

Interim Report January - June 1996

April - June 1996

The Nokia Group net sales for the second quarter of 1996 totaled FIM 8 948 million as compared to FIM 9 002 million in the corresponding period in 1995. Excluding the effects of changes in currency exchange rates and the impact of dispositions and discontinuation of operations, Nokia's net sales increased by 17% compared to the second quarter of 1995.

Nokia Telecommunications⁴ net sales increased by 23% over the comparable period in 1995. The sales by Nokia Mobile Phones picked up from the first quarter, and the business group recorded an increase in net sales of 30% compared to the second quarter in 1995. Sales by the Nokia General Communications Products declined by 46% compared to the same period in the prior year due to structural changes.

Nokia's operating profit (IAS) for April-June 1996 was FIM 825 million, 9.2% of net sales compared to FIM 1 670 million, 18.6% of net sales, in the corresponding period in 1995.

The decrease in operating profit was mainly attributable to the results of operations of Nokia Mobile Phones. After a loss-making first quarter, the business group recorded a slight operating profit in the second quarter but remained on a significantly lower profit level compared to the April-June period in 1995. Nokia Telecommunications continued to report very good profitability. Excluding the impact of the structural changes in Nokia General Communications Products, the profitability of this business group was lower than in April-June 1995.

The Group's net interest and financial expenses for the April-June period was FIM 116 million (FIM 22 million in 1995), including exchange rate gains of FIM 15 million (FIM 3 million). The increase in the net interest and financial expense is mainly due to growth in short term borrowings to finance working capital.

Profit before taxes and minority interests totaled FIM 728 million (FIM 1 670 million in 1995). The Group's net profit for the April-June period totaled FIM 518 million (FIM 1 156 million).

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Nokia's net sales for the first six months of 1996 totaled FIM 16 879 million (FIM 17 527 million in the corresponding period in 1995). Excluding the impact of structural and currency changes, net sales increased by 15% compared to the corresponding period in 1995.

Nokia's operating profit (IAS) was FIM 1 337 million (FIM 3 010 million) representing 7.9% of net sales (17.2%). As discussed above, the decrease in operating profit is primarily attributable to the results of operations of Nokia Mobile Phones business group and, to a lesser extent, the effect of discontinued operations.

The Group's net interest and financial expenses for the first six months of the year was FIM 229 million (FIM 32 million). This includes exchange rate gains of FIM 12 million (FIM 26 million).

Profit before taxes and minority interests totaled FIM 1 127 million (FIM 3 021 million in 1995). The Group's net profit for the period was FIM 842 million (FIM 2 609 million).

The net debt to equity ratio at June 30, 1996 was 24% (17% at the end of 1995).

Capital expenditures for the period amounted to FIM 961 million (FIM 1 476 million), 5.7% of net sales (8.4%).

The average number of personnel for the first six months period was 31 812 (30 967 in 1995).

In June, Nokia announced the sale of its television production and related technology units in Turku, Finland to the Semi-Tech (Global) Company. The transaction also includes the sale of machinery and equipment of the Nokia Bochum television factory in Germany, where manufacturing will be terminated in September, Nokia's international television sales activities in Europe, and the television related R&D center in Germany.

Nokia continued to focus its R&D activities on technologies and competencies required in the future competitive and converging telecommunications market. These include continued enhancement of GSM/DCS (Global System for Mobile Communications/Digital Communications System) systems and equipment, R&D of the third-generation digital wireless systems (UMTS/FPLMTS, Universal Mobile Telephone System/Future Public Land Mobile Telecommunications System) and development of ATM (Asynchronous Transfer Mode) and various broadband capabilities. In mobile data, Nokia continued its efforts in order to maintain its leading position. Similarly, Nokia is focusing its efforts on development of integrated, multiservice network solutions. Important elements of this approach are intelligent networks (IN), network management systems and Internet based solutions.

In May, Nokia announced that it will apply Sun Microsystems⁴ JavaOS technology in its future telecommunications products. Nokia is also a strong participant in several significant R&D projects within the Fourth Framework Program of the EU.

In May, Nokia signed a USD 500 million revolving Credit Facility with an international bank syndicate. The term of the facility is seven years, and the facility will be used for future funding needs.

In July, based on the Company's leading position in the growing market for digital mobile telephone equipment and handsets, its technological position in mobile data communications and cash flow position, Nokia was assigned a Prime-1 Short Term rating by Moodys⁴.

