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Nokia Annual General Meeting Speech: Nokia Today – Towards the mobile world
March 25, 2004
Helsinki, Finland

This text is a translation of the original Finnish speech.

Ladies and Gentlemen – honored shareholders,

In my presentation, I will first review the 2003 annual results. Then, I will present our strategy and our new organizational structure. Towards the end of my presentation, I will present the main principles of our reward system, and I will review the Board of Directors proposals for the Annual General Meeting.

2003 – Continued Solid Performance

2003 was a record year for the mobile handset industry and for Nokia Mobile Phones. We estimate that with volume growth of more than 15%, the mobile phone market achieved volumes of over 470 million units for the year.

Nokia Mobile Phones reached not only record profits, but also higher-than-ever sales and volumes. The Nokia Mobile Phones business group also maintained a strong operating margin.

Towards the end of the year, the infrastructure market showed encouraging signs of recovery as operators made larger than expected investments and the market began to stabilize in the fourth quarter. Operating profit in Nokia Networks was -4.2% for the full year. However, the positive result of the business group in the second half of 2003 and the pro forma operating margin of 12% in the fourth quarter are excellent achievements.

In 2003, Nokia consisted of three business groups and, naturally, we also reported according to that structure. Later on, I will present Nokia's new organizational structure.

Moving on to Nokia's main business areas. Nokia Mobile Phones represented approximately 80% of Nokia's net sales in 2003. Nokia Networks' share was 19%.

Nokia's total net sales amounted to EUR 29.5 billion, in other words, 1% less than in 2002. Sales were muted by the continued weakness of the US dollar, which depreciated by about 17% against the Euro during the year. At constant currency, Nokia sales would have grown 7%. Nokia's operating profit (reported) grew 5% and was EUR 5 011 million. The excellent level of the operating profit was an outstanding achievement by the Nokia team.

There are several factors which impacted positively on our net sales – for instance, high sales volumes of Nokia Mobile Phones and a favorable product mix. Nokia Networks' restructuring had a positive impact on Nokia's profitability. The actions already showed results in the fourth quarter as Nokia Networks' profitability improved.

In 2003, the largest single markets were United States, United Kingdom, Germany and China. The ten largest markets represented 61% of total sales. Net sales were generated in all geographical regions. Europe/Middle East/Africa accounted for 57% of Nokia's net sales, the Americas 21% and Asia-Pacific 22%.

During the year, Nokia was able to reach several important strategic milestones: we attained the number one market position in the United States in mobile phones and the number one position in GSM mobile phones in China. We also significantly increased our global CDMA handset market share.

We reached these goals in part due to our strong product portfolio. As we have earlier stated, we launched 40 new products last year. This was a record number of mobile device launches for Nokia during one year. This year, we expect to launch a similar number of products. I strongly believe that our product portfolio continues to be very competitive.

At the end of 2003, Nokia employed 51 359 people. Our personnel decreased by a total of 389 employees.

During 2003, altogether 14 600 employees changed jobs within the company. This indicates that Nokia offers excellent opportunities for career development inside the company. More evidence of our strong corporate culture is the fact that the percentage of voluntary attrition is very low, only 4.8%.

In 2004, we intend to increase the number of our R&D personnel. We will focus especially on strategically important growth areas. I shall discuss these later on.

I wish to express my gratitude to all of our employees: Nokia's solid performance and high profitability could not have been realized without their dedication and professionalism.

Converging Digital Industry

There are changes taking place in Nokia's business environment. I will now discuss how our strategy enables us to promote and capitalize on these changes.

The mobile phone industry – as well as Nokia – is about to become a part of a wider, converging digital industry. The convergence of mobile communications, information technology and media offers Nokia an opportunity to create new products and solutions categories, e.g. mobile games, multimedia as well as enterprise solutions.

Nokia Vision

A decade ago, our vision was defined as 'Voice Goes Wireless'. At that time, it was generally regarded as revolutionary. But today, we all can see that it became a reality in a short amount of time.

At the end of 2003, there were 1.3 billion mobile phone subscribers worldwide and the number of mobile phones exceeded the number of fixed-line subscriptions. Mobility has profoundly changed the everyday lives of people.

