

# Notes to the consolidated financial statements

## 1. Accounting principles

### Basis of presentation

The consolidated financial statements of Nokia Corporation ("Nokia" or "the Group"), a Finnish limited liability company with domicile in Helsinki, are prepared in accordance with International Accounting Standards (IAS). The consolidated financial statements are presented in millions of euros (EURm) and are prepared under the historical cost convention except as disclosed in the accounting policies below. The notes to the consolidated financial statements also conform with Finnish Accounting legislation.

In 2001 the Group adopted IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). The effects of adopting the standard are summarized in the consolidated statement of changes in shareholders' equity, and further information is disclosed in the accounting policies, Fair Valuing Principles and Hedge Accounting and in Notes 15, 20 and 34. In accordance with IAS 39, the comparative financial statements for the year ended December 31, 2000 have not been restated.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Principles of consolidation

The consolidated financial statements include the accounts of Nokia's parent company ("Parent Company"), and each of those companies in which it either owns, directly or indirectly through subsidiaries, over 50% of the voting rights, or over which it has control of their operating and financial policies. The Group's share of profits and losses of associated companies (generally 20% to 50% voting rights or over which the Group has significant influence) is included in the consolidated profit and loss account in accordance with the equity method of accounting.

All inter-company transactions are eliminated as part of the consolidation process. Minority interests are presented separately in arriving at the net profit. They are also shown separately from shareholders' equity and liabilities in the consolidated balance sheet.

Profits realized in connection with the sale of fixed assets between the Group and associated companies are eliminated in proportion to share ownership. Such profits are deducted from the Group's equity and fixed assets and released in the Group accounts over the same period as depreciation is charged.

The companies acquired during the financial periods presented have been consolidated from the date on which control of the net assets and operations was transferred to the Group. Similarly the result of a Group company divested during an accounting period is included in the Group accounts only to the date of disposal.

### Goodwill

Acquisitions of companies are accounted for using the purchase method of accounting. Goodwill represents the excess of the purchase cost over the fair value of assets less liabilities of acquired companies. Goodwill is

amortized on a straight-line basis over its expected useful life. Useful lives vary between two and five years depending upon the nature of the acquisition. Expected useful lives are reviewed at each balance sheet date and, where these differ significantly from previous estimates, amortization periods are changed accordingly.

The Group assesses the carrying value of goodwill annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. If such indication exists the recoverable amount is determined for the cash-generating unit, to which goodwill belongs. This amount is then compared to the carrying amount of the cash-generating unit and any impairment loss is recognized if the recoverable amount is less than the carrying amount. Impairment losses are recognized immediately in the profit and loss account.

### Transactions in foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transactions. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used. At the end of the accounting period the unsettled balances on foreign currency receivables and liabilities are valued at the rates of exchange prevailing at the year-end. Foreign exchange gains and losses related to normal business operations are treated as adjustments to sales or to cost of sales. Foreign exchange gains and losses associated with financing are included as a net amount under financial income and expenses.

### Foreign Group companies

In the consolidated accounts all items in the profit and loss accounts of foreign subsidiaries are translated into euro at the average exchange rates for the accounting period. The balance sheets of foreign Group companies are translated into euro at the rates of exchange ruling at the year-end with the exception of goodwill arising on the acquisition of a foreign company which is translated to euro at historical rates. Differences resulting from the translation of profit and loss account items at the average rate and the balance sheet items at the closing rate are also treated as an adjustment affecting consolidated shareholders' equity. On the disposal of all or part of a foreign Group company by sale, liquidation, repayment of share capital or abandonment, the cumulative amount or proportionate share of the translation difference is recognized as income or as expense in the same period in which the gain or loss on disposal is recognized.

### Fair valuing principles

At January 1, 2001 the Group adopted IAS 39. The impact of adopting the standard on shareholders' equity is quantified in note 20. Under IAS 39, the Group classifies its investments in marketable debt and equity securities and investments in unlisted equity securities into the following categories: held-to-maturity, trading, or available-for-sale depending on the purpose for acquiring the investments. All investments of the Group are currently classified as available-for-sale. Available-for-sale investments are fair valued by using quoted market rates, discounted cash flow analyses and other appropriate valuation models at the balance sheet date. Certain unlisted equities for which fair values cannot be measured reliably are reported at cost less impairment. All purchases and sales of investments are recorded on the trade date, which is the date

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that the Group commits to purchase or sell the asset.

The fair value changes of available-for-sale investments are recognized in shareholders' equity. When the investment is disposed of, the related accumulated fair value changes are recycled from shareholders' equity into the profit and loss account. An impairment is recorded when the carrying amount of an available for sale investment is greater than the estimated fair value and there is objective evidence that the asset is impaired. The cumulative net loss relating to that investment is removed from equity and recognized in the profit and loss account for the period. If, in a subsequent period, the fair value of the investment increases and the increase can be objectively related to an event occurring after the loss was recognized, the loss is reversed, with the amount of the reversal included in the profit and loss account.

Fair values of forward rate agreements, interest rate options and futures contracts are calculated based on quoted market rates at the balance sheet date. Interest rate and currency swaps are valued by using discounted cash flow analyses. The changes in the fair values of these contracts are reported in the profit and loss account.

Fair values of cash settled equity derivatives are calculated by revaluing the contract at year-end quoted market rates. Changes in the fair value are reported in the profit and loss account.

Forward foreign exchange contracts are valued with the forward exchange rate. Changes in fair value are calculated by comparing this with the original amount calculated by using the contract forward rate prevailing at the beginning of the contract. Currency options are valued at the balance sheet date by using the Garman & Kohlhagen option valuation model. Changes in the fair value on these instruments are reported in the profit and loss account except to the extent they qualify for hedge accounting.

Embedded derivatives are identified and monitored in the Group and fair valued at the balance sheet date. In assessing the fair value of embedded derivatives the Group uses a variety of methods, such as option pricing models and discounted cash flow analysis, and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value changes are reported in financial income and expenses in the profit and loss account.

### Hedge accounting

Hedging of anticipated foreign currency denominated sales and purchases

The Group is applying hedge accounting for "Qualifying hedges". Qualifying hedges are those properly documented cash flow hedges of the foreign exchange rate risk of future anticipated foreign currency denominated sales and purchases that meet the requirements set out in IAS 39. The cash flow being hedged must be "highly probable" and must ultimately impact the profit and loss account. The hedge must be highly effective both prospectively and retrospectively.

The Group claims hedge accounting in respect of certain forward foreign exchange contracts and options, or option strategies, which have zero net premium or a net premium paid, and where the critical terms of the bought and sold options within a collar or zero premium structure are the same and where the nominal amount of the sold option component is no greater than that of the bought option.

For qualifying foreign exchange forwards the change in fair value is deferred in shareholders' equity to the extent that the hedge is effective.

For qualifying foreign exchange options the change in intrinsic value is deferred in shareholders' equity to the extent that the hedge is effective. Changes in the time value are at all times taken directly as adjustments to sales or to cost of sales in the profit and loss account.

Accumulated fair value changes from qualifying hedges are released from shareholders' equity into the profit and loss account as adjustments to sales and cost of sales, in the period when the hedged cash flow affects the profit and loss account. If the hedged cash flow is no longer expected to take place, all deferred gains or losses are released into the profit and loss account as adjustments to sales and cost of sales, immediately. If the hedged cash flow ceases to be highly probable, but is still expected to take place, accumulated gains and losses remain in equity until the hedged cash flow affects the profit and loss account.

Changes in the fair value of any derivative instruments that do not qualify under hedge accounting under IAS 39 are recognized immediately in the profit and loss account.

### Foreign currency hedging of net investments

The Group also applies hedge accounting for its foreign currency hedging on net investments. Qualifying hedges are those properly documented hedges of the foreign exchange rate risk of foreign currency-denominated net investments that meet the requirements set out in IAS 39. The hedge must be effective both prospectively and retrospectively.

The Group claims hedge accounting in respect of forward foreign exchange contracts, foreign currency-denominated loans, and options, or option strategies, which have zero net premium or a net premium paid, and where the terms of the bought and sold options within a collar or zero premium structure are the same.

For qualifying foreign exchange forwards the change in fair value that reflects the change in spot exchange rates is deferred in shareholders' equity. The change in fair value that reflects the change in forward exchange rates less the change in spot exchange rates is recognized in the profit and loss account. For qualifying foreign exchange options the change in intrinsic value is deferred in shareholders' equity. Changes in the time value are at all times taken directly to the profit and loss account. If a foreign currency-denominated loan is used as a hedge, all foreign exchange gains and losses arising from the transaction are recognized in shareholders' equity.

Accumulated fair value changes from qualifying hedges are released from shareholders' equity into the profit and loss account only if the legal entity in the given country is sold or liquidated.

### Revenue recognition

Sales from the majority of the Group are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectibility is probable.

