of sales, in the period when the hedged cash flow affects the profit and loss account. If the hedged cash flow is no longer expected to take place, all deferred gains or losses are released immediately into the profit and loss account as adjustments to sales and cost of sales. If the hedged cash flow ceases to be highly probable, but is still expected to take place, accumulated gains and losses remain in equity until the hedged cash flow affects the profit and loss account.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39(R) are recognized immediately in the profit and loss account. The fair value changes of derivative instruments that directly relate to normal business operations are recognized within other operating income and expenses. The fair value changes from all other derivative instruments are recognized in financial income and expenses.

**Foreign currency hedging of net investments**

The Group also applies hedge accounting for its foreign currency hedging on net investments. Qualifying hedges are those properly documented hedges of the foreign exchange rate risk of foreign currency-denominated net investments that meet the requirements set out in IAS 39(R). The hedge must be effective both prospectively and retrospectively.

The Group claims hedge accounting in respect of forward foreign exchange contracts, foreign currency-denominated loans, and options, or option strategies, which have zero net premium or a net premium paid, and where the terms of the bought and sold options within a collar or zero premium structure are the same.

For qualifying foreign exchange forwards, the change in fair value that reflects the change in spot exchange rates is deferred in shareholders' equity. The change in fair value that reflects the change in forward exchange rates less the change in spot exchange rates is recognized in the profit and loss account within financial income and expenses. For qualifying foreign exchange options the change in intrinsic value is deferred in shareholders' equity. Changes in the time value are at all times recognized directly in the profit and loss account as financial income and expenses. If a foreign currency-denominated loan is used as a hedge, all foreign exchange gains and losses arising from the transaction are recognized in shareholders' equity.

Accumulated fair value changes from qualifying hedges are released from shareholders' equity into the profit and loss account only if the legal entity in the given country is sold, liquidated, repays its share capital or is abandoned.

## Revenue recognition

Sales from the majority of the Group are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectibility is probable and the significant risks and rewards of ownership have transferred to the buyer. An immaterial part of the revenue from products sold through distribution channels is recognized when the reseller or distributor sells the products to the end users. The Group records reductions to revenue for special pricing agreements, price protection and other volume based discounts. Service revenue is generally recognized on a straight line basis over the specified period unless there is evidence that some other method better represents the stage of completion. Except for separately licensed software solutions and certain Networks' equipment, the Group generally considers the software content of their products or services to be incidental to the products or services as a whole.

In addition, sales and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment are recognized using the percentage of completion method when the outcome of the contract can be estimated reliably. A contract's outcome can be estimated reliably when total contract revenue and the costs to complete the contract can be estimated reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of contract completion can be measured reliably. When the Group is not able to meet those conditions, the policy is to recognize revenues only equal to costs incurred to date, to the extent that such costs are expected to be recovered.

Completion is measured by reference to cost incurred to date as a percentage of estimated total project costs, the cost-to-cost method.

The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as dependable measurement of the progress made towards completing a particular project. Recognized revenues and profits are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. The cumulative impact of a revision in estimates is recorded in the period such revisions become likely and estimable. Losses on projects in progress are recognized in the period they become probable and estimable.

The Group's customer contracts may include the provision of separately identifiable components of a single transaction, for example the construction of a network solution and subsequent network maintenance services or post-contract customer support on software solutions. Accordingly, for these arrangements, revenue recognition requires proper identification of the components of the transaction and evaluation of their commercial effect in order to reflect the substance of the transaction. If the components are considered separable, revenue is allocated across the identifiable components based upon relative fair values.

All the Group's material revenue streams are recorded according to the above policies.

## Shipping and handling costs

The costs of shipping and distributing products are included in cost of sales.

## Research and development

Research and development costs are expensed as they are incurred, except for certain development costs, which are capitalized when it is probable that a development project will generate future economic benefits, and certain criteria, including commercial and technological feasibility, have been met. Capitalized development costs, comprising direct labor and related overhead, are amortized on a systematic basis over their expected useful lives between two and five years.

Capitalized development costs are subject to regular assessments of recoverability based on anticipated future revenues, including the impact of changes in technology. Unamortized capitalized development costs determined to be in excess of their recoverable amounts are expensed immediately.

## Other intangible assets

Expenditures on acquired patents, trademarks and licenses are capitalized and amortized using the straight-line method over their useful lives, generally 3 to 5 years, but not exceeding 20 years. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down to its recoverable amount. Costs of software licenses associated with internal-use software are capitalized. These costs are included within other intangible assets and are amortized over a period not to exceed three years.

## Pensions

The Group companies have various pension schemes in accordance with the local conditions and practices in the countries in which they operate. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations.

The Group's contributions to defined contribution plans and to multi-employer and insured plans are recognized in the profit and loss account in the period to which the contributions relate.

For defined benefit plans, principally the reserved portion of the Finnish TEL system, pension costs are assessed using the projected unit credit method: the cost of providing pensions is recognized in the profit and loss account so as to spread the service cost over the service lives of employees. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on high quality corporate bonds with appropriate maturities. Actuarial gains and losses outside the corridor are recognized over the average remaining service lives of employees. The corridor is defined as ten percent of the greater of the value of plan assets or defined benefit obligation at the beginning of the respective year.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

## Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the expected useful lives of the assets as follows:

| | |
|---|---|
| Buildings and constructions | 20–33 years |
| Production machinery, measuring and test equipment | 1–3 years |
| Other machinery and equipment | 3–10 years |

Land and water areas are not depreciated.

Maintenance, repairs and renewals are generally charged to expense during the financial period in which they are incurred. However, major renovations are capitalized and included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset. Leasehold improvements are depreciated over the shorter of the lease term or useful life.

Gains and losses on the disposal of fixed assets are included in operating profit/loss.

## Leases

The Group has entered into various operating leases, the payments under which are treated as rentals and recognized in the profit and loss account on a straight-line basis over the lease terms.

## Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using standard cost, which approximates actual cost on a FIFO basis. Net realizable value is the amount that can be realized from the sale of the inventory in the normal course of business after allowing for the costs of realization.

In addition to the cost of materials and direct labor, an appropriate proportion of production overhead is included in the inventory values.

An allowance is recorded for excess inventory and obsolescence based on the lower of cost or net realizable value.

## Accounts receivable

Accounts receivable are carried at the original amount invoiced to customers, which is considered to be fair value, less allowances for doubtful accounts based on a periodic review of all outstanding amounts including an analysis of historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms. Bad debts are written off when identified.

## Cash and cash equivalents

Bank and cash consist of cash at bank and in hand. Cash equivalents consist of highly liquid available-for-sale investments purchased with remaining maturities at the date of acquisition of three months or less.

## Short-term investments

The Group considers all highly liquid marketable securities purchased with maturity at acquisition of more than three months as short-term investments. They are included in current available-for-sale investments, liquid assets, in the balance sheet.

## Borrowings

Borrowings are classified as loans and are recognized initially at an amount equal to the proceeds received, net of transaction costs incurred. In subsequent periods, they are stated at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings.

## Loans to customers

Loans to customers are recorded at amortized cost. Loans are subject to regular and thorough review as to their collectibility and as to available collateral; in the event that any loan is deemed not fully recoverable, a provision is made to reflect the shortfall between the carrying amount and the present value of the expected cash flows. Interest income on loans to customers is accrued monthly on the principal outstanding at the market rate on the date of financing and is included in other operating income.

## Income taxes

Current taxes are based on the results of the Group companies and are calculated according to local tax rules.

Deferred tax assets and liabilities are determined, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The enacted or substantially enacted tax rates as of each balance sheet date that are expected to apply in the period when the asset is realized or the liability is settled are used in the measurement of deferred tax assets and liabilities.

The principal temporary differences arise from intercompany profit in inventory, warranty and other provisions, untaxed reserves and tax losses carried forward. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Deferred tax liabilities are recognized for temporary differences that arise between the fair value and tax base of identifiable net assets acquired in business combinations.

## Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as an asset only when the reimbursement is virtually certain.

The Group recognizes the estimated liability to repair or replace products still under warranty at each balance sheet date. The provision is calculated based on historical experience of the level of repairs and replacements.

The Group recognizes the estimated liability for non-cancellable purchase commitments for inventory in excess of forecasted requirements at each balance sheet date.

The Group recognizes a provision for the estimated future settlements related to asserted and unasserted Intellectual Property Rights (IPR) infringements, based on the probable outcome of each case as of each balance sheet date.

The Group recognizes a provision for pension and other social costs on unvested equity instruments based upon local statutory law. In accordance with the requirements applying to cash-settled share-based payment transactions, this provision is measured at fair value and remeasurement of the fair value of the provision is recognized in profit or loss for the period.

The Group recognizes a provision for tax contingencies based upon the estimated future settlement amount at each balance sheet date.

## Share-based compensation

The Group offers three types of equity settled share-based compensation schemes for employees: stock options, performance shares and restricted shares. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments as of the date of grant, excluding the impact of any non-market vesting conditions. Non-market vesting conditions attached to the performance shares are included in assumptions about the number of shares that the employee will ultimately receive. On a regular basis, the Group reviews the assumptions made and, where necessary, revises its estimates of the number of performance shares that are expected to be settled. Share-based compensation is recognized as an expense in the profit and loss account over the service period. When stock options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

## Treasury shares

The Group recognizes acquired treasury shares as a deduction from equity at their acquisition cost. When cancelled, the acquisition cost of treasury shares is recognized in retained earnings and the par value of the corresponding share capital is recognized in share issue premium.

## Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

## Earnings per share

The Group calculates both basic and diluted earnings per share in accordance with IAS 33, Earnings per share, (IAS 33). Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options, restricted shares and performance shares outstanding during the period.

## Use of estimates

The preparation of financial statements in conformity with IFRS requires the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Set forth below are areas requiring significant judgment and estimation that may have an impact on reported results and the financial position.

**Revenue recognition**

Sales from the majority of the Group are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectibility is probable and the significant risks and rewards of ownership have transferred to the buyer. Current sales may materially change if management's assessment of such criteria was determined to be inaccurate.

Revenue from contracts involving solutions achieved through modification of complex telecommunications equipment is recognized on the percentage of completion basis when the outcome of the contract can be estimated reliably. Recognized revenues and profits are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. Current sales and profit estimates for projects may materially change due to the early stage of a long-term project, new technology, changes in the project scope, changes in costs, changes in timing, changes in customers' plans, realization of penalties, and other corresponding factors.

**Customer financing**

The Group has provided a limited amount of customer financing and agreed extended payment terms with selected customers. Should the actual financial position of the customers or general economic conditions differ from assumptions, the ultimate collectibility of such financings and trade credits may be required to be re-assessed, which could result in a write-off of these balances and thus negatively impact profits in future periods.

**Allowances for doubtful accounts**

The Group maintains allowances for doubtful accounts for estimated losses resulting from the subsequent inability of customers to make required payments. If the financial conditions of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods.

**Inventory-related allowances**

The Group periodically reviews inventory for excess amounts, obsolescence and declines in market value below cost and records an allowance against the inventory balance for any such declines. These reviews require management to estimate future demand for products. Possible changes in these estimates could result in revisions to the valuation of inventory in future periods.

**Warranty provisions**

The Group provides for the estimated cost of product warranties at the time revenue is recognized. The Group's warranty provision is established based upon best estimates of the amounts necessary to settle future and existing claims on products sold as of each balance sheet date. As new products incorporating complex technologies are continuously introduced, and as local laws, regulations and practices may change, changes in these estimates could result in additional allowances or changes to recorded allowances being required in future periods.

**Provision for intellectual property rights, or IPR, infringements**

The Group provides for the estimated future settlements related to asserted and unasserted IPR infringements based on the probable outcome of potential infringement. IPR infringement claims can last for varying periods of time, resulting in irregular movements in the IPR infringement provision. The ultimate outcome or actual cost of settling an individual infringement may materially vary from estimates.

**Legal contingencies**

Legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against the Group. Provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

**Capitalized development costs**

The Group capitalizes certain development costs when it is probable that a development project will generate future economic benefits and certain criteria, including commercial and technological feasibility, have been met. Should a product fail to substantiate its estimated feasibility or life cycle, material development costs may be required to be written-off in future periods.

**Valuation of long-lived and intangible assets and goodwill**

The Group assesses the carrying value of identifiable intangible assets, long-lived assets and goodwill annually, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Factors that trigger an impairment review include underperformance relative to historical or projected future results, significant changes in the manner of the use of the acquired assets or the strategy for the overall business and significant negative industry or economic trends. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Amounts estimated could differ materially from what will actually occur in the future.

**Fair value of derivatives and other financial instruments**

The fair value of financial instruments that are not traded in an active market (for example, unlisted equities, currency options and embedded derivatives) are determined using various valuation techniques. The Group uses judgment to select an appropriate valuation methodology as well as underlying assumptions based on existing market practice and conditions. Changes in these assumptions may cause the Group to recognize impairments or losses in future periods.

**Income taxes**

Management judgment is required in determining provisions for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. If the final outcome of these matters differs from the amounts initially recorded, differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**Pensions**

The determination of pension benefit obligation and expense for defined benefit pension plans is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future compensation levels.

A portion of plan assets is invested in equity securities which are subject to equity market volatility. Changes in assumptions and actuarial conditions may materially affect the pension obligation and future expense.

**Share-based compensation**

The Group operates various types of equity settled share-based compensation schemes for employees. Fair value of stock options is based on certain assumptions, including, among others, expected volatility and expected life of the options. Non-market vesting conditions attached to performance shares are included in assumptions about the number of shares that the employee will ultimately receive relating to projections of net sales and earnings per share. Significant differences in equity market performance, employee option activity and the Group's projected and actual net sales and earnings per share performance, may materially affect future expense.

### New accounting pronouncements under IFRS

The Group will adopt the following new and revised standards, amendments and interpretations to existing standards issued by the IASB that are expected to be relevant to its operations:

» IFRIC 8, Scope of IFRS 2, requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from annual periods beginning January 1, 2007, but it is not expected to have any impact on the Group's accounts.

» IFRIC 9, Reassessment of Embedded Derivatives, requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. The Group will apply IFRIC 9 from January 1, 2007, but it is not expected to have a material impact on the Group's accounts;

» IAS 1 (Amendment), Presentation of Financial Statements: Capital Disclosures, requires qualitative and quantitative disclosures to enable users to evaluate an entity's objectives, policies and processes for managing capital. The Group will adopt IAS 1 on January 1, 2007 and does not expect the adoption of this amendment to have a material impact on the disclosures.

» IFRS 7, Financial Instruments: Disclosures, includes a comprehensive set of qualitative and quantitative disclosures on risk exposures from all financial instruments. The Group will adopt IFRS 7 on January 1, 2007 and does not expect the adoption of this standard to have a material impact on the disclosures.

» IFRS 8, Operating Segments requires that segments are identified and reported based on a risk and return analysis. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Given the delayed implementation date for this standard, it has not been practicable to evaluate the impact of this standard.

## 2. Segment information

Nokia is organized on a worldwide basis into four primary business segments: Mobile Phones, Multimedia, Enterprise Solutions, and Networks. Nokia's reportable segments represent the strategic business units that offer different products and services for which monthly financial information is provided to the Board.

Mobile Phones connects people by providing expanding mobile voice and data capabilities across a wide range of mobile devices.

Multimedia gives people the ability to create, access, experience and share multimedia in the form of advanced mobile multimedia computers and applications with connectivity over multiple technology standards.

Enterprise Solutions offers businesses and institutions a broad range of products and solutions, including enterprise-grade mobile devices, underlying security infrastructure, software and services.

Networks provides network infrastructure, communications and networks service platforms as well as professional services to operators and service providers.

In addition to the four business groups, the Group's organization has two horizontal units to support the mobile device business groups, increase operational efficiency and competitiveness, and to take advantage of economies of scale: Customer and Market Operations and Technology Platforms. The horizontal groups are not separate reporting entities, but their costs are carried mainly by the mobile device business groups, which comprises of Mobile Phones, Multimedia and Enterprise Solutions, with the balance included in Common Group Functions. The costs and revenues as well as assets and liabilities of the horizontal groups are allocated to the mobile device business groups on a symmetrical basis; with any amounts not so allocated included in Common Group Functions. Common Group Functions consists of common research and general Group functions.

The accounting policies of the segments are the same as those described in Note 1. Nokia accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices. Nokia evaluates the performance of its segments and allocates resources to them based on operating profit.

No single customer represents 10% or more of Group revenues.

| 2006, EURm | Mobile Phones | Multimedia | Enterprise Solutions | Networks | Total reportable segments | Common Group Functions | Elimina-tions | Group |
|---|---|---|---|---|---|---|---|---|
| **Profit and loss information** | | | | | | | | |
| Net sales to external customers | 24 769 | 7 877 | 1 015 | 7 453 | 41 114 | 7 | | 41 121 |
| Net sales to other segments | – | – | 16 | – | 16 | –7 | –9 | – |
| Depreciation and amortization | 279 | 99 | 36 | 203 | 617 | 95 | | 712 |
| Impairment and customer finance charges | – | – | – | – | – | 51 | | 51 |
| Operating profit/loss [1] | 4 100 | 1 319 | –258 | 808 | 5 969 | –481 | | 5 488 |
| Share of results of associated companies | – | – | – | – | – | 28 | | 28 |
| **Balance sheet information** | | | | | | | | |
| Capital expenditures [2] | 244 | 73 | 30 | 126 | 473 | 177 | | 650 |
| Segment assets [3] | 4 921 | 1 474 | 604 | 3 746 | 10 745 | 1 190 | –31 | 11 904 |
| of which: | | | | | | | | |
| Investments in associated companies | – | – | – | – | – | 224 | | 224 |
| Unallocated assets [4] | | | | | | | | 10 713 |
| Total assets | | | | | | | | 22 617 |
| Segment liabilities [5] | 5 140 | 1 622 | 395 | 1 703 | 8 860 | 337 | –333 | 8 864 |
| Unallocated liabilities [6] | | | | | | | | 1 693 |
| Total liabilities | | | | | | | | 10 557 |

| 2005, EURm | Mobile Phones | Multimedia | Enterprise Solutions | Networks | Total reportable segments | Common Group Functions | Elimina-tions | Group |
|---|---|---|---|---|---|---|---|---|
| **Profit and loss information** | | | | | | | | |
| Net sales to external customers | 20 811 | 5 979 | 839 | 6 556 | 34 185 | 6 | | 34 191 |
| Net sales to other segments | – | 2 | 22 | 1 | 25 | –6 | –19 | – |
| Depreciation and amortization | 247 | 83 | 22 | 241 | 593 | 119 | | 712 |
| Impairment and customer finance charges | – | 36 | – | – | 36 | 30 | | 66 |
| Operating profit/loss | 3 598 | 836 | –258 | 855 | 5 031 | –392 | | 4 639 |
| Share of results of associated companies | – | – | – | – | – | 10 | | 10 |
| **Balance sheet information** | | | | | | | | |
| Capital expenditures [2] | 273 | 77 | 24 | 102 | 476 | 131 | | 607 |
| Segment assets [3] | 4 355 | 1 374 | 202 | 3 437 | 9 368 | 1 135 | –53 | 10 450 |
| of which: | | | | | | | | |
| Investments in associated companies | – | – | – | – | – | 193 | | 193 |
| Unallocated assets [4] | | | | | | | | 12 002 |
| Total assets | | | | | | | | 22 452 |
| Segment liabilities [5] | 4 772 | 1 505 | 315 | 1 607 | 8 199 | 241 | –156 | 8 284 |
| Unallocated liabilities [6] | | | | | | | | 1 654 |
| Total liabilities | | | | | | | | 9 938 |

| 2004, EURm | Mobile Phones | Multimedia | Enterprise Solutions | Networks | Total reportable segments | Common Group Functions | Elimina-tions | Group |
|---|---|---|---|---|---|---|---|---|
| **Profit and loss information** | | | | | | | | |
| Net sales to external customers | 18 443 | 3 653 | 815 | 6 431 | 29 342 | 29 | | 29 371 |
| Net sales to other segments | 78 | 23 | 24 | – | 125 | –29 | –96 | – |
| Depreciation and amortization | 306 | 77 | 23 | 314 | 720 | 148 | | 868 |
| Impairment and customer finance charges | – | – | – | 115 | 115 | 11 | | 126 |
| Operating profit/loss | 3 786 | 175 | –210 | 884 | 4 635 | –309 | | 4 326 |
| Share of results of associated companies | – | – | – | – | – | –26 | | –26 |

1 Networks operating profit includes a gain of EUR 276 million relating to a partial recovery of a previously impaired financing arrangement with Telsim.

2 Including goodwill and capitalized development costs, capital expenditures in 2006 amount to EUR 1 240 million (EUR 760 million in 2005). The goodwill and capitalized development costs consist of EUR 60 million in 2006 (EUR 31 million in 2005) for Mobile Phones, EUR 171 million in 2006 (EUR 16 million in 2005) for Multimedia, EUR 271 million in 2006 (EUR 5 million in 2005) for Enterprise Solutions, EUR 88 million in 2006 (EUR 93 million in 2005) for Networks and EUR 0 million in 2006 (EUR 8 million in 2005) for Common Group Functions.

3 Comprises intangible assets, property, plant and equipment, investments, inventories and accounts receivable as well as prepaid expenses and accrued income except those related to interest and taxes.

4 Unallocated assets include cash and other liquid assets, available-for-sale investments, long-term loans receivable and other financial assets as well as interest and tax related prepaid expenses, accrued income and deferred tax assets. Tax related prepaid expenses and accrued income, and deferred tax assets amount to EUR 1 240 million in 2006 (EUR 1 281 million in 2005).

5 Comprises accounts payable, accrued expenses and provisions except those related to interest and taxes.

6 Unallocated liabilities include non-current liabilities and short-term borrowings as well as interest and tax related prepaid income, accrued expenses and provisions. Tax related accrued expenses and deferred tax liabilities amount to EUR 497 million in 2006 (EUR 433 million in 2005).

| Net sales to external customers by geographic area by location of customer | 2006 EURm | 2005 EURm | 2004 EURm |
|---|---|---|---|
| Finland | **387** | 331 | 351 |
| China | **4 913** | 3 403 | 2 678 |
| USA | **2 815** | 2 743 | 3 430 |
| India | **2 713** | 2 022 | 1 369 |
| Great Britain | **2 425** | 2 405 | 2 269 |
| Germany | **2 060** | 1 982 | 1 730 |
| Other | **25 808** | 21 305 | 17 544 |
| Total | **41 121** | 34 191 | 29 371 |

| Segment assets by geographic area | 2006 EURm | 2005 EURm |
|---|---|---|
| Finland | **4 165** | 3 619 |
| China | **1 257** | 1 120 |
| USA | **1 270** | 1 437 |
| India | **618** | 416 |
| Great Britain | **523** | 437 |
| Germany | **615** | 390 |
| Other | **3 456** | 3 031 |
| Total | **11 904** | 10 450 |

| Capital expenditures by market area | 2006 EURm | 2005 EURm | 2004 EURm |
|---|---|---|---|
| Finland | **275** | 259 | 216 |
| China | **125** | 93 | 57 |
| USA | **63** | 74 | 80 |
| India | **65** | 31 | 3 |
| Great Britain | **11** | 12 | 5 |
| Germany | **23** | 26 | 20 |
| Other | **88** | 112 | 167 |
| Total [1] | **650** | 607 | 548 |

1 Including goodwill and capitalized development costs, capital expenditures amount to EUR 1 240 million in 2006 (EUR 760 million in 2005 and EUR 649 million in 2004). The goodwill and capitalized development costs in 2006 consist of EUR 268 million in USA (EUR 0 million in USA in 2005 and EUR 0 million in USA in 2004) and EUR 321 million in other areas (EUR 153 million in 2005 and EUR 101 million in 2004).

## 3. Percentage of completion

Contract sales recognized under the cost-to-cost method of percentage of completion accounting were EUR 6 308 million in 2006 (EUR 5 520 million in 2005 and EUR 5 197 million in 2004).

Advances received related to construction contracts, included in prepaid income under accrued expenses, were EUR 220 million at December 31, 2006 (EUR 148 million in 2005 and EUR 185 million in 2004). Contract revenues recorded prior to billings, included in accounts receivable, were EUR 371 million at December 31, 2006 (EUR 0 million in 2005 and EUR 80 million in 2004).

The aggregate amount of costs incurred and recognized profits (net of recognized losses) under construction contracts in progress since inception was EUR 6 705 million at December 31, 2006 (EUR 7 309 million at December 31, 2005).

Retentions related to construction contracts, included in accounts receivable, were EUR 131 million at December 31, 2006 (EUR 193 million at December 31, 2005).

Application of the percentage of completion method based on a zero profit margin was not material for all periods presented.

## 4. Personnel expenses

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| Wages and salaries | **3 457** | 3 127 | 2 805 |
| Share-based compensation expense, total | **192** | 104 | 62 |
| Pension expenses, net | **310** | 252 | 253 |
| Other social expenses | **439** | 394 | 372 |
| Personnel expenses as per profit and loss account | **4 398** | 3 877 | 3 492 |

Share-based compensation expense includes pension and other social costs of EUR –4 million (EUR 9 million in 2005 and EUR 2 million in 2004) based upon the related employee charge recognized during the year. In 2006, the benefit was due to a change in the treatment of pension and other social costs.

The net of tax share-based compensation expense amounted to EUR 141 million in 2006 (EUR 82 million in 2005 and EUR 60 million in 2004).

Pension expenses, comprised of multi-employer, insured and defined contribution plans were EUR 198 million in 2006 (EUR 206 million in 2005 and EUR 192 million in 2004).

| Average personnel | 2006 | 2005 | 2004 |
|---|---|---|---|
| Mobile Phones | **3 639** | 2 647 | 2 853 |
| Multimedia | **3 058** | 2 750 | 2 851 |
| Enterprise Solutions | **2 264** | 2 185 | 2 167 |
| Networks | **20 277** | 17 676 | 15 463 |
| Common Group Functions | **36 086** | 31 638 | 30 177 |
| Nokia Group | **65 324** | 56 896 | 53 511 |

## 5. Pensions

The most significant pension plans are in Finland and are comprised of the Finnish state TEL system with benefits directly linked to employee earnings. These benefits are financed in two distinct portions. The majority of benefits are financed by contributions to a central pool with the majority of the contributions being used to pay current benefits. The other part comprises reserved benefits which are pre-funded through the trustee-administered Nokia Pension Foundation. The pooled portion of the TEL system is accounted for as a defined contribution plan and the reserved portion as a defined benefit plan. The foreign plans include both defined contribution and defined benefit plans.

Effective January 1, 2005, the Finnish TEL system was reformed. The most significant change that has an impact on the Group's future financial statements is that pensions accumulated after 2005 are calculated on the earnings during the entire working career, not only on the basis of the last few years of employment as provided by the old rules. An increase to the rate at which pensions accrue led to a past service cost of EUR 5 million in 2004, which will be recognized over employees' future average working life.

As a result of the changes in the TEL system, which increased the Group's obligation in respect of ex-employees, and reduced the obligation in respect of recent recruits, a change in the liability has been recognised to cover future disability pensions. In 2005, to compensate the Group for the additional liability in respect of ex-employees assets, of EUR 24 million were transferred from the pooled part of the pension system to cover future disability pensions inside Nokia Pension Foundation. As this transfer of assets is effectively a reduction of the obligation to the pooled premium, it has been accounted for as a credit to the profit and loss account during 2005.

The following table sets forth the changes in the benefit obligation and fair value of plan assets during the year and the funded status of the significant defined benefit pension plans showing the amounts that are recognized in the Group's consolidated balance sheet at December 31:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| **EURm** | **Domestic plans** | **Foreign plans** | Domestic plans | Foreign plans |
| Present value of defined benefit obligations at beginning of year | **−890** | **−495** | −727 | −398 |
| Foreign currency exchange rate changes | **–** | **−3** | – | −3 |
| Current service cost | **−63** | **−38** | −48 | −21 |
| Interest cost | **−40** | **−26** | −36 | −22 |
| Plan participants' contributions | **–** | **−7** | – | −6 |
| Actuarial loss (−)/gain (+) | **−51** | **14** | −91 | −52 |
| Curtailment | **3** | **–** | 3 | – |
| Benefits paid | **10** | **9** | 9 | 7 |
| Present value of defined benefit obligations at end of year | **−1 031** | **−546** | −890 | −495 |
| Plan assets at fair value at beginning of year | **904** | **372** | 768 | 303 |
| Foreign currency exchange rate changes | **–** | **3** | – | 3 |
| Expected return on plan assets | **41** | **21** | 46 | 18 |
| Actuarial gain (+)/loss (−) on plan assets | **−8** | **−3** | 56 | 22 |
| Employer contribution | **59** | **32** | 19 | 27 |
| Plan participants' contributions | **–** | **8** | – | 6 |
| Transfer from central pool | **–** | **–** | 24 | – |
| Benefits paid | **−11** | **−9** | −9 | −7 |
| Plan assets at fair value at end of year | **985** | **424** | 904 | 372 |
| Deficit (−)/Surplus (+) | **−46** | **−122** | 14 | −123 |
| Unrecognized net actuarial losses | **187** | **89** | 128 | 105 |
| Unrecognized past service cost | **–** | **–** | 3 | – |
| Prepaid (+)/Accrued (−) pension cost in balance sheet | **141** | **−33** | 145 | −18 |

Present value of obligations include EUR 300 million (EUR 251 million in 2005) of wholly funded obligations, EUR 1 244 million of partly funded obligations (EUR 1 099 million in 2005) and EUR 33 million (EUR 35 million in 2005) of unfunded obligations.

The amounts recognized in the profit and loss account are as follows:

| **EURm** | **2006** | 2005 | 2004 |
|---|---|---|---|
| Current service cost | **101** | 69 | 62 |
| Interest cost | **66** | 58 | 56 |
| Expected return on plan assets | **−62** | −64 | −56 |
| Net actuarial losses recognized in year | **8** | 9 | – |
| Past service cost gain (−)/loss (+) | **3** | 1 | −1 |
| Transfer from central pool | **–** | −24 | – |
| Curtailment | **−4** | −3 | – |
| Total, included in personnel expenses | **112** | 46 | 61 |

Movements in prepaid pension costs recognized in the balance sheet are as follows:

| **EURm** | **2006** | 2005 |
|---|---|---|
| Prepaid pension costs at beginning of year | **127** | 126 |
| Net income (+)/expense (−) recognized in the profit and loss account | **−112** | −46 |
| Contributions paid | **91** | 46 |
| Foreign currency exchange rate changes | **2** | 1 |
| Prepaid pension costs at end of year [1] | **108** | 127 |

1 Included within prepaid expenses and accrued income.

The prepaid pension cost above consists of a prepayment of EUR 206 million (EUR 207 million in 2005) and an accrual of EUR 98 million (EUR 80 million in 2005).

| **EURm** | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **−1 577** | −1 385 | −1 125 | −1 009 | −800 |
| Plan assets at fair value | **1 409** | 1 276 | 1 071 | 887 | 762 |
| Deficit | **−168** | −109 | −54 | −122 | −38 |

Experience adjustments arising on plan obligations amount to a loss of EUR 25 million in 2006. Experience adjustments arising on plan assets amount to a loss of EUR 11 million in 2006.

The principal actuarial weighted average assumptions used were as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| **%** | **Domestic** | **Foreign** | Domestic | Foreign |
| Discount rate for determining present values | **4.60** | **4.78** | 4.20 | 4.55 |
| Expected long-term rate of return on plan assets | **4.60** | **5.50** | 4.44 | 5.49 |
| Annual rate of increase in future compensation levels | **3.50** | **3.59** | 3.50 | 3.91 |
| Pension increases | **2.00** | **2.69** | 2.00 | 2.55 |

The Groups's pension plan asset allocation as a percentage of plan assets at December 31, 2006, and 2005, by asset category are as follows:

| % | 2006 Domestic | 2006 Foreign | 2005 Domestic | 2005 Foreign |
|---|---|---|---|---|
| Asset category: | | | | |
| Equity securities | 11 | 27 | 25 | 26 |
| Debt securities | 75 | 61 | 72 | 62 |
| Insurance contracts | – | 11 | – | 11 |
| Real estate | 1 | – | 2 | – |
| Short-term investments | 13 | 1 | 1 | 1 |
| Total | 100 | 100 | 100 | 100 |

The objective of the investment activities is to maximize the excess of plan assets over projected benefit obligations, within an accepted risk level, taking into account the interest rate and inflation sensitivity of the assets as well as the obligations. As of December 31, 2006 the target asset allocation for both domestic as well as foreign plans was 100% long dated debt securities. In addition, a risk limit has been approved to tactically deviate from the target asset allocation.

The Pension Committee of the Group, consisting of the CFO, Head of Treasury, Head of HR and other HR representatives, approves both the target asset allocation as well as the deviation limit. Derivative instruments can be used to change the portfolio asset allocation and risk characteristics.

The domestic pension plans' assets did not include Nokia securities in 2006 (EUR 6 million in 2005).

The foreign pension plan assets include a self investment through a loan provided to Nokia by the Group's German pension fund of EUR 88 million (EUR 62 million in 2005). See Note 33.

The actual return on plan assets was EUR 51 million in 2006 (EUR 147 million in 2005).

In 2007, the Group expects to make contributions of EUR 50 million and EUR 29 million to its domestic and foreign defined benefit pension plans, respectively.

## 6. Advertising and promotional expenses

The Group expenses advertising and promotion costs as incurred. Advertising and promotional expenses were EUR 1 515 million in 2006 (EUR 1 481 million in 2005 and EUR 1 144 million in 2004).

## 7. Other operating income and expenses

Other operating income for 2006 includes a gain of EUR 276 million representing Nokia's share of the proceeds relating to a partial recovery of a previously impaired financing arrangement with Telsim. Other operating expenses for 2006 includes EUR 142 million charges primarily related to the restructuring for the CDMA business and associated asset write-downs. Working together with co-development partners, Nokia intends to selectively participate in key CDMA markets, with special focus on North America, China and India. Accordingly, Nokia is ramping down its CDMA research, development and production which will cease by April 2007. In 2006, Enterprise Solutions recorded a charge of EUR 8 million for personnel expenses and other costs as a result of more focused R&D.

Other operating income for 2005 includes a gain of EUR 61 million relating to the divestiture of the Group's Tetra business, a EUR 18 million gain related to the partial sale of a minority investment (see Note 15) and a EUR 45 million gain related to qualifying sales and leaseback transactions for real estate. In 2005, Enterprise Solutions recorded a charge of EUR 29 million for personnel expenses and other costs in connection with a restructuring taken in light of general downturn in market conditions, which were fully paid during 2005. Other operating income for 2004 includes a gain of EUR 160 million representing the premium return under a multi-line, multi-year insurance program, which expired during 2004. The return was due to our low claims experience during the policy period.

In all three years presented "Other operating income and expenses" include the costs of hedging forecasted sales and purchases (forward points of cash flow hedges).

