

NOKIA CORP
Form 20-F
March 12, 2007

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As filed with the Securities and Exchange Commission on March 12, 2007.

**UNITED STATES 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, 2006
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 Securities Exchange Act of 1934 (the Exchange Act):

Title of each class	Name of each exchange on which registered
American Depositary Shares Shares, par value EUR 0.06	New York Stock Exchange 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 Exchange Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Exchange 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: **4 095 042 619**

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

Yes No

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 Exchange Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Item 17 Item 18

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 No

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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 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 1.3197 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, 2006. 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. 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 American Depositary Receipts, or ADRs, evidencing American Depositary Shares, or ADSs (one ADS represents one share), and delivers to all record holders of ADRs notices of shareholders' meetings received by the Depositary. In addition to the materials delivered to holders of ADRs 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 as well as on Citibank's website at <http://citibank.ar.wilink.com> (enter Nokia in the Company Name Search). Holders may also request a hard copy of this Form 20-F by calling the toll-free number 1-877-NOKIA-ADR (1-877-665-4223), or by directing a written request to Citibank, N.A., Shareholder Services, PO Box 43124, Providence RI 02940-5140, or by calling Nokia Investor Relations US Main Office at 1-914-368-0555. With each annual distribution of our proxy materials, we offer our record holders of ADRs the option of receiving all of these documents electronically in the future.

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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 regarding our mobile device volume growth, market share, prices and margins;

expectations and targets for our results of operations;

the outcome of pending and threatened litigation;

expected timing, scope and effects of the merger of Nokia s and Siemens communications service provider businesses; and

statements preceded by believe, expect, anticipate, foresee, target, estimate, designed, plans, will expressions

are forward-looking statements.

Because these statements involve risks and uncertainties, actual results may differ materially from the results that we currently expect. Factors that could cause these differences include, but are not limited to:

1. competitiveness of our product portfolio;
2. our ability to identify key market trends and to respond timely and successfully to the needs of our customers;
3. 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;
4. the availability of new products and services by network operators and other market participants;
5. our ability to successfully manage costs;
6. the intensity of competition in the mobile communications industry and our ability to maintain or improve our market position and respond successfully to changes in the competitive landscape;
7. 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;
8. timely and successful commercialization of complex technologies as new advanced products and solutions;
9. our ability to protect the complex technologies, which 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;
10. our ability to protect numerous Nokia patented, standardized, or proprietary technologies from third party infringement or actions to invalidate the intellectual property rights of these technologies;

11. 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;
12. inventory management risks resulting from shifts in market demand;

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13. our ability to source quality components and sub-assemblies without interruption and at acceptable prices;
14. satisfaction or waiver of the conditions to the merger of Nokia's networks business and Siemens' carrier-related operations for fixed and mobile networks to form Nokia Siemens Networks, including achievement of agreement between Nokia and Siemens on the results and consequences of a Siemens compliance review, and agreement of a number of detailed implementation steps, and closing of the transaction, and Nokia's and Siemens' ability to successfully integrate the operations, personnel and supporting activities of their respective businesses;
15. whether, as a result of investigations into alleged violations of law by some current or former employees of Siemens, government authorities or others take actions against Siemens and/or its employees that may involve and affect the carrier-related assets and employees transferred by Siemens to Nokia Siemens Networks, or there may be undetected additional violations that may have occurred prior to the transfer, or ongoing violations that may occur after the transfer, of such assets and employees that could result in additional actions by government authorities;
16. the expense, time, attention and resources of Nokia Siemens Networks and our management to detect, investigate and resolve any situations related to alleged violations of law involving the assets and employees of Siemens carrier-related operations transferred to Nokia Siemens Networks;
17. any impairment of Nokia Siemens Networks customer relationships resulting from the ongoing government investigations involving the Siemens carrier-related operations transferred to Nokia Siemens Networks;
18. developments under large, multi-year contracts or in relation to major customers;
19. general economic conditions globally and, in particular, economic or political turmoil in emerging market countries where we do business;
20. our success in collaboration arrangements relating to development of technologies or new products and solutions;
21. the success, financial condition and performance of our collaboration partners, suppliers and customers;
22. any disruption to information technology systems and networks that our operations rely on;
23. 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, as well as certain other currencies;
24. the management of our customer financing exposure;
25. allegations of possible health risks from electromagnetic fields generated by base stations and mobile devices and lawsuits related to them, regardless of merit;
26. unfavorable outcome of litigations;

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

28. 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.
Other unknown or unpredictable factors or underlying assumptions subsequently proving to be incorrect could cause actual results to differ materially from those in the forward-looking statements. Nokia does not undertake any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

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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, 2005 and 2006 and for each of the years in the three-year period ended December 31, 2006 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, 2002 and 2003, and December 31, 2004, and for each of the years in the two-year period ended December 31, 2003 have been derived from Nokia's previously published audited consolidated financial statements not included in this document.

The financial data at December 31, 2005 and 2006 and for each of the years in the three-year period ended December 31, 2006 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 differs 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 38 to our audited consolidated financial statements.

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	Year ended December 31,					
	2002	2003	2004	2005	2006	2006
	(EUR)	(EUR)	(EUR)	(EUR)	(EUR)	(USD)
	(in millions, except per share data)					
Profit and Loss Account Data						
<i>Amounts in accordance with IFRS</i>						
Net sales	30 016	29 533	29 371	34 191	41 121	54 267
Operating profit	4 780	4 960	4 326	4 639	5 488	7 243
Profit before tax	4 917	5 294	4 705	4 971	5 723	7 553
Profit attributable to equity holders of the parent	3 381	3 543	3 192	3 616	4 306	5 683
Earnings per share (for profit attributable to equity holders of the parent)						
Basic earnings per share	0.71	0.74	0.69	0.83	1.06	1.40
Diluted earnings per share	0.71	0.74	0.69	0.83	1.05	1.39
Cash dividends per share ⁽¹⁾	0.28	0.30	0.33	0.37	0.43	0.57
Average number of shares (millions of shares)						
Basic	4 751	4 761	4 593	4 366	4 063	4 063
Diluted	4 788	4 761	4 600	4 371	4 087	4 087
<i>Amounts in accordance with US GAAP</i>						
Net income	3 603	4 097	3 343	3 582	4 275	5 642
Earnings per share (net income)						
Basic earnings per share	0.76	0.86	0.73	0.82	1.05	1.39
Diluted earnings per share	0.75	0.86	0.73	0.82	1.05	1.39
Balance Sheet Data						
<i>Amounts in accordance with IFRS</i>						
Fixed assets and other non-current assets ⁽²⁾	5 896	3 991	3 315	3 501	4 031	5 320
Cash and other liquid assets ⁽³⁾	9 351	11 296	11 542	9 910	8 537	11 266
Other current assets	8 234	8 787	7 966	9 041	10 049	13 262
Total assets	23 481	24 074	22 823	22 452	22 617	29 848
Capital and reserves attributable to equity holders of the parent ⁽²⁾	14 435	15 302	14 385	12 309	11 968	15 794
Minority interests	173	164	168	205	92	121
Long-term interest-bearing liabilities	187	20	19	21	69	91
Other long-term liabilities	274	308	275	247	327	432
Borrowings due within one year	377	471	215	377	247	326
Other current liabilities	8 035	7 809	7 761	9 293	9 914	13 084
Total shareholders' equity and liabilities	23 481	24 074	22 823	22 452	22 617	29 848
Net interest-bearing debt ⁽⁴⁾	(8 787)	(10 805)	(11 308)	(9 512)	(8 221)	(10 849)
Share capital	287	288	280	266	246	325
<i>Amounts in accordance with US GAAP</i>						
Total assets ⁽²⁾	23 041	24 109	22 985	22 725	22 835	30 135
Shareholders' equity ⁽²⁾	14 214	15 501	14 640	12 622	12 112	15 984

- (1) The cash dividend for 2006 is what the Board of Directors will propose for shareholders' approval at the Annual General Meeting convening on May 3, 2007.
- (2) Total assets and shareholders' equity have each been increased by EUR 154 million for all periods presented to adjust for income tax-related items in periods prior to 2002. These increases were recorded in connection with a change in the method by which the company assesses materiality. See Notes 1 and 38 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

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- (3) 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.
- (4) 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 and subject to limited exceptions, in the amount proposed by our Board of Directors. The amount of any distribution is limited to the amount of distributable earnings of the parent company pursuant to the last annual accounts approved by our shareholders, taking into account the material changes in the financial situation of the company after the end of the last financial period and a statutory requirement that the distribution of earnings must not result in insolvency of the company. 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.

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. The authorization may amount to a maximum of 10% of all the shares of the company (up to 5% until 2005) and its maximum length is 18 months (up to 12 months until 2006). The Board of Directors of Nokia has been regularly authorized by our shareholders in the Annual General Meetings to repurchase Nokia's own shares since 2001, and during the past three years the authorization covered 230 million shares in 2004, 443.2 million shares in 2005 and 405 million shares in 2006. The amount authorized each year has been at or slightly under the maximum limit provided by the Finnish Companies Act.

On January 25, 2007, we announced that the Board of Directors will propose for shareholders' approval at the Annual General Meeting, convening on May 3, 2007, a new authorization to repurchase a maximum of 380 million shares which corresponds to less than 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)
2002	900 000	17
2003	95 338 500	1 363
2004	214 119 700	2 661
2005	315 010 000	4 265
2006	212 340 000	3 412

For more information about share buy-backs during 2006, see Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

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On January 25, 2007, we announced that the Board of Directors will propose for shareholders' approval at the Annual General Meeting convening on May 3, 2007 a dividend of EUR 0.43 per share in respect of 2006.

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 2002-2006, 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)
2002	0.28	0.30	1 341
2003	0.30	0.36	1 439
2004	0.33	0.43	1 539
2005	0.37	0.46	1 641
2006	0.43 ⁽¹⁾	⁽²⁾	1 761 ⁽¹⁾

⁽¹⁾ To be proposed by the Board of Directors for shareholders' approval at the Annual General Meeting convening on May 3, 2007.

⁽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 2002 through 2006 and for each of the months in the six-month period ended February 28, 2007, 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.

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For the year ended December 31:	Exchange Rates			
	Rate at period end	Average rate	Highest rate	Lowest rate
	(USD per EUR)			
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
2006	1.3197	1.2661	1.3327	1.1860

For the month ended:

September 30, 2006	1.2687	1.2722	1.2833	1.2648
October 31, 2006	1.2773	1.2617	1.2773	1.2502
November 30, 2006	1.3261	1.2888	1.3261	1.2705
December 31, 2006	1.3197	1.3205	1.3327	1.3073
January 31, 2007	1.2998	1.2993	1.3286	1.2904
February 28, 2007	1.3230	1.3080	1.3246	1.2933

On February 28, 2007, the noon buying rate was USD 1.3230 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.

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

In order to meet our customers' needs, we need to have a competitive product portfolio with products that are preferred to those of our competitors. For Nokia, a competitive mobile device product portfolio means a broad and balanced offering of commercially appealing mobile devices with attractive aesthetics, design, features and functionality for all major consumer segments and price points supported by the Nokia brand, quality and competitive cost structure. In our networks business, a competitive product portfolio means for us a high-quality offering of products designed to meet the requirements of our customers and local markets, supported by quality and a competitive cost structure.

In order to have a competitive product portfolio, we need to understand the different markets in which we operate and meet the needs of our customers. We serve a diverse range of mobile device and infrastructure customers, ranging from mobile network operators, distributors, independent retailers, corporate customers to consumers, 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

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rates and technology, aesthetics, feature, and pricing preferences. Establishing and maintaining good relationships with our customers, including both our mobile device and networks infrastructure customers and end-users, 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 anticipate 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 market share and 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 mobile network operator's brand. This is particularly the case in Latin America and North America where sales to mobile network operators represent the major percentage of our sales. As a result, we may need to produce mobile devices for such markets in smaller lot sizes, which could impede our economies of scale and expected profitability. In addition, co-branding could possibly erode the Nokia brand.

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 and the value of the Nokia brand. A number of factors, including actual or even alleged quality issues or defects in our products and solutions, may have a negative effect on our reputation and erode the value of the Nokia brand. Prior to the shipment of the products, quality issues may cause delays in shipping products to customers and related additional costs or even cancellation of orders by customers. After shipment to our customers or consumers, products may fail to meet marketing expectations set for them or may malfunction, and thus cause additional repair or warranty costs to us and harm our reputation. In case of issues affecting a product's safety or regulatory compliance, we may be subject to damages due to product liability, or defective products may need to be replaced or recalled. Due to our high volumes, quality issues or defects in our products or their components may have a significant adverse effect on our net sales and profitability. 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 net sales and lower profits.

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 of the mobile communications industry in terms of, to an increasing degree, the number of existing mobile subscribers who upgrade or simply replace their existing mobile devices, and also the number of new subscribers and increased usage. Our sales and profitability are also 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 mobile network operators in highly penetrated markets to successfully introduce services that drive the upgrade and replacement of devices, as well as ownership of multiple devices. Further, in order to support a continued increase in mobile subscribers in certain low penetration markets, we are dependent on mobile network operators and distributors to increase their sales volumes of lower cost mobile devices, and on mobile network operators to offer affordable tariffs and to offer tailored mobile network solutions designed for a low total cost of ownership. If mobile network operators are not successful in their attempts to increase subscriber numbers, stimulate increased usage or drive upgrade and replacement sales, our business and results of operations could be materially adversely affected.

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Our industry continues to undergo significant changes. First, the mobile communications, the Internet, information technology, media, entertainment, music, 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, including various services, for products and solutions.

As a result of these changes, new market segments within our industry have emerged and are still emerging. We have made significant investments in new business opportunities in certain of these market segments, such as smartphones, multimedia computers, enterprise applications, music, navigation, video, TV, imaging, games and business mobility 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.

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

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. Other factors impacting our profitability include the extent to which our product mix is weighted towards lower-priced products and our regional mix is weighted towards emerging markets where lower-priced products predominate.

As a result of the above factors, in order to be profitable, we need to be able to lower our costs at the same rate or faster than the price erosion and introduce new cost-efficient products with higher prices in a timely manner, generally proactively manage costs related to our products, manufacturing, logistics and other operations, and related licensing, as well as leverage our scale to the fullest extent. If we are unable to do this, 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, design, price, operational and manufacturing efficiency, technical performance, distribution, product features, quality, customer support and brand. The competition continues to be intense from both our traditional competitors in the mobile communications industry as well as a number of new competitors. 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.

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We believe that Nokia has a cost advantage in mobile devices compared to our competitors as a result of our 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, including also further concentration of the market on fewer 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 and results of operations.

As a result of developments in our industry, including convergence of mobile phone technology with the Internet, we also face new competition from companies in related industries, such as Internet-based products and services, 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. Further, as the industry now includes increasing numbers of participants that provide specific hardware and software layers within products and solutions, we face competition at the level of these layers rather than solely at the level of complete products and solutions. 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.

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

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 involve time, substantial costs and risks both within and outside of our control. We must also be able to convert these complex technologies into affordable and usable products. 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. In addition, we seek to protect our technology investments with intellectual property rights. When doing this, our business is influenced by the regulatory and legal environments approach to intellectual property rights, including the scope and degree of patent protection as well as copyright levies which vary country by country.

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 current and potential customers, or at prices acceptable to them.

Our products and solutions include increasingly complex technology involving numerous new Nokia patented, standardized, or 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 be used in our business, will be available or available on commercially acceptable terms on a timely basis.

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.

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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 illegal, 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' 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.

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

In June 2006, Nokia and Siemens AG (Siemens) announced plans to form Nokia Siemens Networks that will combine Nokia's networks business and Siemens' carrier-related operations for fixed and mobile networks in a new company owned approximately 50% by each of Nokia and Siemens and consolidated by Nokia. Nokia Siemens Networks is expected to start operations around the end of March 2007. The completion of the transaction is subject to the satisfaction or waiver of the conditions to the merger, including achievement of agreement between Nokia and Siemens on the results and consequences of a Siemens compliance review, and the agreement of a number of detailed implementation steps. For more information on Nokia Siemens Networks, see Item 4.B Business Overview Nokia Siemens Networks.

Achieving the expected benefits and synergies of this combination will depend, in part, upon whether the operations, personnel and supporting activities of Nokia's networks business and those of Siemens' carrier-related operations for fixed and mobile networks can be integrated in an efficient and effective manner. The process of effectively integrating these businesses into one company will require significant managerial and financial resources and may divert the management's attention from other business activities. The costs and time required to integrate these businesses into one company could cause the interruption of, or a loss of momentum in, the activities of any one, or several, of the operations of the constituent entities. The failure to successfully integrate these businesses within the expected time frame could adversely affect our business, financial condition and results of operations.

In addition to all the applicable other risks included in this Item 3.D Risk factors, Nokia Siemens Networks may also expose us to certain additional risks, including difficulties arising from operating a significantly larger and more complex organization and adding operations to our existing operations. Further, unexpected costs and challenges may arise whenever businesses with different operations, management and culture are combined.

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

Prosecutorial investigations are being conducted by authorities in Germany and certain other countries with respect to whether certain transactions and payments arranged by some current or former employees of Siemens Com business group, covering the carrier-related operations for fixed and mobile networks to be transferred to Nokia Siemens Networks, violated applicable laws. We understand that Siemens has voluntarily informed the SEC and the US Department of Justice about this matter. As well, additional government authorities in these or other jurisdictions could launch separate investigations. If any of these government authorities determines that violations of law have occurred, including violations of the US Foreign Corrupt Practices Act, they may take action against Siemens and/or some of its employees. These actions could include criminal and civil fines, penalties, sanctions, injunctions against future conduct, equitable remedies including profit disgorgement, disqualifications from engaging in certain types of business or other restrictions, as well as requiring modifications to Siemens business practices and compliance programs. We understand that Siemens is cooperating with the various government authorities. It is not possible at this time to predict whether such government authorities will take such action and if they do what it might be and the extent to which such action might apply to the assets and employees transferred by Siemens to Nokia Siemens Networks.

The government investigations and Siemens and Nokia's own internal investigations into these alleged violations of law by some current or former Siemens employees are ongoing. Accordingly, it is not possible to ensure that at the time of the closing of the merger certain Siemens employees who may have been involved in the alleged violations of law are not transferred to Nokia Siemens Networks. Nor is it possible to predict the extent to which there may be undetected additional violations of law that may have occurred prior to the transfer of the carrier-related assets and employees to Nokia Siemens Networks that could result in additional actions by government authorities. It is also not possible to predict whether there may be any ongoing violations of law after such transfer and the closing of the merger involving the assets and employees of the Siemens carrier-related operations that could result in additional actions by government authorities. The development of any of these situations could have a material adverse effect on Nokia Siemens Networks and our business, results of operations, financial condition and reputation. In addition, detecting, investigating and resolving such situations could be expensive and consume significant time, attention and resources of Nokia Siemens Networks and our management, which could harm our business and that of Nokia Siemens Networks.

The government investigations could also harm Nokia Siemens Networks' relationships with existing customers, impair its ability to obtain new customers, business partners and public procurement contracts and result in the cancellation or renegotiation of existing contracts on terms less favorable than currently exist. To the extent certain Siemens carrier-related customer relationships involved payments and transactions in violation of applicable law, it is not possible to predict whether such relationships would be affected by Nokia Siemens Networks' legally compliant business terms and practices. Third party civil litigation may also be instigated against the Siemens carrier-related operations and/or employees transferred to Nokia Siemens Networks.

From its inception, Nokia Siemens Networks will have a comprehensive and robust compliance program and internal financial controls designed to ensure the highest standards of reporting and

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compliance with all applicable laws. Siemens has agreed to indemnify Nokia and Nokia Siemens Networks for any government fines or penalties and damages from civil law suits incurred by either, as well as in certain instances for loss of business through terminated or renegotiated contracts, based on violations of law in the Siemens carrier-related operations that occurred prior to the transfer to Nokia Siemens Networks.

We cannot predict with any certainty the final outcome of any investigations related to this matter, when and the terms upon which the various investigations will be resolved, which could be a number of years, or the consequences of the alleged or any possible future violations of law on the business of Nokia Siemens Networks, including its relationships with customers.

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

Our products and solutions include increasingly complex technologies some of which have been developed or licensed to us by third parties. As the amount of such proprietary technologies and the number of parties claiming intellectual property rights continues to increase, even within individual products, and as the Nokia product range becomes more diversified and Nokia enters new businesses, 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, may have different business models, 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. While the rules of many standard setting bodies, such as European Telecommunication Standardization Institute (ETSI), often apply on a global basis, the enforcement of those rules may

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involve national courts, which means that there may be a risk of different interpretation of those rules. From time to time, some existing patent licenses may expire, 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 could have a material adverse impact on our operating results. Nokia is currently in negotiation regarding the applicable license fees for a subset of Qualcomm Incorporated's (Qualcomm including its affiliates) patents and access for Qualcomm to a subset of Nokia patents due to an expiration in part of the current license agreement between the parties on April 9, 2007. Our general experience is that these kind of negotiations eventually are successfully concluded, however, there is a risk that litigation will create uncertainty regarding the license fees. During the time period from expiration of the payment obligations until we reach an agreement on new license fees, we would accrue for and expense an appropriate royalty. However, from a cash flow perspective, the cash payments to Qualcomm would most likely decrease or cease until we reach an agreement. The ultimate outcome may differ from the provided level which could have a positive or negative impact on our operating results. In addition, there is a risk that once the ultimate outcome is available, it may have a negative impact on our cash flow.

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 royalty or licensing agreements were not available or available on commercially acceptable terms, we could be precluded from making and selling the affected products and solutions or could face increased licensing costs. 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. See Item 4.B Business Overview Patents and Licenses for a more detailed discussion of our intellectual property activities.

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

Our products and solutions include numerous new Nokia patented and other proprietary technologies on which we depend. Despite the steps that we have taken to protect our technology investment with 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. Third parties may illegally infringe our intellectual property relating to our non-licensable proprietary features or third parties may also infringe our intellectual property by ignoring their obligation to seek a license.

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. Also, 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

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from using such patent as a basis for product differentiation or from licensing the invalidated or limited portion of our intellectual property rights, or we could lose part or all of the leverage we have in terms of our own intellectual property rights portfolio. 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.

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 business 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 business, 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 sub-assemblies and for their compliance with our supplier requirements, such as our and our customers product quality, safety, security and other standards. Their failure to do so could materially adversely affect our ability to deliver our products and solutions successfully and on time.

Our manufacturing operations depend to a certain extent on obtaining adequate supplies of fully functional components and sub-assemblies on a timely basis. In mobile devices, 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 networks business, components and sub-assemblies sourced and manufactured by third-party suppliers include Nokia-specific integrated circuits and radio frequency components; servers; sub-assemblies such as printed wire board assemblies, filters, combiners and power units; and cabinets. 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

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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. See Item 4.B Business Overview Production for a more detailed discussion about our production activities.

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.

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

We generate sales from and have manufacturing facilities located in various emerging market countries. Sales from these countries represent a significant portion of our total sales and these countries represent a significant portion of the expected industry growth. Accordingly, 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. See Note 2 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F for more detailed information on geographic location of net sales to external customers, segment assets and capital expenditures.

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

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 business and results of operations.

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 business and results of operations.

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

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 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.

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

Customers in some markets sometimes require their suppliers, including us, to arrange or provide financing in order to obtain sales or business. Moreover, they may require extended payment terms. In some cases, the amounts and duration of these financings and trade credits, and the associated

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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 in the late 1990s and early 2000s. 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 8 and 37(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 possible health risks from the electromagnetic fields generated by base stations and mobile devices, and the lawsuits and publicity relating to them, regardless of merit, could negatively affect our operations by leading consumers to reduce their use of mobile devices, or by leading regulatory bodies to set arbitrary use restrictions and exposure limits, or by causing us to allocate additional monetary and personnel resources to these issues.

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 on 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.

Over the past six years Nokia has been involved in several class action matters alleging that Nokia and other manufacturers and cellular service providers failed to properly warn consumers of alleged potential adverse health effects and failed to package headsets with every handset to reduce the potential for alleged adverse health effects. All but two of these cases have been withdrawn or dismissed. The remaining cases are before the US District Court for the District of Maryland in Baltimore, Maryland. Nokia and the other defendants have filed a Motion to Dismiss and a request to defer the issues in the case to the US Federal Communications Commission. In addition, Nokia and other mobile device manufacturers and cellular service providers have been named 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.

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.

Table of Contents***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.

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 networks. Nokia offers consumers a wide range of mobile devices, and increasingly we are providing consumers with experiences in music, navigation, video, TV, imaging, games and business mobility through these devices. Nokia also provides equipment, solutions and services for network operators, service providers and corporations.

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For 2006, Nokia's net sales totaled EUR 41.1 billion (USD 54.3 billion) and net profit was EUR 4.3 billion (USD 5.7 billion). At the end of 2006, we employed 68 483 people and had production facilities in nine countries, sales in more than 150 countries, and a global network of sales, customer service and other operational units.

History

During our 140 year history, Nokia has evolved from its origins in the paper industry to become a world leader in mobile communications. Today, approximately 850 million people from virtually every demographic segment of the population use Nokia mobile devices for communications, business and entertainment, and as luxury items.

The key milestones in our history are as follows:

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; 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.

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.

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.

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.

The first GSM call was made with a Nokia phone over the Nokia-built network of a Finnish operator called Radiolinja in 1991, and in the same year Nokia won contracts to supply GSM networks in other European countries.

In the early 1990s, we made a strategic decision to make telecommunications our core business, with the goal of establishing 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. As a result, our organization evolved to consist of two main business groups, Nokia Mobile Phones and Nokia Networks.

Mobile communications evolved rapidly during the 1990s and early 2000s, creating new opportunities for devices in entertainment and enterprise use.

In January 2004, Nokia reorganized into four business groups Mobile Phones, Multimedia, Enterprise Solutions and Networks to further align the company's overall structure with its strategy; to better position each business group to meet the specific needs of new and increasingly diverse market segments; to increase Nokia's operational efficiency; and to maintain economies of scale.

On June 19, 2006, Nokia and Siemens announced plans to combine Nokia's networks business and Siemens carrier-related operations for fixed and mobile networks to form a new company called Nokia Siemens Networks, owned by Nokia and Siemens and consolidated by Nokia. The new company is expected to begin operations around the end of March 2007.

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Organizational structure

In 2006, Nokia had four business groups: Mobile Phones, Multimedia, Enterprise Solutions and Networks, which are described in more detail below. Around the end of March 2007, our Networks business group is expected to become part of a new company, Nokia Siemens Networks, owned by Nokia and Siemens and consolidated by Nokia. *Unless otherwise indicated, all references in this annual report on Form 20-F to Networks are to our Networks business group prior to the formation of Nokia Siemens Networks.* For more information on Nokia Siemens Networks, see

Item 4.B Business Overview Nokia Siemens Networks.

Various horizontal groups support and service Nokia's business groups. These horizontal groups are reported under common group functions.

Customer and Market Operations is responsible for sales and marketing, manufacturing and logistics, and sourcing and procurement for mobile devices from Mobile Phones, Multimedia and Enterprise Solutions.

Technology Platforms delivers leading technologies and platforms to Nokia's business groups and external customers.

Various other Nokia-wide horizontal units drive and manage specific Nokia assets. These include Brand and Design, Developer Support, Research and Venturing, and Business Infrastructure.

Corporate Functions supports Nokia's businesses with company-wide strategies and services.

For a breakdown of our net sales and other operating results by category of activity and geographical location, see Note 2 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

Other

Nokia is not a capital-intensive company, but rather invests in research and development, marketing, and building the Nokia brand. We expect the amount of capital expenditure during 2007 to be approximately EUR 700 million, and to be funded from our cash flow from operations. This estimate for 2007 does not include the full impact of Nokia Siemens Networks. During 2006, Nokia's capital expenditures totaled EUR 650 million, compared with EUR 607 million in 2005. For further information regarding capital expenditures see Item 5.A Operating Results and for a description of capital expenditures by business segment see Note 2 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 Helsinki Stock Exchange, in the form of shares, and the New York Stock Exchange, in the form of American Depositary Shares, or ADSs. In addition, our shares are listed on the Frankfurt stock exchange, and Stockholm stock exchange in the form of Swedish Depositary Receipts, or SDRs. In January 2007, Nokia announced that it has decided to apply for the delisting of Nokia SDRs from the Stockholm Stock Exchange and the estimated last day of trading of Nokia SDRs on the Stockholm Stock Exchange is June 1, 2007.