Sales and cost of sales from contracts involving solutions achieved through modification of telecommunications equipment are recognized on the percentage of completion method when the outcome of the contract can be estimated reliably. Completion is generally measured by reference to cost incurred to date as a percentage of estimated total project costs. The milestone output method is applied when the nature of the individual projects indicates that a milestone method is the most applicable measure of progress.

The percentage of completion method relies on estimates of total

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expected contract revenue and costs, as well as dependable measurement of the progress made towards completing that project. Recognized revenues and profits 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 known and estimable. Losses on projects in progress are recognized immediately when known and estimable.

### Shipping and handling costs

The costs of shipping and distributing products are included in cost of sales.

### Research and development

Research and development costs are expensed in the financial period during which they are incurred, except for certain development costs which are capitalized when it is probable that a development project will be a success, and certain criteria, including commercial and technological feasibility, have been met. Capitalized development costs are amortized on a systematic basis over their expected useful lives between two and five years.

### Other intangible assets

Expenditure on acquired patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives, but not exceeding 20 years. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down to its recoverable amount. Costs of software licenses associated with internal-use software are capitalized. These costs are included within other intangible assets and are amortized over a period not to exceed three years.

### Pensions

The Group companies have various pension schemes in accordance with the local conditions and practices in the countries in which they operate. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations.

The Group's contributions to defined contribution plans and to multi-employer and insured plans are charged to the profit and loss account in the period to which the contributions relate.

For defined benefit plans, principally the reserved portion of the Finnish TEL system, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on government securities that have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses outside the corridor are recognized over the average remaining service lives of employees.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the expected useful lives of the assets as follows:

Buildings and constructions	20-33 years
Machinery and equipment	3-10 years

Land and water areas are not depreciated.

Maintenance, repairs and renewals are generally charged to expense during the financial period in which they are incurred. However, major renovations are capitalized and included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on the disposal of fixed assets are included in operating profit/loss.

### Leases

The Group has entered into various operating leases the payments under which are treated as rentals and charged to the profit and loss account on a straight-line basis over the lease terms.

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first in first out (FIFO) basis. Net realizable value is the amount that can be realized from the sale of the inventory in the normal course of business after allowing for the costs of realization.

In addition to the cost of materials and direct labor, an appropriate proportion of production overheads is included in the inventory values.

An allowance is recorded for obsolescence.

### Cash and cash equivalents

The Group manages its short-term liquidity through holdings of cash and highly liquid interest-bearing securities (included as current available-for-sale investments in the balance sheet). For the purposes of the cash flow statement, these are shown together as cash and cash equivalents.

### Accounts receivable

Accounts receivable are carried at the original invoice amount to customers less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts. Bad debts are written off when identified.

### Borrowings

Borrowings are classified as originated loans and are recognized initially at an amount equal to the proceeds received, net of transaction costs incurred. In subsequent periods, they are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings.

### Loans to customers

Loans to customers are recorded at amortized cost. Loans are subject to regular and thorough review as to their collectibility and as to available collateral; in the event that any loan is deemed not fully recoverable, provision is made to reflect the shortfall between the carrying amount and the present value of the expected cash flows. Interest income on loans to customers is included within other operating income.

## Notes to the consolidated financial statements

### Income taxes

Current taxes are based on the results of the Group companies and are calculated according to local tax rules.

Deferred tax assets and liabilities are determined, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in the determination of deferred income tax.

Under this method the Group is required, in relation to an acquisition, to make provision for deferred taxes on the difference between the fair values of the net assets acquired and their tax bases.

The principal temporary differences arise from intercompany profit in inventory, depreciation on property, plant and equipment, untaxed reserves and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

### Stock options

Stock options are granted to employees. The options are granted with a fixed exercise price set on a date outlined in the plan. When the options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium. Tax benefits on options exercised in the United States are credited to share issue premium. Treasury shares are acquired by the Group to meet its obligations under employee stock compensation plans. When treasury shares are issued on exercise of stock options any gain or loss is recognized in share issue premium.

### Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement would be recognized as an asset but only when the reimbursement is virtually certain.

The Group recognizes the estimated liability to repair or replace products still under warranty at the balance sheet date. The provision is calculated based on historical experience of the level of repairs and replacements.

The Group recognizes the estimated liability for non-cancellable purchase commitments for inventory in excess of forecasted requirements at each balance sheet date.

The Group recognizes a provision for the estimated future settlements related to asserted and unasserted Intellectual Property Rights (IPR) infringements, based on the probable outcome of each case as of each balance sheet date.

The Group recognizes a provision for social security costs on unexercised stock options granted to employees at the date options are granted. The provision is measured based on the fair value of the options, and the amount of the provision is adjusted to reflect the changes in the Nokia share price.

### Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

### Earnings per share

The Group calculates both basic and diluted earnings per share in accordance with IAS 33, Earnings per share (IAS 33). Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period.

## 2. Segment information

Nokia is organized on a worldwide basis into three primary business segments: Nokia Mobile Phones, Nokia Networks, and Nokia Ventures Organization. Nokia's reportable segments are strategic business units that offer different products and services for which monthly financial information is provided to the Board.

Nokia Mobile Phones develops, manufactures and supplies mobile phones and wireless data products, including a complete range of mobile phones for all major digital and analog standards worldwide.

Nokia Networks is a leading provider of mobile and IP network infrastructure and related services. Nokia Networks aims to be a leader in IP mobility core, radio and broadband access for network providers and operators.

Nokia Ventures Organization exists to create new businesses outside the natural development path of the company's core activities. The unit comprises venture capital activities, incubation, and a portfolio of new ventures, including two more mature businesses: Nokia Internet Communications and Nokia Home Communications.

Common Group Functions consists of common research and general Group functions.

The accounting policies of the segments are the same as those described in Note 1. Nokia accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices. Nokia evaluates the performance of its segments and allocates resources to them based on operating profit.

No single customer represents 10% or more of Group revenues.

## Notes to the consolidated financial statements

2002, EURm	Nokia Mobile Phones	Nokia Networks	Nokia Ventures Organization	Common Group Functions	Total reportable segments	Elimina- tions	Group
<b>Profit and loss information</b>							
Net sales to external customers	22 997	6 538	441	40	30 016		30 016
Net sales to other segments	214	1	18	-40	193	-193	-
Depreciation and amortization	546	542	33	190	1 311		1 311
Impairment and customer finance charges	-	400	83	55	538		538
Operating profit	5 201	-49	-141	-231	4 780		4 780
Share of results of associated companies	-	-	-	-19	-19		-19
<b>Balance sheet information</b>							
Capital expenditures <sup>1</sup>	224	93	8	107	432		432
Segment assets <sup>2</sup>	4 888	6 163	114	965	12 130	-26	12 104
of which: Investments in associated companies	-	-	-	49	49		49
Unallocated assets <sup>3</sup>							11 223
Total assets							23 327
Segment liabilities <sup>4</sup>	5 080	1 861	188	225	7 354	-24	7 330
Unallocated liabilities <sup>5</sup>							1 543
Total liabilities							8 873
<b>2001, EURm</b>							
<b>Profit and loss information</b>							
Net sales to external customers	23 107	7 521	563	-	31 191		31 191
Net sales to other segments	51	13	22	-	86	-86	-
Depreciation and amortization	642	511	115	162	1 430		1 430
Impairment and customer finance charges	-	925	307	80	1 312		1 312
Operating profit	4 521	-73	-855	-231	3 362		3 362
Share of results of associated companies	-	-	-	-12	-12		-12
<b>Balance sheet information</b>							
Capital expenditures <sup>1</sup>	377	288	23	353	1 041		1 041
Segment assets <sup>2</sup>	6 087	6 597	260	1 104	14 048	-160	13 888
of which: Investments in associated companies	-	-	-	49	49		49
Unallocated assets <sup>3</sup>							8 539
Total assets							22 427
Segment liabilities <sup>4</sup>	4 867	2 084	283	258	7 492	-132	7 360
Unallocated liabilities <sup>5</sup>							2 666
Total liabilities							10 026
<b>2000, EURm</b>							
<b>Profit and loss information</b>							
Net sales to external customers	21 844	7 708	824	-	30 376		30 376
Net sales to other segments	43	6	30	-	79	-79	-
Depreciation and amortization	467	354	102	86	1 009		1 009
Operating profit	4 879	1 358	-387	-74	5 776		5 776
Share of results of associated companies	-	-	-	-16	-16		-16

<sup>1</sup> Including goodwill and capitalized development costs, capital expenditures amount to EUR 860 million in 2002 (EUR 2 064 million in 2001). The goodwill and capitalized development costs consist of EUR 41 million in 2002 (EUR 59 million in 2001) for Nokia Mobile Phones, EUR 377 million in 2002 (EUR 801 million in 2001) for Nokia Networks, EUR 1 million in 2002 (EUR 163 million in 2001) for Nokia Ventures Organization and EUR 9 million in 2002 (EUR 0 million in 2001) for Common Group Functions.