## 8. Impairment

| 2006, EURm | Mobile Phones | Multimedia | Enterprise Solutions | Networks | Common Group Functions | Group |
|---|---|---|---|---|---|---|
| Impairment of available-for-sale investments | – | – | – | – | 18 | 18 |
| Impairment of other intangible assets | 33 | – | – | – | – | 33 |
| Total, net | 33 | – | – | – | 18 | 51 |
| **2005, EURm** | | | | | | |
| Impairment of available-for-sale investments | – | – | – | – | 30 | 30 |
| Total, net | – | – | – | – | 30 | 30 |
| **2004, EURm** | | | | | | |
| Impairment of available-for-sale investments | – | – | – | – | 11 | 11 |
| Impairment of capitalized development costs | – | – | – | 115 | – | 115 |
| Total, net | – | – | – | 115 | 11 | 126 |

During 2006, the Group's investment in certain equity securities held as non-current available-for-sale suffered a permanent decline in fair value resulting in an impairment charge of EUR 18 million (EUR 30 million in 2005, EUR 11 million in 2004) relating to non-current available-for-sale investments.

In connection with the restructuring of its CDMA business, the Group recorded an impairment charge of EUR 33 million during 2006 related to an acquired CDMA license. The impaired CDMA license was included in Mobile Phones business group.

During 2004, the Group recorded an impairment charge of EUR 65 million of capitalized development costs due to the abandonment of FlexiGateway and Horizontal Technology modules. In addition, an impairment charge of EUR 50 million was recorded on WCDMA radio access network program due to changes in market outlook. The impairment loss was determined as the difference between the carrying amount of the asset and its recoverable amount. The recoverable amount for WCDMA radio access network was derived from the discounted cash flow projections, which cover the estimated life of the WCDMA radio access network current technology, using a pre-tax discount rate of 15%. The impaired technologies were part of the Networks business group.

## 9. Acquisitions

On February 10, 2006, the Group completed its acquisition of all of the outstanding common stock of Intellisync Corporation. Intellisync is a leader in synchronization technology for platform-independent wireless messaging and other business applications for mobile devices. The acquisition of Intellisync will enhance Nokia's ability to respond to its customers and effectively puts Nokia at the core of any mobility solution for businesses of all sizes. Intellisync reported revenues of USD 59 million (EUR 47 million) and net loss of USD 13 million (EUR 11 million) for the year ended July 31, 2005. Intellisync's contribution to revenue and net profit is not material to the Group.

The total cost of the acquisition was EUR 325 million consisting of EUR 319 million of cash and EUR 6 million of costs directly attributable to the acquisition.

The following table summarises the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The fair value of intangible assets has been determined with the assistance of an independent third party valuation specialist. The carrying amount of Intellisync net assets immediately before the acquisition amounted to EUR 50 million.

| February 10, 2006 | EURm |
|---|---|
| Intangible assets subject to amortization: | |
| Technology related intangible assets | 38 |
| Other intangible assets | 22 |
| | 60 |
| Deferred tax assets | 45 |
| Other non-current assets | 16 |
| Non-current assets | 121 |
| Goodwill | 290 |
| Current assets | 42 |
| **Total assets acquired** | **453** |
| Deferred tax liabilities | 23 |
| Other non-current liabilties | 1 |
| Non-current liabilities | 24 |
| Current liabilities | 104 |
| **Total liabilities assumed** | **128** |
| **Net assets acquired** | **325** |

The goodwill of EUR 290 million has been allocated to the Enterprise Solutions segment. The goodwill is attributable to assembled workforce and the significant synergies expected to arise subsequent to the acquisition. None of the goodwill acquired is expected to be deductible for tax purposes.

In 2006, the Group acquired ownership interests or increased its existing ownership interests in the following three entities for total consideration of EUR 366 million, of which EUR 347 million was in cash, EUR 5 million in directly attributable costs and EUR 14 million in deferred cash consideration:

» Nokia Telecommunications Ltd., based in BDA, Beijing, a leading mobile communications manufacturer in China. The Group acquired an additional 22% ownership interest in Nokia Telecommunications Ltd. on June 30, 2006.

» Loudeye Corporation, based in Bristol, England a global leader of digital music platforms and digital media distribution services. The Group acquired a 100% ownership interest in Loudeye Corporation on October 16, 2006.

» gate5 AG, based in Berlin, Germany, a leading supplier of mapping, routing and navigation software and services. The Group acquired a 100% ownership interest in gate5 AG on October 15, 2006.

Goodwill and aggregate net assets acquired in these three transactions amounted to EUR 198 million and EUR 168 million, respectively. Goodwill has been allocated to the Multimedia segment and to the Mobile Phone segment. The goodwill arising from these acquisitions is attributable to assembled workforce and post acquisition synergies. None of the goodwill recognized in these transactions is expected to be tax deductible.

Goodwill is allocated to the Group's cash-generating units (CGU) for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose.

The carrying amount of goodwill allocated to the Intellisync CGU amounts to EUR 223 million and is significant relative to the Group's total carrying amount of goodwill. The Intellisync CGU is part of the Enterprise Solutions segment. The carrying amount of goodwill allocated to other Group CGU's are not individually significant to the Group's total carrying amount of goodwill.

The recoverable amount of the Intellisync CGU is determined based on a value-in-use calculation. The pre-tax cash flow projections employed in the value-in-use calculation are based on financial plans approved by management. These projections are consistent with external sources of information. Cash flows beyond the explicit forecast period are extrapolated using an estimated terminal growth rate of 4.9%. The terminal growth rate does not exceed the long-term average growth rates for the industry and economies in which the Intellisync CGU operates. Management expects that moderate market share growth in a high-growth industry segment will drive strong revenue growth. Increased volume is expected to cause operating profit margins to improve to prevailing levels in the industry. The pre-tax cash flow projections are discounted using a pre-tax discount rate of 18.5%.

The aggregate carrying amount of goodwill allocated across multiple CGUs amounts to EUR 309 million at the end of 2006 and the amount allocated to each individual CGU is not individually significant.

## 10. Depreciation and amortization

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Depreciation and amortization by function** | | | |
| Cost of sales | 279 | 242 | 196 |
| Research and development | 312 | 349 | 431 |
| Selling and marketing | 9 | 9 | 14 |
| Administrative and general | 111 | 99 | 123 |
| Other operating expenses | 1 | 13 | 8 |
| Amortization of goodwill | – | – | 96 |
| Total | 712 | 712 | 868 |

## 11. Financial income and expenses

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| Income from available-for-sale investments | | | |
| Dividend income | – | 1 | 22 |
| Interest income | 223 | 295 | 299 |
| Other financial income | 55 | 77 | 178 |
| Foreign exchange gains and losses | –31 | –11 | 8 |
| Interest expense | –22 | –18 | –22 |
| Other financial expenses | –18 | –22 | –80 |
| Total | 207 | 322 | 405 |

During 2005, Nokia sold the remaining holdings in the subordinated convertible perpetual bonds issued by France Telecom. As a result, the Group booked a total net gain of EUR 57 million (EUR 106 million in 2004) in other financial income, of which EUR 53 million (EUR 104 million in 2004) was recycled from fair value and other reserves in shareholders' equity. See Notes 16 and 21.

## 12. Income taxes

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| Income tax expense | | | |
| Current tax | –1 303 | –1 262 | –1 403 |
| Deferred tax | –54 | –19 | –43 |
| Total | –1 357 | –1 281 | –1 446 |
| Finland | –941 | –759 | –1 128 |
| Other countries | –416 | –522 | –318 |
| Total | –1 357 | –1 281 | –1 446 |

The differences between income tax expense computed at statutory rates (in Finland 26% in 2006 and 2005 and 29% in 2004) and income taxes recognized in the consolidated income statement is reconciled as follows at December 31:

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| Income tax expense at statutory rate | 1 488 | 1 295 | 1 372 |
| Amortization of goodwill | – | – | 28 |
| Provisions without income tax benefit/expense | 12 | 11 | – |
| Taxes for prior years | –24 | 1 | –34 |
| Taxes on foreign subsidiaries' profits lower than income taxes at statutory rate | –73 | –30 | –130 |
| Net change in provisions | –12 | 22 | 67 |
| Change in deferred tax rate | – | – | 26 |
| Deferred tax liability on undistributed earnings | –3 | 8 | 60 |
| Adoption of IAS 39(R) and IFRS 2 | – | – | 11 |
| Other | –31 | –26 | 46 |
| Income tax expense | 1 357 | 1 281 | 1 446 |

In the beginning of 2005, the corporate tax rate in Finland was reduced from 29% to 26%. The impact of the change on the profit and loss account through change in deferred taxes in 2004 was EUR 26 million.

Income taxes include a tax benefit from received and accrued tax refunds from previous years of EUR 84 million in 2006 (EUR 48 million in 2005).

Certain of the Group companies' income tax returns for periods ranging from 2001 through 2005 are under examination by tax authorities. The Group does not believe that any significant additional taxes in excess of those already provided for will arise as a result of the examinations.

During 2004, the Group analyzed its future foreign investment plans with respect to certain foreign investments. As a result of this analysis, the Group concluded that it could no longer represent that all foreign earnings may be permanently reinvested. Accordingly, the Group recognized a EUR 60 million deferred tax liability in 2004. In 2006, the deferred tax liability was EUR 65 million (EUR 68 million in 2005) in respect of undistributed foreign earnings.

## 13. Intangible assets

| EURm | 2006 | 2005 |
|---|---|---|
| **Capitalized development costs** | | |
| Acquisition cost January 1 | 1 445 | 1 322 |
| Additions during the period | 127 | 153 |
| Disposals during the period | −39 | −30 |
| Accumulated acquisition cost December 31 | 1 533 | 1 445 |
| Accumulated amortization January 1 | −1 185 | −1 044 |
| Disposals during the period | 39 | 30 |
| Amortization for the period | −136 | −171 |
| Accumulated amortization December 31 | −1 282 | −1 185 |
| Net book value January 1 | 260 | 278 |
| Net book value December 31 | 251 | 260 |
| **Goodwill** | | |
| Acquisition cost January 1 | 90 | 1 298 |
| Transfer of accumulated amortization on adoption of IFRS 3 | – | −1 208 |
| Translation differences | −26 | – |
| Additions during the period (Note 9) | 488 | – |
| Other changes | −20 | – |
| Accumulated acquisition cost December 31 | 532 | 90 |
| Net book value January 1 | 90 | 90 |
| Net book value December 31 | 532 | 90 |
| **Other intangible assets** | | |
| Acquisition cost January 1 | 676 | 631 |
| Translation differences | −21 | 3 |
| Additions during the period | 99 | 59 |
| Acquisition of subsidiary (Note 9) | 122 | – |
| Impairment losses | −33 | – |
| Disposals during the period | −71 | −17 |
| Accumulated acquisition cost December 31 | 772 | 676 |
| Accumulated amortization January 1 | −465 | −422 |
| Translation differences | 10 | 7 |
| Disposals during the period | 66 | 14 |
| Amortization for the period | −85 | −64 |
| Accumulated amortization December 31 | −474 | −465 |
| Net book value January 1 | 211 | 209 |
| Net book value December 31 | 298 | 211 |

## 14. Property, plant and equipment

| EURm | 2006 | 2005 |
|---|---|---|
| **Land and water areas** | | |
| Acquisition cost January 1 | 82 | 104 |
| Translation differences | −1 | 1 |
| Additions during the period | – | 5 |
| Disposals during the period | −3 | −28 |
| Accumulated acquisition cost December 31 | 78 | 82 |
| Net book value January 1 | 82 | 104 |
| Net book value December 31 | 78 | 82 |
| **Buildings and constructions** | | |
| Acquisition cost January 1 | 865 | 910 |
| Translation differences | −11 | 16 |
| Additions during the period | 123 | 29 |
| Disposals during the period | −52 | −90 |
| Accumulated acquisition cost December 31 | 925 | 865 |
| Accumulated depreciation January 1 | −244 | −220 |
| Translation differences | 4 | −1 |
| Disposals during the period | 40 | 12 |
| Depreciation for the period | −30 | −35 |
| Accumulated depreciation December 31 | −230 | −244 |
| Net book value January 1 | 621 | 690 |
| Net book value December 31 | 695 | 621 |
| **Machinery and equipment** | | |
| Acquisition cost January 1 | 3 735 | 3 340 |
| Translation differences | −62 | 149 |
| Additions during the period | 466 | 470 |
| Disposals during the period | −432 | −224 |
| Accumulated acquisition cost December 31 | 3 707 | 3 735 |
| Accumulated depreciation January 1 | −2 984 | −2 650 |
| Translation differences | 48 | −111 |
| Disposals during the period | 429 | 217 |
| Depreciation for the period | −459 | −440 |
| Accumulated depreciation December 31 | −2 966 | −2 984 |
| Net book value January 1 | 751 | 690 |
| Net book value December 31 | 741 | 751 |
| **Other tangible assets** | | |
| Acquisition cost January 1 | 17 | 21 |
| Translation differences | −1 | 1 |
| Additions during the period | 6 | 1 |
| Disposals during the period | – | −6 |
| Accumulated acquisition cost December 31 | 22 | 17 |
| Accumulated depreciation January 1 | −6 | −11 |
| Translation differences | – | 1 |
| Disposals during the period | – | 6 |
| Depreciation for the period | −1 | −2 |
| Accumulated depreciation December 31 | −7 | −6 |
| Net book value January 1 | 11 | 10 |
| Net book value December 31 | 15 | 11 |
| **Advance payments and fixed assets under construction** | | |
| Net carrying amount January 1 | 120 | 40 |
| Translation differences | −2 | 2 |
| Additions | 213 | 105 |
| Disposals | −1 | – |
| Transfers to: | | |
| Other intangible assets | −37 | −3 |
| Buildings and constructions | −89 | −4 |
| Machinery and equipment | −131 | −20 |
| Net carrying amount December 31 | 73 | 120 |
| **Total property, plant and equipment** | **1 602** | **1 585** |

## 15. Investments in associated companies

| EURm | 2006 | 2005 |
|---|---|---|
| Net carrying amount January 1 | 193 | 200 |
| Translation differences | −2 | 8 |
| Additions | 19 | 12 |
| Disposals | −1 | −17 |
| Share of results | 28 | 10 |
| Other movements | −13 | −20 |
| Net carrying amount December 31 | 224 | 193 |

In 2005, the Group disposed of part of its 36.2% minority holding in Aircom Ltd resulting in a holding of 10%. The gain on the sale recorded in other operating income was EUR 18 million. The Group's remaining 10% holding in Aircom shares is recorded as a non-current available-for-sale investment.

Shareholdings in associated companies are comprised of investments in unlisted companies in all periods presented.

## 16. Available-for-sale investments

| EURm | 2006 | 2005 |
|---|---|---|
| Fair value at January 1 | 8 591 | 10 876 |
| Translation differences | −44 | 49 |
| Deductions, net | −1 184 | −2 276 |
| Fair value gains (losses) | 1 | −28 |
| Impairment charges (Note 8) | −18 | −30 |
| Fair value at December 31 | 7 346 | 8 591 |
| Non-current | 288 | 246 |
| Current, liquid assets | 5 012 | 6 852 |
| Current, cash equivalents | 2 046 | 1 493 |

Available-for-sale investments, comprising marketable debt and equity securities and investments in unlisted equity shares, are fair valued, except in the case of certain unlisted equities, where the fair value cannot be measured reliably. Such unlisted equities are carried at cost, less impairment (EUR 103 million in 2006 and EUR 82 million in 2005). Fair value for equity investments traded in active markets and for unlisted equities, where the fair value can be measured reliably, was EUR 185 million in 2006 and EUR 165 million in 2005. Fair value for equity investments traded in active markets is determined by using exchange quoted bid prices. For other investments, fair value is estimated by using the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets. Gains and losses arising from the change in the fair value of available-for-sale investments are recognized directly in Fair value and other reserves.

Available-for-sale investments comprise: (1) highly liquid, interest-bearing investments with maturities at acquisition of longer than 3 months, which are regarded as current available-for-sale investments, liquid assets, (2) similar types of investments as in category (1), but with maturities at acquisition of less than 3 months, which are regarded as current available-for-sale investments, cash equivalents. The remaining part of the available-for-sale investments portfolio is classified as non-current. See Note 37 for details of fixed income and money market investments.

## 17. Long-term loans receivable

Long-term loans receivable, consisting of loans made to suppliers and to customers principally to support their financing of network infrastructure and services or working capital, net of allowances and write-offs amounts (Note 8), are repayable as follows:

| EURm | 2006 | 2005 |
|---|---|---|
| Under 1 year | – | 56 |
| Between 1 and 2 years | 7 | – |
| Between 2 and 5 years | 12 | 7 |
| Over 5 years | – | – |
| | 19 | 63 |

## 18. Inventories

| EURm | 2006 | 2005 |
|---|---|---|
| Raw materials, supplies and other | 360 | 361 |
| Work in progress | 600 | 685 |
| Finished goods | 594 | 622 |
| Total | 1 554 | 1 668 |

## 19. Accounts receivable and prepaid expenses and accrued income

Accounts receivable include EUR 115 million (EUR 166 million in 2005) due more than 12 months after the balance sheet date.

Prepaid expenses and accrued income primarily consists of VAT and other tax receivables. Prepaid expenses and accrued income also include prepaid pension costs, accrued interest income and other accrued income, but no amounts which are individually significant.

## 20. Valuation and qualifying accounts

| Allowances on assets to which they apply: | Balance at beginning of year EURm | Charged to cost and expenses EURm | Deductions [1] EURm | Balance at end of year EURm |
|---|---|---|---|---|
| **2006** | | | | |
| Allowance for doubtful accounts | 281 | 70 | −139 | 212 |
| Excess and obsolete inventory | 176 | 353 | −311 | 218 |
| **2005** | | | | |
| Allowance for doubtful accounts | 361 | 80 | −160 | 281 |
| Excess and obsolete inventory [2] | 172 | 376 | −372 | 176 |
| **2004** | | | | |
| Allowance for doubtful accounts | 367 | 155 | −161 | 361 |
| Excess and obsolete inventory | 188 | 308 | −324 | 172 |

1 Deductions include utilization and releases of the allowances.

2 In 2005, reported deductions inadvertently excluded certain items. The previously reported 2005 deductions of EUR 249 million were adjusted to the current amount of EUR 372 million and the reported ending balance was similarly adjusted. This matter affected the disclosure only and had no impact on the balance sheet, profit and loss or cash flow.

## 21. Fair value and other reserves

| | Hedging reserve, EURm | | | Available-for-sale investments, EURm | | | Total, EURm | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross | Tax | Net | Gross | Tax | Net | Gross | Tax | Net |
| **Balance at January 1, 2004** | 14 | −2 | 12 | 83 | −14 | 69 | 97 | −16 | 80 |
| **Cash flow hedges:** | | | | | | | | | |
| Fair value gains (+)/losses (−) in period | – | −1 | −1 | – | – | – | – | −1 | −1 |
| **Available-for-sale investments:** | | | | | | | | | |
| Net fair value gains (+)/losses (−) | – | – | – | 18 | −1 | 17 | 18 | −1 | 17 |
| Transfer to profit and loss account on impairment | – | – | – | 11 | – | 11 | 11 | – | 11 |
| Transfer of fair value gains to profit and loss account on disposal | – | – | – | −105 | 10 | −95 | −105 | 10 | −95 |
| **Balance at December 31, 2004** | 14 | −3 | 11 | 7 | −5 | 2 | 21 | −8 | 13 |
| **Cash flow hedges:** | | | | | | | | | |
| Fair value gains (+)/losses (−) in period | −177 | 45 | −132 | – | – | – | −177 | 45 | −132 |
| **Available-for-sale investments:** | | | | | | | | | |
| Net fair value gains (+)/losses (−) | – | – | – | −69 | 6 | −63 | −69 | 6 | −63 |
| Transfer to profit and loss account on impairment | – | – | – | 9 | – | 9 | 9 | – | 9 |
| Transfer of fair value gains to profit and loss account on disposal | – | – | – | −5 | – | −5 | −5 | – | −5 |
| Transfer of fair value losses to profit and loss account on disposal | – | – | – | 2 | – | 2 | 2 | – | 2 |
| **Balance at December 31, 2005** | −163 | 42 | −121 | −56 | 1 | −55 | −219 | 43 | −176 |
| **Cash flow hedges:** | | | | | | | | | |
| Fair value gains (+)/losses (−) in period | 232 | −61 | 171 | – | – | – | 232 | −61 | 171 |
| **Available-for-sale investments:** | | | | | | | | | |
| Net fair value gains (+)/losses (−) | – | – | – | −42 | 1 | −41 | −42 | 1 | −41 |
| Transfer to profit and loss account on impairment | – | – | – | 18 | – | 18 | 18 | – | 18 |
| Transfer of fair value losses to profit and loss account on disposal | – | – | – | 14 | – | 14 | 14 | – | 14 |
| **Balance at December 31, 2006** | 69 | −19 | 50 | −66 | 2 | −64 | 3 | −17 | −14 |

In order to ensure that amounts deferred in the cash flow hedging reserve represent only the effective portion of gains and losses on properly designated hedges of future transactions that remain highly probable at the balance sheet date, Nokia has adopted a process under which all derivative gains and losses are initially recognized in the profit and loss account. The appropriate reserve balance is calculated at the end of each period and posted to the Hedging reserve.

The Group continuously reviews the underlying cash flows and the hedges allocated thereto, to ensure that the amounts transferred to the Hedging reserve do not include gains/losses on forward exchange contracts that have been designated to hedge forecasted sales or purchases that are no longer expected to occur. Because of the number of transactions undertaken during each period and the process used to calculate the reserve balance, separate disclosure of the transfers of gains and losses to and from the reserve would be impractical.

All of the net fair value gains or losses recorded in the hedging reserve at December 31, 2006 on open forward foreign exchange contracts which hedge anticipated future foreign currency sales or purchases are transferred from the Hedging Reserve to the profit and loss account when the forecasted foreign currency cash flows occur, at various dates up to approximately 1 year from the balance sheet date.

## 22. The shares of the Parent Company

See note 14 to the financial statements of the Parent Company.

## 23. Share-based payment

The Group has several equity-based incentive programs for employees. The programs include performance share plans, stock option plans and restricted share plans. Both executives and employees participate in these programs.

The equity-based incentive grants are generally forfeited, if the employment relationship with the Group terminates, and they are conditional upon the fulfillment of such performance, service and other conditions, as determined in the relevant plan rules.

### Stock options

Nokia's outstanding global stock option plans were approved by the Annual General Meetings in the year when each plan was launched, i.e. in 2001, 2003 and 2005.

Each stock option entitles the holder to subscribe for one new Nokia share. Under the 2001 stock option plan, the stock options are transferable by the participants. Under the 2003 and 2005 plans, the stock options are non-transferable. All of the stock options have a vesting schedule with a 25% vesting one year after grant and quarterly vesting thereafter, as specified in the table below. The stock options granted under the plans generally have a term of five years. The Group determines the compensation expense for the Global plans on a straight-line basis over the vesting period for each quarterly lot.

The determination of the exercise prices follows the rule approved by the Annual General Meeting for each plan. The exercise prices are determined at the time of the grant, on a quarterly basis equalling the trade volume weighted average price of a Nokia share on the Helsinki Stock Exchange during the trading days of the first whole week of the second month (i.e. February, May, August or November) of the respective calendar quarter following the approval of the award.

The exercises based on the stock options issued under the 2001, 2003 and 2005 stock option plans are settled with newly issued Nokia shares which entitle the holder to a dividend for the financial year in which the subscription occurs. Other shareholder rights commence on the date on which the shares subscribed for are registered with the Finnish Trade Register.

Pursuant to the stock options issued, an aggregate maximum number of 91 656 401 new Nokia shares may be subscribed for, representing EUR 5 499 384 of the share capital and approximately 2.3% of the total number of votes at December 31, 2006. During 2006, the exercise of 3 046 079 options resulted in the issuance of 3 046 079 new shares and an increase of the share capital of the parent company of EUR 182 765.

There were no other stock options or convertible bonds outstanding as of December 31, 2006, which upon excercise would result in an increase of the share capital of the parent company.

## Outstanding global stock option plans of the Group, December 31, 2006

The table below sets forth certain information relating to the stock options outstanding at December 31, 2006.

| Plan (year of launch) | Stock options outstanding | Number of participants (approx.) | Option (sub)category | Vesting status (as percentage of total number of stock options outstanding) | Exercise period: First vest date | Exercise period: Last vest date | Exercise period: Expiry date | Exercise price/share EUR |
|---|---|---|---|---|---|---|---|---|
| 2001 [1, 2] | 44 978 614 | 24 000 | 2001A+B | Expired | July 1, 2002 | July 1, 2005 | December 31, 2006 | 36.75 |
| | | | 2001C3Q/01 | Expired | October 1, 2002 | October 3, 2005 | December 31, 2006 | 20.61 |
| | | | 2001C4Q/01 | Expired | January 2, 2003 | January 2, 2006 | December 31, 2006 | 26.67 |
| | | | 2001C1Q/02 | 100.00 | April 1, 2003 | April 3, 2006 | December 31, 2007 | 26.06 |
| | | | 2001C3Q/02 | 100.00 | October 1, 2003 | October 2, 2006 | December 31, 2007 | 12.99 |
| | | | 2001C4Q/02 | 93.75 | January 2, 2004 | January 2, 2007 | December 31, 2007 | 16.86 |
| | | | 2002A+B | 100.00 | July 1, 2003 | July 3, 2006 | December 31, 2007 | 17.89 |
| 2003 [2] | 29 255 968 | 19 000 | 2003 2Q | 81.25 | July 1, 2004 | July 2, 2007 | December 31, 2008 | 14.95 |
| | | | 2003 3Q | 75.00 | October 1, 2004 | October 1, 2007 | December 31, 2008 | 12.71 |
| | | | 2003 4Q | 68.75 | January 3, 2005 | January 2, 2008 | December 31, 2008 | 15.05 |
| | | | 2004 2Q | 56.25 | July 1, 2005 | July 1, 2008 | December 31, 2009 | 11.79 |
| | | | 2004 3Q | 50.00 | October 3, 2005 | October 1, 2008 | December 31, 2009 | 9.44 |
| | | | 2004 4Q | 43.75 | January 2, 2006 | January 2, 2009 | December 31, 2009 | 12.35 |
| 2005 [2] | 17 421 819 | 5 000 | 2005 2Q | 31.25 | July 1, 2006 | July 1, 2009 | December 31, 2010 | 12.79 |
| | | | 2005 3Q | 25.00 | October 1, 2006 | October 1, 2009 | December 31, 2010 | 13.09 |
| | | | 2005 4Q | 0.00 | January 1, 2007 | January 1, 2010 | December 31, 2010 | 14.48 |
| | | | 2006 1Q | 0.00 | April 1, 2007 | April 1, 2010 | December 31, 2011 | 14.99 |
| | | | 2006 2Q | 0.00 | July 1, 2007 | July 1, 2010 | December 31, 2011 | 18.02 |
| | | | 2006 3Q | 0.00 | October 1, 2007 | October 1, 2010 | December 31, 2011 | 15.37 |
| | | | 2006 4Q | 0.00 | January 1, 2008 | January 1, 2011 | December 31, 2011 | 15.38 |

1 The stock options under the 2001 plan are listed on the Helsinki Stock Exchange.

2 The Group's current global stock option plans have a vesting schedule with a 25 % vesting one year after grant, and quarterly vesting thereafter, each of the quarterly lots representing 6.25% of the total grant. The grants vest fully in four years.

## Other employee equity plans

In addition to the global equity plans described above, the Group has equity plans for Nokia acquired businesses or employees in the United States or Canada, under which participants can receive Nokia ADSs. These equity plans do not result in an increase in the share capital of Nokia. In 2006, a new such plan was launched, under which performance shares, stock options and restricted shares can be granted, resulting to transfer of existing Nokia ordinary shares or ADSs.

On the basis of these stock option plans the Group had 1.6 million stock options outstanding on December 31, 2006. Each stock option entitles the holder to receive the same amount of Nokia ADSs. The average exercise price of stock options under these plans is USD 17.48. These stock options are included in the table below.

Treasury shares are acquired by the Group to meet its obligations under employee stock compensation plans in the US and Canada. When treasury shares are issued on exercise of stock options any gain or loss is recognized in share issue premium.

**Total stock options outstanding**

| | Number of shares | Weighted average exercise price, EUR | Weighted average share price, EUR | Aggregate intrinsic value, EURm |
|---|---|---|---|---|
| **Shares under option at January 1, 2004** | **238 993 617** | **27.90** | | **10** |
| Granted | 7 172 424 | 11.88 | | |
| Exercised | 781 338 | 8.33 | 12.49 | 3 |
| Forfeited | 4 733 995 | 19.55 | | |
| Expired | 97 693 392 | 33.99 | | |
| **Shares under option at December 31, 2004** | **142 957 316** | **23.29** | | **3** |
| Granted | 8 552 160 | 12.82 | | |
| Exercised | 724 796 | 10.94 | 13.42 | 2 |
| Forfeited | 5 052 794 | 17.86 | | |
| **Shares under option at December 31, 2005** | **145 731 886** | **22.97** | | **61** |
| Granted [1] | 11 421 939 | 16.79 | | |
| Exercised | 3 302 437 | 13.71 | 16.70 | 10 |
| Forfeited | 2 888 474 | 15.11 | | |
| Expired | 57 677 685 | 33.44 | | |
| **Shares under option at December 31, 2006** | **93 285 229** | **16.28** | | **63** |
| Options exercisable at December 31, 2004 (shares) | 83 667 122 | 26.18 | | 3 |
| Options exercisable at December 31, 2005 (shares) | 112 095 407 | 25.33 | | 17 |
| **Options exercisable at December 31, 2006 (shares)** | **69 721 916** | **16.65** | | **32** |

1 Includes options converted in acquisitions.

The weighted average grant date fair value of options granted was EUR 3.65 in 2006, EUR 2.45 in 2005 and EUR 2.59 in 2004.

The options outstanding by range of exercise price at December 31, 2006 are as follows:

| | Options outstanding | | | Vested options outstanding | | |
|---|---|---|---|---|---|---|
| **Exercise prices, EUR** | **Number of shares** | **Weighted average remaining contractual life in years** | **Weighted average exercise price, EUR** | **Number of shares** | **Weighted average remaining contractual life in years** | **Weighted average exercise price, EUR** |
| 0.68 – 11.79 | 6 407 858 | 3.68 | 10.98 | 3 302 237 | 3.32 | 11.01 |
| 12.06 – 14.86 | 8 132 229 | 3.95 | 12.84 | 2 595 071 | 3.68 | 12.80 |
| 14.95 – 17.87 | 24 150 595 | 2.06 | 14.96 | 18 790 492 | 2.00 | 14.96 |
| 17.89 | 44 643 161 | 1.00 | 17.89 | 44 555 120 | 1.00 | 17.89 |
| 18.02 – 42.85 | 9 951 386 | 4.90 | 18.47 | 478 996 | 2.90 | 27.38 |
| | **93 285 229** | | | **69 721 916** | | |

Nokia calculates the fair value of options using the Black Scholes model. The fair value of the stock options is estimated at the grant date using the following assumptions:

| | **2006** | 2005 | 2004 |
|---|---|---|---|
| Weighted average expected dividend yield | **2.08%** | 2.50% | 2.44% |
| Weighted average expected volatility | **24.09%** | 25.92% | 33.00% |
| Risk-free interest rate | **2.86 – 3.75%** | 2.16 – 3.09% | 2.24 – 4.22% |
| Weighted average risk-free interest rate | **3.62%** | 2.60% | 3.07% |
| Expected life (years) | **3.60** | 3.59 | 3.20 |
| Weighted average share price | **17.84** | 13.20 | 11.84 |

Expected term of stock options is estimated by observing general option holder behaviour and actual historical terms of Nokia stock option plans.

Expected volatility has been set by reference to the implied volatility of options available on Nokia shares in the open market and in light of historical patterns of volatility.

## Performance shares

The Group has granted performance shares under the Global Plans 2004, 2005 and 2006, which have been approved by the Board of Directors. A valid authorization from the Annual General Meeting is required, when the plans are settled using Nokia's newly issued shares or transfer of existing treasury shares. The Group may also settle the plans using Nokia shares purchased on the open market or instead of shares cash settlement. The Group introduced performance shares in 2004 as the main element to its broad-based equity compensation program, to further emphasize the performance element in employees' long-term incentives. The performance shares represent a commitment by the Company to deliver Nokia shares to employees at a future point in time, subject to the Group's fulfillment of pre-defined performance criteria. No performance shares will vest unless the Group's performance reaches the threshold level of at least one of the two independent, pre-defined performance criteria. For performance between the threshold and maximum performance levels the settlement follows a linear scale. Performance exceeding the maximum criteria does not increase the number of shares vesting. The maximum number of performance shares (Maximum Number) equals four times the number of performance shares originally granted (Threshold Number). The criteria are calculated based on the Group's Average Annual Net Sales Growth target for the performance period of the plan and basic Earnings per Share ("EPS") target at the end of the performance period. For the 2004 plan the performance period consists of the fiscal years 2004 through 2007 and for the 2005 plan the years 2005 through 2008 and for the 2006 plan the years 2006 through 2008. In 2004 and 2005 plans, separate EPS threshold and maximum levels have been determined for interim measurement period and the final performance period.

For both the 2004 and 2005 plans, if either of the required performance levels is achieved, the first settlement will take place after the two year interim measurement period and is limited to a maximum vesting equal to the Threshold Number. The second and final settlement, if any, will be after the close of the four year performance period. Any settlement made after the Interim Measurement Period, will be deducted from the final settlement after the full Performance Period.

The 2006 plan has a performance period of three years with no interim measurement period. No performance shares will vest unless the Group's performance reaches the threshold level of at least one of the two independent, pre-defined performance criteria.

Until the Nokia shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with the performance shares.

The following table summarizes our 2004, 2005 and 2006 global performance share plans.

| **Plan** | **Performance shares outstanding** | **Number of participants (approx.)** | **Interim measurement period** | **Performance period** | **1st (interim) settlement** | **2nd (final) settlement** |
|---|---|---|---|---|---|---|
| 2004 | 3 449 502 | 11 000 | 2004 – 2005 | 2004 – 2007 | 2006 | 2008 |
| 2005 | 4 107 301 | 12 000 | 2005 – 2006 | 2005 – 2008 | 2007 | 2009 |
| 2006 | 4 755 186 | 13 000 | N/A | 2006 – 2008 | N/A | 2009 |

The following table sets forth the performance criteria of each global performance share plan, as well as the potential number of performance shares vesting if performance criteria are met:

| Plan | | Threshold performance EPS [1] | Threshold performance Average annual net sales growth [1] | Maximum performance EPS [1] | Maximum performance Average annual net sales growth [1] |
|---|---|---|---|---|---|
| 2004 | Interim measurement | 0.80 | 4% | 0.94 | 16% |
| | Performance period | 0.84 | 4% | 1.18 | 16% |
| | Number of shares vesting [2] | 1.72 million | 1.72 million | 6.90 million | 6.90 million |
| 2005 | Interim measurement | 0.75 | 3% | 0.96 | 12% |
| | Performance period | 0.82 | 3% | 1.33 | 12% |
| | Number of shares vesting [2] | 2.05 million | 2.05 million | 8.21 million | 8.21 million |
| 2006 | Performance period | 0.96 | 5% | 1.41 | 20% |
| | Number of shares vesting [2] | 2.38 million | 2.38 million | 9.51 million | 9.51 million |

1 Both the EPS and Average Annual Net Sales Growth criteria have an equal weight of 50%.

2 A performance share represents the grant at threshold. At maximum performance, the settlement amounts to four times the number of performance shares originally granted at threshold.

