NOKIA CORP
Form 20-F
March 02, 2006

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As filed with the Securities and Exchange Commission on March 2, 2006.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

Commission file number 1-13202

Nokia Corporation

(Exact name of Registrant as specified in its charter)

Republic of Finland
(Jurisdiction of incorporation)

Keilalahdentie 4, P.O. Box 226, FIN-00045 NOKIA GROUP, Espoo, Finland
(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares	**New York Stock Exchange**
Shares, par value EUR 0.06	**New York Stock Exchange**[(1)]

(1) Not for trading, but only in connection with the registration of American Depositary Shares representing these shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the registrant's classes of capital or common stock as of the close of the period covered by the annual report.

Shares, par value EUR 0.06: **4,433,886,540**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ý No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No ý

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

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INTRODUCTION AND USE OF CERTAIN TERMS

Nokia Corporation is a public limited liability company incorporated under the laws of the Republic of Finland. In this document, any reference to "we," "us," "the Group" or "Nokia" means Nokia Corporation and its subsidiaries on a consolidated basis, except where we make clear that the term means Nokia Corporation or a particular subsidiary or business group only, and except that references to "our shares," matters relating to our shares or matters of corporate governance shall refer to the shares and corporate governance of Nokia Corporation. Nokia Corporation has published its consolidated financial statements in euro for periods beginning on or after January 1, 1999. In this Form 20-F, references to "EUR," "euro" or "€" are to the common currency of the European Economic and Monetary Union, or EMU, and references to "dollars," "US dollars," "USD" or "$" are to the currency of the United States. Solely for the convenience of the reader, this Form 20-F contains conversions of selected euro amounts into US dollars at specified rates, or, if not so specified, at the rate of 1.1842 US dollars per euro, which was the noon buying rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2005. No representation is made that the amounts have been, could have been or could be converted into US dollars at the rates indicated or at any other rates.

In this Form 20-F, unless otherwise stated, references to "shares" are to Nokia Corporation shares, par value EUR 0.06.

Our principal executive office is currently located at Keilalahdentie 4, P.O. Box 226, FIN-00045 Nokia Group, Espoo, Finland and our telephone number is +358 (0) 7 1800-8000.

Nokia Corporation furnishes Citibank, N.A., as Depositary, with consolidated financial statements and a related audit opinion of our independent auditors annually. These financial statements are prepared on the basis of International Financial Reporting Standards, or IFRS. Nokia's consolidated financial statements contain a reconciliation of net income and shareholders' equity to accounting principles generally accepted in the United States, or US GAAP. Upon receipt, the Depositary generally delivers these consolidated financial statements to record holders of American Depositary Receipts, or ADRs, evidencing American Depositary Shares, or ADSs. One ADS represents one share. We also furnish the Depositary with quarterly reports containing unaudited financial information prepared on the basis of IFRS, as well as all notices of shareholders' meetings and other reports and communications that are made available generally to our shareholders. The Depositary makes these notices, reports and communications available for inspection by record holders of ADSs and delivers to all record holders of ADSs notices of shareholders' meetings received by the Depositary. In addition to the reports delivered to holders of ADSs by the Depositary, holders can access our consolidated financial statements, as well as other information previously included in our printed annual reports, at *www.nokia.com*. This Form 20-F is also available at *www.nokia.com*. With each annual distribution of our consolidated financial statements, we offer our shareholders and record holders of ADSs the option of receiving all of these documents electronically in the future.

FORWARD-LOOKING STATEMENTS

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding:

- the timing of product and solution deliveries;
- our ability to develop, implement and commercialize new products, solutions and technologies;
- expectations regarding market growth, developments and structural changes;
- expectations and targets for our results of operations;

- the outcome of pending and threatened litigation; and
- statements preceded by "believe," "expect," "anticipate," "foresee," "target" 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:

- 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;
- the availability of new products and services by network operators and other market participants;
- our ability to identify key market trends and to respond timely and successfully to the needs of our customers;
- 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;
- competitiveness of our product portfolio;
- timely and successful commercialization of new advanced products and solutions;
- price erosion and cost management;
- 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;
- 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;
- inventory management risks resulting from shifts in market demand;
- our ability to source quality components without interruption and at acceptable prices;
- our success in collaboration arrangements relating to development of technologies or new products and solutions;
- the success, financial condition and performance of our collaboration partners, suppliers and customers;
- any disruption to information technology systems and networks that our operations rely on;
- 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;

general economic conditions globally and, in particular, economic or political turmoil in emerging market countries where we do business;

developments under large, multi-year contracts or in relation to major customers;

- 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;

- the management of our customer financing exposure;

- our ability to recruit, retain and develop appropriately skilled employees; and

- the impact of changes in government policies, laws or regulations;

as well as the risk factors specified in this annual report on Form 20-F under "Item 3.D Risk Factors."

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A Selected Financial Data

The financial data set forth below at December 31, 2004, as revised, and 2005 and for each of the years in the three-year period ended December 31, 2005 have been derived from our audited consolidated financial statements included in Item 18 of this annual report on Form 20-F. Financial data at December 31, 2001 and 2002, and December 31, 2003, as revised, and for each of the years in the two-year period ended December 31, 2002 have been derived from Nokia's previously published audited consolidated financial statements not included in this document.

The financial data at December 31, 2004, as revised, and 2005 and for each of the years in the three-year period ended December 31, 2005 should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements.

The audited consolidated financial statements from which the selected consolidated financial data set forth below have been derived were prepared in accordance with IFRS, and net income and shareholders' equity have been reconciled to US GAAP, which differ in some respects from IFRS. For a discussion of the principal differences between IFRS and US GAAP, see "Item 5.A Operating Results Results of Operations Principal Differences Between IFRS and US GAAP" and Note 39 to our audited consolidated financial statements.

	Year ended December 31,					
	2001	2002	2003*	2004*	2005	2005
	(EUR)	(EUR)	(EUR)	(EUR)	(EUR)	(USD)
	(in millions, except per share data)					
Profit and Loss Account Data						
Amounts in accordance with IFRS						
Net sales	31 191	30 016	29 533	29 371	34 191	40 489
Operating profit	3 362	4 780	4 960	4 326	4 639	5 494
Profit before tax	3 475	4 917	5 294	4 705	4 971	5 887
Profit attributable to equity holders of the parent	2 200	3 381	3 543	3 192	3 616	4 282
Earnings per share (for profit attributable to equity holders of the parent)						
Basic earnings per share	0.47	0.71	0.74	0.69	0.83	0.98
Diluted earnings per share	0.46	0.71	0.74	0.69	0.83	0.98
Cash dividends per share(1)	0.27	0.28	0.30	0.33	0.37	0.44
Average number of shares (millions of shares)						
Basic	4 703	4 751	4 761	4 593	4 366	4 366
Diluted	4 787	4 788	4 761	4 600	4 371	4 371
Amounts in accordance with US GAAP						
Net income	1 903	3 603	4 097	3 343	3 582	4 242
Earnings per share (net income)						
Basic earnings per share	0.40	0.76	0.86	0.73	0.82	0.97
Diluted earnings per share	0.40	0.75	0.86	0.73	0.82	0.97

	Year ended December 31,					
	2001	2002	2003*	2004*	2005	2005
	(EUR)	(EUR)	(EUR)	(EUR)	(EUR)	(USD)
	(in millions, except per share data)					
Balance Sheet Data						
Amounts in accordance with IFRS						
Fixed assets and other non-current assets	6 912	5 742	3 837	3 161	3 347	3 964
Cash and other liquid assets[2]	6 125	9 351	11 296	11 542	9 910	11 735
Other current assets	9 390	8 234	8 787	7 966	9 041	10 706
Total assets	22 427	23 327	23 920	22 669	22 298	26 405
Capital and reserves attributable to equity holders of the parent	12 205	14 281	15 148	14 231	12 155	14 394
Minority interests	196	173	164	168	205	243
Long-term interest-bearing liabilities	207	187	20	19	21	25
Other long-term liabilities	253	274	308	275	247	292
Borrowings due within one year	831	377	471	215	377	446
Other current liabilities	8 735	8 035	7 809	7 761	9 293	11 005
Total shareholders' equity and liabilities	22 427	23 327	23 920	22 669	22 298	26 405
Net interest-bearing debt[3]	(5 087)	(8 787)	(10 805)	(11 308)	(9 512)	(11 264)
Share capital	284	287	288	280	266	315
Amounts in accordance with US GAAP						
Total assets	22 038	22 977	24 045	22 921	22 661	26 835
Shareholders' equity	12 021	14 150	15 437	14 576	12 558	14 871

* 2003 and 2004 financial accounts reflect the retrospective implementation of IFRS 2 and IAS 39(R). 2001 and 2002 data has not been adjusted from that reported in prior years, and therefore is not always comparable with data for years 2003 to 2005.

(1) The cash dividend for 2005 is what the Board of Directors will propose for approval at the Annual General Meeting convening on March 30, 2006.

(2) Cash and other liquid assets consist of the following captions from our consolidated balance sheets: (1) bank and cash, (2) available-for-sale investments, cash equivalents and (3) available-for-sale investments, liquid assets.

(3) Net interest-bearing debt consists of borrowings due within one year and long-term interest-bearing liabilities, less cash and other liquid assets.

Distribution of Earnings

We distribute retained earnings, if any, within the limits set by the Finnish Companies Act. We make and calculate the distribution, if any, either in the form of cash dividends, share buy-backs, or in some other form or a combination of these. There is no specific formula by which the amount of a distribution is determined, although some limits set by law are discussed below. The timing and amount of future distributions of retained earnings, if any, will depend on our future results and financial condition.

Under the Finnish Companies Act, we may distribute retained earnings on our shares only upon a shareholders' resolution, on the basis of our annual accounts on a consolidated and individual basis, as approved by our shareholders and, subject to limited exceptions, in the amount proposed by our Board of Directors. The amount of any distribution is limited to, among other things, the lower of our retained earnings on a consolidated and individual basis, in each case as available at the end of the preceding financial year pursuant to the annual accounts as approved by our shareholders. Subject to exceptions relating to the right of minority shareholders to request otherwise, the distribution may not exceed the amount proposed by the Board of Directors. The Finnish Companies Act of 1978, which provides for distribution of earnings, is currently subject to a major reform expected to become effective in the latter part of 2006.

Share Buy-backs

Under the Finnish Companies Act, Nokia Corporation may repurchase its own shares pursuant to either a shareholders' resolution or an authorization to the Board of Directors approved by the company's shareholders. Such authorizations to the Board of Directors are effective for a maximum of one year. The undertaking of share buy-backs is subject not only to the regulations in the Finnish Companies Act, but also to the rules of the stock exchanges on which the repurchases take place. The Board of Directors of Nokia has been regularly authorized by our shareholders in the Annual General Meetings to repurchase Nokia's own shares: 225 million shares in 2001, 220 million shares in 2002, 225 million shares in 2003, 230 million shares in 2004 and 443.2 million shares in 2005. The amount authorized each year has been at or slightly under the maximum limit provided by the Finnish Companies Act. The upper limit for share repurchases was increased from 5% to 10% in 2005.

On January 26, 2006, we announced that the Board of Directors will propose that the Annual General Meeting, convening on March 30, 2006, approve a new authorization to repurchase a maximum of 405 million shares corresponding to nearly 10% of Nokia's share capital and total voting rights.

The table below sets forth actual share buy-backs by the Group in respect of each fiscal year indicated.

	Number of shares	**EUR millions (in total)**
2001	995 000	21
2002	900 000	17
2003	95 338 500	1 363
2004	214 119 700	2 661
2005	315 010 000	4 265

For more information about share buy-backs during 2005, see "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

Dividends

The Board of Directors will propose for approval at the Annual General Meeting convening on March 30, 2006 a dividend of EUR 0.37 per share in respect of 2005.

The table below sets forth the amounts of total cash dividends per share and per ADS paid in respect of each fiscal year indicated. For the purposes of showing the US dollar amounts per ADS for 2001-2005, the dividend per share amounts have been translated into US dollars at the noon buying rate in New York City for cable transfers in euro as certified for customs purposes by the

Federal Reserve Bank of New York (the "noon buying rate") on the respective dividend payment dates.

	EUR per share	USD per ADS	EUR millions (in total)
2001	0.27	0.24	1 279
2002	0.28	0.30	1 341
2003	0.30	0.36	1 439
2004	0.33	0.43	1 539
2005	0.37(1)	(2)	1 641(1)

(1) To be proposed by the Board of Directors for approval at the Annual General Meeting convening on March 30, 2006.

(2) The final US dollar amount will be determined on the basis of the decision of the Annual General Meeting and the dividend payment date.

We make our cash dividend payments in euro. As a result, exchange rate fluctuations will affect the US dollar amount received by holders of ADSs on conversion of these dividends. Moreover, fluctuations in the exchange rates between the euro and the US dollar will affect the dollar equivalent of the euro price of the shares on the Helsinki Stock Exchange and, as a result, are likely to affect the market price of the ADSs in the United States. See also "Item 3.D Risk Factors 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."

Exchange Rate Data

The following table sets forth information concerning the noon buying rate for the years 2001 through 2005 and for each of the months in the six-month period ended February 28, 2006, expressed in US dollars per euro.

The average rate for a year means the average of the exchange rates on the last day of each month during a year. The average rate for a month means the average of the daily exchange rates during that month.

	Exchange Rates			
For the year ended December 31:	**Rate at period end**	**Average rate**	**Highest rate**	**Lowest rate**
	(USD per EUR)			
2001	0.8901	0.8954	0.9535	0.8370
2002	1.0485	0.9495	1.0485	0.8594
2003	1.2597	1.1411	1.2597	1.0361
2004	1.3538	1.2478	1.3625	1.1801
2005	1.1842	1.2400	1.3476	1.1667
For the month ended:				
September 30, 2005	1.2058	1.2234	1.2538	1.2011
October 31, 2005	1.1995	1.2022	1.2148	1.1914
November 30, 2005	1.1790	1.1789	1.2067	1.1667
December 31, 2005	1.1842	1.1861	1.2041	1.1699
January 31, 2006	1.2158	1.2126	1.2287	1.1980
February 28, 2006	1.1925	1.1940	1.2100	1.1860

On February 28, 2006, the noon buying rate was USD 1.1925 per EUR 1.00.

3.B Capitalization and Indebtedness

Not applicable.

3.C Reasons for the Offer and Use of Proceeds

Not applicable.

3.D 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.

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 depends on continued growth in mobile communications in terms of the number of existing mobile subscribers who upgrade or simply replace their existing mobile devices, the number of new subscribers and increased usage. As well, our sales and profitability are affected by the extent to which there is increasing demand for, and development of, value-added services, leading to opportunities for us to successfully market mobile devices that feature those services. These developments in our industry are to a certain extent outside of our control. For example, we are dependent on operators in highly penetrated markets to successfully introduce services that drive the upgrade and replacement of devices. Further, in order to support a continued increase in mobile subscribers in certain low penetration markets, we are dependent on operators to increase their sales volumes of lower cost mobile devices, to offer affordable tariffs and to offer tailored mobile network solutions designed for a low total cost of ownership. If operators are not successful in their attempts to increase subscriber numbers, stimulate increased usage or drive replacement sales, our business and results of operations could be materially adversely affected.

Our industry continues to undergo significant changes. First, the mobile communications, information technology, media and consumer electronics industries are converging in some areas into one broader industry leading to the creation of new mobile devices, services and ways to use mobile devices. Second, while participants in the mobile communications industry once provided complete products and solutions, industry players are increasingly providing specific hardware and software layers for products and solutions. As a result of these changes, new market segments within our industry have begun to emerge and we have made significant investments in new business opportunities in certain of these market segments, such as smartphones, imaging, music and games in our device businesses, and enterprise mobility infrastructure as well as managed services, systems integration and consulting businesses in our infrastructure business. However, a number of the new market segments in the mobile communications industry are still in the early stages of development, and it may be difficult for us to accurately predict which new market segments are the most advantageous for us to focus on. As a result, if the segments which we target grow less than expected, we may not receive a return on our investment as soon as we expect, or at all. We may also forego growth opportunities in new market segments of the mobile communications industry on which we do not focus. Moreover, the market segments that we target may be less profitable than we currently foresee. We may also incur short-term operating losses in certain of these new market segments if we are not able to generate sufficient revenue to cover the early stage investments required to pursue these new business opportunities. Our past performance in our established market segments does not guarantee our success in these new market segments.