Our current vision is Life Goes Mobile. In the future, mobility will be a part of every aspect of life – a part of leisure as well as business. People will create, share and consume digital information and entertainment – practically wherever and whenever.

Nokia Strategy

Our three main strategies are to: expand mobile voice, drive consumer mobile multimedia, and bring extended mobility to enterprises. Nokia has a strong position in mobile voice, and we can further utilize economies of scale as well as our efficient demand-supply chain management. New growth potential exists within mobile voice, as well. Mobile communications, especially in emerging markets, will increase in the near future. In mobile multimedia, we focus on the fastest growing segments, such as imaging, music and games. Bringing mobility to enterprises is one of Nokia's strategies. We offer competitive terminals, security and mobile connectivity solutions to enterprises.

The Voice Opportunity

As I mentioned earlier, the mobile voice communications market continues to grow. At the end of 2003, there were approximately 1.3 billion mobile phone users. We estimate that the number of subscribers may increase to 2 billion in 2008. Emerging markets will have a significant effect on the growth of mobile communications in the years to come. The most significant of these markets are China, India, Indonesia, Brazil and Russia. Many of the growth markets will move directly to mobile communications, which is economically more feasible than building fixed-line networks. Nokia will also benefit from this trend.

We continue to develop cost-efficient solutions to ensure that a wider share of the world's population will have access to mobile communications. Cost-efficient GSM solutions and services enable operators to conduct businesses profitably in new markets, where ARPU levels are lower than those of more developed countries.

The transition from fixed-line to mobile networks continues. In many of the markets voice communications is moving from fixed-line to mobile networks. In Italy, the Czech Republic and Portugal, for instance, already more than 50%, and in France, more than 30%, of voice communications is transmitted over mobile networks.

In addition to emerging markets and the replacement of fixed-line networks, the growth of voice services is furthered by new technology and service innovations. The so-called Push to talk service is an excellent example of innovation in the area of mobile voice. Push to talk enables a direct voice connection to one or more mobile phones simultaneously. The voice connection functions with the push of a single button, like a walkie-talkie. At the beginning of 2004, Nokia introduced its first push to talk mobile phone, the Nokia 5140. In February, Nokia and Samsung announced a cooperation agreement, according to which Samsung will utilize Nokia's push to talk technology and will introduce push to talk in several of its mobile terminals during 2004 and 2005.

The Multimedia Opportunity

There is growth potential in Multimedia as well. Imaging is, at the moment, the most important mobile multimedia application. Camera phones became mass-market products in 2003 with more than 70 million units sold worldwide. Nokia has been one of the first companies to bring high-end imaging devices to the market. For example, the Nokia 7610 with a megapixel camera was introduced last week.

In the game industry, Nokia has a long-term strategy. We are currently developing this business area and building the N-Gage brand. After N-Gage was introduced, we have conducted several surveys among gamers. Based on the results, we can say that the N-Gage brand and the completely new ways of mobile gaming it offers are already well recognized. The year 2004 is important for N-Gage, as we will launch several interesting games, which cannot be played with traditional gaming devices.

In the mobile services market, the share of data services is growing. In 2003, the share of data services was slightly more than 10%, but we estimate that their share will grow and reach approximately 27% of the mobile services market in 2007. Offering easy-to-use and affordable services is a challenge for the whole industry as well as for Nokia. We aim to develop and implement new network solutions as well as to offer terminals, which make services easy to use.

The drivers for the success of multimedia services already exist. Consumers have shown an interest in the services. Mobile devices and networks have the necessary features and sufficient capacity. The challenge lies in creating services that consumers find useful, and in creating business models around the services.

The Enterprise Opportunity

The third area of our strategy is enterprise market, where there is a clear need for mobile services. By integrating mobile technologies into corporate systems, productivity and efficiency can be considerably improved. In our opinion, companies regardless of their size or business area will gain from mobility. We believe that in near future, the business processes of companies – already largely taking place in data networks – will also move to mobile devices.

The requirements of different companies vary, as do their internal needs. We feel that a range of different types of devices and solutions are needed in order to meet these requirements.