<sup>2</sup> Comprises intangible assets, property, plant and equipment, investments, inventories and accounts receivable as well as prepaid expenses and accrued income except those

related to interest and taxes.

<sup>3</sup> Unallocated assets including prepaid expenses and accrued income related to taxes and deferred tax assets (EUR 853 million in 2002 and EUR 1 106 million in 2001).

<sup>4</sup> Comprises accounts payable, deferred income, accrued expenses and provisions except those related to interest and taxes.

<sup>5</sup> Unallocated liabilities including prepaid income and accrued expenses related to taxes and deferred tax liabilities (EUR 248 million in 2002 and EUR 1 077 million in 2001).

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<b>Net sales to external customers by geographic area</b>	<b>2002 EURm</b>	<b>2001 EURm</b>	<b>2000 EURm</b>
Finland	353	453	494
USA	4 665	5 614	5 312
Great Britain	3 111	2 808	2 828
China	2 802	3 418	3 065
Germany	1 849	2 003	2 579
Other	17 236	16 895	16 098
<b>Total</b>	<b>30 016</b>	<b>31 191</b>	<b>30 376</b>

<b>Segment assets by geographic area</b>	<b>2002 EURm</b>	<b>2001 EURm</b>
Finland	4 913	5 087
USA	1 777	2 279
Great Britain	627	519
China	1 107	1 668
Germany	431	611
Other	3 249	3 724
<b>Total</b>	<b>12 104</b>	<b>13 888</b>

<b>Capital expenditures by market area</b>	<b>2002 EURm</b>	<b>2001 EURm</b>	<b>2000 EURm</b>
Finland	188	477	587
USA <sup>1</sup>	71	151	279
Great Britain	27	34	75
China	47	131	157
Germany	21	37	133
Other <sup>1</sup>	78	211	349
<b>Total</b>	<b>432</b>	<b>1 041</b>	<b>1 580</b>

<sup>1</sup> Including goodwill and capitalized development costs, capital expenditures amount to EUR 860 million in 2002 (EUR 2 064 million in 2001 and EUR 2 990 million in 2000). The goodwill and capitalized development costs consist of EUR 1 million in USA in 2002 (EUR 582 million in 2001 and EUR 567 in 2000) and EUR 427 million in other areas in 2002 (EUR 441 million in 2001 and EUR 843 in 2000).

### 3. Percentage of completion

Contract sales recognized under the percentage of completion method were approximately EUR 5.9 billion in 2002 (EUR 6.7 billion in both 2001 and 2000). Billings in advance of contract revenues, included in advance payments, were EUR 108 million at December 31, 2002 (EUR 146 million in 2001 and EUR 97 million in 2000). Contract revenues recorded prior to billings were EUR 573 million at December 31, 2002 (EUR 319 million in 2001 and EUR 418 million in 2000).

Revenue recognition on initial 3G network contracts started in 2002 when Nokia Networks reached the relevant milestones for its single-mode and dual-mode WCDMA 3G systems.

### 4. Personnel expenses

	<b>2002 EURm</b>	<b>2001 EURm</b>	<b>2000 EURm</b>
Wages and salaries	2 531	2 388	2 378
Pension expenses, net	224	193	54
Other social expenses	385	524	456
Personnel expenses as per profit and loss account	<b>3 140</b>	<b>3 105</b>	<b>2 888</b>

Pension expenses comprise EUR 167 million in 2002 (EUR 196 million in 2001 and EUR 93 million in 2000) in respect of multi-employer, insured and defined contribution plans.

Remuneration of the Chairman and the other members of the Board of Directors, Group Executive Board and Presidents and Managing Directors *	19	16	17
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* Incentives included in remuneration	4	2	4
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Pension commitments for the management:

The retirement age of the management of the Group companies is between 60–65 years. For the Chief Executive Officer and the President of the Parent Company the retirement age is 60 years.

### 5. Pensions

The most significant pension plans are in Finland and are comprised of the Finnish state TEL system with benefits directly linked to employee earnings. These benefits are financed in two distinct portions. The majority of benefits are financed by contributions to a central pool with the majority of the contributions being used to pay current benefits. The other part comprises reserved benefits which are pre-funded through the trustee-administered Nokia Pension Foundation. The pooled portion of the TEL system is accounted for as a defined contribution plan and the reserved portion as a defined benefit plan. The foreign plans include both defined contribution and defined benefit plans.



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The amounts recognized in the balance sheet relating to single employer defined benefit schemes are as follows:

	2002		2001	
	Domestic Plans EURm	Foreign Plans EURm	Domestic Plans EURm	Foreign Plans EURm
Fair value of plan assets	636	126	664	123
Present value of funded obligations	-539	-261	-530	-236
Surplus/(Deficit)	97	-135	134	-113
Unrecognized net actuarial (gains)/losses	45	63	4	48
Prepaid/(Accrued) pension cost in balance sheet	142	-72	138	-65

The amounts recognized in the profit and loss account are as follows:

	2002 EURm	2001 EURm	2000 EURm
Current service cost	58	49	40
Interest cost	47	40	36
Expected return on plan assets	-61	-75	-78
Net actuarial losses (gains) recognized in year	2	-16	-24
Past service cost	11	-	-
Curtailment	-	-1	-
Total, included in personnel expenses	57	-3	-26

Movements in prepaid pension costs recognized in the balance sheet are as follows:

	2002 EURm	2001 EURm
Prepaid pension costs at beginning of year	73	55
Net income (expense) recognized in the profit and loss account	-57	3
Contributions paid	54	15
Prepaid pension costs at end of year	70 *	73 *

\* Included within prepaid expenses and accrued income.

The principal actuarial weighted average assumptions used were as follows:

	2002		2001	
	Domestic %	Foreign %	Domestic %	Foreign %
Discount rate for determining present values	5.50	5.58	5.80	5.85
Expected long term rate of return on plan assets	7.25	6.56	7.50	6.49
Annual rate of increase in future compensation levels	3.50	3.09	4.00	3.05
Pension increases	2.30	2.29	2.80	2.87

The prepaid pension cost above is made up of a prepayment of EUR 150 million (EUR 146 million in 2001) and an accrual of EUR 80 million (EUR 73 million in 2001).

The domestic pension plan assets include Nokia securities with fair values of EUR 125 million in 2002 (EUR 332 million in 2001).

The foreign pension plans' assets include a loan provided to Nokia by the Group's German pension fund of EUR 66 million (EUR 66 million in 2001). See Note 31.

The actual return on plan assets was EUR -66 million in 2002 EUR -253 million in 2001).

### 6. Selling and marketing expenses, administration expenses and other operating income and expenses

	2002 EURm	2001 EURm	2000 EURm
Selling and marketing expenses	-2 579	-2 363	-2 103
Administration expenses	-701	-737	-754
Other operating expenses	-292	-605	-225
Other operating income	333	182	278
Total	-3 239	-3 523	-2 804

Other operating income for 2002 includes a gain of EUR 106 million relating to the sale of Nokia Venture Partners' investment in PayPal within Nokia Ventures Organization. Other operating expenses for 2002 are composed of various items which are individually insignificant.

Other operating expenses for 2001 include restructuring charges of EUR 166 million.

Other operating income for 2000 includes a pension credit of EUR 55 million relating to the change in accounting method for the Finnish pension plans. Other operating expenses for 2000 are composed of various items which are individually insignificant.

The Group expenses advertising and promotion costs as incurred. Advertising and promotional expenses were EUR 1 174 million in 2002 (EUR 849 million in 2001 and EUR 853 million in 2000).

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### 7. Impairment

2002, EURm	Nokia Mobile Phones	Nokia Networks	Nokia Ventures Organization	Common Group Functions	Group
Customer finance impairment charges, net	-	279	-	-	279
Impairment of goodwill	-	121	61	-	182
Impairment of available-for-sale investments	-	-	22	55	77
Total, net	-	400	83	55	538

2001, EURm	Nokia Mobile Phones	Nokia Networks	Nokia Ventures Organization	Common Group Functions	Group
Customer finance impairment charges	-	714	-	-	714
Impairment of goodwill	-	211	307	-	518
Impairment of available-for-sale investments	-	-	6	74	80
Total	-	925	313	74	1 312

During 2002, Nokia recorded net customer financing impairment charges of EUR 279 million. Of this amount, EUR 292 million was an impairment of loans receivable with a carrying value of approximately EUR 0.8 billion from MobilCom, a customer of Nokia Networks, as a result of financial difficulties of MobilCom. Such loans have been reduced to their estimated recoverable amounts, based on the estimated fair value of the subordinated convertible perpetual bonds of France Telecom S.A., a shareholder of MobilCom, that Nokia expects to receive as repayment for the loans to MobilCom pursuant to an agreement with France Telecom. The estimated fair value will be reassessed upon approval from the respective boards and shareholders of MobilCom and France Telecom. Also in 2002, Nokia received EUR 13 million as partial recovery of amounts written off in 2001 related to Dolphin.