The table below sets forth certain information relating to the performance shares outstanding at December 31, 2006.

| | Number of performance shares at threshold | Weighted average grant date fair value EUR [1] | Weighted average remaining contractual term (years) | Aggregate intrinsic value EURm [2] |
|---|---|---|---|---|
| **Performance shares at January 1, 2005** | **3 910 840** | **10.58** | **3.25** | **91** |
| Granted | 4 469 219 | 11.86 | 3.74 | |
| Forfeited | 337 242 | 10.74 | 3.88 | |
| **Performance shares at December 31, 2005** | **8 042 817** | **11.28** | **2.79** | **344** |
| Granted [3] | 5 140 736 | 14.83 | 2.48 | |
| Forfeited | 569 164 | 12.30 | 1.34 | |
| **Performance shares at December 31, 2006 [4]** | **12 614 389** | **12.93** | **1.91** | **557** |

1 The fair value of performance shares is estimated based on the grant date market price of the Company's share less the present value of dividends expected to be paid during the vesting period.

2 The aggregate intrinsic value reflects management's estimate of the number of shares expected to vest.

3 Includes a minor number of performance shares granted under other employee equity plans than the global plans.

4 Based on the performance of the Group during the Interim Measurement Period 2004–2005, under the 2004 Performance Share Plan, both performance criteria were met. Hence, 3 595 339 Nokia shares equalling the threshold number were delivered in 2006 with an intrinsic value of EUR 66 million. The performance shares related to the interim settlement of the 2004 Performance Share Plan are included in the number of performance shares outstanding at December 31, 2006 as these performance shares will remain outstanding until the final settlement in 2008. The final payout, in 2008, if any, will be adjusted by the shares delivered based on the Interim Measurement Period.

Based on the performance of the Group during the Interim Measurement Period 2005–2006, under the 2005 Performance Share Plan, both performance criteria were met. Hence 4.1 million Nokia shares equalling the threshold number are expected to vest in 2007. The shares will vest as of the date of the Annual General Meeting on May 3, 2007.

### Restricted shares

Since 2003, the Group has granted restricted shares to recruit, retain, reward and motivate selected high potential employees, who are critical to the future success of the Group. The restricted share plans 2003, 2004, 2005 and 2006 have been approved by the Board of Directors. A valid authorization from the Annual General Meeting is required, when the plans are settled using the Company's newly issued shares or transfer of existing own shares. The Group may also settle the plans by using Nokia shares purchased on the open market or by using cash settlement. All of our restricted share grants have a restriction period of three years after grant, after which period the granted shares will vest.

As soon as practicable after vesting, the Nokia shares are delivered to the recipients. Until the Nokia shares are delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with the restricted shares.

The table below gives certain information relating to the restricted shares outstanding as at December 31, 2006.

| | Number of restricted shares | Weighted average grant date fair value EUR [1] | Weighted average remaining contractual term (years) | Aggregate intrinsic value EURm |
|---|---|---|---|---|
| **Restricted shares at December 31, 2004** | **2 319 430** | **11.55** | **2.06** | **27** |
| Granted | 3 016 746 | 12.14 | 2.76 | |
| Forfeited | 150 500 | 14.31 | 0.74 | |
| **Restricted shares at December 31, 2005** | **5 185 676** | **11.59** | **2.06** | **80** |
| Granted [2] | 1 669 050 | 14.71 | 2.65 | |
| Forfeited | 455 100 | 12.20 | 0.87 | |
| Vested | 334 750 | 12.33 | 0.00 | 5 |
| **Restricted shares at December 31, 2006** | **6 064 876** | **12.27** | **1.69** | **94** |

1 The fair value of restricted shares is estimated based on the grant date market price of the Company's share less the present value of dividends expected to be paid during the vesting period.

2 Includes a minor number of restricted shares granted under other employee equity plans than the global plans.

### Other equity plans for employees

The Group also sponsors other immaterial equity plans for employees which do not increase the share capital at Nokia.

### Total compensation cost related to all unvested equity-based incentive awards

As of December 31, 2006, there was EUR 279 million of total deferred compensation cost related to unvested share-based compensation arrangements granted under the company's plans. That cost is expected to be recognized over a weighted average period of 2.04 years. The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was EUR 81 million, EUR 30 million and EUR 32 million, respectively.

## 24. Distributable earnings

| EURm | 2006 |
|---|---|
| Retained earnings | 11 123 |
| Translation differences (distributable earnings) | −282 |
| Treasury shares | −2 060 |
| Other non-distributable items | – |
| Portion of untaxed reserves | 115 |
| Distributable earnings, December 31 | 8 896 |

Retained earnings under IFRS and Finnish Accounting Standards (FAS) are substantially the same. Distributable earnings are calculated based on Finnish legislation.

## 25. Long-term liabilities

Long-term loans are repayable as follows:

| | Outstanding Dec. 31, 2006 EURm | Repayment date beyond 5 years EURm | Outstanding Dec. 31, 2005 EURm |
|---|---|---|---|
| Long-term interest-bearing liabilities | **69** | 69 | 21 |
| Other long-term liabilities | **122** | 122 | 96 |
| | **191** | 191 | 117 |
| Deferred tax liabilities | **205** | | 151 |
| Total long-term liabilities | **396** | | 268 |

The long-term liabilities, excluding deferred tax liabilities as of December 31, 2006, all mature in more than 5 years.

The currency mix of the Group long-term liabilities as at December 31, 2006 was as follows:

| EUR | USD |
|---|---|
| 97.00% | 3.00% |

## 26. Deferred taxes

| EURm | 2006 | 2005 |
|---|---|---|
| **Deferred tax assets:** | | |
| Intercompany profit in inventory | **34** | 49 |
| Tax losses carried forward | **41** | 7 |
| Warranty provision [1] | **134** | 151 |
| Other provisions [1] | **253** | 280 |
| Fair value gain/losses | **–** | 43 |
| Depreciation differences and untaxed reserves | **104** | 88 |
| Other temporary differences [2] | **243** | 228 |
| Total deferred tax assets | **809** | 846 |
| **Deferred tax liabilities:** | | |
| Depreciation differences and untaxed reserves | **−23** | −24 |
| Fair value gains/losses | **−16** | – |
| Undistributed earnings | **−65** | −68 |
| Other temporary differences | **−101** | −59 |
| Total deferred tax liabilities | **−205** | −151 |
| Net deferred tax asset | **604** | 695 |
| The tax charged to shareholders' equity is as follows: Fair value and other reserves, fair value gains/losses and excess tax benefit on share-based compensation | **−43** | 93 |

1 Deferred tax assets have been increased in all periods presented by EUR 154 million for recognition of certain additional items relating to periods prior to 2002. See Note 1.

2 In 2006, other temporary differences include deferred tax of EUR 70 million arising from share-based compensation.

At December 31, 2006, the Group had loss carry forwards, primarily attributable to foreign subsidiaries of EUR 143 million (EUR 92 million in 2005 and EUR 105 million in 2004), most of which will expire between 2007 and 2025.

At December 31, 2006 the Group had loss carry forwards of EUR 24 million (EUR 71 million in 2005) for which no deferred tax asset was recognized due to uncertainty of utilization of these loss carry forwards. These loss carry forwards will expire in years 2007 through 2012.

## 27. Short-term borrowings

Short-term borrowings consist primarily of borrowings from banks denominated in different foreign currencies. The weighted average interest rate at December 31, 2006 was 8.20% (4.68% at December 31, 2005).

## 28. Accrued expenses

| EURm | 2006 | 2005 |
|---|---|---|
| Social security, VAT and other taxes | **966** | 790 |
| Wages and salaries | **250** | 231 |
| Advance payments | **303** | 268 |
| Other | **2 277** | 2 031 |
| Total | **3 796** | 3 320 |

Other operating expense accruals include various amounts which are individually insignificant.

## 29. Provisions

| EURm | Warranty | IPR infringements | Tax | Other | Total |
|---|---|---|---|---|---|
| **At December 31, 2005** | 1 181 | 396 | 386 | 516 | 2 479 |
| Exchange differences | −11 | – | – | – | −11 |
| Additional provisions | 894 | 179 | 65 | 262 | 1 400 |
| Changes in estimates | −105 | −72 | −49 | −101 | −327 |
| Charged to profit and loss account | 789 | 107 | 16 | 161 | 1 073 |
| Utilized during year | −761 | −219 | – | −175 | −1 155 |
| **At December 31, 2006** | **1 198** | **284** | **402** | **502** | **2 386** |

| EURm | 2006 | 2005 |
|---|---|---|
| Analysis of total provisions at December 31: | | |
| Non-current | **690** | 788 |
| Current | **1 696** | 1 691 |

The IPR provision is based on estimated future settlements for asserted and unasserted past IPR infringements. Final resolution of IPR claims generally occurs over several periods. This results in varying usage of the provision year to year. In 2006, usage of the provision includes an amount of EUR 208 million that was released against the settlement to InterDigital Communications Corporation.

The timing of outflows related to tax provisions is inherently uncertain. Outflows for the warranty provision are generally expected to occur within the next 18 months.

Other provisions include provisions for non-cancelable purchase commitments, provision for pension and other social costs on share-based awards and provision for losses on projects in progress.

## 30. Earnings per share

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Numerator/EURm | | | |
| Basic/Diluted: | | | |
| Profit attributable to equity holders of the parent | **4 306** | 3 616 | 3 192 |
| Denominator/1 000 shares | | | |
| Basic: | | | |
| Weighted average shares | **4 062 833** | 4 365 547 | 4 593 196 |
| Effect of dilutive securities: stock options, restricted shares and performance shares | **23 696** | 5 692 | 7 141 |
| Diluted: | | | |
| Adjusted weighted average shares and assumed conversions | **4 086 529** | 4 371 239 | 4 600 337 |

Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options, restricted shares and performance shares outstanding during the period.

## 31. Commitments and contingencies

| EURm | 2006 | 2005 |
|---|---|---|
| **Collateral for our own commitments** | | |
| Property under mortgages | **18** | 18 |
| Assets pledged | **27** | 10 |
| **Contingent liabilities on behalf of Group companies** | | |
| Other guarantees | **358** | 276 |
| **Collateral given on behalf of other companies** | | |
| Securities pledged [1] | **–** | – |
| **Contingent liabilities on behalf of other companies** | | |
| Financial guarantees on behalf of third parties [1] | **23** | – |
| Other guarantees | **2** | 2 |
| **Financing commitments** | | |
| Customer finance commitments [1] | **164** | 13 |
| Venture fund commitments [2] | **208** | 230 |

1 See also note 37 b).

2 See also note 37 a).

The amounts above represent the maximum principal amount of commitments and contingencies.

Property under mortgages given as collateral for our own commitments include mortgages given to the Finnish National Board of Customs as a general indemnity of EUR 18 million in 2006 (EUR 18 million in 2005).

Assets pledged for the Group's own commitments include available-for-sale investments of EUR 10 million in 2006 (EUR 10 million of available-for-sale investments in 2005).

Other guarantees include guarantees of Nokia's performance of EUR 316 million in 2006 (EUR 234 million in 2005). However, EUR 259 million (EUR 182 million in 2005) of these guarantees are provided to certain Networks' customers in the form of bank guarantees, standby letters of credit and other similar instruments. These instruments entitle the customer to claim payment as compensation for non-performance by Nokia of its obligations under network infrastructure supply agreements. Depending on the nature of the instrument, compensation is payable either immediately upon request, or subject to independent verification of nonperformance by Nokia.

Guarantees for loans and other financial commitments on behalf of other companies of EUR 23 million in 2006 (EUR 0 million in 2005) represent guarantees relating to payment by a certain Networks' customer and other third parties under specified loan facilities between such a customer and other third parties and their creditors. Nokia's obligations under such guarantees are released upon the earlier of expiration of the guarantee or early payment by the customer.

Financing commitments of EUR 164 million in 2006 (EUR 13 million in 2005) are available under loan facilities negotiated with a Networks' customer. Availability of the amounts is dependent upon the borrower's continuing compliance with stated financial and operational covenants and compliance with other administrative terms of the facility. The loan facilities are primarily available to fund capital expenditure relating to purchases of network infrastructure equipment and services.

Venture fund commitments of EUR 208 million in 2006 (EUR 230 million in 2005) are financing commitments to a number of funds making technology related investments. As a limited partner in these funds Nokia is committed to capital contributions and also entitled to cash distributions according to respective partnership agreements.

The Group is party of routine litigation incidental to the normal conduct of business, including, but not limited to, several claims, suits and actions both initiated by third parties and initiated by Nokia relating to infringements of patents, violations of licensing arrangements and other intellectual property related matters, as well as actions with respect to products, contracts and securities. In the opinion of the management outcome of and liabilities in excess of what has been provided for related to these or other proceedings, in the aggregate, are not likely to be material to the the financial condition or result of operations.

As of December 31, 2006, the Group had purchase commitments of EUR 1 630 million (EUR 1 919 million in 2005) relating to inventory purchase obligations, primarily for purchases in 2007.

## 32. Leasing contracts

The Group leases office, manufacturing and warehouse space under various non-cancellable operating leases. Certain contracts contain renewal options for various periods of time.

The future costs for non-cancellable leasing contracts are as follows:

| | | Operating leases |
|---|---|---|
| Leasing payments, EURm | 2007 | 176 |
| | 2008 | 135 |
| | 2009 | 109 |
| | 2010 | 67 |
| | 2011 | 48 |
| | Thereafter | 80 |
| | Total | 615 |

Rental expense amounted to EUR 285 million in 2006 (EUR 262 million in 2005 and EUR 236 million in 2004).

## 33. Related party transactions

Nokia Pension Foundation is a separate legal entity that manages and holds in trust the assets for the Group's Finnish employee benefit plans; these assets do not include Nokia shares. The Group recorded net rental expense of EUR 2 million in 2006 (EUR 2 million in 2005 and EUR 2 million in 2004) pertaining to a sale-leaseback transaction with the Nokia Pension Foundation involving certain buildings and a lease of the underlying land.

At December 31, 2006, the Group had borrowings amounting to EUR 88 million (EUR 62 million in 2005) from Nokia Unterstützungskasse GmbH, the Group's German pension fund, which is a separate legal entity.

There were no loans granted to the members of the Group Executive Board and Board of Directors at December 31, 2006 or 2005.

**Transactions with associated companies**

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| Share of results of associated companies | 28 | 10 | –26 |
| Dividend income | 1 | 1 | 2 |
| Share of shareholders' equity of associated companies | 61 | 33 | 37 |
| Liabilities to associated companies | 14 | 14 | 3 |

### Management compensation

The following table sets forth the salary and cash incentive information awarded and paid or payable by the company to the Chief Executive Officer and President of Nokia Corporation for fiscal years 2004–2006 as well as the share-based compensation expense relating to equity-based awards, expensed by the company.

| | 2006 | | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Base salary EUR | Cash incentive payments EUR | Share-based compensation expense EUR | Base salary EUR | Cash incentive payments EUR | Share-based compensation expense EUR | Base salary EUR | Cash incentive payments EUR | Share-based compensation expense EUR |
| Jorma Ollila<br>Chairman of the Board [1] | **609 524** | **643 942** | **6 325 728** | 1 500 000 | 3 212 037 | 3 389 994 | 1 475 238 | 1 936 221 | 2 109 863 |
| Olli-Pekka Kallasvuo<br>President and CEO [2] | **898 413** | **664 227** | **2 108 197** | 623 524 | 947 742 | 666 313 | 584 000 | 454 150 | 394 979 |

1 CEO and Chairman until June 1,2006

2 President and CEO as of June 1, 2006; and President and COO October 1, 2005 – June 1, 2006; Executive Vice President and General Manager and President of Mobile Phones January 1, 2004 – October 1, 2005.

Total remuneration of the Group Executive Board awarded for the fiscal years 2004 – 2006 was EUR 8 574 443 in 2006 (EUR 14 684 602 in 2005 and EUR 13 594 942 in 2004), which consisted of base salaries and cash incentive payments. Total share-based compensation expense relating to equity-based awards, expensed by the company was EUR 15 349 337 in 2006 (EUR 8 295 227 in 2005 and EUR 4 763 545 in 2004).

## Board of Directors

The following table sets forth the total annual remuneration paid to the members of our Board of Directors, as resolved by the Annual General Meetings in the respective years.

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| | Gross annual fee EUR [1] | Shares received | Gross annual fee EUR [1] | Shares received | Gross annual fee EUR [1] | Shares received |
| **Board of Directors** | | | | | | |
| Jorma Ollila [2]<br>Chairman | **375 000** | **8 035** | 165 000 | 5 011 | 150 000 | 4 834 |
| Paul Collins [3]<br>Vice Chairman | **162 500** | **3 481** | 162 500 | 4 935 | 150 000 | 4 834 |
| Georg Ehrnrooth [4] | **120 000** | **2 570** | 120 000 | 3 644 | 100 000 | 3 223 |
| Daniel R. Hesse [5] | **110 000** | **2 356** | 110 000 | 3 340 | – | – |
| Dr. Bengt Holmström [6] | **110 000** | **2 356** | 110 000 | 3 340 | 100 000 | 3 223 |
| Per Karlsson [7] | **135 000** | **2 892** | 135 000 | 4 100 | 125 000 | 4 029 |
| Dame Marjorie Scardino [8] | **110 000** | **2 356** | 110 000 | 3 340 | 100 000 | 3 223 |
| Keijo Suila [9] | **120 000** | **2 570** | – | – | – | – |
| Vesa Vainio [10] | **120 000** | **2 570** | 120 000 | 3 644 | 100 000 | 3 223 |
| 11 | | | | | | |
| 12 | | | | | | |

1 Approximately 60% of the gross annual fee is paid in cash. Approximately 40% is paid in Nokia shares acquired from the market included in the table under "Shares received.".

2 This table includes fees paid for Mr. Ollila, Chairman, for his services as Chairman of the Board, only.

3 The 2006 and 2005 fees of Mr. Collins amounted to a total of EUR 162 500, consisting of a fee of EUR 137 500 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. The 2004 fee of Mr. Collins amounted to a total of EUR 150 000, consisting of a fee of EUR 125 000 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee.

4 The 2006 and 2005 fees of Mr. Ehrnrooth amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The 2004 fee of Mr. Ehrnrooth amounted to EUR 100 000 for services as a member of the Board.

5 The 2006 and 2005 fees of Mr. Hesse amounted to EUR 110 000 for services as a member of the Board.

6 The 2006 and 2005 fees of Mr. Holmström amounted to EUR 110 000 for services as a member of the Board. The 2004 fee of Mr. Holmström amounted to EUR 100 000 for services as a member of the Board.

7 The 2006 and 2005 fees of Mr. Karlsson amounted to a total of EUR 135 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. The 2004 fee of Mr. Karlsson amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as member of the Board and EUR 25 000 for services as Chairman of the Audit Committee.

8 The 2006 and 2005 fees of Ms. Scardino amounted to EUR 110 000 for services as a member of the Board. The 2004 fee of Ms. Scardino amounted to EUR 100 000 for services as a member of the Board.

9 The 2006 fee of Mr. Suila amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. Mr. Suila is a Nokia Board member since 2006.

10 The 2006 and 2005 fees of Mr. Vainio amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The 2004 fee of Mr. Vainio amounted to EUR 100 000 for services as a member of the Board.

11 Edouard Michelin was paid the gross annual fee of EUR 110 000 for services as a member of the Board prior to his accidental death in May 2006. This amount included 2 356 shares. The 2005 fee of Mr. Michelin amounted to EUR 110 000 for services as a member of the Board, which amount included 3 340 shares.

12 Arne Wessberg served as a member of the Board until March 30, 2006. The 2005 fee of Mr. Wessberg amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The total amount included 3 644 shares. The 2004 fee of Mr. Wessberg amounted to EUR 100 000 for services as a member of the Board, which amount included 3 223 shares.

### Retirement benefits of certain Group Executive Board Members

Jorma Ollila's service contract ended as of June 1, 2006, after which he is not eligible to receive any additional retirement benefits from Nokia. Olli-Pekka Kallasvuo can, as part of his service contract, retire at the age of 60 with full retirement benefit should he be employed by Nokia at the time. The full retirement benefit is calculated as if Mr. Kallasvuo had continued his service with Nokia through the statutory retirement age of 65. Hallstein Moerk, following his arrangement with a previous employer, has also in his current position at Nokia a retirement benefit of 65% of his pensionable salary beginning at the age of 62. Early retirement is possible at the age of 55 with reduced benefits. Simon Beresford-Wylie participates in the Nokia International Employee Benefit Plan (NIEBP). The NIEBP is a defined contribution retirement arrangement provided to some Nokia employees on international assignments. The contributions to NIEBP are funded two-thirds by Nokia and one-third by the employee. Because Mr. Beresford-Wylie also participates in the Finnish TEL system, the company contribution to NIEBP is 1.3% of annual earnings.

## 34. Notes to cash flow statement

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| Adjustments for: | | | |
| Depreciation and amortization (Note 10) | 712 | 712 | 868 |
| (Profit)/loss on sale of property, plant and equipment and available-for-sale investments | −4 | −131 | 26 |
| Income taxes (Note 12) | 1 357 | 1 281 | 1 446 |
| Share of results of associated companies (Note 33) | −28 | −10 | 26 |
| Minority interest | 60 | 74 | 67 |
| Financial income and expenses (Note 11) | −207 | −322 | −405 |
| Impairment charges (Note 8) | 51 | 66 | 129 |
| Share-based compensation | 192 | 104 | 62 |
| Premium return | – | – | −160 |
| Customer financing impairment charges and reversals | −276 | – | – |
| Adjustments, total | 1 857 | 1 774 | 2 059 |
| Change in net working capital | | | |
| Increase (–)/decrease (+) in short-term receivables | −1 770 | −896 | 372 |
| Decrease (+)/increase (–) in inventories | 84 | −301 | −193 |
| Increase in interest-free short-term borrowings | 893 | 831 | 62 |
| Change in net working capital | −793 | −366 | 241 |

The Group did not engage in any material non-cash investing activities for all periods presented.

## 35. Subsequent events

### Nokia Siemens Networks

In June 2006, Nokia and Siemens A.G. (Siemens) announced plans to form Nokia Siemens Networks that will combine Nokia's networks business and Siemens' carrier-related operations for fixed and mobile networks in a new company owned by Nokia and Siemens. Nokia and Siemens will each own approximately 50% of Nokia Siemens Networks. However, Nokia will effectively control Nokia Siemens Networks as it has the ability to appoint key officers and the majority of the members of its Board of Directors. Accordingly, Nokia will consolidate Nokia Siemens Networks.

The planned merger to create Nokia Siemens Networks is expected to close in the first quarter 2007 subject to an agreement between Nokia and Siemens on the results and consequences of a Siemens compliance review. Closing will also be subject to customary regulatory approvals, the completion of standard closing conditions, and the agreement of a number of detailed implementation steps.

The Group is in the process of evaluating the net assets acquired and expects to finalize the purchase price allocation and to realize a gain on this transaction during 2007.

## 36. Principal Nokia Group companies at December 31, 2006

| % | | Parent holding | Group majority |
|---|---|---|---|
| US | Nokia Inc. | – | 100.00 |
| DE | Nokia GmbH | 100.00 | 100.00 |
| GB | Nokia UK Limited | – | 100.00 |
| KR | Nokia TMC Limited | 100.00 | 100.00 |
| CN | Nokia Telecommunications Ltd | 4.50 | 83.90 |
| NL | Nokia Finance International B.V. | 100.00 | 100.00 |
| HU | Nokia Komárom Kft | 100.00 | 100.00 |
| BR | Nokia do Brazil Technologia Ltda | 99.99 | 100.00 |
| IN | Nokia India Ltd | 99.99 | 100.00 |
| IT | Nokia Italia S.p.A. | 100.00 | 100.00 |
| **Associated companies** | | | |
| Symbian Limited | | – | 47.90 |

A complete list of subsidiaries and associated companies is included in Nokia's Statutory Accounts.

## 37. Risk management

### General risk management principles

Nokia's overall risk management concept is based on visibility of the key risks preventing Nokia from reaching its business objectives. This covers all risk areas; strategic, operational, financial and hazard risks. Risk management at Nokia is a systematic and pro-active way to analyze, review and manage all opportunities, threats and risks related to Nokia´s objectives rather than to solely eliminate risks.

The principles documented in Nokia´s Risk Policy and accepted by the Audit Committee of the Board of Directors require risk management and its elements to be integrated into business processes. One of the main principles is that the business or function owner is also the risk owner, however, it is everyone's responsibility at Nokia to identify risks preventing us from reaching our objectives.

Key risks are reported to the business and Group level management to create assurance on business risks and to enable prioritization of risk management implementation at Nokia. In addition to general principles, there are specific risk management policies covering, for example, treasury and customer finance risks.

## Financial risks

The key financial targets for Nokia are growth, profitability, cash flow and a strong balance sheet. The objective for the Treasury function is twofold: to guarantee cost-efficient funding for the Group at all times, and to identify, evaluate and hedge financial risks in close co-operation with the business groups. There is a strong focus in Nokia on creating shareholder value. The Treasury function supports this aim by minimizing the adverse effects caused by fluctuations in the financial markets on the profitability of the underlying businesses and by managing the balance sheet structure of the Group.

Nokia has Treasury Centers in Geneva, Singapore/Beijing and New York/Sao Paolo, and a Corporate Treasury unit in Espoo. This international organization enables Nokia to provide the Group companies with financial services according to local needs and requirements.

The Treasury function is governed by policies approved by the Group Executive Board or its respective members, as applicable. Treasury Policy provides principles for overall financial risk management and determines the allocation of responsibilities for financial risk management in Nokia. Operating Policies cover specific areas such as foreign exchange risk, interest rate risk, use of derivative financial instruments, as well as liquidity and credit risk. Nokia is risk averse in its Treasury activities. Business Groups have detailed Standard Operating Procedures supplementing the Treasury Policy in financial risk management related issues.

# a) Market risk

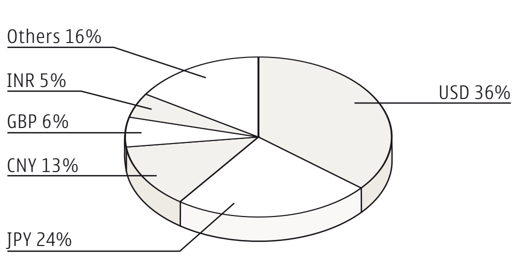
## Foreign exchange risk

Nokia operates globally and is thus exposed to foreign exchange risk arising from various currency combinations. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures. These transaction exposures are managed against various local currencies because of Nokia's substantial production and sales outside the Eurozone.

Due to the changes in the business environment, currency combinations may also change within the financial year. The most significant non-euro sales currencies during the year were US dollar (USD), UK pound sterling (GBP) and Chinese yuan (CNY). In general, depreciation of another currency relative to the euro has an adverse effect on Nokia's sales and operating profit, while appreciation of another currency has a positive effect, with the exception of Japanese yen (JPY), being the only significant foreign currency in which Nokia has more purchases than sales.

The following chart shows the break-down by currency of the underlying net foreign exchange transaction exposure as of December 31, 2006 (in some of the currencies, especially the US dollar, Nokia has both substantial sales as well as cost, which have been netted in the chart).

NET EXPOSURES




According to the foreign exchange policy guidelines of the Group, material transaction foreign exchange exposures are hedged. Exposures are mainly hedged with derivative financial instruments such as forward foreign exchange contracts and foreign exchange options. The majority of financial instruments hedging foreign exchange risk have a duration of less than a year. The Group does not hedge forecasted foreign currency cash flows beyond two years.

Nokia uses the Value-at-Risk (''VaR'') methodology to assess the foreign exchange risk related to the Treasury management of the Group exposures. The VaR figure represents the potential fair value losses for a portfolio resulting from adverse changes in market factors using a specified time period and confidence level based on historical data. To correctly take into account the non-linear price function of certain derivative instruments, Nokia uses Monte Carlo simulation. Volatilities and correlations are calculated from a one-year set of daily data. The VaR figures assume that the forecasted cash flows materialize as expected. The annualized VaR-based FX risk figures for the Group transaction foreign exchange exposure, including hedging transactions and Treasury exposures for netting and risk management purposes, calculated from one-week horizon and 95% confidence level, are shown in Table 1, below.

**Table 1 Transaction foreign exchange position Value-at-Risk**

| VaR | **2006 EURm** | 2005 EURm |
|---|---|---|
| At December 31 | **21.6** | 12.4 |
| Average for the year | **24.6** | 10.2 |
| Range for the year | **17.1–34.6** | 3.3–29.3 |

Since Nokia has subsidiaries outside the Eurozone, the euro-denominated value of the shareholders' equity of Nokia is also exposed to fluctuations in exchange rates. Equity changes caused by movements in foreign exchange rates are shown as a translation difference in the Group consolidation. Nokia uses, from time to time, foreign exchange contracts and foreign currency denominated loans to hedge its equity exposure arising from foreign net investments.

## Interest rate risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items (i.e. price risk) or through changes in interest income or expenses (i.e. re-investment risk). Interest rate risk mainly arises through interest-bearing liabilities and assets. Estimated future changes in cash flows and balance sheet structure also expose the Group to interest rate risk.

Treasury is responsible for monitoring and managing the interest rate exposure of the Group. Due to the current balance sheet structure of Nokia, emphasis is placed on managing the interest rate risk of investments.

Nokia uses the VaR methodology to assess and measure the interest rate risk in the investment portfolio, which is benchmarked against a combination of three-month and one-to-three-year investment horizon. The VaR figure represents the potential fair value losses for a portfolio resulting from adverse changes in market factors using a specified time period and confidence level based on historical data. For interest rate risk VaR, Nokia uses variance-covariance methodology. Volatilities and correlations are calculated from a one-year set of daily data. The annualized VaR-based interest rate risk figures for the investment portfolio calculated from one-week horizon and 95% confidence level are shown in Table 2, below.

**Table 2 Treasury investment portfolio Value-at-Risk**

| VaR | **2006 EURm** | 2005 EURm |
|---|---|---|
| At December 31 | **4.8** | 6.9 |
| Average for the year | **6.3** | 10.0 |
| Range for the year | **4.4–9.3** | 6.9–15.3 |

### Equity price risk

Nokia has certain strategic minority investments in publicly traded companies. These investments are classified as available-for-sale. The fair value of the equity investments at December 31, 2006 was EUR 8 million (EUR 8 million in 2005).

There are currently no outstanding derivative financial instruments designated as hedges of these equity investments. The VaR figures for equity investments, shown in Table 3, below, have been calculated using the same principles as for interest rate risk.

**Table 3 Equity investments Value-at-Risk**

| VaR | 2006 EURm | 2005 EURm |
|---|---|---|
| At December 31 | 0.1 | 0.1 |
| Average for the year | 0.1 | 0.2 |
| Range for the year | 0.1–0.2 | 0.1–0.2 |

In addition to the listed equity holdings, Nokia invests in private equity through Nokia Venture Funds. The fair value of these available-for-sale equity investments at December 31, 2006 was USD 220 million (USD 177 million in 2005). Nokia is exposed to equity price risk on social security costs relating to stock compensation plans. Nokia hedges this risk by entering into cash settled equity swap and option contracts.

## b) Credit risk

### Structured finance credit risk

Network operators in some markets sometimes require their suppliers to arrange or provide term financing in relation to infrastructure projects. Nokia has maintained a financing policy aimed at close cooperation with banks, financial institutions and Export Credit Agencies to support selected customers in their financing of infrastructure investments. Nokia actively mitigates, market conditions permitting, this exposure by arrangements with these institutions and investors.

Credit risks related to customer financing are systematically analyzed, monitored and managed by Nokia's Customer Finance organization, reporting to the Chief Financial Officer. Credit risks are approved and monitored by Nokia's Credit Committee along principles defined in the Company's credit policy and according to the credit approval process. The Credit Committee consists of the CFO, Group Controller, Head of Treasury and Head of Nokia Customer Finance.

At the end of December 31, 2006, our long-term loans to customers and other third parties totaled EUR 19 million (outstanding loans in EUR 63 million in 2005), while financial guarantees given on behalf of third parties totaled EUR 23 million (0 million in 2005). In addition, we had financing commitments totaling EUR 164 million (EUR 13 million in 2005). Total structured financing (outstanding and committed) stood at EUR 206 million (EUR 63 million in 2005).

The term structured financing portfolio at December 31, 2006 was:

| EURm | Outstanding | Financing commitments | Total |
|---|---|---|---|
| Total Portfolio | 42 | 164 | 206 |

The term structured financing portfolio at December 31, 2006 mainly consists of committed customer financing to a network operator.

### Financial credit risk

Financial instruments contain an element of risk of the counterparties being unable to meet their obligations. This risk is measured and monitored by the Treasury function. The Group minimizes financial credit risk by limiting its counterparties to a sufficient number of major banks and financial institutions, as well as through entering into netting arrangements, which gives the Company the right to offset in the case that the counterparty would not be able to fulfill the obligations.

Direct credit risk represents the risk of loss resulting from counterparty default in relation to on-balance sheet products. The fixed income and money market investment decisions are based on strict creditworthiness criteria. The outstanding investments are also constantly monitored by the Treasury. Nokia does not expect the counterparties to default given their high credit quality.

