

Nokia Interim Report

January – June 1998



Interim Report, January – June 1998

SECOND QUARTER RESULTS

Nokia's net sales in the second quarter 1998 totaled FIM 18 420 million (FIM 13 061 million in 1997). Net sales increased by 41% compared to the second quarter 1997. Sales growth continued both at Nokia Telecommunications (45% over the second quarter 1997) and at Nokia Mobile Phones (50% over the second quarter 1997). Net sales in Other Operations decreased by 15% compared to the same period in 1997.

Operating profit (IAS, International Accounting Standards) increased by 75% compared to the second quarter 1997 and was FIM 3 346 million (FIM 1 908 million in 1997).

With continued strong sales growth, both Nokia Telecommunications and Nokia Mobile Phones reported higher profits in the second quarter 1998 than in the comparable period a year ago. Profits in Other Operations were lower than in the second quarter 1997.

Net interest and financial expenses for the three months ended June 30, 1998 were FIM 112 million (FIM 55 million in 1997). Profit before tax and minority interests totaled FIM 3 246 million (FIM 1 879 million in 1997). Net profit for the second quarter 1998 totaled FIM 2 172 million (FIM 1 332 million in 1997).

FIRST HALF YEAR RESULTS

Nokia's net sales for the six months ended June 30, 1998 totaled FIM 33 290 million (FIM 24 392 million in 1997), an increase of 36%. Operating profit (IAS) for the period increased to FIM 5 661 million (FIM 3 370 million in 1997), representing 17.0% of net sales (13.8% in 1997). Profit before tax and minority interests in the first half of 1998 totaled FIM 5 548 million (FIM 3 331 million in 1997), and net profit for the period was FIM 4 174 million (FIM 2 405 million in 1997).

At June 30, 1998, the net debt-to-equity ratio (gearing) was -31% (-35% at the end of 1997). During the January-June period 1998, capital expenditures amounted to FIM 1 868 million (FIM 1 084 million in 1997). Nokia had 41 596 employees at June 30, 1998. The average number of personnel for the six-month period to June 30, 1998 was 38 793 (33 900 in 1997).

The number of Nokia shares has increased following share subscriptions through the exercise of stock options. At June 30, 1998, the total number of shares was 601 614 208 and the share capital FIM 1 504 035 520.

MAIN DEVELOPMENTS IN THE SECOND QUARTER 1998

Nokia made a number of significant announcements during the quarter based on its strategic intent to continuously enhance its leadership position in wireless communications.

Together with four other industry leaders, Nokia unveiled a new short-range radio technology, code-named Bluetooth. It will allow mobile phone users to connect easily to a wide range of other devices without cables. Bluetooth technology will expand seamless communications capabilities for mobile phones, PCs and other portable products. Nokia expects to introduce its first products using the new technology in the second half of 1999.

The Wireless Application Protocol (WAP) Forum introduced the first version of the WAP 1.0 specification in May. It will provide an open standard bringing Internet content and advanced value-added services to digital mobile phones and portable devices. WAP Forum membership has increased from the original four to 37 companies since January, Nokia being one of the co-founding members.

Together with other major players in the industry, Nokia formed a new joint venture called Symbian. Symbian aims at creating

Statement by Mr Jorma Ollila, President and CEO

Several factors contributed to yet another record quarter. Strong sales growth in Nokia Telecommunications and Nokia Mobile Phones, as well as our overall profitability exceeded our expectations.

In our network business, strong growth of sales and the healthy order inflow development continued. We were able to win several new customers, but equally important, many existing customers were conducting sizeable network expansion investments.

Our recently introduced mobile phones were very favorably received by users all over the world. In addition, the rapid digitalization of the markets in the Americas, especially in the U.S., strengthened our market position. These factors contributed to lower than anticipated price erosion during the first half of the year.

The consistent product development work we have conducted in recent years demonstrates itself in our very competitive product range, including a number of new attractive products. For the future we maintain our strategic 25-35% net sales growth

target. However, our good competitive position and strong performance in the first half of the year give us reason to believe that in 1998 we will somewhat exceed this target.

We continue to see a variety of opportunities in our chosen areas of activities and we will continue to pursue these by making focused investments in R&D and other operational areas. To exploit new business growth possibilities in the competitive arena emerging from the convergence of telecom, datacom and IT industries, we have established the first three units of Nokia Ventures Organization. In addition, we have established a venture capital fund to focus on new start-up businesses and technologies.

Growth in the global telecommunications market, especially in the wireless segments, will continue and we have now revised our earlier projected number of mobile phone users to grow to approximately 600 million by the end of 2001.

Several industry advancements will significantly broaden services and enhance

their usability, paving the way to the future wireless information society.