During 2001, Nokia recorded an impairment charge of EUR 714 million to cover Nokia Networks' customer loans by EUR 669 million related to a defaulted financing to Telsim, a GSM operator in Turkey, and EUR 45 million relating to the insolvency of Dolphin in the UK. These charges resulted in a write-down of the company's total customer financing exposure to Telsim and Dolphin.

In 2002, Nokia has evaluated the carrying value of goodwill arising from certain acquisitions by determining if the carrying values of the net assets of the cash generating unit to which the goodwill belongs exceeds the recoverable amounts of that unit. In the Nokia Networks business, Nokia recorded an impairment charge of EUR 104 million on goodwill related to the acquisition of Amber Networks. The recoverable amount for Amber Networks has been derived from the value in use discounted cash flow projections which cover the estimated life of the Amber platform technology, using a discount rate of 15%. The remaining goodwill of EUR 207 million is being amortized over the expected useful life. The impairment is a result of significant declines in the market outlook for products under development. In the Nokia Networks business in 2001, Nokia recognized a goodwill impairment charge of EUR 170 million related to the acquisition of Nokia DiscoveryCom, as a result of a decision to discontinue the related product development.

In 2002 and 2001, Nokia recognized impairment losses of EUR 36 million and EUR 88 million, respectively, on goodwill related to the acquisition of

Ramp Networks. In 2002 and 2001, Nokia recognized impairment losses of EUR 25 and EUR 181 million, respectively, on goodwill related to the acquisition of Network Alchemy. Both of these entities are part of the Nokia Internet Communications business unit of Nokia Ventures Organization. For the impairments in 2001 the recoverable amounts were calculated based on value in use discounted cash flow projections using a discount rate of 13%. The impairments in 2001 resulted from the restructuring of these businesses. In 2002, the remaining goodwill balances were written off as a result of decisions to discontinue the related product development.

Nokia recognized other minor goodwill impairment charges totaling EUR 17 million in 2002 (EUR 78 million in 2001).

During 2002 the company's investments in certain equity securities suffered a permanent decline in fair value resulting in impairment charges of EUR 77 million relating to non-current available-for-sale investments (EUR 80 million in 2001).

### 8. Acquisitions

In 2002, Nokia increased its voting percentage of 39.97% and holding percentage of 59.97% in Nextrom Holding S.A. to a voting percentage of 86.21% and a holding percentage of 79.33%. These increases resulted from a rights offering by Nextrom in June 2002 and by acquiring new registered and bearer shares in an offering by Nextrom in December 2002 both totaling EUR 13 million. The fair value of net assets acquired was EUR 4 million giving rise to goodwill of EUR 9 million.

In August 2001 Nokia acquired Amber Networks, a networking infrastructure company, for EUR 408 million, which was paid in Nokia stock and Nokia stock options. The fair value of net assets acquired was EUR -13 million giving rise to goodwill of EUR 421 million.

In January 2001 Nokia acquired in a cash tender offer Ramp Networks, a provider of purpose built Internet security appliances, for EUR 147 million. The fair value of net assets acquired was EUR -16 million giving rise to goodwill of EUR 163 million.

In October 2000 Nokia increased its ownership of the Brazilian handset manufacturing joint venture NG Industrial (NGI) from 51% to 100% by acquiring all the shares of NGI held by Gradiente Telecom S.A. for EUR 492



## Notes to the consolidated financial statements

million in cash. The fair value of net assets acquired was EUR 43 million giving rise to goodwill of EUR 449 million.

In August 2000 Nokia acquired DiscoveryCom, a company which provides solutions that enable communications service providers to rapidly install and maintain Broadband Digital Subscriber Line (DSL) services for fast Internet access. The acquisition price was EUR 223 million, which was paid in Nokia stock and Nokia stock options. The fair value of net assets acquired was EUR -4 million giving rise to goodwill of EUR 227 million.

In March 2000 Nokia acquired Network Alchemy, a provider of IP Clustering solutions for EUR 336 million, which was paid in Nokia stock and Nokia stock options. The fair value of net assets acquired was EUR -2 million giving rise to goodwill of EUR 338 million.

### 9. Depreciation and amortization

Depreciation and amortization by asset category	2002 EURm	2001 EURm	2000 EURm
<b>Intangible assets</b>			
Capitalized development costs	233	169	118
Intangible rights	65	65	50
Goodwill	206	302	140
Other intangible assets	28	34	29
<b>Property, plant and equipment</b>			
Buildings and constructions	37	31	27
Machinery and equipment	737	811	615
Other tangible assets	5	18	30
<b>Total</b>	<b>1 311</b>	<b>1 430</b>	<b>1 009</b>

#### Depreciation and amortization by function

Cost of sales	314	367	298
R&D	473	427	244
Selling, marketing and administration	211	264	230
Other operating expenses	107	70	97
Goodwill	206	302	140
<b>Total</b>	<b>1 311</b>	<b>1 430</b>	<b>1 009</b>

### 10. Financial income and expenses

	2002 EURm	2001 EURm	2000 EURm
<b>Income from available-for-sale investments</b>			
Dividend income	25	27	70
Interest income	230	215	212
Other financial income	27	24	17
Exchange gains and losses	-29	-25	-1
Interest expense	-43	-82	-115
Other financial expenses	-54	-34	-81
<b>Total</b>	<b>156</b>	<b>125</b>	<b>102</b>

### 11. Income taxes

	2002 EURm	2001 EURm	2000 EURm
Current tax	-1 423	-1 542	-1 852
Deferred tax	-61	350	68
<b>Total</b>	<b>-1 484</b>	<b>-1 192</b>	<b>-1 784</b>
<b>Finland</b>	<b>-1 102</b>	<b>-877</b>	<b>-1 173</b>
<b>Other countries</b>	<b>-382</b>	<b>-315</b>	<b>-611</b>
<b>Total</b>	<b>-1 484</b>	<b>-1 192</b>	<b>-1 784</b>

The differences between income tax expense computed at statutory rates (29% in Finland in 2002, 2001 and 2000) and income tax expense provided on earnings are as follows at December 31:

	2002 EURm	2001 EURm	2000 EURm
Income tax expense at statutory rate	1 431	1 011	1 689
Deduction for write-down of investments in subsidiaries	-	-37	-28
Amortization of goodwill	59	87	40
Impairment of goodwill	70	197	-
Provisions without income tax benefit/expense	-10	5	53
Taxes for prior years	8	23	53
Taxes on foreign subsidiaries' net income in excess of income taxes at statutory rates	-59	-106	-29
Operating losses with no current tax benefit	6	16	25
Other	-21	-4	-19
<b>Income tax expense</b>	<b>1 484</b>	<b>1 192</b>	<b>1 784</b>

At December 31, 2002 the Group had loss carryforwards, primarily attributable to foreign subsidiaries of EUR 425 million (EUR 75 million in 2001 and EUR 109 million in 2000), most of which will expire between 2006 and 2022.

Certain of the Group companies' income tax returns for periods ranging from 1998 through 2001 are under examination by tax authorities. The Group does not believe that any significant additional taxes in excess of those already provided for will arise as a result of the examinations.

## Notes to the consolidated financial statements

### 12. Intangible assets

	2002 EURm	2001 EURm		2002 EURm	2001 EURm
<b>Capitalized development costs</b>			<b>Machinery and equipment</b>		
Acquisition cost Jan. 1	1 314	1 097	Acquisition cost Jan. 1	3 626	3 343
Additions	418	431	Additions	346	780
Write-downs	-25	-214	Disposals	-637	-470
Accumulated amortization Dec. 31	-635	-421	Translation differences	-86	-27
Net carrying amount Dec. 31	1 072	893	Accumulated depreciation Dec. 31	-2 303	-2 194
			Net carrying amount Dec. 31	946	1 432
<b>Goodwill</b>			<b>Other tangible assets</b>		
Acquisition cost Jan. 1	1 601	1 570	Acquisition cost Jan. 1	79	74
Additions	10	592	Additions	7	45
Disposals	-	-43	Disposals	-58	-37
Impairment charges (Note 7)	-182	-518	Translation differences	-6	-3
Accumulated amortization Dec. 31	-953	-747	Accumulated depreciation Dec. 31	-6	-50
Net carrying amount Dec. 31	476	854	Net carrying amount Dec. 31	16	29
<b>Other intangible assets</b>			<b>Advance payments and fixed assets under construction</b>		
Acquisition cost Jan. 1	533	459	Acquisition cost Jan. 1	137	314
Additions	75	111	Additions	35	152
Disposals	-72	-33	Disposals	-68	-73
Translation differences	-12	-4	Transfers to:		
Accumulated amortization Dec. 31	-332	-296	Other intangible assets	-7	-3
Net carrying amount Dec. 31	192	237	Land and water areas	-	-4
			Buildings and constructions	-	-84
			Machinery and equipment	-34	-160
			Translation differences	-3	-5
			Net carrying amount Dec. 31	60	137
<b>13. Property, plant and equipment</b>			<b>Total property, plant and equipment</b>	<b>1 874</b>	<b>2 514</b>
	2002 EURm	2001 EURm			
<b>Land and water areas</b>					
Acquisition cost Jan. 1	145	143			
Additions	1	14			
Disposals	-31	-11			
Translation differences	-3	-1			
Net carrying amount Dec. 31	112	145			
<b>Buildings and constructions</b>					
Acquisition cost Jan. 1	918	739			
Additions	9	190			
Disposals	-7	-6			
Translation differences	-9	-5			
Accumulated depreciation Dec. 31	-171	-147			
Net carrying amount Dec. 31	740	771			