**Fixed income and money-market investments** [1, 2, 3]

| | Maturity date less than 12 months | | | Maturity date 12 months or more | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value | Unrealized losses | Unrealized gains | Fair value | Unrealized losses | Unrealized gains | Fair value | Unrealized losses | Unrealized gains |
| **2006, EURm** | | | | | | | | | |
| Governments | 10 | – | – | 2 360 | −38 | – | 2 370 | −38 | – |
| Banks | 2 861 | −2 | – | 860 | −8 | 1 | 3 721 | −10 | 1 |
| Corporates | 136 | – | – | 260 | −3 | – | 396 | −3 | – |
| Asset backed securities | 98 | – | – | 473 | −1 | 2 | 571 | −1 | 2 |
| | 3 105 | −2 | – | 3 953 | −50 | 3 | **7 058** | **−52** | **3** |
| **2005, EURm** | | | | | | | | | |
| Governments | 30 | – | – | 3 919 | −32 | 2 | 3 949 | −32 | 2 |
| Banks | 2 962 | −3 | – | 803 | −5 | 1 | 3 765 | −7 | 1 |
| Corporates | 60 | – | – | 433 | −1 | 2 | 459 | −1 | 2 |
| Asset backed securities | 25 | – | – | 112 | – | – | 172 | – | – |
| | 3 077 | −3 | – | 5 267 | −38 | 5 | **8 345** | **−41** | **5** |

| EURm | 2006 | 2005 |
|---|---|---|
| Fixed rate investments | 5 853 | 7 531 |
| Floating rate investments | 1 205 | 814 |
| Total | 7 058 | 8 345 |

1 Fixed income and money-market investments include Term deposits, investments in Liquidity funds and investments in fixed income instruments classified as Available-for-sale. Available-for-sale investments are carried at fair value in 2006 and 2005.

2 Weighted average interest rate for fixed income and money-market investments was 3.33% in 2006 and 3.52% in 2005.

3 Included within fixed income and money-market investments is EUR 10 million of restricted cash at December 31, 2006 (10 million at December 31, 2005)

## c) Liquidity risk

Nokia guarantees a sufficient liquidity at all times by efficient cash management and by investing in liquid interest bearing securities. Due to the dynamic nature of the underlying business Treasury also aims at maintaining flexibility in funding by keeping committed and uncommitted credit lines available. At the end of December 31, 2006 the committed facility totaled USD 2.0 billion. The committed credit facility is intended to be used for US and Euro Commercial Paper Programs back up purposes. The commitment fee on the facility is 0.045% per annum.

**The most significant existing funding programs include:**

Revolving Credit Facility of USD 2 000 million, maturing in 2012

Local commercial paper program in Finland, totaling EUR 750 million

Euro Commercial Paper (ECP) program, totaling USD 500 million

US Commercial Paper (USCP) program, totaling USD 500 million

None of the above programs have been used to a significant degree in 2006.

Nokia's international creditworthiness facilitates the efficient use of international capital and loan markets. The ratings of Nokia from credit rating agencies have not changed during the year. The ratings as at December 31, 2006 were:

| | | |
|---|---|---|
| Short-term | Standard & Poor's | A-1 |
| | Moody's | P-1 |
| Long-term | Standard & Poor's | A |
| | Moody's | A1 |

### Hazard risk

Nokia strives to ensure that all financial, reputation and other losses to the Group and our customers are minimized through preventive risk management measures or purchase of insurance. Insurance is purchased for risks, which cannot be internally managed. Nokia's Insurance & Risk Finance function's objective is to ensure that Group's hazard risks, whether related to physical assets (e.g. buildings) or intellectual assets (e.g. Nokia) or potential liabilities (e.g. product liability) are optimally insured.

Nokia purchases both annual insurance policies for specific risks as well as multi-line and/or multi-year insurance policies, where available.

**Notional amounts of derivative financial instruments [1]**

| EURm | 2006 | 2005 |
|---|---|---|
| Foreign exchange forward contracts [2] | 29 859 | 29 991 |
| Currency options bought [2] | 404 | 284 |
| Currency options sold [2] | 193 | 165 |
| Interest rate swaps (receive fixed interest) | – | 50 |
| Cash settled equity options [3] | 45 | 150 |

1 Includes the gross amount of all notional values for contracts that have not yet been settled or cancelled. The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by that of other contracts.

2 As at December 31, 2006 notional amounts include contracts amounting to EUR 2.4 billion used to hedge the shareholders' equity of foreign subsidiaries (December 31, 2005 EUR 2.4 billion).

3 Cash settled equity options can be used to hedge risk relating to incentive programs and investment activities.

### Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date were:

| EURm | 2006 | 2005 |
|---|---|---|
| Derivatives with positive fair value [1]: | | |
| Forward foreign exchange contracts [2] | 65 | 60 |
| Currency options | 2 | 1 |
| Cash settled equity options | 7 | 8 |
| Derivatives with negative fair value [1]: | | |
| Forward foreign exchange contracts [2] | –63 | –97 |
| Currency options | –3 | – |
| Cash settled equity options | –2 | – |

1 Out of the forward foreign exchange contracts and currency options, fair value net EUR 25 million gain was designated for hedges of net investment in foreign subsidiaries as at December 31, 2006 (net EUR 27 million loss at December 31, 2005) and reported within translation differences.

2 Out of the outstanding foreign exchange forward contracts, fair value net EUR 1 million loss was designated for cash flow hedges as at December 31, 2006 (net EUR 3 million loss at December 31, 2005) and reported in fair value and other reserves. The total gain and loss of foreign exchange forward contracts designated for cash flow hedges and reported in fair value and other reserves was net EUR 69 million gain as at December 31, 2006 (net EUR 163 million loss at December 31, 2005).

# Parent company financial statements according to Finnish Accounting Standards

## Profit and loss accounts, parent company, FAS

| Financial year ended December 31 | Notes | 2006 EURm | 2005 EURm |
|---|---|---|---|
| **Net sales** | | **32 213** | 26 552 |
| Cost of sales | | **−23 165** | −18 318 |
| **Gross margin** | | **9 048** | 8 234 |
| Selling and marketing expenses | | **−1 446** | −1 228 |
| Research and development expenses | | **−3 777** | −3 658 |
| Administrative expenses | | **−820** | −680 |
| Other operating expenses | | **−506** | −304 |
| Other operating income | | **438** | 154 |
| **Operating profit** | 2, 3 | **2 937** | 2 518 |
| **Financial income and expenses** | | | |
| Income from long-term investments | | | |
| Dividend income from Group companies | | **4 447** | 723 |
| Dividend income from other companies | | **1** | 1 |
| Interest income from Group companies | | **1** | 3 |
| Other interest and financial income | | | |
| Interest income from Group companies | | **355** | 221 |
| Interest income from other companies | | **2** | 4 |
| Other financial income from other companies | | **–** | 2 |
| Exchange gains and losses | | **53** | −241 |
| Interest expenses and other financial expenses | | | |
| Interest expenses to Group companies | | **−385** | −159 |
| Interest expenses to other companies | | **−4** | −5 |
| Other financial expenses | | **−3** | −5 |
| Financial income and expenses, total | | **4 467** | 544 |
| **Profit before extraordinary items and taxes** | | **7 404** | 3 062 |
| **Extraordinary items** | | | |
| Group contributions | | **33** | −16 |
| Extraordinary items, total | | **33** | −16 |
| **Profit before taxes** | | **7 437** | 3 046 |
| Income taxes | | | |
| for the year | | **−759** | −648 |
| from previous years | | **5** | 24 |
| **Net profit** | | **6 683** | 2 422 |

See Notes to the financial statements of the parent company.

## Balance sheets, parent company, FAS

| December 31 | Notes | 2006 EURm | 2005 EURm |
|---|---|---|---|
| ASSETS | | | |
| **Fixed assets and other non-current assets** | | | |
| Intangible assets | 4 | | |
| Capitalized development costs | | **250** | 260 |
| Intangible rights | | **61** | 55 |
| Other long-term expenses | | **5** | 4 |
| | | **316** | 319 |
| Tangible assets | 5 | **–** | – |
| Investments | | | |
| Investments in subsidiaries | 6 | **3 682** | 3 565 |
| Investments in associated companies | 6 | **6** | 7 |
| Long-term loan receivables from Group companies | | **35** | 45 |
| Long-term loan receivables from other companies | | **12** | 63 |
| Other non-current assets | 6 | **5** | 5 |
| | | **3 740** | 3 685 |
| **Current assets** | | | |
| Inventories and work in progress | | | |
| Raw materials and supplies | | **149** | 146 |
| Work in progress | | **141** | 223 |
| Finished goods | | **251** | 315 |
| | | **541** | 684 |
| Receivables | | | |
| Trade debtors from Group companies | | **1 369** | 1 588 |
| Trade debtors from other companies | | **1 885** | 1 632 |
| Short-term loan receivables from Group companies | | **4 897** | 11 752 |
| Short-term loan receivables from other companies | | **7** | 13 |
| Prepaid expenses and accrued income from Group companies | | **2 495** | 148 |
| Prepaid expenses and accrued income from other companies | | **965** | 946 |
| | | **11 618** | 16 079 |
| Bank and cash | | **204** | 32 |
| | | **16 419** | 20 799 |

See Notes to the financial statements of the parent company.

| December 31 | Notes | 2006 EURm | 2005 EURm |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | 7 | | |
| Share capital | | **246** | 266 |
| Share issue premium | | **2 312** | 2 246 |
| Treasury shares | 7 | **−2 054** | −3 614 |
| Retained earnings | 8 | **2 090** | 6 107 |
| Net profit for the year | 7, 8 | **6 683** | 2 422 |
| | | **9 277** | 7 427 |
| **Provisions** | | | |
| Other provisions | | **121** | – |
| **Liabilities** | | | |
| Short-term liabilities | | | |
| Current finance liabilities from Group companies | | **2 810** | 9 515 |
| Current finance liabilities from other companies | | **2** | – |
| Advance payments from other companies | | **72** | 121 |
| Trade creditors to Group companies | | **1 127** | 918 |
| Trade creditors to other companies | | **1 154** | 1 170 |
| Accrued expenses and prepaid income to Group companies | | **94** | 2 |
| Accrued expenses and prepaid income to other companies | | **1 762** | 1 646 |
| | | **7 021** | 13 372 |
| | | **16 419** | 20 799 |

See Notes to the financial statements of the parent company.

## Cash flow statements, parent company, FAS

| Financial year ended December 31 | Notes | 2006 EURm | 2005 EURm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net profit | | **6 683** | 2 422 |
| Adjustments, total | 12 | **−3 293** | 526 |
| Net profit before change in net working capital | | **3 390** | 2 948 |
| Change in net working capital | 12 | **32** | −655 |
| Cash generated from operations | | **3 422** | 2 293 |
| Interest received | | **359** | 227 |
| Interest paid | | **−388** | −163 |
| Other financial income and expenses | | **22** | -49 |
| Income taxes paid | | **−628** | −858 |
| Cash flow before extraordinary items | | **2 787** | 1 450 |
| Extraordinary income and expenses | | **−16** | 12 |
| **Net cash from operating activities** | | **2 771** | 1 462 |
| **Cash flow from investing activities** | | | |
| Investments in shares | | **−135** | −8 |
| Additions to capitalized development costs | | **−127** | −153 |
| Capital expenditures | | **−38** | −29 |
| Proceeds from sale of shares | | **1** | 10 |
| Long-term loans made to customers | | **−11** | −56 |
| Proceeds from repayment and sale of long term loans receivable | | **56** | – |
| Proceeds from other long-term receivables | | **14** | 98 |
| Proceeds from short-term receivables | | **6 911** | 723 |
| Dividends received | | **2 013** | 714 |
| **Net cash used in investing activities** | | **8 684** | 1 299 |
| **Cash flow from financing activities** | | | |
| Proceeds from share issue | | **46** | 2 |
| Proceeds from borrowings | | **–** | 2 927 |
| Repayment of borrowings | | **−6 451** | −4 |
| Purchase of treasury shares | | **−3 366** | −4 266 |
| Dividends paid | | **−1 512** | −1 463 |
| **Net cash used in financing activities** | | **−11 283** | −2 804 |
| **Net increase/decrease in cash and cash equivalents** | | **172** | −43 |
| **Cash and cash equivalents at beginning of period** | | **32** | 75 |
| **Cash and cash equivalents at end of period** | | **204** | 32 |

See Notes to the financial statements of the parent company.

# Notes to the financial statements of the parent company

## 1. Accounting principles

The Parent company Financial Statements are prepared according to Finnish Accounting Standards (FAS).

See Note 1 to Notes to the consolidated financial statements.

## 2. Personnel expenses

| EURm | 2006 | 2005 |
|---|---|---|
| Wages and salaries | 1 395 | 1 288 |
| Pension expenses | 218 | 179 |
| Other social expenses | 97 | 82 |
| Personnel expenses as per profit and loss account | 1 710 | 1 549 |

### Management compensation

The following table sets forth the salary and cash incentive information awarded and paid or payable by the company to the Chief Executive Officer and President of Nokia Corporation for fiscal years 2004–2006 as well as the share-based compensation expensed by the company:

| | 2006 | | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| EUR | Base salary | Cash incentive payments | Share-based compensation expense | Base salary | Cash incentive payments | Share-based compensation expense | Base salary | Cash incentive payments | Share-based compensation expense |
| Jorma Ollila Chairman of the Board [1] | 609 524 | 643 942 | 6 325 728 | 1 500 000 | 3 212 037 | 3 389 994 | 1 475 238 | 1 936 221 | 2 109 863 |
| Olli-Pekka Kallasvuo President and CEO [2] | 898 413 | 664 227 | 2 108 197 | 623 524 | 947 742 | 666 313 | 584 000 | 454 150 | 394 979 |

1 CEO and Chairman until June 1, 2006.

2 President and CEO as from June 1, 2006; and President and COO October 1, 2005–June 1, 2006; Executive Vice President and General Manager of Mobile Phones January 1, 2004–October 1, 2005.

Total remuneration of the Group Executive Board awarded for the fiscal years 2004–2006 was EUR 8 574 443 in 2006 (EUR 14 684 602 in 2005 and EUR 13 594 942 in 2004), which consisted of base salaries and cash incentive payments. Total share-based compensation expense relating to equity-based awards, expensed by the company was EUR 15 349 337 in 2006 (EUR 8 295 227 in 2005 and EUR 4 763 545 in 2004).

### Board of Directors

The following table sets forth the total annual remuneration paid to the members of our Board of Directors, as resolved by the Annual General Meetings in the respective years.

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| | Gross annual fee EUR [1] | Shares received | Gross annual fee EUR [1] | Shares received | Gross annual fee EUR [1] | Shares received |
| **Board of Directors** | | | | | | |
| Jorma Ollila [2] Chairman | 375 000 | 8 035 | 165 000 | 5 011 | 150 000 | 4 834 |
| Paul J. Collins [3] Vice Chairman | 162 500 | 3 481 | 162 500 | 4 935 | 150 000 | 4 834 |
| Georg Ehrnrooth [4] | 120 000 | 2 570 | 120 000 | 3 644 | 100 000 | 3 223 |
| Daniel R. Hesse [5] | 110 000 | 2 356 | 110 000 | 3 340 | – | – |
| Dr. Bengt Holmström [6] | 110 000 | 2 356 | 110 000 | 3 340 | 100 000 | 3 223 |
| Per Karlsson [7] | 135 000 | 2 892 | 135 000 | 4 100 | 125 000 | 4 029 |
| Dame Marjorie Scardino [8] | 110 000 | 2 356 | 110 000 | 3 340 | 100 000 | 3 223 |
| Keijo Suila [9] | 120 000 | 2 570 | – | – | – | – |
| Vesa Vainio [10] | 120 000 | 2 570 | 120 000 | 3 644 | 100 000 | 3 223 |
| 11 | | | | | | |
| 12 | | | | | | |

1 Approximately 60% of the gross annual fee is paid in cash. Approximately 40% is paid in Nokia shares acquired from the market included in the table under "Shares received.".

2 This table includes fees paid for Mr. Ollila, Chairman, for his services as Chairman of the Board, only.

3 The 2006 and 2005 fees of Mr. Collins amounted to a total of EUR 162 500, consisting of a fee of EUR 137 500 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. The 2004 fee of Mr. Collins amounted to a total of EUR 150 000, consisting of a fee of EUR 125 000 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee.

4 The 2006 and 2005 fees of Mr. Ehrnrooth amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The 2004 fee of Mr. Ehrnrooth amounted to EUR 100 000 for services as a member of the Board.

5 The 2006 and 2005 fees of Mr. Hesse amounted to EUR 110 000 for services as a member of the Board.

6 The 2006 and 2005 fees of Mr. Holmström amounted to EUR 110 000 for services as a member of the Board. The 2004 fee of Mr. Holmström amounted to EUR 100 000 for services as a member of the Board.

7 The 2006 and 2005 fees of Mr. Karlsson amounted to a total of EUR 135 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. The 2004 fee of Mr. Karlsson amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as member of the Board and EUR 25 000 for services as Chairman of the Audit Committee.

8 The 2006 and 2005 fees of Ms. Scardino amounted to EUR 110 000 for services as a member of the Board. The 2004 fee of Ms. Scardino amounted to EUR 100 000 for services as a member of the Board.

9 The 2006 fee of Mr. Suila amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. Mr. Suila is a Nokia Board member since 2006.

10 The 2006 and 2005 fees of Mr. Vainio amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The 2004 fee of Mr. Vainio amounted to EUR 100 000 for services as a member of the Board.

11 Edouard Michelin was paid the gross annual fee of EUR 110 000 for services as a member of the Board prior to his accidental death in May 2006. This amount included 2 356 shares. The 2005 fee of Mr. Michelin amounted to EUR 110 000 for services as a member of the Board, which amount included 3 340 shares.

12 Arne Wessberg served as a member of the Board until March 30, 2006. The 2005 fee of Mr. Wessberg amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The total amount included 3 644 shares. The 2004 fee of Mr. Wessberg amounted to EUR 100 000 for services as a member of the Board, which amount included 3 223 shares.

### Retirement benefits of certain Group Executive Board Members

Jorma Ollila's service contract ended as of June 1, 2006, after which he is not eligible to receive any additional retirement benefits from Nokia. Olli-Pekka Kallasvuo can, as part of his service contract, retire at the age of 60 with full retirement benefit should he be employed by Nokia at the time. The full retirement benefit is calculated as if Mr. Kallasvuo had continued his service with Nokia through the statutory retirement age of 65. Hallstein Moerk, following his arrangement with a previous employer, has also in his current position at Nokia a retirement benefit of 65% of his pensionable salary beginning at the age of 62. Early retirement is possible at the age of 55 with reduced benefits. Simon Beresford-Wylie participates in the Nokia International Employee Benefit Plan (NIEBP). The NIEBP is a defined contribution retirement arrangement provided to some Nokia employees on international assignments. The contributions to NIEBP are funded two-thirds by Nokia and one-third by the employee. Because Mr. Beresford-Wylie also participates in the Finnish TEL system, the company contribution to NIEBP is 1.3% of annual earnings.

| Personnel average | 2006 | 2005 |
|---|---|---|
| Production | 6 194 | 5 984 |
| Marketing | 1 444 | 1 326 |
| R&D | 13 544 | 13 149 |
| Administration | 3 121 | 3 152 |
| | 24 303 | 23 611 |
| Personnel, December 31 | 24 333 | 23 509 |

## 3. Depreciation and amortization

| EURm | 2006 | 2005 |
|---|---|---|
| **Depreciation and amortization by asset class category** | | |
| Intangible assets | | |
| Capitalized development costs | 137 | 221 |
| Intangible rights | 31 | 28 |
| Tangible assets | – | – |
| Total | 168 | 249 |
| **Depreciation and amortization by function** | | |
| R&D | 149 | 232 |
| Production | 2 | 1 |
| Selling, marketing and administration | 17 | 16 |
| Total | 168 | 249 |

## 4. Intangible assets

| EURm | 2006 | 2005 |
|---|---|---|
| **Capitalized development costs** | | |
| Acquisition cost January 1 | 1 517 | 1 394 |
| Additions | 127 | 153 |
| Accumulated amortization relating to additions December 31 | –5 | –8 |
| Disposals | –39 | –30 |
| Accumulated amortization relating to deductions December 31 | 39 | 30 |
| Accumulated amortization December 31 | –1 389 | –1 279 |
| Net carrying amount December 31 | 250 | 260 |
| **Intangible rights** | | |
| Acquisition cost January 1 | 311 | 290 |
| Additions | 37 | 25 |
| Accumulated amortization relating to additions December 31 | –5 | –4 |
| Disposals | –38 | –4 |
| Accumulated amortization relating to deductions December 31 | 38 | 4 |
| Accumulated amortization December 31 | –282 | –256 |
| Net carrying amount December 31 | 61 | 55 |
| **Other intangible assets** | | |
| Acquisition cost January 1 | 7 | 3 |
| Additions | 3 | 4 |
| Accumulated amortization relating to additions December 31 | – | – |
| Disposals | –2 | – |
| Accumulated amortization relating to deductions December 31 | – | – |
| Accumulated amortization December 31 | –3 | –3 |
| Net carrying amount December 31 | 5 | 4 |

## 5. Tangible assets

At the end of 2006 and 2005 the parent company had no tangible assets. These assets were leased from Nokia Asset Management Oy, a company wholly owned by Nokia Corporation.

## 6. Investments

| EURm | 2006 | 2005 |
|---|---|---|
| **Investments in subsidiaries** | | |
| Acquisition cost January 1 | 3 565 | 3 597 |
| Additions | 148 | 65 |
| Disposals | −31 | −97 |
| Net carrying amount December 31 | 3 682 | 3 565 |
| **Investments in associated companies** | | |
| Acquisition cost January 1 | 7 | 5 |
| Additions | 4 | 2 |
| Disposals | −5 | – |
| Net carrying amount December 31 | 6 | 7 |
| **Investments in other shares** | | |
| Acquisition cost January 1 | 5 | 7 |
| Additions | – | 4 |
| Disposals | – | −6 |
| Net carrying amount December 31 | 5 | 5 |

## 7. Shareholders' equity

| Parent Company, EURm | Share capital | Share issue premium | Treasury shares | Retained earnings | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2004 | 288 | 2 222 | −1 351 | 11 132 | 12 291 |
| Share issue | | | | | – |
| Cancellation of treasury shares | −8 | 8 | 1 999 | −1 999 | – |
| Acquisitions of treasury shares | | | −2 660 | | −2 660 |
| Dividend | | | | −1 399 | −1 399 |
| Support to the Foundation of Nokia Corporation | | | | −5 | −5 |
| Net profit | | | | 2 434 | 2 434 |
| Balance at December 31, 2004 | 280 | 2 230 | −2 012 | 10 163 | 10 661 |
| Share issue | | 2 | | | 2 |
| Cancellation of treasury shares | −14 | 14 | 2 664 | −2 664 | – |
| Acquisitions of treasury shares | | | −4 266 | | −4 266 |
| Dividend | | | | −1 463 | −1 463 |
| Adoption of IAS 39(R) | | | | 71 | 71 |
| Net profit | | | | 2 422 | 2 422 |
| Balance at December 31, 2005 | 266 | 2 246 | −3 614 | 8 529 | 7 427 |
| Share issue | | 46 | | | 46 |
| Cancellation of treasury shares | −20 | 20 | 4 927 | −4 927 | – |
| Acquisitions of treasury shares | | | −3 404 | | −3 404 |
| Settlement of performance shares | | | 37 | | 37 |
| Dividend | | | | −1 512 | −1 512 |
| Net profit | | | | 6 683 | 6 683 |
| **Balance at December 31, 2006** | **246** | **2 312** | **−2 054** | **8 773** | **9 277** |

## 8. Distributable earnings

| EURm | 2006 | 2005 |
|---|---|---|
| Retained earnings from previous years | 2 090 | 6 107 |
| Net profit for the year | 6 683 | 2 422 |
| Retained earnings, total | 8 773 | 8 529 |
| Treasury shares | −2 054 | −3 614 |
| Distributable earnings, December 31 | 6 719 | 4 915 |

## 9. Commitments and contingencies

| EURm | 2006 | 2005 |
|---|---|---|
| **Contingent liabilities on behalf of Group companies** | | |
| Guarantees for loans | 151 | 125 |
| Leasing guarantees | 291 | 357 |
| Other guarantees | 343 | 274 |
| **Contingent liabilities on behalf of other companies** | | |
| Guarantees for loans | 23 | – |
| Other guarantees | 1 | 1 |

## 10. Leasing contracts

At December 31, 2006 the leasing contracts of the Parent Company amounted to EUR 428 million (EUR 464 million in 2005), of which EUR 383 million in 2006 relate to Group internal agreements. EUR 408 million will expire in 2007 (EUR 445 million in 2006).

## 11. Loans granted to the management of the company

There were no loans granted to the members of the Group Executive Board and Board of Directors at December 31, 2006.

## 12. Notes to cash flow statements

| EURm | 2006 | 2005 |
|---|---|---|
| Adjustments for: | | |
| Depreciation | 168 | 250 |
| Income taxes | 754 | 624 |
| Financial income and expenses | −4 467 | −544 |
| Impairment of non-current available-for-sale investments | 34 | −5 |
| Other operating income and expenses | 218 | 201 |
| Adjustments, total | −3 293 | 526 |
| Change in net working capital | | |
| Short-term trade receivables, increase (–), decrease (+) | −361 | −1 471 |
| Inventories, increase (–), decrease (+) | 143 | −212 |
| Interest-free short-term liabilities, increase (+), decrease (–) | 250 | 1 028 |
| Change in net working capital | 32 | −655 |

## 13. Principal Nokia Group companies on December 31, 2006

See note 36 to Notes to the consolidated financial statements.

## 14. Nokia shares and shareholders

See Nokia Shares and Shareholders p. 48–51.

## 15. Accrued income

| EURm | 2006 | 2005 |
|---|---|---|
| Taxes | 188 | 320 |
| Other | 3 272 | 774 |
| Total | 3 460 | 1 094 |

## 16. Accrued expenses

| EURm | 2006 | 2005 |
|---|---|---|
| Personnel expenses | 297 | 303 |
| Other | 1 680 | 1 345 |
| Total | 1 977 | 1 648 |

## 17. Income tax

| EURm | 2006 | 2005 |
|---|---|---|
| Income tax from operations | 750 | 652 |
| Other income tax | 9 | −4 |
| Total | 759 | 648 |

Income taxes are shown separately in the Notes to the financial statements as they have been shown as a one-line item on the face of the profit and loss statement.

# Nokia shares and shareholders

## Shares and share capital

Nokia has one class of shares. Each Nokia share entitles the holder to one (1) vote at General Meetings of Nokia. The par value of the share is EUR 0.06.

The minimum share capital stipulated in the Articles of Association is EUR 170 million and the maximum share capital EUR 680 million. The share capital may be increased or reduced within these limits without amending the Articles of Association.

On December 31, 2006, the share capital of Nokia Corporation was EUR 245 702 557.14 and the total number of shares issued was 4 095 042 619.

On December 31, 2006, the total number of shares included 129 312 226 shares owned by Group companies with an aggregate par value of EUR 7 758 733.56 representing approximately 3.2% of the share capital and the total voting rights.

Pursuant to the announcement on January 25, 2007, the Board of Directors will propose for shareholders' approval at the Annual General Meeting convening on May 3, 2007 that the Articles of Association be amended to the effect that the provisions on minimum and maximum share capital as well as on the par value of a share be removed.

| **Share capital and shares, December 31** | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Share capital, EURm | **246** | 266 | 280 | 288 | 287 |
| Shares (1 000, par value EUR 0.06) | **4 095 043** | 4 433 887 | 4 663 761 | 4 796 292 | 4 787 907 |
| Shares owned by the Group (1 000) | **129 312** | 261 511 | 176 820 | 96 024 | 1 145 |
| Number of shares excluding shares owned by the Group (1 000) | **3 965 730** | 4 172 376 | 4 486 941 | 4 700 268 | 4 786 762 |
| Average number of shares excluding shares owned by the Group during the year (1 000), basic | **4 062 833** | 4 365 547 | 4 593 196 | 4 761 121 | 4 751 110 |
| Average number of shares excluding shares owned by the Group during the year (1 000), diluted | **4 086 529** | 4 371 239 | 4 600 337 | 4 761 160 | 4 788 042 |
| Number of registered shareholders [1] | **119 143** | 126 352 | 142 095 | 133 991 | 129 508 |

1 Each account operator is included in the figure as only one registered shareholder.

| **Key ratios, December 31, IFRS (calculation see page 54)** | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Earnings per share (for profit attributable to the equity holders of the parent), EUR** | | | | | |
| Earnings per share, basic | **1.06** | 0.83 | 0.69 | 0.74 | 0.71 |
| Earnings per share, diluted | **1.05** | 0.83 | 0.69 | 0.74 | 0.71 |
| P/E ratio | **14.60** | 18.61 | 16.84 | 18.53 | 21.34 |
| **(Nominal) dividend per share, EUR** | **0.43** * | 0.37 | 0.33 | 0.30 | 0.28 |
| Total dividends paid, EURm [1] | **1 761** * | 1 641 | 1 539 | 1 439 | 1 341 |
| Payout ratio | **0.41** * | 0.45 | 0.48 | 0.41 | 0.39 |
| **Dividend yield, %** | **2.8** | 2.4 | 2.8 | 2.2 | 1.8 |
| **Shareholders' equity per share, EUR** [2] | **3.02** | 2.95 | 3.21 | 3.26 | 3.02 |
| **Market capitalization, EURm** [3] | **61 390** | 64 463 | 52 138 | 65 757 | 72 537 |

* Proposal by the Board of Directors to the Annual General Meeting on May 3, 2007.

1 Calculated for all the outstanding shares of the company as of the applicable year-end.

2 Opening deferred tax assets and retained earnings have each been increased by EUR 154 million for recognition of certain additional items relating to periods prior to 2002. See note 1 "Accounting principles" to the consolidated financial statements.

3 Shares owned by the Group companies are not included.

| **Splits of the par value of the Nokia share** | **Par value before** | **Split ratio** | **Par value after** | **Effective date** |
|---|---|---|---|---|
| 1986 | FIM 100 (EUR 16.82) | 5:1 | FIM 20 (EUR 3.36) | December 31, 1986 |
| 1995 | FIM 20 (EUR 3.36) | 4:1 | FIM 5 (EUR 0.84) | April 24, 1995 |
| 1998 | FIM 5 (EUR 0.84) | 2:1 | FIM 2.5 (EUR 0.42) | April 16, 1998 |
| 1999 | FIM 2.5 (EUR 0.42) | 2:1 | EUR 0.24 [1] | April 12, 1999 |
| 2000 | EUR 0.24 | 4:1 | EUR 0.06 | April 10, 2000 |

1 At the same time with a bonus issue of EUR 0.03 per each share of a par value of EUR 0.24.

## Authorizations

### Authorization to increase the share capital

The Board of Directors had been authorized by Nokia shareholders at the Annual General Meeting held on April 7, 2005 to decide on an increase of the share capital by a maximum of EUR 53 160 000 offering a maximum of 886 000 000 new shares. In 2006, the Board of Directors did not increase the share capital on the basis of this authorization. The authorization expired on March 30, 2006 following the new authorization granted by the Annual General Meeting 2006.

At the Annual General Meeting held on March 30, 2006 Nokia shareholders authorized the Board of Directors to decide on an increase of the share capital by a maximum of EUR 48 540 000 within one year from the resolution of the Annual General Meeting. The increase of the share capital may consist of one or more issues offering a maximum of 809 000 000 new shares with a par value of EUR 0.06 each. The share capital may be increased in deviation from the shareholders' pre-emptive rights for share subscription provided that from the company's perspective important financial grounds exist such as financing or carrying out of an acquisition or another arrangement or granting incentives to selected members of the personnel. In 2006, the Board of Directors did not increase the share capital on the basis of this authorization. The authorization is effective until March 30, 2007.

At the end of 2006, the Board of Directors had no other authorizations to issue shares, convertible bonds, warrants or stock options.

### Other authorizations

At the Annual General Meeting held on April 7, 2005, Nokia shareholders authorized the Board of Directors to repurchase a maximum of 443 200 000 Nokia shares, and to transfer a maximum of 443 200 000 Nokia shares. In 2006 Nokia repurchased 84 880 000 Nokia shares on the basis of the buy-back authorization. No shares were transferred in 2006 under the respective authorization. These authorizations expired on March 30, 2006 following the new authorizations granted by the Annual General Meeting 2006.

At the Annual General Meeting held on March 30, 2006, Nokia shareholders authorized the Board of Directors to repurchase a maximum of 405 million Nokia shares, representing less than 10% of the share capital and the total voting rights, and to resolve on the transfer of a maximum of 405 million Nokia shares. In 2006, Nokia repurchased a total of 126 960 000 shares under this buy-back authorization, as a result of which the unused authorization amounted to 278 040 000 shares on December 31, 2006. In 2006, a total of 2 236 479 shares were transferred under the authorization to transfer shares. The shares may be repurchased under the buy-back authorization in order to carry out the company's stock repurchase plan. In addition, shares may be repurchased in order to develop the capital structure of the company, to finance or carry out acquisitions or other arrangements, to settle the company's equity-based incentive plans, to be transferred for other purposes, or to be cancelled. The authorization to transfer the shares may be carried out pursuant to terms determined by the Board in connection with acquisitions or in other arrangements or for incentive purposes to selected members of the personnel. The Board may resolve to transfer the shares in another proportion than that of the shareholders' pre-emptive rights to the company's shares, provided that from the company's perspective important financial grounds exist for such transfer. These authorizations are effective until March 30, 2007.

### Authorizations proposed to the Annual General Meeting 2007

Pursuant to the announcement on January 25, 2007, the Board of Directors will propose to the Annual General Meeting convening on May 3, 2007 that the Annual General Meeting authorize the Board of Directors to resolve to issue a maximum of 800 million shares through issuance of shares or special rights entitling to shares (including stock options) in one or more issues. The Board may issue either new shares or shares held by the company. It is proposed that the authorization be effective until June 30, 2010.

Further, the Board of Directors will propose to the Annual General Meeting 2007 that the Annual General Meeting authorize the Board of Directors to repurchase a maximum of 380 million Nokia shares by using funds in the unrestricted shareholders' equity. The proposed amount of shares corresponds to less than 10% of all shares of the company. It is proposed that the authorization be effective until June 30, 2008.