Our strong commitment to continuous technology development, including endeavors such as Bluetooth, the Wireless Application Protocol and Symbian, as well as our preparation for the 3rd generation standards, strengthen our leadership position in wireless communication.

Looking ahead, our most important challenges continue to include managing growth and instilling in all of our new employees the cornerstones of the Nokia Way. A knowledgeable, dedicated, innovative and enthusiastic staff in a regenerating organization is one of our key competitive strengths and the foundation for excellence in operations.

Looking at the whole year 1998, we feel very confident to reiterate our previously stated positive outlook for continued strong growth, good profitability and positive operating cash flow. However, our actual results will always also depend on a variety of external factors, including general economic and industry conditions.

Consolidated Profit and Loss Account, IAS *(unaudited)*

	4-6/98 MFIM	4-6/97 MFIM	1-6/98 MFIM	1-6/97 MFIM	1-12/97 MFIM
Net sales	18 420	13 061	33 290	24 392	52 612
Cost of goods sold	-11 285	-8 657	-20 883	-16 405	-33 999
Research and development expenses	-1 638	-1 066	-3 066	-2 044	-4 560
Selling, general and administrative expenses	-2 151	-1 430	-3 680	-2 573	-5 599
Operating profit	3 346	1 908	5 661	3 370	8 454
Share of results of associated companies	12	26	20	26	54
Financial income and expenses	-112	-55	-133	-65	-137
Profit before tax and minority interests	3 246	1 879	5 548	3 331	8 371
Tax	-973	-526	-1 655	-933	-2 274
Minority interests	-101	-21	-135	7	-99
Profit from continuing operations	2 172	1 332	3 758	2 405	5 998
Discontinued operations	-	-	-	-	261
Profit from ordinary activities before cumulative effect of change in accounting policies	2 172	1 332	3 758	2 405	6 259
Cumulative prior year net effect of change in accounting policies	-	-	416	-	-
Net profit	2 172	1 332	4 174	2 405	6 259
Earnings per share (FIM):					
Continuing operations					
Basic	3.82	2.35	6.61	4.25	10.59
Diluted	3.71	2.32	6.43	4.19	10.40
Net profit					
Basic	3.82	2.35	7.34	4.25	11.05
Diluted	3.71	2.32	7.14	4.19	10.86
Average number of shares (1 000 shares)					
Basic	569 027	566 538	568 317	566 538	566 564
Diluted	585 935	574 769	584 236	573 576	576 583
Depreciation	761	590	1 427	1 146	2 762

Net Sales by Business Group, MFIM

	4-6/98	4-6/97	1-6/98	1-6/97	1-12/97
Nokia Telecommunications	6 293	4 354	11 580	8 088	18 826
Nokia Mobile Phones	10 995	7 316	18 954	13 467	27 643
Other Operations	1 431	1 675	3 295	3 307	7 239
Inter-business group eliminations	-299	-284	-539	-470	-1 096
Nokia Group	18 420	13 061	33 290	24 392	52 612

Notional Amounts of Derivative Financial Instruments ¹⁾

	30.6.1998 MFIM	30.6.1997 MFIM	31.12.1997 MFIM
Foreign exchange forward contracts ^{2) 3)}	65 424	48 590	57 228
Currency options bought	5 841	7 373	7 945
Currency options sold	7 386	8 978	8 299
Interest rate forward and futures contracts ²⁾	12 267	11 200	5 695
Interest rate swaps	422	1 123	575
Interest rate options bought	109	986	187
Interest rate options sold	-	342	-

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.

²⁾ Notional amounts outstanding include positions, which have been closed off.

³⁾ Notional amount includes contracts used to hedge the net investments in foreign subsidiaries.

Consolidated Balance Sheet, IAS *(unaudited)*

	30.6.1998 MFIM	30.6.1997 MFIM	31.12.1997 MFIM
ASSETS			
Fixed assets and other non-current assets	11 551	8 890	9 445
Current assets			
Inventories	7 678	7 535	7 314
Accounts receivable	16 126	11 956	12 732
Cash and cash equivalents	11 518	8 012	12 247
	35 322	27 503	32 293
Total assets	46 873	36 393	41 738
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	23 892	17 410	21 524
Minority shareholders' interests	396	81	195
Long-term liabilities	1 835	1 996	1 643
Current liabilities	20 750	16 906	18 376
Total shareholders' equity and liabilities	46 873	36 393	41 738
Interest-bearing liabilities	4 095	4 475	4 641
Shareholder's equity per share, FIM	41.96	30.73	37.92
Number of shares (1 000 shares) *	569 453	566 539	567 543

* Shares owned by Nokia Finance International B.V. are excluded.