Nokia's 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

Strategy

The strategy Nokia established in 2006 focuses on five key areas:

Create winning devices

Embrace consumer Internet services

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Deliver enterprise solutions

Build scale in networks

Expand professional services

In addition, Nokia invests in and prioritizes three strategic assets:

Brand and design

Customer engagement and fulfillment

Technology and architecture

Mobile Devices

The mobile communications industry has evolved rapidly during the past 15 years. While today mobile devices are still used primarily for voice and text message communication, people increasingly also use them to take and send pictures, listen to music, record video, watch TV, play games, surf the Internet, check e-mail, manage their schedules, browse and create documents, and more. This trend where mobile devices increasingly support the features of single-purposed product categories such as music players, cameras, pocketable computers and gaming consoles is often referred to as digital convergence. Multifunctional mobile devices, which are often called converged devices, smartphones, or multimedia computers, typically feature computer-like and consumer electronics-like hardware and software.

A person's choice of mobile device is influenced by a number of factors, including their purchasing power, brand awareness, technological prowess, fashion consciousness and lifestyle. The global market for mobile devices thus comprises many different consumer groups, which is why Nokia believes that in order to meet our customers' needs we need to have a competitive product portfolio with devices that are preferred to those of our competitors. For Nokia, this means offering a broad and balanced range of commercially appealing mobile devices with attractive aesthetics, design, features and functionality for all major consumer segments and price points. This is supported by the Nokia brand, and the Nokia Nseries, the Nokia Eseries and Vertu sub-brands, as well as the quality of our products and our competitive cost structure.

Today, Nokia's mobile devices are produced by our Mobile Phones and Multimedia business groups, as well as the Mobile Devices unit of our Enterprise Solutions business group. Nokia devices are primarily based on the GSM/EDGE, 3G/WCDMA and CDMA global cellular standards, and also increasingly feature non-cellular, near-range technologies such as Bluetooth and WLAN. In 2006, we announced a total of 49 new mobile devices. The total mobile device volume of Nokia during 2006 was 347 million units, representing growth of 31% compared with 2005. Based on an estimated global market volume for mobile devices of 978 million units for 2006, our estimated global market share was 36% for 2006, compared with an estimated 33% for 2005. This further strengthens Nokia's leadership of the global device market—a position the company has held since 1998.

In 2006, Nokia shipped a total of 39 million converged devices, approximately 140 million devices with an integrated digital camera, and close to 70 million music enabled devices. This makes us the leader in the converged device segment and the world's largest manufacturer of cameras and digital music players.

Mobile Phones

Mobile Phones connects people by providing expanding mobile voice and data capabilities across a wide range of mobile devices. We primarily target high-volume sales of mainstream mobile devices where we believe that design, brand, ease of use and price are our customers' most important considerations. Increasingly, our products include new features with mass market appeal, such as

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megapixel cameras and music players. We currently offer mobile phones and devices based on GSM/EDGE, 3G/WCDMA and CDMA.

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

Broad Appeal focuses on the Nokia 6000 family of mid-range products where the balance between price, functionality and style is key. The vast majority of the mobile device models in Nokia's portfolio fall into this category. Broad Appeal devices typically have mainstream features, including for example megapixel cameras, music players and advanced messaging capabilities. Highlights from 2006 include:

The formation in the fourth quarter of a Nokia research and development unit in San Diego, USA, dedicated to the North American market, with a specific focus on Broad Appeal products.

Announcement and first shipments of Nokia's first Universal Mobile Access, or UMA, products, the Nokia 6136 and Nokia 6086.

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

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

Announcement of the thin and stylish Nokia 6300.

Lifestyle Products concentrates on top-end devices for consumers who value higher-quality materials, design and features. These devices, which are in the Nokia 8000, 7000, 5000 and 3000 product families, are targeted at specified fashion, sports and music driven consumer segments. Highlights from 2006 include:

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

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

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

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

Entry 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 offer solutions designed for a low total cost of ownership. Entry devices, which are in the Nokia 1000 and 2000 product families, have voice capability, basic messaging and calendar features, and increasingly color displays and radios. Highlights from 2006 include the following products targeted at different low-end price points:

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

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

CDMA supports operators that use CDMA technology, mainly in the United States, Venezuela, Brazil, India, Indonesia and China. In 2006, CDMA industry device volumes represented approximately 16% of total industry device volumes.

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

Vertu focuses on establishing a luxury mobile phone category with handcrafted, luxury communications products. *Vertu* handsets are sold at more than 350 points of sales in over 40 countries. Recent announcements include:

Vertu's third collection, Constellation, available in 18 carat yellow gold or stainless steel, and with a variety of leather trims and bezel finishes.

The third limited edition in the Ascent Collection, celebrating the legendary racetracks of the world, and a Collectors' limited edition box set featuring all six limited edition handsets in a specially designed carbon fiber and titanium box.

The 2006 Signature Diamond Collection, including a limited edition handset in collaboration with French jeweler Boucheron.

Multimedia

Multimedia gives people the ability to create, access, experience and share multimedia in the form of advanced mobile multimedia computers and applications with connectivity over multiple technology standards. Multimedia aims to take advantage of digital convergence by capturing value from traditional single-purposed product categories including music players, cameras, pocketable computers and gaming consoles by bringing the functionalities of these devices into our devices. An integral part of our strategy is for our multimedia computers to be the devices of choice for people participating in the Web 2.0 phenomenon, where people can create and share their experiences through online communities.

In 2006, we continued to build the Nokia Nseries sub-brand and multimedia computer category by bringing new products and applications to the market. Nokia Nseries multimedia computers offer consumers the ability to record video and still pictures, print-quality images, watch TV, listen to music, access the web and e-mail, and make phone calls. 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 (DVB-H), and Bluetooth.

In 2006, Multimedia also continued sales of pre-Nokia Nseries multipurpose mobile devices, such as the Nokia 7610 and Nokia 6600.

Multimedia highlights from 2006 include:

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

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

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

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

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

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

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

Multimedia has two main entities responsible for the development of its products and related experiences: Multimedia Computers and Multimedia Experiences. In addition, Multimedia has one business program, Convergence Products. *Multimedia Computers* focuses on managing, delivering and expanding the Nokia Nseries multimedia computer portfolio, as well as developing accessory products and car communications solutions.

Multimedia Experiences develops multimedia applications and solutions in the following areas:

Imaging: We are developing photo and video applications for Nokia Nseries multimedia computers that allow easy capturing, editing, printing, sharing and storing of photos and video.

Music: We are developing music applications and features that allow people to discover, purchase, enjoy and manage music on their Nokia Nseries devices and on personal computers.

Internet and computing: We are developing applications for Nokia Nseries multimedia computers in the areas of Internet services, software additions and personal organizers.

TV and video: We are developing applications for the DVB-H standard, as well as applications that allow easy downloading and streaming of Internet-based video.

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. During 2007 we plan to expand the N-Gage multiplayer platform to various Nokia S60 based devices.

Navigation and search: We are developing search, maps and other location-based applications.

Convergence Products develops and drives technologies and products based on Internet Protocol (IP) applications and multiradio connectivity. Sales of the first device from this program, the Nokia 770 Internet Tablet, continued in 2006. 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. In January 2007, Nokia launched the second product from this program, the Nokia N800 Internet Tablet.

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. Our aim is to provide connectivity to our customers regardless of their choice of mobile device or IT system. Enterprise Solutions collaborates with a range of companies to provide fixed IP network security, mobilize corporate e-mail and other IT systems, and extend corporate telephone systems to Nokia's mobile devices.

Enterprise Solutions highlights from 2006 include:

Nokia Eseries first shipments – Nokia E60, Nokia E61, Nokia E70, Nokia E50 and Nokia E62 – a range of devices designed for business users and the IT organizations that support them. The

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devices differ in terms of physical design and features, and use a single software platform that can be integrated with different applications and corporate solutions.

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

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

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

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

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

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

Mobile Devices

Produces mobile devices specifically for business use that address companies' security, manageability, cost and ease-of-use concerns.

Our product portfolio contains devices with both cellular connectivity, such as GSM and 3G/WCDMA, and non-cellular connectivity, such as WLAN.

Our mobile devices support network connectivity, personal information management and e-mail access, connectivity to IT infrastructures, device management, and security solutions.

Current products include the Nokia E50, Nokia E60, Nokia E61, Nokia E62, Nokia E65 and Nokia E70, as well as the Nokia 9300, Nokia 9300i, and the Nokia 9500 Communicator.

Mobility Solutions

Develops software solutions for mobile e-mail, business telephony, device management and other mobile data services.

Under the Intellisync brand name, we deliver wireless e-mail and other applications over an array of devices and application platforms across carrier networks.

We also work with external vendors such as Good (acquired by Motorola in January 2007), IBM, Microsoft, Research in Motion, Seven and Visto to make Nokia's mobile devices compatible with their solutions.

We work with leading vendors like Avaya, Alcatel and Cisco to connect our mobile devices to corporate fixed line telephone networks, or PBXs, over cellular and WLAN technologies.

Security and Mobile Connectivity

Offers a broad range of application and secure connectivity offerings designed to help companies grant their employees access to corporate information, and establish secure remote connections between their corporate network, their offices and their employees' mobile devices and computers.

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.

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Nokia's security appliances run software from Checkpoint Corporation and SourceFire. 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.

Sales, Marketing and Services

Sales to corporate customers, the management of relationships with IT distributors, systems integrator and VARs, as well as specialized sales resources for selling Enterprise Solutions products to operator customers.

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.

Networks

This section describes our Networks business group through 2006. Around the end of March 2007, we expect that our networks business will be conducted through Nokia Siemens Networks, a new company owned by Nokia and Siemens and consolidated by Nokia.

Networks provides network infrastructure, communications and networks service platforms, as well as professional services to operators and service providers. We focus on the GSM family of radio technologies and aim at leadership in GSM, EDGE and WCDMA/HSPA networks; core networks with increasing IP and multi-access capabilities; and professional services. Networks is also developing mobile WiMAX solutions.

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

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

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

Major managed services contracts:

- A USD 400 million network expansion and managed services contract with Bharti Airtel in India.

- A USD 230 million managed services deal with Vodafone Australia.

- A 5-year managed services deal with Hutchison Essar Limited in India.

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

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

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

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

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

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

Networks has three business units: Radio Networks, Core Networks, and Services. These are supported by Networks Customer and Market Operations and Delivery Operations.

Radio Networks develops GSM, EDGE and 3G/ WCDMA/ HSPA radio access networks and cellular transmission for operators and network providers. It also supports wireless broadband technologies

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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 mobile and fixed operators. The main products are switches and different kinds of network servers. Nokia's circuit-switched network solutions are aimed at helping operators to reduce the cost of providing voice minutes to subscribers. Nokia's new packet-switched core network solutions bring new functionality to the networks and are designed to enable operators to more efficiently offer advanced services such as Voice over IP, or VoIP calls, video sharing, Unlicensed Mobile Access, or UMA, Presence, and other IP-based services. Many of Nokia's core network products can be used in both fixed and mobile networks.

Services offers operators a broad range of services, from network planning, implementation, managed services and operations outsourcing, to network optimization, care, consulting and systems integration. Our managed services business, where we run all or part of an operator's network, has become an increasingly important part of our services business. By improving and automating operators' processes, our tools and services are designed to assist them in achieving a higher quality of service with lower operating and capital expenditures.

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. Each of our active operator 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.

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

Nokia Siemens Networks

In June 2006, Nokia and Siemens AG (Siemens) announced plans to form Nokia Siemens Networks that will combine Nokia's networks business and Siemens' carrier-related operations for fixed and mobile networks in a new company owned approximately 50% by each of Nokia and Siemens and consolidated by Nokia. The new company is expected to have a world-class fixed-mobile convergence capability, a complementary global base of customers, a deep presence in both developed and emerging markets, and one of the industry's largest and most experienced service organizations.

Based on the 2005 calendar year, the combined company had EUR 15.8 billion in pro forma annual revenues and is expected to start operations with approximately 60 000 employees. Cost synergies are estimated at approximately EUR 1.5 billion annually by 2010 and are expected to come primarily from the elimination of overlapping functions, consolidation and better utilization of sales and marketing organizations, reduction of overhead costs, sourcing benefits, and greater efficiencies in R&D. Headcount reductions of approximately 10-15% are expected over the next four years, but only after Nokia Siemens Networks has begun operations and the appropriate consultations are completed according to applicable labor law requirements.

Nokia Siemens Networks' operational headquarters will be in Espoo, Finland, where two of the new company's six business units are based, and the company will have a regional presence in Munich, Germany where the other four business units are based. The business units are: Radio Access, Broadband Access, Service Core and Applications, IP Networking and Transport, Operating Support Systems, and Services. Nokia Siemens Networks' Customer and Market Operations will supervise the new company's regional teams; manage the overall customer relationship; take responsibility for all services projects and the company's services portfolio; manage sales of solutions and the creation of new solutions; and manage the company's image, branding and positioning. Nokia Siemens Networks will have a close alliance with Nokia's mobile device business with respect to product and service offerings as well as customer interface, in which the companies will, for example, execute a

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joint key customer program. Nokia and Siemens will contribute certain intellectual property owned by each of them to Nokia Siemens Networks. Any of Nokia's or Siemens' retained IP which is also needed by Nokia Siemens Networks will be licensed to it, including the names Nokia and Siemens.

Nokia and Siemens will provide a EUR 1.0 billion subordinated credit facility to Nokia Siemens Networks, with the commitment to be split equally, in the form of a three-year multi-drawn down cash advance non-revolving facility at a commercial rate of interest. The Board of Directors of Nokia Siemens Networks will be comprised of seven directors, four appointed by Nokia and three by Siemens. Nokia will appoint the CEO of Nokia Siemens Networks.

Nokia Siemens Networks is expected to start its operations around the end of March, 2007 subject to the satisfaction or waiver of the conditions to the merger, including achievement of agreement between Nokia and Siemens on the results and consequences of a Siemens compliance review, and the agreement of a number of detailed implementation steps.

See Item 3.D Risk Factors. Currently expected benefits and synergies from forming Nokia Siemens Networks may not be achieved to the extent or within the time period that is currently anticipated. We may also encounter costs and difficulties in integrating our networks operations, personnel and supporting activities and those of Siemens, which could reduce or delay the realization of anticipated net sales, cost savings and operational benefits. See also Item 3.D Risk Factors. The Siemens carrier-related operations to be transferred to Nokia Siemens Networks are the subject of various ongoing prosecutorial investigations related to whether certain transactions and payments arranged by some current or former employees of those operations violated applicable laws. As a result of those investigations, government authorities and others could take actions against Siemens and/or its employees that may involve and affect the carrier-related assets and employees transferred by Siemens to Nokia Siemens Networks, or there may be undetected additional violations that may have occurred prior to the transfer, or ongoing violations that may occur after the transfer, of such assets and employees that could have a material adverse affect on Nokia Siemens Networks and our business, results of operations, financial condition and reputation.

Sales and Marketing

In 2006, Nokia's sales and marketing expenditure was EUR 3.3 billion, representing 8.1% 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, corporate customers and end-users. 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, mobile devices are sold almost solely through the retail channel. In Europe and the Middle East & 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, covering both our mobile device and networks businesses.

We also have 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 its products and solutions to certain resellers or systems integrators who contribute value, such as consulting services or additional software, before distribution.

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Networks sales channels mainly comprise dedicated account management teams for operator customers. The account management teams design solutions and suggest products based on received and anticipated operator requirements. In addition to the sales and marketing done within customer teams, Networks uses customer and industry events, exhibitions, and an established interactive electronic channel to promote sales of its infrastructure and related services. As we are a global company and have sales in most countries of the world, in 2006 we also had sales to customers in Iran, Libya, Sudan and Syria. In 2006, we sold mobile devices and accessories to customers in Iran, Libya, Sudan 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 had not resulted in any sales by the end of 2006. Our aggregate sales to customers in Iran, Libya, Sudan and Syria in 2006 accounted for approximately 1% of our total revenue, or EUR 402 million. Iran and, to a lesser extent Syria, are subject to US economic sanctions that are primarily designed to implement US foreign policy. The US government has designated Iran, Syria and Sudan as state sponsors of terrorism.

Marketing

The Business Week and Interbrand annual rating of 2006 Best Global Brands positioned Nokia as the sixth most valued brand in the world.

We continued to refresh our brand image in 2006 through a combination of efforts in design, a broader product portfolio, and ongoing investment in marketing communication. We also continued to build on our brand's strategic direction, launching a series of marketing initiatives aimed at solidifying the consumer experience:

We introduced a renewed category model to drive product segmentation and encourage a fundamental change in the way trade customers and consumers choose and buy our devices—shifting from a product focus to an experience focus. We are now marketing our devices around four different categories—Live, Connect, Achieve and Explore—with the aim of addressing a specific set of customer needs and making it easier for consumers to choose a device aligned with their lifestyle.

We continued with our roll-out of Nokia Flagship stores to improve the consumer retail experience, opening stores in Chicago, Helsinki, Hong Kong, Mexico City and New York during 2006.

We renewed the Nokia website to ensure that our online digital presence continues to support our consumer relationship management strategy. Our website records millions of visitors annually and we believe a world-class online presence plays a key role in our customer retention efforts.

Production

Nokia operated 15 manufacturing facilities in nine countries around the world as of December 31, 2006, for the production of mobile devices and network infrastructure. The Customer and Market Operations horizontal group is responsible for the production of Nokia mobile devices, while the Networks business group is responsible for the production of network infrastructure.

Our principal supply requirements are for electronic components, mechanical components and software.

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 management 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

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network security infrastructure business. We consider our mobile device manufacturing and logistics to be a core competence and competitive advantage.

Our Customer and Market Operations horizontal group currently operates ten mobile device manufacturing plants in nine countries. Our Mexican and Brazilian plants primarily supply the North and South American markets; our three European plants, located in Finland, Germany and Hungary, principally supply Europe, the Middle East and Africa; and our two plants in China, our plant in India and our plant in South Korea principally supply the Asia-Pacific market. In addition, we have a manufacturing plant in the United Kingdom serving Vertu.

Our manufacturing and logistics are complex, require advanced and costly equipment and include outsourcing to third parties. During 2006, 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 2006, we were able to ramp up our production considerably in order to meet the strongly increased global demand for mobile devices.

In line with industry practice, we source a large proportion of components for our mobile devices from a global network of suppliers. These components include electronic components, such as integrated circuits, microprocessors, memory devices, cameras, displays, batteries and chargers; and mechanical components, such as covers, connectors, key mats and antennas. Our products also incorporate software provided by third parties. We and our contract manufacturers assemble components and activate devices with our own and third party software. Final assembly typically takes place only for firm customer orders. Certain of the components we source 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 sub-assemblies and for their compliance with our supplier requirements, such as our and our customers' product quality, safety, security and other standards. Their failure to do so could materially adversely affect our ability to deliver our products and solutions successfully and on time.

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, 2006, the Networks business group had production at six plants: three in Finland, two in China and one in India. In line with our strategy to invest resources in key areas to improve efficiency, in our networks business some product support activities and over 50% of the whole production is 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

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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 sub-assemblies and for their compliance with our supplier requirements, such as our and our customers' product quality, safety, security and other standards. Their failure to do so could materially adversely affect our ability to deliver our products and solutions successfully and on time.

Some components and sub-assemblies for Networks products, including Nokia-specific integrated circuits and radio frequency components; servers; sub-assemblies such as printed wire board assemblies, filters, combiners and power units; and cabinets, are sourced and manufactured by third party suppliers. We then assemble components and sub-assemblies into final products and solutions. 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. Consistent with industry practice, we manufacture our telecommunications systems on a contract-by-contract basis.

Technology, Research and Development

Nokia's research and development takes place within Technology Platforms and the four business groups. Nokia's technology strategy is also supported by the Nokia Research Center and other Nokia-wide horizontal units under the leadership of Nokia's Chief Technology Officer.

Technology Platforms

Technology Platforms manages the delivery of leading technologies and platforms to Nokia's business groups and external customers through a combination of research and development, close cooperation with leading technology vendors, and open source software communities. The technology development Nokia does on its own is focused on two major areas: chipset platforms and software platforms.

In chipsets, Technology Platforms ensures the cost effective implementation of common modules across all Nokia business groups and the creation of intellectual property rights. Technology Platforms' work encompasses multiradio technologies such as GSM, EDGE, CDMA, WCDMA, LTE, WiMAX, WLAN, Bluetooth, NFC and mobile DVB-H. A second area of focus for Technology Platforms is the development of software. This encompasses both the software platforms that enable the implementation of the aforementioned multiradio technologies, as well as the application software visible to the end user that enables a consistent user experience across all Nokia devices. Nokia's application software is publicly branded as S60, the market-leading smartphone software platform that Nokia uses in its own devices and also licenses to other mobile device manufacturers.

In order to ensure early access to state-of-the-art technologies in areas where Nokia does not do its own research and development, Technology Platforms puts a significant amount of effort into technology management. This covers electronic components, mechanical components and software.

Nokia sees open source development as a way to extend its research and development and foster innovation, and thus works with the open source community on several projects. These include the open source browser for S60, Maemo, URIQA and Python for S60. In addition, Nokia participates in industry-wide open source projects, such as the Eclipse Foundation.

Technology Platforms also cooperates with leading industry players and alliances in creating, for example, standards-based interfaces, high performance mobile computing, and usability innovations.

Table of Contents*Business Groups*

Each of Nokia's mobile device business groups takes into account its own customer needs in their product-focused research and development. They integrate into products and solutions technologies from their own research and development, from Technology Platforms and from external vendors.

The Networks business group's research and development 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 seek to improve research and development efficiency and time to market by often basing their products on the same technologies and platforms. For example, Mobile Phones, Multimedia and Enterprise Solutions all develop devices based on the S60 software platform, on top of which they install applications specific to their business. Multimedia develops mobile music, 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 device business groups use a common chipset platform. This brings economies of scale and allows flexibility both in research and development, 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 creates assets and 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, for example, leading-edge mobile and Internet technologies and services. Almost half of Nokia's essential patents are generated by the Nokia Research Center, among them a new short-range, low-power radio technology called Wibree that was announced in 2006.

Our global network of relationships with universities and other industry research and development players expands the scope of our long-term technology development. Highlights from 2006 include the opening of the Nokia Research Center Cambridge in Massachusetts, in collaboration with the Massachusetts Institute of Technology; the establishment of a new Nokia Research Center site in Palo Alto, California; and a collaboration with Stanford University.

Design

Nokia takes a human approach to design, with the goal of creating stylish products that work just the way people like them to. This ethos is central to our design work and brand.

The company's design process is influenced by the consumer and their behavior—how they want a mobile device to look, function and fit into their lifestyle. We focus on simplicity, sleek design and ease of use; relevance for specific consumers and local tastes; and creating compelling multimedia experiences.

Nokia has a multi-disciplinary design team of approximately 250 psychologists, researchers, anthropologists and technology specialists representing 25 different nationalities. They are based in China, Europe, Latin America, Japan, the USA and elsewhere. The team conducts in-depth research and analysis of consumer trends and behavior, as well as studies new technologies, materials, shapes and styles.

During 2006, Nokia made a number of changes at its design organization, including altering the organization's structure, recruiting new design talent, and announcing the opening of new Nokia design studios.

Table of Contents***Competition******Mobile Devices***

Mobile device market participants compete mainly on the basis of the breadth and depth of their product portfolios, design, price, operational and manufacturing efficiency, technical performance, distribution, product features, quality, customer support and brand.

The markets for our products and solutions are intensely competitive. The competition continues to be intense from both our traditional competitors in the mobile communications industry as well as a number of new competitors. 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.

Historically, our principal competitors in mobile devices have been other mobile device companies such as BenQ-Siemens, LG, Motorola, Samsung and Sony Ericsson. Mobile network operators also offer mobile phones under their own brand, which may result in increasing competition from non-branded mobile device manufacturers. However, we face new competition, particularly in our Multimedia and Enterprise Solutions business groups, where we compete with Internet-based products and services, consumer electronics manufacturers and business device and solution providers. Our historical competitors are now also expanding into the enterprise and multimedia areas. Further, as the industry now includes increasing numbers of participants that provide specific hardware and software layers within products and solutions, we 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. 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.

The industry is increasingly complex and challenging, and vendors need to master many elements in order to succeed. This is driving a continuing trend towards consolidation among industry participants. However, it is difficult to predict how the competitive landscape of the mobile device industry will develop in the future, as 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 Lucent-Alcatel, Ericsson, Huawei, Motorola, NEC, Nortel, Siemens (until the formation of Nokia Siemens Networks) and ZTE. In 2006, the competitive environment began to change with the announcements of the merger of Alcatel and Lucent and the new company Nokia Siemens Networks. If realized, this significant consolidation will result in a market led by three global players followed by a number of smaller regional network infrastructure providers.

Consolidation has in part been driven by intense competition in the 2G and the 3G network infrastructure markets. 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.

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Our consulting and systems integration business brings 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. In software, Enterprise Solutions Intellisync mobile software offering competes with Visto, Good (acquired by Motorola in January 2007), RIM and Sybase subsidiary iAnywhere Solutions.

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.

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 investment in research and development and rapid technological development has meant that the role of Intellectual Property Rights, or IPR, in our industry has always been important. Digital convergence, multiradio solutions, alternative radio technologies, and differing business models combined with large volumes are further increasing the complexity and importance of IPR.

The detailed designs of our products are based primarily on our own research and development work and design efforts, and generally 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, trade secrets, trademark registrations and copyrights. In addition to safeguarding our technology advantage, they protect the unique Nokia features, look and feel, and brand.

Nokia has built its IPR portfolio since the early 1990s, investing close to EUR 30 billion in research and development, and we now own more than 11 000 patent families. As a leading innovator in the wireless space, we have built what we believe to be one of the strongest and broadest patent portfolios in the industry, extending across all major cellular and mobile communications standards, data applications, user interface features and functions and many other areas. We receive royalties from certain handset and other vendors under our patent portfolio.

Nokia is a world leader in the development of the wireless technologies of GSM/EDGE, 3G/WCDMA, HSPA, OFDM, WiMax, LTE and TD-SCDMA, and we have a robust patent portfolio in all of those technology areas, as well as for CDMA2000. We believe our standards-related essential patent portfolio is one of the strongest in the industry. In GSM, Nokia has declared more than 250 GSM essential patents with a particular stronghold in codec technologies and in mobile packet data. Nokia's major contribution to WCDMA development is demonstrated by approximately 350 essential patent declarations to date. The number of WCDMA essential patents is expected to increase further due to the rapid development of higher data rate technologies, an area where Nokia is a particularly strong contributor. Additionally, we have successfully expanded our patent portfolio beyond wireless to other areas like multimedia technologies and GPS. For example, in October 2006 we signed an agreement with Trimble, which gives us full access to their world class GPS patent portfolio for our own unrestricted use and for sub-licensing purposes in the wireless consumer product and service space.

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

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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 and agreeing upon license terms for our essential patents on a fair, reasonable and non-discriminatory basis. We believe that a company should be compensated for its IPR based on the fundamentals of reasonable cumulative royalty terms and proportionality: proportionality in terms of the number of essential patents that a company contributes to a technology, and proportionality in terms of how important the technology is to the overall product. Nokia has agreed upon terms of 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 provide Nokia with access to relevant technologies.

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 standardized 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 agreeing upon licensing terms with a number of new companies in the field of new 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 in 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 agreed upon 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 on agreed upon terms 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 protect them, or to successfully commercialize such technologies as new advanced products and solutions that meet customer demand, or fail to do so on a timely basis, this may have a material adverse effect on our business, our ability to meet our targets and our results of operations. See also Item 3.D Risk Factors Our products and solutions include increasingly complex technologies some of which have been developed or licensed to us by certain third parties. As a consequence, evaluating the rights related to the technologies we use or intend to use is more and more challenging, and we expect increasingly to face claims that we have infringed third parties' intellectual property rights. The use of these technologies may also result in increased licensing costs for us, restrictions on our ability to use certain technologies in our products and solution offerings, and/or costly and time-consuming litigation, which could have a material adverse effect on our business and results of operations and Item 3.D Risk Factors Our products and solutions include numerous new Nokia patented, standardized, or proprietary technologies on which we depend. Third parties may use without a license or unlawfully infringe our intellectual property or commence actions seeking to establish the

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invalidity of the intellectual property rights of these technologies. This may have a material adverse effect on our results of operations.