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 end-users. We need to have a competitive product portfolio and to work together with our operator customers to address their needs. 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.

We serve a diverse range of mobile device and infrastructure customers, ranging from mobile network operators, distributors, independent retailers, corporate customers to end-users, across a variety of markets. In many of these markets, the mobile communications industry is at different stages of development, and many of these markets have different characteristics and dynamics, for example, in terms of mobile penetration rates and technology, feature and pricing preferences. Establishing and maintaining good relationships with our customers, including both our mobile device customers and our networks infrastructure customers, and understanding trends and needs in their markets require us to constantly obtain and evaluate a complex array of feedback and other data. We must do this efficiently in order to be able to identify key market trends and user segments and address our customers' needs proactively and in a timely manner, for example through launching our products at optimal times to meet customer requirements and preferences, while taking into account the availability of competitors' products. If we fail to analyze correctly and respond timely and appropriately to customer feedback and other data, our business may be materially adversely affected.

Certain mobile network operators require mobile devices to be customized to their specifications with certain preferred features, functionalities or design and co-branding with the network operator's brand. We believe that customization is an important element in increasing operator customer satisfaction, and we are working together with operators on product planning, as well as accelerating product hardware and software customization programs. These developments may result in new challenges, such as the need for us to produce mobile devices in smaller lot sizes, which can impede our economies of scale, or the potential for the erosion of the Nokia brand, which we consider to be one of our key competitive advantages.

In order to meet our customers' needs, we need to maintain a competitive product portfolio. For Nokia, a competitive mobile device product portfolio means a broad and balanced offering of commercially appealing mobile devices with attractive features, functionality and design for all major consumer segments and price points supported by the Nokia brand, quality and competitive cost structure. The competitiveness of our product portfolio is also influenced by our ability to communicate about our products and services effectively through consistent and focused marketing messages to the target audience. If we do not achieve and maintain a competitive portfolio, we believe that we will be at a competitive disadvantage, which may lead to lower revenue and lower profits.

The competitiveness of our portfolio is also influenced by the value of the Nokia brand. A number of factors, including actual or even alleged defects in our products and solutions, may have a negative effect on our reputation and erode the value of the Nokia brand.

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 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.

In order to succeed in our markets, we believe that we must develop or otherwise acquire complex, evolving technologies to use in our business. However, the development and use of new technologies, applications and technology platforms for our mobile devices involves time, substantial costs and risks both within and outside of our control. This is true whether we develop these technologies internally, acquire or invest in other companies with these technologies or collaborate with third parties on the development of these technologies.

The technologies, functionalities and features on which we choose to focus may not achieve as broad or timely customer acceptance as we expect. This may result from numerous factors including the availability of more attractive alternatives or a lack of sufficient compatibility with other existing technologies, products and solutions. Additionally, even if we do select the technologies, functionalities and features that customers ultimately want, we or the companies that work with us may not be able to bring them to the market at the right time. We may also face difficulties accessing the technologies preferred by our potential customers, or at prices acceptable to them.

Our products and solutions include increasingly complex technology involving numerous new Nokia patented and other proprietary technologies, as well as some developed or licensed to us by third parties. There can be no assurance that the technologies, with full rights needed to use in our business, will be available or available on commercially acceptable terms at such times as we may seek to use them.

Furthermore, as a result of ongoing technological developments, our products and solutions are increasingly used together with hardware or software components that have been developed by third parties, whether or not Nokia has authorized their use with our products and solutions. However, such components, such as batteries or software applications, may not be compatible with our products and solutions and may not meet our and our customers' quality, safety, security or other standards. As well, certain components or layers that may be used with our products may enable our products and solutions to be used for objectionable purposes, such as to transfer content that might be hateful or derogatory. The use of our products and solutions with incompatible or otherwise substandard hardware or software components, or for purposes that are inappropriate, is largely outside of our control and could harm the Nokia brand.

In our networks business, we are developing a number of network infrastructure solutions incorporating advanced technologies. Currently, our networks business designs and builds networks based primarily on GSM, EDGE and 3G/WCDMA technologies. Although we believe that these are currently the leading mobile communications technology platforms, this may not always be the case, due to operators' choices or regulators' decisions. Our networks business's sales and operating results may be adversely affected if these technologies or subsequent new technologies on which we focus do not achieve as broad acceptance among customers as we expect, or if we fail to adapt to different technology platforms that emerge over time.

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

Price erosion is a characteristic of the mobile communications industry, and the products and solutions offered by us are also subject to natural price erosion over time. If we are not able to lower our costs at the same rate or faster than this price erosion and introduce new cost-efficient products with higher prices in a timely manner, as well as generally manage costs related to our products and operations, this will have a material adverse effect on our business and results of operations, particularly our profitability.

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.

The markets for our products and solutions are intensely competitive. Industry participants compete with each other mainly on the basis of the breadth and depth of their product portfolios, price, operational and manufacturing efficiency, technical performance, product features, quality, customer support and brand recognition. We are facing increased competition from both our traditional competitors in the mobile communications industry as well as a number of new competitors, particularly from countries where production costs tend to be lower. Some of these competitors have used, and we expect will continue to use, more aggressive pricing strategies, different design approaches and alternative technologies. In addition, some competitors have chosen to focus on building products based on commercially available components, which may enable them to introduce these products faster and with lower levels of research and development spending than Nokia.

Nokia believes that it has a cost advantage in mobile devices compared to our competitors as a result of its market position. If we fail to maintain or increase our market share and scale compared to our competitors, our cost advantage may be eroded, which could materially adversely affect our competitive position and our results of operations, particularly our profitability.

Consolidation among the industry participants could potentially result in stronger competitors that are better able to compete as end-to-end suppliers as well as competitors who are more specialized in particular areas. This could have a material adverse effect on our business, operating results, and financial condition.

As a result of developments in our industry, we also expect to face new competition from companies in related industries, such as consumer electronics manufacturers and business device and solution providers. Additionally, because mobile network operators are increasingly offering mobile devices under their own brand, we face increasing competition from non-branded mobile device manufacturers. If we cannot respond successfully to these competitive developments, our business and results of operations may be materially adversely affected. See "Item 4.B Business Overview Competition," for a more detailed discussion of competition in our industry.

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.

Our manufacturing and logistics are complex, require advanced and costly equipment and include outsourcing to third parties. These operations are continuously modified in an effort to improve manufacturing efficiency and flexibility. We may experience difficulties in adapting our supply to meet the demand for our products, ramping up or down production at our facilities as needed, maintaining an optimal inventory level, adopting new manufacturing processes, finding the most timely way to develop the best technical solutions for new products, managing the increasingly complex manufacturing process for our high-end products, particularly the software for these high-end products, or achieving manufacturing efficiency and flexibility, whether we manufacture our products and solutions ourselves or outsource to third parties. Such difficulties may have a material adverse effect on our sales and results of operations and may result from, among other things, delays in adjusting or upgrading production at our facilities, delays in expanding production capacity, failure in our manufacturing and logistics processes, failures in the activities we have outsourced, and interruptions in the data communication systems that run our operations. Also, a failure or an interruption could occur at any stage of our product creation, manufacturing and delivery processes, resulting in our products and solutions not meeting our and our customers' quality, safety, security and other requirements, or being delivered late compared to our own estimates or customer requirements, which could have a material adverse effect on our sales, our results of operations and reputation, and the value of the Nokia brand.

We depend on a limited number of suppliers for the timely delivery of components 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.

Our manufacturing operations depend to a certain extent on obtaining adequate supplies of fully functional components on a timely basis. Our principal supply requirements are for electronic components, mechanical components and software, which all have a wide range of applications in our products. Electronic components include integrated circuits, microprocessors, standard components, memory devices, cameras, displays, batteries and chargers while mechanical components include covers, connectors, key mats and antennas. Software includes various third-party software that enables various new features and applications to be added, like third-party e-mail, into our products.

In addition, a particular component may be available only from a limited number of suppliers. Suppliers may from time to time extend lead times, limit supplies or increase prices due to capacity constraints or other factors, which could adversely affect our ability to deliver our products and solutions on a timely basis. Moreover, a component supplier may fail to meet our supplier requirements, such as, most notably, our and our customers' product quality, safety, security and other standards, and consequently some of our products may be unacceptable to us and our customers, or may fail to meet our own quality controls. In addition, a component supplier may experience delays or disruption to its manufacturing processes or financial difficulties. Any of these events could delay our successful delivery of products and solutions that meet our and our customers' quality, safety, security and other requirements, or otherwise materially adversely affect our sales and our results of operations. Also, our reputation and brand value may be materially adversely affected due to real or merely alleged failures in our products and solutions.

Possible consolidation among our suppliers could potentially result in larger suppliers with stronger bargaining power and limit the choice of alternative suppliers, which could lead to an increase in the cost, or limit the availability, of components that may materially adversely affect our sales and profitability.

Many of the production sites of our suppliers are geographically concentrated. In the event that any of these geographic areas is generally affected by adverse conditions that disrupt production and/or deliveries from any of our suppliers, this could adversely affect our ability to deliver our products and solutions on a timely basis, which may materially adversely affect our sales and profitability.

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 impact on our sales and profitability.

We invite the providers of technology, components or software to work with us to develop technologies or new products and solutions. These arrangements involve the commitment by each company of various resources, including technology, research and development efforts, and personnel. Although the objective of these arrangements is a mutually beneficial outcome for each party, our ability to introduce new products and solutions that meet our and our customers' quality, safety, security and other standards successfully and on schedule could be hampered if, for example, any of the following risks were to materialize: the arrangements with the companies that work with us do not develop as expected; the technologies provided by the companies that work with us are not sufficiently protected or infringe third parties' intellectual property rights in a way that we cannot foresee or prevent; the technologies, products or solutions supplied by the companies that work with us do not meet the required quality, safety, security and other standards or customer needs; our own quality controls fail; or the financial condition of the companies that work with us deteriorates.

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 operations, sales and operating results.

Our operations rely to a significant degree on the efficient and uninterrupted operation of complex and highly centralized information technology systems and networks, which are integrated with those of third parties. Any failure or disruption of our current or future systems or networks could have a material adverse effect on our operations, sales and operating results. Furthermore, any data leakages resulting from information technology security breaches could also adversely affect us.

All information technology systems are potentially vulnerable to damage or interruption from a variety of sources. We pursue various measures in order to manage our risks related to system and network disruptions, including the use of multiple suppliers and available information technology security. However, despite precautions taken by us, an outage in a telecommunications network utilized by any of our information technology systems, attack by a virus or other event that leads to an unanticipated interruption of our information technology systems or networks could have a material adverse effect on our operations, sales and operating results.

Our products and solutions include increasingly complex technology involving numerous new Nokia patented and other proprietary technologies, as well as some 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 increasingly complex technology 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. Third parties may also commence actions seeking to establish the invalidity of intellectual property rights on which we depend.

Our products and solutions include increasingly complex technology involving numerous new Nokia patented and other proprietary technologies, as well as some developed or licensed to us by third parties. As the amount of such proprietary technologies and the number of parties claiming rights continues to increase, even within individual products, and as the Nokia product range becomes more diversified, and as the complexity of the technology increases, the possibility of alleged infringement and related intellectual property claims against us continues to rise. The holders of patents and other intellectual property rights potentially relevant to our product and solution offerings may be unknown to us, or may otherwise make it difficult for us to acquire a license on commercially acceptable terms. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by others which could damage our ability to rely on such technologies. In addition, although we endeavor to ensure that companies that work with us possess appropriate intellectual property rights or licenses, we cannot fully avoid risks of intellectual property rights infringement created by suppliers of components and various layers in our products and solutions or by companies with which we work in cooperative research and development activities. Similarly, we and our customers may face claims of infringement in connection with our customers' use of our products and solutions.

In many aspects, the business models for mobile services have not yet been established. The lack of availability of licenses for copyrighted content, delayed negotiations, or restrictive copyright licensing terms may have an adverse effect on the cost or timing of content related services by us, operators or third party service providers, and may also indirectly affect the sales of our mobile devices.

Since all technology standards, including those used and relied on by us, include some intellectual property rights, we cannot fully avoid risks of a claim for infringement of such rights due to our reliance on such standards. We believe that the number of third parties declaring their intellectual property to be relevant to these standards, for example, those standards related to so-called 3G mobile communication technologies, including 3GPP and 3GPP2, as well as other advanced mobile communications standards, is increasing, which may increase the likelihood that we will be subject to such claims in the future. While we believe that any such intellectual property rights declared and found to be essential to a given standard carry with them an obligation to be licensed on fair, reasonable and non-discriminatory terms, not all intellectual property owners agree on the meaning of that obligation and thus costly and time-consuming litigation over such issues may result in the future.

From time to time, some existing patent licenses may expire, may become partially paid-up, or otherwise may become subject to renegotiation. The inability to renew or finalize such arrangements with acceptable commercial terms may result in costly and time-consuming litigation, and any adverse result in any such litigation may lead to restrictions on our ability to sell certain products or solutions, and could result in payments that potentially would have a material adverse impact on our operating results.

Any restrictions on our ability to sell our products and solutions due to expected or alleged infringements of third party intellectual property rights and any intellectual property rights claims, regardless of merit, could result in material losses of profits, costly litigation, the payment of damages and other compensation, the diversion of the attention of our personnel, product shipment delays or the need for us to develop non-infringing technology or to enter into royalty or licensing agreements. If we were unable to develop non-infringing technology, or if royalty or licensing agreements were not available on commercially acceptable terms, we could be precluded from making and selling the affected products and solutions. As new features are added to our products and solutions, we may need to acquire further licenses, including from new and sometimes unidentified owners of intellectual property. The cumulative costs of obtaining any necessary licenses are difficult to predict and may over time have a negative effect on our operating results.

In addition, despite the steps that we have taken to protect our intellectual property rights, we cannot be certain that any rights or pending applications will be granted or that the rights granted in connection with any future patents or other intellectual property rights will be sufficiently broad to protect our technology. Any patents or other intellectual property rights that are granted to us may be challenged, invalidated or circumvented, and any right granted under our patents may not provide competitive advantages for Nokia. Other companies may commence actions seeking to establish the invalidity of our intellectual property, for example, patent rights. In the event that one or more of our patents are challenged, a court may invalidate the patent or determine that the patent is not enforceable, which could harm our competitive position. If any of our key patents are invalidated, or if the scope of the claims in any of these patents is limited by a court decision, we could be prevented from using such patent as basis for product differentiation or from licensing the invalidated or limited portion of our intellectual property rights. Even if such a patent challenge is not successful, it could be expensive and time-consuming, divert management attention from our business and harm our reputation. Any diminution of the protection that our own intellectual property rights enjoy could cause us to lose some of the benefits of our investments in R&D, which may have a negative effect on our results of operations. See "Item 4.B Business Overview Patents and Licenses" for a more detailed discussion of our intellectual property activities.

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.

Large multi-year contracts, which are typical in the networks industry, include a risk that the timing of sales and results of operations associated with these contracts will differ from what was expected when we first entered into such contracts. Moreover, such contracts usually require the dedication of substantial amounts of working capital and other resources, which impacts our cash flow negatively. Any non-performance by us under these contracts may have significant adverse consequences for us because network operators have demanded and may continue to demand stringent contract undertakings, such as penalties for contract violations.

Furthermore, the number of our customers may diminish due to operator consolidation. This will increase our reliance on fewer larger customers, which may negatively impact our bargaining position, sales and profitability.