Companies require high-level telecommunications and communications solutions. In addition to data security and maintenance, companies want that their existing systems can be easily connected to mobile devices. We are cooperating with the leading IT companies in order to ensure this.

Data security is very important for companies, regardless of their size or business area. Nokia has been laying the groundwork for secure business communications already for several years. Now is the time to efficiently integrate this technology into mobile services. Data security is an essential part of business activities – in this respect, the modern technology supports businesses very well.

The Nokia 9500 Communicator, introduced in February, is the first extremely powerful and efficient mobile device for business use and a concrete example of fulfilling our strategy.

Nokia is well positioned to bring mobile business services to the market. By combining our data security know-how and advanced terminals, we believe that we can offer real advantages to enterprises together with leading IT companies.

Nokia – Structured for Convergence and Growth

Nokia's organizational structure changed as of January 1, 2004 to better reflect our strategy.

The new organization consists of four business groups: Mobile Phones, Multimedia, Networks and Enterprise Solutions.

In addition to the business groups, the new organization also includes three company-wide groups: Customer and Market Operations; Technology Platforms; and Research, Venturing and Business Infrastructure.

These company-wide horizontal functions will enable global care of customer relations and channels, economies of scale in operations as well as better horizontal leverage of technologies, business opportunities and common support.

Of these four business groups, Mobile Phones focuses on bringing feature-rich mobile phones designed for the various customer segments of the global market.

Multimedia brings mobile multimedia to consumers in the form of advanced mobile devices and applications. Its portfolio consists of products with features and functionality such as imaging, games, music, media and a range of other attractive content.

Networks is a leading provider of network infrastructure, service delivery platforms and related services to mobile operators.

Enterprise Solutions brings extended mobility to enterprises. It offers businesses a range of mobile devices and secure mobile connectivity solutions.

Renewal has always been an essential part of Nokia's identity and values. With the help of the new organization we will be able to fulfill the special needs of each of the product areas and to utilize the growth opportunities more efficiently. The change further increases the transparency of our reporting, as well.

Nokia Global Reward Philosophy

Next I'll talk about our reward structure and its development.

During the past two years several reforms related to corporate governance have impacted companies' practices. One area of renewal has been to increase the transparency in different segments of business. In the European tradition, the compensation principles and especially management compensation have been areas in which the transparency has proceeded with delay. Shareholders have requested more information on these issues, which is natural since part of the rewards require their approval.

Even though we do not have such issues on the agenda today, I would like to explain the Nokia practices regarding both compensation principles and reward systems as well as communications policies on those issues. Our aim of transparency has produced more public information year by year about the compensation of top-level management and also on the general principles and compensation programs applied in Nokia.

Motivated employees are a cornerstone of Nokia's success. We want to recruit and retain the industry's top talent. Because of this, our reward structure must be competitive.

Nokia's philosophy is to pay for performance. This is defined by the success of the company and the Business Groups as well as the performance of the individual. Our reward framework is transparent and global in nature. It is built so that the employee and shareholder interests are aligned. Both see the benefit of good results.

A Nokia employee's compensation is made up of their base salary and variable pay. Normally, the more senior jobs have a higher relative portion of performance-based reward.

Short-term incentive plans are tied to team and individual performance against targets. Targets are based on six month business planning, factory productivity goals, or R&D program milestones. The Nokia Connecting People Bonus is based on Nokia's overall performance. Of the short-term incentive plans, the Nokia Connecting People Bonus is the most extensive and it ensures that all Nokia employees are part of a performance based reward plan.

Options, performance shares and restricted shares are long-term incentives. Our programs are developed continuously. In January, we announced a new equity program which focuses on the realization of Nokia's long-term goals.

The new equity program continues to be broad-based, covering employees at various levels in the organization. This new program significantly reduces the number of stock options granted and introduces performance shares with two independent metrics (EPS growth and Average Annual Net Sales growth) during 2004 - 2007. The maximum performance level for both criteria will result in the vesting of the maximum of 17 million performance shares. If the threshold levels of performance are not achieved, none of the performance shares will vest.