Contingent Liabilities *(unaudited)*

	NOKIA GROUP		
	30.6.1998 MFIM	30.6.1997 MFIM	31.12.1997 MFIM
Pension fund liability			
Liability of pension fund	1	1	2
Liability for bills of exchange	2	16	3
Mortgages			
As security for loans			
For own debts	25	67	45
As security for other commitments			
For own commitments	13	13	13
Assets pledged			
As security for own debts	39	91	107
Guarantees			
Guarantees for loans			
As security for loans of associated companies	6	6	6
As security for loans of other companies	394	201	341
Other guarantees and commitments			
As security for own commitments	1 429	1 189	1 198
On behalf of other companies	4	-	-
Leasing obligations	2 432	1 312	1 339

Currency rate June 30, 1998, 1 FIM = 0.184 USD

CHANGES IN INTERNATIONAL ACCOUNTING STANDARDS

Beginning January 1, 1998, the Group has adopted the revised IAS 12, "Income taxes", and recognized deferred tax assets and liabilities for temporary differences. The impact of the adoption of revised IAS 12, if it had already been adopted for 1997, would not have been material to the results of operations, financial position and cash flows of Nokia. The cumulative prior year net effect (FIM 416 million) has been included in the first quarter's profit for 1998.

Beginning in 1998, the Group calculates both basic and diluted earnings per share from profit from continuing operations and from net profit in accordance with the new IAS 33, "Earnings per Share". Under IAS 33 the weighted average number of shares used to calculate basic EPS is the same as that previously reported for the calculation of earnings per share. The weighted average number of shares used to calculate diluted earnings per share has been adjusted to take into consideration the dilutive effect of the warrants outstanding during the period. For comparability, diluted EPS has also been calculated for the previous year.

an open and common software platform for mobile devices such as communicators and smartphones. Symbian's advanced EPOC operating system will be available for licensing to all industry participants. Nokia expects to introduce its first EPOC products in late 1999.

With the Computer Sciences Corporation, Nokia created a global alliance for the increasingly sophisticated and tight system integration between operator networks and the service and business management support systems. The partnership will enable faster implementation of new, innovative telecommunications services for Nokia's customers.

Nokia acquired the GSM terminals research and development unit of Matra Nortel Communications. Located in Germany, the new R&D unit will focus on the development of Nokia's Smart Traffic Products. Nokia also established a new software competence center in Sweden.

During the quarter, Nokia outsourced its multimedia network terminals manufacturing in Sweden and the production of certain fixed and radio access products in Finland to the U.S.-based SCI Systems Inc.

NOKIA TELECOMMUNICATIONS' net sales for the second quarter 1998 increased by 45% to FIM 6 293 million (FIM 4 354 million in 1997). Sales growth was especially strong in China and Europe.

Fast growth continued in cellular systems and Nokia strengthened its market position in GSM. Nokia signed new agreements to provide a GSM network for TeleDanmark in the Netherlands, for Iowa Wireless Services in the U.S. and for Mobile Communications in Kuwait, and a turnkey dual-band network for diAX AG in Switzerland. With the emergence of dual-band services, Nokia is supplying solutions to several dual-band operators, including Cellnet in the UK.

In China, which has become the world's largest GSM market, Nokia signed network expansion contracts with Henan PTA, NingXia PTA, Zhejiang Mobile Communications and Yunnan PTA. A new GSM base station manufacturing plant will be built in the Jiangsu province, complementing Nokia's global production chain.

As the world leader in Wireless Data solutions, Nokia added two new GSM Short Message solutions to its product portfolio. A new Base Station subsystem software BSS7 also was introduced, giving high-speed data functionality up to 57.6 Kbit/s in Nokia GSM networks.

Nokia, Kreutler and Telindus signed an agreement to deliver a digital TETRA (Terrestrial Trunked Radio) network to the Belgian authorities for a public safety and security network. The Finnish Ministry of the Interior and Nokia also signed a frame agreement for the delivery of TETRA radio terminals, complementing an earlier nationwide TETRA network agreement.

In fixed networks, operators are looking toward data and telecommunications convergence, with a need to offer broadband services driven by the increasing use of the Internet. Nokia continued to gain new customers for its fixed switching and SDH (Synchronous Digital Hierarchy) solutions. In Germany, Nokia and HanseNet signed a contract for the supply of Nokia's DX 220 digital switching platform and in Sweden, Telia chose Nokia to supply equipment for its broadband ADSL (Asymmetric Digital Subscriber Line) trials.

Nokia introduced the new Remote Access Node which plays a key role in the Nokia Broadband IP (Internet Protocol) access solution. New router products, launched in April and June have been well received, and Nokia currently has more than 60 IP router customers across the U.S. and Europe.