Business Groups

Nokia Telecommunications

Nokia Telecommunications' net sales for the second quarter of 1996 totaled FIM 3 225 million (FIM 2 612 million in the corresponding period last year) representing growth of 23%. The business group's order inflow developed very positively. Growth was strong both in Cellular Systems and Network and Access Systems divisions.

In the second quarter, Nokia Telecommunications continued to show progress as a global leader in digital GSM and PCN/PCS (Personal Communication Networks/Systems). Nokia signed a USD 120 million agreement for the delivery of a nationwide GSM network to Polkomtel in Poland. In India, Nokia concluded GSM system agreements to the states of Gujarat, Andra Pradesh, Tamil Nadu, Maharashtra and Kerala, together comprising a total population of nearly 300 million people. By the end of June, Nokia had signed or announced agreements with a total of five GSM operators in the fast growing Indian telecommunications market.

In the second quarter, Nokia also signed several cellular network expansion agreements. The expansion of the PCN networks of TAC in Thailand and Sapura in Malaysia further reinforced Nokia's position as their main supplier. In Thailand, Nokia also entered into an agreement to expand AIS's GSM and analog NMT (Nordic Mobile Telephony) cellular networks. In Finland, Nokia signed agreements valued at over USD 150 million to further expand Telecom Finland's GSM network, including provision of PCN technology. Nokia also signed contracts to expand the NMT networks in Turkey and Indonesia.

In April, Nokia inaugurated its new base station factory in Camberley, UK. The new factory manufactures GSM and DCS 1800 base stations for the European and Asia-Pacific markets.

Nokia Telecommunications Network and Access Systems division gained market share in the growing access system market. The division exploits new opportunities brought on by the ongoing deregulation of telecommunication markets. As an example, two recently signed contracts in Germany with newly established private operators have given Nokia a new foothold in this gradually deregulating fixed telecommunications market. Additionally, sales of cellular transmission systems continued strong as evidenced by supply contracts signed in India and Indonesia.

The market for Nokia's Synchronous Digital Hierarchy (SDH) transmission solutions picked up. New contracts included SDH transmission system deliveries to TAC of Thailand, Cable London in the UK, Telecom New Zealand, and Telecom Finland and Finnet Group in Finland. By the end of June 1996, Nokia's second generation SDH transmission technology had demonstrated its competitiveness with over 30 customers in 13 countries.

In Thailand, Nokia also signed an important agreement with TAC for the supply of a fixed wireless network (wireless local loop) that is based on Nokia's DCS 1800 technology.

Nokia Mobile Phones

In the second quarter of the year, Nokia Mobile Phones' net sales totaled FIM 4 910 million (FIM 3 764 million), representing growth of 30% over the corresponding period in 1995. Net sales were favorably affected by continued demand in Europe and in the Asia-Pacific.

As expected, the operating margin was significantly lower than in the corresponding period in 1995. Margins were still affected by the use of relatively higher-cost components purchased in previous periods and by price discounts on older products. However, operating margin improved compared to the first quarter of this year.

Following the decisive steps taken, including the reorganizing of Nokia Mobile Phones business group towards a more regional focus, the efforts to strengthen operating efficiency proceeded according to plan. Together with the effects of sales of newly introduced products, improvements are expected to continue in the second half of the year.

Geographically, cellular market growth was strongest in the Asia-Pacific region. In all major markets, competition remained strong and the shift from analog to digital services continued. As anticipated, market growth and the rate of digitalization in the United States continued to lag behind other regions.

In June, sales of the Nokia 8110, a new state-of-the-art and lightweight digital phone commenced in line with expectations in Europe and Asia. To address the Asian markets, a Chinese user interface for the Nokia 8100 product family was developed. Nokia was the first manufacturer to introduce both traditional and simplified Chinese character user interface sets in one phone which will be available in the fourth quarter of the year.

Sales of the Nokia 1610, an easy-to-use GSM handset with outstanding operating times, developed according to plans. The introduction of Nokia RinGo analog consumer phones was completed in most NMT markets.

In Japan, Nokia began the delivery of its second generation digital cellular phones with changeable covers. Nokia was the first company to bring changeable colored covers for mobile phones to Japan.

In the United States, Nokia began the deliveries of the new Nokia 2160, the first available dual mode AMPS/TDMA (American Mobile Phone System/Time Division Multiple Access) phone for the IS-136 TDMA network to major metropolitan markets.

In August, Nokia will start deliveries of its new pioneering product, the Nokia 9000 Communicator. This first-ever communications device combines a full-featured GSM phone with fax, e-mail, short message service, address book, calendar and Internet connection, all in one easy-to-use product. The Nokia 9000 Communicator was awarded with the 'Best of Show' prize by Byte magazine at the CeBIT '96 exhibition.