### 14. Investments in associated companies

	2002 EURm	2001 EURm
Net carrying amount Jan. 1	49	61
Additions	24	7
Write-downs	-	-6
Share of results	-19	-12
Translation differences	1	-1
Other movements	-6	-
Net carrying amount Dec. 31	49	49

In 2001, Nextrom Holding S.A. was accounted for under the equity method. Due to the increase of Nokia's ownership in 2002 Nextrom Holding S.A. has been fully consolidated for accounting purposes from the date of increased ownership which is reflected in other movements. Shareholdings in associated companies include no listed investments in 2002 (EUR 6 million in 2001 with fair value, based on quoted market prices, of EUR 19 million in 2001). See note 8.

## Notes to the consolidated financial statements

### 15. Available-for-sale investments

	2002 EURm	2001 EURm
At Jan. 1 as originally stated (cost)		3 111
On adoption of IAS 39 at January 1, 2001 remeasurement to fair value		58
Fair value at Jan. 1	4 670	3 169
Additions, net	3 587	1 581
Decrease in fair value	-87	-
Impairment charges (Note 7)	-77	-80
Fair value at Dec. 31	8 093	4 670
Non-current	238	399
Current	7 855	4 271

On the adoption of IAS 39 at January 1, 2001, all investment securities classified as available-for-sale were remeasured to fair value. The difference between their original carrying amount and their fair value at January 1, 2001 was credited to fair value and other reserves (See Consolidated Statement of Changes in Shareholders' Equity). Gains and losses arising from the change in the fair value of available-for-sale investments since that date are recognized directly in this reserve.

Available-for-sale investments, comprising marketable debt and equity securities and investments in unlisted equity shares, are fair valued, except in the case of certain unlisted equities, where the fair value cannot be measured reliably. Such unlisted equities are carried at cost, less impairment (EUR 48 million in 2002 and EUR 153 million in 2001). Fair value for equity investments traded in active markets and for unlisted equities, where the fair value can be measured reliably, is EUR 190 million in 2002 and EUR 169 million in 2001. Fair value for equity investments traded in active markets is determined by using exchange quoted bid prices. For other investments, fair value is estimated by using the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets.

Available-for-sale investments are classified as non-current, except for highly liquid, interest-bearing investments held as part of the Group's on-going cash management activities and which are regarded as cash equivalents. See Note 34 for details of these investments.

### 16. Long-term loans receivable

Long-term loans receivable consists of loans made to customers principally to support their financing of network infrastructure purchased from Nokia Networks, net of allowances and write-offs (see Note 7), are repayable as follows:

	2002 EURm	2001 EURm
Under 1 year	-	-
Between 1 and 2 years	494	643
Between 2 and 5 years	-	341
Over 5 years	562	144
	1 056	1 128

### 17. Inventories

	2002 EURm	2001 EURm
Raw materials, supplies and other	534	741
Work in progress	432	582
Finished goods	311	465
Total	1 277	1 788

### 18. Receivables

Prepaid expenses and accrued income mainly consist of VAT and tax receivables, prepaid pension costs, accrued interest income and other accruals.

Accounts receivable include EUR 21 million (EUR 25 million in 2001) due more than 12 months after the balance sheet date.

### 19. Valuation and qualifying accounts

Allowances on assets to which they apply:	Balance at beginning of year EURm	Charged to cost and expenses EURm	Charged to other accounts EURm	Deductions <sup>1</sup> EURm	Balance at end of year EURm
<b>2002</b>					
Doubtful accounts receivable	217	186	-	-103	300
Long-term loans receivable	13	-	-	-13	-
Inventory obsolescence	314	318	-	-342	290
<b>2001</b>					
Doubtful accounts receivable	236	108	-	-127	217
Long-term loans receivable	59	-	-	-46	13
Inventory obsolescence	263	334	-	-283	314
<b>2000</b>					
Doubtful accounts receivable	87	203	-	-54	236
Long-term loans receivable	-	59	-	-	59
Inventory obsolescence	168	457	-	-362	263

<sup>1</sup> Deductions include utilization and releases of the allowances.

## Notes to the consolidated financial statements

### 20. Fair value and other reserves

	Hedging reserve EURm	Available-for-sale investments, EURm	Total EURm
Balance at Jan. 1, 2001			
Effect of adopting IAS 39;			
Fair valuation of current available-for-sale securities		43	43
Fair valuation of non-current available-for-sale securities		15	15
Transfer of gains and losses on qualifying cash flow hedging derivatives	-114		-114
Balance at Jan. 1, 2001, restated	-114	58	-56
<b>Cash flow hedges:</b>			
Fair value gains/(losses) in period	76		76
<b>Available-for-sale investments:</b>			
Net fair value gains/(losses)		-67	-67
Transfer to profit and loss account on impairment		74	74
Transfer to profit and loss account on disposal		-7	-7
<b>Balance at Dec. 31, 2001</b>	<b>-38</b>	<b>58</b>	<b>20</b>
<b>Cash flow hedges:</b>			
Fair value gains/(losses) in period	60		60
<b>Available-for-sale investments:</b>			
Net fair value gains/(losses)		-155	-155
Transfer to profit and loss account on impairment		67	67
Transfer to profit and loss account on disposal		1	1
<b>Balance at Dec. 31, 2002 <sup>1,2</sup></b>	<b>22</b>	<b>-29</b>	<b>-7</b>

<sup>1</sup> The tax on the balance of the cash flow hedges was EUR -9 million.

<sup>2</sup> The tax on the balance of the available-for-sale investments was EUR -16 million.

The Group adopted IAS 39 at January 1, 2001; the impact on shareholders' equity and on various balance sheet captions at January 1, 2001 is shown above. In accordance with IAS 39, the comparative financial statements for the year ended December 31, 2000 are not restated.

In accordance with the transitional requirements of IAS 39, the Group transferred a net loss of EUR 114 million to the hedging reserve in respect of outstanding foreign exchange forward contracts that were properly designated and highly effective as cash flow hedges of highly probable forecast foreign currency cash flows. Previously such gains and losses were reported as deferred income or expenses in the balance sheet.

In order to ensure that amounts deferred in the cash flow hedging reserve represent only the effective portion of gains and losses on properly designated hedges of future transactions that remain highly probable at the balance sheet date, Nokia has adopted a process under which all derivative gains and losses are initially recognized in the profit and loss account. The appropriate reserve balance is calculated at the end of each period and posted to equity.

Nokia continuously reviews the underlying cash flows and the hedges allocated thereto, to ensure that the amounts transferred to the Hedging

Reserve during the year ended December 31, 2002 and 2001 do not include gains/losses on forward exchange contracts that have been designated to hedge forecasted sales or purchases that are no longer expected to occur. Because of the number of transactions undertaken during each period and the process used to calculate the reserve balance, separate disclosure of the transfers of gains and losses to and from the reserve would be impractical.

All of the net fair value gains or losses recorded in the Fair value and other reserve at December 31, 2002 on open forward foreign exchange contracts which hedge anticipated future foreign currency sales or purchases are transferred from the Hedging Reserve to the profit and loss account when the forecasted foreign currency cash flows occur, at various dates up to 1 year from the balance sheet date.

See note 15 for impact of adopting IAS 39 on available-for-sale investments at January 1, 2001.

### 21. The shares of the Parent Company

See note 18 to Notes to the financial statements of the Parent company.

## Notes to the consolidated financial statements

### 22. Distributable earnings

	2002, EURm
Retained earnings	11 661
Translation differences (distributable earnings)	-178
Treasury shares	-20
Other non-distributable items	
Portion of untaxed reserves	2
Distributable earnings Dec. 31	11 465

Retained earnings under IAS and Finnish Accounting Standards (FAS) are substantially the same. Distributable earnings are calculated based on Finnish legislation.