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 adversely affect our sales and results of operations. Our investments in emerging market countries may also be subject to other risks and uncertainties.

We generate sales from and have invested in various emerging market countries. As sales from these countries represent a significant portion of our total sales and as these countries represent a significant portion of the expected industry growth, 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 risks and uncertainties, including unfavorable taxation treatment, exchange controls, challenges in protecting our intellectual property rights, nationalization, inflation, currency fluctuations, or the absence of, or unexpected changes in, regulation as well as other unforeseeable operational risks.

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.

We operate globally and are therefore exposed to foreign exchange risks in the form of both transaction risks and translation risks. Our policy is to monitor and hedge exchange rate exposure, and we manage our operations to mitigate, but not to eliminate, the impacts of exchange rate fluctuations. Our sales and results may be materially affected by exchange rate fluctuations. Similarly, exchange rate fluctuations may also materially affect the US dollar value of any dividends or other distributions that are paid in euro. For more information, see "Item 5.A Operating Results Overview Certain Other Factors United States Dollar," "Item 5.A Operating Results Results of Operations Exchange Rates" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

Customer financing to network operators can be a competitive requirement and could adversely and materially affect our sales, results of operations, balance sheet and cash flow.

Network operators in some markets sometimes require their suppliers, including us, to arrange or provide long-term financing as a condition to obtaining or bidding on infrastructure projects. Moreover, they may require extended payment terms. In some cases, the amounts and duration of these financings and trade credits, and the associated impact on our working capital, may be significant. Defaults under these financings have occurred in the past and may also occur in the future.

Customer financing continues to be requested by some operators in some markets, but to a considerably lesser extent and with considerably lower importance than during the past years. As a strategic market requirement, we plan to continue to arrange and facilitate financing to our customers, and provide financing and extended payment terms to a small number of selected customers. Extended payment terms may continue to result in a material aggregate amount of trade credits, but the associated risk is mitigated by the fact that the portfolio relates to a variety of customers. We cannot guarantee that we will be successful in providing needed financing to customers. Also, our ability to manage our total customer finance and trade credit exposure depends on a number of factors, including our capital structure, market conditions affecting our customers, the level of credit available to us and our ability to mitigate exposure on acceptable terms. We cannot guarantee that we will be successful in managing the challenges connected with the total customer financing and trade credit exposure that we may from time to time have. See "Item 4.B Business Overview Networks," "Item 5.B Liquidity and Capital Resources Structured Finance," and Notes 9 and 38(b) to our consolidated financial statements included in Item 18 of this annual report on Form 20-F for a more detailed discussion of issues relating to customer financing, trade credits and related commercial credit risk.

Allegations of 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 causing us to allocate monetary and personnel resources to these issues.

There has been public speculation about possible health risks to individuals from exposure to electromagnetic fields from base stations and from the use of mobile devices. While a substantial amount of scientific research conducted to date by various independent research bodies has indicated that these radio signals, at levels within the limits prescribed by safety standards set by and recommendations of public health authorities, present no adverse effect to human health, we cannot be certain that future studies, irrespective of their scientific basis, will not suggest a link between electromagnetic fields and adverse health effects that would adversely affect our sales and share price. Research into these issues is ongoing by government agencies, international health organizations and other scientific bodies in order to develop a better scientific and public understanding of these issues.

Nokia is named as a defendant in several class action matters alleging that Nokia and other manufacturers and cellular service providers should have included headsets with every handset to reduce the potential for adverse health effects. The original cases were consolidated before the US District Court for the District of Maryland in Baltimore, Maryland. After full review, the District Court determined that federal jurisdiction existed and that the claims of the plaintiffs were preempted by federal law. On March 16, 2005, the United States Court of Appeals for the Fourth Circuit reversed those findings and held that the claims were not preempted by federal law and that the matters could properly be brought in the state courts or courts of origin. Those cases have now been returned to the courts of origin for further proceedings. In addition, we and other mobile device manufacturers and network operators have been named as defendants in five lawsuits by individual plaintiffs who allege that radio emissions from mobile phones caused or contributed to each plaintiff's brain tumor. Those cases are before the District of Columbia courts. See "Item 8.A.7 Litigation" for a more detailed discussion of these lawsuits.

Although Nokia products and solutions are designed to meet all relevant safety standards and recommendations globally, no more than a perceived risk of adverse health effects of mobile communications devices could adversely affect us through a reduction in sales of mobile devices or increased difficulty in obtaining sites for base stations, and could have a negative effect on our reputation and brand value as well as harm our share price.

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

We are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition.

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.

We must continue to recruit, retain and through constant competence training develop appropriately skilled employees with a comprehensive understanding of our businesses and technologies. As competition for skilled personnel remains keen, we seek to create a corporate culture that encourages creativity and continuous learning. We are also continuously developing our compensation and benefits policies and taking other measures to attract and motivate skilled personnel. Nevertheless, we have encountered in the past, and may encounter in the future, shortages of appropriately skilled personnel, which may hamper our ability to implement our strategies and materially harm our results of operations.

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

Our business is subject to direct and indirect regulation in each of the countries in which we, the companies with which we work or our customers do business. As a result, changes in various types of regulations applicable to current or new technologies, products or services could affect our business adversely. For example, it is in our interest that the Federal Communications Commission maintains a regulatory environment that ensures the continued growth of the wireless sector in the United States. In addition, changes in regulation affecting the construction of base stations and other network infrastructure could adversely affect the timing and costs of new network construction or expansion and the commercial launch and ultimate commercial success of these networks.

Moreover, the implementation of new technological or legal requirements, such as the requirement in the United States that all handsets must be able to indicate their physical location, could impact our products and solutions, manufacturing or distribution processes, and could affect the timing of product and solution introductions, the cost of our production, products or solutions as well as their commercial success. Finally, export control, tariffs or other fees or levies imposed on our products, environmental, product safety and security and other regulations that adversely affect the export, import, pricing or costs of our products and solutions, as well as new services related to our products, could adversely affect our net sales and results of operations.

The impact of these changes in regulation could affect our business adversely even though the specific regulations do not always directly apply to us or our products and solutions.

See "Item 4.B Business Overview Government Regulation" for a more detailed discussion about the impact of various regulations.

Our share price may be volatile in response to conditions in the global securities markets generally and in the communications and technology sectors in particular.

Our share price has at times been subject to some volatility, in part due to generally volatile securities markets, particularly for communications and technology companies' shares, as well as developments in our sales and results of operations. Factors other than Nokia's results of operations that may affect our share price include, among other things, market expectations of our performance, projected developments in the mobile device and communications network markets and the mobile communications industry, and any adverse changes in our brand value. In addition, our share price may be affected by factors such as the level of business activity or perceived growth in the market in general, the performance of other technology companies, announcements by or the results of operations of our competitors, customers and suppliers, potential litigation involving ourselves or our industry, and announcements concerning the success of new products and services, as well as general market volatility. See "Item 9.A Offer and Listing Details" for information regarding the trading price history of our shares and ADSs.

ITEM 4. INFORMATION ON THE COMPANY

4.A History and Development of the Company

Nokia is the world's largest manufacturer of mobile devices and a leader in mobile network equipment, solutions and services. We also provide equipment, solutions and services for corporate customers.

For 2005, Nokia's net sales totaled EUR 34.2 billion (USD 40.5 billion) and net profit was EUR 3.6 billion (USD 4.3 billion). At the end of 2005, we employed 58,874 people and had production facilities in eight countries, sales in more than 130 countries, and a global network of sales, customer service and other operational units.

During our 140-year history, Nokia has evolved from its origins in the paper industry to become a world leader in mobile communications. In 1967, we took our current form as Nokia Corporation, a corporation under the laws of the Republic of Finland. This was the result of the merger of three Finnish companies: Nokia AB, a wood-pulp mill founded in 1865, which took its name from the nearby Nokia River; Finnish Rubber Works Ltd, a manufacturer of rubber boots, tires and other rubber products founded in 1898; and Finnish Cable Works Ltd, a manufacturer of telephone and power cables founded in 1912.

Nokia entered the telecommunications equipment market in 1960, when an electronics department was established at Finnish Cable Works to concentrate on the production of radio-transmission equipment. During this time Nokia diversified into other industries as a hedge against economic cycles.

In the 1980s, we strengthened our position in the telecommunications, consumer electronics and personal-computer markets. In 1982, we introduced the first fully-digital local telephone exchange in Europe, and in that same year we introduced the world's first car phone for the Nordic Mobile Telephone analogue standard. It weighed approximately 10 kilograms, or 22 pounds, and was primarily used as a business tool. Since then, Nokia has introduced mobile phones across all major cellular standards. In 1987, we acquired the consumer electronics operations and part of the components business of Standard Elektrik Lorenz of Germany, as well as the French consumer electronics company, Oceanic. At the beginning of 1988, Nokia purchased Ericsson's information systems division and became the largest technology company in the Nordic region.

Regulatory and technological reforms have played a role in our success. Deregulation of the European telecommunications industries since the late 1980s has stimulated competition and boosted customer demand. The technological breakthrough of GSM, which made more efficient use of frequencies and had greater capacity in addition to high-quality sound, was followed by the European resolution in 1987 to adopt GSM as the European digital standard by July 1, 1991. Later, GSM technology proved to be an efficient carrier of data. The first GSM call was made with a Nokia phone over the Nokia-built network of a Finnish operator called Radiolinja, and in the same year Nokia won contracts to supply GSM networks in other European countries. During this period, GSM was also established as a standard in several Asian countries, opening important new markets for us. Our expertise in GSM and earlier analogue technologies laid the foundation for our subsequent success in the broader mobile communications industry, as Nokia has introduced mobile phones and devices across all major cellular standards.

In the early 1990s, we made a strategic decision to make telecommunications our core business, with the goal of establishing market leadership in every major global market. Basic industry and non-telecommunications operations including paper, personal computer, rubber, footwear, chemicals, power plant, cable, aluminum and television businesses were divested during the period from 1989 to 1996. Our organizational structure also evolved to consist of two main business groups, Nokia Mobile Phones and Nokia Networks. A venturing arm called Nokia Ventures

Organization was later created to foster new businesses. Over the course of the decade, the relative financial contribution of the two main business groups fluctuated. However, by the end of the 1990s, Nokia Mobile Phones represented the largest part of our business, and together with Nokia Networks accounted for substantially all of our net sales.

Finland's competitive business climate and emphasis on innovation have also contributed to our success. From the beginning of the telecommunications era, there have been several telecommunications operators in Finland. These companies were not required to purchase equipment from national suppliers, providing a spur to competition in the domestic market. The need to export products to other markets to achieve substantial volume growth encouraged us to develop our business and products in an international environment and build a leading competitive position.

Since the early 1990s, mobile telecommunications penetration has grown rapidly. Today, mobile communications continues to evolve, creating new opportunities in entertainment and enterprise use. Nokia's mobile devices are now used by virtually every demographic segment of the population, for communications, business, entertainment and even as fashion accessories.

In January 2004, Nokia reorganized to further align the company's overall structure with its strategy, to better position each business group to meet the specific needs of diverse market segments, to increase Nokia's operational efficiency and to maintain economies of scale. As a result, we began 2004 with an organizational base from which to make progress in expanding mobile voice, driving consumer multimedia and bringing extended mobility to enterprises. Today, Nokia has four business groups: Mobile Phones, Multimedia, Enterprise Solutions and Networks.

Nokia is not a capital-intensive company in terms of fixed assets, but rather invests in research and development, marketing, and building the Nokia brand. We expect the amount of capital expenditure during 2006 to be more than in 2005 and to be funded from our cash flow from operations. During 2005, Nokia's capital expenditures totaled EUR 607 million compared with EUR 548 million in 2004. For further information regarding capital expenditures see "Item 5.A Operating Results" and for a description of capital expenditures by business segment see Note 3 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

Nokia maintains listings on four major securities exchanges. The principal trading markets for the shares are the New York Stock Exchange, in the form of American Depositary Shares, and the Helsinki Stock Exchange, in the form of shares. In addition, the shares are listed on the Frankfurt and Stockholm stock exchanges.

Our principal executive office is located at Keilalahdentie 4, P.O. Box 226, FIN-00045 Nokia Group, Espoo, Finland and our telephone number is +358 (0) 7 1800-8000.

4.B Business Overview

Industry Development and Trends

Our industry is becoming more complex. Mobile communications is expanding into new geographical markets with diverse characteristics and dynamics, operator demands in mature markets are becoming more sophisticated with the advent of new multimedia services, and businesses are becoming increasingly mobile.

We believe that the global mobile subscriber base reached approximately 2.2 billion at the end of 2005, and we estimate that this figure will reach 3 billion during 2008. In high-growth markets, also referred to in the industry as new-growth, unsaturated or emerging markets, the number of new mobile users is growing faster than the overall global market. Growth is particularly strong in the high-growth markets of the Middle East, Africa, Latin America and South Asia. In these markets, the ability to offer tailored mobile network solutions and devices that reduce the total cost of ownership is an important competitive advantage.

Uptake of 3G/WCDMA continued to increase during 2005. This was largely the result of attractive pricing of services, the further maturity of 3G/WCDMA technology, and the greater availability of 3G/WCDMA handsets. The pace of 3G/WCDMA network rollouts also continued steadily in 2005, and by the end of the year a cumulative total of 100 operators had launched commercial 3G/WCDMA services.

During 2005, we also saw a continued trend towards industry consolidation among component suppliers, networks and device manufacturers, and operators. In light of this, we believe companies with a strong brand, established market presence, volume advantage, well-developed logistics, and a broad product range across geographies and segments are best positioned to succeed. In addition, design and features are becoming central to consumer demands, which means effective research and development, or R&D, and a strong intellectual property rights, or IPR, portfolio are also increasingly important for success.

There is evolving consumer interest in non-cellular wireless technologies such as wireless local area networks, or WLAN (including WiFi), Worldwide Interoperability for Microwave Access, or WiMAX, and Voice over Internet Protocol, or VoIP. Depending on how customer interests develop, these technologies could migrate to mobile communications and complement traditional cellular technologies.

Mobile Device Market

The mobile device market continued its strong volume growth during 2005. According to Nokia's estimates, in 2005 the global device market volume grew by 24% to 795 million units, compared with 643 million units in 2004. This growth was driven by demand for voice-centric mobile devices, particularly in emerging markets, as well as by robust replacement sales from primarily color screen and camera devices in advanced markets.

Nokia expects the mobile device market volume to grow more than 10% in 2006, from our preliminary estimate of approximately 795 million units in 2005. We also expect the device industry to experience value growth in 2006, but expect some decline in industry average selling prices, or ASPs, primarily reflecting the increasing impact of the emerging markets. Nokia expects the majority of volume growth in 2006 to come from the emerging markets, which are expected to account for approximately half of the mobile device industry volumes.

Nokia estimates that the replacement market will represent over 60% of industry volumes in 2006, compared with approximately 60% in 2005. We believe that replacement sales will be driven by camera phones, 3G/WCDMA devices, smartphones, continued penetration of color displays, music features, mobile multimedia services and general aesthetic trends. According to our estimates the global 3G/WCDMA market totaled 44 million units in 2005 and we believe that it will at least double in 2006.

In the future, we expect to see a growing number of mobile devices in which telephony may not be the primary feature, or may be only one of many important features, that motivates the user to buy the device. This trend comes as the mobile communications, information technology, media and consumer electronics industries are converging in some areas into one broader industry, and as advances in radio technologies enable a variety of products and services to become interconnected. This convergence is leading to the creation of new mobile devices, services and ways of using mobile devices. Some of the first examples of convergence are the camera phone and the use of mobile devices for e-mail, listening to the radio, web browsing and playing games.