The sales of Nokia's IN (Intelligent Network) platforms increased measurably as operators in the competitive markets continued to invest in service creation in seeking to differentiate themselves and offer new value-added services to their customers.

NOKIA MOBILE PHONES' net sales for the second quarter 1998 increased by 50% to FIM 10 995 million (FIM 7 316 million in 1997). Net sales increased in all geographic areas, with strongest growth in the U.S. and China.

The recently introduced Nokia phones have been very favorably received by users all over the world and Nokia continued to strengthen its market position. Rapid digitalization of the American market continued. Approximately 80% of the phones globally sold by Nokia were digital.

The fully featured Nokia 6100 series, with products for most digital standards, were selling in high volumes globally. Nokia 6150, the smallest GSM 900/1800 dual-band phone on the market was added to the product series and is expected to be available in the third quarter 1998. Nokia also started deliveries of another new consumer product family, the Nokia 5100 series, with colored covers that can be changed in seconds. Demand

has been very strong and the ramp-up of the phones was historically the fastest ever for Nokia.

For GSM 1900, Nokia began deliveries of the Nokia 9000i Communicator. Sales of the new Nokia PDC handset started in Japan, featuring the innovative voice recognition function. Nokia also launched a new accessory for the Nokia 6100 and 5100 series phones, which aids a person who is hard of hearing to use a mobile phone. Sales of the Nokia 8810, the world's smallest GSM phone, are scheduled to start in the third quarter of 1998 as expected. The second-generation Nokia 9110 Communicator is expected to start selling during the autumn.

OTHER OPERATIONS' net sales for the second quarter 1998 decreased by 15% to FIM 1 431 million (FIM 1 675 million in 1997). Excluding the impact of divested businesses, sales would have decreased by 4%.

Nokia Multimedia Network Terminals' sales growth slowed in Germany due to the investigations by the European Commission of the planned joint venture of the German media groups Kirch and Bertelsmann in the field of digital TV. The proposed merger of DF 1 and Premiere was not approved by the Commission. Both operators have decided to continue the digitalization of their cable and satellite services using the d-box technology supplied by Nokia.

Nokia signed an agreement to supply digital Nokia Mediamaster terminals for the Reuters Television Network (RTV). In the UK, Independent Radio News (IRN) chose Nokia's satellite receivers as the data transfer medium in its network of commercial radio stations. Nokia also introduced its second generation Mediamaster product, which will be available for satellite, cable and terrestrial networks.

Nokia Industrial Electronics launched two new innovative products during the second quarter 1998. The Nokia 500Xa is a new 15.1" flat panel display product, including an integrated audio system and Navi™Key control, allowing fast, one-button access to the monitor functions. The Nokia 447DTC is a new desktop communication display for advanced application sharing and live audio-visual communication.

Plans to start manufacturing Nokia displays in Reynosa, Mexico were completed. The production of Nokia high-end computer displays is expected to start there in the last quarter of 1998.

Helsinki, July 24, 1998

NOKIA

Board of Directors

It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding 1) the timing of product deliveries; 2) expectations regarding market developments; 3) expectations for growth and profitability; and 4) statements preceded by "believes", "expects", "anticipates", "foresee", or similar expressions, are forward-looking statements. Because such statements involve risks and uncertainties, actual results may differ materially from the results currently expected by the Company. Factors that could cause such differences include, but are not limited to 1) general economic conditions, such as the rate of economic growth in the Company's principal geographic markets or fluctuations in exchange rates; 2) 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 and the financial condition of the Company's customers; 3) 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 4) the risk factors specified in the Company's Form 20-F for the year ended December 31, 1997.

Exception nr. 1504, granted by the Accounting Board (KILA), Helsinki, November 24, 1997

NOKIA DIVIDEND REINVESTMENT AND DIRECT PURCHASE PLAN

A Dividend Reinvestment and Direct Stock Purchase Plan (the Plan) for ADSs (American Depositary Share) of Nokia was implemented in December 1997. The Plan is designed to provide owners of ADSs and other interested investors who participate in the Plan a convenient way to accumulate and increase their investments in ADSs and to reinvest all or a portion of their cash dividends or optional cash investments in additional ADSs.

The Plan is sponsored and administered by the Depositary Bank, Citibank, N.A. Nokia has consented to the establishment of the Plan by the Depositary Bank, but does not, and should not be deemed to, sponsor or administer the Plan. Nokia assumes no obligation or liability for the operation of the Plan.

A brochure describing the Plan and an Enrollment Form can be obtained only from Citibank, N.A. by calling +1 800 483 9010.

Nokia will publish its 1998 3Q results on October 23, 1998.



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