### 23. Long-term liabilities

	Outstanding Dec. 31, 2002 EURm	Repayment date beyond 5 years EURm	Outstanding Dec. 31, 2001 EURm
Long-term loans are repayable as follows:			
Bonds	62	-	90
Loans from financial institutions	98	-	76
Loans from pension insurance companies	15	-	25
Other long-term finance loans	12	-	16
Other long-term liabilities	67	67	76
	254	67	283
Deferred tax liabilities	207		177
Total long-term liabilities	461		460

The long-term liabilities excluding deferred tax liabilities as of December 31, 2002 mature as follows:

	EURm	Per cent of total
2003	-	-
2004	161	63.40%
2005	26	10.20%
2006	-	-
2007	-	-
Thereafter	67	26.40%
	254	100.00%

The currency mix of the Group long-term liabilities as at December 31, 2002 was as follows:

EUR	CNY	GBP	Others
30.39%	26.22%	24.43%	18.96%

The long-term loan portfolio includes a fixed-rate loan with a face amount of GBP 40 million that matures in 2004. The loan has been callable by the creditor on a three-month notice basis since 1994, although the Group does not anticipate that the creditor will request repayment prior to the final maturity. Accordingly the loan has not been classified as a current liability at December 31, 2002.

The Group has committed credit facilities totaling USD 2.6 billion. Committed credit facilities are intended to be used for U.S. and Euro Commercial Paper Programs back up purposes. Commitment fees on the facilities vary from 0.06% to 0.10% per annum.

At December 31, 2002 and 2001 the weighted average interest rate on loans from financial institutions was 8.44% and 6.0%, respectively.

Bonds:	Million	Interest	2002 EURm	2001 EURm
1989 – 2004	40.0 GBP	11.375%	62	65
1993 – 2003	150.0 FIM	Floating	-	25
			62	90

## Notes to the consolidated financial statements

### 24. Deferred taxes

	2002 EURm	2001 EURm
Deferred tax assets:		
Intercompany profit in inventory	48	114
Tax losses carried forward	109	42
Warranty provision	118	214
Other provisions	183	327
Other temporary differences	168	135
Untaxed reserves	105	–
<b>Total deferred tax assets</b>	<b>731</b>	<b>832</b>
Deferred tax liabilities:		
Untaxed reserves	–33	–21
Fair value gains/losses	–25	–11
Other	–149	–145
<b>Total deferred tax liabilities</b>	<b>–207</b>	<b>–177</b>
<b>Net deferred tax asset</b>	<b>524</b>	<b>655</b>
The tax (charged)/credited to shareholders' equity is as follows:	2002 EURm	2001 EURm
Fair value and other reserves, fair value gains/losses	–25	–11

Deferred income tax liabilities have not been established for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such earnings are permanently reinvested. At December 31, 2002 the Group had loss carryforwards of EUR 91 million (EUR 8 million in 2001) for which no deferred tax asset was recognized due to uncertainty of utilization of these loss carryforwards. These loss carryforwards will expire in years 2006 through 2010.

### 25. Short-term borrowings

Short-term borrowings consist primarily of borrowings from banks denominated in different foreign currencies. The weighted average interest rate at December 31, 2002 and 2001 is 6.01% and 4.9%, respectively.

### 26. Accrued expenses

	2002 EURm	2001 EURm
Social security, VAT and other taxes	385	1 339
Wages and salaries	212	217
Prepaid income	196	294
Other *	1 818	1 627
<b>Total</b>	<b>2 611</b>	<b>3 477</b>

\* Other includes various amounts which are individually insignificant.

### 27. Provisions

	Warranty EURm	IPR infrin- gements EURm	Other EURm	Total EURm
At Jan. 1, 2002	1 207	201	776	2 184
Exchange differences	–27	–	–	–27
Additional provisions	1 389	93	27	1 509
Change in fair value	–	–	–58	–58
Unused amounts reversed	–7	–	–18	–25
<b>Charged to profit and loss account</b>	<b>1 382</b>	<b>93</b>	<b>–49</b>	<b>1 426</b>
<b>Utilized during year</b>	<b>–959</b>	<b>–21</b>	<b>–133</b>	<b>–1 113</b>
At Dec. 31, 2002	1 603	273	594	2 470
			2002 EURm	2001 EURm
Analysis of total provisions at December 31:				
Non-current			460	465
Current			2 010	1 719

The IPR provision is based on estimated future settlements for asserted and unasserted past IPR infringements. Final resolution of IPR claims generally occurs over several periods. This results in varying usage of the provision year to year.

Other provisions mainly include provisions for non-cancellable purchase commitments, tax provisions and a provision for social security costs on stock options.

### 28. Earnings per share

	2002	2001	2000
Numerator/EURm			
Basic/Diluted:			
Net profit	3 381	2 200	3 938
Denominator/1 000 shares			
Basic:			
Weighted average shares	4 751 110	4 702 852	4 673 162
Effect of dilutive securities: stock options	36 932	84 367	119 818
Diluted:			
Adjusted weighted average shares and assumed conversions	4 788 042	4 787 219	4 792 980

Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period.



## Notes to the consolidated financial statements

### 29. Commitments and contingencies

	2002 EURm	2001 EURm
<b>Collateral for our own commitments</b>		
Property under mortgages	18	18
Assets pledged	13	4
<b>Contingent liabilities on behalf of Group companies</b>		
Other guarantees	339	505
<b>Collateral given on behalf of other companies</b>		
Securities pledged <sup>1</sup>	34	33
<b>Contingent liabilities on behalf of other companies</b>		
Guarantees for loans <sup>1</sup>	57	95
<b>Financing commitments</b>		
Customer financing <sup>1</sup>	857	2 995

<sup>1</sup> See also Note 34(b).

The amounts above represent the maximum principal amount of commitments and contingencies.

Property under mortgages given as collateral for our own commitments include mortgages given to the Finnish National Board of Customs as a general indemnity of EUR 18 million in 2002 (EUR 18 million in 2001).

Assets pledged for the Group's own commitments include inventories and available-for-sale investments of EUR 3 million and EUR 10 million, respectively, in 2002 (EUR 4 million of inventories in 2001).

Other guarantees include guarantees of Nokia's performance of EUR 332 million in 2002 (EUR 505 million in 2001). These guarantees are provided to certain Nokia 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 nonperformance by Nokia.

Securities pledged and guarantees for loans on behalf of other companies of EUR 91 million in 2002 (EUR 127 million in 2001) represent guarantees relating to payment by certain Nokia Networks' customers under specified loan facilities between such customers 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. The majority of the financial guarantees is expected to expire by 2004.

Financing commitments of EUR 857 million in 2002 (EUR 2 955 million in 2001) are available under loan facilities negotiated with customers of Nokia 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 loans are primarily available to fund capital expenditure relating to purchases of network infrastructure equipment and services from Nokia Networks, though some portion of certain loans could be used to fund interest on the same facility, or working capital require-

ments. Certain loans are partially secured through either guarantees by the borrower's direct or indirect parent or other group companies, or shares and/or other assets of the borrower, its parent or other entities under common ownership.

There is no market for the guarantees listed above and they were issued without explicit cost; therefore, it is not practicable to establish the fair value of such instruments.

The Group is party to routine litigation incidental to the normal conduct of business. In the opinion of management, the outcome of and liabilities in excess of what has been provided for related to these proceedings, in the aggregate, are not likely to be material to the financial condition or results of operations.

As of December 31, 2002, the Group had purchase commitments of EUR 949 million relating to inventory purchase obligations, primarily for purchases in 2003.

### 30. Leasing contracts

The Group leases office, manufacturing and warehouse space under various non-cancellable operating leases. Certain contracts contain renewal options for various periods of time.

The future costs for non-cancellable leasing contracts are as follows:

2002	Operating lease
Leasing payments, EURm	
2003	189
2004	125
2005	88
2006	75
2007	72
Thereafter	155
Total	704

Rental expense amounted to EUR 384 million in 2002 (EUR 393 million in 2001 and EUR 370 million in 2000).

### 31. Related party transactions

Nokia Pension Foundation is a separate legal entity that manages and holds in trust the assets for the Group's Finnish employee benefit plans; these assets include 0.2% of Nokia's shares. Nokia Pension Foundation is also the counterparty to equity swap agreements with the Group. The equity swaps are entered into to hedge part of the company's liability relating to future social security cost on stock options. During the year new transactions are entered into and old ones terminated based on the hedging need. The transactions and terminations are executed on standard commercial terms and conditions. The notional amount of the equity swaps outstanding at December 31, 2002 is EUR 12 million (EUR 182 million in 2001). The fair value of the equity swaps at December 31, 2002 is EUR 0 million (EUR 10 million in 2001).

At December 31, 2002 the Group has a contribution payment liability to Nokia Pension Foundation amounting to EUR 14 million (EUR 21 million in 2001) included in accrued expenses.

At December 31, 2002 the Group had borrowings amounting to EUR 66 million (EUR 66 million in 2001) from Nokia Unterstützungskasse mbH, the Group's German pension fund, which is a separate legal entity.

## Notes to the consolidated financial statements

The Group recorded net rental expense of EUR 2 million in 2002 (EUR 4 million in 2001 and EUR 3 million in 2000) pertaining to a sale-leaseback transaction with the Nokia Pension Foundation involving certain buildings and a lease of the underlying land.