A smartphone, increasingly referred to as a converged device, is a generic category of mobile device that can run computer-like applications such as e-mail, web browsing and enterprise software and can also have built-in music players, video recorders, mobile TV and other multimedia features. According to our estimates, the global smartphone market is expected to grow from around 50 million units in 2005 to approximately 100 million units in 2006. The smartphone market overlaps with the 3G/WCDMA market.

In 2006, we expect applications such as downloading music to become more prevalent, while mobile TV is expected to become available in select markets and to reach mass market by 2008. In the longer term, the use of mobile devices for close range communication with and sending of content to home televisions, entertainment systems, printers and other household appliances is expected to become more common.

Mobility is also increasingly important to the business market as companies assess the potential productivity gains, cost savings and competitive advantages of having a mobile workforce. However, the enterprise mobility market is still fragmented and mobile e-mail is still in an early stage of development. We expect that as the technologies become more reliable, affordable and easier to use, employees will increasingly use mobile devices for business communication and mobile e-mail will become the lead enterprise application.

For more information on the mobile device market, see "Item 5.A Operating Results Overview Principal Factors Affecting our Results of Operations Mobile Devices."

Mobile Infrastructure Market

During 2005, the mobile infrastructure market showed year-on-year growth of approximately 10% in euro terms. In 2004, the market grew approximately 14% in euro terms. These two years of growth came largely from operator investments in the current technologies of GSM, EDGE, and GPRS and their related services, especially in low penetration markets, and from operator investments in next-generation technologies, such as 3G/WCDMA. In 2006, we expect moderate growth in the mobile infrastructure market in euro terms.

Competition in the network infrastructure market remains intense. In 2G, competition is driven by price, solutions that are able to offer low total cost of ownership, and the vendor's ability to roll out mobile networks in high-growth markets. In 3G, vendors compete on the basis of price and track record of network implementations, as well as in terms of which new technologies they plan to introduce and when.

We increasingly see operators outsourcing network management, in whole or in part, both to become more cost efficient and to better manage the increased range and complexity of mobile services and technologies. This is the result of a number of factors, including slowing subscriber growth and rising competition from both traditional and newer mobile virtual network operators in more mature markets, and the challenges of managing rapid subscriber growth in emerging markets. Increased outsourcing is an important opportunity for network infrastructure suppliers that have the scale and competence to manage networks efficiently.

As the demand for multimedia services grows, there is a need to integrate increasingly complex network elements. This represents an opportunity for network infrastructure suppliers, who can use their extensive knowledge of operators' networks and business needs to provide systems integration services.

We see those operators with both fixed and mobile assets exploring the option of offering access to services and applications over Internet Protocol, or IP, in fixed and mobile networks during the coming years. When operators begin to use IP technologies to provide access to the same services in fixed and mobile networks, they will be able to optimize the use of their network assets while making communications services more cost efficient for consumers and business users.

For more information on the mobile infrastructure market, see "Item 5.A Operating Results Overview Principal Factors Affecting our Results of Operations Infrastructure."

Business Strategy

Nokia's strategy to be the most customer-focused product company is defined by four main imperatives:

- Expand mobile voice business
- Enhance experiences for consumers
- Bring more mobility to enterprises
- Expand networks business

Organizational Structure

Nokia has four business groups: Mobile Phones, Multimedia, Enterprise Solutions and Networks.

Mobile Phones connects people by providing expanding mobile voice and data capabilities across a wide range of mobile devices. We seek to put consumers first in our product-creation process and primarily target high-volume category sales. Mobile Phones currently offers mobile phones and devices based on the following global cellular technologies: GSM/EDGE, 3G/WCDMA and CDMA.

Multimedia brings mobile multimedia experiences to consumers in the form of advanced mobile devices and applications with connectivity over GSM, 3G/WCDMA, WLAN, Bluetooth and other standards. Our products give people the ability to create, access and consume multimedia, as well as share their experiences with others.

Enterprise Solutions offers businesses and institutions a broad range of products and solutions, including enterprise-grade mobile devices, underlying security infrastructure, software and services. We also collaborate with a range of companies to provide fixed IP network security, mobilize corporate e-mail and extend corporate telephone systems to Nokia's mobile devices.

Networks provides network infrastructure, communications and networks service platforms, as well as professional services to operators and service providers. Networks focuses on the GSM family of radio technologies and aims at leadership in three areas: GSM, EDGE and 3G/WCDMA networks; core networks with increasing IP and multi-access capabilities; and services.

Two horizontal groups, Customer and Market Operations and Technology Platforms, support and service our mobile device business groups, with the goal of increasing our operational efficiency and competitiveness by taking advantage of our economies of scale. Technology Platforms also serves external customers. These two horizontal groups are not separate reporting entities and their costs are carried mainly by the three mobile device business groups, with the balance included in Common Group Expenses.

Customer and Market Operations is responsible for marketing, sales, sourcing, manufacturing and logistics for mobile devices from Mobile Phones, Multimedia and Enterprise Solutions. The Networks business group has its own dedicated sales and marketing, logistics and sourcing functions, and Enterprise Solutions complements the Customer and Market Operations' focus on operators with its own sales and marketing organization focused on corporate customers.

Technology Platforms is responsible for the competitiveness of Nokia's technology assets. It supports Nokia's overall technology management and development by delivering leading

technologies and well-defined platforms to Nokia's business groups as well as to external customers.

For a breakdown of our net sales and other operating results by category of activity and geographical location, see Note 3 to our financial statements included in Item 18 of this annual report on Form 20-F.

Mobile Devices

The mobile communications market is dynamic, new vocabulary is emerging and definitions are changing. This is in line with the introduction of entirely new products and product categories.

- Mobile device is a generic term for all device products made by our Mobile Phones, Multimedia and Enterprise Solutions business groups.

- The term smartphone, or converged device, refers to a generic category of mobile device that can run computer-like applications such as e-mail, web browsing and enterprise software, and can also have built-in music players, video recorders, mobile TV and other multimedia features.

- All Nokia Nseries devices produced by our Multimedia business group are called multimedia computers to distinguish them from the generic category of smartphones.

Our mobile device businesses currently offer mobile phones and devices based primarily on the following global cellular technologies: GSM/EDGE, 3G/WCDMA and CDMA. For 2005, the total mobile device volume achieved by the Mobile Phones, Multimedia and Enterprise Solutions business groups reached a record 265 million units, representing growth of 28% compared with 2004. Based on an estimated global market volume for mobile devices of 795 million units, our global market share was 33% for 2005, compared with an estimated 32% for 2004. This makes Nokia the clear market leader in mobile devices.

In 2005, Nokia shipped a total of 28.5 million smartphones and more than 40 million mobile devices with an integrated music player, making us the world's largest music device manufacturer. In 2005, Nokia announced a total of 56 new mobile devices in a wide variety of designs and technologies for all segments and at all price points. We also made strong progress in customizing mobile devices for operators.

Nokia periodically updates its segmentation of the consumer market, as we did in 2005 following an extensive global consumer segmentation survey in 16 countries. From the findings we have identified 11 unique consumer segments and have gained even more insight into what people want and need from their mobile phones. We believe this knowledge will allow our business groups to deliver products and solutions focused on meeting the demands of consumers in the identified segments.

Mobile Phones

Mobile Phones connects people by providing expanding mobile voice and data capabilities across a wide range of mobile devices. We seek to put consumers first in our product-creation process and primarily target high-volume category sales. Mobile Phones currently offers mobile phones and devices based on the following global cellular technologies: GSM/EDGE, 3G/WCDMA and CDMA.

In voice-centric and mainstream mobile phones, we believe that design, brand, ease of use and price are our customers' most important considerations. Increasingly, our product portfolio includes new features and functionality designed to appeal to the mass market, such as megapixel cameras, music players and advanced-quality color screens.

In 2005, Mobile Phones introduced its first 3G/WCDMA products: the Nokia 6280, the Nokia 6233, the Nokia 6234 (exclusively for operator Vodafone), and the Nokia 6282 (for the Americas).

The Mobile Phones business group has five units: Broad Appeal; Entry; Lifestyle Products; CDMA; and Vertu.

The *Broad Appeal* unit focuses on mid-range products where the balance between price, functionality and style is key. The vast majority of Nokia's product portfolio falls into this category. Product highlights for 2005 include the Nokia 3250, a music-optimized device supporting 1GB of memory; the Nokia 6280, a 3G/WCDMA phone with a 2-megapixel camera; and the Nokia 6230i, Nokia's highest revenue generating phone in 2005.

The *Entry* unit addresses markets where we believe there is potential for growth and where mobile penetration levels are relatively low. Our aim is to provide affordable mobile phones while cooperating with local mobile operators to reduce the total cost of ownership. Current products include the Nokia 2600 monoblock and the Nokia 2652 clamshell, both with color-screens, and the Nokia 1100, Nokia's best-selling phone in volume terms in 2005. During the year we introduced the Nokia 1110 and the Nokia 1600, both of which were designed specifically for new growth markets.

Towards the beginning of 2006, we changed the name of our *Focused Appeal* unit to *Lifestyle Products*. This unit concentrates on top-end products for consumers who will pay a premium for higher-quality materials, design and features. Products launched by this unit tend to command higher prices. In 2005, the unit introduced the Nokia 8800 phone, featuring a sliding stainless steel case; the "L'Amour" collection of fashion-inspired mobile phones, which come in three different form factors and two distinct color schemes; and the Nokia 5140i outdoor mobile phone featuring thermometer, compass and flashlight.

The *CDMA* unit supports operators that use CDMA technology. In 2005, CDMA industry device volumes represented approximately 17% of total industry device volumes. CDMA operators are mainly in the United States, China, India, Indonesia, Australia, Brazil and some other Latin American markets. In 2005, we continued to expand our CDMA portfolio. Products introduced include the Nokia 6265 slide design phone with a 2-megapixel camera and Bluetooth connectivity, and the Nokia 6155, a CDMA mid-range phone for the Americas. On February 14, 2006, Nokia and SANYO Electric Co., Ltd announced a preliminary agreement with intent to form a new global company comprised of their respective CDMA mobile phone businesses separate from the parent companies. The relevant assets from both companies will be contributed or made available for the new entity. Final agreements are expected to be signed in the second quarter of 2006, with the new business expected to commence operations in the third quarter of 2006, provided that the due diligence has been completed and all necessary regulatory approvals obtained. For more information on this preliminary agreement, see "Item 5.A Operating Results Overview Subsequent Events Preliminary Agreement with SANYO."

Vertu, our unit for luxury communications products, continues to make progress towards establishing a luxury mobile phone category. Recent launches include the Signature Diamond Collection of tri-band GSM phones, including a model inlaid with 700 diamonds. Also launched recently were the Ascent White Special Edition and Motorsport Limited Edition phones, both of which are handcrafted from leather and stainless steel with a custom-developed, scratch-resistant alloy, and include tri-band GSM and Bluetooth connectivity.

Multimedia

Multimedia brings mobile multimedia experiences to consumers in the form of advanced mobile devices and applications with connectivity over GSM, 3G/WCDMA, WLAN, Bluetooth and other standards. Our products give people the ability to create, access and consume multimedia, as well as share their experiences with others. We are working with leading companies in other industries to bring to the market advanced specialized technology and applications such as Internet services, optics, music synchronization and streaming video.

Product highlights in 2005 included the Nokia 6630 and Nokia 6680 3G/WCDMA devices, and the Nokia 6600 and the Nokia 7610 imaging devices.

In April 2005, Nokia announced a new sub-brand, the Nokia Nseries, for a category of advanced multimedia computers that variously offer consumers the ability to shoot video and still pictures, print-quality images, watch TV, listen to music, and access the web and e-mail. In addition to supporting 3G/WCDMA connectivity, certain Nokia Nseries multimedia computers also feature non-cellular connectivity, including WLAN, FM radio, Digital Video Broadcasting Handheld, or DVB-H, and Bluetooth. During the second half of 2005, we began building awareness of this new sub-brand through product specific and Nokia Nseries wide marketing campaigns in print, online, in movies, outdoors and at the point of sale.

Multimedia has two main entities responsible for the development of its products and related experiences, the Multimedia Computers unit and the Multimedia Experiences unit.

The *Multimedia Computers* unit focuses on managing, delivering and expanding the Nokia Nseries multimedia computer portfolio, as well as developing and marketing accessory products and car communications solutions. Highlights include:

- During the third quarter of 2005 we started shipping the Nokia N90, featuring Carl Zeiss optics for video and still imaging, and the Nokia N70, a small device with a 2-megapixel camera.

- Upcoming products in the Nokia Nseries range include the Nokia N71, featuring a large QVGA display and extensive music capabilities, the Nokia N80, featuring a 3-megapixel camera and WLAN connectivity, and the Nokia N91, featuring a 4GB hard disk and WLAN connectivity.

- In November 2005, we announced the Nokia N92, the world's first mobile device with an integrated DVB-H receiver that enables broadcast TV services on a mobile device. It is expected to start shipping in the middle of 2006.

The *Multimedia Experiences* unit develops and markets multimedia applications and solutions in the following areas:

- *Mobile photography:* We are developing imaging applications for Nokia Nseries products that allow easy capturing, editing, printing, sharing and storing of photos and video.

- *Mobile music:* We are developing music applications and features that deliver high quality audio and enable easy music management. Nokia is working closely with mobile operators and leading industry partners to enable an enhanced music experience for users, including the purchase of music by Nokia device users.

- *Mobile computing:* We are developing applications for Nokia Nseries products in four areas: personal productivity, Internet services, software additions and digital home connectivity.

- *Mobile TV:* We are developing applications for the DVB-H standard.

- *Mobile games:* We are developing the N-Gage platform and N-Gage Arena gaming community, as well as the Nokia SNAP mobile gaming platform, to support a broader population of Java-based mobile phones. In May 2005, we announced plans to expand the N-Gage multiplayer platform to all Nokia S60 based smartphones starting in 2006.

Multimedia has one business program, Convergence Products, which develops and drives technologies and products based on IP applications and multiradio connectivity. In May 2005, this program announced the first product in the new Internet Tablet product category, the Nokia 770. Based on the open source Linux operating system, the Nokia 770 is a non-cellular device optimized for Internet communications. Key applications include Internet browsing and e-mail.

Enterprise Solutions

Enterprise Solutions offers businesses and institutions a broad range of products and solutions, including enterprise-grade mobile devices, underlying security infrastructure, software and services. We also collaborate with a range of companies to provide fixed IP network security, mobilize corporate e-mail and extend corporate telephone systems to Nokia's mobile devices.

Product highlights in 2005 include:

- The Nokia Business Center: software that combines and manages corporate mobile e-mail, personal organizer, voice and other business applications in a mobile device, and is compatible with select mobile devices from Nokia and other vendors. The solution began shipping in the fourth quarter of 2005.

- The Nokia Eseries: a new line of devices designed for business users and the IT organizations that support them. The devices, which differ in terms of physical design and features, all use a single platform that can be adapted to different corporate IT infrastructures. The Nokia Eseries was announced in late 2005 and the devices are expected to start shipping in 2006.

- The Nokia 9300 and Nokia 9300i enterprise smartphones, and the Nokia 9500 Communicator, each of which features a range of corporate mobile e-mail solutions from a number of vendor companies. The WLAN-enabled Nokia 9300i enterprise smartphone was introduced in November 2005 and began shipping in the first quarter of 2006.

- The Nokia 6708, a device focused on the requirements of the Chinese market, began shipping in December 2005.

Enterprise Solutions business group comprises four main units: Mobile Devices; Mobility Solutions; Security and Mobile Connectivity; and Sales, Marketing and Services.

The *Mobile Devices* unit produces mobile devices specifically designed for business use. Our product portfolio contains devices with both cellular, such as GSM and 3G/WCDMA, and non-cellular connectivity, such as WLAN. Current products include the Nokia E60, the Nokia E61 and the Nokia E70, as well as the Nokia 9300, Nokia 9300i and Nokia 9500 devices. These mobile devices are designed to address the security and manageability concerns of corporate IT departments, the cost concerns of management, and ease-of-use requirements of employees. The common characteristics of all our mobile devices include full network connectivity, personal information management and e-mail access, connectivity to IT infrastructure, device management and security solutions.