The new program enhances Nokia's reward systems and combines different kinds of equity programs in a balanced way. Through this move, Nokia can be seen as a forerunner in long-term equity based incentive programs.

Generally, the reward elements for executives are the same as for other employees. For the Group Executive Board, pay levels and programs are developed after considering the pay levels and practices of executive officers at other global high technology and telecommunications firms. Pay related matters for the Group Executive Board are approved by the Board of Directors or by the Personnel Committee. The Personnel Committee has access to and uses external independent consultants. To strengthen alignment with shareholder interests, Nokia introduced share ownership guidelines in 2001 that require senior executives to own one or two times their pre-tax base salary. Senior executives have a period of five years to meet the ownership guidelines. Currently, this group of senior executives owns approximately 1.3 million shares. More detailed information can be found on Nokia's Internet site.

Dividend and Other Proposals

Next, I will briefly go through the proposals made by the Board of Directors.

The Board proposes a dividend of 30 eurocents per share for 2003. This amounts to a dividend distribution of approximately 1.4 billion euros to the shareholders.

The parent company, Nokia Corporation, currently holds over 132 million Nokia shares. Dividend will not be paid to the shares, which have been purchased based on the authorization by the Annual General Meeting in 2003. The Board proposes that these shares be cancelled.

Also, corresponding proposals we considered most appropriate last year, have been put before the Meeting, again. Corporate law currently limits the possibility to have such authorizations in force for more than one year at a time. This is the reason they are again on the agenda today. Based on these authorizations, we can carry out potential acquisitions and other financing arrangements in a flexible and effective manner in the best interest of Nokia and its shareholders.

Of the authorizations granted to the Board last year, the Board used the authorization to repurchase Nokia shares totaling 2 billion euros. The repurchased shares, which totaled 2.76% of the total share capital, have not been disposed of. During 2003, Nokia issued new shares in connection with one acquisition.

The authorization to repurchase Nokia shares enables us to continue with a share buy-back program even after this Annual General Meeting. In addition to a cash dividend, this is an effective way to distribute funds to the shareholders. Nokia's strong balance sheet offers a good opportunity to continue with a share buy-back program, even with a broad-based one. In order to be able to fully utilize such an authorization, the shares acquired earlier need to be cancelled.

The last item on the agenda is the increase in the capital of the Foundation of Nokia Corporation. We have brought this item regularly to the Annual General Meeting; the last time was in 1999. The Foundation, which was founded in 1995, has an established reputation for promoting research and development in the telecommunications sector. The activities of the Foundation support broad-based R&D and educational endeavors, which are significant to Nokia. The Foundation contributes to the good of society, but also serves the purposes of Nokia's business objectives.

In addition, Nokia participates corporate social responsibility projects and supports a number of activities for the good of society. Nokia's actions include various humanitarian aid, environmental projects,

cooperation with universities as well as the promotion of various corporate citizenship actions. The Board of Directors sets the guidelines for such activities.

Towards Growth

Ladies and Gentlemen, finally, I want to say a few words about the future and Nokia's growth opportunities.

Five years ago, we had a vision of a coming digital convergence. Now, this vision is a reality. Our industry has progressed on many fronts and now, the enablers are in place for the recovery of mobility.

Mobility will significantly change our lives and the way we do business. With our strategy and our new organization, we are well positioned to take advantage of the next growth phases in our industry as well as offer the benefits of mobility to consumers, businesses and the global community.

Even in a challenging environment, we have built a strong base for the next growth phase. Growth requires openness, courage and cooperation with players from other industries.

It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding: the timing of product and solution deliveries; our ability to develop, implement and commercialize new products, solutions and technologies; expectations regarding market growth, developments and structural changes; expectations and targets for our results of operations; and statements preceded by "believe," "expect," "anticipate," "foresee" or similar expressions are forward-looking statements. Because these statements involve risks and uncertainties, actual results may differ materially from the results that we currently expect. Factors that could cause these differences include, but are not limited to, those described under the heading "Risk Factors" on pages 12-21 of our annual report on Form 20-F for the year ended December 31, 2003.