Government Regulation

In the United States, our products and solutions are subject to a wide range of government regulations that might have a direct impact on our business, including but not limited to regulation related to product certification, spectrum management, network neutrality, competition, and environment. 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. We are in continuous dialogue with relevant United States agencies, regulators and the Congress through our experts, industry associations and our office in Washington, D.C.

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 EU 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 competitiveness, innovation, intellectual property rights, 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.

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. 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.

We are in a continuous dialogue with regulatory bodies through our experts, industry associations and lobbyists.

Corporate Responsibility

During 2006, Nokia advanced its Corporate Responsibility efforts in response to feedback from our various stakeholders. Highlights include:

Environmental activities

In 2006, Nokia's environmental strategy continued to focus on three important areas: materials, energy efficiency and product take-back.

In materials management, Nokia successfully completed its work on phasing out hazardous substances as required by the European Union's RoHS directive (Restriction of Certain Hazardous Substances). Nokia had a fully RoHS compliant product offering in the EU well before the July 2006 phase-out deadline. Furthermore, Nokia aims that all its mobile devices will be EU RoHS compliant in 2007. In accordance with the precautionary principle, Nokia works on voluntary initiatives to find safer alternatives for some materials of concern, for example brominated flame retardants. A joint

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industry initiative addressing this issue was agreed in September 2006 as a result of Nokia's Integrated Product Policy (IPP) pilot with the EU Commission.

In 2006, Nokia developed a climate strategy covering all key areas that contribute to the indirect and direct CO2 emissions of Nokia products and operations. The strategy includes specific targets to improve the energy efficiency of Nokia products, operations, offices and sites, as well as an intention to set energy efficiency requirements for suppliers. Additionally, Nokia committed to green energy for 25% of its electricity needs globally.

Nokia continued its efforts to raise consumer awareness on the collection of used mobile devices for proper recycling. In addition to specific campaigns on the subject, Nokia works together with authorities, operators and peer companies in different parts of the world. Nokia is an active participant in the MPPI (Mobile Phones Partnership Initiative) under the Basel Convention, which in November 2006 came out with recommendations for guidelines on the end-of-life treatment and transboundary shipment of used mobile devices. The take-back and recycling of used mobile phones is also addressed in the initiatives agreed under the Nokia IPP pilot.

In June 2006, Nokia and WWF international renewed their partnership agreement for a further three years. The parties will work together in competence development and awareness building among Nokia employees globally, as well as on joint initiatives in agreed upon areas.

Community involvement

In cooperation with Grameen Bank, microfinance organizations, the United Nations, and local governments and entrepreneurs in Africa, Nokia has helped to create new small businesses and bring people affordable access to mobile telecommunications through our Village Phone initiative. Since 2003, this initiative has created thousands of new businesses in rural Africa. Our 2006 publication, *Toward Universal Access*, provides a roadmap for how multi-stakeholder cooperation can further efforts to provide rural communities with mobile communications.

Employees

In 2006, Nokia's Global Employment Guidelines document has been further implemented and our local Human Resources organizations are working to ensure new local employment policies are in line with the global principles. The topics of the guidelines include basic principles related to compensation; working time and location; employee well-being; equal opportunities; confidentiality and privacy issues; guidance on external assignments; instructions for identifying conflicts of interest; and ways of ensuring efficient communications and recognition of freedom of association.

Code of Conduct

Nokia's Code of Conduct, applicable to all Nokia employees, gives guidance in different business situations and helps to build and maintain trust. The Code defines boundaries between appropriate and inappropriate business behaviour. According to the Code, Nokia employees must not engage in activities that may lead to conflicts of interest, such as any agreement or understanding regarding gifts, hospitality, favors, benefits or bribes in exchange for gaining or maintaining business.

Following the decision to revise our Code of Conduct in 2005, we continued the roll out of a significant e-learning and communication campaign designed to bring the revised Code of Conduct to life for our people, as well as to make sure that everyone in the organization is committed to the Code and its messages. Currently, the Code of Conduct is available in 31 languages, with an enhanced focus directed towards our production sites, where e-learning activities are less readily available. By the end of 2006, almost 56 000, or more than 81%, of all Nokia employees, had completed the Code of Conduct e-learning.

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The following is a list of Nokia's significant subsidiaries as of December 31, 2006.

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 Telecommunications Ltd.	China	83.9%	83.9%
Nokia Finance International B.V.	The Netherlands	100%	100%
Nokia Komárom Kft	Hungary	100%	100%
Nokia do Brazil Tecnologia Ltda	Brazil	100%	100%
Nokia India Ltd	India	100%	100%
Nokia Italia S.p.A	Italy	100%	100%

4.D Property, Plants and Equipment

At December 31, 2006, Nokia operated 15 manufacturing facilities in nine 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 (m²)⁽¹⁾
BRAZIL	Manaus (mobile devices)	10 973
CHINA	Beijing (mobile devices)	24 108
	Dongguan (mobile devices)	33 357
	Suzhou (base stations, cellular network transmission products)	7 243
	Beijing (home location registers, mobile switch centers, base station controllers)	2 118
FINLAND	Salo (mobile devices)	29 833
	Rusko (base stations)	13 288
	Espoo (switching systems, base station controllers, transcoders, radio access products)	9 744
	Limingantulli (plug-in units for both GSM and WCDMA base station product families)	4 587
GERMANY	Bochum (mobile devices)	34 332
HUNGARY	Komárom (mobile devices)	30 985
INDIA	Chennai (mobile devices, base station controllers)	23 770
MEXICO	Reynosa (mobile device batteries, mobile devices)	23 784
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.

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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 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.

In June 2006, Nokia and Siemens announced plans to form Nokia Siemens Networks that will combine Nokia's networks business and Siemens' carrier-related operations for fixed and mobile networks in a new company owned approximately 50% by each of Nokia and Siemens and consolidated by Nokia. Nokia Siemens Networks is expected to start its operations around the end of March 2007. See Item 4.B Business Review - Nokia Siemens Networks below. All references in this Item 5 are to our Networks business group prior to the formation of Nokia Siemens Networks, unless otherwise indicated.

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 38 to our consolidated financial statements.

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.

Business segment data in the following discussion and analysis is prior to inter-segment eliminations. See Note 2 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

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The following table sets forth the net sales and operating profit for our business groups for the three years ended December 31, 2006.

Net Sales and Operating Profit by Business Group

	Year Ended December 31,					
	2006		2005		2004	
	Net Sales	Operating Profit/(Loss)	Net Sales	Operating Profit/(Loss)	Net Sales	Operating Profit/(Loss)
	(EUR millions)					
Mobile Phones	24 769	4 100	20 811	3 598	18 521	3 786
Multimedia	7 877	1 319	5 981	836	3 676	175
Enterprise Solutions	1 031	(258)	861	(258)	839	(210)
Networks	7 453	808	6 557	855	6 431	884
Common Group Expenses		(481)		(392)		(309)
Eliminations	(9)		(19)		(96)	
Total	41 121	5 488	34 191	4 639	29 371	4 326

For 2006, our net sales increased 20% to EUR 41 121 million compared with EUR 34 191 million in 2005. Our net sales in 2005 increased 16% compared with EUR 29 371 million in 2004. At constant currency, group net sales would have grown 17% between 2005 and 2006, and 20% between 2004 and 2005. Our operating profit for 2006 increased 18% to EUR 5 488 million compared with EUR 4 639 million in 2005. Our operating profit in 2005 increased by 7% from EUR 4 326 million in 2004. Our operating margin was 13.3% in 2006, compared with 13.6% in 2005 and 14.7% in 2004.

The following table sets forth the distribution by geographical area of our net sales for the three years ended December 31, 2006.

Percentage of Nokia Net Sales by Geographical Area

	Year Ended December 31,		
	2006	2005	2004
Europe	38%	42%	42%
Middle East & Africa	13%	13%	12%
China	13%	11%	10%
Asia-Pacific	20%	18%	16%
North America	7%	8%	12%
Latin America	9%	8%	8%
Total	100%	100%	100%

The 10 markets in which Nokia generated the greatest net sales in 2006 were, in descending order of magnitude, China, the US, India, the United Kingdom, Germany, Russia, Italy, Spain, Indonesia and Brazil, together

representing 51% of total net sales in 2006. In comparison, the 10 markets in which Nokia generated the greatest net sales in 2005 were China, the US, the United Kingdom, India, Germany, Russia, Italy, Spain, Saudi Arabia and France, together representing 52% of total net sales in 2005.

Table of Contents**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, corporate customers and consumers. 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.

The following table sets forth Nokia's estimates for the global mobile device market volumes and year-on-year growth rate by geographic area for the three years ended December 31, 2006.

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

	Year Ended December 31, 2006	Change (%) 2005 to 2006	Year Ended December 31, 2005	Change (%) 2004 to 2005	Year Ended December 31, 2004
(Units in millions, except percentage data)					
Europe	276	16%	238	20%	198
Middle East & Africa	106	68%	63	62%	39
China	129	29%	100	19%	84
Asia-Pacific	189	27%	149	18%	126
North America	160	13%	142	16%	122
Latin America	118	15%	103	39%	74
Total	978	23%	795	24%	643

According to Nokia's estimates, in 2006 the global device market volume grew by 23% to 978 million units, a record for the industry, compared with an estimated 795 million units in 2005. This growth was driven primarily by the strong new subscriber growth in the emerging markets like Middle East & Africa, emerging Asia-Pacific and China. Developed market device volumes were driven primarily by replacement sales. In those markets replacement was driven primarily by device features such as color screens, camera, music players, WCDMA and overall aesthetics. The emerging markets accounted for an increased proportion of industry device volumes in 2006, compared to 2005. The following table sets forth Nokia's mobile device volumes and year-on-year growth rate by geographic area for the three years ended December 31, 2006.

Nokia Mobile Device Volume by Geographic Area

	Year Ended December 31, 2006	Change (%) 2005 to 2006	Year Ended December 31, 2005	Change (%) 2004 to 2005	Year Ended December 31, 2004
(Units in millions, except percentage data)					
Europe	99.6	13%	88.5	28%	69.2

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Middle East & Africa	53.2	36%	39.2	41%	27.8
China	51.0	56%	32.6	72%	18.9
Asia-Pacific	79.8	65%	48.4	39%	34.8
North America	25.3	(2)%	25.8	(10)%	28.8
Latin America	38.6	27%	30.4	8%	28.2
Total	347.5	31%	264.9	28%	207.7

In our Mobile Phones, Multimedia and Enterprise Solutions business groups, mobile device volumes were up 31% in 2006 compared to 2005, reaching 347 million units, a new annual volume record for

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Nokia. Based on our market estimate, Nokia's market share grew to 36% in 2006, compared to 33% in 2005. In 2006, we estimated Nokia to be the market leader in Europe, Asia-Pacific and Latin America. Nokia was also the market leader in the fastest growing markets of the world, including China, Middle East & Africa, South East Asia-Pacific and India, as well as in WCDMA technology. In one of the fastest growing segments of the market, converged devices (smartphones), Nokia's estimated share was approximately 50% in 2006.

Nokia believes that successfully competing in the mobile device industry is increasingly challenging, as industry participants need to master many elements in order to win. The increasing industry complexity and challenges of mastering the essential elements efficiently are driving a continuing trend of consolidation. As a demonstration of this consolidation, the market share of the top five competitors increased from less than 70% in 2000 to more than 85% by the end of 2006.

During 2006, Nokia gained device market share in China, Asia-Pacific and Latin America. In China, Nokia had another year of excellent market share gains driven by its extensive distribution system, broad product portfolio, brand and a continued push into smaller cities and rural markets. Nokia's healthy market share gains in Asia-Pacific were driven by gains in South East Asia-Pacific, and we also benefited from our strong position in the fastest growing markets like India. In Asia-Pacific, Nokia continued to benefit from its brand, broad product portfolio and extensive distribution system. In Latin America, Nokia's 2006 market share gains were driven by gains in markets like Brazil, Mexico and Argentina. Nokia's strength in Latin America was especially driven by its strong entry-level product portfolio and improving mid-range offering.

In Europe, we estimated that our market share was down slightly in 2006. Nokia 2006 share gains in markets like Italy, Russia, Spain and in WCDMA technology were offset by share declines in other European markets, including the United Kingdom, as a result of the intense competitive environment.

In Middle East & Africa, our volume growth was below regional industry volume growth resulting in a loss of market share, while the overall high growth of the area and Nokia's strong market position positively contributed to our global volume growth. Nokia continues to benefit in Middle East & Africa from its brand, broad product portfolio and extensive distribution system.

In North America, conditions remained difficult. In 2006, the continued lack of broad acceptance of certain products in our portfolio, and lower volumes in our CDMA business in the fourth quarter, resulted in our volumes and market share declining compared to 2005.

Nokia's device ASP (average selling price) in 2006 was EUR 96, declining 7% from EUR 103 in 2005. Nokia's device ASP in 2004 was EUR 110. Industry ASPs declined in 2006, driven primarily by the strong device volume growth in the emerging markets, which have lower ASPs. For Nokia, the ASP decline was driven primarily by the growth of our market share in these emerging markets, in addition to which certain high-end products in our portfolio were not viewed as sufficiently competitive in various markets.

Ongoing factors affecting our performance in mobile devices

Nokia's performance in the mobile device business is determined by its ability to satisfy the competitive and complex requirements of the market. Nokia will need to continue to leverage and in some cases improve its competitive advantages of scale, brand, manufacturing and logistics, technology, broad product portfolio, cost structure, quality and IPR. Nokia's huge scale contributes to its low cost structure. Brand is a major differentiating factor in the device industry, having broad effects on market share and pricing. The device business is a consumer business and Nokia has the sixth most valuable brand in the world (Interbrand 2006).

Nokia makes over 10 devices per second in its nine main device manufacturing facilities globally. Nokia also enjoys a world class logistics and distribution system. In terms of technology, Nokia believes it needs to develop, master, integrate and own relevant technology. This allows it to drive down manufacturing costs and also benefit from technology evolutions and discontinuities in terms of margin and market share.

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Nokia's broad product portfolio allows it to serve all the relevant segments of the market. Quality is extremely important to the consumer and Nokia believes that its quality is world class. Having high quality products is important because it is a key determinant for consumer purchasing behavior and also a critical element in managing costs effectively. Finally, of critical importance, is investing in R&D to develop a healthy, broad, cost advantageous IPR portfolio.

Our device net sales are driven by factors such as the global mobile device market volumes, the value of the mobile device market, Nokia market share development and Nokia ASPs.

The global mobile device market volume is driven by the number of new subscribers (net adds) and the degree to which existing mobile subscribers replace their mobile devices with new devices. New subscriber growth, particularly in emerging markets, is impacted primarily by lower cost of ownership, driven by lower priced tariffs and lower cost mobile devices. The replacement market is driven by the introduction of devices that are attractive to end-users in terms of design, features, functionality and aesthetics. Nokia estimates that the replacement market will represent over 65% of the device industry volumes in 2007, compared with over 60% in 2006. In 2007, we expect the most important drivers of the replacement market will continue to be purchases of devices with color screens, cameras, music players, WCDMA and other general aesthetics drivers. We also expect that push email, mobile TV and navigation services will be significant drivers of the replacement market in the future, but not in 2007. Replacement volumes in the emerging markets are having an increasingly significant impact on the global market. In emerging markets, replacements accounted for approximately 60% of total mobile device volumes in 2006, up from approximately 50% in 2005. We are also seeing anecdotal evidence that some consumers in the emerging markets are upgrading into higher priced devices when they replace their devices.

Industry volume growth is also influenced by, among other factors, regional economic factors; regional political environment; consumer spending patterns; competitive pressures; regulatory environments; the timing and success of product and service introductions by various market participants, including mobile 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 mobile network operators are willing to offer to end users in the markets where subsidies are prevalent.

Nokia expects industry mobile device volumes in 2007 to grow by up to 10% from the approximately 978 million units Nokia estimates for 2006. We expect the volume growth in 2007 to be above 15% in Asia-Pacific, China, and Middle East & Africa, and below 10% in Europe, Latin America and North America. Nokia forecasts that the three billion mobile subscriptions mark will be reached in 2007. Nokia expects the device industry to experience value growth in 2007, but expects some decline in industry ASPs, primarily reflecting the increasing impact of the emerging markets and competitive factors in general.

Nokia device net sales growth is impacted by Nokia market share development. Market share is driven by our ability to have a competitive product portfolio with attractive aesthetics, design, features and functionality for all major consumer segments and price points. Market share is also impacted by our brand, quality, distribution, ability to deliver, competitive cost structure and how we differentiate our products from those of our competitors. Nokia market share is also impacted by the growth of our accessible market and mix of the global markets. In 2006, for example, Nokia global device market share benefited from Nokia's strong share in the fastest growing segments of the global market, such as India, Middle and East Africa.

Nokia is targeting device market share gains in 2007. We believe that our global share should again benefit in 2007 from our strong, leading position in the emerging markets, which is estimated to again grow significantly faster in 2007 than the developed markets, and our strong position in the fastest growing markets globally. Nokia market share in 2007 is also expected to benefit from our strong share in the fastest growing technologies of GSM and WCDMA. GSM and WCDMA are estimated to again grow significantly faster than CDMA in 2007. Nokia also sees sales growth opportunities in

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capturing value from other markets by bringing enhanced mobile experiences to consumers, such as, mobile photography, mobile music and location based service. Nokia believes there is significant sales growth potential in bringing mobility to enterprises where the market is still at the early stages of development.

Nokia device net sales are also impacted by device ASPs. ASPs are impacted by overall industry dynamics, in particular the growth of the emerging markets as previously discussed, and competitive factors in general. Nokia's ASPs may also be impacted by its own product mix, for example the proportion of low-end, mid-range and high-end devices, as well as the overall competitiveness of our product portfolio.

There are several factors that drive our profitability in devices, beyond the drivers of device net sales already discussed. Scale, operational efficiency and cost control have been and are expected to 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, cost of excess and obsolete inventory, as well as warranty and other quality costs.

Efficiency of operating expense is also an important driver for device profitability. For 2006 and 2005, research and development expenses represented approximately 7% and 9%, respectively, of mobile device net sales. We exceeded our target which was to lower our mobile device R&D expenses/net sales ratio to 8% by the end of 2006. In 2006, the sales and marketing costs related to mobile devices were EUR 2.6 billion compared with EUR 2.4 billion in 2005. In an effort to continue to improve our efficiency, Nokia targets an improvement in the ratio of overall Nokia gross margin to R&D expenses and an improvement in the ratio of overall Nokia gross margin to sales and marketing expenses in 2007, compared to 2006.

Infrastructure

Our Networks business group provides network infrastructure, communications and networks service platforms, as well as professional services to operators and service providers. At the end of 2006, Networks had more than 150 customers in over 60 countries, with our systems serving in excess of 400 million subscribers. Nokia Networks customers are primarily mobile network operators.

The following table sets forth the global mobile infrastructure market size by geographic area, based on Nokia's estimates, for the three years ended December 31, 2006. 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, 2006	Change (%) 2005 to 2006	Year Ended December 31, 2005	Change (%) 2004 to 2005	Year Ended December 31, 2004
(EUR billions, except percentage data)					
Europe	14.0	1%	13.9	9%	12.8
Middle East & Africa	5.8	28%	4.5	15%	3.9
China	5.9	1%	5.8	(9)%	6.3
Asia-Pacific	13.1	32%	9.9	20%	8.2
North America	10.1	(8)%	10.9	11%	9.9
Latin America	3.8	(11)%	4.3	21%	3.5
Total	52.7	7%	49.3	10%	44.6

In 2006, according to Nokia's estimates, the size of the mobile infrastructure market increased 7% from 2005, while in 2005 it increased by approximately 10% from 2004 in euro terms. Subscriber

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growth combined with increased voice usage in some markets was the main driver for the 2006 market growth. Growth in the developed market was driven by 2G capacity increases and investments in 3G also contributed positively to market growth in Western Europe, Asia-Pacific and the US. Growth in the developing market was impacted by rapid subscriber growth, resulting in capacity increases and new network build outs.

The following table sets forth Networks net sales by geographic area for the three years ended December 31, 2006.

Networks Net Sales by Geographic Area

	Year ended		Year Ended		Year Ended
	December 31,	Change (%)	December 31,	Change (%)	December 31,
	2006	2005 to 2006	2005	2004 to 2005	2004
(EUR millions, except percentage data)					
Europe	2 707	(4)%	2 813	1%	2 774
Middle East & Africa	546	99%	274	(13)%	316
China	885	27%	695	(20)%	872
Asia-Pacific	1 758	47%	1 197	27%	942
North America	758	(7)%	816	(19)%	1 008
Latin America	799	5%	762	47%	520
Total	7 453	14%	6 557	2%	6 432

Ongoing factors affecting our performance in infrastructure

Nokia's performance in the infrastructure business is determined by its ability to satisfy the competitive and complex requirements of the market. Nokia will need to continue to leverage and in some cases improve the competitive advantages it believes it has of scale, technology, product portfolio and cost structure in order to maintain or improve its position in the market.

Networks' net sales depend on the mobile infrastructure market, which is driven primarily by network operator investments, the pricing environment, Nokia's market share and product mix. In the developed markets, operator investments are primarily driven by capacity upgrades which are driven by greater usage of the networks both for voice calls and for data usage. Also in the developed markets, operator investments are driven by 3G/WCDMA deployments. Much of the initial deployments of WCDMA have been done and additional deployments in 2007 will happen in regions where it has yet to occur such as the US. The next phase of WCDMA deployments will happen as the need for WCDMA capacity grows. In developing markets, the principal factors influencing operator investments are the growth in mobile usage and the growth in number of subscribers.

Nokia expects slight growth in the mobile and fixed infrastructure and related services market in euro terms in 2007. We expect the market to be driven by continuing subscriber growth, growing minutes of use, technology evolution and the growth of the services market.

Networks net sales are also impacted by pricing developments. Like our mobile device 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 forces in the market. Networks' sales are also affected by the product mix, the mix of hardware sales, software sales and services sales. Net sales can also be impacted by regional mix, the mix of developed and emerging markets. Network services sales also have an impact on net sales.

There are several factors that drive our profitability in Networks. First are the drivers of Networks net sales as already discussed. Scale, operational efficiency and cost control have been and will continue to be important factors affecting Nokia's profitability and competitiveness. Our Network 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

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quality costs. Networks profitability is also impacted by the pricing environment, product mix and regional mix. In an effort to drive our share and accelerate consolidation of the market we have prioritized seeking share gains at established operators. However, these actions have resulted in lower margins or losses initially. In the last few years, we have also prioritized Networks sales into the emerging markets. Networks net sales in the primarily emerging markets of Asia-Pacific, Latin America and Middle East & Africa grew from 28% in 2004 to 42% in 2006 of Networks total net sales. In India, for example, over the last two years our estimated market share has increased from the single digits to close to 30% in 2006. During the same two year period, Europe was down from 43% to 36% of Networks total net sales. Emerging markets, initially and in general, carry lower than average gross margins for Networks. In addition to growth in emerging markets, Networks services business including services related software, which also carries a lower gross margin than equipment sales, continued to grow in 2006.

We believe the current and continuing dynamics in the infrastructure market provide further validation for the creation of Nokia Siemens Networks. This merger is designed to provide the new company with needed scale and a more competitive convergence portfolio, and we believe it will further spur industry consolidation. The scale advantages of the merger, coupled with the significant restructure program planned, are expected to deliver margin benefits leading to improved profitability. See Item 4.B Business Overview Nokia Siemens Networks for a more detailed discussion on Nokia Siemens Networks.

Efficiency of operating expense is also an important driver for Networks profitability. For 2006 and 2005, the research and development, or R&D, expenses represented approximately 16% and 18%, respectively, of Networks net sales. We did not reach our target to lower our Networks R&D expenses/net sales ratio to 14% by the end of 2006. In 2006, the sales and marketing costs related to Networks were EUR 544 million compared with EUR 475 million in 2005. In an effort to continue to improve our efficiency, Nokia targets an improvement in the ratio of overall Nokia gross margin to R&D expenses and an improvement in the ratio of overall Nokia gross margin to sales and marketing expenses in 2007, compared to 2006.

Nokia medium term financial targets

In November 2006, Nokia set a target of Nokia-level operating margin of 15% during the next one to two years. This target revised the one to two year 17% operating margin target Nokia set in December 2005, primarily due to Nokia's increased exposure to the infrastructure market following the expected start of operations of Nokia Siemens Networks. In November 2006, Nokia also set a Nokia's device (Mobile Phones and Multimedia combined) operating margin target of 17% during the next one to two years. This target revised the one to two year 17%-18% device operating margin target Nokia set in December 2005.

Subsequent Event

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

Nokia Siemens Networks operating margin target is 10% plus during the next one to two years as from the start of operations. Nokia Siemens Networks aims to achieve a double digit operating margin within its first 12 months of operations, before restructuring charges.

Nokia Siemens Networks is expected to start its operations around the end of March 2007 subject to the satisfaction or waiver of the conditions to the merger, including achievement of agreement

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between Nokia and Siemens on the results and consequences of a Siemens compliance review, and the agreement of a number of detailed implementation steps.

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

See Item 4 Business Overview Nokia Siemens Networks for more information on Nokia Siemens Networks.

Certain Other Factors*United States Dollar*

In 2006, the US dollar depreciated against the euro by 11.4% (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 appreciated against the euro by 0.7% in 2006. The stronger US dollar on average had a slight positive impact on our net sales expressed in euros because approximately 50% of our net sales are generated in US dollars and currencies closely following the US dollar. However, the average appreciation of the US dollar also contributed to a higher average product cost as approximately 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 appreciation of the US dollar had a slightly positive impact on our operating profit in 2006. 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 in 2005 as more than half of Nokia's profit before tax has been generated in Finland. See also Note 12 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 year-end holiday season.

However, 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.

Table of Contents*Accounting developments*

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 2006 resulting in amendments to the existing rules effective from January 1, 2007 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. There were no material IFRS accounting developments adopted in 2006.

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, collectibility is probable and the significant risks and rewards of ownership have transferred to the buyer. The remainder of revenue is recorded under the percentage of completion method.

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

Networks revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment is recognized on the percentage of completion basis when the outcome of the contract can be estimated reliably. This occurs when total contract revenue and the cost to complete the contract can be estimated reliably, it is probable that economic

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benefits associated with the contract will flow to the Group, and the stage of contract completion can be measured. When we are not able to meet those conditions, the policy is to recognize revenues only equal to costs incurred to date, to the extent that such costs are expected to be recovered. Completion is measured by reference to costs incurred to date as a percentage of estimated total project costs, the cost-to-cost method.

The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as the dependable measurement of the progress made towards completing the particular project. Recognized revenues and profit are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. The cumulative impact of a revision in estimates is recorded in the period such revisions become likely and estimable. Losses on projects in progress are recognized in the period they become likely and estimable. Certain Networks customer contracts and Enterprise Solutions products may include the provision of separately identifiable components of a single transaction, for example the construction of a network solution and subsequent network maintenance services, or post-contract customer support on software solutions. Accordingly, for these arrangements, revenue recognition requires proper identification of the components of the transaction and evaluation of their commercial effect in order to reflect the substance of the transaction. If the components are considered separable, revenue is allocated across the identifiable components based upon relative fair values.

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

Customer financing

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

Allowances for doubtful accounts

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

Inventory-related allowances

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

Table of Contents*Warranty provisions*

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

Provision for intellectual property rights, or IPR, infringements

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

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

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

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

Legal contingencies

As discussed in Item 8.A.7 Litigation and in Note 31 to the consolidated financial statements, legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against the Group. We record provisions for pending litigation when we determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

Table of Contents*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

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these cash flows are prepared at a reporting unit level. Consequently, an impairment could be required under IFRS and not US GAAP or vice versa. Amounts estimated could differ materially from what will actually occur in the future.

Fair value of derivatives and other financial instruments

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

Income taxes

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

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

Pensions

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

Share-based compensation

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 23 to the consolidated financial statements and include, among others, the dividend yield, expected volatility and expected life of stock options. The expected life of stock options is estimated by observing general option holder behavior and actual historical terms of Nokia stock option programs, whereas the assumption of the expected volatility has been set by reference to the implied volatility of stock

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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**2006 compared with 2005***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 2006 and 2005.