**Share issues 2002–2006**

| Year | Type of Issue | Subscription price EUR | Number of new shares (1 000) | Date of payment | Net proceeds EURm | New share capital EURm |
|---|---|---|---|---|---|---|
| 2002 | Nokia Stock Option Plan 1997 | 3.23 | 50 357 | 2002 | 162.50 | 3.02 |
| | Nokia Stock Option Plan 1999 | 16.89 | 20 | 2002 | 0.33 | 0.00 |
| | **Total** | | **50 377** | | **162.83** | **3.02** |
| 2003 | Nokia Stock Option Plan 1997 | 3.23 | 7 160 | 2003 | 23.11 | 0.43 |
| | Share issue to stockholders of Eizel Technologies Inc. | 14.76 | 1 225 | 2003 | 18.08 | 0.07 |
| | **Total** | | **8 385** | | **41.19** | **0.50** |
| 2004 | Nokia Stock Option Plan 1999 | 16.89 | 5 | 2004 | 0.09 | 0.00 |
| | **Total** | | **5** | | **0.09** | **0.00** |
| 2005 | Nokia Stock Option Plan 2003 2Q | 14.95 | 61 | 2005 | 0.91 | 0.00 |
| | Nokia Stock Option Plan 2003 3Q | 12.71 | 6 | 2005 | 0.08 | 0.00 |
| | Nokia Stock Option Plan 2004 2Q | 11.79 | 55 | 2005 | 0.65 | 0.00 |
| | Nokia Stock Option Plan 2004 3Q | 9.44 | 3 | 2005 | 0.02 | 0.00 |
| | **Total** | | **125** | | **1.66** | **0.01** |
| 2006 | Nokia Stock Option Plan 2003 2Q | 14.95 | 2 287 | 2006 | 34.19 | 0.14 |
| | Nokia Stock Option Plan 2003 3Q | 12.71 | 32 | 2006 | 0.41 | 0.00 |
| | Nokia Stock Option Plan 2003 4Q | 15.05 | 3 | 2006 | 0.05 | 0.00 |
| | Nokia Stock Option Plan 2004 2Q | 11.79 | 523 | 2006 | 6.16 | 0.03 |
| | Nokia Stock Option Plan 2004 3Q | 9.44 | 9 | 2006 | 0.08 | 0.00 |
| | Nokia Stock Option Plan 2004 4Q | 12.35 | 17 | 2006 | 0.21 | 0.00 |
| | Nokia Stock Option Plan 2005 2Q | 12.79 | 174 | 2006 | 2.22 | 0.01 |
| | Nokia Stock Option Plan 2005 3Q | 13.09 | 2 | 2006 | 0.03 | 0.00 |
| | **Total** | | **3 047** | | **43.34** | **0.18** |

**Reductions of share capital**

| Type of reduction | Year | Number of shares (1 000, par value EUR 0.06) | Amount of reduction of the share capital EURm | Amount of reduction of the restricted capital EURm | Amount of reduction of the retained earnings EURm |
|---|---|---|---|---|---|
| Cancellation of shares | 2001 | 69 | 0.004 | – | – |
| Cancellation of shares | 2004 | 132 536 | 7.95 | – | – |
| Cancellation of shares | 2005 | 230 000 | 13.80 | – | – |
| Cancellation of shares | 2006 | 341 890 | 20.51 | – | – |

**Share turnover (all stock exchanges)**

| | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Share turnover (1 000) | **12 480 730** | 12 977 232 | 14 091 430 | 11 788 172 | 12 926 683 |
| Total number of shares (1 000) | **4 095 043** | 4 433 887 | 4 663 761 | 4 796 282 | 4 787 907 |
| % of total number of shares | **305** | 293 | 302 | 246 | 270 |

**Share prices, EUR (Helsinki Stock Exchange)**

| | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Low/high | **14.61/18.65** | 10.75/15.75 | 8.97/18.79 | 11.44/16.16 | 11.10/29.45 |
| Average [1] | **15.97** | 13.20 | 12.84 | 14.12 | 18.13 |
| Year-end | **15.48** | 15.45 | 11.62 | 13.71 | 15.15 |

1 Calculated by weighting average price with daily volumes.

**Share prices, USD (New York Stock Exchange)**

| ADS | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Low/high | **17.72/23.10** | 13.92/18.62 | 11.03/23.22 | 12.67/18.45 | 10.76/26.90 |
| Average [1] | **19.98** | 16.39 | 15.96 | 15.99 | 16.88 |
| Year-end | **20.32** | 18.30 | 15.67 | 17.00 | 15.50 |

1 Calculated by weighting average price with daily volumes.

Nokia share price on the Helsinki Stock Exchange
EUR


Nokia ADS price on the New York Stock Exchange
USD

## Shareholders, December 31, 2006

Shareholders registered in Finland represented 11.87% and shareholders registered in the name of a nominee represented 88.13% of the total number of shares of Nokia. The number of registered shareholders was 119 143 on December 31, 2006. Each account operator (25) is included in this figure as only one registered shareholder.

Nominee registered shareholders include holders of American Depositary Receipts (ADR) and Svenska Depåbevis (SDB). As of December 31, 2006 ADRs represented 28.75% and SDBs 2.54% of the total number of shares in Nokia.

During 2006, The Capital Group Companies, Inc., a holding company engaged in investment management activities, informed Nokia that its holdings had exceeded 5% of the share capital of Nokia on April 21, 2006, fallen below 5% on September 15, 2006 and again exceeded 5% on September 21, 2006. As of September 21, 2006, The Capital Group Companies, Inc. and its subsidiaries held through their clients a total of 204 960 602 Nokia shares, which at that time corresponded to approximately 5.01% of the share capital of Nokia. The holdings of The Capital Group Companies, Inc. consist of both ADRs and ordinary shares.

**Largest shareholders registered in Finland, December 31, 2006**

| (excluding nominee registered shares and shares owned by Nokia Corporation [1]) | Total number of shares (1 000) | % of all shares | % of all voting rights [2] |
|---|---|---|---|
| Ilmarinen Mutual Pension Insurance Company | 17 533 | 0.43 | 0.44 |
| Svenska Litteratursällskapet i Finland rf | 16 730 | 0.41 | 0.42 |
| Sigrid Jusélius Foundation | 15 300 | 0.37 | 0.39 |
| The State Pension Fund | 6 700 | 0.16 | 0.17 |
| Varma Mutual Pension Insurance Company | 5 500 | 0.13 | 0.14 |
| Etera Mutual Pension Insurance Company | 4 384 | 0.11 | 0.11 |
| The Social Insurance Institution of Finland | 4 289 | 0.10 | 0.11 |
| Mutual Insurance Company Pension Fennia | 4 260 | 0.10 | 0.11 |
| OP-Delta Fund | 4 027 | 0.10 | 0.10 |
| The Finnish Cultural Foundation | 3 945 | 0.10 | 0.10 |

1 Nokia Corporation owned 128 723 521 shares as of December 31, 2006.

2 129 312 226 shares owned by the Group companies as of December 31, 2006 do not carry voting rights.

**Breakdown of share ownership, December 31, 2006 [1]**

| By number of shares owned | Number of shareholders | % of shareholders | Total number of shares | % of all shares |
|---|---|---|---|---|
| 1 – 100 | 41 130 | 34.52 | 2 514 021 | 0.06 |
| 101 – 1 000 | 55 555 | 46.63 | 21 554 233 | 0.53 |
| 1 001 – 10 000 | 18 675 | 15.67 | 58 928 544 | 1.44 |
| 10 001 – 100 000 | 3 456 | 2.90 | 88 915 928 | 2.17 |
| 100 001 – 500 000 | 257 | 0.22 | 52 079 630 | 1.27 |
| 500 001 – 1 000 000 | 30 | 0.03 | 21 086 848 | 0.52 |
| 1 000 001 – 5 000 000 | 28 | 0.02 | 61 553 597 | 1.50 |
| Over 5 000 000 | 12 | 0.01 | 3 788 409 818 | 92.51 |
| Total | 119 143 | 100.00 | 4 095 042 619 | 100.00 |

| By nationality, % | Shares |
|---|---|
| Non-Finnish shareholders | 88.13 |
| Finnish shareholders | 11.87 |
| Total | 100.00 |

| By shareholder category (Finnish shareholders), % | Shares |
|---|---|
| Corporations | 3.60 |
| Households | 4.15 |
| Financial and insurance institutions | 0.79 |
| Non-profit organizations | 1.99 |
| General government | 1.34 |
| Total | 11.87 |

1 Please note that the breakdown covers only shareholders registered in Finland, and each account operator (25) is included in the number of shareholders as only one registered shareholder. Due to this, the breakdown is not illustrative to the entire shareholder base of Nokia.

## Shares and stock options owned by the members of the Board of Directors and the Group Executive Board

Members of the Board of Directors and the Group Executive Board owned on December 31, 2006 an aggregate of 1 330 018 shares which represented approximately 0.03% of the aggregate number of shares and voting rights. They also owned stock options, which, if exercised in full, would be exercisable for an additional 3 155 806 shares representing approximately 0.08% of the total number of shares and voting rights on December 31, 2006.

# Nokia Group 2002 – 2006, IFRS

| | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Profit and loss account, EURm** | | | | | |
| Net sales | **41 121** | 34 191 | 29 371 | 29 533 | 30 016 |
| Cost and expenses | **– 35 633** | – 29 552 | – 25 045 | – 24 573 | – 25 236 |
| Operating profit | **5 488** | 4 639 | 4 326 | 4 960 | 4 780 |
| Share of results of associated companies | **28** | 10 | – 26 | – 18 | – 19 |
| Financial income and expenses | **207** | 322 | 405 | 352 | 156 |
| Profit before tax | **5 723** | 4 971 | 4 705 | 5 294 | 4 917 |
| Tax | **– 1 357** | – 1 281 | – 1 446 | – 1 697 | – 1 484 |
| Profit before minority interests | **4 366** | 3 690 | 3 259 | 3 597 | 3 433 |
| Minority interests | **– 60** | – 74 | – 67 | – 54 | – 52 |
| Profit attributable to equity holders of the parent | **4 306** | 3 616 | 3 192 | 3 543 | 3 381 |
| **Balance sheet items, EURm** | | | | | |
| Fixed assets and other non-current assets [1] | **4 031** | 3 501 | 3 315 | 3 991 | 5 896 |
| Current assets | **18 586** | 18 951 | 19 508 | 20 083 | 17 585 |
| Inventories | **1 554** | 1 668 | 1 305 | 1 169 | 1 277 |
| Accounts receivable and prepaid expenses | **8 495** | 7 373 | 6 406 | 6 802 | 6 957 |
| Available-for-sale investments | **–** | – | 255 | 816 | – |
| Total cash and other liquid assets | **8 537** | 9 910 | 11 542 | 11 296 | 9 351 |
| Total equity | **12 060** | 12 514 | 14 553 | 15 466 | 14 608 |
| Capital and reserves attributable to the Company's equity holders [1] | **11 968** | 12 309 | 14 385 | 15 302 | 14 435 |
| Minority interests | **92** | 205 | 168 | 164 | 173 |
| Long-term liabilities | **396** | 268 | 294 | 328 | 461 |
| Long-term interest-bearing liabilities | **69** | 21 | 19 | 20 | 187 |
| Deferred tax liabilities | **205** | 151 | 179 | 241 | 207 |
| Other long-term liabilities | **122** | 96 | 96 | 67 | 67 |
| Current liabilities | **10 161** | 9 670 | 7 976 | 8 280 | 8 412 |
| Short-term borrowings | **247** | 377 | 215 | 387 | 377 |
| Current portion of long-term loans | **–** | – | – | 84 | – |
| Accounts payable | **3 732** | 3 494 | 2 669 | 2 919 | 2 954 |
| Accrued expenses | **3 796** | 3 320 | 2 604 | 2 468 | 2 611 |
| Provisions | **2 386** | 2 479 | 2 488 | 2 422 | 2 470 |
| Total assets | **22 617** | 22 452 | 22 823 | 24 074 | 23 481 |

1 Deferred tax assets and shareholders' equity have been increased in all periods presented by EUR 154 million for recognition of certain additional items relating to periods prior to 2002. See Note 1.

| **Key ratios and economic indicators *** | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Net sales, EURm | **41 121** | 34 191 | 29 371 | 29 533 | 30 016 |
| Change, % | **20.3** | 16.4 | – 0.5 | – 1.6 | – 3.8 |
| Exports and foreign subsidiaries, EURm | **40 734** | 33 860 | 29 020 | 29 186 | 29 663 |
| Salaries and social expenses, EURm | **4 206** | 3 773 | 3 430 | 3 026 | 3 140 |
| Operating profit, EURm | **5 488** | 4 639 | 4 326 | 4 960 | 4 780 |
| % of net sales | **13.3** | 13.6 | 14.7 | 16.8 | 15.9 |
| Financial income and expenses, EURm | **207** | 322 | 405 | 352 | 156 |
| % of net sales | **0.5** | 0.9 | 1.4 | 1.2 | 0.5 |
| Profit before tax, EURm | **5 723** | 4 971 | 4 705 | 5 294 | 4 917 |
| % of net sales | **13.9** | 14.5 | 16.0 | 17.9 | 16.4 |
| Profit from continuing operations, EURm | **4 306** | 3 616 | 3 192 | 3 543 | 3 381 |
| % of net sales | **10.5** | 10.6 | 10.9 | 12.0 | 11.3 |
| Taxes, EURm | **1 357** | 1 281 | 1 446 | 1 699 | 1 484 |
| Dividends, EURm | **1 761** * | 1 641 | 1 539 | 1 439 | 1 340 |
| Capital expenditure, EURm | **650** | 608 | 548 | 432 | 432 |
| % of net sales | **1.6** | 1.8 | 1.9 | 1.5 | 1.4 |
| Gross investments [1], EURm | **897** | 870 | 1 197 | 1 013 | 966 |
| % of net sales | **2.2** | 3.1 | 4.1 | 3.4 | 3.2 |
| R&D expenditure, EURm | **3 897** | 3 825 | 3 776 | 3 788 | 3 052 |
| % of net sales | **9.5** | 11.2 | 12.9 | 12.8 | 10.2 |
| Average personnel | **65 324** | 56 896 | 53 511 | 51 605 | 52 714 |
| Non-interest bearing liabilities, EURm | **10 036** | 9 389 | 7 857 | 8 117 | 8 309 |
| Interest-bearing liabilities, EURm | **316** | 398 | 234 | 491 | 564 |
| Return on capital employed, % [2] | **45.8** | 36.3 | 31.2 | 34.0 | 34.9 |
| Return on equity, % [2] | **35.5** | 27.1 | 21.5 | 23.8 | 25.4 |
| Equity ratio, % [2] | **52.6** | 56.4 | 64.6 | 65.0 | 62.7 |
| Net debt to equity, % [2] | **– 68** | – 76 | – 78 | – 70 | – 60 |

* Board's proposal

1 Includes acquisitions, investments in shares and capitalized development costs.

2 Deferred tax assets and total shareholders' equity has been increased by EUR 154 million for all periods presented for recognition of certain additional items relating to periods prior to 2002. See Note 1.

Calculation of Key Ratios, see page 54.

# Calculation of key ratios

## Key ratios under IFRS

**Operating profit**
Profit after depreciation

**Shareholders' equity**
Share capital + reserves attributable to the Company's equity holders

**Earnings per share (basic)**
Profit attributable to equity holders of the parent
Average of adjusted number of shares during the year

**P/E ratio**
Adjusted share price, December 31
Earnings per share

**Dividend per share**
Nominal dividend per share
The adjustment coefficients of the share issues that have taken place during or after the year in question

**Payout ratio**
Dividend per share
Earnings per share

**Dividend yield, %**
Nominal dividend per share
Share price

**Shareholders' equity per share**
Capital and reserves attributable to the Company's equity holders
Adjusted number of shares at year end

**Market capitalization**
Number of shares x share price per share class

**Adjusted average share price**
Amount traded, in EUR, during the period
Adjusted number of shares traded during the period

**Share turnover, %**
Number of shares traded during the period
Average number of shares during the period

**Return on capital employed, %**
Profit before taxes + interest and other net financial expenses
Average capital and reserves attributable to the Company's equity holders + short-term borrowings + long-term interest-bearing liabilities (including the current portion thereof) + minority shareholders' interests

**Return on shareholders' equity, %**
Profit attributable to the equity holders of the parent
Average capital and reserves attributable to the Company's equity holders during the year

**Equity ratio, %**
Capital and reserves attributable to the Company's equity holders + minority shareholders' interests
Total assets – advance payments received

**Net debt to equity (gearing), %**
Long-term interest-bearing liabilities (including the current portion thereof) + short-term borrowings – cash and other liquid assets
Capital and reserves attributable to the equity holders of the parent + minority shareholders' interests

**Year-end currency rates 2006**

| | 1 EUR = |
|---|---|
| USD | 1.3123 |
| GBP | 0.6703 |
| SEK | 9.0504 |
| JPY | 155.18 |

# Proposal by the Board of Directors to the Annual General Meeting

The distributable earnings in the balance sheet of the Group amount to EUR 8 896 million and those of the Company to EUR 6 719 million.

The Board proposes that from the funds at the disposal of the Annual General Meeting, a dividend of EUR 0.43 per share is to be paid out on a total of 4 095 042 619 shares, amounting to EUR 1 761 million.

Espoo, January 25, 2007

Jorma Ollila
Chairman

Paul J. Collins

Georg Ehrnrooth

Daniel R. Hesse

Bengt Holmström

Per Karlsson

Marjorie Scardino

Keijo Suila

Vesa Vainio

Olli-Pekka Kallasvuo
President and CEO

# Auditors' report
## Translation from the Finnish original

## To the shareholders of Nokia Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Nokia Oyj for the period 1.1. – 31.12.2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

### Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

### Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies' Act.

Helsinki, January 25, 2007

PricewaterhouseCoopers Oy
Authorized Public Accountants

**Eero Suomela**
Authorized Public Accountant

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# US GAAP

## Differences between International Financial Reporting Standards and US Generally Accepted Accounting Principles

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards, which differ in certain respects from accounting principles generally accepted in the United States of America (US GAAP). The principal differences between IFRS and US GAAP are presented below together with explanations of certain adjustments that affect consolidated net income and total shareholders' equity under US GAAP as of and for the years ended December 31:

| EURm | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Reconciliation of profit attributable to equity holders of the parent under IFRS to net income under US GAAP:** | | | |
| Profit attributable to equity holders of the parent reported under IFRS | 4 306 | 3 616 | 3 192 |
| US GAAP adjustments: | | | |
| Pensions | –1 | –3 | – |
| Development costs | –55 | 10 | 42 |
| Share-based compensation expense | –8 | –39 | 39 |
| Cash flow hedges | – | –12 | 31 |
| Amortization of identifiable intangible assets acquired | – | – | –11 |
| Impairment of identifiable intangible assets acquired | – | – | –47 |
| Amortization of goodwill | – | – | 106 |
| Other differences | 22 | –1 | –6 |
| Deferred tax effect of US GAAP adjustments | 11 | 11 | –3 |
| Net income under US GAAP | 4 275 | 3 582 | 3 343 |
| **Earnings per share under US GAAP:** | | | |
| Earnings per share (net income), EUR: | | | |
| Basic | 1.05 | 0.82 | 0.73 |
| Diluted | 1.05 | 0.82 | 0.73 |
| Average number of shares (1 000 shares): | | | |
| Basic | 4 062 833 | 4 365 547 | 4 593 196 |
| Diluted | 4 086 529 | 4 371 239 | 4 600 337 |
| **Presentation of comprehensive income under US GAAP:** | | | |
| Net income under US GAAP | 4 275 | 3 582 | 3 343 |
| Other comprehensive income (+)/loss (–): | | | |
| Foreign currency translation adjustment | –92 | 272 | –67 |
| Additional minimum liability, net of tax of EUR –5 million in 2006 and EUR 5 million in 2005 | 7 | –8 | – |
| Net gain (+)/loss (–) on cash flow hedges, net of tax of EUR 61 million in 2006, EUR 43 million in 2005 and EUR 8 million in 2004 | 171 | –122 | –23 |
| Net unrealized gain (+)/loss (–) on securities: | | | |
| Net unrealized holding gain (+)/loss (–) during the year, net of tax of EUR 1 million in 2006, EUR 6 million in 2005 and EUR –2 million in 2004 | –40 | –81 | 2 |
| Transfer to profit and loss account on impairment | 18 | 9 | 11 |
| Less: Reclassification adjustment on disposal, net of tax of EUR 0 million in 2006 and in 2005 and EUR 10 million in 2004 | 14 | –3 | –95 |
| Other comprehensive income (+)/loss (–) | 78 | 67 | –172 |
| Comprehensive income under US GAAP | 4 353 | 3 649 | 3 171 |

| EURm | 2006 | 2005 |
|---|---|---|
| **Reconciliation of total equity under IFRS to total shareholders' equity under US GAAP:** | | |
| Total equity reported under IFRS | 12 060 | 12 514 |
| Less minority interests | –92 | –205 |
| Capital and reserves attributable to equity holders of the parent under IFRS | 11 968 | 12 309 |
| US GAAP adjustments: | | |
| Pensions [1] | –276 | –65 |
| Development costs | –102 | –47 |
| Share issue premium | 143 | 135 |
| Share-based compensation | –143 | –135 |
| Amortization of identifiable intangible assets acquired | –62 | –62 |
| Impairment of identifiable intangible assets acquired | –47 | –47 |
| Amortization of goodwill | 432 | 432 |
| Impairment of goodwill | 255 | 255 |
| Translation of goodwill | –231 | –242 |
| Other differences | 29 | 6 |
| Deferred tax effect of US GAAP adjustments | 146 | 83 |
| Total shareholders' equity under US GAAP | 12 112 | 12 622 |

1 The pensions adjustment in 2005 consisted of adjustments for pension expense and additional minimum liability.

## Change in method of quantifying misstatements

As discussed in Note 1, the Group changed its method of quantifying misstatements. As a result of this change, management has adjusted its financial statements. Previously reported deferred tax assets have been increased by EUR 154 million, previously reported goodwill has been decreased by EUR 90 million and previously reported retained earnings have been increased by EUR 64 million for each period presented. Under the previous method of quantifying misstatements these adjustments were considered to be immaterial. The deferred tax asset adjustment relates to certain of the Group's warranty and other provisions recorded in periods prior to 2002, for which no corresponding tax amounts were deferred. The goodwill adjustment relates to an item that was not separately recognized by the Group from the date of acquisition.

## Pensions

Under IFRS, pension assets, defined benefit pension liabilities and pension expense are actuarially determined in a similar manner to US GAAP. To the extent that the benefits related to transition adjustments and plan amendments are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes past service cost immediately under IFRS. If the benefits have not vested, the related past service cost is recognized as expense over the average period until the benefits become vested. Under US GAAP, transition adjustments and prior service cost related to plan amendments are generally recognized over the remaining service period of active employees.

In addition, prior to December 31, 2006, US GAAP required recognition of an additional minimum pension liability when the accumulated benefit obligation (ABO) exceeded the fair value of the plan assets and this amount was not covered by the liability recognized in the balance sheet. An intangible asset was recognized to the extent of unrecognized prior service cost with the excess of the additional minimum liability over unrecognized prior service cost recognized in other comprehensive income. The calculation of the ABO is based on approach two as described in EITF 88–1, Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan, under which the actuarial present value is based on the date of separation from service.

At December 31, 2006, in accordance with the transition provisions of FAS 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, the Group made an adjustment net of tax to accumulated other comprehensive income to record unrecognized actuarial losses, unrecognized prior service costs and unamortized transition assets and to eliminate the additional minimum liability. The following table presents the impact of the adoption of FAS 158 on total shareholders' equity under US GAAP at December 31, 2006:

| EURm | 2006 |
|---|---|
| Total shareholders' equity under US GAAP before adoption of FAS 158 | 12 274 |
| Adoption of FAS 158 | –222 |
| Deferred tax | 60 |
| Total shareholders' equity under US GAAP after adoption of FAS 158 | 12 112 |

The following table reconciles the net pension asset recognized under IFRS with the net pension liability recognized under US GAAP and reflects the impact of the adoption of FAS 158 as of December 31, 2006:

| EURm | 2006 |
|---|---|
| Net pension asset recognized for IFRS | 108 |
| Difference in unrecognized amounts | –53 |
| Additional minimum liability | –1 |
| Net pension asset recognized for US GAAP before adoption of FAS 158 | 54 |
| Adoption of FAS 158 | –222 |
| Net pension liability recognized for US GAAP after adoption of FAS 158 | –168 |

## Development costs

Development costs are capitalized under IFRS after the product involved has reached a certain degree of technical feasibility. Capitalization ceases and depreciation begins when the product becomes available to customers. The depreciation period of these capitalized assets is between two and five years.

Under US GAAP, software development costs are similarly capitalized after the product has reached a certain degree of technological feasibility. However, certain non-software related development costs capitalized under IFRS are not capitalizable under US GAAP and therefore are expensed as incurred.

Under IFRS, whenever there is an indication that capitalized development costs may be impaired the recoverable amount of the asset is estimated. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is defined as the higher of an asset's net selling price and value in use. Value in use is the present value of estimated discounted future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Under US GAAP, the unamortized capitalized costs of a software product are compared at each balance sheet date to the net realizable value of that product with any excess written off. Net realizable value is defined as the estimated future gross revenues from that product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and customer support required to satisfy the enterprise's responsibility set forth at the time of sale.

The amount of unamortized capitalized software development costs under US GAAP is EUR 149 million in 2006 (EUR 213 million in 2005).

The US GAAP development cost adjustment reflects the reversal of capitalized non-software related development costs under US GAAP net of the reversal of associated amortization expense and impairments under IFRS. The adjustment also reflects differences in impairment methodologies under IFRS and US GAAP for the determination of the recoverable amount and net realizable value of software related development costs.

## Share-based compensation

The Group maintains several share-based employee compensation plans, which are described more fully in Note 23. Under IFRS, the Group accounts for equity instruments under IFRS 2 which was applied retrospectively to all grants of shares, share options or other equity instruments that were granted after November 7, 2002 and that were not yet vested at the effective date of the standard.

Under US GAAP, the Group accounts for equity instruments using Statement of Financial Accounting Standards No. 123(R), Share Based Payment ("FAS 123(R)") which was adopted using the modified prospective method at January 1, 2005. Since the terms of Nokia's stock option plans call for the exercise price to be set equal to the share price in a future period, the recipient does not begin to benefit from or be adversely affected by changes in the price of the Group's equity shares until such point. Consequently, a grant date is not established until the exercise price is determined.

Prior to the adoption of FAS 123(R), the Group accounted for its equity-based incentive programs under US GAAP using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations. As the relevant exercise price was not set until a future date, the Group applied variable accounting during the intervening period. Once a measurement date was established, variable accounting ceased and incremental unrecognized compensation cost was recognized over the remaining vesting period of the award.

The retrospective transition provision of IFRS 2 and the modified prospective transition provision of FAS 123(R) give rise to differences in the historical income statement for share-based compensation. Further, associated differences surrounding the effective date of application of the standards to unvested shares give rise to both current and historical income statement differences in share-based compensation. Share issue premium reflects the cumulative difference between the amount of share-based compensation recorded under US GAAP and IFRS.

Total share-based compensation expense under US GAAP was EUR 204 million in 2006 (EUR 134 million in 2005).

## Cash flow hedges

Under IFRS, the Group accounts for cash flow hedges under IAS 39(R).

Under US GAAP, the Group applies FAS 133, Accounting for Derivative Instruments and Hedging Activities.

Under US GAAP, a difference historically arose when a subsidiary's reporting currency was different from Treasury Center's reporting currency and external and internal hedge maturities were different more than 31 days. For those hedges not qualifying under US GAAP, the unrealized spot foreign exchange gains and losses from those hedges were released to the income statement.

## Amortization and impairment of identifiable intangible assets acquired

Under IFRS, prior to April 1, 2004, unpatented technology acquired was not separately recognized upon acquisition as an identifiable intangible asset but was included within goodwill.

Under US GAAP, any unpatented technology acquired in a business combination is recorded as an identifiable intangible asset with an associated deferred tax liability. The intangible asset is amortized over its estimated useful life. The adjustment to US GAAP net income and shareholders' equity relates to the amortization and impairment charges related to Amber Networks' intangible asset.

The net carrying amount of other intangible assets under US GAAP is EUR 447 million in 2006 (EUR 425 million in 2005) and consists of capitalized development costs of EUR 149 million (EUR 213 million in 2005) and acquired patents, trademarks and licenses of EUR 298 million (EUR 212 million in 2005). The Group does not have any indefinite lived intangible assets. Amortization expense under US GAAP of other intangible assets as of December 31, 2006, is expected to be as follows:

| | EURm |
|---|---|
| 2007 | 152 |
| 2008 | 73 |
| 2009 | 41 |
| 2010 | 23 |
| 2011 | 10 |
| Thereafter | 148 |
| | 447 |

## Amortization of goodwill

Under IFRS, the Group records goodwill in accordance with IFRS 3, Business Combinations. The Group adopted the provisions of IFRS 3 on January 1, 2005. As a result, goodwill recognized relating to purchase acquisitions and acquisitions of associated companies is no longer subject to amortization after 2004.

Under US GAAP, the Group records goodwill in accordance with FAS 142, Goodwill and Other Intangible Assets, (FAS 142). The Group adopted the provisions of FAS 142 on January 1, 2002 and goodwill relating to purchase acquisitions and acquisitions of associated companies is no longer subject to amortization subsequent to the date of adoption.

The US GAAP adjustment reverses amortization expense and the associated movement in accumulated amortization recorded under IFRS prior to the adoption of IFRS 3.

## Impairment of goodwill

Under IFRS, goodwill is allocated to "cash-generating units", which are the smallest group of identifiable assets that include the goodwill under review for impairment and generate cash inflows from continuing use that are largely independent of the cash inflows from other assets. Under IFRS, the Group recorded an impairment of goodwill of EUR 151 million related to Amber Networks in 2003 as the carrying amount of the cash-generating unit exceeded the recoverable amount of the unit.

Under US GAAP, goodwill is allocated to "reporting units", which are operating segments or one level below an operating segment (as defined in FAS 131, Disclosures about Segments of an Enterprise and Related Information). The goodwill impairment test under FAS 142 compares the carrying value for each reporting unit to its fair value based on discounted cash flows.

The US GAAP impairment of goodwill adjustment reflects the cumulative reversal of impairments recorded under IFRS that did not qualify as impairments under US GAAP.

Upon completion of the 2003 annual impairment test, the Group determined that the impairment recorded for Amber Networks should be reversed under US GAAP as the fair value of the reporting unit in which Amber Networks resides exceeded the book value of the reporting unit. The annual impairment tests performed subsequent to 2003 continue to support the reversal of this impairment.

The Group recorded no goodwill impairments during 2006 and 2005.

Below is a roll forward of US GAAP goodwill during 2006 and 2005:

| EURm | Mobile Phones | Multimedia | Enterprise Solutions | Networks | Common Group Functions | Group |
|---|---|---|---|---|---|---|
| **Balance as of January 1, 2005** | 57 | 5 | 35 | 249 | 9 | 355 |
| Goodwill disposed | – | – | – | – | −9 | −9 |
| Translation adjustment | 45 | – | 4 | 28 | – | 77 |
| **Balance as of December 31, 2005** | 102 | 5 | 39 | 277 | – | 423 |
| Additions | 51 | 147 | 290 | – | – | 488 |
| Translation adjustment | 29 | 7 | −28 | −23 | – | −15 |
| **Balance as of December 31, 2006** | 182 | 159 | 301 | 254 | – | 896 |

## Translation of goodwill

Under IFRS, goodwill is translated at the closing rate of the balance sheet date for all transactions subsequent to the adoption of IAS 21 (revised 2004) as of January 1, 2005. Prior to the adoption of IAS 21, the Group historically translated goodwill arising on the acquisition of foreign subsidiaries at historical rates.

Under US GAAP, goodwill is translated at the closing rate on the balance sheet date with gains and losses recorded as a component of other comprehensive income.

The US GAAP translation of goodwill adjustment reflects cumulative translation differences between historical and current rates on goodwill arising from acquisitions of foreign subsidiaries.

## Other differences

Other differences in the reconciliation of profit attributable to equity holders of the parent under IFRS and net income under US GAAP of EUR 22 million (EUR −1 million in 2005 and EUR −6 million in 2004) relate to social security cost on share-based payments, a sale and leaseback transaction, an adjustment to goodwill and a loss on disposal.

Other differences in the reconciliation of total equity under IFRS to total shareholders' equity under US GAAP of EUR 29 million (EUR 6 million in 2005) relate to marketable securities and unlisted investments, acquisition purchase price, social security cost on share-based payments, a sale and leaseback transaction, an adjustment to goodwill and a loss on disposal.

# Critical accounting policies

Our accounting policies affecting our financial condition and results of operations are more fully described in Note 1 to our consolidated financial statements. Certain of Nokia's accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Nokia believes the following are the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements. We have discussed the application of these critical accounting estimates with our Board of Directors and Audit Committee.

## Revenue recognition

Revenue from the majority of the Group is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectibility is probable and the significant risks and rewards of ownership have transferred to the buyer. The remainder of revenue is recorded under the percentage of completion method.

Mobile Phones, Multimedia and certain Enterprise Solutions and Networks revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectibility is probable and significant risks and rewards of ownership have transferred to the buyer. This requires us to assess at the point of delivery whether these criteria have been met. When management determines that such criteria have been met, revenue is recognized. Nokia records estimated reductions to revenue for special pricing agreements, price protection and other volume based discounts at the time of sale, mainly in the mobile device business. Sales adjustments for volume based discount programs are estimated based largely on historical activity under similar programs. Price protection adjustments are based on estimates of future price reductions and certain agreed customer inventories at the date of the price adjustment. An immaterial part of the revenue from products sold through distribution channels is recognized when the reseller or distributor sells the product to the end-user. Service revenue is generally recognized on a straight line basis over the specified period unless there is evidence that some other method better represents the stage of completion. Except for separately licensed software solutions and certain Networks' equipment, the company generally considers the software content of its products or services to be incidental to the products or services as a whole.

Networks revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment is recognized on the percentage of completion basis when the outcome of the contract can be estimated reliably. This occurs when total contract revenue and the cost to complete the contract can be estimated reliably, it is probable that economic benefits associated with the contract will flow to the Group, and the stage of contract completion can be measured. When we are not able to meet those conditions, the policy is to recognize revenues only equal to costs incurred to date, to the extent that such costs are expected to be recovered. Completion is measured by reference to costs incurred to date as a percentage of estimated total project costs, the cost-to-cost method.

The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as the dependable measurement of the progress made towards completing the particular project. Recognized revenues and profit are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. The cumulative impact of a revision in estimates is recorded in the period such revisions become likely and estimable. Losses on projects in progress are recognized in the period they become likely and estimable.

Certain Networks' customer contracts and Enterprise Solutions products may include the provision of separately identifiable components of a single transaction, for example the construction of a network solution and subsequent network maintenance services, or post-contract customer support on software solutions. Accordingly, for these arrangements, revenue recognition requires proper identification of the components of the transaction and evaluation of their commercial effect in order to reflect the substance of the transaction. If the components are considered separable, revenue is allocated across the identifiable components based upon relative fair values.

Networks' current sales and profit estimates for projects may change due to the early stage of a long-term project, new technology, changes in the project scope, changes in costs, changes in timing, changes in customers' plans, realization of penalties, and other corresponding factors.

## Customer financing

We have provided a limited amount of customer financing and agreed extended payment terms with selected customers. In establishing credit arrangements, management must assess the creditworthiness of the customer and the timing of cash flows expected to be received under the arrangement. However, should the actual financial position of our customers or general economic conditions differ from our assumptions, we may be required to re-assess the ultimate collectibility of such financings and trade credits, which could result in a write-off of these balances in future periods and thus negatively impact our profits in future periods. Our assessment of the net recoverable value considers the collateral and security arrangements of the receivable as well as the likelihood and timing of estimated collections. See also Note 37(b) to our consolidated financial statements for a further discussion of long-term loans to customers and other parties.

