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

	2002 EURm	2001 EURm	2000 EURm
Reconciliation of net income			
Net income reported under IAS	**3 381**	2 200	3 938
U.S. GAAP adjustments:			
Pension expense	**–5**	–22	–13
Development costs	**–66**	–104	–65
Marketable securities	**–**	–	–10
Provision for social security cost on stock options	**–90**	–132	34
Stock compensation expense	**–35**	–85	–46
Cash flow hedges	**6**	–22	–
Net investment in foreign companies	**48**	–	–
Amortization of identifiable intangible assets acquired	**–22**	–7	–
Amortization of goodwill	**206**	28	–
Impairment of goodwill	**104**	–	–
Deferred tax effect of U.S. GAAP adjustments	**76**	47	9
Net income under U.S. GAAP	**3 603**	1 903	3 847

	2002 EURm	2001 EURm
Reconciliation of shareholders' equity		
Total shareholders' equity reported under IAS	**14 281**	12 205
U.S. GAAP adjustments:		
Pension expense	**–37**	–32
Additional minimum liability	**–5**	–
Development costs	**–421**	–355
Marketable securities and unlisted investments	**77**	–
Provision for social security cost on stock options	**35**	125
Deferred compensation	**–13**	–47
Share issue premium	**179**	178
Stock compensation	**–166**	–131
Acquisition purchase price	**4**	4
Amortization of identifiable intangible assets acquired	**–29**	–7
Amortization of goodwill	**234**	28
Impairment of goodwill	**104**	–
Translation of goodwill	**–240**	–
Deferred tax effect of U.S. GAAP adjustments	**147**	53
Total shareholders' equity under U.S. GAAP	**14 150**	12 021

Pension expense and additional minimum liability

Under IAS, pension assets, defined benefit pension liabilities and expense are actuarially determined in a similar manner to U.S. GAAP. However, under IAS the prior service cost, transition adjustments and expense resulting from plan amendments are generally recognized immediately. Under U.S. GAAP, these expenses are generally recognized over a longer period. Also, under U.S. GAAP the employer should recognize an additional minimum pension liability charged to other comprehensive income when the accumulated benefit obligation (ABO) exceeds the fair value of the plan assets and this amount is not covered by the liability recognized in the balance sheet. The calculation of the ABO is based on approach two as described in EITF 88-1, Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan, under which the actuarial present value is based on the date of separation from service.

The U.S. GAAP pension adjustment reflects the difference between the prepaid pension asset and related pension expense as determined by applying IAS 19, Employee Benefits, and the pension asset and pension expense determined by applying FAS 87, Employers' Accounting for Pensions.

Development costs

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

Under U.S. GAAP, software development costs would similarly be capitalized after the product has reached a certain degree of technical feasibility. However, certain non-software related development costs capitalized under IAS would not be capitalizable under U.S. GAAP and therefore have been expensed under U.S. GAAP.

Marketable securities and unlisted investments

Under IAS, prior to the adoption of IAS 39 on January 1, 2001, investments in marketable securities were carried at cost. Upon adoption of IAS 39, all available-for-sale investments, which includes all publicly listed and non-listed marketable securities, are measured at fair value and gains and losses are recognized within shareholders' equity until realized in the profit and loss account upon sale or disposal.

Under U.S. GAAP, the Group's listed marketable securities would be classified as available-for-sale and carried at aggregate fair value with gross unrealized holding gains and losses reported as a separate component of shareholders' equity. Investments in equity securities that are not traded on a public market are carried at historical cost, giving rise to an adjustment between IAS and U.S. GAAP. Total proceeds from the sale of available-for-sale securities were EUR 94 million in 2000.

Provision for social security cost on stock options

Under IAS, the Group provides for social security costs on stock options on the date of grant, based on the fair value of the option. The provision is adjusted for movements in the fair value of the options. Under U.S. GAAP, no expense is recorded until the options are exercised.

Stock compensation

Under IAS, no compensation expense is recorded on stock options granted. Under U.S. GAAP, the Group follows the methodology in APB Opinion 25, Accounting for Stock Issued to Employees (APB 25), to measure employee stock compensation.

Certain employees have been granted stock options with an exercise price less than the quoted market value of the underlying stock on the date of grant. This intrinsic value is recorded as deferred compensation within shareholders' equity and recognized in the profit and loss account over the vesting period of the stock options. The stock options issued are recorded as share issue premium.

Cash flow hedges

As a result of a specific difference in the rules under IAS 39 and FAS 133, Accounting for Derivative Instruments and Hedging Activities, relating to hedge accounting, certain foreign exchange gains and losses classified within equity under IAS would be included in the income statement under U.S. GAAP.

Net investment in foreign companies

Under IAS, on the disposal of a foreign entity, the cumulative amount of the exchange differences which have been deferred and which relate to that foreign entity should be recognized as income or as expenses in the same period in which the gain or loss on disposal is recognized. An enterprise may dispose of its interest in a foreign entity through sale, liquidation, repayment of share capital and permanent loans, or abandonment of all, or part of, that entity.