	Year Ended December 31, 2006	Percentage of Net Sales	Year Ended December 31, 2005	Percentage of Net Sales	Percentage Increase/ (Decrease)
(EUR millions, except percentage data)					
Net sales	41 121	100%	34 191	100.0%	20%
Cost of sales	(27 742)	(67.5)%	(22 209)	(65.0)%	25%
Gross profit	13 379	32.5%	11 982	35.0%	12%
Research and development expenses	(3 897)	(9.5)%	(3 825)	(11.2)%	2%
Selling and marketing expenses	(3 314)	(8.1)%	(2 961)	(8.7)%	12%
Administrative and general expenses	(666)	(1.6)%	(609)	(1.8)%	9%
Other operating income and expenses	(14)		52	0.2%	
Operating profit	5 488	13.3%	4 639	13.6%	18%

For 2006, Nokia's net sales increased 20% to EUR 41.1 billion compared with EUR 34.2 billion in 2005. At constant currency, group net sales would have grown 17% in 2006. Our gross margin in 2006 was 32.5% compared with 35.0% in 2005. This lower gross margin primarily reflected the inability of certain high-end products in our portfolio to compete effectively in various markets, coupled with a general shift to lower priced products driven primarily by the growth of emerging markets and our strong position in those markets. Gross margin was also negatively impacted by a decline in Networks' gross margin, which was primarily affected by pricing pressure and our efforts to gain market

share, a greater proportion of sales from emerging markets and a higher share of service sales.

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Research and development, or R&D, expenses were EUR 3.9 billion in 2006, up 2% from EUR 3.8 billion in 2005. R&D expenses represented 9.5% of net sales in 2006, down from 11.2% in 2005. The decrease in R&D as a percentage of net sales reflected our continued effort to improve the efficiency of our investments. R&D expenses increased in Multimedia and Networks and decreased in Mobile Phones and Enterprise Solutions. In 2005, Multimedia incurred a restructuring charge of EUR 15 million related to R&D activities. If this item were excluded, R&D expenses would have increased 2% in 2006 and would have represented 9.5% of Nokia net sales in 2006 compared with 11.1% of Nokia net sales in 2005.

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

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

In 2006, other operating expenses included EUR 142 million of charges primarily related to the restructuring of the CDMA business and associated asset write-downs. Other operating expenses included also restructuring charge of EUR 8 million for personnel expenses primarily related to headcount reductions in Enterprise Solutions in 2006. In 2006, other operating income included a gain of EUR 276 million representing our share of the proceeds from the Telsim sale. In 2005, other operating income and expenses included a gain of EUR 61 million relating to the divestiture 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 a general downturn in market conditions.

Nokia Group's operating profit for 2006 increased 18% to EUR 5 488 million compared with EUR 4 639 million in 2005. An increase in Mobile Phones and Multimedia's operating profit in 2006 more than offset an unchanged operating loss in Enterprise Solutions and an operating profit decline in Networks. Networks operating profit included the negative impact of EUR 39 million incremental costs related to Nokia Siemens Networks. Our operating margin was 13.3% in 2006 compared with 13.6% in 2005.

Table of Contents*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 2006 and 2005.

	Year Ended		Year Ended		Percentage
	December 31,	Percentage	December 31,	Percentage	Increase/ (Decrease)
	2006	of Net Sales	2005	of Net Sales	
(EUR millions, except percentage data)					
Net sales	24 769	100.0%	20 811	100.0%	19%
Cost of sales	(17 489)	(70.6)%	(14 331)	(68.9)%	22%
Gross profit	7 280	29.4%	6 480	31.1%	12%
Research and development expenses	(1 227)	(5.0)%	(1 245)	(6.0)%	(1)%
Selling and marketing expenses	(1 649)	(6.6)%	(1 541)	(7.4)%	7%
Administrative and general expenses	(79)	(0.3)%	(68)	(0.3)%	16%
Other operating income and expenses	(225)	(0.9)%	(28)	(0.1)%	
Operating profit	4 100	16.6%	3 598	17.3%	14%

Mobile Phones business group 2006 net sales increased 19% to EUR 24 769 million compared with EUR 20 811 million in 2005. At constant currency, Mobile Phones business group net sales would have increased by 15%. Net sales growth was driven by strong volume growth, especially in the entry level, and our ability to capture incremental volumes with our competitive entry-level product portfolio and strong logistics. Volume growth was partially offset by declining ASPs. Net sales increased in all areas and were strongest in Latin America, followed by Asia-Pacific, China, Europe, Middle East & Africa and North America.

Mobile Phones 2006 gross profit was EUR 7 280 million compared with EUR 6 480 million in 2005. This represented a gross margin of 29.4% in 2006 compared with a gross margin of 31.1% in 2005. This decline in gross margin reflected a higher proportion of sales of lower priced entry level phones, driven by strong demand in emerging markets where our share is high and also a lack of broad acceptance of certain high-end products in our portfolio. Mobile Phones 2006 R&D expenses decreased by 1% to EUR 1 227 million compared with EUR 1 245 million in 2005. In 2006, R&D expenses represented 5.0% of Mobile Phones net sales compared with 6.0% of its net sales in 2005. The decrease reflected effective operating expense control.

In 2006, Mobile Phones selling and marketing expenses increased by 7% to EUR 1 649 million as a result of increased sales and marketing spend to support new product introductions, compared with EUR 1 541 million in 2005. In 2006, selling and marketing expenses represented 6.6% of Mobile Phones net sales compared with 7.4% of its net sales in 2005. This reflected improved productivity due to effective cost control on selling and marketing expenses.

Other operating income and expenses in 2006 included EUR 142 million of charges primarily related to the restructuring of our CDMA business and associated asset write-downs. Working together with co-development partners, Nokia intends to selectively participate in key CDMA markets, with a special focus on North America, China and India. Accordingly, Nokia is ramping down its CDMA research, development and production, which will cease by April 2007.

In 2006, Mobile Phones operating profit increased 14% to EUR 4 100 million compared with EUR 3 598 million in 2005, with a 16.6% operating margin, down from 17.3% in 2005. The increase

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in operating profit was driven by strong net sales and effective operating expense control. Operating profit was negatively impacted by a lack of broad acceptance of certain high-end products in our portfolio.

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 2006 and 2005.

	Year Ended		Year Ended		Percentage
	December 31,	Percentage of	December 31,	Percentage of	Increase/ (Decrease)
	2006	Net Sales	2005	Net Sales	
(EUR millions, except percentage data)					
Net sales	7 877	100.0%	5 981	100.0%	32%
Cost of sales	(4 800)	(60.9)%	(3 492)	(58.4)%	37%
Gross profit	3 077	39.1%	2 489	41.6%	24%
Research and development expenses	(902)	(11.5)%	(860)	(14.4)%	5%
Selling and marketing expenses	(780)	(9.9)%	(705)	(11.8)%	11%
Administrative and general expenses	(45)	(0.6)%	(38)	(0.6)%	18%
Other operating income and expenses	(31)	(0.4)%	(50)	(0.8)%	38%
Operating profit	1 319	16.7%	836	14.0%	58%

Multimedia business group 2006 net sales increased 32% to EUR 7 877 million compared with EUR 5 981 million in 2005. At constant currency, Multimedia net sales would have increased 27% in 2006. Net sales were driven by a robust overall device market supporting sales of more than 16 million Nokia Nseries multimedia computers during the year, led by the Nokia N70 and Nokia N73. Net sales growth was strongest in China followed by Asia-Pacific, Latin America, Middle East & Africa and Europe. Multimedia net sales declined in North America and continued at a low level in 2006.

Multimedia 2006 gross profit increased by 24% to EUR 3 077 million compared with EUR 2 489 million in 2005. This represented a gross margin of 39.1% in 2006 compared with a gross margin of 41.6% in 2005. The increase in gross profit was a result of the growth of the business but lower than the growth in net sales. The gross margin declined primarily due to the price pressure in the market and more expensive product concepts.

Multimedia 2006 R&D expenses were EUR 902 million compared with EUR 860 million in 2005, representing 11.5% of Multimedia net sales in 2006 compared with 14.4% of its net sales in 2005. A restructuring charge of EUR 15 million was recorded in 2005 as a result of more focused R&D activities.

In 2006, Multimedia's selling and marketing expenses increased by 11% to EUR 780 million as a result of increase in marketing and advertising expenses primarily due to the launch of new products and growth of the business. Selling and marketing expenses were EUR 705 million in 2005. In 2006, selling and marketing expenses represented 9.9% of Multimedia's net sales compared with 11.8% of its net sales in 2005. This reflected improved productivity due to effective cost control on selling and marketing expenses.

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

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Multimedia 2006 operating profit increased 58% to EUR 1 319 million compared with EUR 836 million in 2005, with an operating margin of 16.7% in 2006, up from 14.0% in 2005. The increase in operating profit reflected the increase in sales of our Multimedia products and effective operating expense control.

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 2006 and 2005.

	Year Ended December 31, 2006	Percentage of Net Sales	Year Ended December 31, 2005	Percentage of Net Sales	Percentage Increase/ (Decrease)
(EUR millions, except percentage data)					
Net sales	1 031	100.0%	861	100.0%	20%
Cost of sales	(582)	(56.5)%	(459)	(53.3)%	(27)%
Gross profit	449	43.5%	402	46.7%	12%
Research and development expenses	(319)	(30.9)%	(329)	(38.2)%	(3)%
Selling and marketing expenses	(306)	(29.7)%	(221)	(25.7)%	38%
Administrative and general expenses	(75)	(7.3)%	(74)	(8.6)%	1%
Other operating income and expenses	(7)	(0.6)%	(36)	(4.2)%	(81)%
Operating loss	(258)	(25.0)%	(258)	(30.0)%	

Enterprise Solutions business group 2006 net sales increased 20% to EUR 1 031 million compared with EUR 861 million in 2005. At constant currency, Enterprise Solutions net sales would have increased 17% in 2006. Net sales growth was highest in China, North America, Europe, Latin America and Asia-Pacific. Net sales declined in Middle East & Africa. The Nokia Eseries sold almost 2 million units since its introduction in the second quarter 2006. In Enterprise Solutions, gross profit increased by 12% to EUR 449 million as a result of the growth of the business, compared with EUR 402 million in 2005. This represented a gross margin of 43.5% in 2006 compared with a gross margin of 46.7% in 2005.

In Enterprise Solutions, R&D expenses in 2006 decreased by 3% to EUR 319 million due to effective cost control. R&D expenses in 2005 were EUR 329 million. R&D expenses represented 30.9% of Enterprise Solutions net sales in 2006 and 38.2% of its net sales in 2005.

In 2006, Enterprise Solutions selling and marketing expenses increased by 38% to EUR 306 million reflecting increased sales and marketing spend primarily due to the launch of new Eseries products. Selling and marketing expenses were EUR 221 million in 2005. In 2006, selling and marketing expenses represented 29.7% of Enterprise Solutions net sales and 25.7% of its net sales in 2005.

Other operating income and expenses included restructuring charge for personnel expenses primarily related to headcount reductions of EUR 8 million in 2006 and EUR 29 million in 2005.

Enterprise Solutions operating loss of EUR 258 million was flat in 2006 compared to 2005, with an operating margin of (25.0)% in 2006 and an operating margin of (30.0)% in 2005. In 2006, higher net sales and effective operating cost control were offset by the negative impact of a mix shift to lower-end products.

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The following table sets forth selective line items and the percentage of net sales that they represent for the Networks business group for the fiscal years 2006 and 2005.

	Year Ended		Year Ended		Percentage
	December 31,	Percentage	December 31,	Percentage	Increase/ (Decrease)
	2006	of Net Sales	2005	of Net Sales	
(EUR millions, except percentage data)					
Net sales	7 453	100.0%	6 557	100.0%	14%
Cost of Sales	(4 910)	(65.9)%	(3 967)	(60.5)%	24%
Gross profit	2 543	34.1%	2 590	39.5%	(2)%
Research and development expenses	(1 180)	(15.8)%	(1 170)	(17.8)%	1%
Selling and marketing expenses	(544)	(7.3)%	(475)	(7.3)%	15%
Administrative and general expenses	(245)	(3.3)%	(211)	(3.2)%	16%
Other income and expenses	234	3.1%	121	1.8%	93%
Operating profit	808	10.8%	855	13.0%	(5)%

Networks business group 2006 net sales increased 14% to EUR 7 453 million compared with EUR 6 557 million in 2005. At constant currency, Networks business group net sales would have increased 12% in 2006. Strong net sales growth in Middle East & Africa, Asia-Pacific, China and Latin America was partially offset by net sales decline in North America and Europe. Net sales growth for Networks was especially strong in the emerging markets, like India, where the market continued its robust growth and where Nokia estimates it gained market share.

In Networks, gross profit decreased by 2% to EUR 2 543 million, compared with EUR 2 590 million in 2005, primarily due to pricing pressure and our ongoing push into markets where, historically, we have not had a presence as well as investments in the growing network services market, which generally has lower gross margins than equipment sales. This represented a gross margin of 34.1% in 2006 compared with a gross margin of 39.5% in 2005.

In Networks, R&D expenses increased 1% to EUR 1 180 million compared with EUR 1 170 million in 2005. In 2006, R&D expenses represented 15.8% of Networks net sales compared with 17.8% in 2005.

In 2006, Networks selling and marketing expenses increased by 15% to EUR 544 million compared with EUR 475 million in 2005 in line with the overall net sales growth. Selling and marketing expenses represented 7.3% of Networks net sales in 2006 and 2005.

In 2006, other operating income included a gain of EUR 276 million representing our share of the proceeds from the Telsim sale. In 2005, other operating income and expenses included a gain of EUR 42 million related to the divestiture of the Group's Tetra business and EUR 18 million gain related to the partial sale of a minority investment.

Networks 2006 operating profit decreased to EUR 808 million from EUR 855 million in 2005. Networks operating profit included the negative impact of EUR 39 million incremental costs related to Nokia Siemens Networks. The business group's operating margin for 2006 was 10.8% compared with 13.0% in 2005. The lower operating profit primarily reflected pricing pressure and our efforts to gain market share, a greater proportion of sales from the emerging markets and a higher share of service sales.

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Common Group Expenses

Common Group expenses totaled EUR 481 million in 2006 compared with EUR 392 million in 2005. In 2005, this included a EUR 45 million gain for real estate sales.

Net Financial Income

Net financial income totaled EUR 207 million in 2006 compared with EUR 322 million in 2005. Net financial income included a EUR 57 million gain from the sale of the remaining France Telecom bond in 2005. Interest income decreased as a result of a lower level of cash and other liquid assets due to higher share buybacks. Above mentioned lower gains and lower interest income were the main reasons for lower net financial income in 2006 than in 2005.

The net debt to equity ratio was negative (68%) at December 31, 2006 compared with a net debt to equity ratio of (77%) at December 31, 2005. See Item 5.B Liquidity and Capital Resources below.

Profit Before Taxes

Profit before tax and minority interests increased 15% to EUR 5 723 million in 2006 compared with EUR 4 971 million in 2005. Taxes amounted to EUR 1 357 million and EUR 1 281 million in 2006 and 2005, respectively. In 2006, taxes include received and accrued tax refunds from previous years of EUR 84 million compared with EUR 48 million in 2005. The effective tax rate decreased to 23.7% in 2006 compared with 25.8% in 2005, due to mix of foreign earnings.

Minority Interests

Minority shareholders' interest in our subsidiaries' profits totaled EUR 60 million in 2006 compared with EUR 74 million in 2005.

Net Profit and Earnings per Share

Net profit in 2006 totaled EUR 4 306 million compared with EUR 3 616 million in 2005, representing a year-on-year increase in net profit of 19% in 2006. Earnings per share in 2006 increased to EUR 1.06 (basic) and 1.05 (diluted) compared with EUR 0.83 (basic and diluted) in 2005.

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.

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	Year Ended		Year Ended		Percentage
	December 31,	Percentage of	December 31,	Percentage of	Increase/ (Decrease)
	2005	Net Sales	2004	Net Sales	
(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. R&D expenses represented 11.2% of net sales in 2005, down from 12.9% in 2004. R&D 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 divestiture 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.

Table of Contents**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		Year Ended		Percentage
	December 31,	Percentage of	December 31,	Percentage of	Increase/ (Decrease)
	2005	Net Sales	2004	Net Sales	
(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.

Table of Contents*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		Year Ended		Percentage
	December 31,	Percentage	December 31,	Percentage	Increase/ (Decrease)
	2005	of Net Sales	2004	of Net Sales	
(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 divestiture 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.

Table of Contents*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		Year Ended		Percentage
	December 31,	Percentage	December 31,	Percentage	Increase/ (Decrease)
	2005	of Net Sales	2004	of Net Sales	
(EUR millions, except percentage data)					
Net sales	861	100.0%	839	100.0%	3%
Cost of sales	(459)	(53.3)%	(475)	(56.6)%	(3)%
Gross profit	402	46.7%	364	43.4%	10%
Research and development expenses	(329)	(38.2)%	(304)	(36.2)%	8%
Selling and marketing expenses	(221)	(25.7)%	(199)	(23.7)%	11%
Administrative and general expenses	(74)	(8.6)%	(61)	(7.3)%	21%
Other operating income and expenses	(36)	(4.2)%	(4)	(0.5)%	
Amortization of goodwill			(6)	(0.7)%	100%
Operating loss	(258)	(30.0)%	(210)	(25.0)%	23%

Enterprise Solutions business group 2005 net sales increased 3% to EUR 861 million compared with EUR 839 million in 2004. While overall net sales for the year demonstrated modest growth, net sales in 2005 were negatively impacted by the significantly lower sales in the fourth quarter.

In Enterprise Solutions, gross profit increased by 10% to EUR 402 million due to higher sales, compared with EUR 364 million in 2004. This represented a gross margin of 46.7% in 2005 compared with a gross margin of 43.4% in 2004.

In Enterprise Solutions, R&D expenses in 2005 increased by 8% to EUR 329 million due to the target to broaden the product offering including the launch of Nokia Business Center and Eseries products. R&D expenses in 2004 were EUR 304 million. R&D expenses represented 38.2% of Enterprise Solutions net sales in 2005 and 36.2% of its net sales in 2004.

In 2005, Enterprise Solutions selling and marketing expenses increased by 11% to EUR 221 million as a result of the marketing of the Nokia 9300 enterprise smartphone and the launch of Eseries products. Selling and marketing expenses were EUR 199 million in 2004. In 2005, selling and marketing expenses represented 25.7% of Enterprise Solutions net sales and 23.7% of its net sales in 2004.

Other operating income and expenses in 2005 included a EUR 29 million restructuring charge for personnel expenses primarily related to headcount reductions.

Enterprise Solutions operating loss increased 23% to EUR 258 million (including a EUR 29 million restructuring charge) in 2005 compared with a loss of EUR 210 million in 2004, with an operating margin of (30.0%) in 2005 and an operating margin of (25.0%) in 2004.

Table of Contents*Networks*

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

	Year Ended		Year Ended		Percentage
	December 31,	Percentage of	December 31,	Percentage of	Increase/ (Decrease)
	2005	Net Sales	2004	Net Sales	
(EUR millions, except percentage data)					
Net sales	6 557	100.0%	6 431	100.0%	2%
Cost of Sales	(3 967)	(60.5)%	(3 688)	(57.3)%	8%
Gross profit	2 590	39.5%	2 743	42.7%	(6)%
Research and development expenses	(1 170)	(17.8)%	(1 194)	(18.6)%	(2)%
Selling and marketing expenses	(475)	(7.3)%	(503)	(7.8)%	6%
Administrative and general expenses	(211)	(3.2)%	(210)	(3.3)%	
Other income and expenses	121	1.8%	48	0.7%	152%
Amortization of goodwill					
Operating profit	855	13.0%	884	13.7%	(3)%

Networks business group 2005 net sales increased 2% to EUR 6 557 million compared with EUR 6 431 million in 2004. At constant currency, Networks business group net sales would have been up 6%. Strong sales growth in Latin America and Asia-Pacific was offset by sales declines in China and North America, while sales in Europe remained virtually unchanged.

In Networks, gross profit decreased by 6% to EUR 2 590 million primarily due to investments in the growing network services market, which generally has lower gross margins than equipment sales, as well as intense price pressure and our ongoing push into markets where historically we have not had a presence, compared with EUR 2 743 million in 2004. This represented a gross margin of 39.5% in 2005 compared with a gross margin of 42.7% in 2004.

In Networks, R&D expenses decreased 2% to EUR 1 170 million compared with EUR 1 194 million in 2004. In 2005, R&D expenses represented 17.8% of Networks net sales compared with 18.6% in 2004. R&D expenses in 2004 included impairments of capitalized R&D of EUR 115 million due to the discontinuation of certain products and base station horizontalization projects and an impairment related to the 3G/ WCDMA radio access network project. If these impairments were excluded, R&D expenses would have increased 8% in 2005. This would have represented 17.8% of Networks net sales in 2005 compared with 16.8% of its net sales in 2004.

In 2005, Networks selling and marketing expenses decreased by 6% to EUR 475 million compared with EUR 503 million in 2004. In 2005, selling and marketing expenses represented 7.3% of Networks net sales compared with 7.8% of its net sales in 2004.

Other operating income and expenses included a gain of EUR 42 million related to the divesture of the Group's Tetra business and EUR 18 million gain related to the partial sale of a minority investment.

Networks 2005 operating profit decreased to EUR 855 million from EUR 884 million in 2004. The business group's operating margin for 2005 was 13.0% compared with 13.7% in 2004. The decline in Networks profitability was primarily due to investments in the growing network services market, which generally has lower gross margins than equipment sales, as well as intense price pressure and our ongoing push into markets where historically we have not

had a presence.

Table of Contents*Common Group Expenses*

Common Group expenses totaled EUR 392 million in 2005 compared with EUR 309 million in 2004. In 2005, this included a EUR 45 million gain for real estate sales and in 2004 a positive item of EUR 160 million representing the premium return under our multi-line, multi-year insurance program, which expired during 2004. The return was due to our low claims experience during the policy period. In 2004, it also included a EUR 12 million negative impact from the divestiture of our holding in Nextrom Holding S.A.

Net Financial Income

Net financial income totaled EUR 322 million in 2005 compared with EUR 405 million in 2004. Net financial income included a EUR 57 million gain from the sale of the remaining France Telecom bond in 2005 and a gain of EUR 106 million from the sale of a portion of the France Telecom bond in 2004. Interest income decreased due to a lower level of cash and other liquid assets towards the end of the year due to higher share buybacks. Above mentioned lower gains and lower interest income were the main reasons for lower net financial income in 2005 than in 2004. The net debt to equity ratio was negative (77%) at December 31, 2005 compared with a net debt to equity ratio of (79%) at December 31, 2004. See Item 5.B Liquidity and Capital Resources below.

Profit Before Taxes

Profit before tax and minority interests increased 6% to EUR 4 971 million in 2005 compared with EUR 4 705 million in 2004. Taxes amounted to EUR 1 281 million and EUR 1 446 million in 2005 and 2004, respectively. Taxes include a tax refund from previous years of EUR 48 million in 2005. Effective tax rate decreased to 25.8% in 2005 compared with 30.7% in 2004, impacted by the decrease in the Finnish Corporate tax from 29% to 26%.

Minority Interests

Minority shareholders' interest in our subsidiaries' profits totaled EUR 74 million in 2005 compared with EUR 67 million in 2004.

Net Profit and Earnings per Share

Net profit in 2005 totaled EUR 3 616 million compared with EUR 3 192 million in 2004, representing a year-on-year increase in net profit of 13% in 2005. Earnings per share in 2005 increased to EUR 0.83 (basic and diluted) compared with EUR 0.69 (basic and diluted) in 2004.

Related Party Transactions

There have been no material transactions during the last three fiscal years to which any director, executive officer or at least 5% shareholder, or any relative or spouse of any of them, was party. There is no significant outstanding indebtedness owed to Nokia by any director, executive officer or at least 5% shareholder.

There are no material transactions with enterprises controlling, controlled by or under common control with Nokia or associates of Nokia.

See Note 33 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

Exchange Rates

Nokia's business and results of operations are from time to time affected by changes in exchange rates, particularly between the euro and other currencies such as the US dollar, the Chinese yuan, the UK pound sterling and the Japanese yen. See Item 3.A Selected Financial Data Exchange Rate Data. Foreign currency denominated assets and liabilities, together with highly probable purchase

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and sale commitments, give rise to foreign exchange exposure. In general, depreciation of another currency relative to the euro has an adverse effect on Nokia's sales and operating profit, while appreciation of another currency relative to the euro has a positive effect, with the exception of Japanese yen, being the only significant foreign currency in which Nokia has more purchases than sales.

During 2006, the US dollar appreciated by approximately 0.7% against the euro (measured by the average rate used to record transactions in foreign currency for accounting purposes for the year compared to average rate for the previous year). During 2005 and 2004, the US dollar depreciated by approximately 1.7% and 10.7%, respectively. The change in value of the US dollar had a slight positive impact on Nokia's operating profit in 2006 and a slight negative impact in 2005 and material negative impact in 2004. During 2006, the Chinese yuan appreciated by approximately 3.3% against the euro. During 2005 and 2004, the Chinese yuan depreciated by approximately 0.8% and 10.7%, respectively. The change in value of the Chinese yuan had a slight positive impact on Nokia's operating profit in 2006 and a negative impact in 2005 and 2004. During 2006 and 2004, the UK pound sterling appreciated by approximately 0.3% and 1.2% against the euro, respectively. During 2005, the UK pound depreciated by approximately 0.5%. The change in value of the UK pound sterling had a slightly positive impact on Nokia's net sales expressed in euros as well as operating profit in 2006 and 2004 and a slight negative impact in 2005. During 2006, 2005 and 2004, the Japanese yen depreciated by approximately 6.0%, 1.6% and 3.0%, respectively against the euro. The change in value of the Japanese yen had a slight positive impact on Nokia's operating profit in each year. To mitigate the impact of changes in exchange rates on net sales, average product cost as well as operating profit, Nokia hedges all material transaction exposures on a gross basis.

Nokia's balance sheet is also affected by the translation into euro for financial reporting purposes of the shareholders equity of our foreign subsidiaries that are denominated in currencies other than the euro. In general, this translation increases our shareholders' equity when the euro depreciates, and affects shareholders' equity adversely when the euro appreciates against the relevant other currencies (year-end rate to previous year-end rate).

For a discussion on the instruments used by Nokia in connection with our hedging activities, see Note 37 to our consolidated financial statements included in Item 18 of this Form 20-F. See also Item 11. Quantitative and Qualitative Disclosures About Market Risk and 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.

Principal Differences Between IFRS and US GAAP

Nokia's consolidated financial statements are prepared in accordance with IFRS.

Our net profit in 2006 under IFRS was EUR 4 306 million compared with EUR 3 616 million in 2005 and EUR 3 192 million in 2004. Under US GAAP, Nokia would have reported net income of EUR 4 275 million in 2006 compared with EUR 3 582 million in 2005 and EUR 3 343 million in 2004.

The principal differences between IFRS and US GAAP that affect our net profit or loss, as well as our shareholders equity, relate to the treatment of capitalization and impairment of development costs, pensions, share-based compensation expense, identifiable intangible assets acquired, amortization and impairment of goodwill, translation of goodwill and cash flow hedges. See Note 38 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F for a description of the principal differences between IFRS and US GAAP and for a description of the anticipated impact on the consolidated financial statements of the adoption of recently issued US GAAP accounting standards.

Table of Contents**5.B Liquidity and Capital Resources**

At December 31, 2006, Nokia's cash and other liquid assets (bank and cash; available-for-sale investments, cash equivalents; and available-for-sale investments, liquid assets) decreased to EUR 8 537 million, compared with EUR 9 910 million at December 31, 2005, mainly due to purchases of treasury shares partly offset with the cash from investing activities.

Cash and cash equivalents increased to EUR 3 525 million compared with EUR 3 058 million at December 31, 2005. We hold our cash and cash equivalents predominantly in euros. Cash and cash equivalents totaled EUR 2 457 million at December 31, 2004.

Net cash from operating activities was EUR 4 478 million in 2006 compared with EUR 4 144 million in 2005, and EUR 4 343 million in 2004. In 2006, net cash generated from operating activities increased primarily due to an increase in cash generated from operations and lower income taxes paid. Taxes paid in 2006 included tax refunds of EUR 52 million. In 2005, net cash generated from operating activities decreased primarily due to an increase in working capital.