There were no loans granted to top management at December 31, 2002 or 2001. See Note 4, Personnel expenses, for officers and directors remunerations.

### 32. Associated companies

	2002 EURm	2001 EURm	2000 EURm
Share of results of associated companies	-19	-12	-16
Dividend income	1	-	1
Share of shareholders' equity of associated companies	30	41	45
Receivables from associated companies			
Accounts receivable	-	-	4
Short-term loans receivable	-	2	1
Long-term loans receivable	-	-	31
Liabilities to associated companies	7	-	-

### 33. Notes to cash flow statement

	2002 EURm	2001 EURm	2000 EURm
Adjustments for:			
Depreciation and amortization (Note 9)	1 311	1 430	1 009
(Profit)/loss on sale of property, plant and equipment and available-for-sale investments	-92	148	-42
Income taxes (Note 11)	1 484	1 192	1 784
Share of results of associated companies (Note 32)	19	12	16
Minority interest	52	83	140
Financial income and expenses (Note 10)	-156	-125	-102
Impairment charges	524	1 312	-
Other	9	80	-
Adjustments, total	3 151	4 132	2 805
Change in net working capital			
Decrease (increase) in short-term receivables	25	-286	-2 304
Decrease (increase) in inventories	243	434	-422
Increase in interest-free short-term liabilities	687	830	1 349
Change in net working capital	955	978	-1 377
Non-cash investing activities			
Acquisition of:			
Amber Networks	-	408	-
Network Alchemy	-	-	336
DiscoveryCom	-	-	223
Total	-	408	559

### 34. Risk management

#### General risk management principles

Nokia's overall risk management philosophy is based on having a corporate-wide view on key risks including strategic, operational, financial and hazard risks. Risk management in Nokia means a systematic and proactive way to analyse, review and manage all opportunities, threats and risks related to the Group's activities.

The principles documented in the Group's risk policy and accepted by the Nokia Board require that risk management is integrated into each business process. Business or function owners always have risk ownership. Key risks are reported to the Group level to enable group-wide risk management. There are specific risk management policies covering, for example, treasury and customer finance risks.

#### Financial risks

The key financial targets for Nokia are growth, profitability, operational efficiency and a strong balance sheet. The objective for the Treasury function is twofold: to guarantee cost-efficient funding for the Group at all times, and to identify, evaluate and hedge financial risks in close co-operation with the business groups. There is a strong focus in Nokia on creating shareholder value. The Treasury function supports this aim by minimizing the adverse effects caused by fluctuations in the financial markets on the profitability of the underlying businesses and by managing the balance sheet structure of the Group.

Nokia has Treasury Centers in Geneva, Singapore/Beijing and Dallas/Sao Paolo, and a Corporate Treasury unit in Espoo. This international organization enables Nokia to provide the Group companies with financial services according to local needs and requirements.

The Treasury function is governed by policies approved by top management. Treasury Policy provides principles for overall financial risk management and determines the allocation of responsibilities for financial risk management in Nokia. Operating Policies cover specific areas such as foreign exchange risk, interest rate risk, use of derivative financial instruments, as well as liquidity and credit risk. The Treasury operating policy in Nokia is risk averse. Business Groups have detailed Standard Operating Procedures supplementing the Treasury policy in financial risk management related issues.

#### Market risk

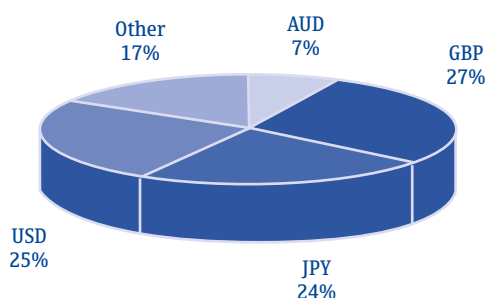
##### Foreign exchange risk

Nokia operates globally and is thus exposed to foreign exchange risk arising from various currency combinations. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures. These transaction exposures are managed against various local currencies because of Nokia's substantial production and sales outside the Eurozone.

Due to the changes in the business environment, currency combinations may also change within the financial year. The most significant non-euro sales currencies during the year were U.S. dollar (USD), British pound Sterling (GBP) and Australian dollar (AUD). In general, the appreciation of the euro to other currencies has an adverse effect on Nokia's sales and operating profit in the medium to long term, while depreciation of the euro has a positive effect. The only significant non-euro purchasing currencies are Japanese yen (JPY) and U.S. dollar.

## Notes to the consolidated financial statements

### Break-down by currency of the underlying foreign exchange transaction exposure December 31, 2002



According to the foreign exchange policy guidelines of the Group, material transaction foreign exchange exposures are hedged. Exposures are mainly hedged with derivative financial instruments such as forward foreign exchange contracts and foreign exchange options. The majority of financial instruments hedging foreign exchange risk have a duration of less than a year. The Group does not hedge forecasted foreign currency cash flows beyond two years.

Nokia uses the Value-at-Risk ("VaR") methodology to assess the foreign exchange risk related to the Treasury management of the Group exposures. The VaR figure represents the potential losses for a portfolio resulting from adverse changes in market factors using a specified time period and confidence level based on historical data. To correctly take into account the non-linear price function of certain derivative instruments, Nokia uses Monte Carlo simulation. Volatilities and correlations are calculated from a one-year set of daily data. The VaR figures assume that the forecasted cash flows materialize as expected. The VaR figures for the Group transaction foreign exchange exposure, including hedging transactions and Treasury exposures for netting and risk management purposes, with a one-week horizon and 95% confidential level, are shown below.

#### Transaction foreign exchange position Value-at-Risk (EURm)

VaR	2002	2001
31.12.	5.9	16.0
Average	14.3	20.2
Range	4.9–27.6	16.0–32.7

Since Nokia has subsidiaries outside the Eurozone, the euro-denominated value of the shareholder's equity of Nokia is also exposed to fluctuations in exchange rates. Equity changes caused by movements in foreign exchange rates are shown as a translation difference in the Group consolidation. Nokia uses, from time to time, foreign exchange contracts and foreign currency denominated loans to hedge its equity exposure arising from foreign net investments.

#### Interest rate risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items (i.e. price risk) or changes in interest income or expenses (i.e. re-investment risk). Interest rate risk mainly arises through interest-bearing liabilities and assets. Estimated future changes in cash flows and balance sheet structure also expose the Group

to interest rate risk.

Group companies are responsible for managing their short-term liquidity position, whereas the interest rate exposure of the Group is monitored and managed in the Treasury. Due to the current balance sheet structure of Nokia, emphasis is placed on managing the interest rate risk of investments.

Nokia uses the VaR methodology to assess and measure the interest rate risk in investment portfolio, which is benchmarked against a one-year investment horizon. The VaR figure represents the potential losses for a portfolio resulting from adverse changes in market factors using a specified time period and confidence level based on historical data. For interest rate risk VaR, Nokia uses variance-covariance methodology. Volatilities and correlations are calculated from a one-year set of daily data. The VaR-based interest rate risk figures for an investment portfolio with a one-week horizon and 95% confidence level are shown below.

#### Treasury investment portfolio Value-at-Risk (EURm)

VaR	2002	2001
31.12.	5.4	6.4
Average	5.1	4.2
Range	3.1–8.7	1.8–8.1

#### Equity price risk

Nokia has certain strategic minority investments in publicly traded companies. These investments are classified as available-for-sale. The fair value of the equity investments at December 31, 2002 was EUR 137 million (EUR 169 million in 2001).

There are currently no outstanding derivative financial instruments designated as hedges of these equity investments. The VaR figures for equity investments shown below, have been calculated using the same principles as for interest rate risk.

#### Equity investments Value-at-Risk (EURm)

VaR	2001	2000
31.12.	6.5	8.6
Average	8.8	6.4
Range	5.5–19.0	3.0–11.8

In addition to the listed equity holdings, Nokia invests in private equity through Nokia Venture Funds. The fair value of these available-for-sale equity investments at December 31, 2002 was 54 million U.S. dollars (130 million U.S. dollars in 2001). Nokia is exposed to equity price risk on social security costs relating to stock option plans. Nokia hedges this risk by entering into cash settled equity swap and option contracts.

#### Credit risk

##### Customer Finance Credit Risk

Network operators sometimes require their suppliers to arrange or provide term financing in relation to infrastructure projects. Nokia has maintained a financing policy aimed at close cooperation with banks, financial institutions and Export Credit Agencies to support selected customers in their financing of infrastructure investments. Nokia actively mitigates, market conditions permitting, this exposure by arrangements

## Notes to the consolidated financial statements

with these institutions and investors.

Credit risks related to customer financing are systematically analyzed, monitored and managed by Nokia's Customer Finance organization, reporting to the Chief Financial Officer. Credit risks are approved and monitored by Nokia's Credit Committee along principles defined in the Company's credit policy and according to the credit approval process. The Credit Committee consists of the CFO, Group Controller, Head of Group Treasury and Head of Nokia Customer Finance.