Nokia General Communications Products

Nokia General Communications Products reported net sales of FIM 979 million in the second quarter (FIM 1 806 million in the corresponding period in 1995). Sales declined 46% compared to the second quarter in 1995 as a result of the sale of the main part of the Cable business in March 1996, the discontinuation of television business at the end of 1995 and divestments of non-core businesses throughout 1995.

In May, Nokia announced that the Nokia MediaMaster multimedia terminal supporting Internet services will also support the Network Computer (NC) standard. The NC is Oracle Corporation's implementation of easy-to-use, low-cost computing devices based upon Internet standards. Following several agreements reached by main operators to join forces to implement the technology for which Nokia is the main supplier, the beginning of satellite digital broadcasting business now looks promising.

In April - June, sales of PC monitors grew 17% compared to the same period in 1995. Sales were affected by decreased growth in PC market, especially in OEM (Original Equipment Manufacturer) products.

Sales of battery chargers for mobile phones increased by 59% in April- June compared to the same period in 1995. Approximately 60% of this amount represents inter-company sales.

Following increased demand for sound systems to vehicle manufacturers, sales of loudspeakers increased slightly compared with the previous year. The market for TV- and HiFi-speakers remained sluggish.

Jorma Ollila, President and CEO:

Nokia's net sales growth and operating profit developed positively from the first quarter of the year. We met the targets set for the second quarter, while, as anticipated, profits stayed below their 1995 level.

During the second quarter, strong growth continued in Nokia Telecommunications and the business group's order inflow developed very positively. We showed good progress as a global leader in digital GSM and PCN systems, receiving significant new orders in Europe and Asia. Although competition continued to be tough, profitability turned out to be better than expected. We continue to expect that in Nokia Telecommunications, revenues will be weighted toward the second half of the year.

Geographically, Nokia's presence was further strengthened especially in the fast growing mobile telecommunications markets in China, India and Thailand, as well as in the gradually deregulating European fixed telecommunication market. Sales of Nokia's SDH transmission solutions picked up, with several new deliveries in Europe and Asia.

Nokia Mobile Phones' net sales grew by 30% over the same period last year. As forecast, the sales and profitability improved in the second quarter.

We have moved forward with improvements in operational efficiency, and believe that, with growing mobile phone demand together with our new product lines for all major digital markets, Nokia is now well-positioned to further enhance productivity, capacity utilization and profitability. With the introduction of Nokia 9000 Communicator, Nokia now offers the most complete product range in GSM digital terminals, addressing every major user segment.

Geographically, cellular market growth was fastest in the Asia-Pacific region, with a continuing shift towards digital. As anticipated, the U.S. market continued to lag behind other regions of the world. We continue to expect that during 1997, this market will improve with the wider adoption of digital cellular services.

In July, Nokia divested its remaining television business. Given the recent developments in the European television market, we remain confident that this decision was necessary. Together with the divestment of the cable industry, Nokia will have its total focus in the manufacturing and marketing of mobile phones, GSM/DCS cellular networks, transmission and access networks with related equipment, digital multimedia equipment and other telecom related equipment.

Looking forward to the balance of the year in an increasingly competitive environment, we expect Nokia Telecommunications to remain very competitive and to achieve strong growth and good profitability, and Nokia Mobile Phones to further improve over second quarter results. Overall, we maintain our generally positive outlook, but, as always, actual performance will depend on a variety of external factors, including overall development in our major market areas.

Consolidated Profit and Loss Account, IAS
(unaudited)

	4-6/96 MFIM	4-6/95 MFIM	1-6/96 MFIM	1-6/95 MFIM	1-12/95 MFIM
Net sales	8 948	9 002	16 879	17 527	36 810
Cost of goods sold	-6 592	-6 012	-12 461	-11 754	-25 518
Research and development expenses	-839	-599	-1 625	-1 152	-2 531
Selling, general and administrative expenses	-692	-721	-1 456	-1 611	-3 749
Operating profit	825	1 670	1 337	3 010	5 012
Share of results of associated companies	19	22	19	43	85
Financial income and expenses	-116	-22	-229	-32	-164
Profit before tax and minority interests	728	1 670	1 127	3 021	4 933
Tax	-204	-400	-287	-730	-769
Minority interests	-6	-36	2	-54	-77
Profit from continuing operations	518	1 234	842	2 237	4 087
Discontinued operations	-	-78	-	-113	-2 340
Profit from ordinary activities before cumulative effect of change in accounting policies	518	1 156	842	2 124	1 747
Cumulative prior year effect (after tax) of change in accounting policies	-	-	-	485	485
Net profit	518	1 156	842	2 609	2 232
Earnings per share (FIM):					
Continuing operations	1.83	4.34	2.97	7.86	14.36
Ordinary activities before cumulative effect of change in accounting principles	1.83	4.06	2.97	7.46	6.14