Net cash from investing activities in 2006 was EUR 1 006 million compared with net cash from investing activities of EUR 1 844 million in 2005, and net cash used in investing activities of EUR 329 million in 2004. Cash flow from investing activities in 2006 included purchases of current available-for-sale investments, liquid assets, of EUR 3 219 million, compared with EUR 7 277 million in 2005, and EUR 10 318 million in 2004. Net cash used in acquisitions of Group companies were EUR 517 million compared with EUR 92 million in 2005 and EUR 0 million in 2004. Additions to capitalized R&D expenses totaled EUR 127 million, representing a decrease compared with EUR 153 million in 2005. In 2004, additions to capitalized R&D were EUR 101 million. Long-term loans made to customers decreased to EUR 11 million in 2006, compared with EUR 56 million in 2005 and EUR 0 million in 2004. Net cash from investing activities in 2006 included EUR 276 million relating recovery of impaired long-term loans made to customers. Capital expenditures for 2006 were EUR 650 million compared with EUR 607 million in 2005 and EUR 548 million in 2004. Major items of capital expenditure included production lines, test equipment and computer hardware used primarily in research and development as well as office and manufacturing facilities. Proceeds from maturities and sale of current available-for-sale investments, liquid assets, decreased to EUR 5 058 million, compared with EUR 9 402 million in 2005, and EUR 9 737 million in 2004. During 2005 we sold the remaining holdings in the subordinated convertible perpetual bonds issued by France Telecom. As a result, we booked proceeds from sale of current available-for-sale investments of EUR 247 million (EUR 587 million in 2004). Net cash used in financing activities decreased to EUR 4 966 million in 2006 compared with EUR 5 570 million in 2005, primarily as a result of decrease in the purchases of treasury shares with EUR 887 million during 2006. Net cash used in financing activities increased to EUR 5 570 million in 2005 compared with EUR 4 318 million in 2004, primarily as a result of an increase in the purchases of treasury shares with EUR 1 610 million during 2005. Dividends paid increased to EUR 1 553 million in 2006 compared with EUR 1 531 million in 2005 and EUR 1 413 million in 2004.

At December 31, 2006, Nokia had EUR 69 million in long-term interest-bearing liabilities and EUR 247 million in short-term borrowings, offset by EUR 8 537 million in cash and other liquid assets, resulting in a net liquid assets balance of EUR 8 221 million, compared with EUR 9 512 million at the end of 2005. For further information regarding our long-term liabilities, including interest rate structure and currency mix, see Note 25 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F. Our ratio of net interest-bearing debt, defined as short-term and long-term debt less cash and other liquid assets, to equity, defined as shareholders' equity and minority interests, was (68%), (77%) and (79%) at December 31, 2006, 2005 and 2004, respectively. The change in 2006 resulted from liquid assets used for funding share buybacks.

Nokia's Board of Directors will propose a dividend of EUR 0.43 per share for the year ended December 31, 2006, subject to shareholders' approval, compared with EUR 0.37 and EUR 0.33

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per share paid per share for the years ended December 31, 2005 and 2004, respectively. See Item 3.A Selected Financial Data Distribution of Earnings.

Nokia has no potentially significant refinancing requirements in 2007. Nokia expects to incur additional indebtedness from time to time as required to finance working capital needs. At December 31, 2006, Nokia had a USD 500 million US Commercial Paper, or USCP, program and a USD 500 million Euro Commercial Paper, or ECP, program. In addition, at the same date, Nokia had a Finnish local commercial paper program totaling EUR 750 million. At December 31, 2006, we also had a committed credit facility of USD 2 000 million and a number of short-term uncommitted facilities. For further information regarding our short-term borrowings, including the average interest rate, see Note 27 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F. Nokia has historically maintained a high level of liquid assets. Management estimates that the cash and other liquid assets level of EUR 8 537 million at the end of 2006, together with Nokia's available credit facilities, cash flow from operations, funds available from long-term and short-term debt financings, as well as the proceeds of future equity or convertible bond offerings, will be sufficient to satisfy our future working capital needs, capital expenditure, research and development and debt service requirements at least through 2007. The ratings of our short and long-term debt from credit rating agencies have not changed during the year. The ratings at December 31, 2006, were:

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

We believe that Nokia will continue to be able to access the capital markets on terms and in amounts that will be satisfactory to us, and that we will be able to obtain bid and performance bonds, to arrange or provide customer financing as necessary to support our business and to engage in hedging transactions on commercially acceptable terms.

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. In 2006, capital expenditures totaled EUR 650 million compared with EUR 607 million in 2005 and EUR 548 million 2004. The increase in 2006 resulted from increased amount of capital expenditures in machinery and equipment to support the company's growing volumes. Principal capital expenditures during the three years included production lines, test equipment and computer hardware used primarily in research and development as well as office and manufacturing facilities. We expect the amount of capital expenditures during 2007 to be approximately EUR 700 million, and to be funded from our cash flow from operations. This estimate for 2007 does not include the full impact of Nokia Siemens Networks.

Structured Finance

Structured Finance includes customer financing and other third party financing. 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. Customer financing continues to be requested by some operators in some markets. 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. See Item 3.D Risk Factors Providing customer financing or extending payment terms to customers can be a competitive requirement and could adversely and materially affect our results of operations, financial condition and cash flow.

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The following table sets forth Nokia's total structured finance, outstanding and committed, for the years indicated.

Structured Finance

	At December 31,		
	2006	2005	2004
	(EUR millions)		
Financing commitments	164	13	56
Outstanding long-term loans (net of allowances and write-offs)	19	63	
Outstanding financial guarantees and securities pledged	23		3
Total	206	63	59

In 2006, our total structured financing, outstanding and committed, increased to EUR 206 million from EUR 63 million in 2005 and primarily consisted of committed financing to a network operator. Financial guarantees given on behalf of third parties of EUR 23 million were issued during 2006.

In 2005, our total structured financing primarily consisted of the funding of the EUR 56 million 2004 financing commitment to a network operator. The committed financing in 2005 of an additional EUR 13 million to this network did not increase our total and outstanding credit risk from EUR 63 million, as it was available only if the outstanding loan of EUR 56 million was repaid. The guarantees of EUR 3 million outstanding in 2004 were released.

See Notes 8 and 37(b) to our consolidated financial statements included in Item 18 of this annual report on Form 20-F for additional information relating to our committed and outstanding customer financing.

As a strategic market requirement, we plan to continue to provide customer financing and extended payment terms to a small number of selected customers. We continue to make arrangements with financial institutions and investors to sell credit risk we have incurred from the commitments and outstanding loans we have made as well as from the financial guarantees we have given. Should the demand for customer finance increase in the future, we intend to further mitigate our total structured financing exposure, market conditions permitting.

We expect our structured financing commitments to be financed mainly through cash flow from operations as well as through the capital markets.

The structured financing commitment is available under a loan facility negotiated with a customer of Networks.

Availability of the amounts is dependent upon the borrower's continuing compliance with stated financial and operational covenants and compliance with other administrative terms of the facility. The loan is available to fund capital expenditure relating to purchase of network infrastructure equipment and services from networks.

The following table sets forth the amounts of Nokia's contingent commitments for the periods indicated. The amounts represent the maximum principal amount of commitments.

Contingent Commitments Expiration Per Period

	2007	2008-2009	2010-2011	Thereafter	Total
	(EUR millions)				
Guarantees of Nokia's performance	175	45	30	9	259
Financial guarantees and securities pledged on behalf of third parties		4		19	23
Total	175	49	30	28	282

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

Financial guarantees and securities pledged on behalf of customers represent guarantees relating to payment by certain third parties under specified credit facilities between such third parties and their creditors. Nokia's obligations under such guarantees are released upon the earlier of expiration of the guarantee or early payment by the customer.

See Note 31 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F for further information regarding commitments and contingencies.

5.C Research and Development, Patents and Licenses

Success in the mobile communications industry requires continuous introduction of new products and solutions based on the latest available technology. This places considerable demands on our research and development, or R&D activities. Consequently, in order to maintain our competitiveness, we have made substantial R&D expenditures in each of the last three years. Our consolidated R&D expenses for 2006 were EUR 3 897 million, an increase of 2% from EUR 3 825 million in 2005. R&D expenses in 2004 were EUR 3 776 million. These expenses represented 9.5%, 11.2% and 12.9% of net sales in 2006, 2005 and 2004, respectively. In 2006, R&D expenses increased in Multimedia and Networks and decreased in Mobile Phones and Enterprise Solutions. In 2005, Multimedia incurred a restructuring charge of EUR 15 million related to R&D activities. R&D expenses in 2004 included impairments of EUR 115 million in Networks due to the discontinuation of certain products and base station horizontalization projects and an impairment related to the WCDMA radio access network project. If the restructuring costs in Multimedia in 2005 (EUR 15 million) and the impairments and write-offs of capitalized R&D costs and the restructuring costs in Networks were excluded from 2004 (impairments of EUR 115 million), R&D expenses would have increased 2% in 2006 and 4% in 2005. This would have represented 9.5% of Nokia net sales in 2006 compared with 11.1% of Nokia net sales in 2005 and 12.5% of Nokia net sales in 2004.

To enable our future growth, we continued to improve the efficiency of our worldwide R&D network and increased our collaboration with third parties. At December 31, 2006, we employed 21 453 people in R&D, representing approximately 31% of Nokia's total workforce, and had research and development presence in 11 countries. R&D expenses of Mobile Phones as a percentage of its net sales were 5.0% in 2006 compared with 6.0% in 2005 and 6.5% in 2004. In Multimedia, R&D expenses as a percentage of its net sales were 11.5% in 2006 compared with 14.4% in 2005 and 23.5% in 2004. R&D expenses of Enterprise Solutions as a percentage of its net sales were 30.9%, compared with 38.2% in 2005 and 36.2% in 2004. In the case of Networks, R&D expenses represented 15.8%, 17.8% and 18.6% of its net sales in 2006, 2005 and 2004, respectively. If the impairments and write-offs of capitalized R&D costs and restructuring costs described in the previous paragraph were excluded, the R&D expenses of Networks would have represented 15.8%, 17.8% and 16.8% of Networks' net sales in 2006, 2005 and 2004, respectively. We reached our target to lower our mobile device R&D expenses/net sales ratio to 8% by the end of 2006, but we did not reach our target to lower our Networks R&D expenses/net sales ratio to 14% by the end of 2006. In an effort to continue to improve our efficiency, Nokia targets an improvement in the ratio of overall Nokia gross margin to R&D expenses in 2007, compared to 2006. See Item 4.B Business Overview Technology, Research and Development and Patents and Licenses.

Table of Contents**5.D Trends information**

See Item 5.A Operating Results Overview for information on material trends affecting our business and results of operations.

5.E Off-Balance Sheet Arrangements

There are no material off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

5.F Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations for the periods indicated.

Contractual Obligations Payments Due by Period

	2007	2008-2009	2010-2011	Thereafter	Total
	(EUR millions)				
Long-term liabilities				192	192
Operating leases	214	269	111	71	665
Inventory purchases	1 630				1 630
Total	1 844	269	111	263	2 487

Benefit payments related to the underfunded domestic and foreign defined benefit plan is not expected to be material in any given period in the future. Therefore, these amounts have not been included in the table above for any of the years presented.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**6.A Directors and Senior Management**

Pursuant to the provisions of the Finnish Companies Act and our articles of association, the control and management of Nokia is divided among the shareholders at a general meeting, the Board of Directors and the Group Executive Board.

Board of Directors

The current members of the Board of Directors were elected at the Annual General Meeting on March 30, 2006, in accordance with the proposal of the Corporate Governance and Nomination Committee of the Board of Directors. On the same date, the Chairman and Vice Chairman were elected by the members of the Board of Directors.

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

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

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

Chairman and CEO, Chairman of the Group Executive Board of Nokia Corporation 1999-2006, President and CEO, Chairman of the Group Executive Board of Nokia Corporation 1992-1999, President of Nokia Mobile Phones 1990-1992, Senior Vice President, Finance of Nokia 1986-1989. Holder of

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various managerial positions at Citibank within corporate banking 1978-1985.

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

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

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

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

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

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

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

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

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

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

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

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

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

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- Dr. Bengt Holmström, b. 1949 *Paul A. Samuelson Professor of Economics at MIT, joint appointment at the MIT Sloan School of Management.
Board member since 1999.*
- Bachelor of Science (Helsinki University), Master of Science (Stanford University), Doctor of Philosophy (Stanford University).
- Edwin J. Beinecke Professor of Management Studies at Yale University 1985-1994. Member of the Board of Directors of Kuusakoski Oy. Member of the American Academy of Arts and Sciences and Foreign Member of The Royal Swedish Academy of Sciences.
- Per Karlsson, b. 1955 *Independent Corporate Advisor.
Board member since 2002.*
- Degree in Economics and Business Administration (Stockholm School of Economics).
- Executive Director, with mergers and acquisitions advisory responsibilities, at Enskilda M&A, Enskilda Securities (London) 1986- 1992. Corporate strategy consultant at the Boston Consulting Group (London) 1979-1986.
- Board member of IKANO Holdings S.A.
- Dame Marjorie Scardino, b. 1947 *Chief Executive and member of the Board of Directors of Pearson plc.
Board member since 2001.*
- B.A. (Baylor), J.D. (University of San Francisco).
- Chief Executive of The Economist Group 1993-1997, President of the North American Operations of The Economist Group 1985-1993, lawyer 1976-1985 and publisher of *The Georgia Gazette* newspaper 1978-1985.
- Keijo Suila, b. 1945 *Board member since March 30, 2006.*
- B.Sc. (Economics and Business Administration) (Helsinki University of Economics and Business Administration).
- President and CEO of Finnair Oyj 1999-2005. Holder of various executive positions, including Vice Chairman and Executive Vice President, at Huhtamäki Oyj, Leaf Group and Leaf Europe during 1985-1998. Chairman of oneworld airline alliance 2003-2004 and member of various international aviation and air transportation associations 1999-2005.
- Vice Chairman of the Board of Directors of Kesko Corporation, and Vice Chairman of the Supervisory Board of the Finnish Fair Corporation.
- Vesa Vainio, b. 1942 *Board member since 1993.*

LL.M. (University of Helsinki).

Chairman 1998-1999 and 2000-2002 and Vice Chairman 1999-2000 of the Board of Directors of Nordea AB (publ). Chairman of the Executive Board and CEO of Merita Bank Ltd and CEO of Merita Ltd 1992-1997. President of Kymmene

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Corporation 1991-1992. Holder of various other executive positions in Finnish industry 1972-1991.

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

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

Proposal of the Corporate Governance and Nomination Committee of the Board

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

Group Executive Board

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

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

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

Chairman Olli-Pekka Kallasvuo, *President and CEO of Nokia Corporation.*

b. 1953

Group Executive Board member since 1990. Group Executive Board Chairman since 2006.

With Nokia 1980-81, rejoined 1982.

LL.M. (University of Helsinki).

President and COO of Nokia Corporation 2005-2006, Executive Vice President and General Manager of Mobile Phones 2004-2005, Executive Vice President, CFO of Nokia 1999-2003, Executive Vice President of Nokia Americas and President of

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Nokia Inc. 1997-1998, Executive Vice President, CFO of Nokia 1992-1996, Senior Vice President, Finance of Nokia 1990-1991.

Member of the Board of Directors of EMC Corporation.

Robert Andersson, b. 1960

*Executive Vice President of Customer and Market Operations.
Group Executive Board member since 2005.
Joined Nokia in 1985.*

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

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

Simon Beresford-Wylie, b. 1958

*Executive Vice President and General Manager of Networks.
Group Executive Board member since 2005.
Joined Nokia 1998.*

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

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

Member of the Board of Directors of the Vitec Group.

Mary T. McDowell, b. 1964

*Executive Vice President and General Manager of Enterprise Solutions.
Group Executive Board member since 2004.
Joined Nokia 2004.*

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

Senior Vice President, Strategy and Corporate Development of Hewlett-Packard Company 2003, Senior Vice President & General Manager, Industry-Standard Servers of Hewlett-Packard Company 2002-2003, Senior Vice President & General

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Manager, Industry-Standard Servers of Compaq Computer Corporation 1998-2002,
Vice President, Marketing, Server

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Products Division of Compaq Computer Corporation 1996-1998. Holder of executive, managerial and other positions at Compaq Computer Corporation 1986-1996.

Hallstein Moerk, b. 1953

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

Diplomøkonom (Econ.) (Norwegian School of Management). Holder of various positions at Hewlett-Packard Corporation 1977-1999.

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

Dr. Tero Ojanperä, b. 1966

*Executive Vice President, Chief Technology Officer.
Group Executive Board member since 2005.
Joined Nokia 1990.*

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

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

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

Niklas Savander, b. 1962

*Executive Vice President, Technology Platforms.
Group Executive Board Member 2006.
Joined Nokia 1997.*

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

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

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

Richard A. Simonson, b. 1958

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*Executive Vice President, Chief Financial Officer.
Group Executive Board member since 2004.
Joined Nokia 2001.*

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

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

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

Veli Sundbäck, b. 1946

Executive Vice President, Corporate Relations and Responsibility of Nokia Corporation.

Group Executive Board member since 1996.

Joined Nokia 1996.

LL.M. (University of Helsinki).

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

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

Anssi Vanjoki, b. 1956

Executive Vice President and General Manager of Multimedia.

Group Executive Board member since 1998.

Joined Nokia 1991.

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

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

Chairman of the Board of Directors of Amer Group Plc.

Dr. Kai Öistämö, b. 1964

Executive Vice President and General Manager of Mobile Phones.

Group Executive Board Member since 2005.

Joined Nokia in 1991.

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

Senior Vice President, Business Line Management, Mobile Phones 2004-2005;
Senior Vice President, Mobile Phones Business Unit, Nokia Mobile Phones
2002-2003; Vice

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President, TDMA/GSM 1900 Product Line, Nokia Mobile Phones 1999-2002; Vice President, TDMA Product Line 1997-1999; Holder of technical and managerial positions in Nokia Consumer Electronics and Nokia Mobile Phones, 1991-1997. Member of the Board of Directors of the Finnish Funding Agency for Technology and Innovation (Tekes). Chairman of the Research and Technology Committee of the Confederation of Finnish Industries (EK).

6.B Compensation

The following section reports the remuneration to the Board of Directors and describes our compensation policies and actual compensation for the Group Executive Board and other executive officers as well as our use of equity incentives.

Board of Directors

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

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

Remuneration of the Board of Directors in 2006

The following table sets forth the total annual remuneration paid to the members of the Board of Directors for 2006, as resolved by the shareholders at the Annual General Meeting on March 30, 2006.

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	Year	Fees		Options Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
		Earned or Paid in Cash (EUR) ⁽¹⁾	Stock Awards (EUR) ⁽²⁾					
Chairman, Jorma Ollila ⁽³⁾	2006	375 000						375 000
Paul J. Collins ⁽⁴⁾	2006	162 500						162 500
Georg Ehrnrooth ⁽⁵⁾	2006	120 000						120 000
Daniel R. Hesse	2006	110 000						110 000
Bengt Holmström	2006	110 000						110 000
Per Karlsson ⁽⁶⁾	2006	135 000						135 000
Marjorie Scardino	2006	110 000						110 000
Keijo Suila ⁽⁷⁾	2006	120 000						120 000
Vesa Vainio ⁽⁸⁾	2006	120 000						120 000

(9)

- (1) Approximately 60% of each Board member's annual remuneration is paid in cash and the balance in Nokia shares acquired from the market.
- (2) Not applicable to any non-executive member of the Board of Directors.
- (3) This table includes fees paid for Mr. Ollila, Chairman, for his services as Chairman of the Board. For compensation paid in his role as CEO until June 1, 2006, please refer to Summary Compensation Table on page 90.
- (4) The 2006 fee of Mr. Collins amounted to a total of EUR 162 500, consisting of a fee of EUR 137 500 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee.
- (5) The 2006 fee of Mr. Ehrnrooth amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee.
- (6) The 2006 fee of Mr. Karlsson amounted to a total of EUR 135 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 25 000 for services as Chairman of the Audit Committee.
- (7) The 2006 fee of Mr. Suila amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee.

- (8) The 2006 fee of Mr. Vainio amounted to a total of EUR 120 000, consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee.
- (9) Edouard Michelin, who was elected as a member of the Board in the Annual General meeting on March 30, 2006, was paid the annual fee of EUR 110 000 prior to his accidental death in May 2006.

Remuneration of the Board of Directors in 2005 and 2004

In 2005, the remuneration approved by the shareholders at the Annual General Meeting in 2005 was as follows: EUR 165 000 for the Chairman, EUR 137 500 for the Vice Chairman, and EUR 110 000 for each other member of the Board. As additional annual remuneration, the Chairman of the Audit Committee and the Chairman of the Personnel Committee received EUR 25 000 each. In addition, other members of the Audit Committee received EUR 10 000 each. In 2005, the Chairman of the Board was Jorma Ollila, the Vice Chairman was Paul J. Collins and the other members were Georg Ehrnrooth, Daniel R. Hesse, Bengt Holmström, Per Karlsson, Edouard Michelin, Marjorie Scardino, Vesa Vainio and Arne Wessberg. Mr. Collins was the Chairman of the Personnel Committee and Mr. Karlsson the Chairman of the Audit Committee, and other members of the Audit Committee were Mr. Ehrnrooth, Mr. Vainio and Mr. Wessberg.

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In 2004, the remuneration approved by the shareholders at the Annual General Meeting in 2004 was as follows: EUR 150 000 for the Chairman, EUR 125 000 for the Vice Chairman, and EUR 100 000 for each other members of the Board. As additional annual remuneration, the Chairman of the Audit Committee and the Chairman of the Personnel Committee received EUR 25 000 each. In 2004, the Chairman of the Board was Mr. Ollila, the Vice Chairman was Mr. Collins and the other members were Mr. Ehrnrooth, Mr. Holmström, Mr. Karlsson, Ms. Scardino, Mr. Vainio and Mr. Wessberg. Mr. Collins was the Chairman of the Personnel Committee and Mr. Karlsson was the Chairman of the Audit Committee.

Proposal of the Corporate Governance and Nomination Committee of the Board

On March 5, 2007, the Corporate Governance and Nomination Committee of the Board announced that it will propose to the Annual General Meeting to be held on May 3, 2007 that the annual remuneration payable to the Board members to be elected at the same meeting for the term until the close of the Annual General Meeting in 2008, be as follows: EUR 375 000 for the Chairman, EUR 150 000 for the Vice Chairman, and EUR 130 000 for each member. In addition, the Corporate Governance and Committee will propose that the Chairman of the Audit Committee and the Chairman of the Personnel Committee will each receive an additional annual fee of EUR 25 000, and each member of the Audit Committee an additional annual fee of EUR 10 000. Further, the Committee will propose that approximately 40% of the remuneration be paid in Nokia Corporation shares purchased from the market.

Executive Compensation***Executive Compensation Philosophy***

Nokia operates in the extremely competitive, complex and rapidly evolving mobile communications industry. We are a leading company in the industry and conduct a global business. The key objectives of the executive compensation programs are to attract, retain, and motivate talented executive officers that drive Nokia's success and industry leadership. The executive compensation programs are designed to:

provide competitive base pay rates,

provide a total compensation that is competitive with the relevant market,

attract and retain outstanding executive talent,

deliver significant variable cash compensation for the achievement of stretch goals, and

align the interests of the executive officers with those of the shareholders through long-term incentives in the form of equity-based awards.

The Personnel Committee of the Board benchmarks Nokia's compensation practices against those of other relevant companies in the same or similar industries and of the same or similar revenue size. The relevant companies include high technology and telecommunications companies that are headquartered in Europe and the United States.

The Personnel Committee of the Board reviews all levels of the executive officers' compensation on an annual basis and, from time to time during the year, when special needs arise. The Committee reviews and recommends to the Board the corporate goals and objectives relevant to the compensation of the President and CEO, evaluates the performance of the President and CEO in light of those goals and objectives, and proposes to the Board for its approval the compensation level of the President and CEO. The Personnel Committee approves all compensation for the Group Executive Board (other than the President and CEO) and other direct reports to the President and CEO, including long-term equity incentives. The Personnel Committee also reviews the results of the evaluation of the performance of the Group Executive Board members and other direct reports to the President and CEO, and approves their incentive compensation based on such evaluation.

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The Personnel Committee considers the following factors, among others, in its review when determining the compensation of Nokia's executive officers:

The compensation levels for similar positions (in terms of scope of position, revenues, number of employees, global responsibility and reporting relationships) in relevant benchmark companies,

The performance demonstrated by the executive officer during the last year,

The size and impact of the role on Nokia's overall performance and strategic direction,

The internal comparison to the compensation levels of the other executive officers of Nokia, and

Past experience and tenure in role.

The Committee uses outside independent consultants to obtain benchmark data and information on current market trends, and for advice regarding specific compensation questions.

Components of Executive Compensation

The compensation program for executive officers includes the following components:

Annual Cash Compensation

Base salaries targeted at globally competitive market levels.

Short-term cash incentives tied directly to performance and representing a significant portion of an executive officer's total annual cash compensation. The *short-term cash incentive* opportunity is expressed as a percentage of the executive officer's annual base salary. These award opportunities and measurement criteria are presented in the table below. The incentive payout formula is determined by two main factors: (a) a comparison of Nokia's actual performance to pre-established targets for net sales, operating profit and operating cash flow and (b) a comparison of each executive officer's individual performance to his/her predefined targets. Certain executive officers may also have objectives related to market share, quality, technology innovation, new product revenue, or other objectives of key strategic importance which require a discretionary assessment of performance by the Personnel Committee of the Board. The target setting as well as the weighting of each measure also require the Personnel Committee's approval. The final incentive payout is determined by multiplying each executive's eligible salary by: (1) his/her incentive target percent; and (2) the results of above mentioned factors (a) and (b). The Personnel Committee of the Board may also apply discretion when evaluating actual results against targets and the resulting incentive payouts. In certain exceptional situations, the actual short-term cash incentive awarded to the executive officer could be zero. The maximum payout is only possible with maximum performance on all measures.

A portion of the short-term cash incentives is paid twice each year based on the performance for each of Nokia's short-term plans that end on June 30 and December 31 of each year. Another portion is paid annually at the end of the year, based on the Personnel Committee's assessment of Nokia's total shareholder return compared to key competitors in the high technology and telecommunications industries and relevant market indices over one-, three- and five-year periods. In the case of the President and CEO, the annual incentive award is also partly based on his performance compared against strategic leadership objectives.

Table of Contents**Incentive as a % of Annual Base Salary**

Position	Minimum Performance	Target Performance	Maximum Performance	Measurement Criteria
President and CEO ⁽¹⁾	0%	100%	225%	<i>Financial Objectives</i> (includes targets for net sales, operating profit and operating cash flow measures)
	0%	25%	37.50%	<i>Total Shareholder Return</i> (comparison made with key competitors in the high technology and telecommunications industries over one, three and five year periods)
	0%	25%	37.50%	<i>Strategic Objectives</i>
Total	0%	150%	300%	
Group Executive Board	0%	75%	168.75%	<i>Financial & Strategic Objectives</i>
	0%	25%	37.50%	<i>Total Shareholder Return</i> ⁽²⁾
Total	0%	100%	206.25%	

(1) Olli-Pekka Kallasvuo's discretionary annual incentive of 100% tied to financial objectives and 25% tied to total shareholder return covered his position as President and COO until May 31, 2006 and his position as President and CEO from June 1, 2006 onwards. The additional incentive of 25% tied to strategic objectives became effective as of June 1, 2006, and is, therefore, prorated for seven months.

(2) Only some of the Group Executive Board members are eligible for the additional 25% total shareholder return element.

More information on the actual cash compensation paid in 2006 to our executive officers is in the Summary Compensation Table 2006 on page 90.

Long-Term Equity-Based Incentives

Long-term equity-based incentive awards in the form of performance shares, stock options and restricted shares are used to align executive officers' interests with shareholders' interests, reward performance, and encourage retention. These awards are determined on the basis of several factors, including a comparison of the executive officer's overall compensation with that of other executives in the relevant market. Performance shares are Nokia's main vehicle for long-term equity-based incentives and only vest as shares, if at least one of the pre-determined threshold performance levels, tied to Nokia's financial performance, is achieved by the end of the performance period. Stock options are granted to fewer employees that are in more senior and executive positions. Stock options create value for the executive officer, once vested, if the Nokia share price is higher than the exercise price of the option established at grant, thereby aligning the interests of the executives with those of the shareholders. Restricted shares are used primarily for retention purposes and they vest fully after the close of a pre-determined restriction period. These

equity-based incentive awards are generally forfeited, if the executive leaves Nokia prior to vesting. Information on the actual equity-based incentives granted to the members of our Group Executive Board is included in Item 6.E Share Ownership.