## Allowances for doubtful accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the subsequent inability of our customers to make required payments. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyzes accounts receivables and historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

## Inventory-related allowances

We periodically review our inventory for excess, obsolescence and declines in market value below cost and record an allowance against the inventory balance for any such declines. These reviews require management to estimate future demand for our products. Possible changes in these estimates could result in revisions to the valuation of inventory in future periods.

## Warranty provisions

We provide for the estimated cost of product warranties at the time revenue is recognized. Nokia's products are covered by product warranty plans of varying periods, depending on local practices and regulations. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligations are affected by actual product failure rates (field failure rates) and by material usage and service delivery costs incurred in correcting a product failure. Our warranty provision is established based upon our best estimates of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. As we continuously introduce new products which incorporate complex technology, and as local laws, regulations and practices may change, it will be increasingly difficult to anticipate our failure rates, the length of warranty periods and repair costs. In particular, we have limited historical experience with actual product warranty claims relating to the second year of the warranty period on mobile devices sold within Europe. As we accumulate experience with actual product warranty claims during this period, we continue to refine our estimates of the liability that exists on the date of sale. While we believe that our warranty provisions are adequate and that the judgments applied are appropriate, the ultimate cost of product warranty could differ materially from our estimates. When the actual cost of quality of our products is lower than we originally anticipated, we release an appropriate proportion of the provision, and if the cost of quality is higher than anticipated, we increase the provision.

## Provision for intellectual property rights, or IPR, infringements

We provide for the estimated future settlements related to asserted and unasserted IPR infringements based on the probable outcome of each potential infringement.

Our products and solutions include increasingly complex technologies involving numerous patented and other proprietary technologies. Although we proactively try to ensure that we are aware of any patents and other intellectual property rights related to our products and solutions under development and thereby avoid inadvertent infringement of proprietary technologies, the nature of our business is such that patent and other intellectual property right infringements may and do occur. Through contact with parties claiming infringement of their patented or otherwise exclusive technology, or through our own monitoring of developments in patent and other intellectual property right cases involving our competitors, we identify potential IPR infringements.

We estimate the outcome of all potential IPR infringements made known to us through assertion by third parties, or through our own monitoring of patent- and other IPR-related cases in the relevant legal systems. To the extent that we determine that an identified potential infringement will result in a probable outflow of resources, we record a liability based on our best estimate of the expenditure required to settle infringement proceedings.

Our experience with claims of IPR infringement is that there is typically a discussion period with the accusing party, which can last from several months to years. In cases where a settlement is not reached, the discovery and ensuing legal process typically lasts a minimum of one year. For this reason, IPR infringement claims can last for varying periods of time, resulting in irregular movements in the IPR infringement provision. In addition, the ultimate outcome or actual cost of settling an individual infringement may materially vary from our estimates.

### Legal contingencies

As discussed in Note 31 to the consolidated financial statements, legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against the Group. We record provisions for pending litigation when we determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

### Capitalized development costs

We capitalize certain development costs when it is probable that a development project will be a success and certain criteria, including commercial and technical feasibility, have been met. These costs are then amortized on a systematic basis over their expected useful lives, which due to the constant development of new technologies is between two to five years. During the development stage, management must estimate the commercial and technical feasibility of these projects as well as their expected useful lives. Should a product fail to substantiate its estimated feasibility or life cycle, we may be required to write off excess development costs in future periods.

Whenever there is an indicator that development costs capitalized for a specific project may be impaired, the recoverable amount of the asset is estimated. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's net selling price and value in use. Value in use is the present value of discounted estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For projects still in development, these estimates include the future cash outflows that are expected to occur before the asset is ready for use. See Note 8 to our consolidated financial statements.

Impairment reviews are based upon our projections of anticipated future cash flows. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. While we believe that our assumptions are appropriate, such amounts estimated could differ materially from what will actually occur in the future. For IFRS, discounted estimated cash flows are used to identify the existence of an impairment while for US GAAP undiscounted future cash flows are used. Consequently, an impairment could be required under IFRS but not under US GAAP.

### Valuation of long-lived and intangible assets and goodwill

We assess the carrying value of identifiable intangible assets, long-lived assets and goodwill annually, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Factors we consider important, which could trigger an impairment review, include the following:

» significant underperformance relative to historical or projected future results;

» significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and

» significantly negative industry or economic trends.

When we determine that the carrying value of intangible assets, long-lived assets or goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on discounted projected cash flows.

This review is based upon our projections of anticipated future cash flows. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. While we believe that our assumptions are appropriate, such amounts estimated could differ materially from what will actually occur in the future. In assessing goodwill, for IFRS these discounted cash flows are prepared at a cash generating unit level, and for US GAAP these cash flows are prepared at a reporting unit level. Consequently, an impairment could be required under IFRS and not US GAAP or vice versa. Amounts estimated could differ materially from what will actually occur in the future.

## Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, unlisted equities, currency options and embedded derivatives) are determined using valuation techniques. We use judgment to select an appropriate valuation methodology and underlying assumptions based principally on existing market conditions. Changes in these assumptions may cause the Group to recognize impairments or losses in the future periods.

## Income taxes

The company is subject to income taxes both in Finland and in numerous foreign jurisdictions. Significant judgment is required in determining the provision for income taxes and deferred tax assets and liabilities recognized in the consolidated financial statements. We recognize deferred tax assets to the extent that it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilized. We have considered future taxable income and tax planning strategies in making this assessment. We recognize tax provisions based on estimates and assumptions when, despite our belief that tax return positions are supportable, it is more likely than not that certain positions will be challenged and may not be fully sustained upon review by tax authorities.

If the final outcome of these matters differs from the amounts initially recorded, differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## Pensions

The determination of our pension benefit obligation and expense for defined benefit pension plans is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 5 to our consolidated financial statements and include, among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future compensation levels. A portion of our plan assets is invested in equity securities. The equity markets have experienced volatility, which has affected the value of our pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from our assumptions are accumulated and amortized over future periods and therefore generally affect our recognized expense and recorded obligation in such future periods. Our assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension obligation and our future expense.

## Share-based compensation

The Group has various types of equity settled share-based compensation schemes for employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments as at the date of grant, excluding the impact of any non-market vesting conditions. Fair value of stock options is estimated by using the Black Scholes model on the date of grant based on certain assumptions. Those assumptions are described in Note 23 to the consolidated financial statements and include, among others, the dividend yield, expected volatility and expected life of stock options. The expected life of stock options is estimated by observing general option holder behavior and actual historical terms of Nokia stock option programs, whereas the assumption of the expected volatility has been set by reference to the implied volatility of stock options available on Nokia shares in the open market and in light of historical patterns of volatility. These variables make estimation of fair value of stock options difficult.

Non-market vesting conditions attached to the performance shares are included in assumptions about the number of shares that the employee will ultimately receive relating to projections of sales and earnings per share. On a regular basis we review the assumptions made and revise the estimates of the number of performance shares that are expected to be settled, where necessary. At the date of grant the number of performance shares granted to employees that are expected to be settled is assumed to be two times the number at threshold. Any subsequent revisions to the estimates of the number of performance shares expected to be settled may increase or decrease total compensation expense. Such increase or decrease adjusts the prior period compensation expense in the period of the review on a cumulative basis for unvested performance shares for which compensation expense has already been recognized in the profit and loss account, and in subsequent periods for unvested performance shares for which the expense has not yet been recognized in the profit and loss account. Significant differences in employee option activity, equity market performance and our projected and actual sales and earnings per share performance may materially affect future expense. In addition, the value, if any, an employee ultimately receives from share-based payment awards may not correspond to the expense amounts recorded by the Group.

# Group Executive Board

March 30, 2007

According to our articles of association, we have a Group Executive Board, which is responsible for the operative management of the Group. The Chairman and members of the Group Executive Board are appointed by the Board of Directors. Only the Chairman of the Group Executive Board can be a member of both the Board of Directors and the Group Executive Board.

The Group Executive Board was chaired by Jorma Ollila, Chairman and CEO, until June 1, 2006, when he was released from his duties as the CEO and Chairman of the Group Executive Board. As from June 1, 2006, the Group Executive Board has been chaired by Olli-Pekka Kallasvuo, President and CEO. Niklas Savander, Executive Vice President, Technology Platforms, was appointed a member of the Group Executive Board effective April 1, 2006, and Pertti Korhonen, Chief Technology Officer and Executive Vice President, Technology Platforms, resigned from the Group Executive Board as of the same date.

## The current members of our Group Executive Board are set forth below.

**Chairman Olli-Pekka Kallasvuo, b. 1953**
President and CEO of Nokia Corporation.
Group Executive Board member since 1990.
Group Executive Board Chairman since 2006.
With Nokia 1980–81, rejoined 1982.

LL.M. (University of Helsinki).

President and COO of Nokia Corporation 2005–2006, Executive Vice President and General Manager of Mobile Phones 2004–2005, Executive Vice President, CFO of Nokia 1999–2003, Executive Vice President of Nokia Americas and President of Nokia Inc. 1997–1998, Executive Vice President, CFO of Nokia 1992–1996, Senior Vice President, Finance of Nokia 1990–1991.

Member of the Board of Directors of EMC Corporation.

**Robert Andersson, b. 1960**
Executive Vice President
of Customer and Market Operations.
Group Executive Board member since 2005.
Joined Nokia in 1985.

Master of Business Administration (George Washington University), Master of Science (Economics and Business Administration) (Swedish School of Economics and Business Administration, Helsinki).

Senior Vice President of Customer and Market Operations, Europe, Middle East and Africa 2004–2005, Senior Vice President of Nokia Mobile Phones in Asia-Pacific 2001–2004, Vice President of Sales for Nokia Mobile Phones in Europe and Africa 1998–2001.

**Simon Beresford-Wylie, b. 1958**
Executive Vice President
and General Manager of Networks.
Group Executive Board member since 2005.
Joined Nokia 1998.

Bachelor of Arts (Economic Geography and History) (Australian National University).

Senior Vice President of Nokia Networks, Asia-Pacific 2003–2004, Senior Vice President, Customer Operations of Nokia Networks, 2002–2003, Vice President, Customer Operations of Nokia Networks 2000–2002, Managing Director of Nokia Networks in India and Area General Manager, South Asia 1999–2000, Regional Director of Business Development, Project and Trade Finance of Nokia Networks, Asia-Pacific 1998–1999, Chief Executive Officer of Modi Telstra, India 1995–1998, General Manager, Banking and Finance, Corporate and Government business unit of Telstra Corporation 1993–1995, holder of executive positions in the Corporate and Government business units of Telstra Corporation 1989–1993, holder of executive, managerial and clerical positions in the Australian Commonwealth Public Service 1982–1989.

Member of the Board of Directors of the Vitec Group.

**Mary T. McDowell, b. 1964**
Executive Vice President
and General Manager of Enterprise Solutions.
Group Executive Board member since 2004.
Joined Nokia 2004.

Bachelor of Science (Computer Science)
(College of Engineering at the University of Illinois).

Senior Vice President, Strategy and Corporate Development of Hewlett-Packard Company 2003, Senior Vice President & General Manager, Industry-Standard Servers of Hewlett-Packard Company 2002–2003, Senior Vice President & General Manager, Industry-Standard Servers of Compaq Computer Corporation 1998–2002, Vice President, Marketing, Server Products Division of Compaq Computer Corporation 1996–1998. Holder of executive, managerial and other positions at Compaq Computer Corporation 1986–1996.

**Hallstein Moerk, b. 1953**
**Executive Vice President, Human Resources.**
**Group Executive Board member since 2004.**
**Joined Nokia 1999.**

Diplomøkonom (Econ.) (Norwegian School of Management).

Holder of various positions at Hewlett-Packard Corporation 1977 – 1999.

Member of the Board of Advisors of Center for HR Strategy, Rutgers University.

**Dr. Tero Ojanperä, b. 1966**
**Executive Vice President, Chief Technology Officer.**
**Group Executive Board member since 2005.**
**Joined Nokia 1990.**

Master of Science (University of Oulu), Ph.D. (Delft University of Technology, The Netherlands).

Executive Vice President & Chief Strategy Officer 2005 – 2006, Senior Vice President, Head of Nokia Research Center 2002 – 2004. Vice President, Research, Standardization and Technology of IP Mobility Networks, Nokia Networks 1999 – 2001. Vice President, Radio Access Systems Research and General Manager of Nokia Networks in Korea, 1999. Head of Radio Access Systems Research, Nokia Networks 1998 – 1999, Principal Engineer, Nokia Research Center, 1997 – 1998.

Chairman of Nokia Foundation. A member of Young Global Leader.

**Niklas Savander, b. 1962**
**Executive Vice President, Technology Platforms.**
**Group Executive Board Member since 2006.**
**Joined Nokia 1997.**

Master of Science (Eng.) (Helsinki University of Technology), Master of Science (Economics and Business Administration) (Swedish School of Economics and Business Administration, Helsinki).

Senior Vice President and General Manager of Nokia Enterprise Solutions, Mobile Devices Business Unit 2003 – 2006, Senior Vice President, Nokia Mobile Software, Market Operations 2002 – 2003, Vice President, Nokia Mobile Software, Strategy, Marketing & Sales 2001 – 2002, Vice President and General Manager of Nokia Networks, Mobile Internet Applications 2000 – 2001, Vice President of Nokia Network Systems, Marketing 1997 – 1998. Holder of executive and managerial positions at Hewlett-Packard Company 1987 – 1997.

Vice Chairman of the Board of Directors of Tamfelt Oyj. Member of the Board of Directors and secretary of Waldemar von Frenckells Stiftelse.

**Richard A. Simonson, b. 1958**
**Executive Vice President, Chief Financial Officer.**
**Group Executive Board member since 2004.**
**Joined Nokia 2001.**

Bachelor of Science (Mining Eng.) (Colorado School of Mines), Master of Business Administration (Finance) (Wharton School of Business at University of Pennsylvania).

Vice President & Head of Customer Finance of Nokia Corporation 2001 – 2003, Managing Director of Telecom & Media Group of Barclays 2001, Head of Global Project Finance and other various positions at Bank of America Securities 1985 – 2001.

Member of the Board of Directors of Electronic Arts, Inc. Member of the Board of Trustees of International House – New York.

**Veli Sundbäck, b. 1946**
**Executive Vice President, Corporate Relations and Responsibility of Nokia Corporation.**
**Group Executive Board member since 1996.**
**Joined Nokia 1996.**

LL.M. (University of Helsinki).

Executive Vice President, Corporate Relations and Trade Policy of Nokia Corporation 1996 – . Secretary of State at the Ministry for Foreign Affairs 1993 – 1995, Under-Secretary of State for External Economic Relations at the Ministry for Foreign Affairs 1990 – 1993.

Member of the Board of Directors of Finnair Oyj. Member of the Board and its executive committee, Confederation of Finnish Industries (EK), Vice Chairman of the Board, Technology Industries of Finland, Vice Chairman of the Board of the International Chamber of Commerce, Finnish Section, Chairman of the Board of the Finland-China Trade Association.

**Anssi Vanjoki, b. 1956**
**Executive Vice President and General Manager of Multimedia.**
**Group Executive Board member since 1998.**
**Joined Nokia 1991.**

Master of Science (Econ.) (Helsinki School of Economics and Business Administration).

Executive Vice President of Nokia Mobile Phones 1998 – 2003, Senior Vice President, Europe & Africa of Nokia Mobile Phones 1994 – 1998, Vice President, Sales of Nokia Mobile Phones 1991 – 1994, 3M Corporation 1980 – 1991.

Chairman of the Board of Directors of Amer Group Plc.

**Dr. Kai Öistämö, b. 1964**
**Executive Vice President and General Manager of Mobile Phones.**
**Group Executive Board Member since 2005.**
**Joined Nokia in 1991.**

Doctor of Technology (Signal Processing), Master of Science (Engineering) (Tampere University of Technology).

Senior Vice President, Business Line Management, Mobile Phones 2004 – 2005; Senior Vice President, Mobile Phones Business Unit, Nokia Mobile Phones 2002 – 2003; Vice President, TDMA/GSM 1900 Product Line, Nokia Mobile Phones 1999 – 2002; Vice President, TDMA Product Line 1997 – 1999; Holder of technical and managerial positions in Nokia Consumer Electronics and Nokia Mobile Phones, 1991 – 1997.

Member of the Board of Directors of Tekes – Finnish Funding Agency for Technology and Innovation. Chairman of the Research and Technology Committee of the Confederation of Finnish Industries (EK).

# Board of Directors

March 30, 2007

Pursuant to the provisions of the Finnish Companies Act and our articles of association, the control and management of Nokia is divided among the shareholders at a general meeting, the Board of Directors and the Group Executive Board. The current members of the Board of Directors were elected at the Annual General Meeting on March 30, 2006, in accordance with the proposal of the Corporate Governance and Nomination Committee of the Board of Directors. On the same date, the Chairman and Vice Chairman were elected by the members of the Board of Directors.

## The current members of the Board of Directors are set forth below.

**Chairman Jorma Ollila, b. 1950**
**Chairman of the Board of Directors of Nokia Corporation.**
**Chairman of the Board of Directors of Royal Dutch Shell Plc.**
**Board member since 1995. Chairman since 1999.**

Master of Political Science (University of Helsinki), Master of Science (Econ.) (London School of Economics), Master of Science (Eng.) (Helsinki University of Technology).

Chairman and CEO, Chairman of the Group Executive Board of Nokia Corporation 1999–2006, President and CEO, Chairman of the Group Executive Board of Nokia Corporation 1992–1999, President of Nokia Mobile Phones 1990–1992, Senior Vice President, Finance of Nokia 1986–1989. Holder of various managerial positions at Citibank within corporate banking 1978–1985.

Member of the Board of Directors of Ford Motor Company, Vice Chairman of the Board of Directors of UPM-Kymmene Corporation, Vice Chairman of the Board of Directors of Otava Books and Magazines Group Ltd. Chairman of the Boards of Directors and the Supervisory Boards of Finnish Business and Policy Forum EVA and The Research Institute of the Finnish Economy ETLA. Chairman of The European Round Table of Industrialists.

**Vice Chairman Paul J. Collins, b. 1936**
**Board member since 1998.**
**Vice Chairman since 2000.**

B.B.A. (University of Wisconsin),
M.B.A. (Harvard Business School).

Vice Chairman of Citigroup Inc. 1998–2000, Vice Chairman and member of the Board of Directors of Citicorp and Citibank N.A. 1988–2000. Holder of various executive positions at Citibank within investment management, investment banking, corporate planning as well as finance and administration 1961–1988.

Member of the Board of Directors of BG Group and The Enstar Group, Inc. Member of the Supervisory Board of Actis Capital LLP.

**Georg Ehrnrooth, b. 1940**
**Board member since 2000.**

Master of Science (Eng.) (Helsinki University of Technology).

President and CEO of Metra Corporation 1991–2000, President and CEO of Lohja Corporation 1979–1991. Holder of various executive positions at Wärtsilä Corporation within production and management 1965–1979.

Chairman of the Board of Directors of Sampo Plc. Vice Chairman of the Board of Directors of Rautaruukki Corporation, member of the Board of Directors of Oy Karl Fazer Ab and Sandvik AB (publ). Vice Chairman of the Boards of Directors of The Research Institute of the Finnish Economy ETLA and Finnish Business and Policy Forum EVA.

**Daniel R. Hesse, b. 1953**
**Chairman and Chief Executive Officer of EMBARQ Corporation.**
**Board member since 2005.**

B.A. (University of Notre Dame), M.B.A. (Cornell University), M.S. (Massachusetts Institute of Technology).

CEO of Sprint Communication, Local Telecommunications Division 2005–2006, Chairman, President and CEO of Terabeam 2000–2004, President and CEO of AT&T Wireless Services 1997–2000, Executive Vice President of AT&T 1997–2000. Various managerial positions in AT&T 1977–1997.

Member of the Board of Directors of VF Corporation. Member of the National Board of Governors of the Boys & Girls Clubs of America.

**Dr. Bengt Holmström, b. 1949**
**Paul A. Samuelson Professor of Economics at MIT, joint appointment at the MIT Sloan School of Management.**
**Board member since 1999.**

Bachelor of Science (Helsinki University), Master of Science (Stanford University), Doctor of Philosophy (Stanford University).

Edwin J. Beinecke Professor of Management Studies at Yale University 1985–1994.

Member of the Board of Directors of Kuusakoski Oy. Member of the American Academy of Arts and Sciences and Foreign Member of The Royal Swedish Academy of Sciences.

**Per Karlsson, b. 1955**
**Independent Corporate Advisor.**
**Board member since 2002.**

Degree in Economics and Business Administration (Stockholm School of Economics).

Executive Director, with mergers and acquisitions advisory responsibilities, at Enskilda M&A, Enskilda Securities (London) 1986–1992. Corporate strategy consultant at the Boston Consulting Group (London) 1979–1986.

Board member of IKANO Holdings S.A.

**Dame Marjorie Scardino, b. 1947**
**Chief Executive and member of the Board of Directors of Pearson plc.**
**Board member since 2001.**

B.A. (Baylor), J.D. (University of San Francisco).

Chief Executive of The Economist Group 1993–1997, President of the North American Operations of The Economist Group 1985–1993, lawyer 1976–1985 and publisher of The Georgia Gazette newspaper 1978–1985.

**Keijo Suila, b. 1945**
**Board member since March 30, 2006.**

B.Sc. (Economics and Business Administration) (Helsinki University of Economics and Business Administration).

President and CEO of Finnair Oyj 1999–2005. Holder of various executive positions, including Vice Chairman and Executive Vice President, at Huhtamäki Oyj, Leaf Group and Leaf Europe during 1985–1998. Chairman of oneworld airline alliance 2003–2004 and member of various international aviation and air transportation associations 1999–2005.

Vice Chairman of the Board of Directors of Kesko Corporation, and Vice Chairman of the Supervisory Board of the Finnish Fair Corporation.

**Vesa Vainio, b. 1942**
**Board member since 1993.**

LL.M. (University of Helsinki).

Chairman 1998–1999 and 2000–2002 and Vice Chairman 1999–2000 of the Board of Directors of Nordea AB (publ). Chairman of the Executive Board and CEO of Merita Bank Ltd and CEO of Merita Ltd 1992–1997. President of Kymmene Corporation 1991–1992. Holder of various other executive positions in Finnish industry 1972–1991.

Chairman of the Board of Directors of UPM-Kymmene Corporation.

Edouard Michelin was re-elected as a Nokia Board member in the Annual General Meeting on March 30, 2006. Due to his accidental death, Nokia announced on May 29, 2006 that the Board of Directors consisted of the above-mentioned nine members.

## Proposal of the Corporate Governance and Nomination Committee of the Board

On March 5, 2007, the Corporate Governance and Nomination Committee announced its proposal to the Annual General Meeting convening on May 3, 2007 regarding the election of the members of the Board of Directors. The Corporate Governance and Nomination Committee will propose to the Annual General Meeting that the number of Board members be 11 and that the following persons be re-elected for a term until the close of the Annual General Meeting in 2008: Georg Ehrnrooth, Daniel R. Hesse, Dr. Bengt Holmström, Per Karlsson, Jorma Ollila, Dame Marjorie Scardino, Keijo Suila and Vesa Vainio. Moreover, the Committee will propose that Lalita D. Gupte, Prof. Dr. Henning Kagermann, and Olli-Pekka Kallasvuo be elected as new members of the Nokia Board for the term from the Annual General Meeting in 2007 until the close of the Annual General Meeting in 2008. Ms. Gupte is former Joint Managing Director of ICICI Bank Limited, the second-largest bank in India, and currently non-executive Chairman of the ICICI Venture Funds Management Co Ltd. She is also a member of the Board of Directors of Bharat Forge Ltd, Firstsource Solutions Ltd and Kirloskar Brothers Ltd. Dr. Kagermann is CEO and Chairman of the Executive Board of SAP AG, the world's leading provider of business software, headquartered in Germany. He is also a member of the Supervisory Board of Deutsche Bank AG and Münchener Rückversicherungs-Gesellschaft AG (Munich Re). Mr. Kallasvuo is President and CEO of Nokia Corporation, and he is also a member of the Board of Directors of EMC Corporation.

# Corporate governance

Pursuant to the provisions of the Finnish Companies Act and our articles of association, the control and management of Nokia is divided among the shareholders in a general meeting, the Board of Directors and the Group Executive Board. Our articles of association provide for a Group Executive Board, which is responsible for the operative management of Nokia. The Chairman and the members of the Group Executive Board are appointed by the Board of Directors. Only the Chairman of the Group Executive Board can be a member of both the Board of Directors and the Group Executive Board.

## The Board of Directors

The operations of the company are managed under the direction of the Board of Directors, within the framework set by the Finnish Companies Act and our articles of association and the complementary Corporate Governance Guidelines and related charters adopted by the Board.

### The responsibilities of the Board of Directors

The Board represents and is accountable to the shareholders of the company. The Board's responsibilities are active, not passive, and include the responsibility regularly to evaluate the strategic direction of the company, management policies and the effectiveness with which management implements its policies. The Board's responsibilities further include overseeing the structure and composition of the company's top management and monitoring legal compliance and the management of risks related to the company's operations. In doing so the Board may set annual ranges and/or individual limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval.

The Board has the responsibility for appointing and discharging the Chief Executive Officer and the other members of the Group Executive Board. The Chief Executive Officer also acts as President, and his rights and responsibilities include those allotted to the President under Finnish law. Subject to the requirements of Finnish law, the independent directors of the Board confirm the compensation and the employment conditions of the Chief Executive Officer upon the recommendation of the Personnel Committee. The compensation and employment conditions of the other members of the Group Executive Board are approved by the Personnel Committee upon the recommendation of the Chief Executive Officer.

The basic responsibility of the members of the Board is to act in good faith and with due care so as to exercise their business judgment on an informed basis in what they reasonably and honestly believe to be the best interests of the company and its shareholders. In discharging that obligation, the directors must inform themselves of all relevant information reasonably available to them.

### Election, composition and meetings of the Board of Directors

Pursuant to the articles of association, Nokia Corporation has a Board of Directors composed of a minimum of seven and a maximum of 10 members. The members of the Board are elected for a term of one year at each Annual General Meeting, which convenes each year by May 15. The Annual General Meeting held on March 30, 2006 elected 10 members to the Board of Directors. Due to the accidental death of one member, Edouard Michelin, Nokia announced on May 29, 2006 that the Board of Directors thereafter consisted of the remaining nine members. On January 25, 2007, the Nokia Board announced that it would propose to the Annual General Meeting convening on May 3, 2007 that the articles of association be amended to allow a minimum of seven and a maximum of 12 members of the Board of Directors, and that the Annual General Meeting would convene each year by June 30.

The Chairman of the Board, Mr. Ollila, was also Nokia's CEO until June 1, 2006. The other members of the Board are all non-executive and independent as defined under Finnish rules and regulations. In January 2007, the Board determined that seven members of the Board are independent, as defined in the New York Stock Exchange's corporate governance listing standards, as amended in November 2004. In addition to the Chairman, Bengt Holmström was determined not to be independent under the NYSE standards due to a family relationship with an executive officer of a Nokia supplier of whose consolidated gross revenue from Nokia accounts for an amount that exceeds the limit provided in the NYSE listing standards, but that is less than 10%. The Board convened 13 times during 2006. Seven of the meetings were held through technical equipment. The average ratio of attendance at the meetings was 98%. The non-executive directors meet twice a year, or more often as they deem appropriate. Such sessions were, until June 1, 2006 presided over by the Vice Chairman of the Board or, in his absence, the most senior non-executive member of the Board. As from June 1, 2006, these sessions were chaired by the non-executive Chairman of the Board or, in his absence, the non-executive Vice Chairman of the Board. In addition, the independent directors meet separately at least once annually. The Board and each committee also has the power to hire independent legal, financial or other advisors as it deems necessary.

The Board elects a Chairman and a Vice Chairman from among its members for one term at a time. On March 30, 2006 the Board resolved that Mr. Ollila should continue to act as Chairman and that Paul J. Collins should continue to act as Vice Chairman. The Board also appoints the members and the chairmen for its committees from among its non-executive, independent members for one term at a time.

The Board conducts annual performance self-evaluations, which also include evaluations of the committees' work, the results of which are discussed by the Board. The Corporate Governance Guidelines concerning the directors' responsibilities, the composition and selection of the Board, Board committees and certain other matters relating to corporate governance are available on our website, www.nokia.com.

### Committees of the Board of Directors

**The Audit Committee** consists of a minimum of three members of the Board who meet all applicable independence, financial literacy and other requirements of Finnish law and the rules of the stock exchanges where Nokia shares are listed, including the Helsinki Stock Exchange and the New York Stock Exchange. Since March 30, 2006, the Committee has consisted of the following four members of the Board: Per Karlsson (Chairman), Georg Ehrnrooth, Keijo Suila and Vesa Vainio.

The Audit Committee is established by the Board primarily for the purpose of overseeing the accounting and financial reporting processes of the company and audits of the financial statements of the company. The Committee is responsible for assisting the Board's oversight of (1) the quality and integrity of the company's financial statements and related disclosure, (2) the external auditor's qualifications and independence, (3) the performance of the external auditor subject to the requirements of Finnish law, (4) the performance of the company's internal controls and risk management and assurance function, and (5) the company's compliance with legal and regulatory requirements. The Committee also maintains procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal controls, or auditing matters and for the confidential, anonymous submission by employees of the company of concerns regarding accounting or auditing matters. Under Finnish law, our external auditor is elected by our shareholders at the Annual General Meeting. The Committee makes a recommendation to the shareholders in respect of the appointment of the external auditor based upon its evaluation of the qualifications and independence of the auditor to be proposed for election or re-election. The Committee meets at least four times per year based upon a schedule established at the first meeting following the appointment of the Committee. The Committee meets separately with the representatives of Nokia's management and the external auditor at least twice a year. The head of the internal audit function has at all times direct access to the Audit Committee, without involvement of the management. The Audit Committee convened six times in 2006. One of the meetings was held through technical equipment.

**The Personnel Committee** consists of a minimum of three members of the Board who meet all applicable independence requirements of Finnish law and the rules of the stock exchanges where Nokia shares are listed, including the Helsinki Stock Exchange and the New York Stock Exchange. Since March 30, 2006, the Personnel Committee has consisted of the following members of the Board: Paul J. Collins (Chairman), Georg Ehrnrooth, Daniel R. Hesse, Edouard Michelin (until May 2006) and Marjorie Scardino.

The primary purpose of the Personnel Committee is to oversee the personnel policies and practices of the company. It assists the Board in discharging its responsibilities relating to all compensation, including equity compensation, of the company's executives and the terms of employment of the same. The Committee has overall responsibility for evaluating, resolving and making recommendations to the Board regarding (1) compensation of the company's top executives and their employment conditions, (2) all equity-based plans, (3) incentive compensation plans, policies and programs of the company affecting executives, and (4) other significant incentive plans. The Committee is responsible for overseeing compensation philosophy and principles and ensuring the above compensation programs are performance-based, properly motivate management, support overall corporate strategies and are aligned with shareholders' interests. The Committee is responsible for the review of senior management development and succession plans. The Personnel Committee convened three times in 2006.

**The Corporate Governance and Nomination Committee** consists of three to five members of the Board who meet all applicable independence requirements of Finnish law and the rules of the stock exchanges where Nokia shares are listed, including the Helsinki Stock Exchange and the New York Stock Exchange. Since March 30, 2006, the Corporate Governance and Nomination Committee has consisted of the following four members of the Board: Marjorie Scardino (Chairman), Paul J. Collins, Per Karlsson and Vesa Vainio.

The Corporate Governance and Nomination Committee's purpose is (1) to prepare the proposals for the general meetings in respect of the composition of the Board along with the director remuneration to be approved by the shareholders, and (2) to monitor issues and practices related to corporate governance and to propose necessary actions in respect thereof.

The Committee fulfills its responsibilities by (i) actively identifying individuals qualified to become members of the Board, (ii) recommending to the shareholders the director nominees for election at the Annual General Meetings, (iii) monitoring significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies, (iv) assisting the Board and each committee of the Board in its annual performance self-evaluations, including establishing criteria to be used in connection with such evaluations, and (v) developing and recommending to the Board and administering the Corporate Governance Guidelines of the company. The Corporate Governance and Nomination Committee convened four times in 2006. One of the meetings was held through technical equipment.

The charters of each of the committees are available on our website, www.nokia.com.

## Management and corporate governance practices

We have a company Code of Conduct which is equally applicable to all of our employees, directors and management and is accessible at our website, www.nokia.com. As well, we have a Code of Ethics for the Principal Executive Officers and the Senior Financial Officers. For more information about our Code of Ethics, please see www.nokia.com.

Nokia's corporate governance practices comply with the Corporate Governance Recommendation for Listed Companies approved by the Helsinki Stock Exchange in December 2003 effective as of July 1, 2004.

### Internal audit function

Nokia has an internal audit function that acts as an independent appraisal function by examining and evaluating the adequacy and effectiveness of the company's system of internal control.

Internal audit resides administratively within the CFO's organization and reports to the Audit Committee of the Board of Directors. The head of internal audit function has at all times direct access to the Audit Committee, without involvement of the management.

# Compensation of the members of the Board of Directors and the Group Executive Board

## Board of Directors

For the year ended December 31, 2006, the aggregate remuneration of the non-executive members of the Board of Directors was EUR 1 472 500. This amount includes the full annual remuneration of Jorma Ollila, Chairman (Chairman and CEO until June 1, 2006) for his services as Chairman of the Board of Directors, only. Non-executive members of the Board of Directors do not receive stock options, performance shares, restricted shares or other variable compensation. The remuneration for members of the Board of Directors is resolved annually by our Annual General Meeting, upon proposal by the Corporate Governance and Nomination Committee of the Board. The remuneration is resolved for the period from the respective Annual General Meeting until the next Annual General Meeting.

When preparing the Board of Directors' remuneration proposal, it is the policy of the Corporate Governance and Nomination Committee of the Board to review and compare the level of board remuneration paid in other global companies with net sales and business complexity comparable to that of Nokia. The Committee's aim is that the company has an effective Board consisting of world-class professionals representing appropriate and diverse mix of skills and experience. A competitive Board remuneration contributes to our achievement of this target. Further, it is the company policy that a significant proportion of director remuneration is paid in the form of Nokia shares.

**Remuneration of the Board of Directors**

The following table sets forth the total annual remuneration paid to the members of the Board of Directors, as resolved by the shareholders at the Annual General Meetings in respective years.