The *Mobility Solutions* unit is developing a full suite of software solutions. The unit also works with external vendors such as Research in Motion, Microsoft, IBM, Good, Visto, and Seven to make Nokia's mobile devices compatible with their solutions. In addition, the unit works with leading vendors like Avaya and Cisco on other applications, such as connecting our mobile devices to corporate fixed line telephone networks, or PBXs, over WLAN technology.

The *Security and Mobile Connectivity* unit has a broad range of application and secure connectivity offerings designed to help enterprise customers grant employees access to corporate information and connect their mobile devices to their corporate network in a secure way. These offerings consist primarily of firewall gateways and software-based tools that operate with both Nokia and non-Nokia devices, as well as with other existing IT infrastructures.

Nokia's firewall gateways run software from Checkpoint Corporation. Nokia and Checkpoint have common distributors, integrators and Value Added Resellers, or VARs, that integrate Nokia gateways with Checkpoint software for customers. Nokia also provides end user and reseller support for these security products.

The *Sales, Marketing and Services* unit is responsible for sales to corporate customers, the management of relationships with IT distributors, systems integrator and VARs, as well as for specialized sales resources for selling Enterprise Solutions products to operator customers. The unit is also responsible for management of the services business, which includes support services for corporate customers and resellers, as well as professional services to help corporate customers with more complex mobility solutions.

In February 2006, Nokia acquired Intellisync Corporation ("Intellisync"). Intellisync is a leading provider of mobility software and becomes part of the Enterprise Solutions business group. Intellisync delivers wireless e-mail and other applications over an array of devices and application platforms across carrier networks. For more information see "Item 5.A Operating Results Overview Subsequent Events Acquisition of Intellisync".

Networks

Networks provides network infrastructure, communications and networks service platforms, as well as professional services to operators and service providers. Networks focuses on the GSM family of radio technologies and aims at leadership in three areas: GSM, EDGE and 3G/WCDMA networks; core networks with increasing IP and multi-access capabilities; and services. At the end of 2005, Networks had more than 150 mobile network customers in more than 60 countries, with our systems serving in excess of 400 million subscribers.

In GSM/EDGE radio access, we signed 39 deals in 2005. By year end, Nokia had delivered GSM/EDGE technology to more than 130 customers in more than 60 countries, was a supplier to 45 of the 121 operators that have launched EDGE commercially, and had signed more than 50 contracts in EDGE. Nokia demonstrated its commitment to further GSM/EDGE evolution by launching the Dual Transfer Mode network solution in February 2005.

Networks signed 20 contracts in 3G/WCDMA in 2005, including agreements with 10 new customers. By year end, Nokia had supplied to a total of 44 of the 100 operators that had launched commercial 3G/WCDMA services to date. One of the year's highlights was the launch of our highly innovative Flexi WCDMA Base Station, which is designed to deliver operators site cost savings of up to 70%.

In the growing HSDPA market we announced seven deals, bringing Nokia's total HSDPA references to more than 20 by the end of 2005. We demonstrated HSUPA in February 2005, and in March 2005 we launched the I-HSPA innovation.

Nokia cemented its leadership in the Third Generation Partnership Project, or 3GPP, Release 4 mobile softswitch market, with 60 deals for the Nokia MSC Server System during 2005. In the IP Multimedia Subsystem market Nokia won 11 commercial deals for IMS platform and trialed the solution with almost 20 operators. In GSM-based Push to Talk over Cellular, or PoC, we won contracts with 24 new customers in 2005. In fixed-mobile convergence, we concluded agreements with 10 customers and launched our Voice over IP server. We also launched new core and services solutions, including our Open Mobile Alliance compliant PoC solution. In core networks we signed a total of 192 deals in 2005.

Nokia's Networks business group established its Services Business Unit at the start of 2005, building on close to 20 years in the services business and seeking to tap growing demand for services as both operator competition and technological complexity increase. By year end, Services accounted for over 30% of Networks' revenues, and key managed services deals had been concluded with Bharti Tele-Ventures and 3GIS among others. By the end of 2005 we had signed 35 managed services deals. The company announced plans to open a services-focused Nokia Global Networks Solutions Center in Chennai, India during the first half of 2006.

Other developments in 2005 included the announcement of a joint venture with China Putian to focus on R&D, as well as manufacturing and sales of 3G network solutions for TD-SCDMA and WCDMA technologies; the sale of our TETRA business; and Networks entrance into new growth markets like Bangladesh and Vietnam. Nokia's offering for such markets was bolstered by its launch of the Nokia Prepaid Tracker, which lets subscribers keep track of their prepaid balance and call expenses. In 2005, Networks also won deals in Kuwait and China for its Nokia Connect eRefill prepaid recharging platform.

The Networks business group has five units: Radio Networks; Core Networks; Services; Networks Customer and Market Operations; and Delivery Operations.

Radio Networks develops GSM, EDGE and 3G/WCDMA radio access networks and cellular transmission for operators and network providers, and in 2005 said it would also support wireless broadband technologies such as WiMAX. The main products offered by Radio Networks are base stations, base station controllers and cellular transmission equipment. As data speeds evolve, these products are increasingly used for data traffic in addition to traditional wireless voice traffic.

Core Networks develops core network solutions for operators. The main products are switches and different kinds of network servers. In circuit-switched networks, Nokia's solutions are helping operators to reduce the cost of providing voice minutes to subscribers. In packet-switched networks, Nokia's new core network solutions bring new functionality to the networks, enabling operators to offer advanced multimedia services more efficiently. Many of Nokia's core network products can be used in both fixed and mobile networks.

Services offers operators a full range of services, from network planning and implementation to network optimization, care, managed services and operations outsourcing. Our tools and services are designed to assist operators to achieve a higher quality of service with lower operating and capital expenditures by improving and automating their processes.

Networks Customer and Market Operations deals with operator customers and is responsible for sales and marketing as well as for overall customer relationships. The Networks business group, which has organized its customer business teams on a regional basis, works in close cooperation with other Nokia businesses in addressing operator customers.

Delivery Operations is responsible for the sourcing, manufacturing and distribution of network products, in addition to network delivery and services.

Sales and Marketing

In 2005, Nokia's sales and marketing expenditure was EUR 3.0 billion, representing 8.7% of net sales.

Sales

The Customer and Market Operations horizontal group is responsible for the sales of Nokia's mobile devices from the Mobile Phones, Multimedia and Enterprise Solutions business groups. Most of our mobile device business derives from sales to operators, distributors, independent retailers and corporate customers. However, the percentage of the total device volume from each channel varies by region. In the Asia-Pacific area, distributors and retailers account for more than half of the total device volume. In China, handsets are sold almost solely through the retail channel. In Europe, the Middle East and Africa, sales are split approximately equally between operators and the other channels. In Latin America and North America, operator sales represent the major percentage of our sales.

Each of our active operator and distributor customers is supported by a dedicated Nokia account team. In addition, we have customer executive teams with Nokia Group Executive Board members as the customer executives for the largest global operators.

We have also established specialized sales channels for certain business groups in order to reach customers in segments where we are introducing mobility. Each of these channels is specific to, and managed by, an individual business group. For example, Enterprise Solutions manages sales of our security and mobile connectivity products and Nokia Business Center to certain resellers or systems integrators who contribute value, such as consulting services or additional software, before distribution.

Networks' sales channels mainly comprise dedicated account management teams for operator customers. The account management teams design solutions and suggest products based on operator requirements. In addition to the marketing done within customer teams, Networks uses customer events, exhibitions, brand marketing and an established interactive electronic channel.

As we are a global company and have sales in most countries of the world, in 2005 we also had sales to customers in Iran, Libya and Syria. Furthermore, in 2004 we had very minor sales to customers in Sudan, but none in 2005.

In 2005, we sold mobile devices and accessories to customers in Iran, Libya, and Syria. In addition, we sold network equipment to a customer in Iran. In 2004, we also signed a network sales contract with a customer in Libya, but that contract has not resulted in any sales by the end of 2005. In 2005, our aggregate sales to customers in Iran, Libya and Syria accounted for approximately 1.2% of our total revenue or EUR 417 million. Iran and, to a lesser extent Syria, are subject to U.S. economic sanctions that are primarily designed to implement U.S. foreign policy.

Marketing

According to a survey published in July 2005 by Interbrand, the Nokia brand was recognized as the sixth most valued brand in the world. Since the early 1990s, Nokia's products have largely defined the Nokia brand in the minds of consumers, enabling the brand to build the equity it has today.

In 2005, we introduced a new strategy to build on our existing brand strength. This was in response to an increasingly complex industry environment and our push into new geographic and business areas. The initial impact of this initiative is already evident in our product development and design, in the greater harmonization of our visual identity and in our marketing activities in different countries around the world.

We continue to invest in print, online and broadcast advertising, as well as sponsorship of a variety of sporting and leisure events. High profile examples in 2005 include the Nokia FIS snowboard world cup tour, the Live 8 concerts and the Nokia Sugar Bowl. We also promote our products by securing product placements in movies so that Nokia phones feature prominently alongside the lead characters.

During 2005, we opened our first Nokia Flagship store, in Moscow, giving consumers an opportunity to test, experience and purchase products from our entire portfolio. More Nokia

Flagship stores are planned for other major cities around the world during 2006 and 2007. In North America, 25 Nokia Experience Centers, where consumers can test and experience Nokia's products, have been opened in high profile mall locations.

Production

Nokia operated 14 manufacturing facilities in eight countries around the world as of December 31, 2005, for the production of mobile devices and network infrastructure. The Customer and Market Operations group is responsible for the production of Nokia mobile devices, while the Networks group is responsible for the production of network infrastructure.

Our principal supply requirements are for electronic components, mechanical components and software. Electronic components include integrated circuits, microprocessors, memory devices, cameras, displays, batteries and chargers. Mechanical components include covers, connectors, key mats and antennas. Our products also incorporate software provided by third parties.

Mobile Devices

The Customer and Market Operations horizontal group is responsible for production and logistics for the device businesses of Mobile Phones, Multimedia and Enterprise Solutions, including control of the mobile device factories. The Customer and Market Operations horizontal group is also responsible for process development in the demand-supply network, including Enterprise Solutions' network security infrastructure business. We consider our mobile device manufacturing to be a core competence and competitive advantage.

Our Customer and Market Operations horizontal group currently operates nine mobile device manufacturing plants in eight countries. Our Mexican and Brazilian plants primarily supply the North and South American markets. Three European plants, located in Finland, Germany and Hungary, principally supply Europe, the Middle East and Africa. Our two plants in China and one in South Korea primarily supply the Asian markets. In addition, we have a manufacturing plant in the United Kingdom serving Vertu. In 2006, Nokia is scheduled to open a mobile device manufacturing plant in India to meet growing demand there and in surrounding areas.

We also use outsourcing to add flexibility to our manufacturing activities. During 2005, outsourcing covered on average approximately 26% of our manufacturing volume of mobile device engines.

In the past several years, we have made significant capital investments in order to provide the capacity required to meet demand growth. Each of our plants employs state-of-the-art technology and is highly automated. Although our plants generally manufacture for the cellular standards of local geographic markets, each plant is capable of providing mobile devices for most of the world's major standards. As a result, we believe we are able to respond rapidly to the needs of different geographic markets and to take advantage of the flexibility of a global manufacturing network.

In line with industry practice, we source a large proportion of components for our mobile devices from a global network of suppliers. We and our contract manufacturers then assemble these components and activate the device with our own software. Final assembly typically takes place only for firm customer orders. Certain of these components may experience some price volatility from time to time. Management believes that our business relationships with our suppliers are stable, and they typically involve a high degree of cooperation in research and development, product design and manufacturing. See "Item 3.D Risk Factors We depend on a limited number of suppliers for the timely delivery of components 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."

Overall, we aim to manage our inventories to ensure that production meets demand for our products, while minimizing inventory-carrying costs. The inventory level we maintain is a function of a number of factors, including estimates of demand for each product category, product price levels, the availability of raw materials, supply-chain integration with suppliers, and the rate of technological change. From time to time, our inventory levels may differ from actual requirements. See "Item 3.D Risk Factors 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."

Networks

At December 31, 2005, the Networks business group operated five production plants, three in Finland and two in China. During 2005, Nokia announced that it intends to establish a high-end base station controller manufacturing unit in Chennai, India, with production expected to commence in 2006. In line with our strategy to invest resources in key areas to improve efficiency, some product support activities and over 50% of Networks' production are outsourced.

Nokia generally prefers to have multiple sources for its components, but Networks sources some components for its telecommunications systems from a single or a small number of selected suppliers. As is the case with suppliers to our other business groups, management believes that these business relationships are stable and typically involve a high degree of cooperation in research and development, product design and manufacturing. This is necessary in order to ensure optimal product interoperability. See "Item 3.D Risk Factors We depend on a limited number of suppliers for the timely delivery of components 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."

Some components and sub-assemblies for Networks products, including Nokia-specific integrated circuits and radio frequency components; servers; sub-assemblies such as filters, combiners and power units; cabinets; and Nokia-specific connectors, are sourced and manufactured by third-party suppliers. Our strategy is to focus on core competencies in our own operations and to work together with world-class companies outside our core areas. This strategy is designed to increase our competitiveness in the mobile infrastructure market by improving our flexibility and reaction speed. We then assemble components and sub-assemblies into final products and solutions. Consistent with industry practice, we manufacture our telecommunications systems on a contract-by-contract basis.

Technology, Research and Development

At Nokia, research and development takes place within Technology Platforms, the four business groups and the Nokia Research Center.

Technology Platforms

Technology Platforms is responsible for the competitiveness of Nokia's technology assets. It supports the company's overall technology management and development by delivering leading technologies and well-defined platforms to Nokia's business groups and external customers.

Key focus areas include software platforms, chipset platforms, technology access, creation of intellectual property rights and the user experience. Technology Platforms' work encompasses multiradio technologies such as GSM, EDGE, CDMA, WCDMA, WLAN, Bluetooth, Near Field Communications, or NFC, and mobile DVB-H. To ensure early access to state-of-the-art technologies in areas such as displays, audio and memory, Technology Platforms also works with leading external developers, suppliers and partners.

Technology Platforms is responsible for the development of S60, the market-leading smartphone software platform that Nokia uses in its own devices and also licenses to other handset manufacturers. Nokia's global mobile device software developer support operation, Forum Nokia, is also part of Technology Platforms. Forum Nokia includes Preminet, a platform for operators, developers and content providers to use in launching and managing services and applications for Symbian OS and Java-based mobile devices.

Technology Platforms develops technology architecture for converging digital industries in co-operation with leading industry players and alliances. This includes the creation of intellectual property rights, standards-based interfaces, high performance mobile computing and usability innovations. Technology Platforms also coordinates Nokia's participation in more than 100 specification-making and industry cooperation organizations across the globe, including the Open Mobile Alliance, or OMA; the 3GPP, or Third Generation Partnership Project; the Third Generation Partnership Project 2, or 3GPP2; the Internet Engineering Task Force, or IETF; and the Institute of Electrical and Electronics Engineers, or IEEE.

Nokia sees open source development as a way to extend its R&D and foster innovation. In 2005, Nokia Technology Platforms unveiled the first significant projects based on open source development, including a new browser for S60 software and the Carbide developer tools family. In addition, Nokia has introduced a new Internet portal that consolidates the company's open source activities and provides access to its projects.

Business Groups

Design and technology go hand-in-hand at Nokia. The company's mobile device design team brings the user experience perspective to the product creation process, combining technology with form, size, functionality and product packaging. Each of Nokia's mobile device business groups takes into account its own customer needs in product-focused R&D. They integrate technologies from their own research, from Technology Platforms and from external vendors into their products and solutions.