Table of Contents**Actual Executive Compensation for 2006**

At December 31, 2006, Nokia had a Group Executive Board consisting of 11 members. The changes in the membership of our Group Executive Board during 2006 were as follows: Jorma Ollila resigned from his position as CEO and Chairman of the Group Executive Board effective June 1, 2006 and, at that same time, Olli-Pekka Kallasvuo was appointed as CEO and Chairman of the Group Executive Board. Pertti Korhonen resigned as a member of the Group Executive Board with effect from April 1, 2006 and ceased employment with us effective June 1, 2006. Niklas Savander was appointed as a new member to the Group Executive Board as Executive Vice President and Head of Technology Platforms, effective April 1, 2006.

The following tables summarize the aggregate cash compensation paid and the long-term equity-based incentives granted to the members of the Group Executive Board under our equity plans in 2006.

Gains realized upon exercise of stock options and share-based incentive grants vested for the members of the Group Executive Board during 2006 are included in Item 6.E Share Ownership.

Aggregate Cash Compensation to the Group Executive Board for 2006

Year	Number of Members December 31, 2006	Base Salaries⁽³⁾	Cash Incentive Payments⁽¹⁾⁽²⁾
		EUR	EUR
2006	11	5 273 684	3 300 759

(1) Includes payments pursuant to cash incentive arrangements for the 2006 calendar year. The cash incentives are paid as a percentage of annual base salary based on Nokia's short-term cash incentives.

(2) Excluding any gains realized upon exercise of stock options, which are described in Item 6.E Share Ownership.

(3) Includes base pay and bonuses to Pertti Korhonen for the period until March 31, 2006, to Jorma Ollila until May 31, 2006 (including his compensation as CEO only) and to Niklas Savander as from April 1, 2006.

Long-Term Equity-Based Incentives Granted in 2006⁽¹⁾

	Group Executive Board⁽³⁾	Total	Total Number of Participants
Performance Shares at Threshold ⁽²⁾	380 000	5 140 736	13 500
Stock Options	1 520 000	11 421 939	5 200
Restricted Shares	405 000	1 669 050	250

(1) The equity-based incentive grants are generally forfeited if the employment relationship terminates with Nokia. The settlement is conditional upon performance and service conditions, as determined in the relevant plan rules. For a description of our equity plans, see Note 23 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

- (2) At maximum performance, the settlement amounts to four times the number of performance shares originally granted at threshold.
- (3) Including Pertti Korhonen until March 31, 2006, Jorma Ollila until May 31, 2006 and Niklas Savander from April 1, 2006.

Table of Contents**Summary Compensation Table 2006**

Name and Principal Position	Year**	Salary	Bonus ⁽¹⁾	Stock Awards ⁽²⁾	Option Awards ⁽²⁾	Non-Equity Incentive Plan Compensation ⁽³⁾	Change in Pension Value and Nonqualified Deferred	All Other Compensation	Total
							Compensation Earnings		
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Jorma Ollila Chairman of the Board and former CEO (CEO until June 1)	2006	609 524	643 942	5 105 118	1 220 610	*	(3)	662 764 ⁽⁵⁾	8 241 955
	2005	1 500 000	3 212 037						
	2004	1 475 238	1 936 221				(4)		
Olli-Pekka Kallasvuo President and CEO (President and COO until June 1)	2006	898 413	664 227	1 529 732	578 465	*	1 496 883 ⁽³⁾⁽⁶⁾	38 960 ⁽⁷⁾	5 206 680
	2005	623 524	947 742						
	2004	584 000	454 150						
Richard Simonson EVP and Chief Financial Officer	2006 ⁽⁸⁾	460 070	292 673	958 993	194 119	*		84 652 ⁽⁹⁾	1 990 507
	2005	461 526	634 516						
Anssi Vanjoki EVP and General Manager, Multimedia	2006	505 343	353 674	938 582	222 213	*	215 143 ⁽³⁾	29 394 ⁽¹⁰⁾	2 264 349
	2005	476 000	718 896						
Mary McDowell EVP and General Manager, Enterprise Solutions	2006 ⁽⁸⁾	466 676	249 625	786 783	213 412	*		45 806 ⁽¹¹⁾	1 762 302

Hallstein	2006 ⁽⁸⁾	390 854	205 516	652 530	123 802	*	269 902 ⁽¹³⁾	1 642 603
Moerk							(12)	
EVP and Head of Human Resources								

- (1) Bonus payments are part of Nokia's short-term cash incentives. The amount consists of the bonus awarded and paid or payable by Nokia for the respective fiscal year.
- (2) Amounts shown represent share based compensation expense recognized in 2006 for all outstanding equity grants in accordance IFRS 2, Share-based payment.
- (3) The change in pension value represents the proportionate change in the company's liability related to the individual executive. These executives participate in the Finnish TEL pension system that provides for a retirement benefit based on years of service and earnings according to the prescribed statutory system. The TEL system is a partly funded and a partly pooled "pay as you go" system. The figures shown represent only the change in liability for the funded portion. The method used to derive the actuarial IFRS valuation is based upon salary information at December 31, 2005. Actuarial assumptions including salary increases and inflation have been determined to arrive at the valuation at the year end 2006.
- (4) Nokia's liability of EUR 676 117 for Mr. Ollila's disability benefit under the Finnish TEL pension (see footnote 3 above) was cancelled upon end of his employment effective on June 1, 2006. Furthermore, Nokia's liability of EUR 4 787 000 for Mr. Ollila's early retirement benefit at the age of 60 provided under his service agreement was also cancelled as of June 1, 2006. These resulted in a decrease of Nokia's total liability of EUR 5 463 117.
- (5) All other compensation for Mr. Ollila includes: EUR 375 000 for his services as Chairman of the Board or Directors, also disclosed in the Remuneration of the Board of Directors table on page 85; a payout of EUR 166 666 for unused vacation days upon end of employment; service awards in the amount of EUR 119 048 and EUR 2 050 for driver and mobile phone.
- (6) The change in pension value for Mr. Kallasvuo includes EUR 194 883 for the proportionate change in the company's liability related to the individual under the funded part of the Finnish TEL pension (see footnote 3 above). In addition, it includes EUR 1 302 000 for the change in liability in the early retirement benefit at the age of 60 provided under his service contract.

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- (7) All other compensation for Mr. Kallasvuo includes: EUR 21 240 for car allowance, EUR 10 000 for financial counseling, EUR 4 680 for driver and EUR 3 040 for mobile phone and club membership.
- (8) Salaries, benefits and perquisites of Mr. Simonson, Mr. Moerk and Ms. McDowell are paid and denominated in USD. Amounts were converted to EUR using year-end 2006 USD/EUR exchange rate of 1.31.
- (9) All other compensation for Mr. Simonson includes: EUR 13 282 company contributions to the 401(k) plan, EUR 23 419 company contributions to the Restoration and Deferral Plan, EUR 21 519 provided as benefit under Nokia's relocation policy, EUR 12 977 for car allowance and EUR 13 454 for financial counseling.
- (10) All other compensation for Mr. Vanjoki includes: EUR 19 154 for car allowance; EUR 10 000 for financial counseling and the remainder for mobile phone.
- (11) All other compensation for Ms. McDowell includes: EUR 13 282 company contributions to the 401(k) plan, EUR 13 105 company contributions to the Restoration and Deferral Plan, EUR 2 688 provided as benefit under Nokia's relocation policy, EUR 12 977 for car allowance and EUR 3 753 for financial counseling.
- (12) The change in pension value for Mr. Moerk was reduced by EUR 80 000. This represents the change in Nokia's liability in the retirement benefit at age of 62 provided under his service contract.
- (13) All other compensation for Mr. Moerk includes: EUR 245 434 provided as a benefit under Nokia's expatriate policy and EUR 24 468 for car allowance, financial counseling and Employee Stock Purchase Plan benefit.
- * None of the named executive officers participated in a formulated, non-discretionary, incentive plan. Annual incentive payments are included under the Bonus column.
- ** History has been provided for those data elements previously disclosed.

Equity Grants in 2006⁽¹⁾

Name and Principal Position	Year	Grant Date	Option Awards			Stock Awards			
			Number of Shares	Grant Price (EUR)	Grant Date Fair Value ⁽²⁾ (EUR)	Performance Shares at Threshold	Performance Shares at Maximum	Restricted Shares	Grant Date Fair Value ⁽³⁾ (EUR)
Jorma Ollila Chairman of the Board and former CEO (CEO until June 1)	2006	May 5	400 000	18.02	1 349 229	100 000	400 000	100 000	4 666 937
Olli-Pekka Kallasvuo President and CEO (President and COO until June 1)	2006	May 5	300 000	18.02	1 011 922	75 000	300 000	100 000	3 668 604
Richard Simonson EVP and Chief	2006	May 5	100 000	18.02	337 307	25 000	100 000	25 000	1 102 125

Financial Officer

Anssi Vanjoki
 EVP and General
 Manager, Multimedia 2006 May 5 100 000 18.02 337 307 25 000 100 000 25 000 1 102 125

Mary McDowell
 EVP and General
 Manager, Enterprise
 Solutions 2006 May 5 100 000 18.02 337 307 25 000 100 000 25 000 1 102 125

Hallstein Moerk
 EVP and Head of
 Human Resources 2006 May 5 60 000 18.02 202 384 15 000 60 000 15 000 661 275

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- (1) Including all grants made during 2006. Stock option grants were made under the Nokia Stock Option Plan 2005, performance share grants under the Nokia Performance Share Plan 2006 and restricted share grants under the Nokia Restricted Share Plan 2006.
- (2) The fair values of stock options equal the estimated fair value on the grant date, calculated using the Black-Scholes model. The stock option exercise price is EUR 18.02. The Helsinki Stock Exchange closing market price at grant date was EUR 17.97.
- (3) The fair value of performance shares and restricted shares equals the estimated fair value on grant date. The estimated fair value is based on the grant date market price of the Nokia share less the present value of dividends expected to be paid during the vesting period. The value of performance shares is presented on the basis of a number of shares which is two times the number at threshold.

Pension Arrangements for the Members of the Group Executive Board

The members of the Group Executive Board in 2006 participate in the local retirement programs applicable to employees in the country where they reside. Executives in Finland participate in the Finnish TEL pension system, which provides for a retirement benefit based on years of service and earnings according to a prescribed statutory system. Under the Finnish TEL pension system, base pay, incentives and other taxable fringe benefits are included in the definition of earnings, although gains realized from equity are not. The Finnish TEL pension scheme provides for early retirement benefits at age 62 with a reduction in the amount of retirement benefits. Standard retirement benefits are available from age 63 to 68, according to an increasing scale.

Executives in the United States participate in Nokia's Retirement Savings and Investment Plan. Effective July 1, 2006, under this 401(k) plan, participants elect to make voluntary pre-tax contributions that are 100% matched by Nokia up to 8% of eligible earnings. Prior to July 1, 2006 participants could elect to make voluntary pre-tax contributions that were 100% matched by Nokia up to 6% of eligible earnings with an additional annual discretionary contribution of up to 2% of eligible earnings made by Nokia. For participants earning in excess of the eligible earning limit, Nokia offers an additional Restoration and Deferral Plan. This plan allows employees to defer up to 50% of their salary and 100% of their bonus into a non-qualified plan. Prior to July 1, 2006, Nokia also made annual discretionary contributions to this non-qualified plan of up to 2% of the earnings above 401(k) eligibility limits. Effective July 1, 2006, these 2% discretionary contributions were eliminated. The last contributions were made in 2006 based on 2005 earnings. Olli-Pekka Kallasvuo can, as part of his service contract, retire at the age of 60 with full retirement benefit should he be employed by Nokia at the time. The full retirement benefit is calculated as if Mr. Kallasvuo had continued his service with Nokia through the statutory retirement age of 65.

Jorma Ollila's service contract ended as of June 1, 2006, after which he is not eligible to receive any additional retirement benefits from Nokia.

Simon Beresford-Wylie participates in the Nokia International Employee Benefit Plan (NIEBP). The NIEBP is a defined contribution retirement arrangement provided to some Nokia employees on international assignments. The contributions to NIEBP are funded two-thirds by Nokia and one-third by the employee. Because Mr. Beresford-Wylie also participates in the Finnish TEL system, the company contribution to NIEBP is 1.3% of annual earnings.

Hallstein Moerk, following his arrangement with a previous employer, has also in his current position at Nokia a retirement benefit of 65% of his pensionable salary beginning at the age of 62. Early retirement is possible at the age of 55 with reduced benefits.

Service Contracts

Jorma Ollila's service contract, which covered his position as CEO, ended as of June 1, 2006 without any severance or other payments from Nokia. Following the termination of his service contract, he is

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no longer eligible for incentives, bonuses, stock options or other equity grants or additional retirement benefits from Nokia. Mr. Ollila was entitled to retain all vested and unvested stock options and other equity compensation granted to him prior to June 1, 2006.

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

Equity-Based Compensation Programs*General*

During the year ended December 31, 2006, Nokia sponsored three global stock option plans, three global performance share plans and four global restricted share plans. Both executives and employees participate in these plans. In 2004, Nokia introduced performance shares as the main element to the company's broad-based equity compensation program to further emphasize the performance element in employees' long-term incentives. Thereafter, the number of stock options granted has been significantly reduced. The rationale for using both performance shares and stock options for employees in higher job grades is to build an optimal and balanced combination of equity-based incentives. The program intends to align the potential value received by participants directly with the performance of Nokia. Since 2003, Nokia has also granted restricted shares to a small selected number of employees each year.

The broad-based equity incentive program in 2006, which was approved by the Board of Directors, followed the structure of the program in 2005. The target group for the 2006 equity-based incentive program continued to be broad, with a wide number of employees in many levels of the organization eligible to participate. The aggregate number of participants in all of Nokia's equity-based programs in 2006 was approximately 30 000, which is similar to the number in 2005.

The equity-based incentive grants are generally conditional upon continued employment with Nokia, as well as the fulfillment of performance and other conditions, as determined in the relevant plan rules.

For a more detailed description of all of Nokia's equity-based incentive plans, see Note 23 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

Performance Shares

We have granted performance shares under the global 2004, 2005 and 2006 plans, each of which has been approved by the Board of Directors.

The performance shares represent a commitment by Nokia to deliver Nokia shares to employees at a future point in time, subject to Nokia's fulfillment of pre-defined performance criteria. No performance shares will vest unless Nokia's performance reaches at least one of the threshold levels measured by two independent, pre-defined performance criteria: Nokia's average annual net sales

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growth target for the performance period of the plan and earnings per share (EPS) target at the end of the performance period. The 2004 and 2005 plans have a four-year performance period, including a possibility for an interim payout, and the 2006 plan has a three-year performance period without any interim payout. For the 2004 plan, the performance period consists of the fiscal years 2004 through 2007, with an interim payout made in 2006. For the 2005 plan the performance period consists of the fiscal years 2005 through 2008, with a possibility for an interim payout in 2007. The second and final payout, if any, under both the 2004 and 2005 plans, will be after the close of the respective four-year performance periods. In the 2004 and 2005 plans average annual net sales growth and separate EPS threshold and maximum levels have been determined for the interim measurement period and for the full performance period. For the 2006 plan, the performance period consists of the fiscal years 2006 through 2008, with no interim measurement period. The final payout, if any, will be made in 2009 after the close of the three-year performance period. Until the Nokia shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights, associated with the performance shares.

Performance share grants are approved by the CEO at the end of the respective calendar quarter on the basis of an authorization given by the Board of Directors. Approvals for performance share grants to the CEO are made by the Board of Directors, and for the Group Executive Board members and other direct reports of the CEO by the Personnel Committee of the Board.

Stock Options

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

Each stock option entitles the holder to subscribe for one new Nokia share. Under the 2001 stock option plan, the stock options are transferable by the participants. Under the 2003 and 2005 plans, the stock options are non-transferable. All of the stock options have a vesting schedule with a 25% vesting one year after grant, and quarterly vesting thereafter. The stock options granted under the plans generally have a term of five years.

The exercise price of the grant is determined at the time of grant on a quarterly basis. The exercise prices are determined in accordance with a pre-agreed schedule after the release of Nokia s periodic financial results and are based on the trade volume weighted average price of a Nokia share on the Helsinki Stock Exchange during the trading days of the first whole week of the second month of the respective calendar quarter (i.e., February, May, August or November). Exercise prices are determined on a one-week weighted average to mitigate any short term fluctuations in Nokia s share price. The determination of exercise price is defined in the terms and conditions of the stock option plan, which are approved by the shareholders at the respective Annual General Meeting. The Board of Directors does not have right to amend the above-described determination of exercise price.

Stock option grants are approved by the CEO at the time of stock option pricing on the basis of an authorization given by the Board of Directors. Approvals for stock option grants to the CEO are made by the Board of Directors, and the Group Executive Board members and other for direct reports of the CEO by the Personnel Committee of the Board.

Restricted Shares

Since 2003, we have granted restricted shares to recruit, retain, reward and motivate selected high potential employees, who are critical to the future success of Nokia. It is Nokia s philosophy that restricted shares will be used only for key management positions and other critical resources. The 2003, 2004, 2005 and 2006 restricted share plans have been approved by the Board of Directors.

All of our restricted share plans have a restriction period of three years after grant. Once the shares vest, they will be transferred and delivered to the recipients. Until the Nokia shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights, associated with the restricted shares. Restricted share grants are approved by the CEO at the end of

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the respective calendar quarter on the basis of an authorization given by the Board of Directors. Approvals for restricted share grants to the CEO are made by the Board of Directors, and for the Group Executive Board members and other direct reports of the CEO by the Personnel Committee of the Board.

Other Equity Plans for Employees

In addition to our global equity plans described above, we have equity plans for Nokia acquired businesses or employees in the United States and Canada under which participants can receive Nokia ADSs. These equity plans do not result in an increase in the share capital of Nokia. The Nokia Auxiliary Equity Plan which was launched in 2006, is a plan under which performance shares, stock options and restricted shares can be granted. Under the Nokia Auxiliary Equity Plan 2006, Nokia may award equity instruments based in Nokia ordinary shares or Nokia ADSs to eligible employees of Nokia Group or eligible employees in acquired businesses up to the aggregate maximum of 4 million shares. Under the Nokia Auxiliary Equity Plan 2006 grants can be made under more than one sub-plan and the plan is currently comprised of the Nokia Auxiliary Performance Share Plan 2006, the Nokia Auxiliary Stock Option Plan 2006 and the Nokia Auxiliary Restricted Share Plan 2006.

We have also an Employee Share Purchase Plan in the United States, which permits all full-time Nokia employees located in the United States to acquire Nokia ADSs at a 15% discount. The purchase of the ADSs is funded through monthly payroll deductions from the salary of the participants, and the ADSs are purchased on a monthly basis. As of December 31, 2006, a total of 2 276 233 ADSs had been purchased under this plan since its inception, and there were a total of approximately 1 000 participants. For more information of these plans, see Note 23 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

Equity-Based Compensation Program 2007

The Board of Directors announced the proposed scope and design for the 2007 Equity Program on January 25, 2007. The main equity instrument will be performance shares. In addition, stock options will be granted to a more limited population, and restricted shares will be used for a small number of high potential and critical employees.

Performance Share Plan 2007

The Performance Share Plan in 2007 approved by the Board of Directors will cover a performance period of three years (2007-2009) with no interim measurement period. No performance shares will vest unless Nokia's performance reaches at least one of the threshold levels measured by two independent, pre-defined performance criteria:

(1) *Average Annual Net Sales Growth*: performance period 2007-2009, and

(2) *Reported, basic EPS*: 2009.

The actual threshold and maximum levels will be determined and disclosed during the first quarter 2007.

Average Annual Net Sales Growth is calculated as an average of the net sales growth rates for the years 2006 through 2009. Both the EPS and Average Annual Net Sales Growth criteria are equally weighted and performance under each of the two performance criteria are calculated independent of each other.

Achievement of the maximum performance for both criteria will result in the vesting of maximum of 12 million Nokia shares. Performance exceeding the maximum criteria does not increase the number of performance shares that will vest. Achievement of the threshold performance for both criteria will result in the vesting of approximately 3 million shares. If only one of the threshold levels of performance is achieved, only approximately 1.5 million of the performance shares will vest. If none of the threshold levels are achieved, then none of the performance shares will vest. For performance

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between the threshold and maximum performance levels, the vesting follows a linear scale. If the required performance levels are achieved, the vesting will take place in 2010. Until the Nokia shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with these performance shares.

Stock Option Plan 2007

The Board of Directors will make a proposal for Stock Option Plan 2007 to be approved by the shareholders at the Annual General Meeting on May 3, 2007. The stock option grants in 2007 are expected to be made primarily out of the Stock Option Plan 2007, which is proposed to be a four-year plan amounting to a maximum of 20 million stock options to be granted from 2007 to 2010. Each stock option would entitle the option holder to subscribe for one Nokia share. The exercise price of the stock options would be determined at the time of grant on a quarterly basis and would be based on the trade volume weighted average price of a Nokia share on the Helsinki Stock Exchange for the first whole week of the second month of the calendar quarter (i.e. February, May, August or November). The stock options would have a vesting schedule with a 25% vesting one year after grant and quarterly vesting thereafter. The subcategories of stock options expected to be issued under the plan would generally have a term of five years, with the last of the subcategories expiring as of December 31, 2015. The determination of exercise price is defined in the terms and conditions of the stock option plan to be presented for shareholders' approval at the Annual General Meeting. The Board of Directors would not have right to amend the above described determination of exercise price.

Restricted Share Plan 2007

The restricted shares to be granted under the Restricted Share Plan 2007 will have a three-year restriction period. The restricted shares will vest and the payable Nokia shares be delivered mainly in 2010, subject to fulfillment of the service period criteria. Recipients will not have any shareholder rights or voting rights during the restriction period, until the Nokia shares are transferred and delivered to plan participants at the end of the restriction period.

Maximum Planned Grants

The maximum number of planned grants under the 2007 Equity Program (i.e., performance shares, stock options and restricted shares) are set forth in the table below. The planned amounts for 2007 are less than the total amounts approved and disclosed in 2006.

Plan type	Maximum Number of Planned Grants under the 2007 Equity Program in 2007
Stock Options	5 million
Restricted Shares	4 million
Performance Shares at Threshold ⁽¹⁾	3 million

⁽¹⁾ The maximum number of shares to be delivered at maximum performance is four times the number originally granted (at threshold), i.e. a total of 12 million Nokia shares.

As of December 31, 2006, the total dilutive effect of Nokia's stock options, performance shares and restricted shares outstanding, assuming full dilution, was approximately 3.4% in the aggregate. The potential maximum effect of the proposed equity program 2007, would be approximately another 0.8%.

Table of Contents**6.C Board Practices*****The Board of Directors***

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

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

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

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

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

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

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separately at least once annually. The Board and each committee also has the power to hire independent legal, financial or other advisors as it deems necessary.

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

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

We also have a company Code of Conduct which is equally applicable to all of our employees, directors and management and is accessible at our website, *www.nokia.com*. As well, we have a Code of Ethics for the Principal Executive Officers and the Senior Financial Officers. For more information about our Code of Ethics, see Item 16.B. Code of Ethics.

As of December 31, 2006, no Board member has a service contract with Nokia. We had a service contract with Mr. Ollila, Chairman (Chairman and CEO until June 1, 2006), which ended on June 1, 2006 without any severance or other payments from Nokia. For a discussion of service contracts with certain Nokia executives, see Item 6.B Compensation Service Contracts.

Committees of the Board of Directors

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

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

The Personnel Committee consists of a minimum of three members of the Board who meet all applicable independence requirements of Finnish law and the rules of the stock exchanges where Nokia shares are listed, including the Helsinki Stock Exchange and the New York Stock Exchange.

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Since March 30, 2006, the Personnel Committee has consisted of the following members of the Board: Paul J. Collins (Chairman), Georg Ehrnrooth, Daniel R. Hesse, Edouard Michelin (until May 2006) and Marjorie Scardino.

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

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

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

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

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

Home Country Practices

Under the New York Stock Exchange's corporate governance listing standards, listed foreign private issuers, like Nokia, must disclose any significant ways in which their corporate governance practices differ from those followed by US domestic companies under the NYSE listing standards. There are no significant differences in the corporate governance practices followed by Nokia as compared to those followed by US domestic companies under the NYSE listing standards, except that Nokia follows the requirements of Finnish law with respect to the approval of equity compensation plans. Under Finnish law, stock option plans require shareholder approval at the time of their launch. All other plans that include the delivery of company stock in the form of newly issued shares or treasury shares require shareholder approval at the time of the delivery of the shares or, if shareholder approval is granted through an authorization to the Board of Directors, no more than a maximum of five years earlier. The NYSE listing standards require that equity compensation plans be approved by a company's shareholders.

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

6.D Employees

At December 31, 2006, Nokia employed 68 483 people, compared with 58 874 at December 31, 2005 and 55 505 at December 31, 2004. The average number of personnel for 2006, 2005 and 2004 was 65 324, 56 896 and 53 511 respectively, divided according to their activity and geographical location as follows:

	2006	2005	2004
Mobile Phones	3 639	2 647	2 853
Multimedia	3 058	2 750	2 851
Enterprise Solutions	2 264	2 185	2 167
Networks	20 277	17 676	15 463
Customer and Market Operations	23 323	18 642	17 095
Technology Platforms	5 874	6 629	6 351
Common Group Functions	6 889	6 367	6 731
Nokia Group	65 324	56 896	53 511
Finland	24 091	23 628	22 922
Other European countries	14 490	13 051	12 215
Middle-East & Africa	724	250	118
China	6 893	5 466	4 782
Asia-Pacific	7 915	3 593	2 833
North America	6 050	6 680	7 235
Latin America	5 161	4 228	3 406
Nokia Group	65 324	56 896	53 511

Management believes that we have a good relationship with our employees and with the labor unions.

6.E Share Ownership**General**

The following section describes the ownership or potential ownership interest in the company of the members of our Board of Directors and the Group Executive Board, either through share ownership or through holding of equity based incentives, which may lead to share ownership in the future. Since 1999, approximately 40% of the remuneration paid to the Board of Directors has been paid in Nokia shares purchased from the market. Non-executive members of the Board of Directors do not receive stock options, performance shares, restricted shares or other variable pay compensation. For a description of our equity-based compensation programs for employees and executives, see

Item 6.B Compensation Equity-Based Compensation Programs.

Share Ownership of the Board of Directors

On December 31, 2006, the members of our Board of Directors held the aggregate of 810 302 shares and ADSs in Nokia, which represented 0.02% of our outstanding share capital and total voting rights excluding shares held by the Group as of that date.

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The following table sets forth the number of shares and ADSs beneficially held by members of the Board of Directors as of December 31, 2006.

	Shares ⁽¹⁾	ADSs
Jorma Ollila ⁽²⁾	286 468	0
Paul J. Collins	0	122 626
Georg Ehrnrooth ⁽³⁾	314 996	0
Daniel R. Hesse	0	5 696
Bengt Holmström	16 606	0
Per Karlsson ⁽³⁾	19 538	0
Marjorie Scardino	0	14 018
Keijo Suila	2 570	0
Vesa Vainio	27 784	0
Total	667 962	142 340

(1) The number of shares includes not only shares acquired as compensation for services rendered as a member of the Board of Directors, but also shares acquired by any other means.

(2) For Mr. Ollila, this table includes his share ownership only. Mr. Ollila was the company's CEO until June 1, 2006 and received stock options, performance shares and restricted shares in that capacity until the said date. Mr. Ollila's holdings of long-term equity-based incentives are outlined in footnote 5 under "Stock Option Ownership of the Group Executive Board" on page 105 and, in footnote 6 under "Performance Shares and Restricted Shares" on page 107.

(3) Mr. Ehrnrooth's and Mr. Karlsson's holdings include both shares held personally and shares held through a company.

Share Ownership of the Group Executive Board

The following table sets forth the share ownership, as well as potential ownership interest through holding of equity based incentives, of the members of the Group Executive Board as of December 31, 2006.