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| **Board of Directors** | **Gross annual fee EUR [1]** | **Shares received** | **Gross annual fee EUR [1]** | **Shares received** | **Gross annual fee EUR [1]** | **Shares received** |
| Jorma Ollila [2] Chairman | 375 000 | 8 035 | 165 000 | 5 011 | 150 000 | 4 834 |
| Paul J. Collins [3] Vice Chairman | 162 500 | 3 481 | 162 500 | 4 935 | 150 000 | 4 834 |
| Georg Ehrnrooth [4] | 120 000 | 2 570 | 120 000 | 3 644 | 100 000 | 3 223 |
| Daniel R. Hesse [5] | 110 000 | 2 356 | 110 000 | 3 340 | – | – |
| Dr. Bengt Holmström [6] | 110 000 | 2 356 | 110 000 | 3 340 | 100 000 | 3 223 |
| Per Karlsson [7] | 135 000 | 2 892 | 135 000 | 4 100 | 125 000 | 4 029 |
| Dame Marjorie Scardino [8] | 110 000 | 2 356 | 110 000 | 3 340 | 100 000 | 3 223 |
| Keijo Suila [9] | 120 000 | 2 570 | – | – | – | – |
| Vesa Vainio [10] | 120 000 | 2 570 | 120 000 | 3 644 | 100 000 | 3 223 |
| [11] | | | | | | |
| [12] | | | | | | |

1 Approximately 60% of the gross annual fee is paid in cash. Approximately 40% is paid in Nokia shares acquired from the market included in the table under "Shares received".

2 This table includes fees paid for Mr. Ollila, Chairman, for his services as Chairman of the Board, only.

3 The 2006 and 2005 fees of Mr. Collins amounted to a total of EUR 162 500, consisting of a fee of EUR 137 500 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. The 2004 fee of Mr. Collins amounted to a total of EUR 150 000, consisting of a fee of EUR 125 000 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee.

4 The 2006 and 2005 fees of Mr. Ehrnrooth amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The 2004 fee of Mr. Ehrnrooth amounted to EUR 100 000 for services as a member of the Board.

5 The 2006 and 2005 fees of Mr. Hesse amounted to EUR 110 000 for services as a member of the Board.

6 The 2006 and 2005 fees of Mr. Holmström amounted to EUR 110 000 for services as a member of the Board. The 2004 fee of Mr. Holmström amounted to EUR 100 000 for services as a member of the Board.

7 The 2006 and 2005 fees of Mr. Karlsson amounted to a total of EUR 135 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. The 2004 fee of Mr. Karlsson amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as member of the Board and EUR 25 000 for services as Chairman of the Audit Committee.

8 The 2006 and 2005 fees of Ms. Scardino amounted to EUR 110 000 for services as a member of the Board. The 2004 fee of Ms. Scardino amounted to EUR 100 000 for services as a member of the Board.

9 The 2006 fee of Mr. Suila amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. Mr. Suila is a Nokia Board member since 2006.

10 The 2006 and 2005 fees of Mr. Vainio amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The 2004 fee of Mr. Vainio amounted to EUR 100 000 for services as a member of the Board.

11 Edouard Michelin was paid the gross annual fee of EUR 110 000 for services as a member of the Board prior to his accidental death in May 2006. This amount included 2 356 shares. The 2005 fee of Mr. Michelin amounted to EUR 110 000 for services as a member of the Board, which amount included 3 340 shares.

12 Arne Wessberg served as a member of the Board until March 30, 2006. The 2005 fee of Mr. Wessberg amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. The total amount included 3 644 shares. The 2004 fee of Mr. Wessberg amounted to EUR 100 000 for services as a member of the Board, which amount included 3 223 shares.

**Proposal of the Corporate Governance and Nomination Committee of the Board**

On March 5, 2007, the Corporate Governance and Nomination Committee of the Board announced that it will propose to the Annual General Meeting to be held on May 3, 2007 that the annual remuneration payable to the Board members to be elected at the same meeting for the term until the close of the Annual General Meeting in 2008, be as follows: EUR 375 000 for the Chairman, EUR 150 000 for the Vice Chairman, and EUR 130 000 for each member. In addition, the Corporate Governance and Committee will propose that the Chairman of the Audit Committee and the Chairman of the Personnel Committee will each receive an additional annual fee of EUR 25 000, and each member of the Audit Committee an additional annual fee of EUR 10 000. Further, the Committee will propose that approximately 40% of the remuneration be paid in Nokia Corporation shares purchased from the market.

## Group Executive Board

**Executive compensation philosophy**

Nokia operates in the extremely competitive, complex and rapidly evolving mobile communications industry. We are a leading company in the industry and conduct a global business. The key objectives of the executive compensation programs are to attract, retain, and motivate talented executive officers that drive Nokia's success and industry leadership. The executive compensation programs are designed to:

» provide competitive base pay rates,

» provide a total compensation that is competitive with the relevant market,

» attract and retain outstanding executive talent,

» deliver significant variable cash compensation for the achievement of stretch goals, and

» align the interests of the executive officers with those of the shareholders through long-term incentives in the form of equity-based awards.

The Personnel Committee of the Board benchmarks Nokia's compensation practices against those of other relevant companies in the same or similar industries and of the same or similar revenue size. The relevant companies include high technology and telecommunications companies that are headquartered in Europe and the United States.

The Personnel Committee of the Board reviews all levels of the executive officers' compensation on an annual basis and, from time to time during the year, when special needs arise. The Committee reviews and recommends to the Board the corporate goals and objectives relevant to the compensation of the President and CEO, evaluates the performance of the President and CEO in light of those goals and objectives, and proposes to the Board for its approval the compensation level of the President and CEO. The Personnel Committee approves all compensation for the Group Executive Board (other than the President and CEO) and other direct reports to the President and CEO, including long-term equity incentives. The Personnel Committee also reviews the results of the evaluation of the performance of the Group Executive Board members and other direct reports to the President and CEO, and approves their incentive compensation based on such evaluation.

The Personnel Committee considers the following factors, among others, in its review when determining the compensation of Nokia's executive officers:

» The compensation levels for similar positions (in terms of scope of position, revenues, number of employees, global responsibility and reporting relationships) in relevant benchmark companies,

» The performance demonstrated by the executive officer during the last year,

» The size and impact of the role on Nokia's overall performance and strategic direction,

» The internal comparison to the compensation levels of the other executive officers of Nokia, and

» Past experience and tenure in role.

The Committee uses outside independent consultants to obtain benchmark data and information on current market trends, and for advice regarding specific compensation questions.

**Components of executive compensation**

The compensation program for executive officers includes the following components:

Annual cash compensation

» Base salaries targeted at globally competitive market levels.

» Short-term cash incentives tied directly to performance and representing a significant portion of an executive officer's total annual cash compensation. The short-term cash incentive opportunity is expressed as a percentage of the executive officer's annual base salary. These award opportunities and measurement criteria are presented in the table below. The incentive payout formula is determined by two main factors: (a) a comparison of Nokia's actual performance to pre-established targets for net sales, operating profit and operating cash flow and (b) a comparison of each executive officer's individual performance to his/her predefined targets. Certain executive officers may also have objectives related to market share, quality, technology innovation, new product revenue, or other objectives of key strategic importance which require a discretionary assessment of performance by the Personnel Committee of the Board. The target setting as well as the weighting of each measure also require the Personnel Committee's approval. The final incentive payout is determined by multiplying each executive's eligible salary by: (1) his/her incentive target percent; and (2) the results of above mentioned factors (a) and (b). The Personnel Committee of the Board may also apply discretion when evaluating actual results against targets and the resulting incentive payouts. In certain exceptional situations, the actual short-term cash incentive awarded to the executive officer could be zero. The maximum payout is only possible with maximum performance on all measures.

A portion of the short-term cash incentives is paid twice each year based on the performance for each of Nokia's short-term plans that end on June 30 and December 31 of each year. Another portion is paid annually at the end of the year, based on the Personnel Committee's assessment of Nokia's total shareholder return compared to key competitors in the high technology and telecommunications industries and relevant market indices over one-, three-and five-year periods. In the case of the President and CEO, the annual incentive award is also partly based on his performance compared against strategic leadership objectives.

### Incentive as a % of annual base salary

| Position | Minimum performance, % | Target performance, % | Maximum performance, % | Measurement criteria |
|---|---|---|---|---|
| President and CEO [1] | 0 | 100 | 225 | Financial objectives (includes targets for net sales, operating profit and operating cash flow measures) |
| | 0 | 25 | 37.50 | Total shareholder return (comparison made with key competitors in the high technology and telecommunications industries over one, three and five year periods) |
| | 0 | 25 | 37.50 | Strategic objectives |
| **Total** | **0** | **150** | **300** | |
| Group Executive Board | 0 | 75 | 168.75 | Financial & strategic objectives |
| | 0 | 25 | 37.50 | Total shareholder return [2] |
| **Total** | **0** | **100** | **206.25** | |

1 Olli-Pekka Kallasvuo's discretionary annual incentive of 100% tied to financial objectives and 25% tied to total shareholder return covered his position as President and COO until May 31, 2006 and his position as President and CEO from June 1, 2006 onwards. The additional incentive of 25% tied to strategic objectives became effective as of June 1, 2006, and is, therefore, prorated for seven months.

2 Only some of the Group Executive Board members are eligible for the additional 25% total shareholder return element.

More information on the actual cash compensation paid in 2006 to our executive officers is in the "Summary compensation table 2006" on page 75.

**Long-term equity-based incentives**

Long-term equity-based incentive awards in the form of performance shares, stock options and restricted shares are used to align executive officers interests with shareholders' interests, reward performance, and encourage retention. These awards are determined on the basis of several factors, including a comparison of the executive officer's overall compensation with that of other executives in the relevant market. Performance shares are Nokia's main vehicle for long-term equity-based incentives and only vest as shares, if at least one of the pre-determined threshold performance levels, tied to Nokia's financial performance, is achieved by the end of the performance period. Stock options are granted to fewer employees that are in more senior and executive positions. Stock options create value for the executive officer, once vested, if the Nokia share price is higher than the exercise price of the option established at grant, thereby aligning the interests of the executives with those of the shareholders. Restricted shares are used primarily for retention purposes and they vest fully after the close of a pre-determined restriction period. These equity-based incentive awards are generally forfeited, if the executive leaves Nokia prior to vesting.

Information on the actual equity-based incentives granted to the members of our Group Executive Board is included in "Share ownership" on page 79.

### Actual executive compensation for 2006

At December 31, 2006, Nokia had a Group Executive Board consisting of 11 members. The changes in the membership of our Group Executive Board during 2006 were as follows: Jorma Ollila resigned from his position as CEO and Chairman of the Group Executive Board effective June 1, 2006 and, at that same time, Olli-Pekka Kallasvuo was appointed as CEO and Chairman of the Group Executive Board. Pertti Korhonen resigned as a member of the Group Executive Board with effect from April 1, 2006 and ceased employment with us effective June 1, 2006. Niklas Savander was appointed as a new member to the Group Executive Board as Executive Vice President and Head of Technology Platforms, effective April 1, 2006.

The following tables summarize the aggregate cash compensation paid and the long-term equity-based incentives granted to the members of the Group Executive Board under our equity plans in 2006.

Gains realized upon exercise of stock options and share-based incentive grants vested for the members of the Group Executive Board during 2006 are included in "Stock option exercise and settlement of shares" on page 84.

### Aggregate cash compensation to the Group Executive Board for 2006

| Number of members December 31, 2006 | Base salaries [3] EUR | Cash incentive payments [1, 2] EUR |
|---|---|---|
| 11 | 5 273 684 | 3 300 759 |

1 Includes payments pursuant to cash incentive arrangements for the 2006 calendar year. The cash incentives are paid as a percentage of annual base salary based on Nokia's short-term cash incentives.

2 Excluding any gains realized upon exercise of stock options, which are described in "Stock option exercises and settlement of shares" on page 84.

3 Includes base pay and bonuses to Pertti Korhonen for the period until March 31, 2006, to Jorma Ollila until May 31, 2006 (including his compensation as CEO only) and to Niklas Savander as from April 1, 2006.

### Long-term equity-based incentives granted in 2006 [1]

| | Group Executive Board [3] | All employees, total | Total number of participants |
|---|---|---|---|
| Performance shares at threshold [2] | 380 000 | 5 140 736 | 13 500 |
| Stock options | 1 520 000 | 11 421 939 | 5 200 |
| Restricted shares | 405 000 | 1 669 050 | 250 |

1 The equity-based incentive grants are generally forfeited if the employment relationship terminates with Nokia. The settlement is conditional upon performance and service conditions, as determined in the relevant plan rules. For a description of our equity plans, see Note 23 "Share-based payment" to our consolidated financial statements on page 28.

2 At maximum performance, the settlement amounts to four times the number of performance shares originally granted at threshold.

3 Including Pertti Korhonen until March 31, 2006, Jorma Ollila until May 31, 2006 and Niklas Savander from April 1, 2006.

**Summary compensation table 2006**

| Name and principal position | Year ** | Salary EUR | Bonus [1] EUR | Stock awards [2] EUR | Option awards [2] EUR | Non-equity deferred incentive plan compen-sation EUR | Change in pension value and nonqualified compensation earnings EUR | All other compen-sation EUR | Total EUR |
|---|---|---|---|---|---|---|---|---|---|
| Jorma Ollila | 2006 | 609 524 | 643 942 | 5 105 118 | 1 220 610 | * | [3] | 662 764 [5] | 8 241 955 |
| Chairman of the Board | 2005 | 1 500 000 | 3 212 037 | | | | [4] | | |
| and former CEO (CEO until June 1) | 2004 | 1 475 238 | 1 936 221 | | | | | | |
| Olli-Pekka Kallasvuo | 2006 | 898 413 | 664 227 | 1 529 732 | 578 465 | * | 1 496 883 [3, 6] | 38 960 [7] | 5 206 680 |
| President and CEO | 2005 | 623 524 | 947 742 | | | | | | |
| (President and COO until June 1) | 2004 | 584 000 | 454 150 | | | | | | |
| Richard Simonson | 2006 [8] | 460 070 | 292 673 | 958 993 | 194 119 | * | | 84 652 [9] | 1 990 507 |
| EVP and Chief Financial Officer | 2005 | 461 526 | 634 516 | | | | | | |
| Anssi Vanjoki | 2006 | 505 343 | 353 674 | 938 582 | 222 213 | * | 215 143 [3] | 29 394 [10] | 2 264 349 |
| EVP and General Manager, Multimedia | 2005 | 476 000 | 718 896 | | | | | | |
| Mary McDowell | 2006 [8] | 466 676 | 249 625 | 786 783 | 213 412 | * | | 45 806 [11] | 1 762 302 |
| EVP and General Manager, Enterprise Solutions | | | | | | | | | |
| Hallstein Moerk | 2006 [8] | 390 854 | 205 516 | 652 530 | 123 802 | * | [12] | 269 902 [13] | 1 642 603 |
| EVP and Head of Human Resources | | | | | | | | | |

1 Bonus payments are part of Nokia's short-term cash incentives. The amount consists of the bonus awarded and paid or payable by Nokia for the respective fiscal year.

2 Amounts shown represent share based compensation expense recognized in 2006 for all outstanding equity grants in accordance IFRS 2, Share-based payment.

3 The change in pension value represents the proportionate change in the company's liability related to the individual executive. These executives participate in the Finnish TEL pension system that provides for a retirement benefit based on years of service and earnings according to the prescribed statutory system. The TEL system is a partly funded and a partly pooled "pay as you go" system. The figures shown represent only the change in liability for the funded portion. The method used to derive the actuarial IFRS valuation is based upon salary information at December 31, 2005. Actuarial assumptions including salary increases and inflation have been determined to arrive at the valuation at the year end 2006.

4 Nokia's liability of EUR 676 117 for Mr. Ollila's disability benefit under the Finnish TEL pension (see footnote 3 above) was cancelled upon end of his employment effective on June 1, 2006. Furthermore, Nokia's liability of EUR 4 787 000 for Mr. Ollila's early retirement benefit at the age of 60 provided under his service agreement was also cancelled as of June 1, 2006. These resulted in a decrease of Nokia's total liability of EUR 5 463 117.

5 All other compensation for Mr. Ollila includes: EUR 375 000 for his services as Chairman of the Board or Directors, also disclosed in the Remuneration of the Board of Directors table on page 72; a payout of EUR 166 666 for unused vacation days upon end of employment; service awards in the amount of EUR 119 048 and EUR 2 050 for driver and mobile phone.

6 The change in pension value for Mr. Kallasvuo includes EUR 194 883 for the proportionate change in the company's liability related to the individual under the funded part of the Finnish TEL pension (see footnote 3 above). In addition, it includes EUR 1 302 000 for the change in liability in the early retirement benefit at the age of 60 provided under his service contract.

7 All other compensation for Mr. Kallasvuo includes: EUR 21 240 for car allowance, EUR 10 000 for financial counseling, EUR 4 680 for driver and EUR 3 040 for mobile phone and club membership.

8 Salaries, benefits and perquisites of Mr. Simonson, Mr. Moerk and Ms. McDowell are paid and denominated in USD. Amounts were converted to EUR using year-end 2006 USD/EUR exchange rate of 1.31.

9 All other compensation for Mr. Simonson includes: EUR 13 282 company contributions to the 401(k) plan, EUR 23 419 company contributions to the Restoration and Deferral Plan, EUR 21 519 provided as benefit under Nokia's relocation policy, EUR 12 977 for car allowance and EUR 13 454 for financial counseling.

10 All other compensation for Mr. Vanjoki includes: EUR 19 154 for car allowance; EUR 10 000 for financial counseling and the remainder for mobile phone.

11 All other compensation for Ms. McDowell includes: EUR 13 282 company contributions to the 401(k) plan, EUR 13 105 company contributions to the Restoration and Deferral Plan, EUR 2 688 provided as benefit under Nokia's relocation policy, EUR 12 977 for car allowance and EUR 3 753 for financial counseling.

12 The change in pension value for Mr. Moerk was reduced by EUR 80 000. This represents the change in Nokia's liability in the retirement benefit at age of 62 provided under his service contract.

13 All other compensation for Mr. Moerk includes: EUR 245 434 provided as a benefit under Nokia's expatriate policy and EUR 24 468 for car allowance, financial counseling and Employee Stock Purchase Plan benefit.

* None of the named executive officers participated in a formulated, non-discretionary, incentive plan. Annual incentive payments are included under the "Bonus" column.

** History has been provided for those data elements previously disclosed.

**Equity grants in 2006** [1]

| Name and principal position | Grant date | Number of shares underlying options | Grant price (EUR) | Grant date fair value [2] (EUR) | Performance shares at threshold (number) | Performance shares at maximum (number) | Restricted shares (number) | Grant date fair value [3] (EUR) |
|---|---|---|---|---|---|---|---|---|
| | Option awards | | | | Stock awards | | | |
| Jorma Ollila<br>Chairman of the Board<br>and former CEO (CEO until June 1) | May 5 | 400 000 | 18.02 | 1 349 229 | 100 000 | 400 000 | 100 000 | 4 666 937 |
| Olli-Pekka Kallasvuo<br>President and CEO<br>(President and COO until June 1) | May 5 | 300 000 | 18.02 | 1 011 922 | 75 000 | 300 000 | 100 000 | 3 668 604 |
| Richard Simonson<br>EVP and Chief Financial Officer | May 5 | 100 000 | 18.02 | 337 307 | 25 000 | 100 000 | 25 000 | 1 102 125 |
| Anssi Vanjoki<br>EVP and General Manager, Multimedia | May 5 | 100 000 | 18.02 | 337 307 | 25 000 | 100 000 | 25 000 | 1 102 125 |
| Mary McDowell<br>EVP and General Manager,<br>Enterprise Solutions | May 5 | 100 000 | 18.02 | 337 307 | 25 000 | 100 000 | 25 000 | 1 102 125 |
| Hallstein Moerk<br>EVP and Head of Human Resources | May 5 | 60 000 | 18.02 | 202 384 | 15 000 | 60 000 | 15 000 | 661 275 |

1 Including all grants made during 2006. Stock option grants were made under the Nokia Stock Option Plan 2005, performance share grants under the Nokia Performance Share Plan 2006 and restricted share grants under the Nokia Restricted Share Plan 2006.

2 The fair values of stock options equal the estimated fair value on the grant date, calculated using the Black-Scholes model. The stock option exercise price is EUR 18.02. The Helsinki Stock Exchange closing market price at grant date was EUR 17.97.

3 The fair value of performance shares and restricted shares equals the estimated fair value on grant date. The estimated fair value is based on the grant date market price of the Nokia share less the present value of dividends expected to be paid during the vesting period. The value of performance shares is presented on the basis of a number of shares which is two times the number at threshold.

**Pension arrangements for the members of the Group Executive Board**

The members of the Group Executive Board in 2006 participate in the local retirement programs applicable to employees in the country where they reside. Executives in Finland participate in the Finnish TEL pension system, which provides for a retirement benefit based on years of service and earnings according to a prescribed statutory system. Under the Finnish TEL pension system, base pay, incentives and other taxable fringe benefits are included in the definition of earnings, although gains realized from equity are not. The Finnish TEL pension scheme provides for early retirement benefits at age 62 with a reduction in the amount of retirement benefits. Standard retirement benefits are available from age 63 to 68, according to an increasing scale.

Executives in the United States participate in Nokia's Retirement Savings and Investment Plan. Effective July 1, 2006, under this 401(k) plan, participants elect to make voluntary pre-tax contributions that are 100% matched by Nokia up to 8% of eligible earnings. Prior to July 1, 2006 participants could elect to make voluntary pre-tax contributions that were 100% matched by Nokia up to 6% of eligible earnings with an additional annual discretionary contribution of up to 2% of eligible earnings made by Nokia. For participants earning in excess of the eligible earning limit, Nokia offers an additional Restoration and Deferral Plan. This plan allows employees to defer up to 50% of their salary and 100% of their bonus into a non-qualified plan. Prior to July 1, 2006, Nokia also made annual discretionary contributions to this non-qualified plan of up to 2% of the earnings above 401(k) eligibility limits. Effective July 1, 2006, these 2% discretionary contributions were eliminated. The last contributions were made in 2006 based on 2005 earnings.

Olli-Pekka Kallasvuo can, as part of his service contract, retire at the age of 60 with full retirement benefit should he be employed by Nokia at the time. The full retirement benefit is calculated as if Mr. Kallasvuo had continued his service with Nokia through the statutory retirement age of 65.

Jorma Ollila's service contract ended as of June 1, 2006, after which he is not eligible to receive any additional retirement benefits from Nokia.

Simon Beresford-Wylie participates in the Nokia International Employee Benefit Plan (NIEBP). The NIEBP is a defined contribution retirement arrangement provided to some Nokia employees on international assignments. The contributions to NIEBP are funded two-thirds by Nokia and one-third by the employee. Because Mr. Beresford-Wylie also participates in the Finnish TEL system, the company contribution to NIEBP is 1.3% of annual earnings.

Hallstein Moerk, following his arrangement with a previous employer, has also in his current position at Nokia a retirement benefit of 65% of his pensionable salary beginning at the age of 62. Early retirement is possible at the age of 55 with reduced benefits.

**Service contracts**

Jorma Ollila's service contract, which covered his position as CEO, ended as of June 1, 2006 without any severance or other payments from Nokia. Following the termination of his service contract, he is no longer eligible for incentives, bonuses, stock options or other equity grants or additional retirement benefits from Nokia. Mr. Ollila was entitled to retain all vested and unvested stock options and other equity compensation granted to him prior to June 1, 2006.

Olli-Pekka Kallasvuo's service contract covers his current position as President and CEO and Chairman of the Group Executive Board. The contract also covered his prior position as President and COO. Mr. Kallasvuo's annual total gross base salary, which is subject to an annual review by the Board of Directors, was EUR 750 000 from January 1, 2006 until May 31, 2006, and is EUR 1 000 000 from June 1, 2006. His incentive targets under the Nokia short-term incentive plan were 125% of annual gross base salary, starting from January 1, 2006 and are 150% of annual gross base salary, starting June 1, 2006. In case of termination by Nokia for reasons other than cause, including a change of control, Mr. Kallasvuo is entitled to a severance payment of up to 18 months of compensation (both annual total gross base salary and target incentive). In case of termination by Mr. Kallasvuo, the notice period is 6 months and he is entitled to a payment for such notice period (both annual total gross base salary and target incentive for 6 months). Mr. Kallasvuo is subject to a 12-month non-competition obligation after termination of the contract. Unless the contract is terminated for cause, Mr. Kallasvuo may be entitled to compensation during the non-competition period or a part of it. Such compensation amounts to the annual total gross base salary and target incentive for the respective period during which no severance payment is paid.

## Equity-based compensation programs

### General

During the year ended December 31, 2006, Nokia sponsored three global stock option plans, three global performance share plans and four global restricted share plans. Both executives and employees participate in these plans. In 2004, Nokia introduced performance shares as the main element to the company's broad-based equity compensation program to further emphasize the performance element in employees' long-term incentives. Thereafter, the number of stock options granted has been significantly reduced. The rationale for using both performance shares and stock options for employees in higher job grades is to build an optimal and balanced combination of equity-based incentives. The program intends to align the potential value received by participants directly with the performance of Nokia. Since 2003, Nokia has also granted restricted shares to a small selected number of employees each year.

The broad-based equity incentive program in 2006, which was approved by the Board of Directors, followed the structure of the program in 2005. The target group for the 2006 equity-based incentive program continued to be broad, with a wide number of employees in many levels of the organization eligible to participate. The aggregate number of participants in all of Nokia's equity-based programs in 2006 was approximately 30 000, which is similar to the number in 2005.

The equity-based incentive grants are generally conditional upon continued employment with Nokia, as well as the fulfillment of performance and other conditions, as determined in the relevant plan rules.

For a more detailed description of all of Nokia's equity-based incentive plans, see Note 23 "Share-based payment" on page 28.

### Performance shares

We have granted performance shares under the global 2004, 2005 and 2006 plans, each of which has been approved by the Board of Directors.

The performance shares represent a commitment by Nokia to deliver Nokia shares to employees at a future point in time, subject to Nokia's fulfillment of pre-defined performance criteria. No performance shares will vest unless Nokia's performance reaches at least one of the threshold levels measured by two independent, pre-defined performance criteria: Nokia's average annual net sales growth target for the performance period of the plan and earnings per share ("EPS") target at the end of the performance period. The 2004 and 2005 plans have a four-year performance period, including a possibility for an interim payout, and the 2006 plan has a three-year performance period without any interim payout. For the 2004 plan, the performance period consists of the fiscal years 2004 through 2007, with an interim payout made in 2006. For the 2005 plan the performance period consists of the fiscal years 2005 through 2008, with a possibility for an interim payout in 2007. The second and final payout, if any, under both the 2004 and 2005 plans, will be after the close of the respective four-year performance periods. In the 2004 and 2005 plans average annual net sales growth and separate EPS threshold and maximum levels have been determined for the interim measurement period and for the full performance period. For the 2006 plan, the performance period consists of the fiscal years 2006 through 2008, with no interim measurement period. The final payout, if any, will be made in 2009 after the close of the three-year performance period. Until the Nokia shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights, associated with the performance shares.

Performance share grants are approved by the CEO at the end of the respective calendar quarter on the basis of an authorization given by the Board of Directors. Approvals for performance share grants to the CEO are made by the Board of Directors, and for the Group Executive Board members and other direct reports of the CEO by the Personnel Committee of the Board.

### Stock options

Nokia's outstanding global stock option plans were approved by the Annual General Meetings in the year when each plan was launched, i.e. in 2001, 2003 and 2005.

Each stock option entitles the holder to subscribe for one new Nokia share. Under the 2001 stock option plan, the stock options are transferable by the participants. Under the 2003 and 2005 plans, the stock options are non-transferable. All of the stock options have a vesting schedule with a 25% vesting one year after grant, and quarterly vesting thereafter. The stock options granted under the plans generally have a term of five years.

The exercise price of the grant is determined at the time of grant on a quarterly basis. The exercise prices are determined in accordance with a pre-agreed schedule after the release of Nokia's periodic financial results and are based on the trade volume weighted average price of a Nokia share on the Helsinki Stock Exchange during the trading days of the first whole week of the second month of the respective calendar quarter (i.e. February, May, August or November). Exercise prices are determined on a one-week weighted average to mitigate any short term fluctuations in Nokia's share price. The determination of exercise price is defined in the terms and conditions of the stock option plan, which are approved by the shareholders at the respective Annual General Meeting. The Board of Directors does not have right to amend the above-described determination of exercise price.

Stock option grants are approved by the CEO at the time of stock option pricing on the basis of an authorization given by the Board of Directors. Approvals for stock option grants to the CEO are made by the Board of Directors, and the Group Executive Board members and other for direct reports of the CEO by the Personnel Committee of the Board.

### Restricted shares

Since 2003, we have granted restricted shares to recruit, retain, reward and motivate selected high potential employees, who are critical to the future success of Nokia. It is Nokia's philosophy that restricted shares will be used only for key management positions and other critical resources. The 2003, 2004, 2005 and 2006 restricted share plans have been approved by the Board of Directors.

All of our restricted share plans have a restriction period of three years after grant. Once the shares vest, they will be transferred and delivered to the recipients. Until the Nokia shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights, associated with the restricted shares. Restricted share grants are approved by the CEO at the end of the respective calendar quarter on the basis of an authorization given by the Board of Directors. Approvals for restricted share grants to the CEO are made by the Board of Directors, and for the Group Executive Board members and other direct reports of the CEO by the Personnel Committee of the Board.

### Other equity plans for employees

In addition to our global equity plans described above, we have equity plans for Nokia acquired businesses or employees in the United States and Canada under which participants can receive Nokia ADSs. These equity plans do not result in an increase in the share capital of Nokia. In 2006, a new such plan was launched, under which performance shares, stock options and restricted shares can be granted, resulting to transfer of existing Nokia ordinary shares or ADSs.

For more information of these plans, see Note 23 "Share-based payment" to our consolidated financial statements on page 28.

We have also an Employee Share Purchase Plan in the United States, which permits all full-time Nokia employees located in the United States to acquire Nokia ADSs at a 15% discount. The purchase of the ADSs is funded through monthly payroll deductions from the salary of the participants, and the ADSs are purchased on a monthly basis. As of December 31, 2006, a total of 2 276 233 ADSs had been purchased under this plan since its inception, and there were a total of approximately 1 000 participants.

## Equity-based compensation program 2007

The Board of Directors announced the proposed scope and design for the 2007 Equity Program on January 25, 2007. The main equity instrument will be performance shares. In addition, stock options will be granted to a more limited population, and restricted shares will be used for a small number of high potential and critical employees.

### Performance Share Plan 2007

The Performance Share Plan in 2007 approved by the Board of Directors will cover a performance period of three years (2007–2009) with no interim measurement period. No performance shares will vest unless Nokia's performance reaches at least one of the threshold levels measured by two independent, predefined performance criteria:

1 Average Annual Net Sales Growth: performance period 2007–2009, and

2 Reported, basic EPS: 2009.

The actual threshold and maximum levels will be determined and disclosed during the first quarter 2007.

Average Annual Net Sales Growth is calculated as an average of the net sales growth rates for the years 2006 through 2009. Both the EPS and Average Annual Net Sales Growth criteria are equally weighted and performance under each of the two performance criteria are calculated independent of each other.

Achievement of the maximum performance for both criteria will result in the vesting of maximum of 12 million Nokia shares. Performance exceeding the maximum criteria does not increase the number of performance shares that will vest. Achievement of the threshold performance for both criteria will result in the vesting of approximately 3 million shares. If only one of the threshold levels of performance is achieved, only approximately 1.5 million of the performance shares will vest. If none of the threshold levels are achieved, then none of the performance shares will vest. For performance between the threshold and maximum performance levels, the vesting follows a linear scale. If the required performance levels are achieved, the vesting will take place in 2010. Until the Nokia shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with these performance shares.

### Stock Option Plan 2007

The Board of Directors will make a proposal for Stock Option Plan 2007 to be approved by the shareholders at the Annual General Meeting on May 3, 2007. The stock option grants in 2007 are expected to be made primarily out of the Stock Option Plan 2007, which is proposed to be a four-year plan amounting to a maximum of 20 million stock options to be granted from 2007 to 2010. Each stock option would entitle the option holder to subscribe for one Nokia share. The exercise price of the stock options would be determined at the time of grant on a quarterly basis and would be based on the trade volume weighted average price of a Nokia share on the Helsinki Stock Exchange for the first whole week of the second month of the calendar quarter (i.e. February, May, August or November). The stock options would have a vesting schedule with a 25% vesting one year after grant and quarterly vesting thereafter. The subcategories of stock options expected to be issued under the plan would generally have a term of five years, with the last of the subcategories expiring as of December 31, 2015. The determination of exercise price is defined in the terms and conditions of the stock option plan to be presented for shareholders' approval at the Annual General Meeting. The Board of Directors would not have right to amend the above described determination of exercise price.

### Restricted Share Plan 2007

The restricted shares to be granted under the Restricted Share Plan 2007 will have a three-year restriction period. The restricted shares will vest and the payable Nokia shares be delivered mainly in 2010, subject to fulfillment of the service period criteria. Recipients will not have any shareholder rights or voting rights during the restriction period, until the Nokia shares are transferred and delivered to plan participants at the end of the restriction period.

### Maximum planned grants

The maximum number of planned grants under the 2007 Equity Program (i.e. performance shares, stock options and restricted shares) are set forth in the table below. The planned amounts for 2007 are less than the total amounts approved and disclosed in 2006.

| Plan type | Maximum number of planned grants under the 2007 Equity Program in 2007 |
|---|---|
| Stock options | 5 million |
| Restricted shares | 4 million |
| Performance shares at threshold [1] | 3 million |

1 The maximum number of shares to be delivered at maximum performance is four times the number originally granted (at threshold), i.e. a total of 12 million Nokia shares.

As of December 31, 2006, the total dilutive effect of Nokia's stock options, performance shares and restricted shares outstanding, assuming full dilution, was approximately 3.4% in the aggregate. The potential maximum effect of the proposed equity program 2007, would be approximately another 0.8%.

# Share ownership

## General

The following section describes the ownership or potential ownership interest in the company of the members of our Board of Directors and the Group Executive Board, either through share ownership or through holding of equity-based incentives, which may lead to share ownership in the future. Since 1999, approximately 40% of the remuneration paid to the Board of Directors has been paid in Nokia shares purchased from the market. Non-executive members of the Board of Directors do not receive stock options, performance shares, restricted shares or other variable pay compensation. For a description of our equity-based compensation programs for employees and executives, see "Equity-based compensation programs" on page 77.

## Share ownership of the Board of Directors

On December 31, 2006, the members of our Board of Directors held the aggregate of 810 302 shares and ADSs in Nokia, which represented 0.02% of our outstanding share capital and total voting rights excluding shares held by the Group as of that date.

The following table sets forth the number of shares and ADSs beneficially held by members of the Board of Directors as of December 31, 2006.

| | Shares [1] | ADSs |
|---|---|---|
| Jorma Ollila [2] | 286 468 | 0 |
| Paul J. Collins | 0 | 122 626 |
| Georg Ehrnrooth [3] | 314 996 | 0 |
| Daniel R. Hesse | 0 | 5 696 |
| Bengt Holmström | 16 606 | 0 |
| Per Karlsson [3] | 19 538 | 0 |
| Marjorie Scardino | 0 | 14 018 |
| Keijo Suila | 2 570 | 0 |
| Vesa Vainio | 27 784 | 0 |
| **Total** | **667 962** | **142 340** |

1 The number of shares includes not only shares acquired as compensation for services rendered as a member of the Board of Directors, but also shares acquired by any other means.