Currency rate June 30, 1996, FIM = 0.215 USD

Net Sales by Business Group, MFIM

	4-6/96	4-6/95	1-6/96	1-6/95	1-12/95
Nokia Telecommunications	3 225	2 612	6 002	4 605	10 341
Nokia Mobile Phones	4 910	3 764	8 799	7 290	16 052
Nokia General Communications Products	979	1 806	2 477	3 381	6 927
Discontinued and divested operations	-	949	-	2 538	4 229
Inter-business group eliminations	-166	-129	-399	-287	-739
Nokia Group	8 948	9 002	16 879	17 527	36 810

Consolidated Balance Sheet, IAS
(unaudited)

	30.6.1996 MFIM	30.6.1995 MFIM	31.12.1995 MFIM
ASSETS			
Fixed assets and other non-current assets	8 125	9 333	9 047
Current assets			
Inventories	8 920	8 708	9 982
Accounts receivable	9 340	7 587	9 518
Cash and cash equivalents	3 928	2 906	4 214
	22 188	19 201	23 714
Total assets	30 313	28 534	32 761
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity ¹⁾	13 598	14 173	13 806
Minority shareholders' interests	29	364	422
Long-term liabilities	2 128	2 436	2 578
Current liabilities	14 558	11 561	15 955
Total shareholders' equity and liabilities	30 313	28 534	32 761
Shareholders' equity per share (FIM)	48.00	49.81	48.55

¹⁾ Dividends to shareholders were recorded and paid in April.

Contingent Liabilities (unaudited)

NOKIA GROUP		
	30.6.1996 MFIM	30.6.1995 MFIM
Pension fund liability		
Liability of pension funds	1	30
Mortgages		
As security for loans		
For own debts	237	290
As security for other commitments		
For own commitments	114	290
Assets pledged		
As security for own debts	52	65
Guarantees		
Guarantees for loans		
As security for loans of associated companies	252	277
Other guarantees and commitments		
As security for own commitments	973	962
As security for loans of associated companies	-	104

Notional Amounts of Derivative Financial Instruments¹⁾

	30.6.1996 MFIM
Currency options bought	5 316
Currency options sold	4 624
Foreign exchange forward contracts	33 551 ^{2), 3)}
Interest rate swaps	895
Interest rate forward and futures contracts	27 309 ²⁾
Interest rate options	2 284

1. The notional amounts of derivatives summarized here do not represent amounts exchanged by the parties and, thus are not a measure of the exposure of Nokia caused by its use of derivatives. Notional amounts are presented for those subgroups that show material quantity.
2. Notional amounts outstanding include positions, which have been closed off.
3. Notional amount includes contracts used for hedging net investments in foreign subsidiaries.

Proforma 1995 Net Sales by Quarter

	1-3/95 MFIM	4-6/95 MFIM	7-9/95 MFIM	10-12/95 MFIM
Nokia Telecommunications	1 993	2 612	2 494	3 242
Nokia Mobile Phones	3 526	3 764	3 565	5 197
Nokia General Communications Products	1 575	1 806	1 701	1 845
Discontinued and divested operations	1 589	949	727	964
Inter-business group eliminations	-158	-129	-159	-293
Nokia Group	8 525	9 002	8 328	10 955

Helsinki August 8, 1996

NOKIA The Board

It should be noted that the statements contained in this report which are not historical facts, are forward looking statements that involve risks and uncertainties. In addition to the factors discussed above, among other factors that could cause actual results to differ materially from the results currently expected by the Company are the following: general economic conditions, such as the rate of economic growth in the Company's principal geographic markets or fluctuations in exchange rates; industry conditions, such as the strength of product demand, the intensity of competition, pricing pressures, the acceptability of new product introductions, the introduction of new products by competitors, changes in technology or the ability of the Company to source components from third parties without interruption and at reasonable prices; operating factors, such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development or inventory risks due to shifts in market demand, as well as the risk factors mentioned in documents filed by the Company from time to time with the SEC.

Exception nr. 1388, granted by the Accounting Board

Nokia will publish its January - September results on November 14, 1996.