	Shares	Shares Receivable Through Stock Options	Shares Receivable Through Performance Shares at Threshold ⁽³⁾	Shares Receivable Through Restricted Shares
Number of Equity Instruments Held by Group Executive Board	519 716	2 755 806	477 360	884 500
% of the Share Capital ⁽¹⁾	0.013	0.069	0.012	0.022
% of the Total Outstanding Equity Incentives (per Instrument) ⁽²⁾		3.007	3.784	14.584

- (1) The percentage is calculated in relation to the outstanding share capital and total voting rights of the company, excluding shares held by the Group.
- (2) The percentage is calculated in relation to the total outstanding equity incentives per instrument, i.e. stock options, performance shares and restricted shares, as applicable.
- (3) Performance shares at threshold represent the original grant. At maximum performance, the settlement amounts to four times the number of performance shares originally granted (at threshold). Due to the interim payout in 2006, the maximum number of Nokia shares deliverable under the performance share plan 2004 equals three times the number of performance shares originally granted (at threshold).

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The following table sets forth the number of shares and ADSs beneficially held by members of the Group Executive Board as of December 31, 2006.

	Shares	ADSs
Olli-Pekka Kallasvuo	130 000	0
Robert Andersson	16 260	0
Simon Beresford-Wylie	17 924	0
Mary McDowell	7 935	5 000
Hallstein Moerk	36 074	0
Tero Ojanperä	1 174	0
Niklas Savander	11 868	0
Richard Simonson	26 621	20 000
Veli Sundbäck	128 524	0
Anssi Vanjoki	113 050	0
Kai Öistämö	5 286	0
Total	494 716	25 000

Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006, and ceased employment with us on May 31, 2006. He held 15 300 shares as of March 31, 2006.

Table of Contents**Stock Option Ownership of the Group Executive Board**

The following table provides certain information relating to stock options held by members of the Group Executive Board as of December 31, 2006. These stock options were issued pursuant to Nokia Stock Option Plans 2001, 2003 and 2005. For a description of our stock option plans, please see Note 23 to our consolidated financial statements in Item 18 of this annual report on Form 20-F.

	Stock Option Category ⁽¹⁾	Expiration Date	Exercise Price per Share (EUR)	Number of Stock Options ⁽²⁾		Total Intrinsic Value of Stock Options, December 31, 2006 (EUR) ⁽³⁾		
				Exercisable	Unexercisable	Exercisable ⁽⁴⁾	Unexercisable	
Olli-Pekka Kallasvuo	2001 A/B	December 31, 2006	36.75	100 000	0	0	0	
		December 31, 2006	26.67	50 000	0	0	0	
	2002 A/B	December 31, 2007	17.89	175 000	0	0	0	
		December 31, 2008	14.95	97 500	22 500	51 675	11 925	
	2004 2Q	December 31, 2009	11.79	33 750	26 250	124 538	96 863	
		December 31, 2010	12.79	18 750	41 250	50 438	110 963	
	2005 4Q	December 31, 2010	14.48	0	100 000	0	100 000	
		December 31, 2011	18.02	0	300 000	0	0	
	Robert Andersson	2001 A/B	December 31, 2006	36.75	21 500	0	0	0
			December 31, 2006	26.67	10 750	0	0	0
2002 A/B		December 31, 2007	17.89	30 000	0	0	0	
		December 31, 2008	14.95	14 625	3 375	7 751	1 789	
2004 2Q		December 31, 2009	11.79	5 850	4 550	21 587	16 790	
		December 31, 2010	12.79	3 750	8 250	10 088	22 193	
2005 4Q		December 31, 2010	14.48	0	28 000	0	28 000	
		December 31, 2011	18.02	0	80 000	0	0	
Simon Beresford-Wylie	2001 A/B	December 31, 2006	36.75	14 000	0	0	0	
		2001 C 4Q/01	26.67	7 000	0	0	0	

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		December 31, 2006					
	2002 A/B	December 31, 2007	17.89	0	0	0	0
	2003 2Q	December 31, 2008	14.95	10 558	2 442	5 596	1 294
	2004 2Q	December 31, 2009	11.79	5 625	4 375	20 756	16 144
	2005 2Q	December 31, 2010	12.79	18 750	41 250	50 438	110 963
	2006 2Q	December 31, 2011	18.02	0	100 000	0	0
Mary McDowell	2003 4Q	December 31, 2008	15.05	48 125	21 875	20 694	9 406
	2004 2Q	December 31, 2009	11.79	28 125	21 875	103 781	80 719
	2005 2Q	December 31, 2010	12.79	18 750	41 250	50 438	110 963
	2006 2Q	December 31, 2011	18.02	0	100 000	0	0
Hallstein Moerk	2001 A/B	December 31, 2006	36.75	30 000	0	0	0
	2001 C 4Q/01	December 31, 2006	26.67	15 000	0	0	0
	2002 A/B	December 31, 2007	17.89	30 000	0	0	0
	2003 2Q	December 31, 2008	14.95	16 250	3 750	8 613	1 988
	2004 2Q	December 31, 2009	11.79	3 750	13 125	13 838	48 431
	2005 2Q	December 31, 2010	12.79	12 500	27 500	33 625	73 975
	2006 2Q	December 31, 2011	18.02	0	60 000	0	0
Tero Ojanperä	2001 A/B	December 31, 2006	36.75	12 500	0	0	0
	2001 C 4Q/01	December 31, 2006	26.67	6 250	0	0	0
	2002 A/B	December 31, 2007	17.89	14 500	0	0	0
	2003 2Q	December 31, 2008	14.95	13 000	3 000	6 890	1 590
	2004 2Q	December 31, 2009	11.79	5 625	4 375	20 756	16 144
	2005 2Q	December 31, 2010	12.79	12 500	27 500	33 625	73 975
	2006 2Q	December 31, 2011	18.02	0	60 000	0	0

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	Stock Option Category ⁽¹⁾	Expiration Date	Exercise Price per Share (EUR)	Number of Stock Options ⁽²⁾		Total Intrinsic Value of Stock Options, December 31, 2006 (EUR) ⁽³⁾	
				Exercisable	Unexercisable	Exercisable ⁽⁴⁾	Unexercisable
Niklas Savander	2001 A/B	December 31, 2006	36.75	12 500	0	0	0
	2001 C 4Q/01	December 31, 2006	26.67	6 250	0	0	0
	2002 A/B	December 31, 2007	17.89	21 500	0	0	0
	2003 2Q	December 31, 2008	14.95	10 558	2 442	5 596	1 294
	2004 2Q	December 31, 2009	11.79	5 760	4 480	21 254	16 531
	2005 2Q	December 31, 2010	12.79	4 375	9 625	11 769	25 891
	2006 2Q	December 31, 2011	18.02	0	60 000	0	0
Richard Simonson	2001 C 3Q/01	December 31, 2006	20.61	36 000	0	0	0
	2002 A/B	December 31, 2007	17.89	15 000	0	0	0
	2003 2Q	December 31, 2008	14.95	9 337	2 163	4 949	1 146
	2004 2Q	December 31, 2009	11.79	28 125	21 875	103 781	80 719
	2005 2Q	December 31, 2010	12.79	18 750	41 250	50 438	110 963
	2006 2Q	December 31, 2011	18.02	0	100 000	0	0
Veli Sundbäck	2001 A/B	December 31, 2006	36.75	40 000	0	0	0
	2001 C 4Q/01	December 31, 2006	26.67	20 000	0	0	0
	2002 A/B	December 31, 2007	17.89	40 000	0	0	0
	2003 2Q	December 31, 2008	14.95	40 625	9 375	21 531	4 969
	2004 2Q	December 31, 2009	11.79	16 875	13 125	62 269	48 431
	2005 2Q	December 31, 2010	12.79	12 500	27 500	33 625	73 975
	2006 2Q	December 31, 2011	18.02	0	60 000	0	0
Anssi Vanjoki	2001 A/B	December 31, 2006	36.75	70 000	0	0	0
	2001 C 4Q/01	December 31, 2006	26.67	35 000	0	0	0
	2002 A/B	December 31, 2007	17.89	6 250	0	0	0
	2003 2Q	December 31, 2008	14.95	40 000	18 750	21 200	9 938
	2004 2Q	December 31, 2009	11.79	20 000	26 250	73 800	96 863
	2005 2Q	December 31, 2010	12.79	10 000	41 250	26 900	110 963
	2006 2Q	December 31, 2011	18.02	0	100 000	0	0
Kai Öistämö	2001 A/B	December 31, 2006	36.75	2 695	0	0	0
	2001 C 4Q/01	December 31, 2006	26.67	2 695	0	0	0
	2002 A/B	December 31, 2007	17.89	1 892	0	0	0
	2003 2Q	December 31, 2008	14.95	1 436	2 163	761	1 146
	2004 2Q	December 31, 2009	11.79	3 625	4 375	13 376	16 144
	2005 2Q	December 31, 2010	12.79	4 000	8 800	10 760	23 672
	2005 4Q	December 31, 2010	14.48	0	28 000	0	28 000
	2006 2Q	December 31, 2011	18.02	0	100 000	0	0
Stock options held by the members of the Group Executive				1 420 031	1 827 915	1 097 132	1 584 755

Board on
December 31,
2006, Total⁽⁵⁾

All outstanding stock option plans (global plans), Total	68 744 405	22 911 996	27 319 485	26 518 296
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- (1) Stock options granted under the 2001A/B, 2001 3Q/01 and 2001C 4Q/01 sub-categories expired as of December 31, 2006.
- (2) Number of stock options equals the number of underlying shares represented by the option entitlement. Stock options vest over 4 years: 25% after one year and 6.25% each quarter thereafter.
- (3) The intrinsic value of the stock options is based on the difference between the exercise price of the options and the closing market price of Nokia shares on the Helsinki Stock Exchange as of December 29, 2006 of EUR 15.48.
- (4) For gains realized upon exercise of stock options for the members of the Group Executive Board please refer to Stock Options Exercises and Settlement of Shares table on page 108.

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- (5) Mr. Ollila resigned as CEO and Chairman of the Group Executive Board effective June 1, 2006, and ceased employment with Nokia on that date. Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006 and ceased employment with Nokia on May 31, 2006. The information relating to stock options held and retained by Mr. Ollila and Mr. Korhonen as of the date of resignation from the Group Executive Board is represented in the table below.

	Stock Option Category ⁽¹⁾	Expiration Date	Exercise Price per Share (EUR)	Number of Stock Options ⁽²⁾		Total Intrinsic Value of Stock Options (EUR) ⁽⁸⁾	
				Exercisable	Unexercisable	Exercisable	Unexercisable
Jorma Ollila	2001 A/B	December 31, 2006	36.75	1 000 000	0	0	0
(as per	2001 C 4Q/01	December 31, 2006	26.67	0	0	0	0
May 31, 2006) ⁽⁶⁾	2002 A/B	December 31, 2007	17.89	937 500	62 500	0	0
	2003 2Q	December 31, 2008	14.95	550 000	250 000	968 000	440 000
	2004 2Q	December 31, 2009	11.79	175 000	225 000	861 000	1 107 000
	2005 2Q	December 31, 2010	12.79	0	400 000	0	1 568 000
	2006 2Q	December 31, 2011	18.02	0	400 000	0	0
Pertti							
Korhonen	2001 A/B	December 31, 2006	36.75	30 000	0	0	0
(as per	2001 C 4Q/01	December 31, 2006	26.67	15 000	0	0	0
March 31, 2006) ⁽⁷⁾	2002 A/B	December 31, 2007	17.89	61 250	8 750	0	0
	2003 2Q	December 31, 2008	14.95	31 250	18 750	66 563	39 938
	2004 2Q	December 31, 2009	11.79	18 750	31 250	99 188	165 313
	2005 2Q	December 31, 2010	12.79	0	60 000	0	257 400

- (6) Mr. Ollila was entitled to retain all vested and unvested stock options granted to him prior to June 1, 2006 as approved by the Board of Directors.

- (7) Mr. Korhonen's stock option grants were forfeited upon termination of employment in accordance with the plan rules.

- (8) The intrinsic value of the stock options is based on the difference between the exercise price of the options and the closing market price of Nokia shares on the Helsinki Stock Exchange as of May 31, 2006 of EUR 16.71 in respect of Mr. Ollila and as of March 31, 2006 of EUR 17.08 in respect of Mr. Korhonen.

Table of Contents**Performance Shares and Restricted Shares**

The following table provides certain information relating to performance shares and restricted shares held by members of the Group Executive Board as of December 31, 2006. These entitlements were granted pursuant to our performance share plans 2004, 2005 and 2006 and restricted share plans 2003, 2004, 2005 and 2006. For a description of our performance share and restricted share plans, please see Note 23 to the consolidated financial statements in Item 18 of this annual report on Form 20-F.

	Performance Shares			Restricted Shares			
	Plan Name ⁽¹⁾	Number of Performance Shares at Threshold ⁽²⁾	Number of Performance Shares at Maximum ⁽²⁾	Intrinsic Value December 31, 2006 ⁽³⁾ (EUR)	Plan Name ⁽⁴⁾	Number of Restricted Shares	Intrinsic Value December 31, 2006 ⁽⁵⁾ (EUR)
Olli-Pekka Kallasvuori	2004	15 000	45 000	536 255	2004	35 000	541 800
	2005	15 000	60 000	881 715	2005	70 000	1 083 600
	2006	75 000	300 000	2 987 751	2006	100 000	1 548 000
Robert Andersson	2004	2 600	7 800	92 951	2004	15 000	232 200
	2005	3 000	12 000	176 343	2005	28 000	433 440
	2006	20 000	80 000	796 734	2006	20 000	309 600
Simon Beresford-Wylie	2004	2 500	7 500	89 376	2004	0	0
	2005	15 000	60 000	881 715	2005	35 000	541 800
	2006	25 000	100 000	995 917	2006	25 000	387 000
Mary McDowell	2004	12 500	37 500	446 879	2003	20 000	309 600
	2005	15 000	60 000	881 715	2005	35 000	541 800
	2006	25 000	100 000	995 917	2006	25 000	387 000
Hallstein Moerk	2004	7 500	22 500	268 128	2004	20 000	309 600
	2005	10 000	40 000	587 810	2005	25 000	387 000
	2006	15 000	60 000	597 550	2006	15 000	232 200
Tero Ojanperä	2004	2 500	7 500	89 376	2004	15 000	232 200
	2005	10 000	40 000	587 810	2005	25 000	387 000
	2006	15 000	60 000	597 550	2006	15 000	232 200
Niklas Savander	2004	2 560	7 680	91 521	2004	16 500	255 420
	2005	3 500	14 000	205 734	2005	25 000	387 000
	2006	15 000	60 000	597 550	2006	15 000	232 200
Richard Simonson	2004	12 500	37 500	446 879	2004	25 000	387 000
	2005	15 000	60 000	881 715	2005	35 000	541 800
	2006	25 000	100 000	995 917	2006	25 000	387 000
Veli Sundbäck	2004	7 500	22 500	268 128	2004	20 000	309 600
	2005	10 000	40 000	587 810	2005	25 000	387 000
	2006	15 000	60 000	597 550	2006	15 000	232 200
Anssi Vanjoki	2004	15 000	45 000	536 255	2004	35 000	541 800
	2005	15 000	60 000	881 715	2005	35 000	541 800
	2006	25 000	100 000	995 917	2006	25 000	387 000

Kai Öistämö	2004	2 500	7 500	89 376	2004	15 000	232 200
	2005	3 200	12 800	188 099	2005	25 000	387 000
	2006	25 000	100 000	995 917	2006	25 000	387 000

Performance

Shares and

Restricted Shares

held by the Group

Executive

Board Total ⁽⁶⁾

	477 360	1 826 780	20 851 577	884 500	13 692 060
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All outstanding

Performance

Shares and

Restricted Shares

(Global

plans), Total

12 311 989	45 798 454	554 183 057	5 985 476	92 655 168
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⁽¹⁾ The performance period for the 2004 plan is 2004–2007, with one interim measurement period for fiscal years 2004–2005. The performance period for the 2005 plan is 2005–2008, with one interim measurement period for fiscal years 2005–2006. The performance period for the 2006 plan is 2006–2008, without any interim measurement period.

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- (2) For the performance share plans 2004, 2005 and 2006, the number of performance shares at threshold represents the number of performance shares granted. This number will vest as Nokia shares should the pre-determined threshold performance levels of Nokia be met. The maximum number of Nokia shares will vest should the predetermined maximum performance levels be met. The maximum number of performance shares equals four times the number originally granted at threshold. Due to the interim payout in 2006, the maximum number of Nokia shares deliverable under the 2004 plan is equal to three times the number at threshold.
- (3) The intrinsic value is based on the closing market price of a Nokia share on the Helsinki Stock Exchange as of December 29, 2006 of EUR 15.48. The value of performance shares is presented on the basis of the company's estimation of the number of shares expected to vest.
- (4) Under the restricted share plans 2003, 2004, 2005 and 2006 awards are granted once a quarter. For the major part of the awards made under these plans the restriction period ends for the 2003 plan, on October 1, 2006; for the 2004 plan, on October 1, 2007; for the 2005 plan, on October 1, 2008; and for the 2006 plan, on October 1, 2009.
- (5) The intrinsic value is based on the closing market price of a Nokia share on the Helsinki Stock Exchange as of December 29, 2006 of EUR 15.48.
- (6) Mr. Ollila resigned as CEO and Chairman of the Group Executive Board effective June 1, 2006, and ceased employment with Nokia on that date. Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006 and ceased employment with Nokia on May 31, 2006. The information relating to performance shares and restricted shares held by Mr. Ollila and Mr. Korhonen as of the date of resignation from the Group Executive Board is represented in the table below.

	Performance Shares			Restricted Shares			
	Plan name ⁽¹⁾	Number of Performance Shares at Threshold ⁽²⁾	Number of Performance Shares at Maximum ⁽²⁾	Intrinsic Value ⁽⁹⁾ (EUR)	Plan name ⁽⁴⁾	Number of Restricted Shares	Intrinsic Value ⁽¹⁰⁾ (EUR)
Jorma Ollila							
(as per May 31, 2006) ⁽⁷⁾							
	2004	100 000	300 000	2 316 314	2004	100 000	1 671 000
	2005	100 000	400 000	5 160 441	2005	100 000	1 671 000
	2006	100 000	400 000	3 342 000	2006	100 000	1 671 000
Pertti Korhonen							
(as per March 31, 2006) ⁽⁸⁾							
					2003	35 000	597 800
	2004	12 500	37 500	295 950	2004	25 000	427 000
	2005	15 000	60 000	791 206	2005	35 000	597 800

(7) Mr. Ollila was entitled to retain performance shares and restricted shares granted to him prior to June 1, 2006 as approved by the Board of Directors.

(8) Mr. Korhonen's performance share and restricted share grants were forfeited upon termination of employment in accordance with the plan rules.

- (9) The intrinsic value is based on the closing market price of Nokia shares on the Helsinki Stock Exchange as of May 31, 2006 of EUR 16.71 in respect of Mr. Ollila and as of March 31, 2006 of EUR 17.08 in respect of Mr. Korhonen. The value of performance shares is presented on the basis of the company's estimation of the number of shares expected to vest.
- (10) The intrinsic value is based on the closing market price of Nokia share on the Helsinki Stock Exchange as of May 31, 2006 of EUR 16.71 in respect of Mr. Ollila and as of March 31, 2006 of EUR 17.08 in respect of Mr. Korhonen.

For gains realized upon exercise of stock options or delivery of Nokia shares on the basis of performance shares and restricted shares granted to the members of the Group Executive Board, please refer to Stock Options Exercises and Settlement of Shares table on page 108.

Table of Contents**Stock Option Exercises and Settlement of Shares**

The following table provides certain information relating to stock option exercises and share deliveries upon settlement during the year 2006 for our Group Executive Board members.

Name	Year	Stock Option Awards ⁽¹⁾		Performance Shares Awards ⁽²⁾		Restricted Shares Awards ⁽³⁾	
		Shares Acquired (Number)	Value Realized (EUR)	Shares Delivered (Number)	Value Realized (EUR)	Shares Delivered (Number)	Value Realized (EUR)
Olli-Pekka Kallasvuo	2006	0	0	15 000	275 700	0	0
Robert Andersson	2006	0	0	2 600	47 788	0	0
Simon Beresford-Wylie	2006	14 000	11 480	2 500	45 950	22 000	343 200
Mary McDowell	2006	0	0	12 500	229 750	0	0
Hallstein Moerk	2006	13 125	87 544	7 500	137 850	26 000	405 600
Kai Öistämö	2006	16 076	55 954	2 500	45 950	8 750	136 500
Tero Ojanperä	2006	0	0	2 500	45 950	0	0
Niklas Savander	2006	0	0	2 560	47 053	9 750	152 100
Richard Simonson	2006	0	0	12 500	229 750	33 250	518 700
Veli Sundbäck	2006	0	0	7 500	137 850	0	0
Anssi Vanjoki	2006	157 500	303 588	15 000	275 700	0	0

- (1) Value realized on exercise is based on the total gross value received in 2006 in respect of stock options sold on the Helsinki Stock Exchange (transferable stock options) and on the difference between the Nokia share price and exercise price of options (non-transferable stock options).
- (2) Represents interim payout at threshold for the 2004 performance share grant. Value is based on the market price of the Nokia share on the Helsinki Stock Exchange as of April 24, 2006 of EUR 18.38.
- (3) Delivery of Nokia shares vested from the 2003 grant. Value is based on the market price of the Nokia share on the Helsinki Stock Exchange as of October 23, 2006 of EUR 15.60.
- (4) Jorma Ollila resigned as CEO and Chairman of the Group Executive Board effective June 1, 2006, and ceased employment with Nokia on that date. Mr. Korhonen resigned as member of the Group Executive Board effective April 1, 2006 and ceased employment with Nokia on May 31, 2006. The information relating to stock option exercises and settlement of shares regarding Mr. Ollila and Mr. Korhonen as at the date of resignation from the Group Executive Board is represented in the table below.

Name	Year	Stock Option Awards ⁽¹⁾		Performance Shares Awards ⁽²⁾		Restricted Shares Awards	
		Shares Acquired (Number)	Value Realized (EUR)	Shares Delivered (Number)	Value Realized (EUR)	Shares Delivered (Number)	Value Realized (EUR)

Jorma Ollila (as per May 31, 2006)	2006	500 000	19 958	100 000	1 838 000	0	0
Pertti Korhonen (as per March 31, 2006)	2006	0	0	12 500	229 750	0	0

Stock Ownership Guidelines for Executive Management

One of the goals of our long-term equity-based incentive program is to focus executives on building value for shareholders. In addition to granting them stock options, performance shares and restricted

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shares, we also encourage stock ownership by our top executives. Since January 2001, we have stock ownership commitment guidelines with minimum recommendations tied to annual base salaries. For the members of the Group Executive Board, the recommended minimum investment in Nokia's shares corresponds to two times the member's annual base salary. For Olli-Pekka Kallasvuo the recommended minimum investment in Nokia's shares is three times his annual base salary. To meet this requirement, all members are expected to retain after-tax equity gains in shares until the minimum investment level is met.

Insiders Trading in Securities

The Board of Directors has established and regularly updates a policy in respect of insiders' trading in Nokia securities. Under the policy, the holdings of Nokia securities by the primary insiders (as defined in the policy) are public information, which is available in the Finnish Central Securities Depository and on the company's website. Both primary insiders and secondary insiders (as defined in the policy) are subject to a number of trading restrictions and rules, including among other things, prohibitions on trading in Nokia securities during the three-week closed-window period immediately preceding the release of our quarterly results and the four-week closed-window period immediately preceding the release of our annual results. In addition, Nokia may set trading restrictions based on participation in projects. We update our insider trading policy from time to time and monitor our insiders' compliance with the policy on a regular basis. Nokia's Insider Policy is in line with the Helsinki Stock Exchange Guidelines for Insiders and also sets requirements beyond these guidelines.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**7.A Major Shareholders**

The Capital Group Companies, Inc., a holding company for several subsidiary companies engaged in investment management activities, informed us that its holdings had exceeded 5% of the share capital of Nokia on April 21, 2006, had fallen below 5% on September 15, 2006, had exceeded 5% on September 21, 2006, and had further exceeded 10% on February 16, 2007. As of February 16, 2007, The Capital Group Companies, Inc. and its subsidiaries held through their clients a total of 410 577 704 Nokia shares, which at that time corresponded to approximately 10.03% of the share capital of Nokia. The Capital Group Companies, Inc. holds both ADRs and ordinary shares and does not have different voting rights than other shareholders. As far as we know, Nokia is not directly or indirectly owned or controlled by another corporation or by any government, and there are no arrangements that may result in a change of control of Nokia.

As at December 31, 2006, 1 177 389 388 ADSs (equivalent to the same number of shares or approximately 28.75% of the total outstanding shares) were outstanding and held of record by 18 497 registered holders in the United States.

We are aware that many ADSs are held of record by brokers and other nominees, and accordingly the above numbers are not necessarily representative of the actual number of persons who are beneficial holders of ADSs or the number of ADSs beneficially held by such persons. Based on information available from Automatic Data Processing, Inc., or ADP, the number of beneficial owners of ADSs as at December 31, 2006 was approximately 994 706.

As at December 31, 2006, there were approximately 119 143 holders of record of our shares. Of these holders, around 562 had registered addresses in the United States and held a total of some 2 101 666 of our shares, approximately 0.05% of the total outstanding shares. In addition, certain accounts of record with registered addresses other than in the United States hold our shares, in whole or in part, beneficially for United States persons.

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7.B Related Party Transactions

There have been no material transactions during the last three fiscal years to which any director, executive officer or 5% shareholder, or any relative or spouse of any of them, was a party. There is no significant outstanding indebtedness owed to Nokia by any director, executive officer or 5% shareholder.

There are no material transactions with enterprises controlling, controlled by or under common control with Nokia or associates of Nokia.

See Note 33 to our consolidated financial statements included in Item 18 of this annual report on Form 20-F.

7.C Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A Consolidated Statements and Other Financial Information

8.A.1 See Item 18 for our consolidated financial statements.

8.A.2 See Item 18 for our consolidated financial statements, which cover the last three financial years.

8.A.3 See page F-1 for the audit report of our accountants, entitled Report of Independent Registered Public Accounting Firm.

8.A.4 Not applicable.

8.A.5 Not applicable.

8.A.6 See Note 2 to our audited consolidated financial statements included in Item 18 of this annual report on Form 20-F for the amount of our export sales.

8.A.7 Litigation

Product related litigation

Nokia and several other mobile device manufacturers, distributors and network operators were named as defendants in a series of class action suits filed in various US jurisdictions. The cases were consolidated before a US federal district court in Baltimore, Maryland, United States. The actions were brought on behalf of a purported class of persons in the United States as a whole consisting of all individuals that purchased mobile phones without a headset. In general, the complaints allege that the defendants should have included a headset with every hand-held mobile telephone as a means of reducing any potential health risk associated with the telephone's use, and assert causes of action based on negligence, fraud and misrepresentation. The relief sought by the complaint included unspecified amounts of compensation for phone and headset costs, and attorneys' fees. All of the cases were dismissed by the Federal Court on March 5, 2003, on the theory that the issues raised are primarily within the jurisdiction of the Federal Communications Commission, not the courts. In 2005, the US Fourth Circuit Court of Appeals reversed the dismissal and remanded the cases back to the courts of origin. After the cases were remanded, the plaintiffs added a new defendant that created removal under the Class Action Fairness Act. In 2006, each case was returned to the US Federal District Court in Baltimore, Maryland. At the current time, all but two of the cases have been withdrawn or dismissed. The remaining two cases are currently subject to a Motion to Dismiss and a request to defer technical issues to the Federal Communications Commission.

Nokia has also been named as a defendant along with other mobile device manufacturers and network operators in five lawsuits by individual plaintiffs who allege that the radio emissions from mobile phones caused or contributed to each plaintiff's brain tumor. The cases are now before the

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Superior Court in the District of Columbia. The cases are in the initial stages and motions to dismiss have been filed. We believe that the allegations described above are without merit, and intend to defend these actions vigorously. Other courts that have reviewed similar matters to date have found that there is no reliable scientific basis for the plaintiffs' claims.