2 For Mr. Ollila, this table includes his share ownership only. Mr. Ollila was the company's CEO until June 1, 2006 and received stock options, performance shares and restricted shares in that capacity until the said date. Mr. Ollila's holdings of long-term equity-based incentives are outlined in footnote 5 under "Stock option ownership of the Group Executive Board" on page 80 and, in footnote 6 under "Performance shares and restricted shares" on page 83.

3 Mr. Ehrnrooth's and Mr. Karlsson's holdings include both shares held personally and shares held through a company.

## Share ownership of the Group Executive Board

The following table sets forth the share ownership, as well as potential ownership interest through holding of equity-based incentives, of the members of the Group Executive Board as of December 31, 2006.

| | Shares | Shares receivable through stock options | Shares receivable through performance shares at threshold [3] | Shares receivable through restricted shares |
|---|---|---|---|---|
| Number of equity instruments held by Group Executive Board | 519 716 | 2 755 806 | 477 360 | 884 500 |
| % of the share capital [1] | 0.013 | 0.069 | 0.012 | 0.022 |
| % of the total outstanding equity incentives (per instrument) [2] | – | 3.007 | 3.784 | 14.584 |

1 The percentage is calculated in relation to the outstanding share capital and total voting rights of the company, excluding shares held by the Group.

2 The percentage is calculated in relation to the total outstanding equity incentives per instrument, i.e. stock options, performance shares and restricted shares, as applicable.

3 Performance shares at threshold represent the original grant. At maximum performance, the settlement amounts to four times the number of performance shares originally granted (at threshold). Due to the interim payout in 2006, the maximum number of Nokia shares deliverable under the performance share plan 2004 equals three times the number of performance shares originally granted (at threshold).

The following table sets forth the number of shares and ADSs beneficially held by members of the Group Executive Board as of December 31, 2006.

| | Shares | ADSs |
|---|---|---|
| Olli-Pekka Kallasvuo | 130 000 | 0 |
| Robert Andersson | 16 260 | 0 |
| Simon Beresford-Wylie | 17 924 | 0 |
| Mary McDowell | 7 935 | 5 000 |
| Hallstein Moerk | 36 074 | 0 |
| Tero Ojanperä | 1 174 | 0 |
| Niklas Savander | 11 868 | 0 |
| Richard Simonson | 26 621 | 20 000 |
| Veli Sundbäck | 128 524 | 0 |
| Anssi Vanjoki | 113 050 | 0 |
| Kai Öistämö | 5 286 | 0 |
| **Total** | **494 716** | **25 000** |

Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006, and ceased employment with us on May 31, 2006. He held 15 300 shares as of March 31, 2006.

## Stock option ownership of the Group Executive Board

The following table provides certain information relating to stock options held by members of the Group Executive Board as of December 31, 2006. These stock options were issued pursuant to Nokia Stock Option Plans 2001, 2003 and 2005. For a description of our stock option plans, please see Note 23 "Share-based payment" to our consolidated financial statements on page 28.

| | | | | Number of stock options [2] | | Total intrinsic value of stock options, December 31, 2006 EUR [3] | |
|---|---|---|---|---|---|---|---|
| | **Stock option category [1]** | **Expiration date** | **Exercise price per share EUR** | **Exercisable** | **Unexercisable** | **Exercisable [4]** | **Unexercisable** |
| Olli-Pekka Kallasvuo | 2001 A/B | December 31, 2006 | 36.75 | 100 000 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 50 000 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 175 000 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 97 500 | 22 500 | 51 675 | 11 925 |
| | 2004 2Q | December 31, 2009 | 11.79 | 33 750 | 26 250 | 124 538 | 96 863 |
| | 2005 2Q | December 31, 2010 | 12.79 | 18 750 | 41 250 | 50 438 | 110 963 |
| | 2005 4Q | December 31, 2010 | 14.48 | 0 | 100 000 | 0 | 100 000 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 300 000 | 0 | 0 |
| Robert Andersson | 2001 A/B | December 31, 2006 | 36.75 | 21 500 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 10 750 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 30 000 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 14 625 | 3 375 | 7 751 | 1 789 |
| | 2004 2Q | December 31, 2009 | 11.79 | 5 850 | 4 550 | 21 587 | 16 790 |
| | 2005 2Q | December 31, 2010 | 12.79 | 3 750 | 8 250 | 10 088 | 22 193 |
| | 2005 4Q | December 31, 2010 | 14.48 | 0 | 28 000 | 0 | 28 000 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 80 000 | 0 | 0 |
| Simon Beresford-Wylie | 2001 A/B | December 31, 2006 | 36.75 | 14 000 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 7 000 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 0 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 10 558 | 2 442 | 5 596 | 1 294 |
| | 2004 2Q | December 31, 2009 | 11.79 | 5 625 | 4 375 | 20 756 | 16 144 |
| | 2005 2Q | December 31, 2010 | 12.79 | 18 750 | 41 250 | 50 438 | 110 963 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 100 000 | 0 | 0 |
| Mary McDowell | 2003 4Q | December 31, 2008 | 15.05 | 48 125 | 21 875 | 20 694 | 9 406 |
| | 2004 2Q | December 31, 2009 | 11.79 | 28 125 | 21 875 | 103 781 | 80 719 |
| | 2005 2Q | December 31, 2010 | 12.79 | 18 750 | 41 250 | 50 438 | 110 963 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 100 000 | 0 | 0 |
| Hallstein Moerk | 2001 A/B | December 31, 2006 | 36.75 | 30 000 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 15 000 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 30 000 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 16 250 | 3 750 | 8 613 | 1 988 |
| | 2004 2Q | December 31, 2009 | 11.79 | 3 750 | 13 125 | 13 838 | 48 431 |
| | 2005 2Q | December 31, 2010 | 12.79 | 12 500 | 27 500 | 33 625 | 73 975 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 60 000 | 0 | 0 |

## Stock option ownership of the Group Executive Board, continued

| | Stock option category [1] | Expiration date | Exercise price per share EUR | Number of stock options [2] Exercisable | Unexercisable | Total intrinsic value of stock options, December 31, 2006 EUR [3] Exercisable [4] | Unexercisable |
|---|---|---|---|---|---|---|---|
| Tero Ojanperä | 2001 A/B | December 31, 2006 | 36.75 | 12 500 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 6 250 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 14 500 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 13 000 | 3 000 | 6 890 | 1 590 |
| | 2004 2Q | December 31, 2009 | 11.79 | 5 625 | 4 375 | 20 756 | 16 144 |
| | 2005 2Q | December 31, 2010 | 12.79 | 12 500 | 27 500 | 33 625 | 73 975 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 60 000 | 0 | 0 |
| Niklas Savander | 2001 A/B | December 31, 2006 | 36.75 | 12 500 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 6 250 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 21 500 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 10 558 | 2 442 | 5 596 | 1 294 |
| | 2004 2Q | December 31, 2009 | 11.79 | 5 760 | 4 480 | 21 254 | 16 531 |
| | 2005 2Q | December 31, 2010 | 12.79 | 4 375 | 9 625 | 11 769 | 25 891 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 60 000 | 0 | 0 |
| Richard Simonson | 2001 C 3Q/01 | December 31, 2006 | 20.61 | 36 000 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 15 000 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 9 337 | 2 163 | 4 949 | 1 146 |
| | 2004 2Q | December 31, 2009 | 11.79 | 28 125 | 21 875 | 103 781 | 80 719 |
| | 2005 2Q | December 31, 2010 | 12.79 | 18 750 | 41 250 | 50 438 | 110 963 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 100 000 | 0 | 0 |
| Veli Sundbäck | 2001 A/B | December 31, 2006 | 36.75 | 40 000 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 20 000 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 40 000 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 40 625 | 9 375 | 21 531 | 4 969 |
| | 2004 2Q | December 31, 2009 | 11.79 | 16 875 | 13 125 | 62 269 | 48 431 |
| | 2005 2Q | December 31, 2010 | 12.79 | 12 500 | 27 500 | 33 625 | 73 975 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 60 000 | 0 | 0 |
| Anssi Vanjoki | 2001 A/B | December 31, 2006 | 36.75 | 70 000 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 35 000 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 6 250 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 40 000 | 18 750 | 21 200 | 9 938 |
| | 2004 2Q | December 31, 2009 | 11.79 | 20 000 | 26 250 | 73 800 | 96 863 |
| | 2005 2Q | December 31, 2010 | 12.79 | 10 000 | 41 250 | 26 900 | 110 963 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 100 000 | 0 | 0 |
| Kai Öistämö | 2001 A/B | December 31, 2006 | 36.75 | 2 695 | 0 | 0 | 0 |
| | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 2 695 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 1 892 | 0 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 1 436 | 2 163 | 761 | 1 146 |
| | 2004 2Q | December 31, 2009 | 11.79 | 3 625 | 4 375 | 13 376 | 16 144 |
| | 2005 2Q | December 31, 2010 | 12.79 | 4 000 | 8 800 | 10 760 | 23 672 |
| | 2005 4Q | December 31, 2010 | 14.48 | 0 | 28 000 | 0 | 28 000 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 100 000 | 0 | 0 |
| Stock options held by the members of the Group Executive Board on December 31, 2006, Total [5] | | | | 1 420 031 | 1 827 915 | 1 097 132 | 1 584 755 |
| All outstanding stock option plans (global plans), Total | | | | 68 744 405 | 22 911 996 | 27 319 485 | 26 518 296 |

1 Stock options granted under the 2001A/B, 2001 3Q/01 and 2001C 4Q/01 sub-categories expired as of December 31, 2006.

2 Number of stock options equals the number of underlying shares represented by the option entitlement. Stock options vest over 4 years: 25% after one year and 6.25% each quarter thereafter.

3 The intrinsic value of the stock options is based on the difference between the exercise price of the options and the closing market price of Nokia shares on the Helsinki Stock Exchange as of December 29, 2006 of EUR 15.48.

4 For gains realized upon exercise of stock options for the members of the Group Executive Board please refer to "Stock options exercises and settlement of shares" table on page 84.

5 Mr. Ollila resigned as CEO and Chairman of the Group Executive Board effective June 1, 2006, and ceased employment with Nokia on that date. Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006 and ceased employment with Nokia on May 31, 2006. The information relating to stock options held and retained by Mr. Ollila and Mr. Korhonen as of the date of resignation from the Group Executive Board is represented in the table below.

| | | | | Number of stock options [2] | | Total intrinsic value of stock options, EUR [8] | |
|---|---|---|---|---|---|---|---|
| | Stock option category [1] | Expiration date | Exercise price per share EUR | Exercisable | Unexercisable | Exercisable [4] | Unexercisable |
| Jorma Ollila | 2001 A/B | December 31, 2006 | 36.75 | 1 000 000 | 0 | 0 | 0 |
| (as per May 31, 2006) [6] | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 0 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 937 500 | 62 500 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 550 000 | 250 000 | 968 000 | 440 000 |
| | 2004 2Q | December 31, 2009 | 11.79 | 175 000 | 225 000 | 861 000 | 1 107 000 |
| | 2005 2Q | December 31, 2010 | 12.79 | 0 | 400 000 | 0 | 1 568 000 |
| | 2006 2Q | December 31, 2011 | 18.02 | 0 | 400 000 | 0 | 0 |
| Pertti Korhonen | 2001 A/B | December 31, 2006 | 36.75 | 30 000 | 0 | 0 | 0 |
| (as per March 31, 2006) [7] | 2001 C 4Q/01 | December 31, 2006 | 26.67 | 15 000 | 0 | 0 | 0 |
| | 2002 A/B | December 31, 2007 | 17.89 | 61 250 | 8 750 | 0 | 0 |
| | 2003 2Q | December 31, 2008 | 14.95 | 31 250 | 18 750 | 66 563 | 39 938 |
| | 2004 2Q | December 31, 2009 | 11.79 | 18 750 | 31 250 | 99 188 | 165 313 |
| | 2005 2Q | December 31, 2010 | 12.79 | 0 | 60 000 | 0 | 257 400 |

6 Mr. Ollila was entitled to retain all vested and unvested stock options granted to him prior to June 1, 2006 as approved by the Board of Directors.

7 Mr. Korhonen's stock option grants were forfeited upon termination of employment in accordance with the plan rules.

8 The intrinsic value of the stock options is based on the difference between the exercise price of the options and the closing market price of Nokia shares on the Helsinki Stock Exchange as of May 31, 2006 of EUR 16.71 in respect of Mr. Ollila and as of March 31, 2006 of EUR 17.08 in respect of Mr. Korhonen.

## Performance shares and restricted shares

The following table provides certain information relating to performance shares and restricted shares held by members of the Group Executive Board as of December 31, 2006. These entitlements were granted pursuant to our performance share plans 2004, 2005 and 2006 and restricted share plans 2003, 2004, 2005 and 2006. For a description of our performance share and restricted share plans, please see Note 23 "Share-based payment" to the consolidated financial statements on page 28.

| | | Performance shares | | | | Restricted shares | |
|---|---|---|---|---|---|---|---|
| | Plan name [1] | Number of performance shares at threshold [2] | Number of performance shares at maximum [2] | Intrinsic value December 31, 2006 [3] EUR | Plan name [4] | Number of restricted shares | Intrinsic value December 31, 2006 [5] EUR |
| Olli-Pekka Kallasvuo | 2004 | 15 000 | 45 000 | 536 255 | 2004 | 35 000 | 541 800 |
| | 2005 | 15 000 | 60 000 | 881 715 | 2005 | 70 000 | 1 083 600 |
| | 2006 | 75 000 | 300 000 | 2 987 751 | 2006 | 100 000 | 1 548 000 |
| Robert Andersson | 2004 | 2 600 | 7 800 | 92 951 | 2004 | 15 000 | 232 200 |
| | 2005 | 3 000 | 12 000 | 176 343 | 2005 | 28 000 | 433 440 |
| | 2006 | 20 000 | 80 000 | 796 734 | 2006 | 20 000 | 309 600 |
| Simon Beresford-Wylie | 2004 | 2 500 | 7 500 | 89 376 | 2004 | 0 | 0 |
| | 2005 | 15 000 | 60 000 | 881 715 | 2005 | 35 000 | 541 800 |
| | 2006 | 25 000 | 100 000 | 995 917 | 2006 | 25 000 | 387 000 |
| Mary McDowell | 2004 | 12 500 | 37 500 | 446 879 | 2003 | 20 000 | 309 600 |
| | 2005 | 15 000 | 60 000 | 881 715 | 2005 | 35 000 | 541 800 |
| | 2006 | 25 000 | 100 000 | 995 917 | 2006 | 25 000 | 387 000 |
| Hallstein Moerk | 2004 | 7 500 | 22 500 | 268 128 | 2004 | 20 000 | 309 600 |
| | 2005 | 10 000 | 40 000 | 587 810 | 2005 | 25 000 | 387 000 |
| | 2006 | 15 000 | 60 000 | 597 550 | 2006 | 15 000 | 232 200 |
| Tero Ojanperä | 2004 | 2 500 | 7 500 | 89 376 | 2004 | 15 000 | 232 200 |
| | 2005 | 10 000 | 40 000 | 587 810 | 2005 | 25 000 | 387 000 |
| | 2006 | 15 000 | 60 000 | 597 550 | 2006 | 15 000 | 232 200 |
| Niklas Savander | 2004 | 2 560 | 7 680 | 91 521 | 2004 | 16 500 | 255 420 |
| | 2005 | 3 500 | 14 000 | 205 734 | 2005 | 25 000 | 387 000 |
| | 2006 | 15 000 | 60 000 | 597 550 | 2006 | 15 000 | 232 200 |
| Richard Simonson | 2004 | 12 500 | 37 500 | 446 879 | 2004 | 25 000 | 387 000 |
| | 2005 | 15 000 | 60 000 | 881 715 | 2005 | 35 000 | 541 800 |
| | 2006 | 25 000 | 100 000 | 995 917 | 2006 | 25 000 | 387 000 |
| Veli Sundbäck | 2004 | 7 500 | 22 500 | 268 128 | 2004 | 20 000 | 309 600 |
| | 2005 | 10 000 | 40 000 | 587 810 | 2005 | 25 000 | 387 000 |
| | 2006 | 15 000 | 60 000 | 597 550 | 2006 | 15 000 | 232 200 |
| Anssi Vanjoki | 2004 | 15 000 | 45 000 | 536 255 | 2004 | 35 000 | 541 800 |
| | 2005 | 15 000 | 60 000 | 881 715 | 2005 | 35 000 | 541 800 |
| | 2006 | 25 000 | 100 000 | 995 917 | 2006 | 25 000 | 387 000 |
| Kai Öistämö | 2004 | 2 500 | 7 500 | 89 376 | 2004 | 15 000 | 232 200 |
| | 2005 | 3 200 | 12 800 | 188 099 | 2005 | 25 000 | 387 000 |
| | 2006 | 25 000 | 100 000 | 995 917 | 2006 | 25 000 | 387 000 |
| Performance shares and restricted shares held by the Group Executive Board, Total [6] | | 477 360 | 1 826 780 | 20 851 577 | | 884 500 | 13 692 060 |
| All outstanding performance shares and restricted shares (Global plans), Total | | 12 311 989 | 45 798 454 | 554 183 057 | | 5 985 476 | 92 655 168 |

1 The performance period for the 2004 plan is 2004–2007, with one interim measurement period for fiscal years 2004–2005. The performance period for the 2005 plan is 2005–2008, with one interim measurement period for fiscal years 2005-2006. The performance period for the 2006 plan is 2006–2008, without any interim measurement period.

2 For the performance share plans 2004, 2005 and 2006, the number of performance shares at threshold represents the number of performance shares granted. This number will vest as Nokia shares should the pre-determined threshold performance levels of Nokia be met. The maximum number of Nokia shares will vest should the predetermined maximum performance levels be met. The maximum number of performance shares equals four times the number originally granted at threshold. Due to the interim payout in 2006, the maximum number of Nokia shares deliverable under the 2004 plan is equal to three times the number at threshold.

3 The intrinsic value is based on the closing market price of a Nokia share on the Helsinki Stock Exchange as of December 29, 2006 of EUR 15.48. The value of performance shares is presented on the basis of the company's estimation of the number of shares expected to vest.

4 Under the restricted share plans 2003, 2004, 2005 and 2006 awards are granted once a quarter. For the major part of the awards made under these plans the restriction period ends for the 2003 plan, on October 1, 2006; for the 2004 plan, on October 1, 2007; for the 2005 plan, on October 1, 2008; and for the 2006 plan, on October 1, 2009.

5 The intrinsic value is based on the closing market price of a Nokia share on the Helsinki Stock Exchange as of December 29, 2006 of EUR 15.48.

6 Mr. Ollila resigned as CEO and Chairman of the Group Executive Board effective June 1, 2006, and ceased employment with Nokia on that date. Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006 and ceased employment with Nokia on May 31, 2006. The information relating to performance shares and restricted shares held by Mr. Ollila and Mr. Korhonen as of the date of resignation from the Group Executive Board is represented in the table below.

| | | Performance shares | | | | Restricted shares | |
|---|---|---|---|---|---|---|---|
| | Plan name [1] | Number of performance shares at threshold [2] | Number of performance shares at maximum [2] | Intrinsic value [9] EUR | Plan name [4] | Number of restricted shares | Intrinsic value [10] EUR |
| Jorma Ollila | | | | | | | |
| (as per May 31, 2006) [7] | 2004 | 100 000 | 300 000 | 2 316 314 | 2004 | 100 000 | 1 671 000 |
| | 2005 | 100 000 | 400 000 | 5 160 441 | 2005 | 100 000 | 1 671 000 |
| | 2006 | 100 000 | 400 000 | 3 342 000 | 2006 | 100 000 | 1 671 000 |
| Pertti Korhonen | | | | | | | |
| (as per March 31, 2006) [8] | | | | | 2003 | 35 000 | 597 800 |
| | 2004 | 12 500 | 37 500 | 295 950 | 2004 | 25 000 | 427 000 |
| | 2005 | 15 000 | 60 000 | 791 206 | 2005 | 35 000 | 597 800 |

7 Mr. Ollila was entitled to retain performance shares and restricted shares granted to him prior to June 1, 2006 as approved by the Board of Directors.

8 Mr. Korhonen's performance share and restricted share grants were forfeited upon termination of employment in accordance with the plan rules.

9 The intrinsic value is based on the closing market price of Nokia shares on the Helsinki Stock Exchange as of May 31, 2006 of EUR 16.71 in respect of Mr. Ollila and as of March 31, 2006 of EUR 17.08 in respect of Mr. Korhonen. The value of performance shares is presented on the basis of the company's estimation of the number of shares expected to vest.

10 The intrinsic value is based on the closing market price of Nokia share on the Helsinki Stock Exchange as of May 31, 2006 of EUR 16.71 in respect of Mr. Ollila and as of March 31, 2006 of EUR 17.08 in respect of Mr. Korhonen.

For gains realized upon exercise of stock options or delivery of Nokia shares on the basis of performance shares and restricted shares granted to the members of the Group Executive Board, please refer to "Stock options exercises and settlement of shares in 2006" table below.

## Stock option exercises and settlement of shares in 2006

The following table provides certain information relating to stock option exercises and share deliveries upon settlement during the year 2006 for our Group Executive Board members.

| | Stock option awards [1] | | Performance shares awards [2] | | Restricted shares awards [3] | |
|---|---|---|---|---|---|---|
| Name | Shares acquired (number) | Value realized (EUR) | Shares delivered (number) | Value realized (EUR) | Shares delivered (number) | Value realized (EUR) |
| Olli-Pekka Kallasvuo | 0 | 0 | 15 000 | 275 700 | 0 | 0 |
| Robert Andersson | 0 | 0 | 2 600 | 47 788 | 0 | 0 |
| Simon Beresford-Wylie | 14 000 | 11 480 | 2 500 | 45 950 | 22 000 | 343 200 |
| Mary McDowell | 0 | 0 | 12 500 | 229 750 | 0 | 0 |
| Hallstein Moerk | 13 125 | 87 544 | 7 500 | 137 850 | 26 000 | 405 600 |
| Kai Öistämö | 16 076 | 55 954 | 2 500 | 45 950 | 8 750 | 136 500 |
| Tero Ojanperä | 0 | 0 | 2 500 | 45 950 | 0 | 0 |
| Niklas Savander | 0 | 0 | 2 560 | 47 053 | 9 750 | 152 100 |
| Richard Simonson | 0 | 0 | 12 500 | 229 750 | 33 250 | 518 700 |
| Veli Sundbäck | 0 | 0 | 7 500 | 137 850 | 0 | 0 |
| Anssi Vanjoki | 157 500 | 303 588 | 15 000 | 275 700 | 0 | 0 |

1 Value realized on exercise is based on the total gross value received in 2006 in respect of stock options sold on the Helsinki Stock Exchange (transferable stock options) and on the difference between the Nokia share price and exercise price of options (non-transferable stock options).

2 Represents interim payout at threshold for the 2004 performance share grant. Value is based on the market price of the Nokia share on the Helsinki Stock Exchange as of April 24, 2006 of EUR 18.38.

3 Delivery of Nokia shares vested from the 2003 grant. Value is based on the market price of the Nokia share on the Helsinki Stock Exchange as of October 23, 2006 of EUR 15.60.

4 Jorma Ollila resigned as CEO and Chairman of the Group Executive Board effective June 1, 2006, and ceased employment with Nokia on that date. Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006 and ceased employment with Nokia on May 31, 2006. The information relating to stock option exercises and settlement of shares regarding Mr. Ollila and Mr. Korhonen as at the date of resignation from the Group Executive Board is represented in the table below.

| | Stock option awards [1] | | Performance shares awards [2] | | Restricted shares awards | |
|---|---|---|---|---|---|---|
| **Name** | **Shares acquired (number)** | **Value realized (EUR)** | **Shares delivered (number)** | **Value realized (EUR)** | **Shares delivered (number)** | **Value realized (EUR)** |
| Jorma Ollila (as per May 31, 2006) | 500 000 | 19 958 | 100 000 | 1 838 000 | 0 | 0 |
| Pertti Korhonen (as per March 31, 2006) | 0 | 0 | 12 500 | 229 750 | 0 | 0 |

## Stock ownership guidelines for executive management

One of the goals of our long-term equity-based incentive program is to focus executives on building value for shareholders. In addition to granting them stock options, performance shares and restricted shares, we also encourage stock ownership by our top executives. Since January 2001, we have stock ownership commitment guidelines with minimum recommendations tied to annual base salaries. For the members of the Group Executive Board, the recommended minimum investment in Nokia's shares corresponds to two times the member's annual base salary. For Olli-Pekka Kallasvuo the recommended minimum investment in Nokia's shares is three times his annual base salary. To meet this requirement, all members are expected to retain after-tax equity gains in shares until the minimum investment level is met.

## Insiders' trading in securities

The Board of Directors has established and regularly updates a policy in respect of insiders' trading in Nokia securities. Under the policy, the holdings of Nokia securities by the primary insiders (as defined in the policy) are public information, which is available in the Finnish Central Securities Depositary and on the company's website. Both primary insiders and secondary insiders (as defined in the policy) are subject to a number of trading restrictions and rules, including among other things, prohibitions on trading in Nokia securities during the three-week "closed-window" period immediately preceding the release of our quarterly results and the four-week "closed-window" period immediately preceding the release of our annual results. In addition, Nokia may set trading restrictions based on participation in projects. We update our insider trading policy from time to time and monitor our insiders' compliance with the policy on a regular basis. Nokia's Insider Policy is in line with the Helsinki Stock Exchange Guidelines for Insiders and also sets requirements beyond these guidelines.

## Auditor fees and services

PricewaterhouseCoopers Oy has served as Nokia's independent auditor for each of the fiscal years in the three-year period ended December 31, 2006. The independent auditor is elected annually by Nokia's shareholders at the Annual General Meeting. The Audit Committee of the Board of Directors makes a recommendation to the shareholders in respect of the appointment of the auditor based upon its evaluation of the qualifications and independence of the auditor to be proposed for election or re-election.

The following table presents the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers to Nokia in 2006 and 2005.

| **EURm** | **2006** | 2005 |
|---|---|---|
| Audit fees [1] | 5.2 | 5.3 |
| Audit-related fees [2] | 7.1 | 1.0 |
| Tax fees [3] | 6.8 | 5.9 |
| All other fees [4] | 0.4 | 0.1 |
| **Total** | 19.5 | 12.3 |

1 Audit fees consist of fees billed for the annual audit of the company's consolidated financial statements and the statutory financial statements of the company's subsidiaries. They also include fees billed for other audit services, which are those services that only the independent auditor reasonably can provide, and include the provision of comfort letters and consents and the review of documents filed with the SEC and other capital markets or local financial reporting regulatory bodies. There were no unbilled audit fees at year-end 2006. The fees for 2005 include EUR 1.4 million of accrued audit fees for the 2005 year-end audit that were not billed until 2006.

2 Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the company's financial statements or that are traditionally performed by the independent auditor, and include consultations concerning financial accounting and reporting standards; internal control matters and services in anticipation of the company's compliance with Section 404 of the SarbanesOxley Act of 2002; advice and assistance in connection with local statutory accounting requirements; due diligence related to acquisitions; employee benefit plan audits and reviews; and miscellaneous reports in connection with grant applications. The fees for 2006 include EUR 1.5 million of accrued audit related fees that were not billed until 2007. This amount includes EUR 0.3 million that Nokia will recover from a third party. There were no unbilled audit-related fees at year-end 2005.

3 Tax fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authorities; tax planning services; and expatriate tax compliance, consultation and planning services. The tax fees for 2006 include EUR 0.4 million of accrued tax fees that were not billed until 2007. There were no unbilled tax fees at year-end 2005.

4 All other fees include fees billed for company establishment, forensic accounting and occasional training services.

### Audit Committee pre-approval policies and procedures

The Audit Committee of Nokia's Board of Directors is responsible, among other matters, for the oversight of the external auditor subject to the requirements of Finnish law. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services provided by our independent auditors (the ''Policy'').

Under the Policy, proposed services either (i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services (''general pre-approval''); or (ii) require the specific pre-approval of the Audit Committee (''specific pre-approval''). The Audit Committee may delegate either type of pre-approval authority to one or more of its members. The appendices to the Policy set out the audit, audit-related, tax and other services that have received the general pre-approval of the Audit Committee. All other audit, audit-related (including services related to internal controls and significant M&A projects), tax and other services must receive a specific pre-approval from the Audit Committee. The Policy and its appendices are subject to annual review by the Audit Committee.

The Audit Committee establishes budgeted fee levels annually for each of the four categories of audit and non-audit services that are pre-approved under the Policy, namely, audit, audit-related, tax and other services. Requests or applications to provide services that require specific approval by the Audit Committee are submitted to the Audit Committee by both the independent auditor and the Chief Financial Officer. At each regular meeting of the Audit Committee, the independent auditor provides a report in order for the Audit Committee to review the services that the auditor is providing, as well as the status and cost of those services.

# Investor information

### Information on the Internet
**www.nokia.com/investors**

Available on the Internet: financial reports, Nokia management's presentations, conference call and other investor related material, press releases as well as environmental and social information.

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### Annual General Meeting
Date: Thursday, May 3, 2007 at 3:00 pm
Address: Helsinki Fair Centre, Messuaukio 1, Helsinki, Finland

### Dividend
Dividend proposed by the Board of Directors for 2006 is EUR 0.43 per share.
The dividend record date is proposed to be May 8, 2007 and the pay date May 24, 2007.

### Financial reporting
Nokia's first quarterly report in 2007 is planned for April 19 when also the quarterly results announcement dates for the second and third quarters in 2007 will be disclosed. The 2007 results are planned to be published in January 2008.

### Annual summary 2006
All Nokia's press releases as well as quarterly results announcements and financial statements published in 2006 are available on the Internet at www.nokia.com.

### Stock exchanges
The shares of Nokia Corporation are quoted on the following stock exchanges:

| | Symbol | Trading currency |
|---|---|---|
| HEX, Helsinki (quoted since 1915) | NOK1V | EUR |
| Stockholmsbörsen (1983) [1] | NOKI | SEK |
| Frankfurter Wertpapierbörse (1988) | NOA3 | EUR |
| New York Stock Exchange (1994) | NOK | USD |

1 Nokia's Swedish Depository Receipts (SDRs) will be delisted from Stockholm Stock Exchange. The final day of trading in Nokia's SDRs will be June 1, 2007. Further information is available on the Internet at www.nokia.com/investors.

### List of indices

| NOK1V | NOKI | NOK |
|---|---|---|
| **OMXN40** OMX Nordic 40 | **OMXN40** OMX Nordic 40 | **NYA** NYSE Composite |
| **OMXH** OMX Helsinki | **OMXS** OMX Stockholm All Share | **NYLID** NYSE World Leaders |
| **OMXH25** OMX Helsinki 25 | **OMXS30** OMX Stockholm 30 | **NYYID** NYSE TMT |
| **HX45** OMX Helsinki Information Technology | **SX45** OMX Stockholm Information Technology | **CTN** CSFB Technology |
| **BE500** Bloomberg European 500 | | **MLO** Merrill Lynch 10 |
| **BETECH** Bloomberg Telecommunication Equipment | | |
| **SX5E** DJ Euro STOXX 50 | | |
| **SX5P** DJ STOXX 50 | | |
| **E3X** FTSE Eurofirst 300 | | |

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding: A) the timing of product and solution deliveries; B) our ability to develop, implement and commercialize new products, solutions and technologies; C) expectations regarding market growth, developments and structural changes; D) expectations regarding our mobile device volume growth, market share, prices and margins; E) expectations and targets for our results of operations; F) the outcome of pending and threatened litigation; G) expected timing, scope and effects of the merger of Nokia's and Siemens' communications service provider businesses; and H) statements preceded by "believe," "expect," "anticipate," "foresee," "target," "estimate," "designed," "plans," "will" or similar expressions are forward-looking statements. Because these statements involve risks and uncertainties, actual results may differ materially from the results that we currently expect. Factors that could cause these differences include, but are not limited to: 1) the extent of the growth of the mobile communications industry, as well as the growth and profitability of the new market segments within that industry which we target; 2) the availability of new products and services by network operators and other market participants; 3) our ability to identify key market trends and to respond timely and successfully to the needs of our customers; 4) the impact of changes in technology and our ability to develop or otherwise acquire complex technologies as required by the market, with full rights needed to use; 5) competitiveness of our product portfolio; 6) timely and successful commercialization of new advanced products and solutions; 7) price erosion and cost management; 8) the intensity of competition in the mobile communications industry and our ability to maintain or improve our market position and respond to changes in the competitive landscape; 9) our ability to manage efficiently our manufacturing and logistics, as well as to ensure the quality, safety, security and timely delivery of our products and solutions; 10) inventory management risks resulting from shifts in market demand; 11) our ability to source quality components without interruption and at acceptable prices; 12) our success in collaboration arrangements relating to development of technologies or new products and solutions; 13) the success, financial condition and performance of our collaboration partners, suppliers and customers; 14) any disruption to information technology systems and networks that our operations rely on; 15) our ability to protect the complex technologies that we or others develop or that we license from claims that we have infringed third parties' intellectual property rights, as well as our unrestricted use on commercially acceptable terms of certain technologies in our products and solution offerings; 16) general economic conditions globally and, in particular, economic or political turmoil in emerging market countries where we do business; 17) developments under large, multi-year contracts or in relation to major customers; 18) exchange rate fluctuations, including, in particular, fluctuations between the euro, which is our reporting currency, and the US dollar, the Chinese yuan, the UK pound sterling and the Japanese yen; 19) the management of our customer financing exposure; 20) our ability to recruit, retain and develop appropriately skilled employees; 21) the impact of changes in government policies, laws or regulations; and 22) satisfaction of the conditions to the merger of Nokia's and Siemens' communications service provider businesses, including achievement of agreement between Nokia and Siemens on the results and consequences of a Siemens compliance review, and closing of transaction, and Nokia's and Siemens' ability to successfully integrate the operations and employees of their respective businesses; as well as 23) the risk factors specified on pages 12–22 of the company's annual report on Form 20-F for the year ended December 31, 2005 under "Item 3.D Risk Factors." Other unknown or unpredictable factors or underlying assumptions subsequently proving to be incorrect could cause actual results to differ materially from those in the forward-looking statements. Nokia does not undertake any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

# Contact information


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Paper: Munken Lynx 100 g/m²
Cover: Munken Lynx 240 g/m²
Design: HardWorkingHouse Oy, cover: Louise Boström Oy.
F.G. Lönnberg ISO 9001, 2007.