Under U.S. GAAP, the cumulative translation differences are reported in the profit and loss account only upon the sale or upon complete or substantially complete liquidation of the investment in a foreign entity.

Acquisition purchase price

Under IAS, when the consideration paid in a business combination includes shares of the acquirer, the purchase price of the acquired business is determined at the date on which the shares are exchanged.

Under U.S. GAAP, the measurement date for shares of the acquirer is the first day on which both the number of acquirer shares and the amount of other considerations become fixed. The average share price for a few days before and a few days after the measurement date is then used to value the shares.

Amortization of identifiable intangible assets acquired

Under IAS, acquired unpatented technology is not separately recognized on acquisition but is included within goodwill.

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

The gross carrying amount of intangible assets, under U.S. GAAP, is EUR 109 million as of December 31, 2002 (EUR 109 million as of December 31, 2001), which is being amortized over an estimated useful life of five years. Accumulated amortization as of December 31, 2002 was EUR 29 million (EUR 7 million at December 31, 2001). The amortization expense for the year ended December 31, 2002 is EUR 22 million (EUR 7 million in 2001). Amortization expense on intangible assets is expected to be EUR 22 million in 2003, 2004 and 2005 and EUR 14 million in 2006.

Amortization of goodwill

Under IAS, goodwill is amortized over its estimated useful life. Under U.S. GAAP, prior to July 1, 2001, goodwill was amortized over its estimated useful life consistent with IAS. The Group adopted the transition provisions of FAS 141, Business Combinations (FAS 141), with effect from July 1, 2001. The Group also adopted the provisions of FAS 142, Goodwill and Other Intangible Assets (FAS 142), on January 1, 2002. As a result, goodwill is no longer subject to amortization subsequent to the date of adoption. As the non-amortization of goodwill provisions of FAS 142 were effective immediately for all acquisitions after June 30, 2001, goodwill arising from the Amber Networks acquisition was also not amortized during 2001.

The U.S. GAAP adjustment reverses the amortization expense recorded under IAS and also reverses the movement in accumulated amortization under IAS during the period subsequent to the adoption of FAS 141 and FAS 142.

The following table shows the results of operations as if FAS 142 were applied to prior periods:

	2001 EURm	2000 EURm
Net income as reported under U.S. GAAP	**1 903**	3 847
Add back: Goodwill amortization	**274**	140
Adjusted net income	**2 177**	3 987

	2001 EUR	2000 EUR
Income per share—Basic		
Net income as reported under U.S. GAAP	**0.40**	0.82
Goodwill amortization	**0.06**	0.03
Adjusted net income	**0.46**	0.85
Income per share—Diluted		
Net income as reported under U.S. GAAP	**0.40**	0.80
Goodwill amortization	**0.06**	0.03
Adjusted net income	**0.45**	0.83

Impairment of goodwill

The Company has evaluated its existing goodwill relating to prior business combinations and has determined that an adjustment or reclassification to intangible assets as of January 1, 2002 was not required in order to conform to the new criteria in FAS 141. The Company has also reassessed the useful lives and carrying values of other intangible assets, and will continue to amortize these assets over their remaining useful lives.

As of January 1, 2002, the Company performed the transitional impairment test under FAS 142 and compared the carrying value for each reporting unit to its fair value, which was determined based on discounted cash flows. Upon completion of the transitional impairment test, the Company determined that there was no impairment as of January 1, 2002, as the carrying value of each reporting unit did not exceed its fair value. The Company also completed the annual impairment test required by FAS 142 during the fourth quarter of 2002, which was also performed by comparing the carrying value of each reporting unit to its fair value based on discounted cash flows.

Under IAS, goodwill is allocated to "cash generating units", which are the smallest group of identifiable assets which includes the goodwill under review for impairment, and that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets. Under IAS, the Company recorded an impairment of goodwill of EUR 104 million related to Amber Networks as the carrying amount of the cash generating unit exceeded the recoverable amount of the unit. Upon completion of the annual impairment test, the Company determined that the impairment recorded for Amber Networks should be reversed for U.S. GAAP purposes because, at the IP Mobility Network reporting unit level where Amber Networks resides, the fair value of the reporting unit exceeded the book value of the reporting unit.

Below is a roll forward of U.S. GAAP goodwill during 2002:

	Nokia Mobile Phones EURm	Nokia Networks EURm	Nokia Ventures Organization EURm	Common Group Functions EURm	Group EURm
Balance as of January 1, 2002	351	382	80	–	813
Goodwill acquired	–	–	–	9	9
Impairment losses	–	–17	–61	–	–78
Translation adjustment	–202	–42	4	–	–240
Balance as of December 31, 2002	**149**	**323**	**23**	**9**	**504**

Of the amount of goodwill under U.S. GAAP, EUR 352 million relates to the acquisition of Amber Networks in 2001. Goodwill is not deductible for tax purposes.

Translation of goodwill

Under IAS, the company translates goodwill arising on the acquisition of foreign subsidiaries at historical rates.

Under U.S. GAAP, goodwill is translated at the closing rate on the balance sheet date with gains and losses recorded as a component of shareholders' equity.