The Networks business group's R&D work focuses on GSM, EDGE and 3G/WCDMA radio technologies, wireless broadband technologies, circuit-switched and IP-based core networks, and network management. With these investments, Nokia aims to support the development of existing network infrastructure solutions as well as implement new solutions to support future end-user services. Further, we focus on creating open hardware and software architecture, which results in research and development costs being spread among industry players.

Our business groups improve R&D efficiency and speed time to market by often basing their products on the same technologies. For example, Mobile Phones, Multimedia and Enterprise Solutions all develop devices based on the S60 software platform, on top of which they can install applications specific to their business. Multimedia has developed mobile imaging and video applications for S60, while the Enterprise Solutions business group offers a variety of e-mail solutions that run on the platform. In addition, all Nokia's mobile device business groups use a common chipset platform in their devices. This brings economies of scale and allows flexibility both in R&D and in the management of demand and supply networks.

Nokia Research Center

Looking beyond the development of current products, platforms and technologies, Nokia's corporate research center develops leading-edge technologies and creates competencies in technology areas that we believe will be vital to the company's future success. The Research Center works closely with Nokia's four business groups and Technology Platforms to develop new concepts, technologies and applications.

Our global network of relationships with universities and other industry R&D players expands the scope of our long-term technology development. For example, in October 2005, Nokia Research Center and the Massachusetts Institute of Technology Computer Science and Artificial Intelligence Laboratory announced the establishment of the Nokia Research Center Cambridge.

Competition

Mobile Devices

Mobile phone market participants compete mainly on the basis of the breadth and depth of their product portfolios, price, operational and manufacturing efficiency, technical performance, product features, quality, customer support, and brand recognition. Mobile network operators are increasingly offering mobile phones under their own brand, which may result in increasing competition from non-branded mobile device manufacturers.

Historically, our principal competitors in mobile devices have been other mobile device companies such as LG, Motorola, Samsung, Siemens and Sony Ericsson. However, we face new competition, particularly in Multimedia and Enterprise Solutions, where we compete with consumer electronics manufacturers and business device and solution providers respectively. We also face new competitors from countries where production costs tend to be lower. Further, as the industry now includes increasing numbers of participants that provide specific hardware and software layers within products and solutions, we will compete at the level of these layers rather than solely at the level of complete products and solutions. Examples of such layers include operating system and user interface software, chipsets, and application software such as games software. As a result of these developments, we face new competitors such as, but not limited to, Apple, Canon, Dell, HP, Microsoft, Palm, Research in Motion and Sony. We will also face competition from a large number of smaller competitors and some of our traditional competitors in new areas, as well as competitors that have chosen to focus on building products based on commercially available components.

It is difficult to predict how the competitive landscape of the mobile communications industry will develop in the future. In the mobile communications industry, the parameters of competition are less firmly established than in mature, low-growth industries, where the competitive landscape does not change greatly from year to year. See "Item 3.D Risk Factors 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."

Infrastructure

In the network infrastructure business, our principal competitors include Alcatel, Ericsson, Huawei, Lucent, Motorola, NEC, Nortel and Siemens. Competition in both the 2G and the 3G network infrastructure market remains intense. In 2G, competition is driven by price, solutions that are able to offer low total cost of ownership, and the vendor's ability to roll-out mobile networks in high-growth markets. In 3G, vendors compete on the basis of price and track record of network implementations, as well as in terms of which new technologies they plan to introduce and when.

There is a growing opportunity for Nokia to enter the systems integration and consulting business that serves mobile operators, given its extensive understanding of the mobile communications market and the rising importance of mobile data services and related IT systems for operators. This will bring us into direct competition with traditional systems integrators and consulting companies such as IBM, HP, and Accenture, as well as a large number of local and regional systems integrators.

On the security infrastructure side of the Enterprise Solutions business, our principal competitors are Cisco and Juniper Networks.

Seasonality

For information on the seasonality of our business, please see "Item 5.A Operating Results Overview Certain Other Factors Seasonality".

Patents and Licenses

A high level of R&D investment and rapid technological development has meant that the role of IPR in our industry has always been important. Digital convergence, multiradio solutions, alternative radio technologies, differing business models combined with large volumes are increasing the complexity and importance of IPR further.

The detailed designs of our products are based primarily on our own research and development work and design efforts and comply with all relevant and applicable public standards. We seek to safeguard our investments in technology through adequate intellectual property protection, including patents, design registrations and patents, trade secrets, trademark registrations and copyrights that are used to protect proprietary features of our products. For example, in 2005 we filed new patent applications for more than 1 200 new inventions on a global basis, and currently our IPR patent portfolio provides protection for over 10 500 inventions. We believe that Nokia has a strong IPR position, including across all major cellular and mobile communications standards, data applications, user interface features and functions and many other areas. We also believe that Nokia is one of the leading companies in the development of GSM/GPRS/EDGE/WCDMA technologies, and that we hold a strong patent position in this field.

Nokia is a holder of numerous essential patents for various mobile communications standards. An essential patent covers a feature or function that is incorporated into an open standard that all manufacturers are required to meet in order to comply with the standard. In accordance with the declarations we have made and the legal obligations created under the applicable rules of various standardization bodies, such as the European Telecommunication Standardization Institute (ETSI), we are committed to promoting open standards, and to offering to license and to granting licenses for our essential patents on a fair, reasonable and non-discriminatory basis. We have entered into several license agreements with other companies relating to both essential and other patents. Many of these agreements are cross license agreements with major telecommunications companies that cover broad product areas and allow Nokia to choose its preferred product design.

With the introduction of new mobile data and other evolving technologies, such as those enabling multimedia services, our products and solutions include increasingly complex technological solutions that incorporate a variety of patented and proprietary technologies. A 3G/WCDMA mobile device, for example, may incorporate three times as many components, including substantially more complex software, as our 2G/GSM mobile devices. As the number of entrants in the market grows, as the Nokia product range becomes more diversified, and as the complexity of the technology increases, the possibility of alleged infringement and other intellectual property claims against us increases. As new features are added to our products and solutions, we are also entering into licensing agreements with a number of new companies in the field of new mobile data and evolving technologies. We believe companies like Nokia with a strong IPR position, cumulative know-how and IPR expertise can have a competitive advantage in the converging industry, and on the increasingly competitive marketplace.

In many aspects, the business models for mobile services have not yet been established. The lack of availability of licenses for copyrighted content, delayed negotiations, or restrictive copyright licensing terms may have an adverse effect on the cost or timing of content related services by us, operators or third party service providers, and may also indirectly affect the sales of our mobile devices.

From time to time we are subject to patent infringement claims from third parties. We believe that, based on industry practice and applicable legal obligations, any necessary licenses or rights under patents that we may require can be obtained on terms that would not have a material adverse effect on our business, results of operations or financial condition. Nevertheless, in some situations, necessary licenses may not be available on acceptable commercial terms, if at all. The inability to obtain necessary licenses or other rights, or the need to engage in litigation, could have a material adverse effect on our business, results of operations and financial condition. See "Item 3.D Risk Factors 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 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." See also "Item 3.D Risk Factors Our products and solutions include increasingly complex technology involving numerous new Nokia patented and other proprietary technologies, as well as some 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 increasingly complex technology 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. Third parties may also commence actions seeking to establish the invalidity of intellectual property rights on which we depend."

Government Regulation

In the United States, our products are subject to government regulations that have a direct and substantial impact on our business. It is in our interest for the Federal Communications Commission, or FCC, to maintain a regulatory environment for mobile device and network products that ensures the continued robust growth of the wireless sector. Most of our products must meet specified radio frequency emission and other standards. The FCC and other US agencies also regulate the spectrum available for wireless products and solutions, and it is important for us that these agencies make sufficient and suitable spectrum available to meet the demands of advanced wireless products and services.

EU regulation has in many areas a direct effect on the business of Nokia and our customers within the single market of the European Union. For example, in the telecommunications sector the Council of Ministers has adopted a set of rules that harmonizes the EU Member States' regulatory framework for electronic communication networks and services, and aims to encourage competition in the internal electronic communications markets. Also, other regulatory measures have been taken in recent years in order to address consumer protection and environmental policy issues relating to the sector. We are in a continuous dialogue with the EU institutions through our experts, industry associations and our office in Brussels.

Other countries also have direct and indirect regulations that affect our business. Changes in the regulations or their interpretation, whether relating to our device, network, or other products or business processes, could affect our business. For example, the implementation of new technological or legal requirements could impact products, wireless services and solutions, manufacturing or distribution processes, and could affect the timing of product introductions, the cost of production, and the commercial success of products. Our net sales and results of operations could be adversely affected by export controls, tariffs or other fees or levies imposed on our products, as well as by environmental, product safety and security and other regulations that affect the export, import, pricing or cost of our products and solutions, as well as new services related to our products. We are in a continuous dialogue with regulatory bodies through our experts, industry associations and lobbyists.

Corporate Responsibility

As market leader and a top global brand, our impact on society comes with responsibilities that go beyond providing useful, safe, secure and quality products. During 2005, we made progress in a number of key areas.

In anticipation of upcoming EU environmental legislation on the restriction of certain hazardous substances, or RoHS, Nokia introduced its first two fully-compliant products. This was well in advance of the July 1, 2006 deadline, when the new directive restricting the use of lead, cadmium, mercury, chromium and two flame retardants in electronic products takes effect.

Nokia's first global stakeholder engagement event, in October 2005, brought together 160 participants representing civil society, the public sector, academia, and a range of businesses. The aim of the event was to provide a platform for people to give frank and honest views on important issues, including the importance of multi-sector cooperation, youth care, mobile communications for development, and corporate responsibility reporting.

Following an update of our Code of Conduct, Nokia's Group Executive Board launched a companywide Code of Conduct awareness campaign focused on an e-learning training and discussion platform. The initial September to December 2005 phase reached a sub-target of close to 30 000 Nokia employees, with a further 15 000 targeted by April 2006. Nokia's Code of Conduct, which has been translated into 25 languages, explains how our employees must carry out their work and comply with ethical and legal standards.

Employee Development

Fundamental to our success is the "Nokia Way" for all our people. The Nokia Way is a philosophy of attracting and retaining the best people and maintaining continuous renewal. It centers around four core values: customer satisfaction, respect, achievement and renewal. We believe these are critical in order for a global organization such as Nokia to work effectively.

Nokia's employee-value proposition framework remains strong. The four fundamentals of the proposition, together with the elements encompassed by each of them, are as follows:

Nokia Way and Values: fact-based management/value-based leadership, code of conduct, equal opportunities, diversity, internal communications and feedback channels.

Extensive performance-based rewarding: base pay, equity-based instruments, comprehensive incentive system through Nokia "Connecting People" bonuses and individual, team and project/program incentive payments.

Professional and personal growth: career development, job rotation, training and performance management.

Work life balance: health & safety, flexible working hours, telecommuting opportunities, leave and benefits.

4.C Organizational Structure

The following is a list of Nokia's significant subsidiaries as of December 31, 2005.

Company	Country of Incorporation	Nokia Ownership Interest	Nokia Voting Interest
Nokia Inc.	United States	100%	100%
Nokia GmbH	Germany	100%	100%
Nokia UK Limited	England & Wales	100%	100%
Nokia TMC Limited	South Korea	100%	100%
Nokia Capitel Telecommunications Ltd	China	61.9%	61.9%
Nokia Finance International B.V.	The Netherlands	100%	100%
Nokia Komárom Kft	Hungary	100%	100%
Nokia do Brazil Technologia Ltda	Brazil	100%	100%
Nokia India Ltd	India	100%	100%

4.D Property, Plants and Equipment

At December 31, 2005, Nokia operated 14 manufacturing facilities in eight countries around the world. None of these facilities is subject to a material encumbrance. The following is a list of their location, use and capacity.

Country	Location and Product	Productive Capacity, Net (m^2)[1]
BRAZIL	Manaus (mobile devices)	15 321
CHINA	Beijing (mobile devices)	17 948
	Dongguan (mobile devices)	12 768
	Suzhou (base stations and cellular network transmission products)	6450
	Beijing (switching systems, base station controllers, transcoders, home location registers)	4 634
FINLAND	Salo (mobile devices)	29 469
	Oulu (base stations)	13 128
	Espoo (switching systems, base station controllers, transcoders, radio access products)	10 645
	Oulu (plug-in units for both GSM and WCDMA base station product families)	4 689
GERMANY	Bochum (mobile devices)	32 611
HUNGARY	Komárom (mobile devices)	31 849
MEXICO	Reynosa (mobile device batteries, mobile devices)	26 337
REPUBLIC OF KOREA	Masan (mobile devices)	34 468
UNITED KINGDOM	Fleet (mobile devices)	2 728

(1) Productive capacity equals the total area allotted to manufacturing and to the storage of manufacturing-related materials.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A Operating Results

This section begins with an overview of our four business groups and the principal factors and trends affecting our results of operations. The overview is followed by a discussion of our critical accounting policies and estimates that we believe are important to understanding the assumptions and judgments reflected in our reported financial results. We then present a detailed analysis of our results of operations for the last three fiscal years, as well as our liquidity and capital resources.

The following should be read in conjunction with our consolidated financial statements included in Item 18 of this annual report on Form 20-F and "Item 3.D Risk Factors." Our financial statements and the financial information discussed below have been prepared in accordance with IFRS. For a discussion of the principal differences between IFRS and US GAAP, see " Results of Operations Principal Differences between IFRS and US GAAP" below and Note 39 to our consolidated financial statements.

Overview

Nokia is the world's largest manufacturer of mobile devices and a leader in mobile network equipment, solutions and services. We also provide equipment, solutions and services for corporate customers.

Nokia is organized in four business groups: Mobile Phones, Multimedia, Enterprise Solutions and Networks. There are also two horizontal groups that support the mobile device business groups: Customer and Market Operations and Technology Platforms. In addition, the structure includes common group functions that consist of common research and general group functions.

Mobile Phones connects people by providing expanding mobile voice and data capabilities across a wide range of mobile devices. Multimedia brings connected mobile multimedia experiences to consumers in the form of advanced mobile devices and applications. 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.

For the purposes of the discussion under " Principal Factors Affecting our Results of Operations Mobile Devices" and "Item 5.C Research and Development, Patents and Licenses", our mobile device net sales and costs include the total net sales and costs of the Mobile Phones and Multimedia business groups as well as the Mobile Devices business unit of the Enterprise Solutions business group. Mobile device net sales and costs exclude the Security & Mobile Connectivity business unit of the Enterprise Solutions business group. The results of that business unit historically have been immaterial.

Business segment data in the following discussion and analysis is prior to inter-segment eliminations. See Note 3 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

Nokia's current business group reporting structure was effective as of January 1, 2004. The information for the fiscal year 2003 has been regrouped to reflect that business group structure as if it had been in existence during that year.

The following table sets forth the net sales and operating profit for our business groups for the years indicated.

Net Sales and Operating Profit by Business Group

	Year ended December 31,					
	2005		2004, As revised*		2003, As revised*	
	Net Sales	Operating Profit/(Loss)	Net Sales	Operating Profit/(Loss)	Net Sales	Operating Profit/(Loss)
	(EUR millions)					
Mobile Phones	20 811	3 598	18 521	3 786	20 976	5 893
Multimedia	5 981	836	3 676	175	2 531	(196)
Enterprise Solutions	861	(258)	839	(210)	540	(143)
Networks	6 557	855	6 431	884	5 635	(216)
Common Group Expenses		(392)		(309)		(378)
Eliminations	(19)		(96)		(149)	
Total	34 191	4 639	29 371	4 326	29 533	4 960

* 2004 and 2003 financial accounts reflect the retrospective implementation of IFRS 2 and IAS 39(R).

For 2005, our net sales increased 16% to EUR 34 191 million compared with EUR 29 371 million in 2004. Our net sales in 2004 decreased 1% compared with EUR 29 533 million in 2003. At constant currency, group net sales would have grown 20% between 2004 and 2005, and 6% between 2003 and 2004. Our operating profit for 2005 increased 7% to EUR 4 639 million compared with EUR 4 326 million in 2004. Our operating profit in 2004 decreased by 13% from EUR 4 960 million in 2003. Our operating margin was 13.6% in 2005, compared with 14.7% in 2004 and 16.8% in 2003.