Financing or agreement related litigation

One of our customers in Turkey, Telsim Mobil Telekomunikasyon Hiz. A.S., has defaulted on its obligations under a financing arrangement secured by us. In February 2004, the Arbitral Tribunal in Zürich rendered an award fully approving the claim against Telsim, which was owned and controlled by the Uzan family and their affiliates. In June 2004, the Swiss Federal Supreme Court dismissed Telsim's appeal which rendered the award final and enforceable. In addition, in conjunction with co-plaintiff Motorola Credit Corporation, we have been successful in a US lawsuit against individual members of the Uzan family and certain Uzan-controlled corporations. The lawsuit alleges that the defendants fraudulently induced us and Motorola, through a pattern of misleading and illegal conduct, to provide financing to Telsim. In July 2003, the trial judge held that Nokia was entitled to a USD 1.7 billion judgment. The defendants' appeal from that judgment was dismissed by the appeals court in October 2005. In August 2005, we reached a settlement with Telsim and Turkish Savings and Deposit Insurance Fund (TMSF), which then controlled and managed Telsim's assets. In December 2005, the Turkish government completed an auction of Telsim's assets to Vodafone. Nokia's settlement payment, 7.5% of the purchase price i.e. USD 341 250 000, was received in May 2006 in connection with the closing of the sale. On the basis of the US judgment, we, however, are continuing to pursue the recovery of the amounts due to us from the Uzan family. We wrote off our total financing exposure to Telsim by the end of 2002.

Nokia is also involved in a number of lawsuits with Basari Elektronik Sanayi ve Ticaret A.S. (Basari Elektronik) and Basari Teknik regarding claims associated with the expiration of a product distribution agreement and the termination of a product service agreement. Those suits are currently before various courts in Turkey. Basari Elektronik claims that it is entitled to compensation for goodwill it generated on behalf of Nokia during the term of the distribution agreement. The goodwill claim has been dismissed by the Turkish courts and referred to arbitration. That dismissal is currently on appeal. Basari Teknik has filed several suits related to alleged unpaid invoices and a suit that claims that the product service agreement between the parties was improperly terminated. Nokia will continue to vigorously defend itself against these claims.

Intellectual property rights litigation

In 1999, Nokia entered into a license agreement with InterDigital Technology Corporation and Interdigital Communications Corporation (together IDT) for certain technology. The license provided for a fixed royalty payment through 2001 and most favored licensee treatment from 2002 through 2006. In March 2003, IDT settled patent litigation with Ericsson and Sony-Ericsson and announced that it intended to apply the settlement royalty rates to Nokia under the most favored licensee provision, which would have resulted in Nokia allegedly owing over USD 500 million. Nokia disputed IDT's contention. After an arbitration hearing was completed in January 2005, an award was issued that generally set royalty rates, which IDT publicly contended at that time imposed USD 232 to 252 million in royalty obligations on Nokia for the period of 2002 through 2006. In January 2006, Nokia filed a notice of appeal to the Second Circuit Court of Appeals. During that time, the parties engaged in continued settlement discussions. In April 2006, Nokia and IDT resolved their contract dispute over the patent license terms originally agreed to in 1999 and the impact to Nokia of IDT's licenses with Ericsson and Sony-Ericsson. The agreed upon settlement terms resolved the legal disputes related to 2G products, with Nokia obtaining a fully paid-up, perpetual, irrevocable, worldwide license to all of IDT's current patent portfolio, and any patents IDT may later acquire, for purposes of making or selling 2G products, including handsets and infrastructure. The settlement

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terms also resolved disputes related to all Nokia products up to the agreement date. The USD 253 million payment required under the settlement terms was in line with Nokia's earlier provisions for this legal dispute. Further, the settlement terms also resolved a pending legal action in the United Kingdom involving IDT's alleged 2G patents. The IDT settlement terms did not address any prospective 3G license terms, however, Nokia's sale of 3G products was fully released thru the date of the settlement agreements. Additionally, IDT agreed not to initiate patent infringement claims against Nokia prior to January 1, 2007. Notably, Nokia and IDT currently have pending legal disputes in the United States and United Kingdom regarding IDT's alleged 3G patents and certain Nokia patents declared essential to 3G, and the settlement terms did not have any impact on those pending disputes. Nokia will vigorously defend itself in these disputes.

In November 2005, Qualcomm Incorporated (Qualcomm) and its wholly-owned subsidiary Snap Track, Inc. filed a patent infringement suit against Nokia Corporation and Nokia Inc. in the Federal District Court for the Southern District of California. The lawsuit involves twelve patents that Qualcomm apparently contends apply to the manufacture and sale of unidentified GSM products. On December 20, 2005, Nokia moved to stay the lawsuit pending resolution of a confidential arbitration pending between Nokia and Qualcomm. That lawsuit remains stayed in light of the arbitration. A hearing in the confidential arbitration is currently set for March 2007. Nokia will continue to vigorously defend its rights in these actions.

In May 2006, Qualcomm additionally filed a patent infringement lawsuit against Nokia in the United Kingdom. This lawsuit involves two European patents (United Kingdom) that Qualcomm apparently contends apply to the manufacture and sale of GPRS phones capable of operating in accordance with the GPRS and/or EDGE standards and not having a capability to operate with CDMA technology. Trial on infringement, validity and essentiality of the patents in suit is currently set for July 2007. Trial on relief and other issues, if appropriate, will be held some time thereafter. Nokia will vigorously defend itself against these claims.

In June 2006, Qualcomm also filed a complaint against Nokia in the International Trade Commission (the ITC) seeking an order forbidding the importation of Nokia's GSM handsets into the United States. The ITC initiated a proceeding in July 2006. In November 2006, Nokia filed a motion to terminate the investigation as to the 3 patents remaining in the action on the grounds that the ITC lacks jurisdiction to hear the claims and that Qualcomm had waived its rights to seek injunctive relief. The ITC denied Nokia's motion in December 2006, and Nokia has sought leave to appeal this decision. The initial hearing in this action is currently scheduled for March 2007, with a final determination by September 2007. Nokia is seeking to stay the proceedings in light of the confidential arbitration referenced above. Nokia will vigorously defend itself against these claims.

In August 2006, Qualcomm filed a patent infringement lawsuit against Nokia in Germany. This lawsuit involves two European patents (DE) that Qualcomm apparently contends apply to the manufacture and sale of certain GPRS phones. Nokia is currently set to file a defense in February 2007. Nokia will vigorously defend itself against these claims.

In August 2006, Nokia initiated an action in Delaware Chancery Court seeking a declaration that Qualcomm had breached its licensing obligations concerning declared essential GSM/GPRS/EDGE and WCDMA patents by failing to offer fair, reasonable and non-discriminatory (FRAND) terms and asked the Court to declare that injunctions are unavailable for patents that Qualcomm has voluntarily declared essential to the ETSI standard setting organization. Nokia has also asked the Delaware Court to enjoin Qualcomm from requesting injunctive relief in the actions Qualcomm has filed outside the United States involving patents it voluntarily declared essential to ETSI. In addition, Nokia has requested the Court to specify the proper framework for determining the FRAND terms and to order specific performance requiring Qualcomm to negotiate in good faith based on the FRAND framework as determined by the Court. Qualcomm has moved to dismiss this action on multiple bases, which Nokia has refuted, and the parties are currently waiting for the Court to issue its ruling. Trial is scheduled for July or August 2007. Nokia will continue to vigorously defend its rights in this action.

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In October 2006, Qualcomm filed a patent infringement lawsuit against Nokia in France. This lawsuit involves two European patents (FR) that Qualcomm apparently contends apply to the manufacture and sale of certain GPRS phones. Nokia is currently set to file a defense in March 2007. Nokia will vigorously defend itself against these claims.

In addition, in October 2006, Qualcomm filed a patent infringement lawsuit against Nokia in Italy. This lawsuit involves two European patents (IT) that Qualcomm apparently contends apply to the manufacture and sale of certain GPRS phones. Nokia's defense and counterclaims were filed in December 2006. Nokia will vigorously defend itself against these claims.

Securities litigation

On April 6, 2004, Irving Greenfeld filed suit against Nokia Corporation, Jorma Ollila, Pekka Ala-Pietilä, Matti Alahuhta and Richard Simonson in the United States District Court for the Southern District of New York on behalf of all purchasers of Nokia's stock between January 8, 2004 and April 6, 2004. Subsequently, six individuals filed related actions and on January 7, 2005, lead plaintiffs filed a consolidated class action complaint (the Consolidated Complaint) on behalf of all purchasers worldwide of Nokia securities during a revised class period of October 16, 2003 through April 15, 2004. The Consolidated Complaint also added two new defendants, Olli-Pekka Kallasvuo and Anssi Vanjoki. As previously reported, the initial complaints and the Consolidated Complaint alleged, among other things, various material misstatements and omissions in relation to Nokia's product portfolio, as well as that Nokia employed accounting and inventory techniques that were allegedly used to improperly manipulate sales figures. On March 31, 2006, the United States District Court for the Southern District of New York granted Nokia's Motion to Dismiss all claims made in this class action securities litigation filed against Nokia Corporation and several of its executives. Each and every claim against Nokia and the individual defendants was dismissed with prejudice. By dismissing the claims with prejudice the court denied the plaintiffs the opportunity to raise them again and also denied the plaintiffs the right to file an amended complaint, finding that continued pursuit of the case would be futile.

In August 2006, Nokia entered into a merger agreement with Loudeye Corporation, a company in the business of facilitating and providing digital media services. On October 6, 2006, Nokia was named as a defendant in a Washington state court securities case involving activities associated with the acquisition of Loudeye Corporation. The suit claims that Loudeye directors breached their fiduciary duties to shareholders by not obtaining maximum value for the company. Nokia is alleged to have aided and abetted the directors by limiting their ability to seek a higher sales price after the Nokia merger agreement was executed. Nokia does not believe that the case has merit and will vigorously defend the matter.

On October 4, 2006, a securities class action lawsuit was filed against Loudeye Corporation alleging that Loudeye management had materially misled the investing public between May 19, 2003 and November 9, 2005. Two nearly identical complaints were subsequently filed. The suits generally claim that the Loudeye executives made overly optimistic statements about the success of a reorganization, provided overly optimistic business projections, issued incomplete and misleading financial statements and were in possession of material adverse information that was not disclosed to the investing public. Loudeye does not believe that the allegations have any substance and will vigorously defend those matters. Loudeye Corporation was acquired by Nokia in October 2006 and is a wholly-owned subsidiary of Nokia.

Based upon the information currently available, management does not expect the resolution of any of the matters discussed above to have a material adverse effect on our financial condition or results of operations.

We are also party to routine litigation incidental to the normal conduct of our business. Based upon the information currently available, our management does not believe that liabilities related to these

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proceedings, in the aggregate, are likely to be material to our financial condition or results of operations.

8.A.8 See Item 3.A Selected Financial Data Distribution of Earnings for a discussion of our dividend policy.

8.B Significant Changes

No significant changes have occurred since the date of our consolidated financial statements included in this annual report on Form 20-F. See Item 5.A Operating Results Overview for information on material trends affecting our business and results of operations.

ITEM 9. THE OFFER AND LISTING**9.A Offer and Listing Details**

Our capital consists of shares traded on the Helsinki Stock Exchange under the symbol NOK1V. American Depositary Shares, or ADSs, each representing one of our shares are traded on the New York Stock Exchange under the symbol

NOK. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by Citibank, N.A., as Depositary under the Amended and Restated Deposit Agreement dated as of March 28, 2000 (as amended), among Nokia, Citibank, N.A. and registered holders from time to time of ADRs. ADSs were first issued in July 1994.

The table below sets forth, for the periods indicated, the reported high and low quoted prices for our shares on the Helsinki Stock Exchange and the high and low quoted prices for the shares, in the form of ADSs, on the New York Stock Exchange.

	Helsinki Stock Exchange Price per share		New York Stock Exchange Price per ADS	
	High	Low	High	Low
	(EUR)		(USD)	
2002	29.45	11.10	26.90	10.76
2003	16.16	11.44	18.45	12.67
2004	18.79	8.97	23.22	11.03
2005				
First Quarter	12.36	10.75	16.41	13.92
Second Quarter	14.39	11.29	17.60	14.68
Third Quarter	15.03	12.53	18.03	15.18
Fourth Quarter	15.75	13.28	18.62	15.90
Full Year	15.75	10.75	18.62	13.92
2006				
First Quarter	17.49	14.81	21.28	17.72
Second Quarter	18.65	15.21	23.10	19.13
Third Quarter	16.78	14.61	21.41	18.43
Fourth Quarter	16.14	14.91	20.93	19.34
Full Year	18.65	14.61	23.10	17.72

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	Helsinki Stock Exchange Price per share		New York Stock Exchange Price per ADS	
	High	Low	High	Low
	(EUR)		(USD)	
Most recent six months				
September 2006	16.13	14.77	20.65	18.84
October 2006	16.09	15.30	20.36	19.35
November 2006	16.14	15.19	20.93	19.34
December 2006	15.63	14.91	20.55	19.96
January 2007	16.91	14.63	19.08	21.74
February 2007	17.69	16.49	22.10	23.14

9.B Plan of Distribution

Not applicable.

9.C Markets

The principal trading markets for the shares are the New York Stock Exchange, in the form of ADSs, and the Helsinki Stock Exchange, in the form of shares. In addition, the shares are listed on the Frankfurt stock exchange, and Stockholm stock exchange in the form of Swedish Depository Receipts, or SDRs. In January 2007, Nokia announced that it has decided to apply for the delisting of Nokia SDRs from the Stockholm Stock Exchange and the estimated last day of trading of Nokia SDRs on the Stockholm Stock Exchange is June 1, 2007.

9.D Selling Shareholders

Not applicable.

9.E Dilution

Not applicable.

9.F Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION**10.A Share Capital**

Not applicable.

10.B Memorandum and Articles of Association**Registration**

Nokia is organized under the laws of the Republic of Finland and registered under the business identity code 0112 038 - 9. Nokia's corporate purpose is to engage in the telecommunications industry and other sectors of the electronics industry, including the manufacture and marketing of telecommunications systems and equipment, mobile phones, consumer electronics and industrial electronic products. We also may engage in other industrial and commercial operations, as well as securities trading and other investment activities.

Table of Contents***Director s Voting Powers***

Under Finnish law and our Articles of Association, resolutions of the Board of Directors shall be made by a majority vote. A director shall refrain from taking any part in the consideration of a contract or other issue that may provide any material benefit to him. Under Finnish law, there is no age limit requirement for directors, and there are no requirements under Finnish law that a director must own a minimum number of shares in order to qualify to act as a director.

Share Rights, Preferences and Restrictions

Each share confers the right to one vote at general meetings. According to Finnish law, a company generally must hold an Annual General Meeting called by the Board once a year. In addition, the Board is obliged to call an extraordinary general meeting at the request of shareholders representing a minimum of one-tenth of all outstanding shares. The members of the board are elected for a term of one year at each Annual General Meeting.

Under Finnish law, shareholders may attend and vote at a general meeting in person or by proxy. It is not customary in Finland for a company to issue forms of proxy to its shareholders. Accordingly, Nokia does not do so. However, registered holders and beneficial owners of ADSs are issued forms of proxy by the Depositary.

To attend and vote at a general meeting, a shareholder must be registered in the register of shareholders in the Finnish book-entry system. A registered holder or a beneficial owner of the ADSs, like other beneficial owners whose shares are registered in the company s register of shareholders in the name of a nominee, may vote his shares provided that he arranges to have his name entered in the temporary register of shareholders as of the record date of the meeting.

The record date is the tenth calendar day preceding the meeting. To be entered into the temporary register of shareholders as of the record date of the meeting, a holder of ADSs must provide the Depositary, or have his broker or other custodian provide the Depositary, on or before the voting deadline, as defined in the proxy material issued by the Depositary, a proxy with the following information: the name, address, and social security number or another corresponding personal identification number of the holder of the ADSs, the number of shares to be voted by the holder of the ADSs, and the voting instructions. The register of shareholders as of the record date of each general meeting is public until the end of the respective meeting.

As a further prerequisite for attending and voting at a general meeting, shareholders must give notice to Nokia of their intention to attend no later than the date and time specified by the Board of Directors in the notice of the meeting. By completing and returning the form of proxy provided by the Depositary, a holder of ADSs authorizes the Depositary to give this notice.

Each of our shares confers equal rights to share in our profits, and in any surplus in the event of liquidation. For a description of dividend rights attaching to our shares, see Item 3.A Selected Financial Data Distribution of Earnings. Dividend entitlement lapses after three years, if a dividend remains unclaimed for that period, in which case the unclaimed dividend will be retained by Nokia.

Under Finnish law, the rights of shareholders related to shares are as stated by law and in our articles of association. Amendment of the articles of association requires a decision of the general meeting, supported by two-thirds of the votes cast and two-thirds of the shares represented at the meeting.

Disclosure of Shareholder Ownership

According to the Finnish Securities Market Act of 1989, as amended, a shareholder shall disclose his ownership to the company and the Financial Supervision Authority when it reaches, exceeds or goes below $\frac{1}{20}$, $\frac{1}{10}$, $\frac{3}{20}$, $\frac{1}{5}$, $\frac{1}{4}$, $\frac{3}{10}$, $\frac{1}{2}$ or $\frac{2}{3}$ of all the shares outstanding. The term ownership includes ownership by the shareholder, as well as selected related parties.

Table of Contents*Purchase Obligation*

Our articles of association require a shareholder that holds one-third or one-half of all of our shares to purchase the shares of all other shareholders that request that he do so, at a price generally based on the historical weighted average trading price of the shares. A shareholder of this magnitude also is obligated to purchase any subscription rights, stock options, warrants or convertible bonds issued by the company if so requested by the holder.

Under the Finnish Securities Market Act of 1989, as amended, a shareholder whose holding exceeds three tenths of the total voting rights in a company shall, within one month, offer to purchase the remaining shares of the company, as well as any subscription rights, warrants, convertible bonds or stock options issued by the company. The purchase price shall be the market price of the securities in question. The market price is determined, on the basis of the highest price paid for the security during the preceding six months by the shareholder or any party in close connection to the shareholder. This price can be deviated from for a specific reason. If the shareholder or any related party has not during the six months preceding the offer acquired any securities that are target for the offer, the market price is determined based on the average of the prices paid for the security in public trading during the preceding three months weighted by the volume of trade.

Under the Finnish Companies Act of 2006, a shareholder whose holding exceeds nine-tenths of the total number of shares or voting rights in Nokia has both the right and the obligation to purchase all the shares of the minority shareholders for the current market price. The market price is determined, among other things, on the basis of the recent market price of the shares. The purchase procedure under the Companies Act differs, and the purchase price may differ, from the purchase procedure and price under the Securities Market Act, as discussed above. However, if the threshold of nine-tenths has been exceeded by either a mandatory or a voluntary public offer pursuant to the Securities Market Act, the market price is deemed to be the price offered in the public offer, unless there are specific reasons to deviate from it.

Pre-Emptive Rights

In connection with any offering of shares, the existing shareholders have a pre-emptive right to subscribe for shares offered in proportion to the amount of shares in their possession. However, a general meeting of shareholders may vote, by a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting, to waive this pre-emptive right provided that, from the company's perspective, important financial grounds exist.

Under the Act on the Control of Foreigners' Acquisition of Finnish Companies of 1992, clearance by the Ministry of Trade and Industry is required for a non-resident of Finland, directly or indirectly, to acquire one-third or more of the voting power of a company. The Ministry of Trade and Industry may refuse clearance where the acquisition would jeopardize important national interests, in which case the matter is referred to the Council of State. These clearance requirements are not applicable if, for instance, the voting power is acquired in a share issue that is proportional to the holder's ownership of the shares. Moreover, the clearance requirements do not apply to residents of countries in the European Economic Area or countries that have ratified the Convention on the Organization for Economic Cooperation and Development.

10.C Material Contracts

On June 19, 2006, Nokia Corporation, Nokia Siemens Networks BV and Siemens AG entered into a Framework Agreement (as amended and restated as of January 24, 2007) to create Nokia Siemens Networks. The agreement governs the terms on which Nokia will contribute its Networks business and Siemens will contribute its carrier-related operations for fixed and mobile networks to a new company owned approximately 50% by each of Nokia and Siemens and consolidated by Nokia. Nokia Siemens Networks is expected to start its operations around the end of March 2007 subject to the satisfaction or waiver of the conditions to the merger, including achievement of agreement between

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Nokia and Siemens on the results and consequences of a Siemens compliance review, and the agreement of a number of detailed implementation steps. See Item 4 Business Overview Nokia Siemens Networks.

10.D Exchange Controls

There are currently no Finnish laws which may affect the import or export of capital, or the remittance of dividends, interest or other payments.

10.E Taxation***General***

The taxation discussion set forth below is intended only as a descriptive summary and does not purport to be a complete analysis or listing of all potential tax effects relevant to ownership of our shares represented by ADSs. The statements of United States and Finnish tax laws set out below are based on the laws in force as of the date of this annual report on Form 20-F and may be subject to any changes in US or Finnish law, and in any double taxation convention or treaty between the United States and Finland, occurring after that date, possibly with retroactive effect. For purposes of this summary, beneficial owners of ADSs that hold the ADSs as capital assets and that are considered residents of the United States for purposes of the current income tax convention between the United States and Finland, signed September 21, 1989, referred to as the Treaty, and that are entitled to the benefits of the Treaty under the Limitation on Benefits provisions contained in the Treaty, are referred to as US Holders. Beneficial owners that are citizens or residents of the United States, corporations created in or organized under US law, and estates or trusts (to the extent their income is subject to US tax either directly or in the hands of beneficiaries) generally will be considered to be residents of the United States under the Treaty. Special rules apply to US Holders that are also residents of Finland and to citizens or residents of the United States that do not maintain a substantial presence, permanent home, or habitual abode in the United States. For purposes of this discussion, it is assumed that the Depository and its custodian will perform all actions as required by the deposit agreement with the Depository and other related agreements between the Depository and Nokia.

If a partnership holds ADSs (including for this purpose any entity treated as a partnership for US federal income tax purposes), the tax treatment of a partner will depend upon the status of the partner and activities of the partnership. If a US holder is a partner in a partnership that holds ADSs, the holder is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of its ADSs.

Because this summary is not exhaustive of all possible tax considerations such as situations involving financial institutions, banks, tax-exempt entities, US expatriates, real estate investment trusts, persons that are dealers in securities, persons who own (directly, indirectly or by attribution) 10% or more of the share capital or voting stock of Nokia, persons who acquired their ADSs pursuant to the exercise of employee stock options or otherwise as compensation, or whose functional currency is not the US dollar, who may be subject to special rules that are not discussed herein holders of shares or ADSs that are US Holders are advised to satisfy themselves as to the overall US federal, state and local tax consequences, as well as to the overall Finnish and other applicable non-US tax consequences, of their ownership of ADSs and the underlying shares by consulting their own tax advisors. This summary does not discuss the treatment of ADSs that are held in connection with a permanent establishment or fixed base in Finland.

For the purposes of both the Treaty and the US Internal Revenue Code of 1986, as amended, referred to as the Code, US Holders of ADSs will be treated as the owners of the underlying shares that are

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represented by those ADSs. Accordingly, the following discussion, except where otherwise expressly noted, applies equally to US Holders of ADSs on the one hand and of shares on the other.

The holders of ADSs will, for Finnish tax purposes, be treated as the owners of the shares that are represented by the ADSs. The Finnish tax consequences to the holders of shares, as discussed below, also apply to the holders of ADSs.

US and Finnish Taxation of Cash Dividends

For US federal income tax purposes, the gross amount of dividends paid to US Holders of shares or ADSs, including any related Finnish withholding tax, generally will be included in gross income as foreign source dividend income. Dividends will not be eligible for the dividends received deduction allowed to corporations under Section 243 of the Code. The amount includible in income (including any Finnish withholding tax) will equal the US dollar value of the payment, determined at the time such payment is received by the Depository (in the case of ADSs) or by the US Holder (in the case of shares), regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period between the time such payment is received and the date the dividend payment is converted into US dollars will be treated as ordinary income or loss to a US Holder.

Special rules govern and specific elections are available to accrual method taxpayers to determine the US dollar amount includible in income in the case of a dividend paid (and taxes withheld) in foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and elections applicable in this regard.

Under the Finnish Act on Taxation of Non-residents Income and Wealth, non-residents of Finland are generally subject to a withholding tax at a rate of 28% payable on dividends paid by a company. However, pursuant to the Treaty, dividends paid to US Holders generally will be subject to Finnish withholding tax at a reduced rate of 15% of the gross amount of the dividend. See Finnish Withholding Taxes on Nominee Registered Shares below. Subject to conditions and limitations, Finnish withholding taxes will be treated as foreign taxes eligible for credit against a US Holder's US federal income tax liability. Dividends received generally will constitute foreign source passive income for foreign tax credit purposes or, for taxable years beginning January 1, 2007, passive category income. In lieu of a credit, a US Holder may elect to deduct all of its foreign taxes provided the deduction is claimed for all of the foreign taxes paid by the US Holder in a particular year. A deduction does not reduce US tax on a dollar-for-dollar basis like a tax credit. The deduction, however, is not subject to the limitations applicable to foreign tax credits.

Certain US Holders (including individuals and some trusts and estates) are eligible for reduced rates of U.S. federal income tax at a maximum rate of 15% in respect of qualified dividend income received in taxable years beginning before January 1, 2011, provided that certain holding period and other requirements are met. Dividends that Nokia pays with respect to its shares and ADSs generally will be qualified dividend income if Nokia was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company. Nokia currently believes that dividends paid with respect to its shares and ADSs will constitute qualified dividend income for US federal income tax purposes, however, this is a factual matter and is subject to change. Nokia anticipates that its dividends will be reported as qualified dividends on Forms 1099-DIV delivered to US Holders. US Holders of shares or ADSs are urged to consult their own tax advisors regarding the availability to them of the reduced dividend tax rate in light of their own particular situation and the computations of their foreign tax credit limitation with respect to any qualified dividends paid to them, as applicable.

The US Treasury has expressed concern that parties to whom ADSs are released may be taking actions inconsistent with the claiming of foreign tax credits or reduced rates in respect of qualified dividends by US Holders of ADSs. Accordingly, the analysis of the creditability of Finnish withholding

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taxes or the availability of qualified dividend treatment could be affected by future actions that may be taken by the US Treasury with respect to ADSs.

Finnish Withholding Taxes on Nominee Registered Shares

For US Holders, the reduced 15% withholding tax rate of the Treaty (instead of 28%) is applicable to dividends paid to nominee registered shares only when the conditions of the new provisions applied to dividends that are paid on January 1, 2006 or after are met (Section 10b of the Finnish Act on Taxation of Non-residents Income and Wealth). According to the new provisions, the Finnish account operator and a foreign custodian are required to have a custody agreement, according to which the custodian undertakes to a) declare the country of residence of the beneficial owner of the dividend, b) confirm the applicability of the Treaty to the dividend, c) inform the account operator of any changes to the country of residence or the applicability of the Treaty, and d) provide the legal identification and address of the beneficial owner of the dividend and a certificate of residence issued by the local tax authorities upon request. It is further required that the foreign custodian is domiciled in a country with which Finland has entered into a treaty for the avoidance of double taxation and that the custodian is entered into the register of foreign custodians maintained by the Finnish tax authorities.

In general, if based on an applicable treaty for the avoidance of double taxation the withholding tax rate for dividends is 15% or higher, the treaty rate may be applied when the above-described conditions of the new provisions are met (Section 10b of the Finnish Act on Taxation of Non-residents Income and Wealth). A lower rate than 15% may be applied based on the applicable treaty for the avoidance of double taxation only when the following information on the beneficial owner of the dividend is provided to the payer prior to the dividend payment: name, date of birth or business ID (if applicable) and address in the country of residence.

US and Finnish Tax on Sale or Other Disposition

A US Holder generally will recognize taxable capital gain or loss on the sale or other disposition of ADSs in an amount equal to the difference between the US dollar value of the amount realized and the adjusted tax basis (determined in US dollars) in the ADSs. If the ADSs are held as a capital asset, this gain or loss generally will be long-term capital gain or loss if, at the time of the sale, the ADSs have been held for more than one year. Any capital gain or loss, for foreign tax credit purposes, generally will constitute US source gain or loss. In the case of a US Holder that is an individual, any capital gain generally will be subject to US federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

The deposit or withdrawal by a US Holder of shares in exchange for ADSs or of ADSs for shares under the deposit agreement generally will not be subject to US federal income tax or Finnish income tax.