Nokia's infrastructure business is concentrated amongst mobile, wireless operators. The Customer Finance portfolio is substantially all in this group. In keeping with the Group's financing approach, the majority of the credit risk is to i) established mobile network operators ("incumbents") with an investment grade credit rating as determined by a major credit rating agency or equivalent as determined by Nokia ("investment grade") or ii) operators supported by other investment grade telecom operators through ownership stakes and various operational and technical support ("sponsor"). However, there is no certainty that the current sponsors will continue their involvement with the operators, and the sponsors generally do not provide guarantees of the loan balances. Nokia's credit risk to start-up operators ("greenfield operators") is substantially all to operators with investment grade sponsors.

At the end of December 31, 2002 our long-term loans to customers, net of allowances and write-offs, totaled EUR 1 056 million (EUR 1 128 million in 2001), while financial guarantees given on behalf of third parties totaled EUR 91 million (EUR 127 million in 2001). In addition, we had financing commitments totaling EUR 857 million (EUR 2 955 million in 2001). Total customer financing (outstanding and committed) stood at EUR 2 004 million (EUR 4 210 million in 2001).

Nokia sees that the current industry environment does not require material increases in customer financing. Our view is based on our experiences in customer interface in 2002 and current competitive environment in telecommunications industry in general. Customer financing continues to be requested by operators, but to a lesser extent and with lower importance than during the past years. In 2002 Nokia reduced substantially its customer financing exposure.

The term customer financing portfolio at December 31, 2002 was:

EURm	Outstanding	Financing Commit- ments	Total	%
<b>Total Portfolio</b>	<b>1 147</b>	<b>857</b>	<b>2 004</b>	<b>100</b>
Incumbent, Investment				
Grade/I.G. Sponsor	199	211	410	20
Incumbent, non-I.G. Sponsor	168	229	397	20
<b>Total Incumbent</b>	<b>367</b>	<b>441</b>	<b>807</b>	<b>40</b>
Greenfield, I.G. Sponsor	746	417	1 163	58
Greenfield, non-I.G. Sponsor	34	0	34	2
<b>Total Greenfield</b>	<b>780</b>	<b>417</b>	<b>1 197</b>	<b>60</b>

### Financial credit risk

Financial instruments contain an element of risk of the counterparties being unable to meet their obligations. This risk is measured and monitored by the Treasury function. The Group minimizes financial credit risk by limiting its counterparties to a sufficient number of major banks and financial institutions.

Direct credit risk represents the risk of loss resulting from counterparty default in relation to on-balance sheet products. The fixed income and money market investment decisions are based on strict creditworthiness criteria. The outstanding investments are also constantly monitored by the Treasury. Nokia does not expect the counterparties to default given their high credit quality.

### Investments

	2002 EURm	2001 EURm
Current Available-for-sale investments <sup>1, 2, 3</sup>		
Government, long-term (bonds)	1 244	789
Government, short-term (bills)	124	-
Corporate, long-term (bonds)	3 708	1 475
Corporate, short-term (CP)	2 779	2 007
<b>Total</b>	<b>7 855</b>	<b>4 271</b>
	2002 EURm	2001 EURm
Fixed rate investments	7 433	4 143
Floating rate investments	422	128
<b>Total</b>	<b>7 855</b>	<b>4 271</b>

<sup>1</sup> Available-for-sale investments are carried at fair value in 2002 and 2001.

<sup>2</sup> Weighted average interest rate for Current available-for-sale investments was 3.54% in 2002 and 3.97% in 2001.

<sup>3</sup> Included within current Available-for-sale investments is EUR 44 million and EUR 43 million of restricted cash at December 31, 2002 and 2001, respectively.

### Liquidity risk

Nokia guarantees a sufficient liquidity at all times by efficient cash management and by investing in liquid interest bearing securities. Due to the dynamic nature of the underlying business Treasury also aims at maintaining flexibility in funding by keeping committed and uncommitted credit lines available. During the year Nokia renewed the maturing USD 750 million Revolving Credit Facility. The committed facilities at year end totalled USD 2.6 billion.

The most significant existing funding programs include:

- Revolving Credit Facility of USD 750 million, matures in 2003
- Revolving Credit Facility of USD 500 million, matures in 2003
- Revolving Credit Facility of USD 350 million, matures in 2004
- Revolving Credit Facility of USD 1 000 million, matures in 2006

- Local commercial paper program in Finland, totalling EUR 750 million
- Euro Commercial Paper (ECP) program, totalling USD 500 million
- US Commercial Paper (USCP) program, totalling USD 500 million

None of the above programs have been used to a significant degree in 2002.

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Nokia's international creditworthiness facilitates the efficient use of international capital and loan markets. The ratings of Nokia from credit rating agencies as at December 31, 2002 were:

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

### Hazard risk

Nokia strives to ensure that all financial, reputation and other losses to the Group and our customers are minimized through preventive risk management measures or purchase of insurance. Insurance is purchased for risks which cannot be internally managed. Nokia's Insurance & Risk Finance function's objective is to ensure that Group's hazard risks, whether related to physical assets (e.g. buildings) or intellectual assets (e.g. Nokia brand) or potential liabilities (e.g. product liability) are optimally insured.

Nokia purchases both annual insurance policies for specific risks and multi-line multi-year insurance policies, where available. Nokia has concluded a Multi-Line Multi-Year Insurance covering a variety of the above mentioned risks in order to decrease the likelihood of non-anticipated sudden losses.

### Notional amounts of derivative financial instruments <sup>1</sup>

	2002 EURm	2001 EURm
Foreign exchange forward contracts <sup>2,3</sup>	11 118	20 978
Currency options bought <sup>3</sup>	1 408	1 328
Currency options sold <sup>3</sup>	1 206	1 209
Cash settled equity options <sup>4</sup>	209	–
Cash settled equity swaps <sup>4</sup>	12	182

<sup>1</sup> 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.

<sup>2</sup> Notional amounts outstanding include positions which have been closed off.

<sup>3</sup> As at December 31, 2002 notional amounts include contracts amounting to EUR 2 billion used to hedge the shareholders' equity of foreign subsidiaries (December 31, 2001 EUR 1.1 billion).

<sup>4</sup> Cash settled equity swaps and options can be used to hedge risk relating to incentive programs and investment activities.

### Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date were:

	2002 EURm	2001 EURm
Derivatives with positive fair value <sup>1</sup> :		
Forward foreign exchange contracts <sup>2</sup>	235	186
Currency options bought	21	11
Cash settled equity options	28	–
Cash settled equity swaps	–	10
Embedded derivatives <sup>3</sup>	14	6
Derivatives with negative fair value <sup>1</sup> :		
Forward foreign exchange contracts <sup>2</sup>	–98	–214
Currency options written	–7	–7

<sup>1</sup> Out of the forward foreign exchange contracts and currency options, fair value EUR 36 million was designated for hedges of net investment in foreign subsidiaries as at December 31, 2002 (EUR 3 million at December 31, 2001) and reported in translation difference.

<sup>2</sup> Out of the foreign exchange forward contracts, fair value EUR 31 million was designated for cash flow hedges as at December 31, 2002 (EUR –38 million at December 31, 2001) and reported in fair value and other reserves.

<sup>3</sup> Embedded derivatives are components of contracts having the characteristics of derivatives, and thus requiring fair valuing of such components. The change in the fair value is reported in other financial income and expenses.

## 35. Principal Nokia Group companies at December 31, 2002

	Parent holding %	Group majority %
US Nokia Inc.		100.0
DE Nokia GmbH	100.0	100.0
GB Nokia UK Limited		100.0
KR Nokia TMC Limited	100.0	100.0
CN Beijing Capitel Nokia Mobile Telecommunications Ltd		50.0
NL Nokia Finance International B.V.	100.0	100.0
HU Nokia Komárom Kft	100.0	100.0
BR Nokia do Brazil Tecnologia Ltda	100.0	100.0
IT Nokia Italia Spa		100.0
FR Nokia France S.A.	100.0	100.0
CN Dongguan Nokia Mobile Phones Company Ltd		70.0
CN Beijing Nokia Hang Xing Telecommunications System Co. Ltd		69.0

### Shares in listed companies

Group holding more than 5%	Group holding %	Group voting %
Nextrom Holding S.A.	79.33	86.21
Nokian Renkaat Oyj/Nokian Tyres plc	18.9	18.9

As of December 31, 2001, Group holding percentage and Group voting percentage of Nextrom Holding S.A. were 59.97% and 39.97% (Nokia had agreed to abstain from exercising the voting rights relating to certain shares), respectively. In 2002, due to an increase of Nokia's ownership in Nextrom Holding S.A. the Group's holding percentage and Group's voting percentage became 79.33% and 86.21% respectively. Accordingly, Nextrom Holding S.A. has been fully consolidated for accounting purposes from the date of increased ownership. (See note 8)

A complete list of subsidiaries and associated companies is included in Nokia's Statutory Accounts.