The following table sets forth the distribution by geographical area of our net sales for the years indicated.

Percentage of Nokia Net Sales by Geographical Area

	Year ended December 31,		
	2005	2004	2003
Europe	42%	42%	45%
Middle East & Africa	13%	12%	11%
China	11%	10%	8%
Asia-Pacific	18%	16%	14%
North America	8%	12%	16%
Latin America	8%	8%	6%
Total	100%	100%	100%

The 10 markets in which Nokia generated the greatest net sales in 2005 were, in descending order of magnitude, China, the US, the UK, India, Germany, Russia, Italy, Spain, Saudi Arabia and France, together representing 52% of total net sales in 2005. In comparison, the 10 markets in which Nokia generated the greatest net sales in 2004 were the US, China, the UK, Germany, India, Brazil, Russia, the United Arab Emirates, Italy and Spain, together representing 55% of total net sales in 2004.

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Principal Factors Affecting our Results of Operations

Mobile Devices

Our mobile device sales are derived from the sale of mobile devices by our Mobile Phones and Multimedia business groups and by the Mobile Devices business unit of our Enterprise Solutions business group. Our principal customers are mobile network operators, distributors, independent retailers and corporate customers. Our product portfolio covers all major user segments and price points from entry-level to mid-range and high-end devices offering voice, data, multimedia and business applications. A number of factors affect our sales and profitability, some of which are to a certain extent outside of our control.

Our sales depend on the growth of global mobile device volumes. This growth is driven both by the number of new subscribers as well as by the degree to which the number of existing mobile subscribers replace their mobile devices with devices of similar or higher functionality. Industry volume growth is influenced by, among other factors, regional economic factors; competitive pressures; regulatory environments; the timing and success of product and service introductions by various market participants, including network operators; the commercial acceptance of new mobile devices, technologies and services; and operators' and distributors' financial situations. Industry volumes are also affected by the level of mobile device subsidies that network operators are willing to offer to end users. In highly penetrated markets, industry volumes are dependent on the ability of network operators to successfully introduce services that drive the upgrade and replacement of devices. In low penetration markets, new subscriber growth and volume growth will be impacted by lower cost of ownership, driven by more affordable tariffs and lower cost mobile devices.

According to Nokia's estimates, in 2005 the global device market volume grew by 24% to 795 million units, a record for the industry, compared with 643 million units in 2004. This growth was driven by the strong new subscriber growth in emerging markets like Middle East & Africa and Latin America, as well as by robust replacement sales from primarily color screen and camera devices in Western Europe and North America. The following chart sets forth, based on Nokia's estimates, the global mobile device market volume and year over year growth rate by geographic area for the three years ended December 31, 2005.

Global Mobile Device Market Volume by Geographic Area based on Nokia's Estimates

	Year ended December 31, 2005	Change (%) 2004 to 2005	Year ended December 31, 2004	Change (%) 2003 to 2004	Year ended December 31, 2003
	(units in millions, except percentage data)				
Europe	238	20%	198	31%	151
Middle East & Africa	63	62%	39	34%	29
China	100	19%	84	33%	63
Asia-Pacific	149	18%	126	16%	109
North America	142	16%	122	21%	101
Latin America	103	39%	74	100%	37
Total	795	24%	643	31%	490

In our Mobile Phones, Multimedia and Enterprise Solutions business groups, combined mobile device volumes were up 28% in 2005, compared to 2004, reaching 265 million units a new annual volume record for Nokia. Based on our preliminary market estimate, Nokia's market share grew to 33% in 2005, compared to 32% in 2004.

During 2005, our device volumes in China, Asia-Pacific and Europe exceeded the market volume growth in those geographical areas. In China, Nokia accelerated its market share gains from 2004 as our product portfolio, extensive distribution system, quality and brand drove volumes. We gained market share in Asia-Pacific as a result of the rapid development of the India market and our strong position in that country, driven by much the same competitive strengths as in China. In Europe, our market share was strengthened by our improved product portfolio and sales of our 3G/WCDMA devices.

In Middle East & Africa, our volume growth was somewhat below regional industry volume growth, resulting in a loss of share, while the overall high growth of the area and Nokia's strong market position positively contributed to our global volume growth. In Latin America, Nokia's mobile device volumes grew, although much less than the overall market, resulting in a substantial market share loss in 2005. This reflected the challenging competitive environment in the area's major markets, where operators migrated from TDMA technology, historically a strong market for us, to GSM and CDMA technologies, where our product portfolio was not viewed as sufficiently competitive.

In North America, conditions remained difficult. Consumer preference for clamshell type phones, which we did not have sufficiently in the portfolio for the mid price point in the early part of the year, and our weak market position in CDMA technology, resulted in our volumes and market share declining compared to 2004. However, we closed the year with sequential and year on year market share gains in the fourth quarter, thanks to improvements in our clamshell and CDMA product offerings.

Nokia's device ASP (average selling price) in 2005 was EUR 103, declining 6% from EUR 110 in 2004. Nokia's device ASP in 2003 was EUR 132. This decline is consistent with the industry trend and reflected our strong volume growth and market position in emerging markets, which have the industry's lowest ASPs. Nokia's device ASPs have been calculated by dividing Nokia's total mobile device net sales by mobile device volume.

The following chart sets forth Nokia's mobile device volume and year over year growth rate by geographic area for the three years ended December 31, 2005.

Nokia Mobile Device Volume by Geographic Area

	Year ended December 31, 2005	**Change (%) 2004 to 2005**	**Year ended December 31, 2004**	**Change (%) 2003 to 2004**	**Year ended December 31, 2003**
	(units in millions, except percentage data)				
Europe	88.5	28%	69.2	0%	69.3
Middle East & Africa	39.2	41%	27.8	26%	22.1
China	32.6	72%	18.9	51%	12.5
Asia-Pacific	48.4	39%	34.8	26%	27.6
North America	25.8	(10)%	28.8	(11)%	32.4
Latin America	30.4	8%	28.2	83%	15.4
Total	264.9	28%	207.7	16%	179.3

Our ability to grow our volumes depends to a large extent on our capability to maintain a competitive product portfolio of compelling, affordable and quality products, and to deliver them on a timely basis. For Nokia, a competitive product portfolio means a broad and balanced offering of commercially appealing mobile devices with attractive features, functionality and design for all major consumer segments and price points, supported by the Nokia brand, quality and competitive cost structure. This requires us to understand the different markets in which we operate, and to identify key market trends and address our customers' needs in a proactive and timely manner. Our ability to continuously renew our product portfolio is also key to our success.

We see significant volume growth potential both in the emerging as well as in the developed markets, both in terms of new subscribers and replacements. Nokia also sees sales growth opportunities in capturing value from other markets by bringing enhanced mobile experiences to consumers, such as, mobile photography and mobile music. Nokia also believes there is significant sales growth potential in bringing mobility to enterprises where the market is still at the early stages of development.

The enterprise market is emerging as an opportunity for the mobile communications industry. Businesses are beginning to realize the potential productivity gains, cost savings and competitive advantages created by secure mobile voice, data and business applications. With our Enterprise Solutions business group we intend to capture profitable segments of the enterprise market by offering products and services designed to help enterprises improve their performance by extending their use of mobility with a diverse range of mobile devices, mobile applications and security, as well as service and support.

Nokia believes that the device business is increasing in complexity. The industry winners will need to master an array of challenges to succeed in the marketplace. In our view, winners need to have great products with the right design, leading technology, a low cost base and excellent quality, all supported by a world recognized brand. In addition, the winners must possess scale advantages and excellent manufacturing and logistics. Scale, operational efficiency and cost control have been and will continue to be important factors affecting Nokia's profitability and competitiveness. Our mobile device product costs are comprised of the cost of components, manufacturing labor and overhead, royalties and license fees, the depreciation of product machinery, logistics costs as well as warranty and other quality costs. We believe our 2005 device volume of 265 million units, close to twice the volume of the nearest competitor, gives us sizeable scale benefits in component procurement. We also believe that effective and efficient research and development is vital to remaining competitive. For 2005 and 2004, the research and development expenses represented approximately 9% and 10%, respectively, of mobile device net sales. In 2005, the sales and marketing costs related to mobile devices were EUR 2.4 billion compared with EUR 1.9 billion in 2004. We are focusing on return on investment of our marketing expenditure by further leveraging our scale benefits and by deriving further efficiencies in the investments we make.

Nokia's aim is to execute our strategy by expanding the market and also by growing our mobile device market share. Of all new subscribers estimated to be added over the next three years, a clear majority are expected to come from the emerging markets. In 2006, we expect to see continued demand for advanced products, such as camera phones, 3G/WCDMA devices, smartphones and other mobile multimedia devices and services. In the short term, we believe the most significant opportunities are in mobile photography, mobile music and continued penetration of color displays. In 2005, Nokia was a clear leader in Europe, Middle East & Africa, Asia-Pacific, China, the smartphone market and in the advanced 3G/WCDMA and EDGE technologies. Nokia's goal is to increase its overall volume market share in its device business in 2006.

Nokia expects the mobile device market volume to grow more than 10% in 2006, from our preliminary estimate of approximately 795 million units in 2005. We also expect the device industry to experience value growth in 2006, but expect some decline in industry ASPs, primarily reflecting the increasing impact of the emerging markets. Nokia expects the majority of the industry's volume growth in 2006 to come from the emerging markets, which are expected to account for approximately half of the mobile device industry volumes in 2006.

Nokia estimates that the replacement market will represent over 60% of industry volumes in 2006, compared with approximately 60% in 2005. We believe that replacement sales will be driven by camera phones, 3G/WCDMA devices, smartphones, continued penetration of color displays, music features, mobile multimedia services and general aesthetic trends. According to our estimates the global 3G/WCDMA market totaled 44 million units in 2005 and we believe that it will at least double in 2006. We believe that the global mobile subscriber base reached approximately 2.2 billion at the end of 2005, and we estimate that this figure will reach 3 billion during 2008.

Our target is to continue to lower our mobile device R&D expenses/net sales ratio to 8% by the end of 2006, while simultaneously ensuring that the most compelling products are brought to market at the right time.

Infrastructure

Our Networks business group drives our infrastructure net sales by providing network infrastructure, communications and networks service platforms, as well as professional services to operators and service providers. Nokia's Enterprise Solutions business group also provides a variety of interoperable corporate infrastructure products, as discussed in the last paragraph of this section. A number of factors affect the sales and profitability of our infrastructure business, some of which are to a certain extent outside of our control.

Networks' net sales depend on the mobile infrastructure market driven by network operator investments. In low penetration markets, the principal factor influencing operator investments is the growth in mobile usage and the growth in number of subscribers. This growth in turn leads to increased demand for mobile network infrastructure as operators seek to build networks and launch commercial services to meet coverage and capacity requirements. In low penetration markets, where most networks currently use 2G technology, competition among suppliers is driven by price, the ability to provide networks and services designed for low total cost of ownership, and the ability to roll-out and support mobile networks. Investments by network operators in low penetration markets may also depend on regulatory developments, such as the availability, number and cost of telecommunications licenses. 3G/WCDMA deployment plans may also have an impact on the size and speed of operators' 2G investments.

In more developed markets, operator investments are driven primarily by the decision to expand the capacity of existing networks or upgrade them in order to incorporate new technologies, such as 3G/WCDMA, and next generation core. The demand for and commercial acceptance of such new technologies is largely dependent upon the attractiveness of related services, the pricing of 3G mobile devices, and the further maturity of 3G technologies as well as local regulation. In 3G, vendors compete on the basis of price, track record of network implementations, and which future technologies they plan to offer and when.

In 2005, according to our estimates, the value of the mobile infrastructure market increased approximately 10% from 2004, while in 2004 it increased by approximately 14% from 2003 in euro terms. Subscriber growth combined with increased voice usage in some markets has been the main driver for the 2005 market growth. Investments in 3G also contributed positively to market growth in Western Europe, Asia-Pacific and the US.

The following chart sets forth the global mobile infrastructure market size by geographic area, based on Nokia's estimates, for the three years ended December 31, 2005. Nokia's estimate of the value of the mobile infrastructure market includes sales of mobile infrastructure equipment and related services for all cellular standards.

Global Mobile Infrastructure Market Size by Geographic Area based on Nokia's Estimates

	Year ended December 31, 2005	Change (%) 2004 to 2005	Year ended December 31, 2004	Change (%) 2003 to 2004	Year ended December 31, 2003
	(EUR billions, except percentage data)				
Europe	13.9	9%	12.8	15%	11.1
Middle East & Africa	4.5	15%	3.9	23%	3.2
China	5.8	(9)%	6.3	10%	5.7
Asia-Pacific	9.9	20%	8.2	11%	7.4
North America	10.9	11%	9.9	9%	9.1
Latin America	4.3	21%	3.5	32%	2.7
Total	49.3	10%	44.6	14%	39.2

Networks' sales and profitability are also affected by the product mix. The share of 3G/WCDMA projects increased from about 17% in 2004 to about 20% in 2005 while the average gross margin in 3G/WCDMA projects improved close to our average group margin of Networks. Service related sales, such as roll-out, maintenance, professional and managed services, grew as a proportion of total sales throughout 2004 and 2005 from approximately 25% in 2004 to over 30% by year end 2005. In 2005, the increased share of services had a slightly negative impact on our profitability as services generally have lower gross margins than equipment sales and the initial stages of the contracts tend to also have somewhat lower operating margins.

In 2004, Networks entered several new geographical areas, with the effect that initial roll-out profitability was negatively impacted by market entry related costs as well as by the highly competitive nature of these markets. In 2005, we continued this aggressive market strategy with the intention to build greater scale and customer reach which we expect to result in improving profitability in the mid to longer term. We also were successful in increasing the number of swap-outs of competitors' equipment in 2005. Combined with a more aggressive entry into a number of fast-growing emerging markets, these factors had a negative impact on Networks profitability in 2005.

Networks has more than 150 mobile network customers in over 60 countries. Our systems serve roughly in excess of 400 million customers, a number we expect will grow rapidly given that many of our customers are in new emerging markets.

The following chart sets forth Nokia's Networks' net sales by geographic area for the three years ended December 31, 2005.

Networks Net Sales by Geographic Area

	Year ended December 31, 2005	Change (%) 2004 to 2005	Year ended December 31, 2004, As revised	Change (%) 2003 to 2004	Year ended December 31, 2003, As revised
	(EUR millions, except percentage data)				
Europe	2 813	1%	2 774	10%	2 519
Middle East & Africa	274	(13)%	316	23%	256
China	695	(20)%	872	31%	666
Asia-Pacific	1 197	27%	942	23%	765
North America	816	(19)%	1 008	(5)%	1 060
Latin America	762	47%	520	41%	369
Total	6 557	2%	6 432	14%	5 635

Networks sales are also impacted by price developments. Like our mobile devices business, the products and solutions offered by our Networks business are subject to price erosion over time, largely as a result of technology maturation and competitive pressures in the markets where we operate. We endeavor to mitigate the effect of the strong pricing pressures by lowering our cost base, improving operational efficiency and developing higher margin differentiated solutions for our customers. Our core network modernizing solution and innovative high capacity 3G/WCDMA base station platform provide operators with savings potential both in capital expenditure and in operating expenses. We have also taken actions to drive our software business to expand our margins.

Networks' profitability is affected by the level of our R&D spending. In prior years, the level of R&D in our infrastructure business has been high due to the simultaneous development of multiple radio access technologies and new core network platforms. In 2005, our research and developments costs were 17.8% of our net sales. We are targeting to bring down the level of our R&D spend as a percentage of sales, however, there are a number of market developments, including an increased requirement for 3G/WCDMA frequency variants and alternative radio access technologies, that may affect our ability to achieve our challenging target of 14% of our net sales by the end of 2006. This Networks' R&D target is part of the plan to bring overall Nokia R&D expenditure down to 9%-10% of net sales by the end of 2006. As discussed above in this section under " Mobile Devices", in our mobile device business we are targeting an R&D expenses/net sales ratio of 8% by the end of 2006.

In mobile infrastructure, we expect moderate growth in the mobile infrastructure market in euro terms in 2006. We expect the market to be driven by continuing subscriber growth, growing minutes of use, technology evolution and a growing trend by operators to outsource network operations.

Within our Enterprise Solutions infrastructure business, we believe that we have the potential to grow our net sales and improve our profitability further by addressing enterprises' demand for interoperable corporate infrastructure products such as firewalls and IP VPNs.

Subsequent Events

Preliminary Agreement with SANYO

On February 14, 2006, Nokia and SANYO Electric Co., Ltd announced a preliminary agreement with intent to form a new global company comprised of their respective CDMA mobile phone businesses separate from the parent companies. The relevant assets from both companies will be contributed or made available for the new entity. Final agreements are expected to be signed in the second quarter of 2006, with the new business expected to commence operations in the third quarter of 2006, provided that the due diligence has been completed and all necessary regulatory approvals obtained.

Considering the preliminary structure, the new entity is expected to be treated as an associated company for accounting purposes, and therefore upon formation Nokia's share of the revenues and expenses and assets and liabilities of the entity will be shown as single line item in the consolidated profit and loss, balance sheet and financial statements of the Group. The historical Nokia CDMA business has represented less than 5% of our net sales, operating profit and total assets. Additional information regarding the impact of this transaction on us will become available once agreements with SANYO Electric Co., Ltd are finalized.

Acquisition of Intellisync

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 will be integrated into the Enterprise Solutions business group, and its results of operations will be included in our consolidated financial statements as from the acquisition date.

Other than the cash consideration paid and corresponding intangible assets recognized, principally goodwill, the acquisition is not expected to have a material effect on our results of operations, financial position, or cash flows in 2006.

Telsim settlement

As previously agreed with Telsim and the Turkish Savings and Deposit Insurance Fund (TMSF), which currently controls and manages Telsim's assets, Nokia will receive a settlement payment upon completion of the sale of Telsim's assets for losses Nokia incurred in 2001. Our share of the announced purchase price expected to be received during the first half of 2006 is 7.5% of the purchase price, or USD 341 million (EUR 285 million) and is subject to negotiations.

Certain Other Factors

United States Dollar

In 2005 the US dollar was weaker on average than in 2004, even though the US dollar trend reversed and the US dollar appreciated against the euro by 12.6% (when measured year-end rate compared to the year-end rate for the previous year). When measured by the average rate used to record transactions in foreign currency for accounting purposes for the year compared with the corresponding rate for the previous year, the US dollar depreciated against the euro by 1.7% in 2005. The weaker US dollar on average had a slight negative impact on our net sales expressed in euros because somewhat more than 50% of our net sales are generated in US dollars and currencies closely following the US dollar. However, the average depreciation of the US dollar also contributed to a lower average product cost as more than 50% of the components we use are sourced in US dollars. To mitigate the impact of changes in exchange rates on net sales as well as average product cost, we hedge all material transaction exposures on a gross basis. All in all, the average depreciation of the US dollar had a slightly negative impact on our operating profit in 2005. For more information, see " Results of Operations Exchange Rates" below.

Finnish Corporate Tax Rate

Effective January 1, 2005 the Finnish corporate tax rate was reduced by 3 percentage points from 29% to 26%. This reduction had a significant favorable impact on Nokia's net profit as more than half of Nokia's profit before tax has been generated in Finland. See also Note 13 to our consolidated financial statements for a further discussion of our income taxes.

Seasonality

Our device sales are somewhat affected by seasonality. Historically, the first quarter of the year was the lowest quarter of the year, while the fourth quarter was the strongest quarter. This was mainly due to the effect of holiday sales. The second quarter of the year was another high season, as consumers in the Northern Hemisphere prepared for summer vacations. The third quarter was usually slower than the second and fourth quarters, as consumers postponed purchases until the end of year holiday season.

However, over the past four years, we have seen a trend towards less seasonality. We still continue to see the fourth quarter as our strongest quarter, while the differences between the three other quarters have begun to moderate. This trend has resulted, first, from the fact that the purchasing behavior of first-time mobile device buyers tends to be more seasonal than that of people who are replacing their device for a new model. Because replacement sales comprise an increasing percentage of sales, the seasonality of mobile device sales has decreased. The trend towards less seasonality has also been aided by an increase of our geographical sales reach. The times at which people give gifts vary across the world, and as our global sales coverage increases, this softens the seasonality of sales. However, as we still continue to see our strongest sales in the fourth quarter, we believe that they are still supported by the year-end and holiday seasonality.

Our infrastructure business has also experienced some seasonality during the last few years. Sales have been higher in the last quarter of the year compared with the first quarter of the following year, due to operators' planning, budgeting and spending cycle.

Accounting developments

As of January 1, 2005, we adopted new accounting standards, the most significant of which were: IFRS 2, Share-based payment and IAS 39(R), Financial instruments: Recognition and Measurement, which supersedes IAS 39 (revised 2000). These are discussed in more detail under "Basis of presentation" in Note 1 and in Note 2 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

The International Accounting Standards Board, or IASB, has and will continue to critically examine current International Financial Reporting Standards, or IFRS, with a view toward increasing international harmonization of accounting rules. This process of amendment and convergence of worldwide accounting rules continued in 2005 resulting in amendments to the existing rules effective from January 1, 2006 and additional amendments effective the following year. These are discussed in more detail under "New IFRS standards and revised IAS standards" in Note 1 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

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 included in Item 18 of this annual report on Form 20-F. 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 and collectibility is probable. The remainder of revenue is recorded under the percentage of completion method.

Mobile Phones, Multimedia and Enterprise Solutions, and certain Networks' revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. 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.

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.

Networks' 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. 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 our Networks business. 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 38(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 analyzes 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. 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 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 Item 8.A.7 Litigation and Note 32 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.

Deferred taxes

Management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. We recognize deferred tax assets if 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 assessing whether deferred tax assets should 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 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 6 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

We have 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 24 to the consolidated financial statements and include, among others, the dividend yield, expected volatility and expected life of the options. The expected life of 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 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 the target amount. 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.

Results of Operations

2005 compared with 2004

Nokia Group

The following table sets forth selective line items and the percentage of net sales that they represent for Nokia for the fiscal years 2005 and 2004.

	Year ended December 31, 2005	Percentage of Net Sales	Year ended December 31, 2004 As revised	Percentage of Net Sales	Percentage Increase/ (decrease)
	(EUR millions, except percentage data)				
Net sales	34 191	100.0%	29 371	100.0%	16%
Cost of sales	(22 209)	(65.0)%	(18 179)	(61.9)%	22%
Gross profit	11 982	35.0%	11 192	38.1%	7%
Research and development expenses	(3 825)	(11.2)%	(3 776)	(12.9)%	1%
Selling and marketing expenses	(2 961)	(8.7)%	(2 564)	(8.7)%	15%
Administrative and general expenses	(609)	(1.8)%	(611)	(2.1)%	
Other operating income and expenses	52	0.2%	181	0.6%	(71)%
Amortization of goodwill			(96)	(0.3)%	(100)%
Operating profit	4 639	13.6%	4 326	14.7%	7%

For 2005, Nokia's net sales increased 16% to EUR 34.2 billion compared with EUR 29.4 billion in 2004. At constant currency, group net sales would have grown 20% in 2005. Our gross margin in 2005 was 35.0% compared with 38.1% in 2004. This reflected the higher proportion of entry level devices in our product mix in 2005 due to strong volume growth in emerging markets, which have the industry's lowest ASPs. Our gross margin in 2005 was also affected by intense price competition in both the device and infrastructure markets, as well as by the lower margin services business and emerging markets representing an increased share of Networks sales.

Research and development, or R&D, expenses were EUR 3.8 billion in both 2005 and 2004. Research and development expenses represented 11.2% of net sales in 2005, down from 12.9% in

2004. Research and development expenses increased in Mobile Phones and Enterprise Solutions and decreased in Multimedia and Networks. In 2005, Multimedia incurred a restructuring charge of EUR 15 million related to R&D activities. Networks R&D expenses included impairments of EUR 115 million in 2004. If these items were excluded, R&D expenses would have increased 4% in 2005 and would have represented 11.1% of Nokia net sales in 2005 compared with 12.5% of Nokia net sales in 2004.

Selling and marketing expenses increased in Mobile Phones, Multimedia and Enterprise Solutions due to increased marketing spend in the device business groups and decreased spending in Networks. In 2005, selling and marketing expenses were EUR 3.0 billion, up 15% from EUR 2.6 billion in 2004. Selling and marketing expenses were equal to 8.7% of Nokia net sales in both 2005 and 2004.

Administrative and general expenses were EUR 0.6 billion in both 2005 and 2004. Administrative and general expenses were equal to 1.8% of net sales in 2005 and 2.1% in 2004.

In 2005, other operating income and expenses included a gain of EUR 61 million relating to the divesture of the Group's Tetra business, a gain of EUR 18 million related to the partial sale of a minority investment, and a gain of EUR 45 million 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 the restructuring taken in light of general downturn in market conditions. In 2004, other operating income and expenses included a return of an insurance premium of EUR 160 million and a EUR 12 million loss from the divestiture of Nextrom.

Nokia Group's operating profit for 2005 increased 7% to EUR 4 639 million compared with EUR 4 326 million in 2004. A substantial increase in Multimedia's operating profit in 2005 more than offset operating profit declines in the other business groups. Our operating margin was 13.6% in 2005 compared with 14.7% in 2004.

Results by Segments

Mobile Phones

The following table sets forth selective line items and the percentage of net sales that they represent for the Mobile Phones business group for the fiscal years 2005 and 2004.

	Year ended December 31, 2005	Percentage of Net Sales	Year ended December 31, 2004 As revised	Percentage of Net Sales	Percentage Increase/ (decrease)
	(EUR millions, except percentage data)				
Net sales	20 811	100%	18 521	100.0%	12%
Cost of sales	(14 331)	(68.9)%	(12 045)	(65.0)%	19%
Gross profit	6 480	31.1%	6 476	35.0%	
Research and development expenses	(1 245)	(6.0)%	(1 196)	(6.5)%	4%
Selling and marketing expenses	(1 541)	(7.4)%	(1 300)	(7.0)%	19%
Administrative and general expenses	(68)	(0.3)%	(96)	(0.5)%	(29)%
Other operating income and expenses	(28)	(0.1)%	(21)	(0.1)%	33%
Amortization of goodwill			(77)	(0.4)%	(100)%
Operating profit	3 598	17.3%	3 786	20.4%	(5)%

Mobile Phones business group 2005 net sales increased 12% to EUR 20 811 million compared with EUR 18 521 million in 2004. At constant currency, Mobile Phones business group net sales would have increased by 15%. Sales growth was strongest in China followed by Asia-Pacific, Europe and Middle East & Africa. Net sales declined in North America and to a lesser extent in Latin America. Net sales in 2005 increased as a result of strong demand for the Nokia 6230 mid range family, including the Nokia 6230i (Nokia's highest revenue generating phone in 2005), the entry level Nokia 1100 family and the Nokia 2600. Volume growth was partially offset by declining ASPs.

Mobile Phones 2005 gross profit was EUR 6 480 million, virtually the same level as 2004. This represented a gross margin of 31.1% in 2005 compared with a gross margin of 35.0% in 2004. This decline reflected a higher proportion of sales of lower priced entry level phones, driven by strong demand in emerging markets where our share is high.

Mobile Phones 2005 R&D expenses increased by 4% to EUR 1 245 million, with the target to bring more new products to the market, compared with EUR 1 196 million in 2004. In 2005, R&D expenses represented 6.0% of Mobile Phones net sales compared with 6.5% of its net sales in 2004.

In 2005, Mobile Phones selling and marketing expenses increased by 19% to EUR 1 541 million as a result of higher investments in marketing and advertising in order to introduce more new products, compared with EUR 1 300 million in 2004. In 2005, selling and marketing expenses represented 7.4% of Mobile Phones net sales compared with 7.0% of its net sales in 2004.

In 2005, Mobile Phones operating profit decreased 5% to EUR 3 598 million compared with EUR 3 786 million in 2004, with a 17.3% operating margin, down from 20.4% in 2004. This decline reflected a higher proportion of sales of lower priced entry level phones, driven by strong demand in emerging markets where our share is high, in addition to an increase in operating expenses as explained above.

Multimedia

The following table sets forth selective line items and the percentage of net sales that they represent for the Multimedia business group for the fiscal years 2005 and 2004.

	Year ended December 31, 2005	Percentage of Net Sales	Year ended December 31, 2004 As revised	Percentage of Net Sales	Percentage Increase/ (decrease)
	(EUR millions, except percentage data)				
Net sales	5 981	100%	3 676	100.0%	63%
Cost of sales	(3 492)	(58.4)%	(2 118)	(57.6)%	65%
Gross profit	2 489	41.6%	1 558	42.4%	60%
Research and development expenses	(860)	(14.4)%	(863)	(23.5)%	
Selling and marketing expenses	(705)	(11.8)%	(488)	(13.2)%	44%
Administrative and general expenses	(38)	(0.6)%	(36)	(1.0)%	6%
Other operating income and expenses	(50)	(0.8)%	16	0.4%	
Amortization of goodwill			(12)	(0.3)%	
Operating profit	836	14.0%	175	4.8%	378%

Multimedia business group 2005 net sales increased 63% to EUR 5 981 million compared with EUR 3 676 million in 2004. At constant currency, Multimedia net sales would have increased 69% in 2005. Strong sales were supported by high demand for 3G/WCDMA devices such as the Nokia

6680 and the Nokia 6630, as well as the Nokia N70 towards the end of the year. Sales growth was highest in the Middle East & Africa, Europe and China, as well as in Asia-Pacific. Multimedia sales in the Americas continued at a low level.

Multimedia 2005 gross profit increased by 60% to EUR 2 489 million compared with EUR 1 558 million in 2004. This represented a gross margin of 41.6% in 2005 compared with a gross margin of 42.4% in 2004. The increase in gross profit was in line with the growth in net sales.

Multimedia 2005 R&D expenses were EUR 860 million compared with EUR 863 million in 2004, representing 14.4% of Multimedia net sales in 2005 compared with 23.5% of its net sales in 2004. A restructuring charge of EUR 15 million was recorded in 2005, as a result of more focused R&D activities.

In 2005, Multimedia's selling and marketing expenses increased by 44% to EUR 705 million as a result of increase in marketing and advertising expenses, primarily due to the launch of the Nokia Nseries sub-brand. Selling and marketing expenses were EUR 488 million in 2004. In 2005, selling and marketing expenses represented 11.8% of Multimedia's net sales compared with 13.2% of its net sales in 2004.

In 2005, other operating income and expenses included a gain of EUR 19 million related to the divesture of the Group's Tetra business.

Multimedia 2005 operating profit increased to EUR 836 million compared with EUR 175 million in 2004, with an operating margin of 14.0% in 2005, up from 4.8% in 2004. Operating profit was affected by significant expenditures to launch and market the Nokia Nseries sub-brand in 2005.

Enterprise Solutions

The following table sets forth selective line items and the percentage of net sales that they represent for the Enterprise Solutions business group for the fiscal years 2005 and 2004.

	Year ended December 31, 2005	**Percentage of Net Sales**	**Year ended December 31, 2004 As revised**	**Percentage of Net Sales**	**Percentage Increase/ (decrease)**
	(EUR millions, except percentage data)				
Net sales	861	100.0%	839	100.0%	3%
Cost of sales	(459)	(53.3)%	(475)	(5	